

The Mayor,
Attard Local Council,
6, Triq il-Kbira,
Attard BZN 02

26 May 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 issues

1.1 Expenditure

Once again, we noted differences between the budget income and expenditure for 2019 and the actual figures reported in the Financial Statements (refer to notes 2.1 – 2.2).

Once again, we noted that the Council has over insured some of its assets (refer to note 2.4).

As highlighted in the 2018 management letter, the contract for accountancy services did not follow procurement procedures (refer to note 2.6).

We noted that once again, the Council exceeded the authorised expenditure on the locality day (refer to note 2.9).

1.2 Income

Whilst the Council recognised most of the re-imburement of the cost of organic waste collection in income, part of this was still set-off versus cost (refer to note 3.2).

The Council did not utilise any Central Region Surplus fund hence there was no need to reclassify amounts from deferred income.



1.3 Property, plant and equipment

We did not identify any issues with grants received or receivable, nor did we identify any issues with depreciation.

1.4 Inventories

Movement in inventory was insignificant which on the other hand emphasizes the slow-moving nature of books held in stock (refer to note 4.1).

1.5 Bank and cash

We again noted that bank reconciliations are not always being carried out monthly and within 10 working days of the following month (refer note 5).

1.6 Local Enforcement System

The Birkirkara Joint Committee has not yet provided audited accounts at 31 December 2019 and the Financial Statements for 2015 had a qualified audit report (refer to note 6.1)

We again noted an error in the classification of funds received from the Central Regional Council (refer to note 6.3)

1.7 Meetings and administration

By the time we closed off our audit, the Council had not finalised its 5-year business plan (refer to note 9).

1.8 Liquidity position

The FSI position of the Council was still below the minimum levels required by the Financial Regulations (refer to note 10).

1.9 Financial Statements

A review of the Financial Statements identified a number of deviations from IFRS requirements (refer to note 11).

2 Expenditure

Budget vs actual expenditure

- 2.1 The Council had budgeted a capital expenditure of EUR18,221 allocated as tabled below. However, expenditure (including assets under construction) amounted to EUR94,782.

	Budget EUR	Actual EUR	Difference EUR
Construction	4,000		
Urban Improvements	18,171	91,328	78,107
Assets under construction	(8,950)		
Plant & Machinery	3,000	1,653	(1,347)
Office Furniture & Fitting	2,000	1,801	(199)
	18,221	94,782	76,561

- 2.2 A comparison between the Council's budgeted and actual income and expenditure identified discrepancies between the actual results and the related forecasts. Discrepancies were noted in income as well as expenditure. Whereas the Council overall registered a slightly lower surplus, we noted that in various instances actual income earned was higher than that forecasted. Actual income exceeds the amount forecasted by EUR95,407. We also noted that in various instances expenditure deferred from that budgeted for the respective cost item. The analysis is tabled below after excluding non-cash expenditure such as depreciation, provisions and impairment.

	Budget EUR	Actual EUR	Difference EUR
Income			
Annual Gov Income	740,229	740,229	-
Other Gov Income	47,770	93,818	46,048
Supplementary Gov Income	-	46,010	46,010
Bye-laws	-	3,671	3,671
LES	5,400	3,740	(1,660)
Community Services	3,400	-	(3,400)
General income	1,500	233	(1,267)
Income from Permits	36,000	42,005	6,005
	834,299	929,706	95,407
Expenditure			
Personnel Expenditure			
Mayor's Remuneration		13,650	8,074
Councillors' Allowances	22,476	16,900	
Executive Secretary		35,413	(7,724)
Employees salary	120,895	77,758	
Social Security contributions	11,177	9,012	(2,165)
Sub-total	154,548	152,733	(1,815)

	Budget EUR	Actual EUR	Difference EUR
Expenditure			
Operations and Maintenance			
<i>Repairs and upkeep</i>			
Public Property		11,782	
Road/Street Pavements		13,456	
Signs		8,887	
Road Markings		2,544	(33,426)
Office Furniture and Equipment	72,000	1,397	
Plant and Equipment		458	
Other Repairs and Upkeep		50	
Public materials and supplies		-	
<i>Contractual Services</i>			
Waste disposal	92,000	90,619	(1,381)
Refuse Collection	127,000	207,461	80,461
Bulky Refuse Collection	22,500	26,355	3,855
Hiring of Skips - Bins on Wheels	1,000	4,125	3,125
Road & Street cleaning	80,500	116,038	35,538
Cleaning & Maint. Non-Urban	5,200	16,714	11,514
Cleaning - Public Conveniences	12,000	11,244	(756)
Other Contractual Services	3,500	-	(3,500)
Cleaning & Maint. Parks and Garden	40,000	51,127	11,127
Office cleaning	1,040	1,150	110
Street Lighting	10,000	11,220	1,220
Experts	-	6,318	6,318
Local Enforcement Expenses	600	2,185	1,585
Incidental expenses	2,000	-	(2,000)
Local Wardens	-	-	-
Sub-total	469,340	583,130	113,790
Administrative and other expenditure			
Utilities	6,500	12,771	6,271
Other repairs and upkeep	8,000	5,135	(2,865)
Rent	116	145	29
National and International Memberships	400	2,286	1,886
Office Services	25,000	26,524	1,524
Transport	9,100	11,358	2,258
Travel	3,600	153	(3,447)
Information Services	8,000	5,584	(2,416)
Bank charges	200	394	194
Insurance coverage	4,000	4,779	779
Penalties	-	-	-
Professional Services	59,270	35,497	(23,773)
Training	2,000	1,204	(796)
Entertainment	-	1,234	1,234
Social Events	-	8,256	
Hospitality	-	-	4,425
Cultural Events	-	7,169	
Community Services	11,000	-	
Donations	-	1,080	1,080
Lease of equipment	1,500	1,516	16
Sub-total	138,686	125,085	(13,601)
Finance income	-	79	79
Finance Costs	-	(9)	(9)
Surplus/(Deficit)	71,725	68,828	(2,897)

- 2.3 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 increase in income received.

Insurance

- 2.4 We reviewed the Council's insurance policy and noted that the Council is over insuring its assets, with the exception of books which are under insured. These have been tabulated below.

Category	NBV as per 2018 FS EUR	Sum insured EUR	Difference EUR
Furniture & Fittings	7,843	66,277	58,434
Plant & Machinery	7,991	11,257	3,266
Urban Improvements	157,774	839,609	681,835
Books	2,172	5,824	3,652
	175,780	922,967	747,187

- 2.5 The Council should adhere to Circular 33/2016 that requires an insurance cover of its buildings and contents at the net book value of the latest signed Financial Statements. The Circular also clarifies that community assets do not need to be insured.

Procurement procedures

- 2.6 Accountancy fees for the year amounted to EUR8,891. As documented in the 2018 management letter, the Council split the service into two lots, being professional bookkeeping services and Qualified Accountant Service (covering preparation of budgets, business plan and Financial Statements). The Council requested a quote from one supplier for each service and these amounted respectively to EUR1,000 and EUR500 per quarter for a total cost of EUR4,000 and EUR2,000 per annum respectively. Throughout the year, the same supplier of lot 2 provided additional services in relation to the fixed asset register for a fee of EUR2,891. The Public Procurement Regulations specify that expenditure below EUR5,000 should be awarded after obtaining a minimum of 3 quotations or after publication in the government e-procurement platform. The Regulations allow the Council to select the supplier via a direct contract only after considering the value of the contract, restriction of choice and urgency.

2.7 We also noted that in 2019, the Council signed a one-year IT maintenance agreement with a local service provider¹ that covers all residents of the village for labour costs incurred in the provision of specifically defined services. The cost of the agreement amounted to EUR5,894 and the Council signed this agreement without obtaining other quotations or use of public procurement procedures.

2.8 We recommend that the Council ensures that it follows procurement regulations and the respective guidelines to ensure that services allocated by a direct contract qualify as urgent matters.

Locality day

2.9 The Council's expenditure on Jum H'Attard amounted to EUR5,175. The expense on this activity is capped at the higher of 0.5% of the annual allocation (EUR3,701) or EUR3,500 as per memo 122/2010. We recommend that the Council adheres to the capping of Jum H'Attard in order to ensure that they are in line with the relevant memo.

Fiscal invoices

2.10 The Council purchased books for the library on two separate days from a student at the price of EUR45 and EUR38. The purchases were bought from petty cash and these were not supported by a fiscal receipt.

2.11 We remind the Council that all petty cash expenses incurred are to be substantiated by proper fiscal receipt.

Donations

2.12 We noted that throughout the year, the Council made a donation of EUR300 to a local foundation² and acquired and donated books costing EUR155 to schools for their prize day.

2.13 We remind the Council that donations are specifically prohibited by Article 63A of the Local Council Act, whether in cash or in kind unless they fall within the exception under Directive 5A/2016

¹ The Notebook Centre

² LifeCycle Malta Foundation

3 Income

Excess between tipping fees and allocation

- 3.1 At the Financial Position date, the Council recognised EUR46,531 in accrued income in relation to excess tipping fees. The recoverable balance confirmed by DLG in collaboration with WasteServ amounted to EUR46,010 and hence, the accrued income was overstated by EUR521 which relates to balances due in relation to previous years. We proposed an adjustment to decrease accrued income by EUR521. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

Organic Waste Collection Reimbursement

- 3.2 As from 31 October 2018, the Council started to manage the collection of organic waste and WasteServ committed itself to reimburse the Council the additional cost incurred to collect such waste. We noted that the Council correctly showed the refundable portion as income for the majority of the months, however, our testing indicated that the amount recoverable for the months of April and May amounting to EUR15,821 were set off against the cost of collection. We proposed a reclassification to recognise the amount refundable with income. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

4 Inventory

- 4.1 As highlighted in previous management letters, the movement in inventory of books is very limited and is mostly due to donations. Hence, we reiterate our comment that inventory should be recorded at the lower of cost and net realisable value in the Financial Statements in accordance with IAS 2, *Inventories*.
- 4.2 We recommend that the Council continues to monitor the valuation of its inventory and that this is effectively measured in accordance with IAS 2.

5 Bank and cash

Bank reconciliations

- 5.1 Although bank reconciliations at 31 December 2019 were all available, once again we noted that reconciliations were not carried out monthly for all bank accounts (BOV account 9598 was only reconciled at end of January, June, August, September and December) and bank reconciliations were not always prepared by the 10th working day of the following month as tabulated below:

Bank Code	Period Covered	Date of Reconciliation
BOV 11201976029 Savings Account	Jan-19	28/03/2019
BOV 11201976029 Savings Account	Feb-19	29/03/2019
BOV 11201976029 Savings Account	Mar-19	22/04/2019
BOV 11201976029 Savings Account	May-19	18/07/2019
BOV 11201976029 Savings Account	Jun-19	23/07/2019
BOV 11201976029 Savings Account	Sep-19	29/10/2019
BOV 11201976029 Savings Account	Oct-19	02/12/2019
BOV 40022699598 (Regjun Centru)	Jan-19	08/05/2019
BOV 40022699598 (Regjun Centru)	Sep-19	29/10/2019
BOV 40012100602 Current Account	Jan-19	16/04/2019
BOV 40012100602 Current Account	Feb-19	03/04/2019
BOV 40012100602 Current Account	Mar-19	06/05/2019
BOV 40012100602 Current Account	May-19	25/07/2019
BOV 40012100602 Current Account	Jun-19	25/07/2019
BOV 40012100602 Current Account	Aug-19	28/10/2019
BOV 40012100602 Current Account	Sep-19	30/10/2019
Central Bank of Malta	Jan-19	30/04/2019
Central Bank of Malta	Feb-19	30/04/2019
Central Bank of Malta	Mar-19	30/04/2019
Central Bank of Malta	May-19	07/11/2019
Central Bank of Malta	Jun-19	07/11/2019
Central Bank of Malta	Jul-19	07/11/2019
Central Bank of Malta	Aug-19	07/11/2019
Central Bank of Malta	Sep-19	07/11/2019
Central Bank of Malta	Oct-19	09/01/2020
Central Bank of Malta	Nov-19	09/01/2020

- 5.2 We remind the Council that bank reconciliations should be carried out every month for every bank account and is to be completed by the tenth working day of the following month.

6 Local Enforcement System

Joint Committee

- 6.1 The Birkirkara Joint Committee of which Attard Local Council formed part of up to 31 August 2011 has not yet provided the Council with audited accounts for the year ending 31 December 2019. The Council informed us that the audit Financial Statements of 2015, were the last set of Financial Statements to be audited as everything has been passed on to LESA. The audit report of the 2015 Financial Statements was qualified by the auditor.

- 6.2 We have qualified our audit report since we could not obtain reasonable assurance on the completeness of the share of income and any possible income and liabilities present at the end of the current financial year.

Central Region Council distribution

- 6.3 During 2019, a distribution of EUR19,853 was made by the Central Regional Council to the Attard Local Council. The funds were recognised as income for the year however, these funds may only be used for specific projects as may be approved by the Central Regional Council. We proposed an adjustment to reduce income for the year and increase unallocated deferred income by this amount. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

7 Payables

Supplier statements

- 7.1 The Council did not manage to obtain monthly statements from all of its suppliers. Memos issued from time to time by the DLG specifically state that the Council should obtain monthly statements.
- 7.2 We remind the Council that the statements are important for a sound accounting system to ensure that the creditors are correctly recorded in the accounts. Statements from suppliers will highlight any differences from recorded amounts. Any such differences should be promptly investigated.

8 Payroll

- 8.1 From an analysis of the leave carried forward to 2020, we noted that for one employee, the Council approved to carry forward 128 hours of 2019 leave to 2020. This exceeds the 48 hours limit and the Council commented that this was granted as the employee had an exceptional case, which required long term leave in 2019.
- 8.2 We remind the Council that the Local Council (Human Resources) regulations require that clerical employees of the Council should avail of 70% of their vacation leave by end of September and may only carry forward up to 48hours to the following year (subject to the Council's approval).

9 Meetings and administration

Budget and Business plan

- 9.1 Whereas the Council prepared and approved its budget for 2020, we were not provided with a copy of the business plan for the period 2020 – 2024.

- 9.2 The new requirement for a 5-year business plan encourages the Council to set a plan for the Council's term and we highly recommend that this is prepared and submitted to define the Council's visions for this current legislature.

10 Liquidity position

Financial Situation Indicator

- 10.1 The Council's Financial Situation Indicator (FSI) at the end of the financial year under review was less than the minimum positive balance of 10% of the annual Government allocation.
- 10.2 The Executive Secretary is bound by section 4(1)(c) of the Local Council (Financial) Regulations 1993 to maintain an FSI equal to or more than ten percent of the allocation approved in terms of section 55 of the Local Councils Act. The Regulations also state that the Executive Secretary must immediately notify the Director when the FSI falls below ten percent and explain the actions that are to be taken by the Council to remedy the situation. This will also be reflected as a qualification in our audit report due to the lack of compliance with Local Council (Financial) Regulations.

11 Financial Statements

Presentation of Financial Statements

- 11.1 In line with the Department's requirements, the Council is obliged to prepare the Financial Statements in accordance with International Financial Reporting Standards (IFRSs).
- 11.2 The Council's Financial Statements were 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 include a description of all new standards adopted as from 1 January 2019, an explanation of the impact, if any, on adoption of new standards and an analysis of the impact, if any, of standards that have been issued and not adopted. The audited Financial Statements were updated upon notification.
 - IAS 7 *statement of cash flows* relating to disclosure on capital creditors and grants received was not presented correctly to reflect the

actual cash flow movement. The Council amended the Statement after our notification

- The unaudited Financial Statements did not disclose all the information about contingent liabilities existing at the Financial Position date. Following our notification, the Council updated its disclosure notes to include information about pending claims against the Council that are under appeal as well as bank guarantees.
- The Council adopted IFRS 16, Leases effective as from 1 January 2019 and it considers its present lease arrangements to fall within the short-term or low value exemptions. For the year ended 31 December 2019, the Council recognized a rental cost of EUR145 and a cost of leasing of equipment of EUR1,516 however, the audited Financial Statements did not present the required disclosures in relation to lease commitments and details of exemptions availed of from application of this standard.

11.3 We have qualified our audit report on the un-corrected matters mentioned above.

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. Marica Mifsud 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