

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

19 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 Previous management letter

1.1 Income

Annual government allocation

Once again, we noted that the Council included the EUR10,000 in relation to commercial zone funds as Supplementary Government Income rather than part of Annual Government income (refer to note 2.1).

Regional Committee surplus

Whereas the Council allocated funds received from the Central Regional Council appropriately, we noted that the release from Regional Council deferred income in relation to funds utilised by the Council was not accounted for fairly (refer to note 2.3).

Advertising income

Once again, we noted errors in the accounting for advertising income (refer to note 2.5).

Accrued income

We again noted errors in the accounting for accrued income (refer to notes 2.7 – 2.10).

1.2 Expenditure

Tendering process

We did not identify similar issues within the tendering process.

Insurance

Once again, we noted that the Council's motor vehicle is not being insured in line with Circular 33/2016 (refer to note 3.1).

Rent Contract

As anticipated in the 2018 management letter, the Council has signed a rental agreement.

Budget vs actual expenditure

Once again, we noted differences between actual and budgeted figures for 2019 (refer to notes 3.3 – 3.4).

Accruals and prepayments

Once again, we identified errors in the provisions made for accruals and prepayments (refer to notes 3.6 & 3.8).

Procurement

During 2019, the Council awarded a new tender for the provision of accounting and book-keeping services which became effective as from 1 October 2019. Amounts paid under the previous extended contract during 2019 amounted to EUR7,500.

1.3 Property, plant and equipment

Fixed asset register

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

Depreciation

Throughout our audit, we did not identify similar issues with additions and disposals of PPE.

Depreciation

Depreciation was again calculated manually (refer to note 4.5).

1.4 Bank and cash

Bank reconciliations

Once again, we noted weaknesses in the bank reconciliation process (refer to note 5.1).

Approval of payments

Throughout our audit, we did not identify instances in which payments were made prior to approval by the Council.

1.5 Trade and other payables

Deferred income

The issues highlighted in relation to deferred income arose from the change in depreciation basis and hence restricted to 2018.

Creditors' statements

We noted that the Council still has not managed to obtain monthly statements from its creditors (refer to note 6.1). On the other hand, we did not identify discrepancies between creditors balance per ledger and supplier statements.

1.6 Payroll

Once again, we noted errors in allocation of payroll cost by category (refer to note 7).

1.7 Birkirkara Joint Committee

The situation with the Birkirkara Joint Committee remained unchanged (refer to note 8).

1.8 Financial Statements

We again noted deviations from IFRS requirements (refer to note 9).

1.9 Council meetings

We are pleased to note that we did not identify any weaknesses around the Council meetings process.

Current year issues

2 Income

Annual government allocation

- 2.1 During 2019, the Council's annual government allocation was increased with the additional amount of EUR10,000 in relation to the commercial zone funds. The Council disclosed this sum under supplementary government income rather than with annual government income. In view of this we proposed a reclassification to show this EUR10,000 under Annual Government Income. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 2.2 We recommend that the Council ensures that income is disclosed under the appropriate heading.

Regional Council surplus

- 2.3 We noted that during the year, the Council utilised funds amounting to EUR5,955 from Central Region deferred income to finance works carried around the village. However, the Council did not reflect this release in the books. We proposed an adjustment to account for the release of deferred income amounting to EUR5,955. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 2.4 We recommend that the Council releases the appropriate amount from deferred income, in line with the related expenditure. We also remind the Council that it still has EUR9,189 in funds that are to be assigned to projects and allocated accordingly.

Advertising income

- 2.5 During 2019, the Council earned income from advertising, mainly on U-bars and signs. The Council invoiced the amount of EUR450 for advertising income and, we noted that EUR377 of these related to future periods. Hence, we proposed an adjustment to defer the amount of EUR377. The Council approved our proposed adjustments and reflected them in the audited Financial Statements.

- 2.6 We recommend that the Council adopts controls to ensure that all invoices raised by the Council are reflected in the books of the Council in the period to which they relate.

Accrued income

- 2.7 We noted a debit balance in the deferred income of EUR3,917. This balance was brought forward from previous year and was receivable in relation to the Erasmus program. The amount should have been included with accrued income. As a result, we proposed a reclassification to show the amount of EUR3,917 as accrued income rather than deferred income. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 2.8 From enquires made on the balance, it also transpired that a final payment in relation to the Erasmus project was in fact received during 2019. The payment amounted to EUR2,602. This receipt of funds was accounted as a reduction in the Social and Cultural Events costs rather than reduced from accrued income. As a result, we proposed an adjustment to reclassify EUR2,602 against accrued income from Social and Cultural Events and write off the balance of EUR1,315. The Council approved our proposed adjustments and reflected them in the audited Financial Statements.
- 2.9 We also noted that the sum of EUR2,500 was allocated to the Council by the Central Regional Council as financial assistance in relation to 2019 Christmas activities. This amount was not recognised in accrued income and hence we proposed an adjustment to increase accrued income by EUR2,500. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 2.10 Furthermore, we noted that funds amounting to EUR553 were allocated to the Council under SPI 12/2018 to cover Zumba Classes organised by the Council during 2019. Similarly, the amount was not recognised in accrued income and hence, we proposed an adjustment to increase accrued income by EUR553. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 2.11 We recommend that the Council adopts the necessary controls to ensure that accrued income and receipt of such funds are reflected timely within the appropriate period to match the respective costs.

3 Expenditure

Insurance

- 3.1 We have reviewed the Council's insurance policies and noted the Council's motor vehicle was insured under a third-party policy acquired in July 2019.
- 3.2 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.

Budget vs actual expenditure

- 3.3 The Council did not budget a capital expenditure for 2019 as tabled below. However, actual expenditure amounted to EUR6,069.

Capital expenditure	Actual EUR	Budget EUR	Difference EUR
Office equipment	437	-	437
Office \furniture/fittings	1,892	-	1,892
Street signs	1,667	-	1,667
Computer equipment	1,073	-	1,073
	<u>5,069</u>	<u>-</u>	<u>5,069</u>

- 3.4 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 registered an overall higher surplus and we noted that in various instances income was higher than that budgeted for the respective class of income. Actual income exceeds the amount forecasted by EUR9,014. We also noted that in various instances expenditure deferred significantly from that budgeted for the respective cost item. The analysis is tabled below after excluding non-cash expenditure such as depreciation and impairment.

	Actual	Budget	Difference
	EUR	EUR	EUR
Funds received from Central Gov			
In terms of Section 55 of Local Councils Act	283,582	283,582	-
Other government income	10,000	10,000	-
Other supplementary government income	4,640	-	4,640
General income			
Income from permits	8,536	9,200	- 664
Income from LES Admin fee	2,995	4,800	- 1,805
Sundry contributions and donations	29,238	22,440	6,798
Other income	45	-	45
	339,036	330,022	9,014
Expenditure			
Personal Emoluments			
Mayor's Allowance	9,384	7,464	1,920
Councillor's Allowance	9,700	6,400	62,430
Employees' and ES Salaries	59,130	77,154	- 1,289
Social Security Contributions	4,751	6,040	-
	82,965	97,058	63,061
Operations & Maintenance			
Repairs & upkeep			
Road/street pavements	2,302		
Signs and road markings	4,675	39,450	- 22,639
Other repairs and upkeep	9,834		
	16,811	39,450	- 22,639
Contractual Services			
Refuse Collection	58,908	57,147	1,761
Bulky Refuse Collection	3,730	3,120	610
Road and street cleaning	18,649	18,200	449
Cleaning and maintenance of public convenience	6,209	5,700	509
Cleaning and maintenance of non-urban areas	-	-	-
Cleaning and maintenance of parks & gardens	7,032	7,410	- 378
Cleaning and maintenance of soft areas	-	2,000	- 2,000
Street lights	7,211	4,000	3,211
Other	1,622	-	1,622
	103,361	97,577	5,784

	Actual	Budget	Difference
	EUR	EUR	EUR
Administration			
Office utilities	3,240	2,800	440
Office materials and supplies	-	3,840	- 3,840
Office rent	693	12,900	- 1,683
ROU depreciation	10,524	-	-
Memberships	345	1,000	- 655
Office services	3,993	4,212	- 219
Motor Vehicles Insurance /licence	761	2,680	- 1,919
Publications/Advertising	423	520	- 97
Professional Services	29,742	14,140	15,602
Community Services & Events	12,754	5,850	6,904
Bank interest & charges	369	100	269
Lease interest	888	-	888
Insurance/Licences	2,097	1,228	869
Other Expenses	1,053	900	153
	66,882	50,170	16,712
Surplus/(deficit) prior to depreciation	69,017	45,767	(53,904)

- 3.5 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 increases in income received.

Accruals and prepayments

- 3.6 We reviewed workings related to accruals and we noted that the Council did not accrue for the following expenses relating to 2019:
- Street lightning expenses covered by invoice 2020/07 issued from a Supplier¹ on 1 January 2020 for EUR909.
 - Waste disposal invoice numbers 94473, 94486, 94644, 94837 and 94909 issued by WasteServ issued in January 2020 for the total amount of EUR1,334.
 - Data protection services covering the period 1 September 2019 to 30 November 2019 invoiced in February 2020 by a service provider² at EUR1,250 was not provided for. Similarly, a pro-rata fee covering December 2019 for the amount of EUR417 was also excluded.

¹ D Street Lightning

² Iuris Advocates

- 3.7 We proposed an adjustment to increase accruals by EUR3,910 and increase the street lighting expense by EUR909, the waste disposal expense by EUR1,334 and legal and professional fees by EUR1,667. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 3.8 We also reviewed prepayment workings and noted that:
- the Council renewed its Insurance policies in July 2019 covering the period 2 July 2019 to 30 June 2020. The cost of the policies amounting to EUR272 was allocated as a 2019 expense in full, however, EUR138 relates to 2020.
 - The Council also recognised a cost of EUR1,003 for the maintenance of live streaming that covers the period December 2019 to November 2020. However, EUR921 of this cost related to 2020
- We proposed an adjustment to increase prepaid insurance by EUR138 and prepaid IT Maintenance costs by EUR921. The Council approved our adjustments and reflected them in the audited Financial Statements.
- 3.9 We encourage the Council to set-up the necessary control to recognise expenses in the period to which they relate.

Income set-off versus expenditure

- 3.10 We noted that the Council received the sum of EUR2,359 under the Cultural Activities scheme. The funds received were set-off against the expenditure incurred and hence, we proposed an adjustment to reclassify this amount from expensed to income. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

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. Once again, we were not provided with a proper fixed asset register that includes all relevant details. The Council has on the other hand prepared a list of assets held on a spreadsheet without reference to cost or depreciation.
- 4.2 We recommend that the Council follows the requirements of Directive 1/2017 that applies to Councils that do not have records of assets in hand.

Disposals

- 4.3 We noted that during a meeting held in September 2019, the Council agreed to dispose of a list of assets however, this disposal was not reflected in the accounting records since the Council did not know the cost and date of acquisition of the disposed assets..
- 4.4 This emphasises the need of having an appropriate fixed assets register, and that all assets are also marked and indicated for traceability purposes.

Depreciation

- 4.5 The Council has once again calculated depreciation manually and recorded the charge for the period by means of a journal entry. On recomputing the depreciation charge, we noted that this was overall understated by EUR225 made up of:

- An understatement of EUR29 on the depreciation charge on Office Furniture & Fixtures,
- An overstatement of EUR457 on the depreciation charge on Office Equipment,
- An understatement of EUR1 on the depreciation charge on Urban Improvements,
- An overstatement of EUR61 on the depreciation charge on New Street Signs,
- An understatement of EUR13 on the depreciation charge on Computer Equipment, and
- An understatement of EUR700 on the depreciation charge on Motor Vehicles.

We proposed an adjustment to amend the respective depreciation charge. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

- 4.6 We remind the Council that 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.

5 Bank and cash

Bank reconciliations

- 5.1 The Council has 6 separate bank accounts at BOV and HSBC banks. We noted the following weaknesses in the reconciliation process:
- The following monthly reconciliation were not prepared with 10 working days from the end of the month:

Account	Month	Date
HSBC 5001	July	10/09/2019
HSBC 5050	January	27/02/2019
HSBC 5050	February	27/03/2019
BOV 3016	December	21/01/2020
BOV 3029	December	21/01/2020

- We did not trace proof of review/approval by the Executive Secretary on the following reconciliations:

Account	Month
HSBC 5001	October
HSBC 5001	November
HSBC 5001	December
HSBC 5050	October
HSBC 5050	November
HSBC 5050	December
HSBC 5051	October
HSBC 5051	December
BOV 3016	December
BOV 3029	December

- We also noted that monthly reconciliations were not prepared for all accounts.
 - HSBC account 5051 was only reconciled at end of October and end of December
 - Reconciliations for the months of January – March for BOV accounts 3016 and 3029 were not provided.

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.

Petty cash

5.3 From a sample of petty cash payments made by the Council, we noted that on 10 July 2019, the Council acquired 2 fans at a cost of EUR83. The amount is in excess of the EUR50 limit for petty cash transactions.

6 Trade and other payables

Creditors' statements

- 6.1 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.
- 6.2 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 Creditors

- 6.3 From an analysis of the creditor's list, we identified a debit balance of EUR1,021 relating to an overpayment made to ARMS. We proposed an adjustment to reclassify the amount from payables to prepayments under receivables. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

7 Payroll

- 7.1 We performed a payroll reconciliation by category and noted an error in the cost allocation in the Financial Statements. Based on our workings, we proposed an adjustment to reclassify EUR1,328 from Mayor's Allowance, EUR9,672 from Employees' Salaries/Wages, and EUR4,896 from Social Security Contribution and allocated EUR2,403 to Councillors' Allowance and EUR13,493 to Executive Secretary Salary. The Council approved our proposed audit adjustment and reflected it in the Audited Financial Statements.

8 Birkirkara Joint Committee

- 8.1 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 2019 is not available.
- 8.2 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.

9 Financial Statements

- 9.1 At the start of the audit, we noted that the approved unaudited Financial Statements were not agreeing to the trial balance provided to us. This was discussed with the Council's accountant to determine the appropriate set off data on which to base out audit and were also require to amend the trial balance by EUR1,356 to reflect entries that were missing from the trial balance provided. We also noted that the mappings applied to allocate ledger balances in the Financial Statements were not consistent with the historical presentation adopted by the Council. These weaknesses were corrected in the audited Financial Statements following our notification.
- 9.2 In line with the Department's requirements, the Council is obliged to prepare the Financial Statements in accordance with International Financial Reporting Standards (IFRSs).
- 9.3 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.
 - The accounting policies disclosed in the unaudited Financial Statements did not include policies on revenue recognition, grants, impairment, amounts receivable, related parties, trade payables, inventories and leases. 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 information presented in the fixed asset schedule presented in the unaudited Financial Statements did not include comparative data and the

grants were netted of against the cost of assets rather than presented as a separate section within the schedule. The Council amended the note after our notification.

- The information presented in relation to receivables indicated that the Council did not have any provision for bad debts at the Financial Position date whereas it had a provision of EUR430 on receivables and EUR1,463 on other receivables. The Council amended the note after our notification.
- The unaudited Financial Statements did not disclose any information about contingent liabilities existing at the Financial Position date. Following our notification, the Council updated its disclosure notes to include information about a pending claim against the Council.
- The unaudited Financial Statements also failed to disclose information related to the maturity analysis of financial liabilities, capital risk management and fair value estimation. The Council included the necessary disclosures following out notification.
- The related party disclosure note presented in the unaudited Financial Statements did not include information about Key Management Personnel. In the audited Financial Statements, the Council included a note defining Key Management Personnel and quantifying the amounts paid to them.
- The Council adopted IFRS 16, Leases effective as from 1 January 2019 however, the unaudited Financial Statements presented lease costs in line with the old IAS 17. The audited Financial Statements were amended to reflect the impact of adopting IFRS 16 resulting in the following adjustments that were approved by the Council:
 - Recognition of a right of use (ROU) assets and lease liabilities amounting to EUR21,049.
 - Recognition of depreciation charge on ROU amounting to EUR10,524
 - Reclassification of rental costs amounting to EUR10,200 against lease liabilities.
 - Recognition of EUR888 as lease interest cost

Policies and disclosures relating to leases were updated to reflect the adoption of the standard.

- As from 1 January 2018, the Council adopted IFRS 9 and the Council indicated that the impact of the Expected Credit Loss model would not be material. However, throughout the audit, we were not provided with a written assessment of the impact of this model and how this was determined to be immaterial. At the Financial Position date, the Council has financial assets amounting to EUR272,822.
- 9.4 Our audit opinion has been qualified in respect of the unadjusted shortcoming mentioned above.
- 9.5 We also noted the following shortcoming in the audited Financial Statements:
- Note 17 on page 19 quantifies payments made to key management personnel at EUR42,697 for 2019 and EUR44,961 for 2018 whereas these should amount to EUR52,697 and EUR44,994 respectively.
 - The value of capital commitments as disclosed in note 16 on page 18 amounts to EUR18,000 whereas the Council's budget for 2020 anticipates a capital expenditure of EUR20,000.

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. Pamela 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