

The Mayor,
Iklin Local Council,
11, The Three Villages,
Trejjet Ir-Rumanzieri
Iklin

25 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 Property, plant and equipment

We did not identify any issues in relation to capital expenditure.

Once again, we noted discrepancies between the amounts reported in the fixed asset register and the unaudited fixed asset schedule (refer to note 2.1). On the other hand, we were pleased to note that the Council is labelling its fixed assets.

We are pleased to note that depreciation is now being done through an automatic calculation within the accounting package. We did not encounter any issues with the calculation of depreciation.

1.2 Other grants

Although the Council is actively monitoring the situation with the grant on the football ground, it has remained unsettled (refer to note 3.1).

The Council correctly accounted for the surplus funds received from the Central Region, and we did not note material discrepancies between the deferred income and the bank account in relation to the Central Region funds.

There was no movement in the deferred income in relation to the Accessibility scheme.

As the Application of directive 1/2017 was dealt with in 2018, we have no further comments in this regard in the current year.

1.3 **Income**

We did not identify any developments on the pre-regional committees (refer to note 4.1), and we noted a number of errors in accrued income (refer to notes 4.3 – 4.6).

1.4 **Expenditure**

We again encountered differences between the budget and actual expenditure (refer to notes 5.1 and 5.2).

Once more, we identified weaknesses in procurement procedures and tenders (refer to notes 5.4 & 5.5). On the other hand, we did not come across any issues in relation to accruals and prepayments or memberships and the insurance cover was amended in line with the net book value of PPE as at 31 December 2018.

1.5 **Cash and cash equivalents**

We again noted some weaknesses in the bank reconciliation process (refer to notes 6.1 and 6.2) and the Council still limits deposits to once a week (refer to note 6.6).

1.6 **Trade and other payables**

We were pleased to note that the Council provided us with supplier statements upon our request and it appears that the Council is obtaining monthly statements from its suppliers. We were also pleased to note that we did not identify any reconciling differences between payables as per Council and the supplier statements at year end. We were also pleased to note that we did not come across any material debit balances in the Creditors' list or overdue balances.

1.7 **Minutes and meetings**

As from this year, the requirement to request a medical certificate to substantiate a Councillor's absence has been removed. Hence we have no comments to make in this regard. Also, we did not identify weaknesses in Council meetings.

1.8 Financial statements

We again identified deficiencies in the presentation of Financial Statements (refer to note 9).

1.9 Budget and Business plan

Once again, we were not provided with the Council's business plan (refer to note 10)

Current year issues

2 Property, plant and equipment

Fixed asset register

2.1 We prepared a reconciliation between the fixed asset register and the fixed asset schedule as presented in the unaudited Financial Statements. We identified differences between the cost, accumulated depreciation and charge for the year as presented in the table below. The main differences arise since the cost and depreciation are both understated by approximately the same amount which partly relates to the grant allocated on that class of asset. However, since differences arise on the net book value analysis, this indicates that the differences go beyond the allocation of grants and adjustment to cost.

| | Cost | | | Accumulated depreciation/grants | | | NBV | | |
|-------------------------------|----------------------|---------------------|------------|---------------------------------|---------------------|------------|----------------------|---------------------|------------|
| | Fixed Asset Register | Un-audited Schedule | Difference | Fixed Asset Register | Un-audited Schedule | Difference | Fixed Asset Register | Un-audited Schedule | Difference |
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| Construction | 559,532 | 555,722 | 3,810 | 514,565 | 490,194 | 24,371 | 44,967 | 65,528 | (20,561) |
| Office Furniture and fittings | 25,386 | 27,174 | (1,788) | 22,444 | 23,902 | (1,458) | 2,942 | 3,272 | (330) |
| New Street Signs & lights | 30,635 | 37,078 | (6,443) | 30,635 | 37,078 | (6,443) | - | - | - |
| Urban Improvements | 462,409 | 231,027 | 231,382 | 378,830 | 162,214 | 216,616 | 83,579 | 68,813 | 14,766 |
| Office equipment | 10,406 | 17,442 | (7,036) | 9,590 | 15,690 | (6,100) | 816 | 1,752 | (936) |
| Plant & machinery | 745 | 1,085 | (340) | 739 | 1,040 | (301) | 6 | 45 | (39) |
| Special programs | 506,552 | 1,048,499 | (541,947) | 445,685 | 978,187 | (532,502) | 60,867 | 70,312 | (9,445) |
| Motor vehicle | 13,412 | 13,411 | 1 | 10,283 | 9,573 | 710 | 3,129 | 3,838 | (709) |
| | 1,609,077 | 1,931,438 | (322,361) | 1,412,771 | 1,717,878 | (305,107) | 196,306 | 213,560 | (17,254) |

2.2 We recommend that the Council reviews and clears the above differences, ensures that the fixed asset register is maintained regularly, and assets are properly labelled.

Re-imbusement of repair work

- 2.3 During the year, the Council received a partial re-imbusement for repairs carried out on the Wilson Garage from the landlord. These funds were treated by the Council as a grant on structural works. Since repairs were expensed and not capitalised, the funds should also have been taken to income for the year rather than grant. We proposed an adjustment to transfer EUR6,600 from grant to other income. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 2.4 We recommend that the Council ensures that income and expenses of the same nature are treated consistently, being either in Statement of Comprehensive income or Statement of Financial Position as the case may be.

Capitalised projects

- 2.5 During the year, the Council finalised the Measure 4.3 project, however, from an analysis of the expenditure incurred, we noted that the year end accrued expenses on this project were understated by EUR4,449. We proposed an adjustment to increase accrued liabilities and capital expenditure by EUR4,449. The Council approved our proposed adjustment and reflected it in the audited Financial Statements. We also noted that as a result of this unrecorded liability and overstated grant as reported in note 4.6, the depreciation charge on Special Programmes was under stated by EUR527. However, since the impact of such item was not considered to be material, we did not propose a further adjustment.
- 2.6 We recommend that the Council adopts the necessary controls to ensure that liabilities are recorded in the period in which they arise to ensure proper representation of liabilities. cost and capital expenditure at each reporting date.

3 Other grants

Football ground project grant

- 3.1 As reported in previous periods, the accounts showed a balance of EUR18,670 under long term deferred income relating to the construction of a car park and football ground. This grant was received over ten years ago. The project was stopped in its initial phase and the main expenses incurred relate to permits amounting to EUR11,800 and this amount was reduced from the deferred income during 2018, leaving a balance of EUR.6,870 The Executive Secretary indicated that the Council is waiting for the Lands Department to issue a call for tenders. He further added that if the project is approved this will be the responsibility of the Government and not the Council.

- 3.2 We reiterate our recommendation that the Council decides on the adequacy of this deferred income and seek approval from the authority to utilise the funds for other projects.

4 Income

Income from pre-regional committees

- 4.1 The Birkirkara Joint Committee of which Iklin Local Council formed part up to 31 August 2011 has not provided the Council with audited accounts for the period ending 31 December 2019. In the current year the Council recognised income amounting to EUR44 from pre-regional Committees.
- 4.2 We understand that the Council has consistently requested the audited Financial Statements from the Joint Committee. However, we necessarily had to qualify our audit opinion since, in the absence of the Committee's Financial Statements, we were unable to determine the Council's share of profit from the pooling system and LES debtors outstanding as at 31 December 2019.

Accrued income

- 4.3 The Council recognised accrued income on tipping fees in excess of the allocation amounting to EUR1,271. This balance was brought forward from previous periods and based on the information received from DLG in collaboration with WasteServ, the amount will not be recovered from other sources. Hence, we proposed an adjustment to reduce accrued income by EUR1,271. The Council approved our proposed adjustment and reflected it in the audited Financial Statements. Following the closure of the audit, DLG confirmed that it will settle EUR9,654 in excess tipping fees arising in 2019.
- 4.4 The Council applied for funds under the scheme; "*Skema Nru 1 - Ghajnuna lill-Kunsilli Lokali ghal zmien il-Milied.*" The application was accepted and funds amounting to EUR2,500 were allocated and eventually received in 2020 in relation to expenses incurred during 2019. The Council did not accrue for such income. 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.
- 4.5 The Council applied for funds under the scheme; "*Hajja ahjar permezz ta' Ezerizzju Fiziku u Sports.*" The application was accepted, and the Council was allocated the sum of EUR1,785 in relation to expenses incurred in 2019. The Council did not accrue for such income. We proposed an adjustment to increase accrued income by EUR1,785. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

- 4.6 From an analysis of costs incurred on the Measure 4.3 project and the related financing to which the Council is entitled to on this project, we noted that accrued income recognised at 31 December 2019 was overstated by EUR3,460. Hence, we proposed an adjustment to reduce accrued income on this Measure from EUR81,511 to EUR78,051 resulting also in a reduction in the grants recognised on this project. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 4.7 We recommend that the Council adopts the necessary controls to ensure that it recognises income in the period in which it arises in order to match with the related expenditure.

5 Expenditure

Budget vs actual expenditure

- 5.1 The Council had budgeted a capital expenditure of EUR441,825 allocated as tabled below. However, expenditure only amounted to EUR388,086.

| | Actual 2019 EUR | Budget 2019 EUR | Variance EUR |
|----------------------|-----------------------|-----------------------|-----------------|
| Construction | 27,835 | 28,000 | (165) |
| Urban improvements | 127,095 | 5,000 | 122,095 |
| Office furniture & F | 1,633 | - | 1,633 |
| Equipment | 655 | - | 655 |
| Special programs | 230,868 | 408,825 | (177,957) |
| | 388,086 | 441,825 | (53,739) |

- 5.2 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. Whereas the Council registered an overall higher surplus, we noted that in two instances income was higher than that budgeted for the respective class of income. Actual income exceeds the amount forecasted by EUR1,814. We also noted that in various instances, expenditure defers significantly from that budgeted for the respective cost item. The analysis is tabled below after excluding non-cash expenditure such as depreciation.

| | Actual | Budget | Variance |
|--|----------------|----------------|-----------------|
| | 2019 | 2019 | |
| | EUR | EUR | EUR |
| Income | | | |
| Annual Government | 277,121 | 277,121 | - |
| Supplementary Government | 16,149 | 20,000 | (5,851) |
| Other Govt Income | | 2,000 | |
| LES related | 1,866 | 3,000 | (1,134) |
| Bank Interest | 25 | 10 | 15 |
| Permits | 13,404 | 8,500 | 4,904 |
| Other Income | 9,880 | 6,000 | 3,880 |
| Total | 318,445 | 316,631 | 1,814 |
| Expenses | | | |
| Personal emoluments | | | |
| Mayor's allowance | 9,353 | 7,800 | 1,553 |
| Allowances | 9,699 | 6,400 | 3,299 |
| Executive Sec & Employee salary & wages | 61,876 | 61,322 | 554 |
| Social security contributions | 5,014 | 5,000 | 14 |
| | 85,942 | 80,522 | 5,420 |
| Operations and maintenance | | | |
| Repairs and Upkeep | | | |
| Road and Street maintenance | 15,124 | 15,000 | 124 |
| Other repairs and upkeep | 5,342 | 4,000 | 1,342 |
| Contractual Services | | | |
| Refuse Collection | 26,590 | 27,000 | (410) |
| Bulky Refuse Collection & bins on wheels | 6,962 | 7,000 | (38) |
| Waste Disposal | 20,233 | 35,000 | (14,767) |
| Road and street cleaning | 17,868 | 15,000 | 2,868 |
| Cleaning and maintenance of parks and gardens | 1,377 | 15,900 | (14,523) |
| Cleaning and maintenance Council premises | 1,735 | 1,200 | 535 |
| Other contractual services | 8,072 | 3,000 | 5,072 |
| Street Lighting | 2,730 | 7,000 | (4,270) |
| LES related expenditure | 3,170 | 1,400 | 1,770 |
| | 109,203 | 131,500 | (22,297) |
| Administrative expenses | | | |
| Utilities | 2,311 | 10,200 | (5,266) |
| Telecommunications | 2,623 | | |
| Meeting and conventions | 2,994 | 1,000 | 1,994 |
| Rent | 11,984 | 15,934 | - |
| Lease depreciation | 3,950 | - | |
| Printing and stationery | 9,478 | 6,500 | 2,978 |
| Publications | 2,608 | 4,000 | (1,392) |
| Sundry minor expenses | 815 | 200 | 615 |
| Professional services | 27,956 | 20,000 | 7,956 |
| Transport expenses | 4,966 | 6,700 | (1,734) |
| Community and hospitality | 17,957 | 16,500 | 1,457 |
| | 87,642 | 81,034 | 6,608 |
| Total expenditure | 282,787 | 293,056 | (10,269) |
| Surplus before depreciation and loss on disposal | 35,658 | 23,575 | 12,083 |

- 5.3 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.

Procurement procedures - Tenders

- 5.4 The tender for mixed waste collection expired on 31 March 2019 and a new tender was entered into as from 1 February 2020. The tender was won by the same contractor¹. The Council agreed to extend the old tender in a meeting held on 20 March 2019 and the amount invoiced in 2019 under the expired tender amounted to EUR20,090.
- 5.5 The tender for the Provision of Accounting services which was originally issued on 7 September 2015 and awarded to a private service provider², expired on 7 September 2018 and was extended for a further period. A new tender was issued and awarded with effect from 1 March 2019. The supplier invoiced the sum of EUR1,534 during the two-month period prior to the contract date.
- 5.6 In accordance with procurement procedures, we recommend that the Council issues fresh calls for new tenders prior to the expiration of the tender in use.

6 Cash and cash equivalents

Bank Reconciliation

- 6.1 During our audit we noted that the report date on the following bank reconciliations was not within 10 working days from the end of the month:

| Account | Covering period | Reconciliation date |
|----------------|-----------------|---------------------|
| 075-024414-001 | Jan - Mar | 03/06/2019 |
| 075-024414-001 | Apr - Jun | 26/07/2019 |
| 075-024414-001 | Jul - Sep | 21/10/2019 |
| 075-024414-001 | Oct-Dec | 30/01/2020 |
| 075-024414-051 | Oct | 30/01/2020 |

¹ R&A Waste Services Ltd

² Parker Randall Turner

- 6.2 We also noted that bank account reconciliations were not available for all months. HSBC account 001, as tabulated above, was reconciled on a quarterly basis whereas the following reconciliations were not provided:

| Account | Months with no reconciliations |
|------------------|----------------------------------|
| 075-024414-050 | January - November |
| 075-024414-051 | January - September and November |
| 075-024414-102 | January - November |
| 075-024414-107 | January - November |
| 42017EURLCM50011 | January - November |
| 42017EURLCM50022 | January - November |

- 6.3 We recommend that the Council prepares and prints monthly bank reconciliation reports for all bank accounts by the 10th working day of the following month. The report is to be approved and signed by both the accountant and the Executive Secretary and filed with the corresponding bank statements.

Stale cheques

- 6.4 Our testing of bank reconciliations highlighted the following stale cheques:

| Cheque no. | Date issued | Amount EUR |
|------------|-------------|---------------|
| Missing | 19/07/2018 | 212 |
| 9954 | 16/02/2019 | 855 |
| 9986 | 22/03/2019 | 2,052 |
| 10042 | 03/05/2019 | 88 |

- 6.5 We recommend that bank reconciliations are scrutinised to identify stale cheques, investigate them and take the necessary action so as to eliminate the risk of errors arising from double posting or issues arising from lost payments.

Frequency of deposits

- 6.6 During our audit we noted that the agreement with G4 Securities for collection and deposits is to collect once weekly.
- 6.7 Whereas the Regulations require that funds are deposited at least twice weekly, the Council feels that since the amounts deposited are relatively small, it is not feasible to carry out more than one deposit per week.

7 Trade and other payables

Non-current payables

- 7.1 At the balance sheet date, the Council had non-current payables amounting to EUR3,334 in relation to the PPP project. This amount was included with current liabilities and hence, we proposed an adjustment to reclassify the non-current balance from current liabilities. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 7.2 We also noted that the Council classified EUR41,084 in liabilities arising on a separate project as non-current whereas the balance is due under normal credit terms. Hence, we recommended that the liability is classified properly in the Financial Statements. The Council approved our recommendation and reflected it in current liabilities.
- 7.3 We recommend that the Council should adopt the necessary controls to ensure that liabilities are classified properly at reporting level.

8 Payroll

Allocation of payroll costs in the nominal ledger

- 8.1 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 EUR400 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.
- 8.2 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.

Performance bonuses

- 8.3 Our testing on the performance bonuses calculation identified a difference between the accrued liability for such bonuses and the actual amount paid by the Council. The Council recognised a provision of EUR4,693 whereas the actual amount paid in 2020 amounted to EUR4,456. Hence, we proposed an adjustment to reduce the accrual by EUR237. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

Leave

- 8.4 We note that the 2 employees of the Council carried forward 12 hours and 40 hours respectively from 2019 vacation leave to 2020. Whilst the amount is less within the capping of 48 hours, we were not provided with the necessary proof that this was formally approved by the Council.
- 8.5 We recommend that the Council ensures that its staff utilise 70% of their leave by September. We also remind the Council that all vacation leave carried forward from one year to the next is to be approved by the Councillors during a Council meeting.

9 Financial statements

Presentation of Financial Statements

- 9.1 By virtue of Memo 1/2014 Councils are required to prepare Financial Statements in conformity with International Financial Reporting Standards. During our audit we pointed out that the Council's Financial Statements were not prepared in accordance with International Financial Reporting Standards (IFRS) due to the following:

- The Council did not disclose a complete list of all new and amended IFRSs that have been adopted by the Council in the preparation of the Financial Statements and their impact (if any). The Financial Statements also do not disclose a complete list of other new and amended standards that are not yet effective and the impact of such standards during the period of adoption (if any).
- As from 1 January 2018, the Council adopted IFRS 9 however, the disclosure made in relation to new standards is limited to the classification of financial assets and no reference is made to the new Expected Credit loss model to calculate impairment on all financial assets. Throughout the audit, we were not provided with an assessment of the impact of this model and how this effected the results of the Council. At the Financial Position date, the Council has financial assets amounting to EUR448,649. We also noted that the credit risk assessment as disclosed in the Financial Statement was not updated to reflect the impairment models as required by IFRS 9.

- The Council has a non-current, interest free PPP payable that is being accounted for at cost rather than amortised cost as required by IAS 39, *Financial Instruments: Recognition and Measurement*.
- The Council adopted IFRS 16; Leases, effective as from 1 January 2019 however, the methodology applied in adopting the standard does not reflect the time value of money since the value of the Right of Use Asset and the Lease Liability do not reflect the present value derived from discounting future payments. Policies were amended to reflect the requirement of IFRS 16 however, disclosures requirements were not met.
- IAS 7 *Statement of Cash Flows*: The unaudited Financial Statements of the Council did not disclose fairly the impact of capital creditors, grants received and other non-cash items. The Council corrected the Financial Statements after our notification.

We have qualified our report on matters that were not corrected in the audited Financial Statements.

9.2 We also noted the following shortcoming in the audited Financial Statements:

- The information provided in Note 17, Capital Commitments is not in line with the capital expenditure forecasted for 2020.

10 Budget and Business plan

10.1 By the time we closed off the audit of the Local Council, we were not provided with a copy of the Council's business plan.

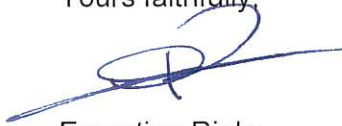
10.2 We remind the Council that it is required to prepare an annual budget and a business plan in accordance with the requirements of the Act.

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 Mr. Etienne Montfort and his 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