

The Mayor,  
Msida Local Council,  
Msida Civic Centre,  
Pjazza Menqa  
Msida

26 April 2018

### **Financial Statements for the year ended 31 December 2017**

During the course of our audit for the year ended 31 December 2017, 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**

Whereas we noted that the Council started tagging its non-current assets, we still identified certain limitations in the asset register (refer to note 2.1).

We again identified differences between the fixed asset register and the fixed asset schedule (refer to note 2.3).

We did not find come across any issues with capitalisation of expenses.

We also identified material differences between the estimated depreciation charge and that as per ledger and once again the Council did not account correctly for disposals of plant and equipment (refer to note 2.5).

##### **1.2 Payables**

We were pleased to be immediately provided with all the supplier statements requested.



### 1.3 **Income**

Once again, we noted errors in accounting for funds from the Central Regional Committee (refer to note 3.1) and an error in accounting for accrued income from WasteServ (refer to note 3.5).

Administration fees invoices were issued within the prescribed time.

### 1.4 **Receivables**

The Council still has aged receivables in its books (refer to note 4.1).

### 1.5 **Expenditure**

The Council is issuing new tenders, however, it is still operating with expired/extended contracts (refer to note 5.1). The tender for maintenance of public convenience was stopped in September 2016 and was being serviced by the Council workers. The Council is planning to apply for the necessary permits to renovate the facilities. The service of a contract manager was discontinued in November 2016.

The Council has not issued a call for quotations for insurance (refer to note 5.6).

Throughout our audit, expenses tested were covered by a fiscal invoice and/or a fiscal receipt. On the other hand, we identified liabilities that were not recorded in accruals (refer to note 5.10).

We again found differences between the budgeted and actual figures (refer to notes 5.11 – 5.12).

### 1.6 **Bank and cash**

The Council decreased its petty cash float to be below the allowed maximum limit of EUR233.

We did not note any issues with petty cash payments.

Cheques issued by the Council now bear their Coat-of-arms as required by Article 21.1 of the Local Council's (Financial) regulations.

We noted again weaknesses with the bank reconciliation process (refer to note 6.1).

The Council has instructed the bank not to deduct withholding tax on interest.

### 1.7 **Minutes of meetings**

We again came across weaknesses in minutes of Council meetings (refer to note 7.1).

### 1.8 **Insurance**

We again noted that the insurance cover is not in line with the requirements of Circular 33/2016 (refer to note 8).

### 1.9 **Payroll**

Whereas deductions from Councillors' allowances were made throughout the year, we identified weaknesses in documentation available to support authorised absence.

### 1.10 **Presentation of Financial Statements**

We again identified departures from IFRS requirements (refer to note 10).

### 1.11 **Liquidity position**

At the Financial Position date, the Council had a positive cash liquidity position and its FSI exceeds the required threshold.

### 1.12 **Appointment of new Executive Secretary**

There were no changes in Executive Secretary during 2017 and hence we have no comments to make in this regard.

#### **Current year issues**

## **2 Property, plant and equipment**

### **Fixed asset register**

- 2.1. During the audit, we were once again presented with a fixed asset register which still included general descriptions given in the assets, such as, "new office furniture and fitting" and "office desk" and due to the lack of supplier details and invoice numbers, we were unable to trace the assets selected. We understand that the Council is currently reviewing the Fixed Asset Register and is in the process of updating it.
- 2.2. We reiterate the recommendation that the Council should also include supplier details, invoice numbers and asset tag code details in the fixed asset register. We understand that the Council is preparing to acquire and migrate

to a new accounting software and that this would include an up to date register.

### Reconciliation of fixed asset register to fixed assets schedule

- 2.3. We reconciled the cost and depreciation per schedule (before any adjustments) with the cost and depreciation in the fixed assets register provided by the Council. The following differences were identified:

Asset class	Cost per schedule EUR	Revealed Cost per FAR EUR	Difference EUR	Depreciation/ grants per schedule EUR	Depreciation per FAR EUR	Difference EUR
Trees	20,417	20,417	-	-	-	-
Office furniture & Fittings	72,169	72,169	-	54,096	54,017	79
Comp & office equipment	53,570	54,193	(623)	44,227	44,190	37
Urban improvements	186,327	186,327	-	135,443	134,231	1,212
Plant & Machinery	2,798	2,798	-	1,978	1,978	-
Motor vehicles	13,860	13,860	-	12,689	12,689	-
Street signs, mirrors & lights	50,505	50,505	-	50,445	50,445	-
Construction works	1,892,140	1,886,514	5,626	1,182,678	1,174,855	7,823
Buidling	467,057	467,057	-	122,144	122,144	-
	<u>2,758,843</u>	<u>2,753,840</u>	<u>5,003</u>	<u>1,603,700</u>	<u>1,594,549</u>	<u>9,151</u>
NBV				1,155,143	1,159,291	(4,148)

- 2.4. We recommend that the Council ensures that there are no differences between the Fixed asset register, depreciation listing, fixed asset schedule and the ledger.

### Disposal of assets

- 2.5. We noted that the Council had recognised a traffic monitoring camera with a value of EUR628 which was paid for by Transport Malta and hence it should not have been capitalised by the Council. The Council reversed the cost of the asset against the supplier balance since it was not paid. At the date of disposal, the Council had provided EUR31 in depreciation on this asset which was not reversed by the Council. Since the amount was trivial we did not propose any adjustments to reverse it.
- 2.6. From a further analysis of the register, we identified another traffic monitoring camera that was capitalised by the Council at a cost of EUR780. This camera was also recognised as property belonging to Transport Malta. We proposed an adjustment to reverse the cost of EUR780 and accumulated depreciation of EUR91. The Council approved our proposed adjustment and reflected it in the audited Financial Statements



- 2.7. We recommend that the Council ensures that they have legal title over all the fixed assets in their Fixed Asset Register and that all fixed assets are fairly recorded.

#### **Depreciation**

- 2.8. We noted that the depreciation rate used for all assets except buildings is the annual rather than monthly reducing balance. We understand that the changes that will be implemented as from 1 January 2018 will resolve these issues.

### **3 Income**

#### **Central Region Committee Surplus funds**

- 3.1 During the year, the Council utilised EUR21,749 from surplus funds distributed by the Central Regional Committee to finance works in Msida Circus, Triq L-Universita and Triq Xmun Kalcidon Schembri. The Council did not reflect this in the accounting records and we proposed an adjustment to re-allocate EUR21,749 from unallocated deferred income to non-current deferred income (EUR17,542), current deferred income (EUR1,853) and income for the year (EUR2,354). The Council approved our adjustment and reflected it in the audited Financial Statements.
- 3.2 We noted that the Council still has an amount of EUR54,890 of unallocated deferred income. We recommend that the Council identifies specific projects to be carried out from these funds and utilise them accordingly. We also recommend that the Council physically re-transfers funds withdrawn to keep the funds under control and reconciles the unutilised funds against the actual bank deposits.

#### **LESA surplus funds**

- 3.3 During the year, the Council received EUR11,467 from LESA as a distribution of surplus funds. These were deposited with the surplus funds from the Central Regional Committee and included as part of deferred income. However, as indicated by LESA, these funds do not need to be used against specific projects and are to be taken directly to income rather than deferred. We proposed an adjustment to recognise the amount directly as LES income for the year. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 3.4 We recommend that the Council follows the respective instructions on similar distributions and account for them accordingly.

#### **Accrued income**

3.5 The Council calculated the excess of tipping fees invoiced by WasteServ over the budgeted allocation as accrued income. Such excess amounted to EUR24,452. Following communication with DLG and WasteServ, we recalculated the excess amount and noted that accrued income for tipping fees was under-stated by EUR2,011. We proposed an adjustment to increase accrued income. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

3.6 We recommend that the Council continues to record tipping fees in full and reflect appropriately the amount of shortages committed to be paid by DLG.

#### 4 Receivables

4.1 We noted the following amounts included with trade receivables that are over 365 days old:

Customer	Over 365 days but under 2 years	Due for more than 2 years	Total due after 1 year
	EUR	EUR	EUR
Active Ent	-	580	580
FINESL - Contraventions (pd at other LC)	-	2	2
GR - Gozo Region	2	308	311
Greent MT	-	8,750	8,750
LES online	-	2,018	2,018
LESA - LESA	-	406	406
LESARC - LESA Regjun Centru	-	9	9
LTD - Licensing and Trade Department	-	21	21
NR - North Region	-	452	452
P5 - P5 Further and Higher Education	360	-	360
SER - South Eastern Region	165	193	358
SR - South Region	72	136	208
Water Services Corporation	-	2,900	2,900
	<u>600</u>	<u>15,776</u>	<u>16,376</u>

4.2 The balances due from Green MT and Active Enterprises had been provided for in previous periods. We recommend that the Council follows up regularly overdue receivables and recognises the necessary provisions on doubtful amounts. Any debtors that are written off the books should be discussed during Council meetings and any decisions taken should be minuted. We discussed these balances with the Council and proposed an adjustment to increase the provision by EUR6,446 to EUR15,776 to cover all receivables due over 2 years. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

4.3 During our customer recoverability testing, we noted that a customer called Sean Fitz, was over-charged in 2017 by EUR3,028. In 2018, the Council agreed to issue a credit note of EUR3,028 against the amount due from the customer which stood at EUR5,008 at the Financial Position date. Since this credit note relates to income recognised in 2017, and the customer confirmed the balance at EUR1,980, we proposed an adjustment to recognise the effect of the credit note as a provision at 31 December 2017. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

## 5 Expenditure

### Expired tenders

5.1 We noted that the Council is still making use of the following contractors' services despite the fact that their contract period expired:

- Refuse collection (31/07/15)
- Street sweeping (21/01/15)

5.2 We noted that the tenders street sweeping and refuse collection were issued in June 2017 and were not adjudicated by end of 2017. The contractors of tenders which expired were formally extended through an extension letter. The Evaluation Committee had raised a number of clarifications and has effectively adjudicated the tender in 2018. The new contractor will commence in June 2018. The Sweeping contract is also expected to be adjudicated shortly. The expenses incurred in 2017 under these expired contracts were:

Contract	Amount EUR
Refuse collection	96,445
Street sweeping	47,666

5.3 In accordance with the provisions of the Local Councils (Tendering) Procedures, we recommend that the Council issues a call for tenders prior to their expiration rather than extending them for a period beyond the agreed term.

### Procurement

5.4 We reviewed the process utilised for the issue of the tender for the supply and installation of soft floor tiles and outdoor gym equipment at Swatar playing field (KLMsd/TDR4/2017). This tender was correctly issued through the ePPS system and the Council appointed an Evaluation Committee to review the tenders. The Evaluation Committee provided a report to the Council that



included the Declaration of Impartiality and Confidentiality, however, it did not include a copy of the CV of each Committee Member as required by Directive 1/2016.

- 5.5 In December 2017, the Council utilised the services of 5ivestar Printing Services to print calendars. The cost of these calendars amounted to EUR2,520 and the Council only requested one quotation for the selected supplier. In such instances, the Council should have requested official quotations through the ePPS system.
- 5.6 The Council has renewed its Insurance policy with Citadel Insurance. The policy covers the period 1 October 2017 to 30 September 2018 and the total premium and related costs amounted to EUR1,936. The selected insurer was not chosen from quotation procedures. The Council and the Insurer agreed to settle the policy over three separate instalments. Although each separate payment is below the formal quotation level, the transaction results in one policy that covers 12 months and should be taken as one.
- 5.7 In accordance with the provisions of the Local Councils (Tendering) Procedures, we remind the Council that a formal request for quotations through the ePPS is required for procurement in excess of EUR1,164.69 and that tender procedures through ePPS are required for procurement in excess of EUR4,658.75.

#### **Other expenses**

- 5.8 As indicated in the minutes of meeting 56, the Council contributed the sum of EUR500 for the logistics necessary for an activity organised in conjunction with St. Joseph Youth Nursery to award children for their commitment to sports throughout the season. This was recognised as an expense on 17 October 2017.
- 5.9 This payment appears to be a form of donation/sponsorships which is prohibited by the Local Council Act and the Financial Regulations.

#### **Accruals**

- 5.10 The Council reported an expenditure of EUR708 on the 2017 annual Christmas meal for its staff and Council members. The activity was a sit-down dinner that was attended by 24 people and hence, it was within the applicable thresholds. However, we noted that the Council did not accrue for this expense. We proposed an adjustment to accrue for this amount. The Council approved our adjustment and reflected it in the audited Financial Statements.



### Budget vs actual

- 5.11 The Council had budgeted a capital expenditure of EUR35,335 allocated as tabled below. However, expenditure only amounted to EUR14,369. On the other hand, the Council incurred capital expenditure in excess of the amount budgeted on four specific categories:

	Actual EUR	Budget EUR	Difference EUR
Construction	12,047	18,508	(6,461)
Buildings	1,222	-	1,222
Urban improvements	-	16,827	(16,827)
Office Furniture & fittings	818	-	818
Street signs	65	-	65
Computer & office equipment	217	-	217
	<b>14,369</b>	<b>35,335</b>	<b>(20,966)</b>

- 5.12 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 category. Actual income exceeds the amount forecasted by EUR129,781. We also noted that in various instances expenditure was higher than that budgeted for the respective cost item. The analysis is tabled below after excluding non-cash expenditure such as depreciation, loss on disposal and provision for bad debts.

	Actual EUR	Budget EUR	Difference EUR
<b>Income</b>			
Annual Gov Income	569,269	569,269	-
Supplimentary	36,331	23,319	13,012
Other	55,205	600	54,605
Bye-laws	69,603	33,500	36,103
LES	24,785	13,000	11,785
Other income	14,721	500	14,221
Bank interest	75	20	55
<b>Total</b>	<b>769,989</b>	<b>640,208</b>	<b>129,781</b>

	Actual EUR	Budget EUR	Difference EUR
<b>Expenditure</b>			
<b>Personnel Expenditure</b>			
Mayor's allowance	11,017	10,866	151
Employee salary and wages	123,677	115,863	7,814
Social security contributions	9,831	9,707	124
Allowances	10,943	11,200	(257)
	<u>155,468</u>	<u>147,636</u>	<u>7,832</u>
	Actual EUR	Budget EUR	Difference EUR
<b>Operations and Maintenance</b>			
Operating materials and supplies	4,846	5,100	(254)
Patching	2,538		
Road/Street Pavements	212		
Road signs and markings	7,862		
Council Property	165	23,500	1,197
Office furniture & equipment	3,952		
Bins	662		
Other repairs and upkeep	9,306		
	<u>29,543</u>	<u>28,600</u>	<u>943</u>
<b>Contractual services</b>			
Refuse collection	96,445	95,694	751
Tipping fees	70,653	66,000	4,653
Bulky refuse collection	18,532	16,200	2,332
Road and Street cleaning	52,531	54,700	(2,169)
Cleaning and maintenance publ conv	5,840	6,000	(160)
Cleaning and maintenance Parks and gard	20,190	36,500	(16,310)
Cleaning and maintenance Council Prem	6,398	5,940	458
LES related expenditure	438	480	(42)
Contract Management Services	3,127	7,134	(4,007)
Street Lighting and security	16,179	22,600	(6,421)
	<u>290,333</u>	<u>311,248</u>	<u>(20,915)</u>

	Actual EUR	Budget EUR	Difference EUR
Administrative & other expenses			
Accountancy services	3,581	-	3,581
Advertising and pub relations	4,034	-	4,034
Bank Charges	39	100	(61)
Other office services	241	12,843	(12,602)
Community services	22,928	11,500	11,428
Conference and participation expenses	622	-	622
Documentation	-	3,480	(3,480)
Insurance	3,132	3,975	(843)
Engineering services	4,236	-	4,236
Other support service	2,384	12,926	(10,542)
Postages	99	-	99
Printing and stationery	9,325	-	9,325
Rent	4,309	4,309	-
Late payment interest	744	-	744
Staff Training and Uniforms	1,000	3,600	(2,600)
Sundry minor expenses	959	200	759
Telecommunications	4,704	-	4,704
Transport expenses	2,464	3,400	(936)
Damages	-	-	-
Water and Electricity	3,882	9,200	(5,318)
	<u>68,683</u>	<u>65,533</u>	<u>3,150</u>
Finance Cost	4,387	5,042	(655)
Total Cost	<u>548,414</u>	<u>558,059</u>	<u>(9,645)</u>
Surplus/(deficit)	<u>221,575</u>	<u>82,149</u>	<u>139,426</u>

- 5.13 Whilst we recognise that the Council has put more effort into preparing the budget, we re-iterate that the Council should compile the annual budget with due care and diligence to use it as a guideline to control its expenditure during the year. Any projected variances should be adjusted at least on a quarterly basis to ensure that the Council would either have sufficient funds available to justify the increase in expenditure, or else reallocate excess funds where there are decreases in expenditure or increases in income received.



## 6 Bank and cash

### Bank reconciliations

- 6.1 We requested copies of monthly bank reconciliations and noted that not all bank reconciliations are being carried out within 10 working days. Some examples include:

Bank Code	Period Covered by Reconciliation	Date of Reconciliation
BOV Current -0011	January	06/03/2017
BOV Current -0011	June	19/07/2017
BOV Current -0011	July	13/09/2017
BOV Current -0011	October	16/11/2017
BOV Current -0011	December	19/01/2018

- 6.2 We remind the Council that monthly bank reconciliations need to be prepared for all bank accounts held by the Council within 10 working days from the end of the month. We also remind the Council that bank reconciliations need to be verified, approved and signed by the Executive Secretary. We recommend that approved bank reconciliations are filed with the respective bank statement.

### Cash Deposits

- 6.3 We tested deposits made during the months of April and August and we noted that deposits were made at an average of once per week rather than twice per week as required by the Financial Regulations. Deposits made during these two months were:

Date as per statement	April		Traced to Receipt
	Amount	Date as per receipt	
06/04/2017	2,918.43	24/03/2017	Y
12/04/2017	730.10	05/04/2017	Y
18/04/2017	424.48	13/04/2017	Y
28/04/2017	1,770.82	24/04/2017	Y

August			
Date as per statement	Amount	Date as per receipt	Traced to Receipt
03/08/2017	4,095.73	25/07/2017	Y
10/08/2017	1,102.43	03/08/2017	Y
14/08/2017	3,877.00	08/10/2017	Y
24/08/2017	630.00	21/08/2017	Y

## 7 Minutes of meetings

- 7.1 Whilst reviewing the minutes of Council meetings, we came across the following weaknesses:
- The Council did not hold a meeting during the month of July.
  - Whereas original minutes are signed by the Executive Secretary and the Mayor, the uploaded minutes are only marked "IFFIRMATA" on the side of the Mayor rather than on each of the Mayor and Executive Secretary names as indicated in the template with Memo 10/2016.
- 7.2 We remind the Council that uploaded minutes should follow the template issued with Memo 10/2016 and the Council is required to hold at least one meeting every month.

### Attendance

- 7.3 Councillors have duly notified the Council of their absence from meetings and such notifications were read out at the Council meetings. However, we noted that two Councillors missed a meeting each for health reasons and a third Councillor missed 2 meetings for the same reason. The Councillors did not present a medical certificate to substantiate their absence.
- 7.4 We remind the Council that as clearly stated in Circular 6/2017, absence due to sickness is only justified if this is attested with a medical certificate. Failure to provide a medical certificate should result in deductions from the respective Councillor allowance. Deductions should have amounted to EUR86 for each of the Councillors that missed a meeting and EUR186 for the Councillor that missed two meetings for a total of EUR358.

## 8 Insurance

- 8.1 We have also reviewed the Council's insurance policies and noted the following discrepancies between the insurance cover and book value as per last audited Financial Statements.

Category	NBV as per PY FS EUR	Sum insured EUR	Difference EUR
Buildings	359,222	412,700	- 53,478
Furniture & Fittings	18,714	27,952	3,211
Computer & office equip	12,449	-	-
Street signs, mirrors, light	-	20,000	- 20,000
Urban Improvements	57,168	67,500	- 10,332
Plant & Machinery	1,025	-	1,025
Constructions	776,914	-	776,914
	<u>1,225,492</u>	<u>528,152</u>	<u>697,340</u>

- 8.2 The above illustrates that furniture and fittings, computer & office equipment and plant & machinery are not adequately insured. The Council should adhere to Circular 33/2016 that requires an insurance cover of its buildings and contents including fire, theft and damage. The Circular also clarifies that community assets do not need to be insured.

## 9 Payroll

- 9.1 Salary paid to the secretary of the Swatar Administrative Committee was recognised as an expense with contract management services within operations and maintenance expenses rather than a payroll cost. We proposed an adjustment to reclassify the salary to Personnel Emoluments. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

## 10 Financial statements

### Presentation of Financial Statements

- 10.1 In line with the Department's requirements, the Council is obliged to prepare the Financial Statements in accordance with International Financial Reporting Standards (IFRSs).
- 10.2 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 new standards adopted in 2017 and other new standards that were issued but not yet effective.



- The Council reported a rental cost of EUR4,309, however, the Financial Statements do not disclose the necessary disclosures in relation to commitments arising on the operating lease agreements and a description of lease arrangements as required by IAS 17 *Leases*. This was amended upon our notification and corrected in the audited Financial Statements.
- The Council has a non-current, interest free creditor arising on the PPP project. Such financial liabilities should be accounted for using the amortised cost approach. This approach is required by IAS 39 *Financial Instruments: recognition and measurement* but is not applied by the Council.
- The Statement of Cash Flows did not recognise fairly cash movements arising from receipt of grants and payment for capital goods as required by IAS 7, *Statement of Cash Flows*. This was amended upon our notification and corrected in the audited Financial Statements.

Our audit opinion has been qualified in respect of the unadjusted shortcomings mentioned above.

## 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. Alan Vella 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