

The Mayor,
Santa Venera Local Council,
Kumpless Umberto Colosso,
Triq il-Kbira San Guzepp
Santa Venera SVR 1013

15 June 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

We did not identify any material issues in relation to the Urban Greening, however, we did identify discrepancies in LES Debtors balance (refer to note 2.3).

1.2 Payroll

We did not identify any material issues in relation to Councillor allowances and payroll workings. On the other hand, we did note errors in the allocation of payroll costs by category (refer to note 3.1).

We did not identify any material issues in relation to vacation leave.

1.3 Expenditure

Whereas the Council has adjudicated and signed a new contract for Road and Street Cleaning, it still made use of expired contracts (refer to notes 4.1 – 4.2).

Once again, we identified differences between actual and budgeted expenditure (refer to notes 4.4 – 4.5) and we also noted breaches of Circular 33/2016 in relation to insured value of assets (refer to notes 4.7 - 4.8).

We also noted that a debit balance was omitted from the books of the Council (refer to note 4.10) and, we also noted that the amount spent on locality day was in excess of the capping (refer to note 4.12).

We did not identify payments of donations similar to what was reported in the 2018 management letter.

1.4 Property, plant and equipment

We were pleased to note that the Council has prepared a fixed asset register and is calculating depreciation through the system. However, we did note errors in the provision for depreciation charged for 2019 (refer to note 5.1).

Our testing did not identify any material errors in relation to additions to PPE, disposals and accounting for grants.

1.5 Grants and deferred income

Whereas we did not identify errors in accounting for the funds received from Central Regional Committee by the Council, we did note that these were not allocated to the proper bank account (refer to note 6.2).

1.6 Bank and cash

We again noted weaknesses in the bank reconciliation process (refer to note 7). On the other hand, we did not identify any issues in relation to petty cash.

1.7 Payables

During the course of our audit we noted that the Council still hasn't managed to obtain monthly suppliers' statements from all suppliers (refer to note 8.1) and we identified similar errors in creditors' balances (refer to note 8.2).

We did not identify any material discrepancies in relation to accrued expenses, but we did note that some payments were issued before Council approval (refer to note 8.4).

1.8 Prepayments

We did not come across any material differences in relation to prepayments.

1.9 Financial Statements

We again noted a number of departures from IFRS requirements as well as other presentation errors (refer to note 9).

1.10 Council meetings, minutes and reporting

We noted again shortfalls in maintenance of Minutes (refer to note 10.1) and, on the other hand, we did not identify any issues in relation to estimates and forecasts.

1.11 Joint Committee

The issue in relation to the joint committee has still not been resolved (refer to note 11).

1.12 Appointment of new Executive Secretary

The Council did not change its deputy Executive Secretary and the information on the DLG website has been updated.

Current year issues

2 Income

Government allocation

2.1 The Council's allocation from the Government's budget was EUR492,055, however the Council only recognised EUR490,947 as income in terms of section 55 of the Local Council Act (cap 363). We noted that the government allocation was netted-off with MITA expenses amounting to EUR1,108. Such balance should be shown separately as part of the expenses and hence we proposed a reclassification to remove such expense from the government allocation income account to expenses. The Council approved our reclassification and reflected it in the audited Financial Statements.

2.2 We remind the Council that Government Allocation is to be recognised in full and any deductions are to be recognised as an expense for the Council.

LES Debtors

2.3 The Council's pre-regional LES receivables were recorded at EUR201,229 however, as per report 622, these should amount to EUR200,180. We proposed an adjustment of EUR1,049 to update the balance and update the provision with the same amount. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

3 Payroll

Allocation of payroll costs by category in the Financial Statements

- 3.1 Our testing on payroll indicated that the expense was not being appropriately allocated between the different categories in the Financial Statements. We noted that employees' salary costs were overstated by EUR2,160 and the Executive Secretary salary was under stated by EUR2,160. We proposed the necessary adjustment to reclassify the costs accordingly. The Council approved our proposed adjustment and reflected this in the audited Financial Statements.
- 3.2 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.

4 Expenditure

Expired contract

- 4.1 As reported in previous management letters, the contract for the maintenance of street lighting¹ expired with the cessation of operations of the Birkirkara Joint Committee of which the Council formed part. Subsequently, the Council has issued a tender for the service but has not awarded it to a Contractor. The amount invoiced by the service provider in 2019 amounted to EUR9,852.
- 4.2 In January 2019, the Council approved to extend a number of tenders that were due to expire on 31 January 2019. These were:
- Services of a Contracts Manager² which was awarded on 1 February 2016 at an annual fee of EUR8,400. The contract has been extended till 31 July 2020.
 - Opening, Cleaning and Upkeep of Public Convenience³ which was awarded on 1 February 2016 at an annual fee of EUR5,890. The Council is currently working on a new tender.
 - Maintenance and Installation of Traffic Signs, Mirrors and Road Markings/Painting⁴ which was awarded on 1 February 2016. The Contract was renewed for a year and the amount invoiced between February and December 2019 amounted to EUR10,401.
 - Bulky Refuse which was awarded on 1 February 2016. The Contract was renewed and eventually a new tender was issued and awarded on 3

¹ Mica Med Limited

² Raphael Carabott

³ Baldasere Borg

⁴ B. Grima & Sons

February 2020. The amount invoiced between February and December 2019 amounted to EUR5,713.

- 4.3 We recommend that the Council issued new tenders prior to expiry of the original contract to ensure adjudication prior to the termination date of the agreement. We also recommend that any necessary extensions are formally approved.

Budget vs actual expenditure

- 4.4 The Council had budgeted a capital expenditure of EUR430,000 allocated as tabulated below. However, actual expenditure only amounted to EUR169,895.

	2019 Actual	2019 Budget	Difference
Capital Expenditure	EUR	EUR	EUR
Office Equipment	5,667	-	5,667
Computer equipment	1,117	-	1,117
Street signs/plants/trees	-	10,000	- 10,000
Urban Improvements	22,925	60,000	- 37,075
Construction	5,664	360,000	-219,814
Assets under construction	134,522	-	
	169,895	430,000	-260,105

- 4.5 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 lower surplus as actual income was EUR70,462 lower than the estimate. We also noted that in various instances actual expenses were higher than that budgeted for the respective item. 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 and loss on disposal

	2019 Actual	2019 Budget	Difference
	EUR	EUR	EUR
Income			
Funds from Central Gov	492,055	492,055	-
Supplementary Govt. Income	36,736	98,000	- 61,264
Income raised from LES	6,949	9,000	- 2,051
Income raised from by-laws	1,800	27,000	- 25,200
Other income	22,911	5,000	17,911
Investment income	162	20	142
	<u>560,613</u>	<u>631,075</u>	<u>- 70,462</u>
Expenditure			
Personal Emoluments			
Mayor's Honoraria	13,300	11,300	2,000
Mayor & Councillor allowances	13,770	72,200	3,513
Employee's Salary	61,943		
SSC Contributions	3,386	5,000	- 1,614
	<u>92,399</u>	<u>88,500</u>	<u>3,899</u>
Operations & Maintenance			
Office Furniture	-		
Road Markings	12,374	16,700	3,123
Other Repairs & Upkeep	7,449		
Refuse Collection	80,329	80,000	329
Bulky Refuse Collection	6,176	5,400	776
Waste Disposal	57,021	60,000	- 2,979
Road & Street Cleaning	38,187	60,980	- 22,793
Cleaning & maintenance of Pub. Conv.	5,595	5,600	- 5
Other cleaning & maintenance	14,952	14,000	952
Materials & Support	1,153	-	1,153
Other Contractual Services	-	2,000	- 2,000
Street Lighting Maintenance	9,852	11,000	- 1,148
Local Warden Services	10,644	2,500	8,144
	<u>243,732</u>	<u>258,180</u>	<u>- 14,448</u>
Administration			
Utilities	7,654	4,800	2,854
Other repairs and upkeep	962	-	962
Rent	750	10,200	
Depreciation of ROU asset	8,783		61
Interest on ROU asset	728		
N&I memberships	259	200	59
Office services	2,948	2,000	948
Advertising	91	-	91
Transport	8,488	8,000	488
Information services	3,419	9,000	- 5,581
Insurance	2,103	2,000	103
Professional services	16,634	18,000	- 1,366
Community & hospitality	45,138	30,000	15,138
EU Projects	-	7,000	- 7,000
Twinning	-	3,000	- 3,000
Bank Charges	57	80	- 23
Lease of Equipment	-	-	-
Sundry minor expenses	90	800	- 710
	<u>98,104</u>	<u>95,080</u>	<u>3,024</u>
Surplus/(deficit) before depreciation&loss on disposal	<u>126,378</u>	<u>189,315</u>	<u>- 62,937</u>

- 4.6 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

- 4.7 A review of the Council's Insurance policies indicated that the Council's motor vehicle is being insured under a third-party policy rather than a comprehensive policy as required by Circular 33/2016.
- 4.8 As clarified by Circular 33/2016, the Council is required to insure its premises and contents including fire, theft and damage. The value to be insured is to be equal to the value of the assets as per last audited Financial Statements. We reviewed the Council's insurance policies and noted the following discrepancies between the insurance cover and value as per last audited Financial Statements:

Description	NBV per 2018 AFS	Sum Insured	Difference from Policy
	EUR	EUR	
Office, Furniture and Fittings	6,709	62,530	- 55,821
Office Equipment / plant & machinery	431		
Computer Equipment	1,776	27,108	- 24,901
	<u>8,916</u>	<u>89,638</u>	<u>- 80,722</u>

- 4.9 The Council should ensure that its insurance cover is adequate in view of the requirements emanating from Local Council Act as clarified by Circular 33/2016.

Provision for bad debts

- 4.10 During 2018 we have noted that the Council had brought forward debit balances in creditors amounting to EUR4,931 on which a separate provision for bad debts was also recognised. During 2017 and 2018, the receivable and related provision were eliminated from the records. Hence, we had proposed an adjustment which was approved by the Council to reinstate the balances and retain track of them. Although the proposed adjustment was approved, it was not reflected in the books and hence, we re-proposed the adjustment to retain traceability of the amount recoverable. The Council approved our adjustment and reflected it in the audited Financial Statements.

- 4.11 We recommend that the Council maintains a track record of balances recoverable and follows up on uncollected amounts.

Locality day

- 4.12 The Santa Venera Locality Day was held on 14 November 2019. The Council spent an amount of EUR4,161 on this activity, however, expenditure on this activity is limited to the higher of EUR3,500 and 0.5% of the allocation for the year. The allocation to Santa Venera amounted to EUR492,055, i.e. EUR2,460. Hence, the limit for this activity is set at EUR3,500. As a result, the expense on the Locality Day exceeded the limit by EUR661.

Other expenses

- 4.13 We noted that the Council recognised EUR13,319 in waste disposal fees under the refuse collection nominal ledger account. Hence, we proposed an adjustment to reclassify the amount to its proper nominal account. The Council accepted our proposed adjustment and reflected it in the Financial Statements.
- 4.14 We also noted that the July invoice for refuse collection⁵ amounting to EUR6,898 was not recorded in the books of the Council. Hence, we proposed an adjustment to recognise the expense. The Council accepted our proposed adjustment and reflected it in the Financial Statements.
- 4.15 The Council should adopt the necessary controls to ensure that expenses are recorded and classified under the appropriate headings in a timely manner.

5 Property, plant and equipment

Depreciation charge

- 5.1 We re-performed a re-calculation of the depreciation charge for the year on classes of property, plant and equipment under the straight-line method and identified differences between the depreciation charge for 2019 and our workings. These differences are tabulated below:

⁵ W.M. Environmental

Category	Increase/(decrease) EUR
Office furniture	4
Office equipment	(181)
Computer equipment	(252)
Urban improvement	189
Construction	69
Special Programs	(2,527)
Plant & Machinery	(101)
Net impact	(2,799)

We proposed an adjustment that resulted in an overall decrease of EUR2,799 in the charge for the year. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

- 5.2 We encourage the Council to update its records with the approved amendments to ensure that future workings reflect the proper depreciation charge.

6 Grants and deferred income

Central Region Funds

- 6.1 The Council is required to allocate the Central Regional Council funds to specific projects that are identified and reported to the Central Regional Council. Any amounts used for projects are to be allocated as a separate item of deferred income and recognised in income/grants in line with the recognition of the related expenditure. At the Financial Position date, the Council carried forward EUR212,349 in unallocated funds to 2020.
- 6.2 Since these funds are to be utilised for designated and approved projects, the Council is required to save unutilised funds in a separate bank account. However, we noted that funds received in 2019 amounting to EUR22,890 were deposited in BOV account ending 9082 rather than in account ending 5057 which is specifically designated for such matters.
- 6.3 We recommend that the Council transfers the funds to the designated account to ensure that these are used in accordance with the terms of reference and that the Council actively identifies projects to utilise these funds for the benefit of the village.

7 Bank and Cash

Bank Reconciliations

- 7.1 We were provided with hard copies of all monthly bank reconciliations, that were all signed by the Executive Secretary, however, based on the date the document was printed, we noted that the following reconciliations were not prepared within 10 working days from month end:

<u>Bank Account as per ledger</u>	<u>Month end balance being reconciled</u>	<u>Date of Reconciliation</u>
BoV 6562	31/01/2019	25/04/2019
BoV 6562	28/02/2019	25/04/2019
BoV 6562	31/03/2019	25/04/2019
BoV 6562	30/04/2019	28/06/2019
BoV 6562	31/05/2019	28/06/2019
BoV 6562	30/06/2019	17/07/2019
BoV 6562	31/07/2019	17/10/2019
BoV 6562	31/08/2019	17/10/2019
BoV 6562	30/09/2019	17/10/2019
BoV 6562	31/10/2019	16/12/2019
BoV 6562	31/12/2019	05/02/2020
<u>Bank Account as per ledger</u>	<u>Month end balance being reconciled</u>	<u>Date of Reconciliation</u>
BoV 5057	31/01/2019	25/04/2019
BoV 5057	28/02/2019	25/04/2019
BoV 5057	31/03/2019	25/04/2019
BoV 5057	30/04/2019	28/06/2019
BoV 5057	31/05/2019	28/06/2019
BoV 5057	30/06/2019	17/07/2019
BoV 5057	31/07/2019	17/10/2019
BoV 5057	31/08/2019	17/10/2019
BoV 5057	30/09/2019	17/10/2019
BoV 5057	31/10/2019	16/12/2019

<u>Bank Account as per ledger</u>	<u>Month end balance being reconciled</u>	<u>Date of Reconciliation</u>
BoV 9082	31/01/2019	25/04/2019
BoV 9082	28/02/2019	25/04/2019
BoV 9082	31/03/2019	25/04/2019
BoV 9082	30/04/2019	28/06/2019
BoV 9082	31/05/2019	28/06/2019
BoV 9082	30/06/2019	17/07/2019
BoV 9082	31/07/2019	17/10/2019
BoV 9082	31/08/2019	17/10/2019
BoV 9082	30/09/2019	17/10/2019
BoV 9082	31/10/2019	16/12/2019

<u>Bank Account as per ledger</u>	<u>Month end balance being reconciled</u>	<u>Date of Reconciliation</u>
BoV 6588	31/01/2019	25/04/2019
BoV 6588	28/02/2019	25/04/2019
BoV 6588	31/03/2019	25/04/2019
BoV 6588	30/04/2019	28/06/2019
BoV 6588	31/05/2019	28/06/2019
BoV 6588	30/06/2019	17/07/2019
BoV 6588	31/07/2019	17/10/2019
BoV 6588	31/08/2019	17/10/2019
BoV 6588	30/09/2019	17/10/2019
BoV 6588	31/10/2019	16/12/2019

7.2 We recommend that the Council ensures that monthly bank reconciliations are carried out by the 10th working day of the following month. Such reports are to be printed, verified and signed as approved by the Executive Secretary and filed with the monthly bank statements.

8 Payables

Creditors' statements

- 8.1 During the course of our audit we noted that the Council did not manage to obtain monthly supplier statements from all suppliers.
- 8.2 As commented the 2018 Management Letter, we noted that a payment of EUR7,898 made to a contractor⁶ was allocated against another contractor⁷. Whereas we did not propose an adjustment to correct this error since it does

⁶ Central Asphalt

⁷ Asfaltar Ltd

not impact the Financial Statements, the Council should ensure that it re-allocates the payment.

- 8.3 We reiterate our recommendation to the Council to obtain monthly statements from all suppliers in order to ensure proper recording of creditors in the Council's ledger. This will highlight any discrepancies between the amounts recorded in the ledger and amounts in the suppliers' statements and allow enough time to investigate and amend any differences.

Approval of payments

- 8.4 We noted that the Council made payments prior to their approval by the Council and we identified the following from our testing:

Payment date as per Bank Statement	Cheque Number	Amount as per Bank Statement	Invoice Numbers	Supplier	Schedule of Payments Voucher Number	Schedule number	Date of Approval of Schedule of Payments
		EUR					
28/06/2019	8227	9,400.35	SS03	Cotractor 1 ⁸	182/19	370	15/07/2019
12/12/2019	8494	3,200.00	01063/2019	Contracto2 ⁹	474/19	375	16/12/2019
06/01/2020	8562	52,871.69	69597	Contractor 3 ¹⁰	488/19	376	13/01/2020
06/01/2020	8563	63,358,.48	69598	Contractor 3	489/19	376	13/01/2020

- 8.5 We remind the Council that as per Local Councils (Financial) Regulations article 26(3), orders for payment shall be certified by the Executive Secretary and approved by the Council before these are paid.

Debit Balances in Payables

- 8.6 We noted that the debit balances in creditors relating to 2019 were effectively reclassified out of payables at 31 December 2018 but this entry was not reversed and updated with the position at 31 December 2019. As a result, we proposed an adjustment to reverse the prior year debit balances amounting to EUR135 back to payables and we also proposed an adjustment to reclassify the current year debit balances in payables amounting to EUR666 to receivables. The Council approved our proposed adjustments and reflected them in the audited Financial Statements.

⁸ Rokku Mifsud

⁹ Maria Homoki

¹⁰ Central Asphalt

Aged Payables

- 8.7 At 31 December 2019, the Council had payables due for over 365 days and over 2 years amounting to EUR25,374 and represented in appendix 1.
- 8.8 We recommend that the Council should assess the balances due and ensure that all payables due are settled within the applicable credit period.

9 Presentation of Financial Statements

- 9.1 In line with the Department's requirements, the Council is obliged to prepare the Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the E.U.
- 9.2 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 all the changes and the related impact in the unaudited Financial Statements. We proposed amendments to the Financial Statements to ensure proper disclosure. The Council amended these disclosures after our notification.
 - As from 1 January 2018, the Council adopted IFRS 9 however, 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 EUR682,236.
 - 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 amounting to EUR26,348,
 - Recognition of lease liabilities amounting to EUR26,868
 - Recognition of impact on opening reserves amounting to EUR520.
 - Recognition of depreciation charge on ROU amounting to EUR8,783
 - Reclassification of rental costs amounting to EUR9,500 against lease liabilities.
 - Recognition of EUR728 as lease interest cost
 - Reclassification or prepaid rent at 31 December 2019 against lease liabilities at EUR4,337

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

- 9.3 Our audit opinion has been qualified in respect of the unadjusted shortcoming mentioned above.

Other issues identified in the Financial Statements

- 9.4 We also identified the following errors in the audited Financial Statements:
- In note 2.2 on page 8, the Council cross-references the impact on adoption of IFRS 16 to note 16 whereas this should read note 17.
 - Note 10 on page 20 has a cross reference with note 10, whereas this should be with note 17.
 - Cross referencing in note 14 on page 23 should read note 14A, note 15 and note 17 rather than notes 13A, note 14 and note 16 respectively.

10 Council meetings, minutes and reporting

Council Meeting Minutes

- 10.1 From our review of Council minutes, we identified the following issues:
- Minutes of meetings 98, 100, 101, 2, 3, 4, 5, 6, 7, 8, 9, & 10 uploaded online did not include the word "IFFIRMATA" above the names of the Mayor and the Executive Secretary as required by Memo 10/2016.

Attendance at meetings

- 10.2 We noted that one Councillor missed five out of eight meetings held between January and July 2019 hence missing more than a third of the meetings held in a 6-month period and also missing four meetings in a row. Whereas the Councillor was excused from those meeting, in such instance, the Council is expected to discuss whether such absence is justified and report to the Minister to decide whether to declare the seat vacated or not. We did not trace evidence that this took place. We also noted that the Councillor only missed one meeting out of eleven held between July and December 2019.
- 10.3 Another two Councillors also missed four out of eight meetings held between January and June 2019 however, these Councillors do not hold their seat anymore.

- 10.4 We remind the Council of its obligation to discuss and report any instances of repeated absence from meetings that amount to more than a third of meetings in a 6-month period or of four meetings in-a-row.

11 Joint Committee

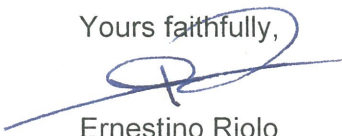
- 11.1 The Birkirkara Joint Committee of which Santa Venera Local Council formed part up to 31 August 2011 has not provided audited accounts for the period ending 31 December 2019. The last set of audited accounts provided covered till 31 December 2015 and these had a qualified audit report since the auditor could not reconcile amounts receivable to the turnover and debtors reports issued from the IT system.
- 11.2 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.

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. Michael Mifsud 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

Appendices

Appendix 1: Aged payables

	Due over 365 days but less than 2 years	Due over 2 years
	EUR	EUR
Central Asphalt	-	19,769
Elton John Zammit Cleaning Services	3,270	-
Enemalta Corporation	-	790
Star Line Creations	-	650
WM Environmental Ltd	-	607
Other creditors	3	285
Total	3,273	22,101