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29<sup>th</sup> March 2021

The Mayor  
Local Councils' Association  
Local Government Building,  
Local Government Street,  
Marsa MRS 3000,  
Malta

Dear Mayor

**RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2020**

We have completed our audit of the financial statements of the Local Councils' Association for the year ended 31 December 2020. The purpose of this report is to summarise our principal findings arising from this work.

Our audit was primarily based on verifying balances in the financial statements to ensure that they are free from material error and comply with relevant legislation. Consequently, the matters raised in this report cannot be regarded as a comprehensive statement of all weaknesses that exist or all improvements that might be made. Our aim is to offer guidance to the Local Councils' Association such that it would be in a better position to improve its internal controls, enhance its book-keeping function and consolidate its overall governance.

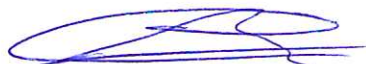
Our engagement obliges us to distribute copies of this report to (a) your Association; (b) the National Audit Office; and (c) the Local Councils Department. Consequently, this report may not be distributed, used or quoted, in part or in full, except for the scope it is prepared, without our prior written consent.

This report has been prepared on the basis of the limitations set out in the Responsibility Statement as presented on page 8 of this report.

During the course of our audit for the year ended 31 December 2020, we examined the principal documents, systems and controls used by the Association, to help it ensure, as far as possible, the accuracy of these documents and to assess how much can one rely on these documents to safeguard the assets of the Association. We also examined whether or not your Association abided by the procedures as they are provided for in the Local Councils Act, 1993, the Financial Procedures and various Legal Notices issued.

The objective of this letter is to bring to your attention those divergences in the system that were noticed during our audit work and suggest ways of how these can be remedied.

We would like to take this opportunity to thank the Executive Secretary and the clerks for their assistance during the course of our audit.



Conrad Borg (Principal)  
for and on behalf of  
RSM Malta

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**Local Councils' Association**

**Management Report for the year ended 31 December 2020**

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## 1.0 Follow-up to Last Year's Report

### 1.1 Expenses

#### *Expired Tender*

In the prior year, it was noted that the Association was obliged to extend an expired insurance tender until a new one was issued and approved due to the bidders' objection on the awarding methodology of the tender re-issued during 2018. This weakness was not found in 2020 given that a new tender (LCA 001/2019) was issued in December 2019 with the respective new insurance agreement coming into force at the start of 2020.

#### *Donations*

As per Article 63A of the Local Councils Act, donations, whether in cash or kind are specifically prohibited unless they fall within the exception under Directive 05/2016. Last year, it was noted that several expenses, classified as donations, were incurred by the Association.

This year it was noted once again that several expenses classified as gifts were charged to the books of the Association (refer to Note 4.1).

#### *Christmas meal and party*

Last year it was noted that the Association organised a Christmas party for councillors, the expenditure in relation to which exceeded the maximum cost per person permitted for a reception. No such event was organised during the year ended 31 December 2020.

### 1.2 Procurement Procedures

In the prior year, it was noted that the Association did not obtain in all cases, the necessary number of quotes required under the procurement process. This year such an instance was identified in the procurement of office furniture (refer to Note 5.1).

### 1.3 Plenary meetings venue and catering

Last year three plenary meetings were held, the total cost of which exceeded €10,000 in one year. Hence, rather than obtaining quotations, the Association should have issued a tender. There was no such issue during the current year under review.

### 1.4 Budget and actual expenditure

In the prior year, the Local Councils' Association had significant discrepancies between its budgeted and actual figures with the resultant impact being a material decrease in its overall surplus. During the financial year ended 31 December 2020 it was noted that this situation continued to persist (refer to Note 7.1).

### 1.5 Payroll

Last year it was noted that the amount of approved leave was more than that allowed by Local Council (Human Resources) regulations which stipulates that the Association may approve up to 48 hours of vacation to the following period. No such weakness was noted during the 2020 audit.

## 1.6 Financial Statements

During the audit for financial year ended 31 December 2019, it was noted that the Association's financial statements were not fully compliant with IFRSs in several instances mainly with respect to IAS 8, IFRS 9 and IFRS 16. Similar weaknesses were found in the financial statements for the year ended 31 December 2020.

## 1.7 Budget

The auditors noted that the Association did not prepare the required five-year business plan. Such a plan was drawn up for the period 2020 – 2024 by the Local Councils' Association.

## **2.0 Property, Plant and Equipment**

- 2.1 When reconciling the cost and accumulated depreciation as per books to those in the Fixed Asset Register (FAR), it was noted that those items which had been fully depreciated over the years do not feature in the FAR.
- 2.2 The Association should ensure that all items of property, plant and equipment are included in the FAR even if they are fully depreciated. This would ensure that the cost and accumulated depreciation amounts tally to the figures being presented in the financial statements and would also help to carry out checks to identify any assets which would have been disposed of but not removed from the accounts.
- 2.3 When testing the depreciation charge for the year, we noted a discrepancy of €7,623 between the charge computed and that recorded in the books, for the right of use assets. An audit adjustment was passed to correct this error.
- 2.4 The Association should ensure that the depreciation charge for the year is correctly computed in accordance with the adopted accounting policy and properly reflected in the accounts.

## **3.0 Lease Liabilities**

- 3.1 When testing the lease liabilities and the related lease interest resulting from the application of IFRS 16 - Leases, we noted a variance of €1,849 representing an under estimation of the lease interest and the lease liability. An audit adjustment was passed to reflect the correct figures.
- 3.2 It is important that the calculation of the lease liability and the split of the payments between the principal portion and the interest portion is worked out correctly in accordance with IFRS 16 – Leases and that once computed, the correct entries are reflected in the accounts. The figures in the accounts need to be reconciled to the working schedules prepared.

## **4.0 Expenditure**

- 4.1 During the audit, it was noted that a/c 3330000 Hospitality costs included several transactions with the description Gifts. When we enquired about these transactions, it transpired that these related to Christmas gifts purchased for corporate persons that during the year, the Association was in continuous contact with to implement certain projects. The total amount of these was €210.
- 4.2 We remind the Association that under Article 63A, such donations are prohibited whether in cash or in kind, unless they fall within the exception under the Directive 5A/2016 and consequently should be avoided.

## **5.0 Procurement Procedures**

- 5.1 During the financial year ended 31 December 2020, the Authority purchased office furniture the total value of which amounted to €17,546 hence exceeding the threshold of €10,000. As per LN 352, the Contracting Authority needs to go through the process of issuing a tender when the expenditure on one item exceeds €10,000 in any one calendar year, however, it was noted that the Association opted for quotations instead.
- 5.2 We recommend that the public procurement procedures are followed in all instances by the Association.

## **6.0 Revenue & Accrued Income**

- 6.1 The Association charges a 3% management fee for the administration of contravention payments. It was noted that the total income figure was understated by €11,108 due to the 2019 December accrued income having been reversed through the revenue account rather than against the LES payments accounts where the 2019 relate revenue was reflected. Consequently, an adjustment was passed to reflect the true income earned during the year.
- 6.2 It is important that when reversing opening accrued income, care is taken to ensure that the reversal is posted in the same nominal account where the respective revenue would have been reflected.
- 6.3 It was noted that the rental income earned by the Association from the leasing of parts of its buildings was understated by €3,333 as the rent for the month of December that was not yet invoiced, was not accrued for. An adjustment was passed within the books during the audit.
- 6.4 The Association should be aware of the income it has been entitled to which would have not been invoiced nor received by the end of the financial year, and when closing off the accounts, the necessary accruals should be passed in order to ensure that the revenue is reflected in the year to which the revenue relates.

## **7.0 Budget and Actual Expenditure**

- 7.1 It was noted that the Association has exceeded the budgeted expenditure for several categories, namely:
- 7.1.1 Repairs and upkeep (Category 2300) by €8,521
  - 7.1.2 National and international memberships (Category 2500) by €1,943
  - 7.1.3 Contractual services (Category 3000) by €4,557
  - 7.1.4 Community and hospitality (Category 3300) by €38,819
- 7.2 The Financial Procedures applicable for the Local Councils' Association require it to draw up twelve (12) months budgets, three (3) years business plans, quarterly reports and eventually yearly administrative reports at the end of the year. The Association is also allowed to revise budgets in line with actual requirements, and there are enough reporting tools to note which areas in the budget need revising.
- 7.3 We recommend that the Association makes use of the reporting tools in hand to take corrective measures in the budget every quarter such that by the end of the accounting period/year such discrepancies would not materialise.

## **8.0 Other Matters**

- 8.1 Whilst going through the nominal ledger, we noted various journal entries with the description 'End of year adjustments'. These represented the journal entries passed whilst closing off the accounts. All of them were posted as one batch, without having proper references to be able to trace the corresponding entries of any particular chosen entry. When we asked the accountant to provide us with the individual journal entries making up such a long journal entry, we were not provided with any lists making it difficult, and sometimes impossible, to trace where amounts were transferred from one nominal ledger to the other.
- 8.2 It is of utmost importance that a proper list of the individual journals posted whilst closing off the accounts is maintained and made available to the auditor during the audit. Furthermore, journal entries should be posted in the accounts one by one using proper references to make it easy to trace all the double entries of any chosen transaction.

## 9.0 **Presentation of Financial Statements**

- 9.1 The Association is obliged to prepare financial statements in accordance with International Financial Reporting Standards. As per IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* the Association is required to disclose new and amended standards adopted during the current financial year. It was noted that the Local Councils' Association disclosed the adoption of IFRS 16 when such adoption took place during the previous financial year and consequently should have only been disclosed as one of the accounting policies followed by the Association.

It was also noted that under this same heading the Association disclosed the *Annual Improvements to IFRS Standards 2015-2017* which cover amendments to IFRS 3 & IFRS 11, IAS 12 & IAS 23. None of these amendments were adopted by the Association and consequently, no disclosure was required.

It is clear that the note was left as that shown in the audited financial statements for the year ended 31 December 2019.

- 9.2 We appreciate that the Association is continuously trying to improve its adherence with IFRS, however, more attention should be given to the detail that needs to be included or excluded from the financial statements.



### **Responsibility Statement**

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of the Local Councils' Association arising out of our audit, we emphasise that our consideration of the Association's system of internal financial control was conducted solely for the purpose of our audit having regard to our responsibilities under International Standards on Auditing.

We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.