

The President,
Local Councils' Association,
Local Government Building,
Local Government Street,
Marsa Industrial Estate,
Marsa

14 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 Association. We have also reviewed the operations of the Association and how they conform to the Local Council Act 1993 and the Local Councils (Association) Regulations, 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

Throughout our testing on property, plant and equipment, we did not come across any significant issues in relation to the fixed asset register, capitalisation and disposal of assets, classifications of assets or recoverability of costs through insurance claims.

1.2 Receivables

The Association has closed off all projects except for "Sun Eagle" and "SCOW". We noted that these two projects are both under police investigation and cannot be closed off pending this. The only remaining accrued income on projects has been fully provided for. At audit stage we did not come across any claims against the Association in relation to any of the closed projects.

1.3 Bank and cash

We were pleased to note that the Association is now reconciling every bank account, every month, within the stipulated time frame. We also noted that the Executive Secretary is verifying these.

We did not come across any petty cash transactions which exceeded the limit of EUR50.

1.4 Payables

We acknowledge the Association's efforts at obtaining monthly creditor statements and reconciling these to the creditors list.

1.5 Income

The Association did not embark on any new projects and hence transactions were limited.

1.6 Expenses

We noted that despite the efforts of the Association to rectify the situation with regards to the expired tender in relating to insurance services, the Association is still operating an expired tender (refer to note 2.1).

We did not identify any unsupported expenses, however, once again, we identified a number of donations made by the Association (refer to note 2.2) and the Association also exceeded the amounts allowed to be spent on the Christmas function (refer to note 2.4)

We again noted that no tender was issued with respect to the plenary meetings venue and catering (refer to note 2.7 and we also noted differences between the budget and actual expenditure (refer to notes 2.8 – 2.9).

1.7 Payroll

We again noted excessive vacation leave being carried forward from 2019 to 2020 (refer to note 3.1).

1.8 Financial Statements

We again noted that Financial Statements were not fully compliant with IFRS requirements (refer to note 4).

1.9 Association meetings

We were pleased to note that the Association met every month, within 5-week intervals and that minutes were uploaded in line with the requirements emanating from memo 10/2016.

1.10 Budgets

Once again, we noted that the business plan was not prepared by the Association (refer to note 6.1).

1.11 Going Concern

Most of the receivables have been received, with the pending balance being fully provided for. As most projects have been closed, the impact on going concern is not expected to be significant.

Current year issues

2 Expenses

Expired tender

2.1 We noted that the Association had issued an insurance service tender in 2016. The tender was re-issued in 2018, however, one of the bidders objected on the awarding methodology and the Association is in the process of re-evaluating the tender. The Association is currently working on issuing a new tender in this respect. As a result, the Association was obliged to extend the old tender until a new one is issued and approved.

Donations/gifts

2.2 Our testing on expenses identified the following expenses which were approved by the members:

- 10 lottery tickets to Moviment Missjunarju Gesu' fil-Proxxmu amounting to EUR 10
- a donation of EUR 20 to Dar tal-Providenza
- gifts for staff from ritual cosmetics amounting to EUR 163.50
- gifts for ECAD amounting to EUR 211.50
- gift amounting to EUR 265.50 in relation to services given free of charge during the October Plenary & Re-Branding
- gifts bought Gateshop Gate A70 amounting to EUR 78.77
- gifts of wine amounting to EUR 674
- Mince pies / Christmas logs amounting to EUR 468

2.3 While we appreciate that the Association is making an effort to be more socially responsible, donations are specifically prohibited by Article 63A of the Local Council Act, whether in cash or in kind unless as they fall within the exception under Directive 5A/2016.

Christmas meal and party

2.4 We noted that the Association organised a Christmas party for councillors that costed EUR4,593 to which 129 people had confirmed that their intention to attend the event. The Association did not keep track of how many people actually attended, however,

based on the confirmed attendees, the cost per person would amount to EUR35.60 per person which is in excess of EUR15 per person for a reception.

Procurement procedure

2.5 We noted that the Association did not obtain the necessary number of quotes as required under the procurement process. Such instances identified from our testing include:

- the total procurements of design and printing from a printer¹ from 4 Apr to 19 Jul amounted to EUR7,195 in total. We only identified one quotation which was not acquired via ePPS
- intranet sharepoint acquired from a service provider² during October 2019 at a cost of EUR14,966 for which a Tender was not issued
- Server, Network Cabinet, UPS/Cable as well as Installation, Migration, Configuration, Testing, Back-up and Services acquired from a service provider³ between January and March 2019 for a total cost of EUR10,181. This purchase was not backed up by a tender.
- Uniforms acquired from a retailer⁴ during October 2019 for the sum of EUR6,366. Only one quotation was obtained and this was not obtained from the ePPS system.
- Maintenance work carried out by a Handyman⁵ between February and May 2019 May amounted to EUR6,199. Only one quotation was obtained from the ePPS system.

2.6 We remind the Association that:

- purchases up to EUR5,000 require three quotations
- purchases in excess of EUR5,000, up to EUR10,000 require 3 quotations to be obtained through ePPS/Gov Gazette
- Value exceeding EUR10,000 but not EUR135,000 requires a call for tenders
- Anything equal to or over EUR135,000 is to be issued/administered and determined by the director on behalf of the Association

Plenary meetings venue and catering

2.7 Throughout the year, the Association organised 3 Plenary meetings that were held in local hotels. The cost of the meetings amounted to EUR9,280, EUR6,895 and EUR10,050. The Association obtained quotations through e-mail requests to specific suppliers for every Plenary meeting. The total cost for the year amounted to EUR26,945 which exceeds the limit of EUR10,000 over and above which a tender would be required to be issued through the ePPS.

¹ Cloud 9

² Create Simple Inc

³ PC Generation

⁴ BTI Limited

⁵ J's Handyman Services

Budget and actual expenditure

- 2.8 The Association had budgeted a capital expenditure of EUR55,000 allocated as tabled below. However, expenditure exceeded this as it amounted to EUR105,291. The Association incurred capital expenditure in excess of the amount budgeted on specific categories:

	Budget 2019 EUR	Actual 2019 EUR	Difference EUR
Capital Expenditure			
Office furniture & fittings	20,000	34,293	- 14,293
Office Equipment	5,000	18,480	- 13,480
Computer Equipment	10,000	8,237	1,763
Assets Not Yet Capitalised	-	43,167	- 43,167
Computer Software	20,000	1,114	18,886
	55,000	105,291	- 50,291

- 2.9 A comparison between the Association'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 Association registered an overall lower 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 EUR201k. As noted by the Association, this is mainly driven by a classification of refundable air tickets amounting to EUR63,983 as income in the Financial Statements but set off against the expense in the budget. 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 and loss on disposal:

	Budget 2019 EUR	Actual 2019 EUR	Difference EUR
Income			
Funds from Central Gov	102,772	102,772	-
Other income	18,000	-	18,000
Management fees LES	160,000	159,784	216
Interest income	5,270	6,240	- 970
General income	172,000	382,461	- 210,461
EU projects net income	-	8,059	- 8,059
	458,042	659,316	- 201,274

	Budget	Actual	Difference
	2019	2019	
	EUR	EUR	EUR
Expenditure			
Personnel emoluments			
President's allowance	11,300	15,926	- 4,626
Electtd officer	24,000	22,524	1,476
Executived secretary	-	35,774	8,936
Employee salaries	105,600	60,890	
Social security	9,100	7,420	1,680
	150,000	142,534	7,466

	Budget	Actual	Difference
	2019	2019	
	EUR	EUR	EUR
Expenditure			
Administration			
Utilities	10,000	6,632	3,368
Other repairs and upkeep	20,000	13,424	6,576
Office rent	20,000	4,362	
Depreciaion on ROU	-	16,483	- 3,486
Lease interest	-	2,641	
N&I memberships	7,000	12,353	- 5,353
Office services	14,000	15,723	- 1,723
Travel	10,000	12,837	- 2,837
Refundable Tickets	-	63,983	- 63,983
Transport	8,000	5,741	2,259
Information services	20,000	30,064	- 10,064
Contractual services	6,000	104,635	- 57,635
Professional services	41,000	-	
Bank charges	1,000	1,020	- 20
Training	5,000	8,254	- 3,254
Conferences	-	80,474	- 80,474
Community & hospitallity	27,000	68,625	- 41,625
Incidental exp	1,000	-	1,000
	190,000	447,251	- 257,251
Surplus/(deficit) before deprecation & loss on disposal	118,042	69,531	48,511

2.10 Whilst we recognise that the Association has put more effort into preparing the budget and has also revised the budget during the year, we re-iterate that the Association 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 Association 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.

3 Payroll

Vacation leave

- 3.1 Towards the end of 2019, the Association approved to carry forward unutilised 2019 vacation leave to 2020. This included the amount of 64 hours and the amount of 60.25 hours of two separate employees. In January 2020, the Association settled in cash with each respective employee the hours in excess of the capped 48 hours.
- 3.2 We remind the Association that the Local Council (Human Resources) regulations require that employees avail of 70% of their vacation leave by end of September. Article 20 (1) of these Regulations also state that the Association may approve that employees carry forward up to 48 hours of vacation to the following period.

4 Financial Statements

Presentation of Financial Statements

- 4.1 In line with the Department's requirements, the Association is obliged to prepare the Financial Statements in accordance with International Financial Reporting Standards (IFRSs).
- 4.2 The Association'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 Association did not include a description of all new standards adopted as from 1 January 2019, an explanation of the impact, if any, on adoption of new standards and an analysis of the impact, if any, of standards that have been issued and not adopted. In the revised financial statements, the note was updated but still failed to include all changes and an explanation of the impact of adoption of these standards.
 - As from 1 January 2018, the Association adopted the Expected Credit loss model 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 Association. At the financial position date, the Association has financial assets amounting to EUR1,410,827. We also noted that the credit risk assessment as disclosed in the financial assets were not updated to impairment models as required by IFRS 9.
 - The Association adopted IFRS 16, Leases effective as from 1 January 2019 however, the unaudited accounts 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 Association:

- Recognition of a right of use (ROU) assets and lease liabilities amounting to EUR107,285
- Recognition of depreciation charge on ROU amounting to EUR16,483
- Reclassification of rental costs amounting to EUR22,672 against lease liabilities.
- Reclassification of EUR801 from rental cost to motor vehicle maintenance cost
- Recognition of EUR2,641 as lease interest cost

Policies and disclosures relating to lease and adoption of IFRS 16 were also updated to be in line with the requirements of IFRS 16

4.3 We have qualified our audit report on the un-corrected matters mentioned above.

Other observations

- 4.4 We also identified the following errors on the audited financial statements:
- In the Statement of Financial Position on page 5, the reference to note 22 on the Right of use asset line should read 23
 - In note 24 on page 24, the 2019 lease liabilities are all disclosed as due within 90 days whereas this balance is due over a number of years and hence the maturity analysis does not represent the actual periods.

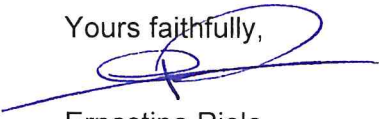
5 Budget

- 5.1 The Association did not prepare the required five-year business plan covering the 2020 to 2024 period.
- 5.2 We recommend that the Association prepares its business plan and ensures that the budget of the following year agrees to first year of the five-year plan.

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 Association. In consequence, our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop. We would like to take this opportunity to thank Ms. Lianne Mifsud, Mr. Mario Fava and the Association's 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