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Our Ref: NAO 107/2015/69

Your Ref:

29 May 2017

The President and Executive Secretary
Local Councils Association
Marsa

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2016**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2016.

After seeking the Council's approval, you are kindly requested to submit your response to the Director (Local Government), the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,



Tanya Mercieca
Asst. Auditor General

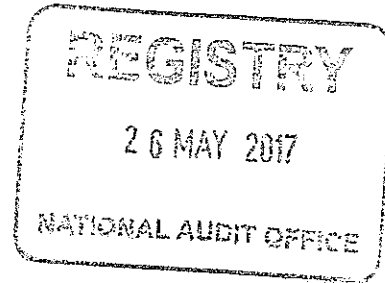
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30 MAY 2017

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

16 May 2017



Financial Statements for the year ended 31 December 2016

During the course of our audit for the year ended 31 December 2016, 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

We again noted that the fixed asset register lacks details (refer to note 2.1)

1.2 Receivables

We again recommended changes to the provision recognised at the Financial Position date (refer to note 3.1)

We are pleased to note that we did not identify any issues with accrued income.

1.3 Bank and cash

We noted that in 2016, the Association had still not opened new bank accounts for each project (refer to note 4.1).

1.4 Payables

The Association has still not managed to obtain monthly statements from its suppliers (refer to note 5.1).

1.5 Income

The Association is still netting off income and expenditure of completed projects (refer to note 6.1).

1.6 Payroll

We are pleased to note that we did not find any differences between the FSS reports and the ledger.

1.7 Financial Statements

We again noted that Financial Statements were not fully compliant with IFRS requirements (refer to note 9).

1.8 Association meetings

Minutes of meetings of the Association are still not being uploaded on the website (refer to note 10.1).

We again noted weaknesses in frequency of meetings (refer to note 10.2).

1.9 Financial estimates and business plan

The Association has prepared its estimates for 2016.

1.10 Executive Secretary

The Association did not change its Executive Secretary during 2016.

Current year issues

2 Property, plant and equipment

Fixed assets register

2.1 The fixed asset register presented by the Association lacks detail of location, supplier and invoice number for each asset. These are basic data required for a proper fixed asset register. We also noted that physical assets at the Association's premises are not tagged.

2.2 Although depreciation is calculated by the system, it is calculated on an annual basis rather than a monthly basis. We understand that this is a limitation of the software and the impact on the current year provision was estimated at EUR586.

2.3 We recommend that the Association updates its fixed asset register accordingly to ensure that such information would be available when required in future and it labels all its assets in line with the codes used in the fixed assets register.

3 Receivables

Provisions on receivables on EU projects

- 3.1 The Association recognised a provision of EUR72,013 on amounts receivable on EU projects. An analysis of individual projects at audit stage indicated that this provision was overstated by EUR19,531. We proposed an adjustment to decrease the provision at 31 December 2016. The Association approved our adjustment and reflected it in the Financial Statements.

Project	Estimated provision	Amount per ledger	Difference
	EUR	EUR	EUR
Sun Eagle	52,482	52,482	-
General Provision	-	19,531	(19,531)
Total	52,482	72,013	(19,531)

- 3.2 Furthermore, while discussing projects in detail, we were advised that a claim of EUR7,575 was launched against the Association in conjunction with the Philoxenia project. Although the Association was informed about this in 2017, the conditions already existed at 31 December 2016. To this effect we proposed an adjustment to increase the provision by this amount. The Association approved our adjustment and reflected it in the Financial Statements.
- 3.3 When comparing the movement in the provision in the Statement of Financial Position (prior to our adjustments) and the charge recognised in the Statement of Comprehensive Income, we noted these figures did not tally. The Association closed the year with a provision of EUR72,013, whereas the provision at 31 December 2015 was EUR96,815. The reduction in the provision of EUR24,802 was not recognised in the Statement of Comprehensive Income. Our testing indicated that the reduction of EUR24,802 was the realisation of a bad debt for which the Association had already provided in 2015. In accounting for the realisation of the loss, the Association set off the amount receivable against the provision for bad debts. We proposed an adjustment to recognise the reduction in the provision for bad debts and the actual realised bad debts loss in the Statement of Comprehensive Income of EUR24,802. The Association approved our adjustment and reflected it in the Financial Statements. The adjustment did not impact the results for the year but presented the transaction adequately in the audited Financial Statements.
- 3.4 We also noted that the provision on receivables was initially included with liabilities in the Financial Statements. We highlighted this to the Association who reclassified it to receivables in the audited Financial Statements.

- 3.5 In previous periods, the provisions on EU projects, including provisions for bad debts and provisions for accrued income, were backed up with workings that identified additional refunds and estimated losses in projects. This year, the Association assumed that all projects will, as a minimum, result in a breakeven position with the exception of Sun Eagle (refer to note 3.1). Hence, any shortfall between the expenses and income from EU projects was included in accrued income. This will not necessarily be the case and in the past there have been projects which were closed off with a small surplus or with a deficit.
- 3.6 We recommend that the Association monitors each project to identify the necessary provisions required for amounts that are not recoverable. We also recommend that such provisions are netted from amounts receivable rather than disclosed with payables.
- 3.7 Our testing on these projects indicate that there is an element of uncertainty as to the accuracy and collectability of funds. Also, certain projects have terms and conditions which expose the Association to liabilities if certain defined conditions are not met over a specific period of time. Also, due to the nature of the projects and limitation arising from the changes in project managers, we were not provided with sufficient third party audit evidence to support the receivable balances as at 31 December 2016. Due to this we have necessarily qualified our audit opinion on these balances.

4 Bank and petty cash

Project related funds

- 4.1 Although the Association is maintaining track of funds to identify the amounts that belong to the Association and the amounts advanced from projects, these are not retained in separate bank accounts.
- 4.2 We recommend that the Association retains separate bank accounts for each project in order to distinguish clearly between the Association's funds as well as funds relating to different projects.

5 Trade and other payables

Creditors' statements

- 5.1 As part of our audit procedures, we requested creditor statements as at 31 December 2016 for the Association's main creditors. The Association requested some of these by e-mail from the suppliers indicating that such statements were not readily available. Memos issued from time to time by the DLG specifically state that the Association should obtain monthly statements.

6 income

Netting off of income and expenses

- 6.1 Income and expenses of completed projects were netted off against each other and the net figure shown as income if a surplus was reported and if a deficit was incurred then the project was shown as an expense. We reiterate the recommendation that the Association shows the full income and full expenses of the project rather than net them off.

LES management

- 6.2 We obtained a report from Logus showing the amount which LCA received during 2016 and noted that whereas the reports indicated income of EUR182,124, the Association reported income of EUR183,061. Upon further scrutiny, we noted that this discrepancy arose in the December accrual and amounted to EUR937. We proposed an adjustment to decrease LES related income by this amount. The Association approved our adjustment and reflected it in the Financial Statements.

7 Expenses

Procurement procedures

- 7.1 We reviewed tender related documents in relation to the call for International & EU Affairs Consultant (LCA/01/16) and even though the unsuccessful bidder has been notified that his offer was not successful, the following information as noted in the General Rules Governing the Tenders issued with Directive 1/2016 have not been included in the letter:

- (i) the criteria for award;
- (ii) the name of the successful tenderer;
- (iii) the recommended price of the successful bidder;
- (iv) the reasons why the tenderer did not meet the technical specifications/ notification that the offer was not the cheapest/the offer was not the most advantageous,
- (v) the deadline for filing a notice of objection (appeal);
- (vi) the deposit required if lodging an appeal.

- 7.2 We also noted that in September, the Association requested quotes for the organisation of conferences from hotels via e-mail. Directive 1/2016, requires that from 1 September 2016, every call for quotations is to be issued through the EPPS system.
- 7.3 We recommend that the Association should adopt procedures to ensure that all procurement procedures emanating from Directive 1/2016 are followed at all times.

Air tickets

- 7.4 The Association's ledger indicated that the cost of refundable air tickets was EUR8,683. However, the Financial Statements of the Association disclosed EUR103,207 as refundable air ticket expenses and reflected the amount also in income. Hence, we proposed an adjustment of EUR103,207 to reflect air ticket income and a separate expense in the ledger. We were also informed that the original amount in the ledger of EUR8,683 was actually a non-refundable amount. Hence, we proposed a further adjustment to reclassify EUR8,683 from refundable Air-Tickets to travelling costs which originally amounted to EUR12,442 in the ledger rather than EUR21,125 as per the Association's Financial Statements. The Association approved our adjustment.
- 7.5 As noted in 7.4 above, The Association air tickets expenses are partly refundable and partly are not. The Association provided an analysis of all air ticket expenses for 2016. The analysis indicated that total air tickets expense was of EUR143,628 whereas the refundable portion was of EUR119,849. The figures reported in the Association's Financial Statements amounted to a total expenses of EUR124,332 of which EUR103,207 was refundable. An un-reconcilable difference of EUR19,296 on the total cost of tickets and EUR16,642 on refundable tickets emerged. The Association indicated that the difference is recorded in other project costs.
- 7.6 We recommend that the Association should reconcile air tickets expenses to the amounts reported in the ledger on a regular basis. We also recommend that the Association monitors the amounts receivable and ensures that it collects them.

Cut-off and unrecorded liabilities

- 7.7 During our audit, we noted that the cost of the Christmas meal amounted to EUR447 and catered for approximately ten people. This results in a cost of EUR44.70 per head. This exceeds the capping allowed of EUR30 per head as allowed by Circular 46/2016. We also noted that Association did not accrue for this cost. We proposed an adjustment to accrue for this expense. The Association approved our adjustment and reflected it in the Financial Statements.
- 7.8 We remind the Association that expenses on Christmas meals are capped at EUR30 per head and we also remind the Association that expenses should be recorded in the year to which they relate.

Budget and actual expenditure

- 7.9 We agreed the budgeted figures for 2016 with the actual recurrent and capital expenditure for the year as follows:

	Budget 2016 EUR	Actual 2016 EUR	Difference EUR
Income			
Funds from Central Gov	102,772	102,772	-
Management fees LES- LTD	159,348	182,124	- 22,776
Investment income	500	130	370
Other income	1,000	162,574	- 161,574
EU projects net income	-	260	- 260
	<u>263,620</u>	<u>447,860</u>	<u>- 184,240</u>

Expenditure			
Personal emoluments	104,427	101,041	3,386
Administration			
Utilities	8,000	7,054	946
Other repairs and upkeep	2,000	627	1,373
Office rent	12,390	12,390	-
N&I memberships	7,312	4,792	2,520
Office services	2,500	1,514	986
Transport	3,320	1,629	1,691
Travel	15,000	124,332	- 109,332
Information services	25,000	10,683	14,317
Contractual services	5,000	44,386	- 39,386
Conferences	-	16,430	- 16,430
Professional services	20,000	-	20,000
Training	1,000	-	1,000
Community & hospitality	3,200	2,964	236
EU projects exp less provisions & bad debts	-	4,205	- 4,205
Incidental exp	-	416	- 416
	<u>209,149</u>	<u>332,463</u>	<u>- 123,314</u>

Surplus/(deficit) before depreciation, provisions & bad debts	<u>54,471</u>	<u>115,397</u>	<u>- 60,926</u>
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	Budget 2016 EUR	Actual 2016 EUR	Difference EUR
Capital Expenditure			
Improvements	2,000	-	2,000
Equipment	5,000	-	5,000
Office furniture & fittings	-	500	- 500
	<u>7,000</u>	<u>500</u>	<u>6,500</u>

7.10 The Association should ensure that a fair budget is prepared and executed throughout the period. The expenditure incurred throughout the period should be in line with the estimated and approved expenditure.

8 Payroll

Payroll reconciliations

- 8.1 Our testing on the disclosure of the expense per category, we noted that the Executive Secretary's salary was overstated by EUR1,814 in the Financial Statements. Similarly, we noted that the expense of EU Project Officers' Salaries and allowances was understated by this same amount. We also noted that the amounts disclosed for each category of expense in the Financial Statements, were not reflected in the nominal ledger. Hence, we proposed an adjustment to reclassify salaries between the various categories as reported in the Financial Statements and also reflect the actual amount paid to the Executive Secretary. The Association approved our adjustment and reflected it in the audited Financial Statements.

9 Financial Statements

Presentation of Financial Statements

- 9.1 In line with the Department's requirements, the Association is obliged to prepare the Financial Statements in accordance with International Financial Reporting Standards (IFRSs).
- 9.2 The Association's Financial Statements are not compliant with IFRSs in the following instances:
- The Association reported a rental cost of EUR12,390, however, the Financial Statements do not disclose the necessary disclosures required by IAS 17 *Leases*. The Association has amended these disclosures after our notification.
 - IFRS 7 *Financial Instruments: Disclosures*: the Association did not disclose the necessary maturity analysis of financial liabilities required under quantitative disclosures relating to liquidity risk.
 - IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* regarding disclosures of new and amended IFRSs that have been adopted by the Association was not updated in the Financial Statements. The Association reported changes pertaining to previous periods. We proposed amendments to the Financial Statements to ensure proper disclosure. The Association has amended these disclosures after our notification.
 - IAS 16, *Property, Plant and Equipment* regarding disclosure of capital commitments. The Association did not disclose its capital commitments of EUR7,000 as reported in the approved 2016 budget. The Association has amended these disclosures after our notification.
- 9.3 We have qualified our audit report on the un-corrected matters mentioned above.

9.4 We also noted the following in the audited Financial Statements:

- The depreciation charge as reported in note 10 to the audited Financial Statements should read EUR7,462 rather than EUR7,461.

10 Association's meetings

Minutes of the meetings

10.1 We were not able to trace an on-line copy of the minutes of the meetings of the Association. We remind the Association that it is required to publish its minutes and other important publications such as the audited Financial Statements and forecasts.

Frequency of meetings

10.2 The Local Council (Association) Act requires that the Association meets at least once every month. We noted that the Association did not meet during the month of April.

11 Going Concern

11.1 Due to the lack of information and sufficient and appropriate audit evidence on receivables (refer to note 3.7) the going concern of the Association is also affected. The Association may be exposed to claims against it on both pending and closed projects. We also noted that during 2016 the majority of the Association's employees have resigned. This has effectively left the Executive Secretary responsible to carry out all the day-to-day running of the Association. It is our understanding that the Association is effectively running off the current projects and is not embarking on new projects.

11.2 We have included a qualification in our audit report on this matter.

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. Isabella Testaferrata De Noto and her 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