

The Mayor  
Luqa Local Council  
Civic Centre, 173,  
New Street, Luqa  
Malta

29th May 2020

Dear Sir,

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

During our audit for the year ended 31 December 2019, we have reviewed the accounting systems and procedures operated by the Council. We have also reviewed the operations of the Council and how they conform to the Local Councils 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 Fixed assets insurance**

Similarly, to previous year, we noted that there are discrepancies between the insurance cover and the net book value of the assets in the accounts (refer to note 2.1).

#### **1.2 Overdue balances**

As in previous year, we still found long outstanding creditors' balances included in the aged trade payables' list (refer to note 2.2).

#### **1.3 Debit balances in creditors' list**

We did not encounter any debit balances in creditors' list during the year under review.

#### **1.4 Wages reconciliation**

Once again, we noted that total figures in FS5s and FS7 were not in agreement (refer to note 2.3).

### **1.5 Council meetings**

Once again, Councillors failed to attend more than one third of meetings in a period of six months (refer to note 2.4).

### **1.6 Accrued income**

Similar to previous year, a reclassification from trade payables to accrued income was passed with respect to the amount receivable from Department of Local Government with respect to shortages of tipping fees payable to WasteServ Malta Limited (refer to note 2.5).

Once again, a difference was noted in the accrued income with respect to shortages of tipping fees payable to WasteServ Malta Limited, which was of an immaterial nature (refer to note 2.5).

### **1.7 Prepayments**

We were pleased to note that there were no discrepancies in prepayment calculations during the year under review.

### **1.8 LES Debtors**

We are pleased to note that no differences have been noted between LES debtors balance and LES report.

### **1.9 Credit balances in debtors' list**

The same reclassification was proposed and passed in the accounts of the Local Council (refer to note 2.6).

### **1.10 IFRS 9**

Once again, the Council did not calculate and account for the 'expected credit loss' (refer to note 2.7).

### **1.11 Available for sale investments**

Same as in previous year, an immaterial difference was noticed between the market value of investment in the accounts to supporting documentation (refer to note 2.8).

### **1.12 Bank and Cash**

Monthly bank reconciliations were once again not being prepared on a monthly basis (refer to note 2.9).

Some immaterial differences were also noted between the bank accounts and bank letter (refer to note 2.9).

We were pleased to note that no reclassifications between bank accounts and from '0201 – Other Debtors' to petty cash account were deemed necessary in the current year audit.

### **1.13 Trade payables**

Once again, no supplier statements were made available for some of the Local Council's suppliers (refer to note 2.10).

### **1.14 Leave**

We were pleased to note that none of the employees exceeded the limit stipulated for leave carried forward.

### **1.15 Income**

The Local Council did not manage to meet the minimum of 10% of the financial allocation (refer to note 2.11).

Once again, differences were noted in the refund provided under the CIES Scheme (refer to note 2.11).

### **1.16 Depreciation**

We were pleased to note that no discrepancies were found while testing calculations for depreciation.

### **1.17 Variations with budgeted figures**

Once again, the Local Council exceeded its budgeted figures for 2019 (refer to note 2.13).

## **2. Management letter points for the year under review**

### **2.1 Fixed assets insurance**

Local Councils are bound to insure their assets in line with the Local Councils (Financial) Procedures, 1996. While reviewing the insurance policy held by the Council during 2019, we found the below discrepancies between the sum insured and the NBV as per financial accounts:

	<b>Sum insured</b>	<b>NBV of the class of assets</b>	<b>Difference</b>
	€	€	€
Property	149,121	179,426	(30,305)
General contents and assets including machinery but not limited	22,565	24,722	(2,157)
Outside property	164,229	131,825	32,404
Computer equipment	9,248	931	8,317
Motor vehicle	4,410	-	4,410
<b>Total</b>	<u>349,573</u>	<u>336,904</u>	<u>12,669</u>

## 2.2 Overdue balances

While going through the year-end aged creditors' list, we noticed that the balance due to Asfaltar Limited of €16,599 and balance owed to Polidano Brothers Limited of €11,444 have been long overdue.

We reiterate that the Council should discuss such balance with the supplier and come into an agreement on what is payable and what not, and thereafter settle or write-off accordingly.

## 2.3 Wages reconciliation

While performing testing on wages, we encountered a difference of €53 between salaries declared in FS5s and those declared in FS7, as per below:

	€
Gross Wage as per FS5s	120,878
1/2 the total social security as per FS5s	<u>7,506</u>
Total as per FS5s	<u>128,384</u>
Gross Wage as per FS7	120,663
1/2 the total social security as per FS7	<u>7,668</u>
Total as per FS7	<u>128,331</u>
Difference	<u>53</u>

From discussions with the Executive Secretary, it transpired that such difference relates to a misstatement in the FS5s, which was corrected in the FS7.

#### **2.4 Council meetings**

We noticed that two Councillors failed to attend more than one third of the meetings called within a period of six months. According to Chapter 363, Article 18, the Executive Secretary should have informed the Minister on this matter and recommended not to declare the seat vacant, since these absences were due to justifiable causes.

We recommend that the Executive Secretary takes immediate action and informs the Minister on such matter, and that such notification is made in future should a similar matter occur again.

#### **2.5 Accrued income**

While testing accrued income as at year-end, it was noted that accrued income amounting to €26,546 receivable from the Department of Local Government, with respect to shortages of tipping fees payable to WasteServ Malta Limited, was not included as it was not accounted for as appropriate. The Local Council debited the creditor's account instead of the accrued income. A reclassification between accrued income and amount payable to WasteServ Malta Limited was proposed and eventually approved and passed by the Local Council (refer to RECL B/19 in point 2.14).

While performing such testing, it was also noted that the actual accrued income with respect to shortages of tipping fees payable to WasteServ Malta Limited should have totalled to €25,605, creating an over-accrual of €941. Since the amount is not material for audit purposes no adjustment was proposed, and it was transferred to the list of unadjusted errors (refer to UA 07/19 in point 2.15).

#### **2.6 Credit balances in debtors' list**

A credit balance in debtors' list of €69 has been noted in the accounts. An audit reclassification was proposed and passed in the accounts (refer to RECL A/19 in point 2.14).

#### **2.7 IFRS 9**

The Council did not calculate and account for 'expected credit loss' as required by IFRS 9. The receivable balances of the Council are composed of balances with government related entities. Given the low risk associated with such entities the default risk is considered to be insignificant and will not result into a material amount (refer to UA 01/19 in point 2.15). Since effect is not material, the audit report is not qualified in this respect.

#### **2.8 Available for sale investments**

When comparing the market value of investment in accounts to supporting documentation as at 31 December 2019, we noticed that the fair value of the investment is overstated by €35. Since the difference is not material,

no adjustment was proposed, and it was transferred to the list of unadjusted errors (refer to UA 09/19 in point 2.15).

## **2.9 Bank and Cash**

The Local Council does not prepare bank reconciliations on a monthly basis but prepares them on a quarterly basis. We reiterate that bank reconciliations should be prepared on a monthly basis in accordance with the requirements of the Local Councils (Financial) Regulations.

During our testing, we noted that BOV Savings account – 12903677023 is overstated by € 37 and BOV Current account – 12903677010 is overstated by € 17. Neither the accountant nor the Executive Secretary could explain such differences. Since the differences were not material for audit purposes, no adjustment was proposed, and they were transferred to the list of unadjusted errors (refer to UA 02/19 in point 2.15).

## **2.10 Trade and other payables**

During our testing, we noted that the Local Council did not obtain monthly suppliers' statements for some of its suppliers. In fact, we were not provided with any statements for the below suppliers:

<b>Supplier</b>	<b>Balance as at year-end</b>
Asfaltar Ltd	€16,599
Polidano Brothers Limited	€11,444

The fact that the Council did not obtain statements from some of its suppliers is contrary to the procedures and memos specifically requiring Councils to reconcile creditors' balances to statements on a monthly basis.

We recommend that the Council obtains monthly statements from all suppliers and reconciles these to the balances in the accounts.

During our testing for trade payables, we had an extrapolated error amounting to € 1,634 when comparing the balance as per accounts and balance as per documentation provided for WasteServ Malta Ltd. Given that amount was not considered material for audit purposes, this was included with the list of unadjusted errors (refer to UA 08/19 in point 2.15).

While testing the accruals, we noted that the performance bonuses accrual was understated by €67, when compared to the January payslips. Given that amount was not considered material for audit purposes, this was included with the list of unadjusted errors (refer to UA 04/19 in point 2.15).

Also, accruals for WasteServ Malta Ltd invoices related to 2019 but issued after year-end was overstated by €367. Amount was not considered material for audit purposes and thus was included in the list of unadjusted errors (refer to UA 06/19 in point 2.15).

When comparing the NI and FSS due as per accounts to the December FS5, a discrepancy of €68 and €80 respectively was noted. Differences were not considered material for audit purposes and were therefore included with the list of unadjusted errors (refer to UA 05/19 in point 2.15).

### **2.11 Income**

When testing the Local Council's financial allocation received from Central Government vis-à-vis the expenditure incurred during the year, we noted that the Local Council did not manage to register a minimum of 10% of the financial allocation as required by Section 4c of the Local Council (Financial) Regulations, 1993.

While testing the income received during the year, it was also noted that refund for employee employed under the CIES Scheme was understated by €543. Since the amount is not material for audit purposes, no adjustment was proposed, and it was transferred to the list of unadjusted errors (refer to UA 10/19 in point 2.15).

It was also noted that CIES income amounting to € 10,149 in relation to 2020 was included with 2019 income. An adjustment was proposed to the Local Council, approved, and passed in the accounts accordingly (refer to AA 01/19 in point 2.16).

While testing interest income, it was noted that interest receivable from bank was understated by €111. Since the amount is not material for audit purposes, no adjustment was proposed, and it was transferred to the list of unadjusted errors (refer to UA 03/19 in point 2.15).

### **2.12 Expenses**

During our testing, it was noted that the contract with Northern Cleaning Group Ltd for waste collection has been expired since 1 September 2015. We enquired with the Council who explained that contract should have been for four years in fact we have vouched the tender document and confirmed that misstatement is in the contract.

This would still mean that tender was valid up till 1 September 2018 and therefore, we recommend the Council to issue a new tender in respect of waste collection so that it will be in line with the procurement regulations stipulated in the Local Councils Act.

An expense totalling to €8,325 incurred with Bugeja Travel for an outing to Sicily organised by the Local Council was given by a direct order to the mentioned supplier. This is against the procurement regulations and we therefore recommend the Local Council to follow the Local Council's Act procurement regulations when incurring such expenditure.

While testing rent payable, we have noted that agreement for rent payable of 'Family Park' should fall under IFRS 16 but the Local Council did not account for it in the appropriate way, as it was accounted for under IAS 17, which was superseded by IFRS 16 as from 1 January 2019. Since the amount is not material for audit purposes, no adjustment was proposed, and it was transferred to the list of unadjusted errors (refer to UA 12/19 in point 2.15).

Also, while testing rent payable, we noted that total rent payable according to the agreements provided and total rent payable according to the accounts provided deferred by €1,684. Since the amount is not material for audit purposes, no adjustment was proposed, and it was transferred to the list of unadjusted errors (refer to UA 11/19 in point 2.15).

### 2.13 Variations with budgeted figures

While testing the budgeted figures with the actual figures within the Statement of Profit or Loss and Other Comprehensive Income for the year, it was noted that the Local Council exceeded its budget by €26,401 with respect to administration expenses. Overall, the Local Council managed to keep its expenditure within the budgeted amounts.

### 2.14 Reclassifications list

Ref	Details	Amount – €
<b>RECL A/19</b>	Dr Debtors control account	69
	Cr Credit balances in debtors' list	69
	<i>Being reclassification of credit balances in debtors list (refer to note 2.6)</i>	
<b>RECL B/19</b>	Dr Accrued income	26,546
	Cr Creditors control account	26,546
	<i>Being reclassification of tipping fees balance with WasteServ Malta Limited (refer to note 2.5)</i>	

### 2.15 List of unadjusted errors

During our audit, we encountered the following error which were at trivial level, for which there was no need to adjust the financial statements.

Ref	Details	Amount – €
<b>UA 01/19</b>	Dr Expected credit loss – P/L	180
	Cr Expected credit loss – B/S	180
	<i>Being Expected credit losses not adjusted for (refer to note 2.7)</i>	
<b>UA 02/19</b>	Dr Profit and Loss	54
	Cr Bank	54
	<i>Being differences in bank balances (refer to note 2.9)</i>	



<b>UA 03/19</b>	Dr Bank charges	111
	Cr Interest received	111
	<i>Being difference in interest received (refer to note 2.11)</i>	
<b>UA 04/19</b>	Dr Wages and Salaries	67
	Cr Accrual	67
	<i>Being under accrual of performance bonuses (refer to note 2.10)</i>	
<b>UA 05/19</b>	Dr Wages and Salaries	12
	Dr NI Payable	68
	Cr FSS Payable	80
	<i>Being difference in NI and FSS payable (refer to note 2.10)</i>	
<b>UA 06/19</b>	Dr Accrual	367
	Cr Profit and Loss	367
	<i>Being overstatement of accrual for WastServ invoices (refer to note 2.10)</i>	
<b>UA 07/19</b>	Dr Income	941
	Cr Accrued Income	941
	<i>Being difference in tipping fees shortages to be paid by DLG (refer to note 2.5)</i>	
<b>UA 08/19</b>	Dr Profit and Loss	1,634
	Cr Trade payables - Wasteserv	1,634
	<i>Being difference in Wasteserv balance (refer to note 2.10)</i>	
<b>UA 09/19</b>	Dr Growth Money Fund (P/L)	35
	Cr Valletta Fund Management - Investments	35
	<i>Being over statement of investment as per calculation (refer to note 2.8)</i>	
<b>UA 10/19</b>	Dr Balance Sheet	543
	Cr CIES Income	543
	<i>Being difference in income when compared to FS3 (refer to note 2.11)</i>	

<b>UA 11/19</b>	Dr Trade payables	1,684
	Cr Rent payable	1,684

*Being over statement of rent payable (refer to note 2.12)*

<b>UA 12/19</b>	Dr Right of use asset	7,227
	Dr Retained earnings	672
	Cr Accumulated depreciation – right of use asset	4,336
	Cr Lease liability	3,407
	Cr Interest on lease	156

*Being rent under IFRS 16 not accounted for (refer to note 2.12)*


## **2.16 List of audit adjustments passed**

<b>Ref</b>	<b>Details</b>	<b>Amount – €</b>
<b>AA 01/19</b>	Dr Other Government Income	10,149
	Cr Deferred Income	10,149

*Being CIES income related to 2020 (refer to note 2.11)*

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 designed primarily for the purpose of expressing our opinion on the financial statements of the Local 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 defalcations or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would also like to take this opportunity to thank the Mayor, Executive Secretary and Local Council staff for their help during the course of our audit.



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Mr Manuel Castagna CPA  
For and on behalf of Nexia BT