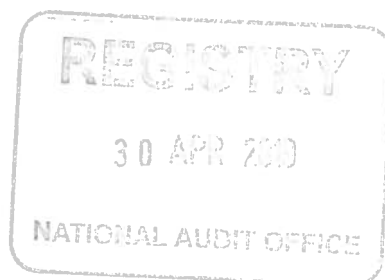


The Mayor  
Qormi Local Council  
392, Triq il-Vitorja  
Hal Qormi (Citta' Pinto) QRM 2507  
Malta

24th April 2019



Dear Sir,

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

During our audit for the year ended 31 December 2018, we have reviewed the accounting systems and procedures operated by the Local Council. We set out in this report the more important points that arose as a result of our review.

### **1 Previous management letter**

#### **1.1 Trade receivables**

Similar to last year, we were unable to test the full balances of trade receivables as at 31 December 2018 since GreenPak Coop did not respond to the circularisation letter again and no receipts after year end were received (refer to point 2.1).

#### **1.2. Trade payables**

Similar to last year, we found that not all supplier reconciliations were carried out as at 31 December 2018 (refer to point 2.4). However, we were pleased to note that there were no unreconciled entries as at year-end.

#### **1.3 Wages reconciliation**

We were pleased to note that no difference was noted between salaries declared in the FS5s and those declared in the FS7.

#### **1.4 Major expenses that exceeded the budget**

As in previous year, we noted some expenses which exceeded those budgeted (refer to point 2.9).

### **1.5 Income raised under LES**

Similar to previous year, a discrepancy was noted between the balances recorded in the accounts and 10% commission attributable to the Local Council (refer to point 2.2).

## **2 Management letter points for the year**

### **2.1 Trade receivables**

While testing trade receivables, we were unable to test € 9,278 receivable from GreenPak Coop, as no circularisation was received, and the balance was not received after year end.

This balance was fully provided for and thus it has a nil effect in the accounts.

### **2.2 Income raised under LES**

While testing the income raised under LES, it was noted that the amount recorded in the accounts was understated by €1,086 when compared to the 10% commission attributable to the Local Council, as per LESA Report (refer to list of unadjusted errors in point 2.12).

We recommend that a reconciliation is performed between the accounts and the LESA report before the accounts are approved for the audit.

### **2.3 Wages**

While performing testing on wages, we noticed that Council members are insured in a health scheme, even though the Council reported a loss for the year.

### **2.4 Trade payables**

While performing our testing on trade payables, we selected three suppliers for testing and found that no reconciliations were carried out for one of the selected suppliers. Reconciliations were not carried out for the following:

<b>Supplier</b>	<b>Turnover for the year</b>	<b>Year-end balance</b>
Road Maintenance Services Ltd	€286,292	€22,654

We sent a trade creditors circularisation to the above creditor; however, we did not receive any reply. We performed alternative testing to test the selected creditor. While we acknowledge that not all suppliers send out statements on a regular basis, we strongly suggest that a periodical exercise that confirms creditor balances is still performed.

In addition, we have noted a debit balance in the creditors' list amounting to €5,644 in relation to an advance payment to ARMS Ltd. The amount was reclassified accordingly (refer to note 2.13). It should be noted that there should not be debit balances in the creditors' list as no payment can be approved and effected before having the appropriate invoice in hand.

We recommend that the Council complies with applicable Legislation and performs payments only when the proper documentation is in hand, and also that the correct balances are reflected in the accounts.

## **2.5 Bank**

While testing the bank reconciliations, we noted two stale cheques related to 2017 amounting to €500 are still outstanding. Since amount is not material, an adjustment was not passed (refer to point 2.12).

We recommend that the Council investigates any stale cheques and why these were not cashed by the payee. If these cheques are unlikely to be cashed or have been replaced, such amounts should be reversed against the respective expense account or creditor.

## **2.6 Accruals**

While testing the accruals as at year-end, it was noted that the bank interest accrual of €92 was not accounted for. This amount was confirmed with the bank audit report provided from APS Bank Ltd. Since amount is not material, an audit adjustment was not proposed (refer to point 2.12).

Also, it was noted that an accrual amounting to €8,000 in relation to the activity, 'Lejl f'Casal Fornaro' included invoices which were dated in 2018, resulting in an over-accrual of €6,903. This resulted since at the time the accounts were passed for audit, the invoices were not yet received by the Council. Since amount is not material, an audit adjustment was not passed (refer to point 2.12).

## **2.7 Adoption of IFRS 9**

IFRS 9, which became effective for periods that begin on or after 1 January 2018, introduced 'an expected credit loss' model for the impairment of financial assets.

The Council did not calculate and account for this 'expected credit loss'. The receivable balances of the Council are mainly 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. Since effect is not material, the audit report is not qualified in this respect.

## **2.8 Petty cash**

It was noted that as at year-end, the petty cash balance held at the Council exceeded the maximum amount allowed of €232.94 by €52.

We recommend that the Local Council follows the Local Councils (Financial) procedures, 1996, in respect of the value of petty cash payments and the amount of cash held at the Council.

## **2.9 Expenses**

While performing our analytical review on the expenses incurred during the year under review, we noted that the following expenses for the year exceeded the budgeted amounts:

<b>Expenses</b>	<b>Amount exceeded €</b>
Refuse collection	33,953
Cleaning and maintenance – Parks & gardens	11,390
Studies & consultations	13,398
Professional Services	9,238
Social, cultural and community	34,423

We recommend that the Local Council revises the method used in calculating the budgets in order to be more accurate and reflect actual costs incurred. This will help the Local Council in being more efficient and also helps to plan future cash flows in a more effective manner.

Moreover, when reviewing the board meeting minutes, we noticed that Jum Hal Qormi was held by the Local Council. The total cost of this event amounted to €11,566, which exceeded the maximum amount allowed of €5,656 (0.5% of the annual government allocation).

We recommend that the Local Council abides to Circular 46/2016 and does not exceed the maximum allowed cost for Jum il-Lokal.

#### **2.10 Legal letter**

During the audit, we requested the legal letter in the normal course of the audit to determine whether there are any legal cases and the possibility and probability of the outcome of such cases. Unfortunately, we were not provided with a legal letter.

We recommend that the Council obtains the legal letter for future audits.

#### **2.11 Loss for the year**

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 obtain a positive result, as required by Section 4c of the Local Council (Financial) Regulations, 1993.

#### **2.12 List of unadjusted errors**

During the audit, we encountered a number of errors which were non-material both individually and in aggregate, for which there was no need to adjust the financial statements. Refer to the details below:

1. Dr Bank	€500
Cr P/L	€500

***Being stale cheques – Refer to 2.5***

2. Dr Bank loan interest payable	€92
Cr Accruals	€92

***Being omission of accrual of bank loan interest – Refer to 2.6***

3. Dr B/S	€1,086
Cr Income raised under LES (P/L)	€1,086

***Being difference found between LES reports and accounts – Refer to 2.2***

4. Dr Accruals	€6,903
Cr Trade payables	€6,903

***Being 'Lejl f'Casal Fornaro' invoices issued in 2018 – Refer to 2.6***

### **2.13 Reclassification**

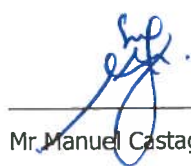
Below is a reclassification proposed and passed during the audit:

1. Dr Debit balances in Creditors' list	€5,644
Cr Trade creditors	€5,644

***Being advance payment to ARMS Limited based on estimates – Refer to 2.4***

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 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