

The Mayor

Qrendi Local Council

7, Church Street

Qrendi QRD 1103

Malta

29th April 2016

Dear Sir,

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

During our audit for the year ended 31 December 2015, we have reviewed the accounting systems and procedures operated by the Local 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.

### I Previous management letter

#### 1.1 Council meetings

Similarly to previous year, whenever a councillor was absent for a meeting, the agenda of the following meeting did not include this fact (refer to note 2.1).

#### 1.2 Business plan

Contrary to last year, the three-year financial plan for the income and expenditure of the Local Council was prepared.

### 1.3 Complaints record book

A complaints record book, as required by the Local Councils (Complaints) Regulations, is being kept by the Local Council.

### 1.4 Fixed assets

As in prior year, we noted that the fixed assets register does not agree to the amounts as per accounts with a net difference of €31 (refer to note 2.2).

### 1.5 Petty cash expenditure

When testing petty cash payments, we noted that all petty cash expenditure was supported by invoices.

### 1.6 Bank accounts

Contrary to previous year, there were no stale cheques in the bank reconciliations at year-end. However, the Local Council has not yet commenced to prepare bank reconciliations on a monthly basis (refer to note 2.3).

Besides, all accounts were properly classified in the 2015 financial statements. On another note, the Council has not yet instructed the bank not to withhold 15% tax on BOV savings account 400219555424.

### 1.7 LES debtors

Reports provided from the Local Enforcement System (LES) as at 31 December 2015 agreed to the accounts. However, other issues were encountered during 2015 (refer to note 2.4).

### 1.8 Related party balances

The only difference in related party balance encountered during 2015 was in relation to amount receivable from WasteServ Malta Limited (refer to note 2.5).

## 1.9 Trade creditors

The balances due to Asfaltlar Limited and Cleansing Services Department have not yet been settled (refer to note 2.6).

## 1.10 Prepayments and accrued income

We were not provided with any supporting documentation or workings confirming the value of prepayments and accrued income at year-end (refer to note 2.7).

## 1.11 Deferred income

We were not provided with any supporting documentation or workings confirming the value of deferred income as at year-end (refer to note 2.8).

## 1.12 Special needs funds yet unspent

We were not provided with any supporting documentation or workings confirming the value of 'special needs funds yet unspent' at year-end (refer to note 2.9).

## 1.13 Financial allocation

We were pleased to note that the Council met the minimum 10% financial allocation for 2015.

## 1.14 Capital commitments

The 2015 financial statements do not disclose the Council's future capital expenditure plans as per budget in accordance with the specimen format (refer to note 2.10).

## 1.15 Financial statements

The financial statements are still not adequately presented (refer to note 2.11).

## 1.16 Rent payable

During 2015, the local council has entered into a rent agreement with the Commissioner of Land – Government of Malta for the rental of land at Triq Nicolo Commune, Qrendi.

## 1.17 Salaries

As in last year, differences in the wages reconciliation for the year and in the Executive Secretary's pay were encountered during 2015. Moreover, personnel emoluments are still not being reconciled on a monthly basis (refer to note 2.12).

## 1.18 Employment contracts

During our payroll testing, we noted that no indefinite contract has yet been drafted for one of the employees (refer to note 2.13).

## 1.19 Employees

We are pleased to note that during audit fieldwork, we observed that the executive secretary is keeping an employees' register, listing all the details as required by the Local Councils Act. Additionally, the fact that Council members are insured under a health scheme is now in line with regulations, since the Council reported a profit for the year.

## 1.20 Deposits

We noticed that the Council is still not depositing its general income and the custodial receipts daily or twice weekly in some instances, as required by the Local Councils (Financial) Procedures, 1996 and LN 28/2000 respectively (refer to note 2.14).

## 1.21 Legal letter

We were provided with a legal letter during 2015 audit.

2 Management letter points for the year

2.1 Council meetings

In cases where a councillor was absent, the agenda of the following meeting did not include this fact. We reiterate that the Council complies with the Local Councils Act and, in the case of an absent Councillor, includes the fact in the agenda of the following meeting for discussion and to analyse whether the absence was justified. However, we point out that such absences were supported by letter of excuses.

2.2 Fixed assets

We observe that the fixed assets register does not agree to the amounts as per accounts with a net difference of €31, as per table below:

	Cost as per financial statements	Cost as per fixed assets register	Difference
	€	€	€
Construction and special programmes	1,567,682	1,567,713	31

In this regard, we recommend that the accounts are reconciled with the fixed assets register periodically.

Furthermore, during vouching of fixed assets additions, we noticed that an invoice amounting to €18,855 in relation to a penalty issued by the Ministry for Sustainable Development was capitalised, rather than expensed. It was agreed with the Executive Secretary to pass an audit adjustment in this regard, and to adjust depreciation accordingly (refer to note 2.18).

2.3 Bank

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

We also remark that the Council did not instruct the bank not to withhold 15% tax on BOV savings account 40021955424 resulting in €42.22 deducted from interest income at year-end. Being exempt from taxation, we recommend that the Council informs the bank concerned not to withhold tax on bank accounts held by the Council.

## 2.4 LES debtors

LES debtors balance at year-end was agreed with reports from the Local Enforcement System (LES), through a journal entry with a revenue account, resulting in a debit balance in such account. We recommend that movements in LES report are investigated and shall be accounted for as appropriate. Moreover, unaudited financial statements provision on LES debtors of €81,997, whereas LES debtors at the end of the year amounted to €81,265. As per discussions with the accountant, we were instructed to pass an audit adjustment to agree both balances (refer to note 2.18).

We recommend that the Council performs this reconciliation and passes the necessary adjustments before the unaudited financial statements are passed for audit.

## 2.5 Trade receivables

While testing trade receivables, we noted that besides the fact that WasteServ Malta Ltd had a debit balance in creditors' list amounting to €4,971 and a reclassification was passed in this respect (refer to 2.19), the net balance receivable was overstated by €8,952. No reconciliation was provided. This contributed to our disclaimer opinion (refer to note 2.20).

We recommend that the Council reconciles all trade receivable balances as at year-end.

## 2.6 Trade creditors

While testing trade creditors, we noted that the balances owed to Asfaltar Limited of €759 and Cleansing Services Department of €29,246 have been due for more than one year. We recommend that long outstanding creditors are discussed in the Council's meetings as to why they have not been paid yet. In case of any disputes with creditors, these should be resolved as far as possible.

We also noticed that no creditors' reconciliations are performed. We selected six creditors for testing. Creditors' statements were available for three of them, two were in agreement and the balance of Mr Brian Borg was not in agreement to the statement. Brian's balance was €nil in the accounts and €1,458.25 as per statement. We requested a reconciliation but it was not available and it was not prepared after the request. No adjustment was passed for this balance, refer to note 2.20. The three other creditors selected for testing were tested through alternative testing, as suppliers' statements were not available and circularisations were not received.

Whilst we acknowledge that a number of creditors do not prepare statements and duly make them available, we strongly suggest that a periodical exercise that confirms creditor balances is still performed.

Creditor reconciliations are an essential element of a good internal control system. They can assist in enhancing the internal control system of company whilst also ensuring that the supplier balances reflected in the accounts are accurate.

## 2.7 Prepayments and accrued income

We were not provided with any supporting documentation or workings to test prepayments of €2,980 and accrued income of €72,116 at year-end. This contributed to our disclaimer of opinion.

## 2.8 Deferred income

We were not provided with any supporting documentation or workings to test deferred income of €316,677 as at year-end. This contributed to our disclaimer of opinion.

## 2.9 Special needs funds yet unspent

We were not provided with any supporting documentation or workings confirming the value of 'special needs funds yet unspent' of €22,781 at year-end. This contributed to our disclaimer of opinion.

## 2.10 Capital commitments

Similarly to the previous year, capital commitments were not disclosed in the financial statements. This contributed to our disclaimer of opinion.

We recommend that the financial statements adequately disclose the Council's future capital expenditure plans as per budget in accordance with the specimen format and IFRS.

## 2.11 Financial statements

In line with the Department's communications and instructions, Councils shall prepare their financial statements in conformity with IFRS. Unaudited financial statements did not include contractual maturities of financial liabilities, as required by IFRS 7, *Financial Instruments: Disclosures*. However, these were provided and included in the financial statements following discussions with the Executive Secretary.

Besides, the unaudited financial statements did not include the budgeted figures for the year and this was not in accordance with the Local Councils (Financial) Procedures, 1996.

## 2.12 Salaries and p/l items

A difference of €1,004.67 resulted in the reconciliation between the wages as per financial statements and the wages as per FS7, as per below. Since difference is not material, an adjustment was not passed (refer to note 2.20).



€	
Gross Wage as per FS7	72,525.15
1/2 the total social security as per FS7	4,056.00
Total as per FS7	<u>76,581.15</u>
Wages and salaries as per accounts:	
Social security contributions	4,056.00
Councillors' allowances	4,800.00
Employee's salaries	28,750.00
Executive secretary's salary and allowances	27,992.00
Mayor's remuneration	8,648.00
Librarian's wages as per accounts (included under account 2995 Library)	2,654.29
Add opening accrual of employer's share of SSC	685.53
Total as per accounts	<u>77,585.82</u>
Difference	<u>(1,004.67)</u>

We recommend that the books of accounts should reflect the amounts declared in the FS5 forms and the FS7.

Additionally, personnel emoluments are still not being reconciled on a monthly basis. We recommend that personal emoluments are reconciled on a monthly basis, so that any discrepancies that arise can be identified immediately and resolved before submission to the Inland Revenue Department.

Furthermore, we noticed that librarian's wage amounting to €2,654 was posted against an income account, rather than against an expense account. We recommend that such expense is duly posted and classified as part of administrative expenses.

In addition, we were informed by the Executive Secretary that wrong postings of invoices in relation to operations and maintenance nominal accounts were done during the year. As a result, a reclassification was passed to properly classify the invoices in relation to the expense for which it relates (refer to note 2.19) and disclosure in financial statements were duly amended.

2.13 Employment contracts

Whilst testing payroll, we noticed that employees' contracts are not up-to-date, as they do not include the salary increases, and for the employees that have been in employment for more than four years, the contract is not indefinite.

We suggest that a three-year contract is performed for new employees and, for employees who have been in employment for four years or more, an indefinite contract is performed, listing all the terms of the employment. Moreover, we recommend that the salary included in the contract will be related to a government scale, and the contract updated if the employee is promoted to another scale.

## 2.14 Deposits

During our audit, we noticed that the Council is still not depositing its general income daily or twice weekly in some instances, as required by the Local Councils (Financial) Procedures, 1996 and LN 28/2000 respectively. We suggest that the Council deposits cash from custodial receipts twice weekly, primarily to comply with the Local Councils Procedures Regulations, but also for security purposes. In this regard, we point out that amounts in hand were not material.

## 2.15 Accrued income

During our testing of accrued income, we noted that the Local Council did not account for accrued bank interest income, which as per bank letter, stood at €12.26 at year-end. Since amount is not material, an adjustment was not passed (refer to note 2.20).

## 2.16 Budget figures

When testing budgeted expenses with the ones actually incurred, we noted that there were a couple of items which had a material difference between budgeted and actual figures. These included repairs and upkeep expenses, penalties and fines incurred and depreciation charge for the year:

Expense	Budgeted amount	Actual amount	Variance
Repairs and upkeep	€130,636	€43,421	€87,215
Penalties and fines	-	€18,855	(€18,855)
Depreciation	-	€88,122	(€88,122)

## 2.17 Accounting function

The unaudited financial statements showed a profit of €65,515 which after our proposed audit adjustment as per below, changed to a profit of €47,709. We recommend that greater attention is paid

to the book-keeping function to ensure that the annual financial statements do give a true and fair view of the Local Council results and state of affairs.

2.18 Audit adjustments list

AA 01/15	Dr LES debtors – provision for bad debts	€732
	Cr Contraventions	€732

*Being over provision for bad debts (refer to note 2.4)*

AA 02/15	Dr Penalties and fines	€18,855
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Dr Depreciation – Construction (p/l)

€120

Dr Depreciation – Office furniture & fittings (p/l)

€4

Dr Depreciation – Office equipment (p/l)

€1

Dr Depreciation – Special projects (b/s)

€471

Cr Construction

€18,855

Cr Depreciation – Special projects (p/l)

€471

Cr Depreciation – Construction (b/s)

€120

Cr Depreciation – Office furniture & fittings (b/s)

€4

Cr Depreciation – Office equipment (b/s)

€1

*Being penalties and fines included as fixed assets addition and amendments to depreciation charges (refer to note 2.2)*

2.19 Reclassifications list

RECL 01/15	Dr Trade debtors	€4,971
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Cr Trade creditors

€4,971

*Being reclassification of WasteServ Malta Limited debit balance in creditors' list (refer to note 2.5)*

RECL 02/15

Dr Road markings	€6,636
Dr Sundry repairs	€47
Dr Other repairs and upkeep	€4,191
Cr Public property	€6,636
<i>Being reclassification of operations and maintenance expenses (refer to note 2.12)</i>	

## 2.20 List of unadjusted errors

During our audit, we encountered a number of errors which were at trivial level for which there was no need to adjust the financial statements. Refer to the details below:

Dr Purchases	€2,168
Cr Trade payables	€2,168
<i>Being understatement of trade payables (difference in Brian Borg's balance - €1,458, extrapolated) (refer to note 2.6)</i>	

Dr Accruals	€1,005
Cr Salaries	€1,005
<i>Being overstatement of wages in accounts (refer to note 2.12)</i>	

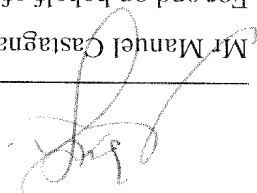
Dr Accrued income	€12
Cr Accrued bank interest	€12
<i>Being accrued bank interest not accounted for (refer to note 2.15)</i>	

Moreover, during the audit we encountered an error which exceeded our performance materiality. As explained in note 2.5, no audit adjustment was passed and this contributed to our disclaimer of opinion. Extrapolated error value in debtors can be found below:

Dr Revenue	€10,947
Cr Trade receivables	€10,947
<i>Being extrapolated error of €8,952 in debtors</i>	

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  
For and on behalf of Nexia BT