

The Mayor  
Zurrieq Local Council  
Centru tal-Komunita Joe Cassar  
Triq Pietru Pawl Saydon  
Zurrieq ZRQ 1030  
Malta

20th April 2016

Dear Sir,

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

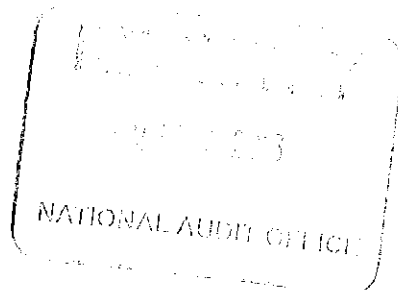
During our audit for the year ended 31 December 2015, we have reviewed the accounting systems and procedures operated by the Council. We set out in this report the more important points that arose as a result of our review.

### **1. Previous Management letter points**

#### **1.1 Council Meetings**

Whilst reviewing the council meetings, we noted that this year no councillor was absent for more than one third of the meetings within a period of six months. We also noted that whenever a councillor was absent for a meeting, a letter of excuse was obtained, discussed and approved in the following meeting.

Thus there were no irregularities during the year under review.



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## **1.2 Property, plant and equipment**

The fixed assets register still does not agree with the financial statements (Refer to point 2.1).

## **1.3 LES Debtors**

Whilst enquiring about LES Debtors, we were pleased to see that the balance did not have any discrepancies against the evidence obtained and that a reconciliation was performed by the Council as at year-end.

We were also pleased to see that the provision for balances that will probably not be recovered from LES Debtors was passed as appropriate.

## **1.4 Prepayments**

Whilst testing prepayments, we were pleased to note that there were no discrepancies, and that prepayment lists were prepared appropriately.

## **1.5 Balances confirmations**

Whilst performing our testing on related party balances, we did not obtain all respective confirmations as at date of audit, as in the previous year (Refer to point 2.6).

## **1.6 Cash at bank**

Whilst performing our testing on cash at bank, we were pleased to see that all reconciliations were performed appropriately and that there were no issues raised.

## **1.7 Cash in hand**

We were pleased to see that there were no issues relating to cash in hand, and that our recommendation in the previous year was noted and the issue rectified.

## **1.8 Garnishee orders**

We were pleased to see that there were no issues relating to Garnishee orders during the year under review.

## **1.9 Accruals**

Whilst testing the accruals, we noted there were no issues and that provisions were correctly recognised during the year.

## **1.10 Deferred income**

Whilst testing deferred income, we noted that the balance brought forward of €25,000, and which was reported in the previous year's management letter was still included in the accounts as other creditor. Upon enquiry, we were informed that this balance was not returned to the local Government as further discussions took place during the year and the project will start as soon as one of the parties involved will give the go ahead. No further action was taken in this respect as we deem that this is appropriate.

Furthermore, we were pleased to note that the reconciliation and amount released to the Statement of Profit or Loss and Other Comprehensive Income was correctly included in the first draft, and that the deferred income balance is being written off using the Reducing balance method, in accordance with International Financial Reporting Standards.

## **1.11 Contingent liabilities**

During our testing, we enquired with the Council's lawyers; Borg Associates, to report to us on any litigation that the Local Council may be engaged in. We were informed that there were none, and that all pending litigations had been settled.

## **1.12 Employee Contracts**

Upon reviewing a sample of the employee contracts, we were pleased to see that these were in line with the Local Councils (Human Resources) Regulations.

## 1.13 Insurance

We reviewed the Council's insurance policies and were pleased to note that any previous discrepancies noted in last year's management letter were rectified and that the policy was in line with Section LCP1.15b.04 of the Local Councils (Financial) Procedures, 1996.

## 1.14 Presentation of financial statements

Whilst reviewing the council's financial statements we were pleased to see that they conformed to International Financial Reporting Standards.

## 2. Management letter points for the year

### 2.1 Property, plant and equipment

While testing property, plant and equipment, we noted that the register does not agree to the amount presented in the financial statements by €144,161. Upon further analysis, the difference arose from the following assets:

Fixed Asset	NBV in register	NBV in financial statements	Difference
	€	€	€
Trees	36,088	19,092	16,996
Property	139,244	141,853	(2,609)
Construction	331,634	80,554	251,080
New Street Signs	(35,128)	-	(35,128)
Urban Improvements	(87,959)	71,581	(159,540)
Plant, machinery & equipment	1,180	5,721	(4,541)
Office Equipment	17,374	9,325	8,049
Office Furniture and fittings	20,420	25,934	(5,514)
Special Programmes	1,319,803	1,532,756	(212,953)
Assets under construction	14,597	14,598	(1)
<b>Total</b>	<b>1,757,253</b>	<b>1,901,414</b>	<b>(144,161)</b>

Following discussion with the accountant, the above difference is due to fixed assets which were not included in the fixed assets register when the Local Council was upgrading to the new accounting system.

Such difference is causing an incorrect depreciation figure to be charged to the accounts each year and hence the net book value (NBV) reported in the financial statements would not reflect the actual NBV of all the fixed assets would they be depreciated accordingly.

We reiterate our recommendation that an exercise is undertaken to identify all the assets of the Local Council, through physical inspection of each registered asset, so that any asset which is not on the register would be recorded accordingly. Such assets should be traced to their original invoice and depreciation is to be passed accordingly in order to adjust for the previous years which have not been accounted for.

Further to this, we also proposed an audit adjustment (Refer to 2.10) to adjust the depreciation charge according to the NBV of the financial statements, as we were told that the balances in the accounts are to be taken as correct, and therefore if this is the case, the depreciation charge should be calculated based on these balances. This was approved and included by the Local Council.

The issues mentioned above contributed to a qualified opinion.

During the testing on the depreciation of the fixed assets, we also noted that the depreciation charge for the year, on all classes of assets, was all accounted for against the fixed asset – Construction works. This was reclassified accordingly (Refer to 2.10).

## 2.2 Budgeted figures

The financial statements for 2015 do not include the budgeted figures for the year. This is not in accordance with the Local Councils (Financial) Procedures, 1996.

We recommend that the Council starts preparing and including the budgeted figures in the financial statements.

## 2.3 Membership fees

When testing receivables, we noted that the Local Council is still paying membership fee to Gal Xlokk. During the year, a total of €4,500 was paid to cover until the year ending 31 December 2020.

We reiterate to seek a more recent approval from the DLG as to whether such fees are permissible.

## 2.4 Budgets for 2015

Whilst reviewing the budget for 2015, we noted that there were significant variances from actual results. Below is a list of the material differences between budgets and actuals:

<i>Administration and other expenditure:</i>				
		<b>Actual</b>	<b>Budget</b>	<b>Diff btw actuals</b>
		<b>31-Dec-15</b>		<b>And budgets</b>
		<b>€</b>	<b>€</b>	<b>€</b>
Depreciation		234,539	346,642	112,103

The budgeting process is essential to monitor and control costs and to prioritise cash outflows. Therefore budgets prepared should be as accurate as possible.

## 2.5 Income

Also, while testing the Council's income, we identified a discrepancy between bank interest receivable as per accounts and bank interest receivable as per bank letter of €32. This account was transferred to the unadjusted errors list as it was not material (refer to note 2.9).

## 2.6 Related party balances

When testing the related party balances, we noted a discrepancy between the balance as per accounts and the balance received from related party confirmation. The discrepancy was included in the list of unadjusted errors as it was not material (refer to note 2.9). We recommend that the Local Council request confirmation of the balances before the audit and reconciliations are performed for the differences. Details are as follows:

	Balance as per accounts	Balance as per confirmations	Discrepancy
	€	€	€
South Eastern Region	1,210	36	1,174
Total			1,174

## 2.7 Closure of bank account

During our testing on bank balances, we noted that for APS Bank account 1241851001-7, the balance as per accounts is €9.82 and in actual fact it should be €NIL as the account was closed.

We recommend that reconciliation is performed and this difference is accounted for appropriately. The discrepancy was below materiality threshold and was included in the list of unadjusted errors (Refer to note 2.9).

## 2.8 Over accrual for Street Cleaning expense

Following our testing on accruals, we noted that Street cleaning expense accrual was overstated by €745 as at 31 December 2015. It should have been €4,141 and not €4,886. We transferred the discrepancy to the list of unadjusted errors as it was below the materiality threshold (refer to note 2.9).

We recommend that accruals are checked with the related documentation before they are accounted for, so that the actual accrual will be included in the financial statements.

## 2.9 Unadjusted errors

During the audit, we noted various misstatements of a non-material nature, both in aggregate and individually. The following is the list of unadjusted errors:

Dr	Accrued income	€32
Cr	Bank interest receivable	€32

*Being bank interest accrued income not recorded in the accounts. – Refer to 2.5*

Dr	Expenditure	€1,174
Cr	Related party balances	€1,174

*Being differences arising from related party confirmations. – Refer to 2.6*

Dr	Cash	€10
Cr	Bank	€10

*Being amount received on closure of account but not posted. – Refer to 2.7*

Dr	Accruals	€745
Cr	Expenses	€745

*Being correction of over accrual of street cleaning expense. – Refer to 2.8*

We recommend that similar matters are addressed by Council before the unaudited financial statements are presented for the audit.

## 2.10 Adjustments and Reclassifications

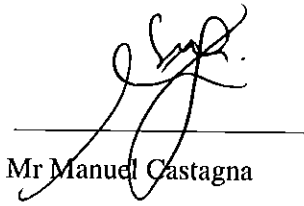
During the audit, one audit adjustment was deemed necessary. Also, a reclassifying journal was considered necessary for better presentation in the financial statements. Refer to details below:



		Statement of Comprehensive Income	Statement of Financial Position
		Dr (+) / Cr (-)	Dr (+) / Cr (-)
Adjustments		€	€
AA 01/15	Depreciation charge for the year	65,072	
AA 01/15	Property, plant & equipment		(65,072)
AA 01/15	Being adjustment in relation to depreciation charge for the year - Refer to 2.1		
Reclassifications			
RECL A/15	Depreciation charge for the year – SOFP - Construction	166,117	
RECL A/15	Depreciation charge for the year – SOFP - Property		(1,315)
RECL A/15	Depreciation charge for the year – SOFP – Office furniture		(1,615)
RECL A/15	Depreciation charge for the year – SOFP – Urban improvements		(15,293)
RECL A/15	Depreciation charge for the year – SOFP – Special programmes		(142,207)
RECL A/15	Depreciation charge for the year – SOFP – Office equipment		(5,393)
RECL A/15	Depreciation charge for the year – SOFP – Plant and machinery		(295)
RECL A/15	Being depreciation charge reclassified to the appropriate class of asset – Refer to 2.1		

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 company. 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.



Mr Manuel Castagna

For and on behalf of Nexia BT