

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

26th April 2017

Dear Sirs,

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

During our audit for the year ended 31 December 2016, 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 Property, plant and equipment**

We are pleased to note that the Local Council performed an exercise and updated its fixed asset register and the respective assets in the accounts. A prior year adjustment AA 01/16 was passed in this regard (Refer to note 2.10).

#### **1.2 Membership fees**

During the year there were no membership payments to Gal Xlokk.

#### **1.3 Budgets for 2015**

We are pleased to note that following our testing on the Local Council's expenditure, we did not encounter any material variances between the aggregate budgeted and actual figures. However, it was noted that different segregation of expenses are being used in the budget than those presented in the financial statements (Refer to note 2.7).

#### **1.4 Income**

We are pleased to note that the bank interest receivable as per the accounts agreed with the figure shown in the bank letter. However the related accrued income was not accounted for (Refer to note 2.5).

#### **1.5 Related party balances**

The related party balances were not material as at year-end, both individually and in aggregate.

**REGISTRY**

**28 APR 2017**

**NATIONAL AUDIT OFFICE**

### **1.6 Closure of bank account**

As in the previous year, we still noted that the APS Bank account balance of €9.82 was still being reflected in the trial balance (Refer to note 2.1).

### **1.7 Accruals**

We are pleased to note that the street cleaning expense accrual was accounted for correctly. However, the accrual for tipping fees was understated (Refer to point 2.2).

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

### **2.1 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 Local Council stated that they have instructed the bank to close this account. However no formal documentation was available to confirm that this account was actually closed.

We recommend that a 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).

### **2.2 Accruals**

While testing accruals, we noted that tipping fees expense accrual was understated by €143 as at 31 December 2016. It should have been €4,680 and not €4,537. We transferred the discrepancy to the list of unadjusted errors as it was below the materiality threshold (Refer to note 2.10).

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.

### **2.3 Cash in hand**

We noted that as at year-end the Local Council held € 407 cash in hand.

We recommend to the Council to hold a cash balance not higher than €232.93, in order to be in line with the regulations.

### **2.4 Prepayments**

We noted that the insurance prepayment was overstated by €200. This should have been €2,319 instead of €2,519 (Refer to note 2.9).

We recommend that the prepayments working are to be based on the actual invoices in order to avoid such misstatements.

### **2.5 Accrued income**

During the testing on accrued income, we noted that the accrued bank interest receivable amounting to €11 as per the bank statement was not accounted for in the accounts. No adjustment was proposed as the amount was not material (Refer to note 2.9).

We recommend that an exercise is undertaken at year-end in order to accurately account for all accrued income.

## 2.6 Personal emoluments

During the testing on wages and salaries, we noted that the Mayor's Honorarium as per the accounts was understated by €1,599 with respect to the FS3. No adjustment was passed as the discrepancy was found to be included in the Employees' Salaries account and was reclassified accordingly (Refer to note 2.10).

We recommend that an exercise is undertaken at year-end to ensure that wages and salaries are presented in the financial statements as shown in the FS3s.

## 2.7 Budgets for 2016

While reviewing the budget for 2016, we noted that the budget has different classification of expenses than the financial statements. Thus comparison of specific expenses could not be adequately performed and our testing was limited to the aggregate totals of expenses. No material variances were found in this respect.

The budgeting process is essential to monitor and control costs and to prioritise cash outflows. We recommend that the budget is prepared using the same classification of expenses as in the financial statements.

## 2.8 Legal Letter

During the audit, we requested a legal letter from the lawyer of the Council. We request such 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. This however was not provided. The Mayor and Executive Secretary confirmed that as at year-end there is no pending litigation.

We recommend that the Council obtains the legal letter before each audit.

## 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:

1	Other Income	10
	Bank	(10)
	Being difference in bank account (Refer to note 2.1).	
2	Accrued Income	11
	Interest receivable - IS	(11)
	Being interest accrued not reported in the accounts (Refer to note 2.5).	
4	Insurance	200
	Prepayments	(200)
	Being Prepayments understated in the accounts (Refer to note 2.4).	
5	Tipping fees	143
	Accruals	(143)
	Being accruals of tipping fees understated (Refer to note 2.2).	

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

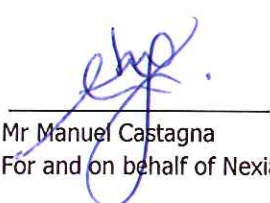
## 2.10 Adjustments and Reclassifications

During the audit, a prior-year adjustment was passed in order to adjust the net book value of property, plant and equipment which were misstated in previous years. Also, a reclassifying journal was considered necessary for better presentation in the financial statements. Refer to details below:

Reference No.	Details	€
AA 01/16	Depreciation charge(2014/15)	37,894.00
AA 01/16	Depreciation charge(2014/15) Being adjustment of depreciation adjusted for retrospectively – refer to note 1.1.	(37,894.00)
AA 01/16	Retained earnings(2014/15)	86,721.00
AA 01/16	Other supplementary income Being adjustment of NBV adjusted for retrospectively – refer to note 1.1.	(86,721.00)
Reference No.	Details	€
RECL A/16	Mayor's Allowance	1,599.00
RECL A/16	Employees' salaries Being reclassification of Mayor's Honorarium to be in agreement with the FS3s – refer to note 2.6	(1,599.00)

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