

The Mayor
Ghaxaq Local Council
15, Vjal il-Labour
Ghaxaq GXQ 1831
Malta

9th June 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 Local Council. We set out in this report the more important points that arose as a result of our review.

Previous management letter

1.1 Income

We regret to note that income recognised in the accounts was once again understated (Refer to point 2.1).

On the other hand, we were pleased to note that during the year income was recognised in the appropriate accounts.

1.2 Expenditure

Amounts spent on 'Jum il-Lokal' were within the stipulated limits set in memo 122/2010.

1.3 Property, plant and equipment

The Council still did not compile the fixed asset register. Also, the fixed assets were not tagged, and depreciation is still calculated manually (Refer to points 2.2, 2.3 and 2.5).

The Council has not updated its asset and health insurance policies, as advised in previous years (Refer to point 2.4).

1.4 Trade and other receivables

IFRS 9 calculations for 'expected credit loss' were not performed, as in previous year. (Refer to point 2.6).

We were pleased to note that the Council did not have any debit balances in creditors' list.

A difference in accrued income was once again noted for tipping fees settled by DLG for 2019 shortages (Refer to note 2.7).

1.5 Bank and cash

As in previous year, it was noted that cash balance sometimes exceeded the stipulated limit (Refer to point 2.8).

1.6 Trade and other payables

The Council did not obtain statements from creditors and reconcile these to the accounts. In fact, one of the creditors' balances did not agree to the accounts (Refer to point 2.9).

As in previous year, differences in accruals were noted (Refer to point 2.10).

1.7 Wages reconciliation

We are pleased to note that salaries as per accounts were in agreement to the FSS forms.

Management letter points for the year

2.1 Income

While testing income, we noted that payments by DLG to Wasteserv Malta Ltd for shortages was not accounted for in the accounts. An audit adjustment of €16,677 was proposed and passed in the accounts (Refer to AA 01/19 in point 2.14).

2.2 Fixed asset register

The Council is obliged to keep an updated fixed asset register which reconciles to the nominal ledger. This is not being kept.

We recommend that the Council prepares the fixed asset register and includes the following details for each asset owned:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code
- Cost
- Depreciation method and rate
- Location of the asset

2.3 Tagging of fixed assets

We noted that the Council's assets have not yet been tagged. This is in breach of the Local Councils (Financial) Procedures, 1996.

We recommend that the Council tags its fixed assets, where applicable, as soon as possible. This would enable individual assets to be identified and their physical existence verified once the fixed asset register is compiled.

2.4 Fixed assets' insurance

We reviewed the Council's asset insurance policy to determine whether assets are insured adequately. Since fixed assets are not tagged and there is no asset register, we noted that the insurance covers an estimate amount and not the exact amounts in the accounts.

In accordance with the insurance policy, the sum insured is of €157,700 and it covers all class of assets except for the majority of construction works. The net book value of property, plant and equipment as at 31 December 2019 was €521,570 (€271,668 of which relates to Construction).

The Council should update its insurance policy to ensure that all assets are properly insured against theft, damage and loss. The Council is bound by section LCP 1.15b.04 of the Local Councils (Financial) Procedures, 1996 to carry out a periodic review to assess the adequacy of the Council's insurance coverage.

2.5 Depreciation

When testing depreciation, we observed that in the absence of a fixed asset register, the Council is not using the Sage accounting package to calculate the depreciation charge but is calculating it manually.

We draw attention to the Local Councils (Financial) Procedures, 1996 which require Councils to use the month-end facility on the Sage accounting package to calculate depreciation on fixed assets.

We have also noted that depreciation is not being calculated monthly as per instructions given by the department and we were not provided with updated workings in accordance to Directive 1 of 2017. The audit report has been qualified in this respect. We take note that the Council will start calculating depreciation on Sage software as required once the plant register is ready.

2.6 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. Since effect is not material (Refer to UA 01/19 in point 2.13), the audit report is not qualified in this respect.

2.7 Accrued income

While testing the accrued income for the year, it was noted that accrued income related to shortages of tipping fees (WasteServ Malta Limited) was overstated by € 73. 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 05/19 in point 2.13).

We recommend that the Council obtains the amount of accrued tipping fees from WasteServ Malta Limited and updates the accrued income before the financial statements are approved.

Also, while testing accrued income for 50% advance payment received from EU Funds on Measure 4.3, we noted that there was an overstatement in the accounts of €139. 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 2.13).

An accrued income balance of €90,833 related to a project in Triq San Gorg in 2013 is still showing in the accounts as accrued income since invoice to Transport Malta was never issued. We recommend the Council to issue such invoice and account for it accordingly in the accounts since works have been finalised years ago.

2.8 Bank and cash

During our testing we noted that cheque number 6844 dated 27 December 2019, amounting to €2,290 and payable to the Commissioner for Revenue was still not cashed as at audit date and was therefore stale.

We recommend the Council to take the necessary action and discuss with the Commissioner for Revenue and issue a replacement cheque.

The cash balance at the Council sometimes exceeded the stipulated limit. In fact, as at year end, the balance of cash in hand was €521.62.

During our testing on petty cash payments, we also noted that there was an instance when such payment exceeded the €50 which is the stipulated limit by the DLG.

We recommend that the Council abides by the respective legislation.

2.9 Trade payables

The Council did not obtain statements from all its suppliers to confirm the year-end balances. This is contrary to the procedures and memos specifically requiring Councils to reconcile creditors' balances to statements on a monthly basis.

In addition, an extrapolated error of €1,282 arose, because of a discrepancy between the statement obtained from Bonnici Bros Limited and the accounts. Since this amount is not material for audit purposes no adjustment was proposed, and it was transferred to the list of unadjusted errors (Refer to UA 04/19 in point 2.13).

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

2.10 Accruals

While testing accruals, we noted that the accrual for waste disposal were understated by €451. 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 02/19 in point 2.13).

2.11 Leave

During the year, it was noted that the employees exceeded the limit stipulated for leave carried forward, whereby 64 hours and 56 hours of unused leave respectively were carried forward to 2020.

We recommend that the Council abides by the respective legislation.

2.12 10% Financial allocation

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.

2.13 List of unadjusted errors

During the audit, we noted the following misstatements of a non-material nature, both in aggregate and individually, with a net effect on income of €1,363.

UA 01/19	Dr Expected credit loss - Profit and Loss	€1,982	
	Cr Expected credit loss – Balance sheet (receivables)		€1,982
	<i>Being expected credit loss for the year – note 2.6</i>		



UA 02/19	Dr Waste disposal	€451	
	Cr Accruals		€451

Being difference in accrual to invoices traced – note 2.10

UA 03/19	Dr Profit and Loss	€139	
	Cr Accrued Income		€139

Being differences in accrued income to contract agreement on Measure 4.3 – note 2.7

UA 04/19	Dr Trade payables	€1,282	
	Cr Profit and Loss		€1,282

Being extrapolated error in balance with Bonnici Bros – note 2.9

UA 05/19	Dr Income	€73	
	Cr Accrued Income		€73

Being difference in shortages re tipping fees – note 2.7

2.14 List of audit adjustments passed


The audit adjustments passed for the year are listed below:

AA 01/19	Dr Accrued Income	€16,677	
	Cr Income		€16,677

Being shortages for tipping fees not accounted for – note 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 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.



Mr Manuel Castagna CPA
For and on behalf of Nexia BT