

The Mayor  
Mqabba Local Council  
29  
Triq il-Parrocca  
Mqabba MQB 1512  
Malta

29th 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 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 again noticed that the Council is not depositing general income at least twice weekly (refer to note 2.1). We are pleased to note that no differences were noted in respect of financial allocation.

#### **1.2 Fixed assets**

We noted that the Council's fixed assets register (FAR) still does not agree to the accounts (refer to note 2.2).

#### **1.3 LES debtors**

Similar to previous year, when testing the balance receivable from LES debtors as at year-end, we noted that the LES debtors' balance and the respective provision on such balance as per accounts were not showing the actual balance receivable (refer to note 2.3).

#### **1.4 Negative balances in trade payables**

As in previous year, the creditors' list provided during the audit included a number of negative balances (refer to note 2.4).

#### **1.5 Accrued income**

While testing the tipping fees accrued, we noted that the balance did not agree with the schedule published by the Department for Local Government (refer to note 2.5).

### **1.6 Trade payables**

As in previous year, when performing our testing on the payable balances, we noticed that reconciliations were not prepared for any supplier selected (refer to note 2.6).

### **1.7 Accruals**

The Council has still not entered into an agreement in relation to rental for 29, Triq il-Parrocca, Mqabba (refer to note 2.7).

### **1.8 Attendance at meetings**

We noted once again that during 2019, a Councillor failed to attend four meetings without providing any valid reason (refer to note 2.8).

### **1.9 Financial budget**

We were pleased to note that no issues with respect to financial budget were encountered during 2019 audit. However, while performing our analytical review on the expenses incurred during the year, we noted a discrepancy between the Council's budgeted figures and the actual figures (refer to note 2.9).

### **1.10 Petty cash expenditure**

During our testing, we noted once again that the Local Council had a petty cash balance higher than €232.94 (refer to note 2.10).

### **1.11 Wages reconciliation**

Similar to previous year, while testing salaries, we noticed that there were differences between FS7 and figures in accounts (refer to note 2.11).

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

### **2.1 Income**

While testing general income and receipts, we observed that the Council is not depositing such income at least twice weekly.

While we note the Council's reply to our 2018 management letter and the costs and inconvenience to adhere to this requirement, we still recommend that the Local Council deposits receipts at least twice weekly, since this is a stipulated requirement of the procedures.

### **2.2 Fixed assets**

During audit testing, we found discrepancies in the depreciation charge for the year for two particular classes of assets. Given that total misstatement amounting to €260 was immaterial, no audit adjustment was proposed and passed in the accounts (refer to unadjusted errors in note 2.13).

We recommend that the fixed assets register is kept reconciled to the accounts at all times.

### **2.3 Trade receivables**

When testing the balance receivable from LES debtors as at year-end, we noted that the LES debtors' balance and the respective provision on such balance as per accounts were not showing the actual balance receivable. The report generated by Loqus (Datatrak) as at 31 December 2019 indicated that the balance due to the Council from pre-regional LES amounted to €121,348. However, the Council has incorrectly recorded an amount of €113,894, and a provision of €113,142. Two audit adjustments, AA 01/19 and AA 02/19 were proposed, approved and passed in the accounts, amounting to €7,454 and €8,206 (refer to the adjustments in note 2.15).

Furthermore, a credit balance in debtors' list amounting to €19 was reclassified to trade payables in the financial statements (refer to reclassification RECL B/19 in note 2.14).

### **2.4 Negative balances in trade payables**

The creditors' list provided during the audit included a number of negative balances totalling €1,557. The amounts were identified and RECL A/19 was proposed, approved and passed in the accounts (refer to note 2.14).

We recommend that debit and credit balances are reclassified to be presented separately in the financial statements and that the Council asks for the invoice before making a payment.

### **2.5 Accrued income**

While testing accrued tipping fees, we noted that the balance did not agree with the schedule published by the Department for Local Government. The difference of €1,013 was not passed given that it was not material (refer to unadjusted errors in note 2.13).

We recommend that the Council performs such reconciliation and passes the necessary adjustments before the accounts are approved for the audit.

### **2.6 Trade payables**

When performing our testing on the payable balances, we noticed that reconciliations were not prepared for any supplier selected.

We recommend the Council to perform creditor reconciliations on a periodic basis. Creditor reconciliations are an essential element of a good internal control system. They can assist in enhancing the internal control system of the Local Council while also ensuring that the supplier balances reflected in the accounts are accurate.

### **2.7 Accruals**

While testing the rent payable, we noted that there is not a clear understanding on the amount due between the Council and the Government. In order to be prudent, the Council is keeping the rent accrual to €20,673, which amounts to five years' rent, since it is claiming that any older rent would be prescribed at law.

We recommend that the Council regularizes its position with the Government. This should all be supported by an agreement.

In addition, while testing accruals, we noted that the accrual for interest payable was understated by €1,027. AA 03/19 was proposed, approved and passed in the accounts (refer to the adjustments in note 2.15).

## 2.8 Attendance at meetings

We noted that one Councillor failed to attend four meetings without providing any valid reason. This was not discussed in a Council's meeting and the Minister was not informed.

We recommend that the Council discusses in its meetings whether each absence from meetings is due to a justifiable cause, and informs the Minister accordingly, as required.

## 2.9 Budgets

While reviewing the budget for 2019, we noted that there were variances from actual results. Below is the main material difference between budgets and actuals:

	<b>Actual 31-Dec-19</b>	<b>Budget</b>	<b>Difference between actuals and budgets</b>
<i>Administration and other expenditure:</i>	<b>€</b>	<b>€</b>	<b>€</b>
Personal emoluments	74,033	85,100	11,067
Contract expenses	101,484	91,080	(10,404)
Depreciation	85,017	100,613	15,596

The budgeting process is essential to monitor and control costs and to prioritise cash outflows. Therefore, while we appreciate the difficulty in predicting costs accurately, we point out that budgets prepared should be as accurate as possible.

## 2.10 Petty cash expenditure

We noted that the Local Council is failing in keeping a petty cash balance at €232.94 or below, but instead is keeping a balance of €250.

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.

### 2.11 Wages reconciliation

A difference of €1,048 arose between the salaries as per accounts and the amounts as per FSS forms, as shown in the wages reconciliation below:

	€
Gross Wage as per FS7	71,824
1/2 the total social security as per FS7	3,451
Total wage for year as per FS7	<u>75,275</u>
Gross Wage as per accounts	70,583
1/2 the total social security as per accounts	3,451
Movement in accrual	193
Total as per accounts	<u>74,227</u>
Immaterial difference	<u>1,048</u>

Since the difference is not material, an audit adjustment was not proposed (refer to note 2.13).

We recommend that the Council performs such reconciliation and passes the necessary adjustments before the accounts are approved for the audit.

### 2.12 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 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, and the audit report is not qualified in this respect.

Since the resulting amount of €237 is not material, an audit adjustment was not proposed (refer to note 2.13).

We recommend that the Council passes the necessary adjustments before the accounts are approved for the audit.

### 2.13 List of unadjusted errors

During the audit, we noted the following misstatements of a non-material nature, both individually and in aggregate, with a net effect on income of €58:

UA 1/19	Dr Salaries	€1,048
	Cr Accruals	€1,048
	<i>Being difference between FS7 and accounts – note 2.11</i>	
UA 2/19	Dr Government income	€1,013
	Cr Accrued income	€1,013
	<i>Being overstatement of accrued income – note 2.5</i>	
UA 3/19	Dr Expected credit loss – IS	€237
	Cr Expected credit loss – BS	€237
	<i>Being movement in expected credit loss not adjusted for – note 2.12</i>	
UA 4/19	Dr Depreciation – B/S	€260
	Cr Depreciation – P/L	€260
	<i>Being overstatement of depreciation expense – note 2.2</i>	

### 2.14 List of reclassifications passed

The reclassifications passed for the year are listed below:

RECL A/19	Dr Debit balances in creditors' list	€1,557
	Cr Trade payables	€1,557
	<i>Being reclassification of debit balances in creditors' list – note 2.4</i>	
RECL B/19	Dr Debtors Control Account	€19
	Cr Credit balances in debtors list	€19
	<i>Being reclassification of credit balances in debtors' list – note 2.3</i>	

### 2.15 List of adjustments passed

The adjustments passed for the year are listed below:

AA 01/19	Dr LES Debtors - BS	€7,454
	Cr LES Management fees - IS	€7,454
	<i>Being adjustment in LES debtors as per report – note 2.3</i>	
AA 02/19	Dr Increase in provision for bad debts - IS	€8,206
	Cr Provision for bad debts - BS	€8,206
	<i>Being adjustment in LES debtors' provision as per report – note 2.3</i>	
AA 03/19	Dr Other interest - IS	€1,027
	Cr Accruals – BS	€1,027
	<i>Being adjustment in interest regarding Asfaltar Ltd balance – note 2.7</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 Local Council 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