

The Mayor  
Santa Lucija Local Council  
5/6, Binja tal-Faqqani  
Trejqet il-Girasol  
Santa Lucija SLC 1050  
Malta

22nd April 2019

Dear Sir,

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

During our audit for the year ended 31 December 2018, 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**

#### **1.1 Fixed assets**

We noted that there is still a difference in the property, plant and equipment between the amount as per accounts and that as per fixed assets register, part of this difference is resulting in a difference in the depreciation charge for the year between the amounts as per register and as per accounts (refer to note 2.1).

#### **1.2 LES debtors**

As in previous year, the debtors' balance receivable as at 31 December 2018 as per accounts did not agree to that as per Loqus (Datatrak) report (refer to note 2.2).

#### **1.3 Trade payables**

We noted that reconciliations are still not being carried out for all the suppliers (refer to note 2.3).

#### **1.4 Wages reconciliation**

As in previous year, it was noted that there was a difference between salaries as per accounts and the amounts as per FSS forms (refer to note 2.5).

#### **1.5 Tipping fees**

As in previous year, the Council did not account for accrued income related to advancements by the DLG in respect of tipping fees (refer to note 2.4).

## 2 Management letter points for the year

### 2.1 Fixed assets

We noted that the fixed assets register (FAR) does not agree to the amounts as per accounts with a net difference of €13.

We recommend that the accounts are reconciled with the fixed assets register periodically. This difference in the depreciation charge for the year between the amounts as per register and the amounts as per accounts, is shown below:

Asset category	Depreciation as per accounts €	Depreciation as per register €	Difference €
Council Premises	3,145.00	3,145.00	-
Construction Works & Special Programmes	52,738.00	52,749.00	(11.00)
Office Furniture and Fittings	2,920.00	2,920.00	-
Urban Improvements	9,814.00	9,815.00	(1.00)
Office Computer and Equipment	9,686.00	9,687.00	(1.00)
Plant & Machinery	4,148.00	4,148.00	-
Street Paving	12,139.00	12,139.00	-
<b>Total</b>	<b>94,590.00</b>	<b>94,603.00</b>	<b>(13.00)</b>

Since this difference is not material, an adjustment was not passed. Refer to list of unadjusted errors in note 2.9 below.

### 2.2 LES debtors

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 2018 indicated that the balance due to the Council from pre-regional LES amounted to €68,562. However, the Council has incorrectly recorded an amount of €70,659.

Since the difference is not material, an audit adjustment was not proposed, and was included in the list of unadjusted errors (refer to note 2.9).

We recommend that the Council obtains such statement before and passes the necessary adjustment before the financial statements are approved.

### 2.3 Trade payables

While performing our testing on trade payables, we selected twenty-one suppliers for testing and found that no reconciliations were carried out for sixteen of these suppliers, since no statements were available to the Council.

<b>Supplier</b>	<b>Amount</b>
Darren Cutajar	€Nil
Alexandra Hotel	€Nil
Arms	€1,471
Cutajar Ltd	€Nil
Fire & Security Engineering	€Nil
Floorpul Ltd	€Nil
Doreen Grech	€Nil
Nexos	€Nil
Medina Foundation	€Nil
Mario Mallia	€Nil
Joseph Grech	€2,950
WM Environmental Ltd	€2,128
Go P.L.C	€Nil
Joseph & Spiridione Zammit	€Nil
Ronald Bezzina	€3,490
Ritemix Ltd	€Nil

While 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 the Local Council whilst also ensuring that the supplier balances reflected in the accounts are accurate.

### 2.4 Tipping fees

The Council did not account for accrued income amounting to € 1,014, related to advancements by the DLG in respect of tipping fees. An adjustment was proposed to the Council and passed in the accounts after the Council's approval (refer to AA 01/18 in note 2.10).

We recommend that, in future the Council obtains the approved amount from the DLG and account for the accrued income before the financial statements are approved.

## **2.5 Wages reconciliation**

A difference of €2,579.31 arose between the salaries as per accounts and the amounts as per FSS forms, as shown in the wages reconciliation below:

				<b>Gross (€)</b>	<b>SSC (€)</b>
January				8,775.00	1,356.00
February				8,953.00	1,402.00
March				7,014.00	902.00
April				6,558.00	801.00
May				6,613.00	814.00
June				10,242.00	1,041.00
July				6,633.00	820.00
August				6,626.00	817.00
September				7,415.00	887.00
October				7,485.00	772.00
November				7,830.00	792.00
December				10,643.00	855.00
				<b>94,787.00</b>	<b>11,259.00</b>
add 1/2 of total NI				5,629.50	
<b>Total</b>				<b>100,416.50</b>	
				€	
Gross Salary				94,783.00	
add 1/2 of total NI				5,629.50	
<b>Total</b>				<b>100,412.50</b>	
Difference (between FS5s and FS7)				<b>4.00</b>	
1100/000	Mayor's allowance		✓	7,463.64	
1200/000	Employees' Salaries/Wages		✓	46,698.57	
1300/000	Bonuses		✓	996.82	
1400/000	Income Supplements		✓	849.64	
1500/000	Social Security Cont.		✓	6,699.84	
1600/000	Allowances		✓	7,161.08	
1700/000	Overtime		✓	2,750.21	
1800/000	Executive Secretary Salary		✓	29,688.97	
Add opening accruals			✓	(4,702.00)	
Less closing accruals			✓	5,385.04	
Total as per accounts				<b>102,991.81</b>	
Difference - not material				<b>(2,579.31)</b>	

Since the difference is not material, an audit adjustment was not proposed but included in list of unadjusted errors (refer to note 2.9).

While testing the employees' FS3 with the respective payscale, a difference of €119 arose. Since this was not material, it was included in the list of unadjusted errors (refer to note 2.9).

Selection	1	2	3
Gross salary as per accounts	4,976.00	19,251.00	23,387.00
Gross salary as per payscale	4,746.00	17,642.00	20,072.00
Performance bonus	-	1,038.00	1,179.00
Overtime	177.00	886.00	1,755.00
As aggregate	4,923.00	19,566.00	23,006.00
Difference -	53.00	(315.00)	381.00

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

## 2.6 Expected Credit Loss

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, the audit report is not qualified in this respect.

## 2.7 Rent payable

While performing our testing on the rent payable, it was noted that the rent payable as per agreements does not agree with the amounts in the accounts, by €576. This is not material and hence was included in the list of unadjusted errors (Refer to note 2.9).

We recommend that such balances are reconciled before the financial statements are approved.

## 2.8 Income

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 obtain a positive result as required by Section 4c of the Local Council (Financial) Regulations, 1993. The Executive Secretary is bound by section 4(1)(c) of the Local Councils (Financial) Regulations, 1993 to maintain a positive balance in terms of section 55 of the Local Councils Act.

## 2.9 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 €1,928.

Dr Depreciation (P/L)	€13
Cr Depreciation (B/S)	€13

*Being adjustment with respect to depreciation on fixed assets – note 2.1*

Dr Contraventions	€2,097
Cr LES debtors	€2,097
Dr Provision for bad debts (B/S)	€2,097
Cr Movement in provision for bad debts (P/L)	€2,097
<i>Being over-statement of LES debtors as per Loqus report – note 2.2</i>	

Dr Accruals	€2,597
Cr Personal Emoluments	€2,597
<i>Being difference in personal emoluments between FS7 and accounts – note 2.5</i>	

Dr Rent Expense	€576
Cr Creditor's Control account	€576
<i>Being incurred rent payable balance – note 2.7</i>	

Dr Accruals	€119
Cr Personal Emoluments	€119
<i>Being incurred rent payable balance – note 2.5</i>	

## **2.10 List of audit adjustments passed**

Below is the audit adjustment passed for the year:

Dr Accrued income	€1,014
Cr Supplementary Government income	€1,014
<i>Being tipping fees not accounted for – note 2.4</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  
For and on behalf of Nexia BT