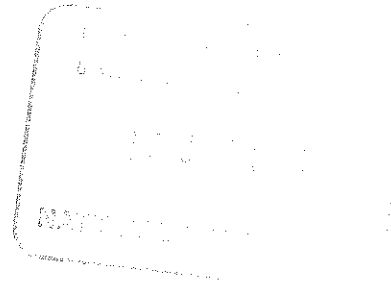


The Mayor  
Zebbug Local Council  
Bishop Caruana Street  
Zebbug ZBG 1905  
Malta

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.

### **1 Previous management letter (for the year ended 31 December 2018)**

#### **1.1 Payroll**

We regret to note that the Council did not yet update the employment contracts for employees who are employed for an indefinite period (refer to 2.1).

#### **1.2 Cash balance**

As in the previous year, the cash balance held at the Council at year-end was higher than €232.94 (refer to 2.2).

#### **1.3 Property, plant and equipment**

The Council has not updated its asset insurance policies (refer to 2.3).

The fixed asset register was again prepared in excel format and not performed using Sage accounting package (refer to 2.4). Also, the fixed assets are still not tagged (refer to 2.4).

While depreciation was still being calculated manually using straight line method on a monthly basis, no discrepancies arose in depreciation charge.

#### **1.4 Receivables**

During the year, confirmations for receivables' balances were received.

As in the prior year, the Council did not provide any confirmations for overdue receivables (refer to 2.5).

Similar to 2018, the receivables list still included an amount of €10,561 in relation to a garnishee order (refer to 2.6).

The Council has not resolved the issue of the debit balances in creditors' list (refer to 2.7).

#### **1.5 Trade and other payables**

As in the previous year, the Council did not prepare reconciliations for most of the creditors and an extrapolated error arose, however it was not material (refer to 2.8).

Also, the disputed amount with Schembri Infrastructures is still not resolved (refer to note 2.9).

As in previous year, included with the list of accruals was an amount payable to IRD with regards to FSS and NI (refer to 2.10).

During the year, there was still a difference between the accruals working and the amount as per financial statements (refer to 2.10).

Also, the Local Council still had long outstanding creditors balances as at year-end (refer to 2.11).

#### **1.6 Tipping fees**

The Council did not account for the exact amount advanced by DLG in relation to 2019 (refer to 2.17).

#### **1.7 Annual budget**

As in previous year, the three-year budget plan was not prepared (refer to 2.12). Thus, expenditure incurred during the year could not be analysed against the budgeted figures.

#### **1.8 Council's meetings**

We are pleased to note that the Council's minutes included all necessary information as required by the Local Councils Act and the Councillors attended the majority of the meetings called during the year.

#### **1.9 Deferred income**

No adjustments were required with respect to the capitalisation of the deferred income.

#### **1.10 LES cheques dated 2007**

LES stale cheques are still held at the Local Council premises (refer to 2.13).

#### **1.11 Financial situation indicator**

The financial situation indicator is still less than the minimum positive balance of ten per cent of the annual Government allocation (refer to 2.14).

#### **1.12 Legal letter**

We were not provided with a legal letter for the year under review (refer to 2.15).

#### **1.13 Expected credit loss**

As in the previous year, the expected credit loss as per IFRS 9 was not accounted for (refer to 2.16).

#### **1.14 Accrued income**

We are pleased to note that there were no amounts with respect to accrued income which required to be reversed.

### 1.15 Inventories

We are pleased to note that the inventory balance as per accounts and stock list agreed as at year end.

### 1.16 Prior year adjustment

The prior year adjustment required during the year was passed as an audit adjustment (refer to 2.18).

## 2 Management letter points for the year

### 2.1 Payroll

While testing payroll costs, it transpired that two employees were on indefinite contracts as they have been in employment for more than four years but do not have an updated contract.

We recommend that the Council draft a contract for these employees.

While testing the wages incurred during the year, we requested the wages reconciliation and it included a discrepancy of €856 between the wages as per accounts and the FS7. Since it was not material, it was included as an unadjusted error (refer to UE 6 in note 2.21).

We recommend that any discrepancies between the FS7 and the accounts are resolved after the reconciliation is performed during the preparation of the FS7 and before the accounts are finalised and passed for the audit.

### 2.2 Cash balance

We noted that cash balance as at year end held at the Council amounted to €1,194, which exceeds the limit of €232.94 as stipulated by the Local Councils (Financial) Procedures, 1996.

While we acknowledge that is due to undeposited funds, we still recommend that the Council abides by the procurement provisions of the Local Councils (Financial) Procedures, 1996 to keep the petty cash balances within the permitted levels.

### 2.3 Asset insurance

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

Sum insured on:	€
Buildings	73,924
Furniture and equipment	21,878
	<u>95,802</u>

NBV of assets:	€
Office Furniture & Fittings	2,857
Office and Computer equipment	3,289
Plant and Machinery	1,617
Trees	25,431
Urban Improvements	199,571
Construction and Special Projects	381,816
	<u>614,581</u>

In this regard, the Council should update its insurance policy to ensure that the value of assets insured against theft, damage and loss agrees to that in its books. We also remind you that 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.

#### **2.4 Fixed asset register**

During the year, the fixed asset register was provided in excel format and depreciation was still being calculated manually on excel. Also, urban improvements were under-depreciated by €17,518 (refer to adjustment 3 in 2.20).

We recommend that the Council complies with 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.

Also, as in previous year, we noted that the Council's assets have not yet been tagged including those acquired in 2019. This is in breach of the Local Councils (Financial) Procedures, 1996.

We recommend that the Council tags its fixed assets, where practicable, as soon as possible. This would enable individual assets to be identified and their physical existence verified.

#### **2.5 Overdue receivables**

During the year, the Council agreed to write off debtors amounting to €1,500 through an audit adjustment (refer to adjustment 1 in note 2.20). Remaining overdue balances are mostly receivables from Government entities and the Council is not expecting any problems with regards to their recoverability. There was a significant amount due from Wasteserv Malta Limited and which was not written off given it will be recovered.

We recommend that the Council go through the overdue receivables and assess their recoverability before the accounts are finalised and passed for the audit.

Also, it was noted that the debtors' list did not include the amounts which had been provided for in previous years, which mainly related to the Local Enforcement System.

We suggest that such balances are included within the debtors' list until these are written off, for accuracy purposes.

#### **2.6 Garnishee order**

As in previous year, while testing receivables we enquired on the €10,561 receivable from Siggiewi Local Council. We were informed that an amount of €10,561 is held by the Law Courts through a garnishee order. We were not provided with any documentation to support and verify this information and hence we were not able to test the balance and its recoverability. Given that the amount was not considered material for audit purposes, it was transferred to the list of unadjusted errors (refer to UE 4 in 2.21).

We recommend that the Council obtain documentation to support this balance.

#### **2.7 Debit balances in creditors' list**

Similar to previous year, the Council's books include debit balances in the creditors' list amounting to €18,873. We were informed that these debit balances relate to payments issued but invoices not posted in the books since they were not received. Section 26 of the Local Councils (Financial) Procedures prohibits Councils from issuing payment without the provision of a valid tax invoice.

These debit balances were reclassified to other debtors by means of audit reclassification RECL B/19 (refer to 2.20), which was approved and posted by the Council. We reiterate our recommendation that the Council reclassifies debit balances in the creditors' list and discloses these with receivables rather than setting off against trade creditors.

Also, the accounts include an accrual for the above-mentioned invoices and for which an amount of €4,031 was required to be reversed. Given this amount was not material, no adjustment was required, and it was included as an unadjusted error (refer to UE 5 in 2.21).

## **2.8 Trade payables**

During our testing for trade payables, an extrapolated error amounting to €3,044 resulted when comparing the balance as per accounts and balance as per statement provided. Given that amount was not considered material for audit purposes, this was included with the list of unadjusted errors (refer to UE 3 in 2.21).

Also, it was noted that the balance due to Bava Holdings Ltd was over-stated by €77,494. We asked the Council for a reconciliation and we noted that credit notes received during the year were not accounted for. Thus, we reversed the over-stated amount through an audit adjustment (refer to adjustment 4 in 2.20).

We recommend that suppliers' balances are reconciled frequently so that any differences are adjusted prior to the audit.

## **2.9 Disputed amount**

The Council has not yet resolved a disputed amount of €71,253 that is being claimed by Schembri Infrastructures. Schembri Infrastructures had opened a court case against the Local Council. The Local Council has not paid the amount, since it is claiming works were not done properly. The Council opened a counter claim. According to the Council, the outcome of such a dispute is expected to be in favour of the Council.

## **2.10 Accruals**

Accruals included an amount payable to the Commissioner for Revenue with regards to FSS and NI of €12,344. This was separately identified as other liabilities through a reclassification (refer to RECL C/19 in 2.20). In addition, €7,285 of such balance is comprised of FSS and NI payable with respect to October and November 2019, which were overdue as at year-end.

We point out that NI and FSS should be paid before the end of the following month, and that amounts not settled with the Inland Revenue Department incur interest. We recommend that all NI and FSS payments due are settled immediately, as the company as well as the directors personally will be held liable for these amounts as well as penalties and interest.

Also, the accruals included an amount of €6,026, whose respective invoices were issued during the year and thus, these were classified as suppliers' balances (refer to RECL A/19 in 2.20).

A difference of €177 in the accruals when compared to the financial statements balance was not identified at accounts preparation stage neither by the accountant nor by the Executive Secretary. Since the amount was not considered material for audit purposes, it was included with the list of unadjusted errors (refer to UE 1 in 2.21).

We recommend that the Council will have the appropriate workings to support the accruals as per accounts, and that the accounts will agree to the workings.

### 2.11 Long-outstanding creditors

The Council's creditors' list includes the following long outstanding balances:

<b>Creditor</b>	<b>2019</b>	<b>2018</b>
	<b>€</b>	<b>€</b>
3D door to door distributions	590.00	590.00
12th May Band Club	250.00	250.00
Avantgarde Caterers	155.95	155.95
Ballut Blocks Services Ltd	114.46	114.46
Bella Casa	45.95	45.95
Bonnici Bros (in dispute)	713,659.89	514,224.68
Capital Pest Control	97.23	97.23
Caprice Glass Works Ltd	33.75	33.75
Data Protection	23.29	23.29
Flowerland	225.01	225.01
Golden Gate	20.00	20.00
Jacap Ltd	450.00	450.00
John Spiteri	350.00	350.00
Kazin San Guzepp	235.00	235.00
Martin Transport	184.00	184.00
Mifsud Wilson	625.86	625.86
Med Design Consultants	94.40	94.40
Media & Graphic	9,544.56	9,544.56
Mellieha Holiday Centre	152.00	152.00
MEPA	167.20	167.20
Michael Partanier	100.00	100.00
Schembri Infrastructures	71,252.64	71,252.64
Silvio's Ironmongery	124.61	124.61
Victor Water Supply	30.00	30.00
Victor Busuttill Maniklu	35.40	35.40
Water's Edge	124.00	124.00
Water Services Corporation	120.00	120.00
WM Environment Ltd	8,703.98	8,703.98

We advise the Council to individually review these amounts, and either settle them or, if not due, reverse them after careful consideration and approval by the Council.

### 2.12 Annual budget

The rolling three-year budget plan from 2019-2021 was not prepared.

We reiterate our recommendation to prepare the budget in accordance to the Local Councils (Financial) Procedures, 1996.

### 2.13 LES cheques dated 2007

As reported in previous years, stale cheques amounting to a recoverable aggregate amount of €5,346.33 were found by the current Executive Secretary when she was employed. The Executive Secretary reported this issue to the DLG and the NAO. Receipts used to be issued but cheques not deposited with the bank. Even though this related to the previous administration, according to the Department, this matter falls within the responsibility of the current Executive Secretary.

We recommend that the Executive Secretary discusses this issue again with the DLG and asks for a practical written recommendation to resolve the matter.

### 2.14 Financial Situations Indicator

The Council's Financial Situations Indicator (FSI) at the end of the financial year under review is at -33.56%, and hence less than the minimum positive balance of ten per cent of the annual Government allocation.

Details	€
Current Assets	1,098,550
Less committed current assets	(69,901)
<b>Net Current Assets</b>	<b>1,028,649</b>
Non-Current Liabilities	-
Current Liabilities	1,324,891
<b>Total Liabilities</b>	<b>1,324,891</b>
Less LT balance payable under PPP scheme	-
Less long-term deferred income	-
Less short-term deferred income	-
<b>Net Liabilities</b>	<b>1,324,891</b>
<b>Net Current Assets less Net Liabilities</b>	<b>(296,242)</b>
<b>Government Allocation</b>	<b>882,617</b>
<b>FSI</b>	<b>-33.56%</b>

The Executive Secretary is bound by section 4(1)(c) of the Local Councils (Financial) Regulations, 1993 to maintain a positive balance and the FSI must not be less than ten per cent of the allocation approved in terms of section 55 of the Local Councils Act. The Regulations also state that the Executive Secretary must immediately notify the DLG when the FSI falls below ten per cent, and explain the actions that are to be taken by the Council to remedy the situation.

### 2.15 Legal letter

During the audit, we requested the legal 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. Unfortunately, we were not provided with a legal letter.

We recommend that the Council obtains the legal letter for future audits.

**2.16 Expected credit loss**

The Council did not calculate and account for the 'expected credit loss' as per IFRS 9 (refer to UE 2 in 2.21). Also, it was not included as a note in the financial statements.

We suggest that the Council account for the expected credit loss as required by IFRS 9 and include the related accounting policy in the financial statements. Given that, the receivable balances of the Council are composed of balances with government related entities and thus, the low risk associated with such entities the default risk is considered to be insignificant and will not result into a material amount. Since the amount involved of €1,700 is not material, the audit report is not qualified in this respect.

**2.17 Accrued income**

While testing the tipping fees, it was noted that the balance did not agree by €324 when compared to the third-party documentation. Although, it was not material, we were asked to include an audit adjustment was passed in this regard (refer to adjustment 5 in note 2.20).

**2.18 Prior year adjustment**

During the audit, it was noted that in the previous year, depreciation with respect to Urban improvements was over-charged by €148,088. There was a calculation misstatement, where government grants were added instead of deducted before depreciation was calculated. In this respect, and due to the materiality of this issue, a prior year audit adjustment was suggested, which was eventually approved and passed to correct this misstatement (refer to adjustment 2 included in note 2.20).

**2.19 Interest payable to Bonnici Bros.**

While testing the interest payable incurred during the year amounting to €39,063, we asked for the supplier's workings and it was noted that such interest amount was overstated by €5,828. Thus, an audit adjustment was passed in this regard (refer to adjustment 6 in note 2.20).

We recommend that the Council obtain the workings from the supplier, check and reconcile to the accounts before the accounts are finalised and passed for the audit.

**2.20 Adjustments and reclassifications**

We proposed the following adjustments and reclassifications, which were approved and passed by the Local Council.

No.	Description	Statement of Profit or Loss and other Comprehensive Income Dr (+) / Cr (-) €	Statement of Financial Position Dr (+) / Cr (-) €
	<b>Adjustments</b>		
<b>1</b>	Bad debts	1,500	
	Debtors' control account		(1,500)
	<b>Being adjustment with respect to bad debts written off – 2.5</b>		



<b>2</b>	Accumulated depreciation		148,088
	Retained earnings	(148,088)	
	<b>Being prior year adjustment with regards to over-depreciation charged – 2.18</b>		
<b>3</b>	Depreciation expense urban improvements	17,518	
	Accumulated depreciation urban improvements		(17,518)
	<b>Being understatement of depreciation charged – 2.4</b>		
<b>4</b>	Creditors' control account		77,494
	Urban improvements cost		(77,494)
	<b>Being adjustment with respect to overstatement of fixed assets and supplier's balances – 2.8</b>		
<b>5</b>	Supplementary government income	324	
	Accrued income		(324)
	<b>Being overstatement of tipping fees – 2.17</b>		
<b>6</b>	Creditors' control account		5,828
	Interest payable	(5,828)	
	<b>Being overstatement of interest payable to Bonnici Bros. – 2.19</b>		

Ref.	Description	Statement of Profit or Loss and other Comprehensive Income Dr (+) / Cr (-) €	Statement of Financial Position Dr (+) / Cr (-) €
	<b>Reclassifications</b>		
<b>RECL A/19</b>	Accruals		6,026
	Creditors' control account		(6,026)
	<b>Being reclassification with regards to amounts of which invoices were issued during the year – 2.10</b>		
<b>RECL B/19</b>	Purchases ledger debit balances		18,873
	Creditors' control account		(18,873)
	<b>Being reclassification with regards to debit balances in creditors' list – 2.7</b>		
<b>RECL C/19</b>	Accruals		12,344
	FSS & NI		(12,344)
	<b>Being reclassification with respect to FSS &amp; NI payable – 2.10</b>		
<b>RECL D/19</b>	Urban improvements		487
	Trees		(487)
	<b>Being reclassification with regards to fixed assets</b>		

## 2.21 Unadjusted errors

During the audit, we encountered errors which were not material for which there was no need to adjust the financial statements. Refer to the details below:

No.	Description	Statement of Profit or Loss and other Comprehensive Income	Statement of Financial Position
		Dr (+) / Cr (-)	Dr (+) / Cr (-)
		€	€
<b>UE1</b>	Profit or loss	177	
	Accruals		(177)
	<b>Being under-accrual as per workings of accruals – 2.10</b>		
<b>UE2</b>	Allowance for expected credit loss	1,700	
	Financial assets		(1,700)
	<b>Being omission of expected credit loss calculation – 2.16</b>		
<b>UE3</b>	Profit or loss	3,044	
	Creditors control account		(3,044)
	<b>Being extrapolated error in trade payables – 2.8</b>		
<b>UE4</b>	Siggiewi Local Council – garnishee order		(10,561)
	Profit or loss	10,561	
	<b>Being overstatement of debtor's balance - 2.6</b>		
<b>UE5</b>	Accruals		4,031
	Creditors' control account		(4,031)
	<b>Being reversal of accrued expense – 2.7</b>		
<b>UE6</b>	Bank		
	Wages		856
	<b>Being overstatement in wages incurred – 2.1</b>	(856)	

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, Council members and staff for their help during the course of our audit.

A handwritten signature in black ink, appearing to read "Manuel Castagna".

Mr Manuel Castagna CPA  
For and on behalf of Nexia BT