

The Mayor  
Birzebbuga Local Council  
Dar Birzebbuga  
Triq Santa Marija  
Birzebbuga BBG 1651  
Malta

15th April 2017

Dear Sir,

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

### **1 Previous year's management letter (for the year ended 31 December 2015)**

#### **1.1 Custodial receipts**

We are pleased to note that the Council deposited funds twice weekly in accordance to the Financial Procedures.

#### **1.2 Petty cash payments**

We are pleased to note that the Local Council has followed the guidelines including those as per circular 32/2016 having effective date 19 October 2016 issued by the Department of Local Government.

#### **1.3 Bank reconciliations**

We are pleased to note that bank reconciliations are being performed on a monthly basis for all bank accounts.

#### **1.4 Compilation of the fixed asset register**

While testing the fixed assets, it was noted that the register was not updated since 'Assets Under Construction' were still not included in the register (refer to 2.1).



**1.5 Tagging of fixed assets**

We are pleased to note that all fixed assets selected for testing have been tagged and referenced to the fixed asset register in terms of the Local Councils (Financial) Procedures, 1996.

**1.6 Pre-regional debtors**

Amount due from Zurrieq Joint Committee, which has been carried forward from December 2008 was not yet recovered (refer to note 2.2).

**1.7 Debit balances in creditors' list**

During the audit testing, we have again identified debit balances in creditors' list (refer to note 2.3).

**1.8 Long-outstanding creditors**

We are pleased to note that the Council's creditors' list did not include long outstanding balances.

**1.9 Trade payables**

Reconciliation were still not being prepared for all suppliers selected for testing (refer to note 2.4).

**1.10 Membership Fees**

We are pleased to note that the Council did not pay membership fee to Gal Xlokk.

**1.11 Budgets for 2016**

During the audit testing, we have again identified significant variances between the budgeted figures and the actual results (refer to note 2.5).

**1.12 Financial Situation Indicator**

The Council's Financial Situation Indicator (FSI) at the end of the financial year is still negative (refer to note 2.6).

**1.13 Liquidity position**

A net current liability position was again noted in current year audit (refer to note 2.7).

**1.14 Liabilities for finalised court cases**

At the end of the year, the Council did not have any liabilities with regard to court cases.

**1.15 Property, Plant and Equipment**

During the year under review, write-offs of property, plant and equipment was correctly accounted for and disclosed by the Council.

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

### **2.1 Compilation of the fixed asset register**

We noted that the register was not updated since 'Assets Under Construction' of €4,541 were not included in the register. It is important that the register is updated regularly.

We recommend that the fixed asset register is kept updated and reconciled to the nominal accounts.

### **2.2 Pre-regional debtors**

In the previous year, included with the debtors at year-end is an amount of € 67,619 due from Zurrieq Joint Committee, which the Council is claiming and which relates to pre-regional contraventions paid since December 2008 and remitted to the Committee in error. During the year ended 31 December 2016 there was no movement in such a balance except for a set-off amounting to € 1,606.

On the other hand, in its meeting held on 9 April 2012, the authorised officer of the Joint Committee indicated that €60,799 have actually been deposited in the account specifically held on behalf of Birzebbuga Local Council. The Joint Committee said that it will investigate the Council's claim for payment but to date the Committee has neither communicated the results of its investigation nor acknowledged acceptance to pay this amount.

Since there have been no recent developments and because it is our understanding that the Zurrieq Joint Committee is in the process of winding down its role in the LES, recoverability of this balance remains highly doubtful. We have qualified our audit opinion in this respect.

Once again, we recommend that the Council liaises with the Joint Committee and requests an update about the progress of the investigation. If future evidence indicates that the balance is no longer receivable in part or in full, the Council should record a provision against this amount or write it off. It is the Council's responsibility to investigate all differences and refer them to the Department for Local Government accordingly.

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

The Council's books include debit balances in the creditors' list amounting to € 16. This debit balance was reclassified as an advance payment to supplier by means of our proposed audit reclassification RECL A/16 (refer to note 2.11). We reiterate our recommendation to the Council to reclassify debit balances in the creditors' list and disclose these with receivables rather than set off against trade creditors.

## 2.4 Trade payables

While performing our testing on trade payables, we selected ten suppliers for testing and found that for nine suppliers no reconciliations were carried out. Reconciliations were not carried out for the following:

Supplier	Annual turnover	Year-end balance
Christopher Bezzina	€ 19,984	€ 4,443
Ronald Bezzina	€ 3,952	€ 1,034
Charlie's Ironmongery	€ 3,685	€ 365
Maria and Charlie Fenech	€ 48,324	€ 3,501
J.J. Ironmongery	€ 7,120	€ 319
Saviour Mifsud	€ 76,733	€ 11,463
Nexos Street Lighting Limited	€ 15,187	€ 3,112
Piscopo Gardens Limited	€ 21,454	€ 2,107
Swallow Garage	€ 5,571	€ 420

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.

We tested the above suppliers through vouching the invoices that make up the balance as at year end, as no replies for the requests for the confirmation of the balances were received.

## 2.5 Budgets for 2016

While reviewing the budget for 2016, we noted that there were variances from actual results. Below is a list of the material differences between budgets and actuals:

<i>Administration and other expenditure:</i>			
	<b>Actual 31-Dec-16</b>	<b>Budget</b>	<b>Difference between actuals and budgets</b>
	€	€	€
Depreciation	212,178	-	212,178
Contractual services	248,761	269,903	(21,142)
Transport	23,630	6,300	17,330

Moreover, it could be noted that the budget include different segregation of expenses than those presented in the financial statements, hence comparison could not be performed adequately. We recommend that the budget is prepared using the same items of expenses as those in the financial statements.

The budgeting process is essential to monitor and control costs and to prioritise cash outflows. Therefore budgets prepared should be as accurate as possible.

## 2.6 Financial Situation Indicator

The Council's Financial Situation Indicator (FSI) at the end of the financial year under review is -11%, which is less than the minimum positive balance of ten per cent of the annual Government allocation.

<b>Details</b>	<b>€</b>
Current Assets	354,226
Less committed current assets	-
<b>Net Current Assets</b>	<b>354,226</b>
Non-Current Liabilities	494,822
Current Liabilities	465,584
<b>Total Liabilities</b>	<b>960,406</b>
Less LT balance payable under PPP scheme	(140,918)
Less long-term deferred income	(353,904)
Less short-term deferred income	(39,426)
<b>Net Liabilities</b>	<b>426,158</b>
<b>Net Current Assets less Net Liabilities</b>	<b>(71,932)</b>
<b>Government Allocation</b>	<b>670,388</b>
<b>FSI</b>	<b>-10.73%</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.

## **2.7 Liquidity position**

At year-end, the Council has a net current liability position of €111,372. This indicates that the Council may encounter difficulties in meeting its obligations as they fall due.

The Council's liquidity problems continue to create significant doubts about its ability to continue as a going concern. To this end, the Council should take immediate corrective measures to improve the financial position including postponing capital projects and reducing discretionary expenditure.

As a result of the above uncertainties, we have included an emphasis of matter paragraph in our auditors' report on the financial statements.

## **2.8 Depreciation and amortisation**

While testing depreciation, a discrepancy amounting to € 2,436 resulted between depreciation as per fixed assets register and depreciation as per our working. Also, a discrepancy amounting to € 181 was noted when testing amortisation of intangible assets. Given that amounts were not material, these were included with the list of unadjusted errors (refer to note 2.10).

## **2.9 Council's meetings**

From our review of the Council's meetings, it came to our attention that the meeting held on 28 April 2016 did not include the time when the meeting ended. This is not in accordance with the Local Councils Act.

We recommend that the Local Council conforms with Chapter 363, Article 14A in preparing the minutes of meetings.

## 2.10 Unadjusted errors

During the audit, we encountered errors which were at trivial level both individually and in aggregate for which there was no need to adjust the financial statements. Refer to the details below:

No.	Description	<i>Statement of Profit or Loss and other Comprehensive Income</i>	<i>Statement of Financial Position</i>
		<i>Dr (+) / Cr (-)</i>	<i>Dr (+) / Cr (-)</i>
		€	€
<b>1</b>	Urban improvements	1,804	
	Plant, machinery & equipment	640	
	Office furniture & fittings	52	
	Special programmes	(60)	
	Depreciation		(2,436)
	<b>Being adjustment for depreciation charge for the year – 2.8</b>		
<b>2</b>	Amortisation (P/L)	181	
	Amortisation (B/S)		(181)
	<b>Being understatement of amortisation – 2.8</b>		


## 2.11 Reclassifications

We are pleased to note that no audit adjustments were deemed necessary. However, a reclassification was considered necessary for better presentation in the financial statements. Refer to details below:

		Profit or Loss and other Comprehensive Income	Statement of Financial Position
		Dr (+) / Cr (-)	Dr (+) / Cr (-)
Reclassification			
RECL A/16	Purchases ledger debit balances		16
	Trade creditors posting account (4000)		(16)
	Being reclassification of negative balances in creditors list – 2.3		

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 staff for their help during the course of our audit.

  
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Mr Manuel Castagna  
For and on behalf of Nexia BT