

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

29th April 2016

Dear Sirs,

## **FINANCIAL STATEMENTS FOR THE PERIOD ENDED 21 AUGUST 2015**

During our audit for the period ended 21 August 2015, 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**

#### **1.1 Custodial receipts**

The Council still did not deposit the funds available twice a week in accordance to the Financial Procedures (refer to note 2.1).

#### **1.2 Employee register and contract**

We are pleased to note that the Local Council followed our recommendations and has performed the employee register and has also updated the contracts of its employees.

#### **1.3 Executive Secretary salary**

No discrepancies were found in the Executive Secretary salary reconciliation during the period under review.

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## **1.4 Petty cash payments**

We regret to note that the Council is still supporting petty cash payments by cash register chits (refer to note 2.2). However, no incorrect postings were noted in the petty cash account and also the Council never exceeded the maximum of cash held of €232.94.

We are also pleased to note that petty cash sheets and petty cash reconciliations are being performed.

## **1.5 Bank reconciliations**

We are pleased to note that reconciliations are being performed for the main bank accounts. However, monthly reconciliations are still not being performed for other bank accounts (refer to note 2.3).

## **1.6 Bank balance overdrawn**

We are satisfied that the bank balance overdrawn is separately identified from the bank balances held.

## **1.7 Asset insurance**

We reviewed the Council's asset insurance policy to determine whether assets are insured adequately. We are pleased to note, that contrary to last year, no such discrepancies were noted during the period under review.

## **1.8 Compilations 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 2.4).

## **1.9 Tagging of fixed assets**

The council did not follow previous year recommendations to tag fixed assets, where practicable (refer to note 2.5).

## **1.10 Pre-regional debtors**

We again identified discrepancies in pre-regional LES debtors (refer to note 2.6).

## **1.11 Related parties - Debit balances**

We are pleased to note that related party balances have all been confirmed.

**1.12 Debit balances in creditors' list**

We are pleased to note that as at period-end the Council had no debit balances in creditors' list.

**1.13 Long-outstanding creditors**

Creditors which have been long outstanding during last year were identified again during the period under review (refer to note 2.7).

**1.14 Tipping fees**

We are pleased to note that the amounts paid by DLG to WasteServ Malta Limited on behalf of the Council were correctly accounted for during the period.

**1.15 NI and FSS payable**

We are pleased to note that all NI and FSS are being paid out on time.

**1.16 Related parties - Credit balances**

We are pleased to note that related party balances have all been confirmed.

**1.17 Accruals**

No misstatements were encountered in the accruals during our testing in the period under review.

**1.18 Short/Long-term borrowings**

No misstatements were encountered in the short/long-term borrowings during our testing in the period under review.

**1.19 Cash flow statement**

The cash flow statement was correct in the current year unaudited financial statements.

**1.20 Budgets for 2015**

Whilst reviewing the budget for 2015, we noted some significant variances (refer to note 2.10).

## 1.21 Council meetings

We were pleased to note that Council meetings discussed the validity of excused councillors and all absentees provided a signed letter of excuse.

## 1.22 Financial Situation Indicator

The Council's Financial Situation Indicator (FSI) at the end of the financial period under review is still negative (refer to note 2.11).

## 1.23 Liquidity position

A negative net current liability position was also noted in current period audit (refer to note 2.12).

## 2 Management letter points for the period

### 2.1 Custodial receipts

During our audit, we noted that the Council did not deposit its collections twice weekly. Apart from security implications of leaving cash and cheques on the premises unnecessarily, this contravenes the relevant regulations. We recommend that the Council adheres to the Financial Procedures and ensures that all receipts are deposited at least twice weekly.

### 2.2 Petty cash payments

During our audit we found that the source document for most petty cash expenditure is a cash register chit. Some instances which were encountered during our audit fieldwork are the following:

Date	Detail	Ref	Amount
			€
21/08/2015	Charles Ironmongery	39017884	3.66
14/08/2015	Audio Images	SA44934	13.90
12/08/2015	Tino 2000	26323	6.55
13/06/2015	Nuvole	57820	19.99
05/06/2016	Tarcisio Caruana	02/04503	2.50

Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures, 1996 which require that supplies are only made on the provision of a valid invoice which is addressed to the Council. To this end, we recommend that, as much as possible, the Council obtains a tax invoice or a VAT receipt appropriately addressed for petty cash purchases.

## 2.3 Bank reconciliations

During our audit testing, it was noted that monthly reconciliations are being prepared by the Local Council for the main bank accounts; however, no such reconciliations are being prepared for these bank accounts:

Bank	Account Number
HSBC Malta p.l.c.	047-038427-001
HSBC Malta p.l.c.	047-038427-050
Bank of Valletta p.l.c.	40022149420
Bank of Valletta p.l.c.	40017734921
Bank of Valletta p.l.c.	40017734950

We recommend that reconciliations are prepared on a monthly basis for all bank accounts.

## 2.4 Compilations of the fixed asset register

While testing the fixed assets, it was 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.

## 2.5 Tagging of fixed assets

We encourage the Council to tag all assets and reference them to the fixed asset register to easily identify assets and verify their physical existence and condition.

This is a requirement in terms of the Local Councils (Financial) Procedures, 1996.

## 2.6 Trade and other receivables

Included in debtors at period-end is an amount of €69,225 due from Zurrieq Joint Committee which Council is claiming and which relates to pre-regional contraventions paid since December 2008 and remitted to the Committee in error.

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. 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. In view of this, 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 writes it off.

Also, while testing the accrued income, we identified a discrepancy between bank interest receivable as per accounts and bank interest receivable as per bank letter of €7. Balance was transferred to the unadjusted errors list as it was not material (refer to note 2.16).

## 2.7 Long-outstanding creditors

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

<b>Creditor</b>	<b>21 August 2015</b>	<b>31 December 2014</b>
	€	€
A&M Printing	358.72	-
Asfaltar Ltd	442.85	-
Building & Design Consultants	838.20	832.20
Datatrack IT Services	587.99	-
Saviour Mifsud	11,998.97	-
European Cities Against Drugs	-	200.00
Emm. Francalanza	-	35.00
Merlin Library	-	58.23
<b>Total</b>	<b>14,226.73</b>	<b>1,125.43</b>

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.

We are pleased to also note that almost all the outstanding creditors listed above were settled as at 31 December 2015.

## 2.8 Trade and other payables

While performing our testing on trade payables, we selected 9 suppliers for testing and found that for all 9 suppliers no reconciliations were carried out. Reconciliations were not carried out for the following:

<b>Supplier</b>	<b>Annual turnover</b>	<b>Year-end balance</b>
Saviour Mifsud	€63,384.00	€20,500.00
JM Installations Ltd	€8,695.00	€5,282.00
Maria & Charlie Fenech	€25,510.00	€3,838.00
Perit Carmel Cacopardo	€6,640.00	€1,660.00
GO plc	€2,642.00	€364.00
Dove's Pet Shop	€3,024.00	€969.00
Environmental Landscapes	€8,035.00	€1,148.00
Nexos Street Lighting Ltd	€5,767.00	€1,820.00
Projects Implementation	€3,099.00	€3,099.00

Whilst 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.

We tested all the mentioned creditors through supplier's balance confirmation or through vouching the invoices that make the year end balance.

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.

It was also noted that NI and FSS payable and wages payable were included with accruals. A reclassification was proposed to the Council and passed in the accounts (refer to note 2.17).

## 2.9 Membership Fees

When testing receivables, we noted that the Local Council is still paying membership fee to Gal Xlokk Foundation. A total of €894 was paid up to the period ending 21 August 2016.

We reiterate to seek a more recent approval from the DLG as to whether such fees are permissible.

## 2.10 Budgets for 2015

Whilst reviewing the budget for 2015, we noted that there were significant variances from actual results. Below is a list of the material differences between budgets and actuals:

<i>Administration and other expenditure:</i>				
		<b>Actual</b>	<b>Budget</b>	<b>Diff btw</b>
		<b>21-Aug-15</b>		<b>actuals and</b>
		<b>€</b>	<b>€</b>	<b>budgets</b>
Depreciation		153,674.00	-	153,674.00

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



## 2.11 Financial Situation Indicator

The Council's Financial Situation Indicator (FSI) at the end of the financial period under review is -51%, which is less than the minimum positive balance of ten per cent of the annual Government allocation.

Details	€
Current Assets	302,927
Less committed current assets	(11,089)
<b>Net Current Assets</b>	<b>291,838</b>
Non-Current Liabilities	622,093
Current Liabilities	614,381
<b>Total Liabilities</b>	<b>1,236,474</b>
Less LT balance payable under PPP scheme	(254,177)
Less long-term deferred income	(367,916)
Less short-term deferred income	(109,707)
<b>Net Liabilities</b>	<b>504,674</b>
<b>Net Current Assets less Net Liabilities</b>	<b>(212,836)</b>
<b>Government Allocation</b>	<b>417,036</b>
<b>FSI</b>	<b>-51%</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.

## 2.12 Liquidity position

At period-end, the Council has a (negative) net current liability position of €311,454. 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.

## **2.13 Liabilities for finalised court cases**

In his legal letter, the advocate of the Local Council Dr Victor J. Bugeja LL.D. informed us that the Council is to pay a total of €3,791, for cases decided against the Council. The Council accrued €3,500 (i.e. an under accrual of €291) in respect of these cases. The discrepancy was included in the list of unadjusted adjustments as it was not material (refer to note 2.16).

## **2.14 Property, Plant and Equipment written off**

During the audit testing, it was noted that a balance of €150 of PPE written off was not separately identified in the accounts. An audit reclassification was suggested to the Local Council and this was approved and passed (refer to note 2.17).

## **2.15 Budgeted figures**

The financial statements did not include the budgeted figures for the year. This is not in accordance with the Local Councils (Financial) Procedures, 1996.

We recommend the Council to include the budgeted figures in the financial statements.

## **2.16 Unadjusted adjustments**

During the audit, we encountered a number of errors which were at trivial level for which there was no need to adjust the financial statements. Refer to the details below:

No.	Description	<i>Statement of Comprehensive Income Dr (+) / Cr (-)</i>	<i>Statement of Financial Position Dr (+) / Cr (-)</i>
<b>1</b>	Profit or Loss	291	
	Liability		(291)
	<b>Being liability for future contingencies – 2.13</b>		
<b>2</b>	Accrued income		7
	Bank interest receivable	(7)	
	<b>Being bank interest receivable as per Bank letter – 2.16</b>		
	<b>Total potential adjustment</b>	284	(284)

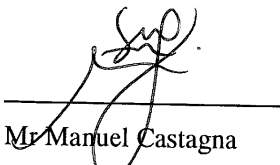
#### 2.17 Adjustments and Reclassifications

During the audit we were pleased to note that no audit adjustments were deemed necessary. However, some reclassifications were considered necessary for better presentation in the financial statements. Refer to details below:

		Statement of Comprehensive Income	Statement of Financial Position
		<i>Dr (+) / Cr (-)</i>	<i>Dr (+) / Cr (-)</i>
<b>Adjustments</b>			
	<i>None to report</i>		
<b>Reclassifications</b>			
<b>RECL A/15</b>	Engineering Services	150	
<b>RECL A/15</b>	Property, plant & equipment written off	(150)	
<b>RECL A/15</b>	<b>Being reclass to identify write off - 2.14</b>		
<b>RECL B/15</b>	Accruals		8,063
<b>RECL B/15</b>	NI & FSS Payable		(1,543)
<b>RECL B/15</b>	Wages and Salaries Payable		(6,520)
<b>RECL B/15</b>	<b>Being reclass to NI and FSS payable and other creditors - 2.8</b>		
		-	-

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.

  
 Mr Manuel Castagna

For and on behalf of Nexia BT