

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



16th April 2018

Dear Sir,

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

During our audit for the year ended 31 December 2017 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 2016)

1.1 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).

1.2 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).

1.3 Debit balances in creditors' list

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

1.4 Trade payables

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

1.5 Budgets

We are pleased to note that the total actual expenditure did not exceed the budgeted figures.

1.6 Financial Situation Indicator

We are pleased to note that the Council's Financial Situation Indicator (FSI) at the end of the financial year is positive unlike previous year and the 10% criteria of the financial allocation was met in terms of section 55 of the Local Councils Act.

Details	€
Current Assets	567,116
Less committed current assets	30,270
Net Current Assets	536,846
Non-Current Liabilities	359,456
Current Liabilities	498,612
Total Liabilities	858,068
Less LT balance payable under PPP scheme	(27,658)
Less long-term deferred income	(331,798)
Less short-term deferred income	(36,370)
Net Liabilities	462,242
Net Current Assets less Net Liabilities	74,604
Government Allocation	698,091
FSI	10.69%

1.7 Liquidity position

We are pleased to note that the Council's liquidity position improved and is now in a net current position.

1.8 Property, Plant and Equipment

While testing depreciation, we have noted discrepancies amounting to € 11,426 which resulted between depreciation as per fixed assets register and depreciation as per our working (refer to note 2.5).

1.9 Council's meetings

We are pleased to note that all Council's meetings were in conformity with Chapter 363, Article 14A.

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' amounting to €7,607 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, an amount of € 67,619 due from Zurrieq Joint Committee was included with the receivables as at year-end. The Council is claiming that this amount relates to pre-regional contraventions paid since December 2008 and remitted to the Committee in error. During the year ended 31 December 2017 there was no movement in such a balance.

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 amount was reclassified as an advance payment to supplier by means of a proposed audit reclassification RECL A/17 (refer to note 2.10).

We reiterate our recommendation to the Council to reclassify debit balances in the creditors' list and disclose them with receivables rather than being 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 three suppliers no reconciliations were carried out. Reconciliations were not carried out for the following:

Supplier	Annual turnover	Year-end balance
Christopher Bezzina	€ 26,888	€ 4,561
Saviour Mifsud	€ 73,332	€ 11,816
Polidano Brothers Ltd	€ 12,943	€ 12,943

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 confirmation letters. Extrapolated error amounting to € 195 was not deemed material for audit purposes, hence it was transferred to the list of unadjusted errors (refer to note 2.9).

2.5 Depreciation

While testing depreciation, a discrepancy amounting to € 11,426 resulted between depreciation as per fixed assets register and depreciation as per our working. Also, a discrepancy amounting to € 5 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 2.9).

2.6 Tipping fees

The Council did not account for accrued income amounting to € 7,016, 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 01/17 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.

2.7 Prepayments

While testing prepayments in relation to rent, a discrepancy amounting to € 19 resulted between the council's working and our working. Given that the amount was not material, this was included with the list of unadjusted errors (refer to note 2.9).

2.8 Accruals

While testing accruals, it was noted that a reclassification amounting to € 100 had to be passed between accruals and trade payables, given that a particular invoice for a supplier was not yet issued (refer to note 2.10). Also, an amount of € 377 in relation to a claim by a third party regarding an incident, should have been accounted for as an accrual following the decision of the Ombudsman to pay such amount. Given that the amounts involved were not material, these were included with the list of unadjusted errors (refer to note 2.9).

2.9 Unadjusted errors

During the audit, we encountered errors which were not material 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>
		€	€
1	Urban improvements	2,381	
	Plant, machinery & equipment	1,461	
	Office furniture & fittings	98	
	Special programmes	(56)	
	Construction	7,542	
	Intangible asset	(5)	
	Depreciation		11,421
	Being adjustment for depreciation charge for the year – 2.5		
2	Rent	19	
	Prepayment		(19)
	Being overstatement of rent prepayment – 2.7		
3	Profit or loss	195	
	Creditors Control account		(195)
	Being extrapolated error in creditors – 2.4		
4	Penalties and fines	377	
	Accruals		(377)
	Being claim payable to third parties – 2.8		

2.10 Adjustments and Reclassifications


The unaudited financial statements showed a surplus of € 141,832 which after our proposed audit adjustments and reclassifications as per below, changed to a surplus of € 148,848. Refer to details below:

		Profit or Loss and other Comprehensive Income	Statement of Financial Position
		<i>Dr (+) / Cr (-)</i>	<i>Dr (+) / Cr (-)</i>
Reclassifications			
RECL A/17	Purchases ledger debit balances		16
	Trade creditors posting account (4000)		(16)
	Being reclassification of negative balances in creditors list – 2.3		
RECL B/17	Trade creditors posting a/c		100
	Accruals		(100)
	Being reclassification of accruals – 2.8		

		Profit or Loss and other Comprehensive Income	Statement of Financial Position
		<i>Dr (+) / Cr (-)</i>	<i>Dr (+) / Cr (-)</i>
Adjustment			
AA 01/17	Supplementary Govt. Income	(7,016)	
	Accrued Income		7,016
	Being accrued income with regards to tipping fees – 2.6		

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