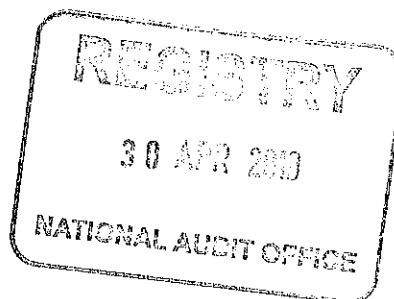


The Mayor
Birzebbuga Local Council
Dar Birzebbuga
Triq Santa Marija
Birzebbuga BBG 1651
Malta

17th 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 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 2017)

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 Depreciation

We are pleased to note that no discrepancies were noted between depreciation as per fixed assets register and depreciation as per our working.

1.6 Tipping fees

The Council did not account for accrued income amounting to €10,113 related to advancements by the DLG in respect of tipping fees (refer to 2.5).

1.7 Prepayments

A discrepancy was noted between the council's working and our working (refer to 2.6).

1.8 Accruals

A reclassification was required between accruals and trade payables (refer to 2.7).

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 €13,746 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

As in previous years, 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 2018 there was no movement in this 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/18 (refer to note 2.13).

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 one supplier for testing and found that no reconciliations were carried out. Reconciliations were not carried out for the following:

Supplier	Annual turnover	Year-end balance
Polidano Brothers Limited	€ 263,355	€ 13,168

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.

2.5 Tipping fees

The Council did not account for accrued income amounting to € 10,113, 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 2.13).

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.

2.6 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 2.12).

2.7 Accruals

While testing accruals, it was noted that a reclassification amounting to € 13,168 had to be passed between accruals and trade payables, given that a particular invoice for a supplier was not yet issued (refer to note 2.13).

2.8 Accrued income

While testing accrued income, a discrepancy amounting to € 50 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 2.12).

2.9 Expected credit loss within financial assets

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', in fact note 2 of the financial statements states that this new standard has not been applied in preparing the financial statements. 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.

2.10 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.

2.11 Budgets for 2018

While reviewing the budget for 2018, we noted that there were variances from actual results. Below is the main material difference between budgets and actuals:

<i>Administration and other expenditure:</i>			
	Actual 31-Dec-18	Budget	Difference between actuals and budgets
	€	€	€
Depreciation	647,092	147,212	499,880

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

2.12 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	Statement of Profit or Loss and other Comprehensive Income	Statement of Financial Position
		Dr (+) / Cr (-)	Dr (+) / Cr (-)
		€	€
1	Rent	19	
	Prepayment		(19)
	Being overstatement of rent prepayment – 2.6		
2	Accrued income		50
	Profit or loss	(50)	
	Being understatement of accrued income – 2.8		

2.13 Adjustments and Reclassifications

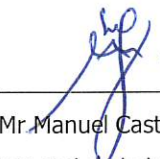
The unaudited financial statements showed a deficit of € 406,415 which after our proposed audit adjustments and reclassifications as per below, changed to a deficit of € 396,302. Refer to details below:

No.	Description	Statement of Profit or Loss and other Comprehensive Income Dr (+) / Cr (-)	Statement of Financial Position Dr (+) / Cr (-)
		€	€
	Reclassifications		
1	Purchases ledger debit balance		16
	Creditors control account		(16)
	Being reclassification of negative balances in creditors list – 2.3		
2	Creditors control account		13,168
	Accruals		(13,168)
	Being reclassification from creditor to accrual– 2.7		

No.	Description	Statement of Profit or Loss and other Comprehensive Income Dr (+) / Cr (-)	Statement of Financial Position Dr (+) / Cr (-)
		€	€
	Adjustments		
1	Supplementary Govt. Income	10,113	
	Accrued Income		(10,113)
	Being accrued income with regards to tipping fees – 2.8		

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