

The Mayor
Qrendi Local Council
7, Church Street
Qrendi QRD 1103
Malta

18th September 2020

Dear Sir,

FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2019

During our audit for the years ended 31 December 2018 and 31 December 2019, we have reviewed the accounting systems and procedures operated by the Council. We have also reviewed the operations of the Council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1. Previous Management Letter

1.1 Council meetings

No issues were encountered with respect to absence in Council meetings held during 2018 and 2019.

1.2 Fixed assets

As opposed to 2017, the Council has performed a thorough exercise during the years under review and the fixed assets register is now reconciling with the accounts. However, the 2018 auditors report is qualified due to 'net correction of errors' entry in the Statement of Changes in Equity amounting to €123,638 that relates to a correction of error in fixed assets (refer to note 2.10).

1.3 Bank

Similarly to 2017, the Local Council has not yet commenced to prepare monthly bank reconciliations (refer to note 2.1).

1.4 LES Debtors

With respect to LES debtors, we found a discrepancy between balances in 2018 and 2019 accounts and reports issued from the Local Enforcement System (refer to note 2.2).

1.5 Trade receivables

While testing trade receivables, we again noted that WasteServ Malta Ltd had a balance in both debtors' and balance creditors' lists in 2018 and 2019 (refer to note 2.3).

1.6 Trade creditors

While testing trade creditors, we noted that the balance owed to Cleansing Services Department of €34,273 as at 31 December 2017 has been paid. Moreover, no discrepancies with respect to particular trade creditors were found during the years under review. However, we found a discrepancy between 2019 creditors' list and the accounts (refer to note 2.4).

1.7 Salaries

During our testing, we noted that there were discrepancies between FS5s, FS7 and salaries expense for 2018 and 2019 (refer to note 2.5).

1.8 Deposits

We noted that the Council is still not depositing its general income and the custodial receipts at the required frequency (refer to note 2.6).

1.9 Accrued income

Similarly to previous year, we noted that the Local Council did not account for accrued bank interest income (refer to note 2.7).

1.10 Budgeted figures

No issues were encountered with respect to budgeted expenditure for 2018 and 2019.

1.11 Financial allocation

Income from central Government as per accounts agreed with Government budget in 2018 and 2019.

1.12 Accrual

No audit fee was accrued for in 2018 and 2019.

1.13 Tipping fees

The Council did not account for tipping fees in line with approved amounts from DLG (refer to note 2.7).

1.14 Deferred income

No discrepancies were found when testing deferred income as at 2018 and 2019 year-ends.

1.15 Accounting function

No audit adjustments were passed during 2018 and 2019 audits. However, the 2018 auditors report is qualified due to 'net correction of errors' entry in the Statement of Changes in Equity amounting to €123,638 (refer to note 2.10).

2. Management letter points for the years under review

2.1. Bank

The Local Council does not prepare bank reconciliations on a monthly basis, but prepares them on a quarterly basis. We reiterate that bank reconciliations should be prepared on a monthly basis in accordance with the requirements of the Local Councils (Financial) Regulations.

2.2. LES debtors

While 2018 and 2019 unaudited financial statements included a receivable balance of LES debtors of €80,602, LES report showed that balance should have been to €80,194 as at both year-ends. Since such differences are not material, audit adjustments were not passed (refer to note 2.12).

We recommend that the Council performs this reconciliation and passes the necessary adjustments before the unaudited financial statements are passed for audit.

2.3. Trade receivables

While testing trade receivables, we noted that WasteServ Malta Ltd had a balance in both debtors' and creditors' lists in 2018 and 2019. Reclassifications were passed in this respect (refer to note 2.11). Moreover, when testing 2019 receivable balance from WasteServ Malta Ltd, we found an extrapolated error of €7,465. Given that amount was immaterial, no audit adjustment was passed (refer to note 2.12).

2.4. Trade payables

During 2019 testing on trade payables, we noted that there was a discrepancy of €763 between creditors' list and balance in accounts. Given that amount was immaterial, no audit adjustment was passed (refer to note 2.12).

We recommend that the Council ensures that the creditors' list and accounts are in agreement before the unaudited financial statements are passed for audit.

2.5. Salaries

In 2018, a difference of €48 resulted in the reconciliation between salaries in the FS5s and salaries in the FS7, and a discrepancy of €1,551 was noted between salaries in accounts and salaries in FS7, as per below:

	€
Gross Wage as per FS5s	79,921
1/2 the total social security as per FS5s	<u>4,622</u>
Total wage for year as per FS5s	<u>84,543</u>

	€
Gross Wage as per FS7	79,966
1/2 the total social security as per FS7	<u>4,625</u>
Total as per FS7	<u>84,591</u>
Difference (between FS5s and FS7)	<u>(48)</u>

	€
Councillors' allowances	2,880
Employee's salaries	25,695
Executive secretary's salary and allowances	22,935
Mayor's remuneration	7,648
Social security contributions	<u>26,084</u>
Total as per accounts	<u>86,142</u>
Difference (between accounts and FS7)	<u>1,551</u>

Total salaries as per 2018 accounts amounted to €86,142, and this is not in agreement with neither FS5s nor the FS7. We recommend that the FS7 is reconciled to the accounts and FS5 forms before this form is submitted.

In 2019, a difference of €11 resulted in the reconciliation between salaries in the FS5s and salaries in the FS7, and a discrepancy of €219 was noted between salaries in accounts and salaries in FS7, as per below:

	€
Gross Wage as per FS5s	86,250
1/2 the total social security as per FS5s	<u>4,656</u>
Total wage for year as per FS5s	<u>90,906</u>

	€
Gross Wage as per FS7	86,257
1/2 the total social security as per FS7	<u>4,660</u>
Total as per FS7	<u>90,917</u>
Difference (between FS5s and FS7)	<u>(11)</u>

	€
Councillors' allowances	3,360
Employee's salaries	28,002
Executive secretary's salary and allowances	23,035
Mayor's remuneration	8,800
Social security contributions	<u>24,372</u>
Total as per accounts	<u>90,698</u>
Difference (between accounts and FS7)	<u>219</u>

Total salaries as per 2019 accounts amounted to €90,698, and this is not in agreement with neither FS5s nor the FS7. We recommend that the FS7 is reconciled to the accounts and FS5 forms before this form is submitted.

2.6. Deposits

During our audits, we noticed that the Council is still not always depositing its general income daily or twice weekly, as required by the Local Councils (Financial) Procedures, 1996 and LN 28/2000 respectively. While we take note of the fact that at times the amount of money to be deposited is minimal, we are still required to recommend that the Council deposits cash from custodial receipts twice weekly, primarily to comply with the Local Councils Procedures Regulations. In this regard, we point out that amounts in hand were not material.

2.7. Accrued income

During our testing of accrued income, we noted that the Local Council did not account for accrued bank interest income, which according to the bank letters, stood at €15 at 2018 year-end and at €17 as at 2019 year-end. Since these amounts are not material, no adjustments were passed (refer to note 2.12).

Moreover, we found a discrepancy of €2,741 in 2018 and a discrepancy of €6,835 when testing accrued income in relation to tipping fees. Since these amounts are not material, no adjustments were not passed (refer to note 2.12).

We recommend that the Council obtains the approved amount from the DLG and accounts for it before the financial statements are passed for the audit.

2.8. Income

When testing the Local Council's financial allocation received from Central Government vis-à-vis the expenditure incurred during 2018, we noted that the Local Council did not manage to obtain a positive result equal to 10% of the financial allocation, 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 Council (Financial) Regulations, 1993 to maintain a positive balance in terms of section 55 of the Local Councils Act.

2.9 IFRS 16 – new adoption

IFRS 16, which became effective for periods that begin on or after 1 January 2019, introduced the single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Council did not calculate and account for this 'Single lessee accounting model'. Since the departure from IFRS 16 is not material, the audit report is not qualified in this respect. No adjustment was proposed, and this was included in the list of unadjusted errors (refer to note 2.12).

2.10. Correction of errors in Statement of Changes in Equity

The 2018 Statement of Changes in Equity included a movement of 'Net effects of correction of error' amounting to €123,638. This movement is a material misstatement, as there could never be a correction of errors in the Statement of Changes in Equity in the year that the financial statements are being presented.

These prior year adjustments and entries were discussed numerous times with the accountant, and with respect to such entry in SOCIE, we were only provided with the journal entries he passed, and he commented that, quoting "Unfortunately, cannot identify further accounts to adjust with entries, thus is the only way we can find to match the figures of equity as all these differences are coming from prior years with the misstatements between TB and NCA".

Moreover, we were not provided with explanations behind the fact that the 2018 Fixed Assets Schedule in the 2018 financial statements includes a movement of 'Correction of error' of €74,170, which amount does not agree to the disclosure made in the Statement of Changes in Equity. As a result of the above, the 2018 auditor's report is being qualified, as we could not verify such transactions.

We reiterate once again that before financial statements is approved by the Local Council and passed to the auditors, all issues are tackled by the Council and all accounting transactions are examined so that the financial statements show a true and fair view of the financial position of the Council.

2.11. Reclassifications list

RECL A/18	Dr Debtors Control account	€4,006
	Cr Trade creditors posting account	€4,006
	<i>Being reclassification of set-off amount of WasteServ Malta Ltd as per 2018 debtors' and creditors' list (refer to note 2.3)</i>	

RECL A/19	Dr Debtors Control account	€190
	Cr Trade creditors posting account	€190
	<i>Being reclassification of set-off amount of WasteServ Malta Ltd as per 2019 debtors' and creditors' list (refer to note 2.3)</i>	

2.12. List of unadjusted errors

During our audits we encountered the following errors which were at trivial level, for which there was no need to adjust the financial statements.

2018

Dr Income	€408
Cr LES debtors balance	€408
	<i>Being LES debtors receivable balance overstated (refer to note 2.2)</i>
Dr Provision on LES debtors balance receivable – B/S	€408
Cr Provision on LES debtors balance receivable – P/L	€408
	<i>Being overstated provision on LES debtors balance (refer to note 2.2)</i>
Dr Accrued income	€15
Cr Bank interest	€15
	<i>Being accrued bank interest receivable not accounted for (refer to note 2.7)</i>
Dr DLG	€2,741
Cr Accrued income	€2,741
	<i>Being overstatement of accrued income (refer to note 2.7)</i>

2019

Dr Income	€408
Cr LES debtors balance	€408

Being LES debtors receivable balance overstated (refer to note 2.2)

Dr Provision on LES debtors balance receivable – B/S	€408
Cr Provision on LES debtors balance receivable – P/L	€408

Being overstated provision on LES debtors balance (refer to note 2.2)

Dr Income	€7,465
Cr Trade receivables	€7,465

Being extrapolated error in trade receivables (refer to note 2.3)

Dr Purchases	€763
Cr Trade payables	€763

Being overstatement of trade payables in accounts (refer to note 2.4)

Dr Accrued income	€17
Cr Bank interest	€17

Being accrued bank interest receivable not accounted for (refer to note 2.7)

Dr DLG	€6,835
Cr Accrued income	€6,835

Being overstatement of accrued income (refer to note 2.7)

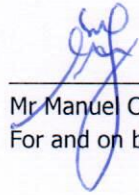
Dr Right of use Asset (B/S)	€4,892
Dr Interest (P/L)	€264
Dr Depreciation (P/L)	€815
Cr Retained Earnings	€205
Cr Lease Liability	€5,766

Being lease workings as per IFRS 16 not accounted for (refer to note 2.9)

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 Local Council staff for their help during the course of our audit.



Mr Manuel Castagna CPA
For and on behalf of Nexia BT