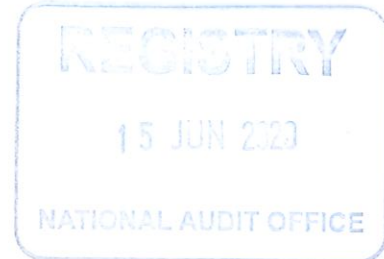


The Mayor
Santa Lucija Local Council
5/6, Binja tal-Faqqani
Trejjet il-Girasol
Santa Lucija SLC 1050
Malta

25th May 2020

Dear Madam,



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

During our audit for the year ended 31 December 2019, we have reviewed the accounting systems and procedures operated by the 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 Fixed assets

We noted that there is still a difference in the property, plant and equipment between the amount as per accounts and that as per fixed assets register (refer to note 2.1).

1.2 LES debtors

As in previous year, the debtors' balance receivable as at 31 December 2019 as per accounts did not agree to that as per Loqus (Datatrak) report (refer to note 2.2).

1.3 Trade payables

We noted that reconciliations are still not being carried out for all the suppliers (refer to note 2.3).

1.4 Tipping fees

We noted that accrued income in relation to tipping fees was taken into consideration during 2019.

1.5 Wages reconciliation

As in previous year, it was noted that there was a difference between salaries as per accounts and the amounts as per FSS forms (refer to note 2.4).

1.6 Expected Credit Loss

As in previous year, the Council did not calculate and account for 'expected credit losses' (refer to note 2.5).

1.7 Rent payable

As in previous year, it was noted that the rent payable as per agreements does not agree with the amounts in the accounts (refer to note 2.6).

1.8 Income

As in previous 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 (refer to note 2.7).

2 Management letter points for the year

2.1 Fixed assets

The fixed assets register (FAR) as at 31 December 2019 does not agree to the amounts as per accounts, with a net difference of €4.

We recommend that the accounts are reconciled with the fixed assets register periodically.

Moreover, when testing depreciation charge, we noticed that there are differences between the amount included in the accounts and what should have been reported. The total differences amount to a net € 2,388 which is not material and is thus being included as part of the list of unadjusted errors (refer to note 2.14).

The main difference results in the class of the Council premises amounting to € 2,831. This relates to an overstatement in the accounts since the Council premises should have been depreciated at the rate of 1% per annum and the Council took a depreciation expense of € 3,145 rather than € 314.

2.2 LES debtors

When testing the balance receivable from LES debtors as at year-end, we noted that the LES debtors' balance and the respective provision on such balance as per accounts were not showing the actual balance receivable. The report generated by Loqus (Datatrak) as at 31 December 2019 indicated that the balance due to the Council from pre-regional LES amounted to €68,259. However, the Council has incorrectly recorded an amount of €70,659.

Since the difference is not material, an audit adjustment was not proposed, and was included in the list of unadjusted errors (refer to note 2.14).

We recommend that the Council obtains such statement before and passes the necessary adjustment before the financial statements are approved.

2.3 Trade payables

While performing our testing on trade payables, we selected nine suppliers for testing and found that no reconciliations were carried out for two of these suppliers, since no statements were available at the Council.

Supplier	Amount
Nexos Street Lightning	€2,842
Mario Mallia	€105

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.

2.4 Wages reconciliation

A difference of €225 arose between the salaries as per accounts and the amounts as per FSS forms, as shown in the wages reconciliation below:

As per FS5s

	Gross Wage €	NI
January	9,062	918
February	8,773	828
March	7,522	1,019
April	7,430	1,361
May	8,317	1,163
June	12,034	1,194
July	8,601	1,340
August	8,497	1,074
September	8,979	1,245
October	8,617	996
November	8,551	996
December	9,322	1,245
Totals	<u>105,705</u>	<u>13,380</u>
Gross wage as per FS5s		105,705
Employer's NI part		<u>6,836</u>
Total wages		<u>112,541</u>

As per FS7

Gross Wage as per FS7	105,699
Employer's NI part	6,836
Total wages	112,535

Difference between FS7 and FS5s
6

Wages and salaries in accounts	107,487
Employer's NI part	7,031
Add opening accruals	5,385
Less closing accruals	(5,060)
Less Bonus paid to workers scheme donation to Strina	(2,083)
Total as per accounts	112,760

Difference from above
(225)

Since the difference is not material, an audit adjustment was not proposed but included in list of unadjusted errors (refer to note 2.14).

2.5 Expected Credit Loss

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'. 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 the effect is unlikely to be material, the audit report is not qualified in this respect.

2.6 Rent payable

While performing our testing on the rent payable, it was noted that the rent payable as per agreements does not agree with the amounts in the accounts, by €238. This is not material and hence was included in the list of unadjusted errors (Refer to note 2.14).

We recommend that such balances are reconciled before the financial statements are approved.

IFRS 16, Leases became effective for periods that begin on or after 1 January 2019. IFRS 16 introduced a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. Under the new standard, an asset (the right-of-use the leased item) and a financial liability to pay rentals are recognized, with the exception of short-term and low-value leases.

The Council did not account for the rent expense under IFRS16. The adoption of IFRS 16 has not had no material impact on the financial position and financial performance of the entity and thus no adjustments were proposed. This was hence included in the list of unadjusted errors (Refer to note 2.14).

2.7 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.

2.8 Donations

While testing expenditure, we noted that the Council made a donation of € 140 to I-Istrina.

This is not part of Memo 16/2013 or Directive 5A/2016 and thus such donations are not allowed to be made by the Council.

2.9 Quotations and Tenders

While testing the repairs and maintenance expenses we noted that no quotations were obtained for the below:

Date	Details	Amount €
16/01/2019	SR Env - 15 Bins	3,902.85
20/05/2019	Marble Final Touch - Repair	2,779.00

For expenditure exceeding € 1,164.69 but not € 4,658.75 the Council should obtain at least three official signed quotations or issue a public tender according to the Local Councils (Tendering) Regulations. If the Council opts for quotations, it is also required a written justification for the selected quotation and provided further that items of the same nature are not purchased within a consecutive four-month period.

While vouching invoices of expenses, we noted that the Council purchased a total of € 8,396.90 from Mario Mallia.

Since amounts exceeding € 4,658.75 of the same nature were purchased within a consecutive four-month period, the Council should have issued a public tender.

2.10 Accruals

While testing the accruals we noted that the Council made an overstatement of accrual for refuse collection expenses of € 171.

On the other hand, the Council had an understatement of accrual for road and street cleaning of €2,726.

This is not material and hence was included in the list of unadjusted errors (Refer to note 2.14). We recommend that the Council make accurate accrual provision as at year end based on the actual invoices received from suppliers and to chase the suppliers to provide them with the invoices on a timely manner.

2.11 Bank reconciliation

While testing the bank balances we noticed that the bank balance according to the bank statement and the bank balance according to the accounts including reconciled transactions did not agree with € 299.

This is not material and hence was included in the list of unadjusted errors (Refer to note 2.14). We recommend that the Council performs accurate bank reconciliations and follows up the reconciling items.

2.12 Debtor list

While testing the debtor balances, we were provided with a debtor list which does not agree with the debtors amount in the accounts by € 85.

This is not material and hence was included in the list of unadjusted errors (Refer to note 2.14). We recommend that the Council reconciles the debtor control account in the trial balance and the debtor list and reconcile any differences between the two reports.

2.13 WasteServ debtor balance

While testing the debtor balances of WasteServ we found that the balance is overstatement by € 63.

This is not material and hence was included in the list of unadjusted errors (Refer to note 2.14). We recommend that the Council makes frequent reconciliations with debtor statements so as to minimize such differences.

2.14 List of unadjusted errors

During the audit, we noted the following misstatements of a non-material nature, both in aggregate and individually, with a net effect on income of €264.

Dr Depreciation (B/S)	€2,388
Cr Depreciation (P/L)	€2,388
<i>Being adjustment with respect to depreciation on fixed assets – note 2.1</i>	
Dr Contraventions	€2,400
Cr LES debtors	€2,400
Dr Provision for bad debts (B/S)	€2,400

Cr Movement in provision for bad debts (P/L) €2,400

Being over-statement of LES debtors as per Loqus report – note 2.2

Dr Cleaning expense €2,726

Cr Refusal collection €171

Cr Accruals €2,555

Being understatement of accruals – note 2.10

Dr Retained earnings €424

Dr Right of use €3,068

Cr Lease liability €3,367

Dr Interest expense €311

Cr Rent expense €4,678

Being IFRS16 implications not accounted for – note 2.6

Dr Accruals €225

Cr Personal Emoluments €225

Being overstatement of wages accruals – note 2.4

Dr Expenses €299

Cr Bank €299

Being difference in bank reconciliation – note 2.11

Dr Income €85

Cr Receivables €85

Being overstatement of receivables – note 2.12

Dr Income €63

Cr Receivables €63

Being overstatement of receivables – note 2.13

2.15 List of audit adjustments and reclassifications passed

Below is the list of audit adjustments and reclassifications passed for the year:

Dr Other receivable €3,950

Cr Accrued income €3,950

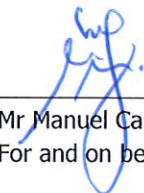
Being MTA Income not yet received re Fewga Klassika

Dr Property, plant and equipment	€6,273
Cr Other payables	€6,273
<i>Being overstatement to be repaid to ARPA</i>	

Dr Movement in provision for bad debts	€5,228
Cr Trade Receivables – Water Services Corporation	€5,228
<i>Being old balance provided for as a bad debt</i>	

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
For and on behalf of Nexia BT