

The Mayor
Gudja Local Council
88, Triq Raymond Caruana
Gudja GDJ 1010
Malta

1st June 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 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.

Previous management letter

1.1 Fixed assets

The Council still did not label all the assets. A management letter point is being included in this respect for 2019 as well (refer to note 2.1).

1.2 Depreciation

The net book value in the fixed assets register (FAR) was updated and agreed to the accounts.

1.3 Trade receivables

As in the previous year, the balance amounting to €12 in relation to Regjun Tramuntana was still included within the trade receivables' list (refer to 2.2).

1.4 Accrued income

We are pleased to note that no discrepancies were found during the year in the accrued income with respect WaseServ shortages to be paid by the DLG. However, the accrued bank interest receivable was slightly overstated (refer to 2.3).

1.5 Trade and other payables

As in the previous year, during the audit for the year ended 31 December 2019 the Council did not provide us with all suppliers' statements for all trade payables selected for testing and that no reconciliations were performed for regular trade payables. (refer to note 2.4).

1.6 Dispute with supplier

The disputed amounts due to Pada Builders Limited (€ 24,100) are still included in the creditors' list as at 31 December 2019 (refer to note 2.5).

1.7 Long outstanding payables

As at 31 December 2019, the Council still had long outstanding payables (refer to note 2.6).

1.8 Adoption of IFRS 9

As in the prior year, the Council did not calculate the amount of expected credit loss on receivables (refer to note 2.7).

1.9 Jum il-Lokal

During the year, the Council did not exceed the maximum amount allowed for 'Jum il-Lokal.'

Management letter points for this year

2.1 Fixed assets

While testing the fixed assets for existence, it was noted that the following selected assets are still not labelled:

Detail	Supplier
Powerheat AED 3G	FGL Commercial Sales Ltd
Chain Saw	IV Portelli & Sons Ltd
Gasebo	FGL Commercial Sales Ltd
Refrigerator	ETV LTD
Fire Extinguishers	Alberta Head Office
Equipment for LLL	Forestals Group of Companies
Monitor-HP 18.5"	Forestals Group of Companies
3 cast iron bollards	Andrew Vassal General Trading
Xkaffar Librerija	Joe Farrugia
Microsoft Office Pro. 2013	SwiftTec

We recommend that all the assets of the Local Council are labelled to facilitate identification, as per Local Council (Financial) Regulations.

2.2 Trade receivables

While testing trade receivables' balances, we noted that the negative balance relating to Regjun Tramuntana of €12 was still included within the trade receivables' list. Thus, it was reclassified through a reclassification (refer to RECL 1 in note 2.12).

We recommend that such balances are reclassified as a current liability prior to the preparation of financial statements.

2.3 Accrued income

While testing the accrued income as at year-end, it was noted that there was a difference of €3 in the accrued income balance with respect to bank interest receivable.

Given that the amount was not material, we did not propose an audit adjustment, and the difference was included in the list of unadjusted errors (refer to UE 2 in note 2.11).

2.4 Trade and other payables

While performing our testing on trade payables, we selected seven suppliers for testing and found that for Nexos Street Lighting, no statement was available.

Supplier	Annual turnover €	Year-end balance €
Nexos Street Lighting	13,729	2,506

While we acknowledge that a number of trade payables do not prepare statements and duly make them available, we strongly suggest that a periodical exercise that confirms creditor balances is still performed.

Trade payables’ reconciliations are an essential element of a good internal control system. They can assist in enhancing the internal control system of the Council while also ensuring that the supplier balances reflected in the accounts are accurate.

Also, we noted that the negative balance relating to GO p.l.c. of €115 was included within the trade payables’ list. Thus, it was reclassified through a reclassification (refer to RECL 2 in note 2.12).

We recommend that such balances are reclassified as a current asset prior to the preparation of financial statements.

2.5 Dispute with supplier

During our creditors testing, we were informed that the creditors' list included disputed amounts due to Pada Builders Limited of € 24,100.

We recommend that the Council reflects the outcome of any negotiations or rulings in the books of accounts.

2.6 Long outstanding trade payables

While reviewing the aged list of creditors, it came to our attention that a number of balances have been outstanding for more than one year. These are the following:

Trade payables	Long outstanding amount	Year-end balance
	€	€
Andrew Vassallo General Trading Limited	9,894	9,894
ARMS Limited	13	116
Bitmac (Works) Limited	189	189
KHS Megastore	85	85
Mario Borg	92	92
Med Design Associates	742	742
Waste Serv Malta Limited	11,690	14,967

We recommend that the Council investigates these amounts, and if they are no longer due, writes them off after careful consideration and approval by the Council.

2.7 Adoption of IFRS 9

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 effect is not material, the audit report is not qualified in this respect (refer to UE 1 in note 2.11).

2.8 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 register a minimum of 10% of the financial allocation as required by Section 4c of the Local Council (Financial) Regulations, 1993.

2.9 Council meetings

We noticed that three Councillors failed to attend more than one third of the meetings called within a period of six months. According to Chapter 363, Article 18, the Executive Secretary should have informed the Minister on this matter and recommended not to declare the seat vacant, since these absences were due to justifiable causes.

We recommend that the Executive Secretary takes immediate action and informs the Minister on such matter, and that such notification is made in future should a similar matter occur again.

2.10 Mayor's Honorarium

While performing testing on Mayor's Honoraria, we encountered a difference of € 82 between amount declared in the FS3s and those in accordance to Section 32.1 of the Local Councils Act, as per below:

	€
As per accounts (FS3)	13,136
As per section 32.1 of the Local Council Act	(9,354)
Allowance	(3,700)
Difference	<u>82</u>

We recommend that the Council be in line in accordance to Section 32.1 of the Local Councils Act.

2.11 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 €445.

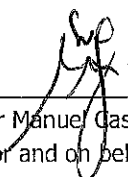
UE 1	Dr Allowance for expected credit loss – Profit and Loss	€442
	Cr Allowance for expected credit loss – Balance Sheet (Trade Receivables)	€442
	<i>Being recognition of an estimation of the expected credit loss omitted from the accounts – note 2.7</i>	
UE 2	Dr Bank interest receivable	€3
	Cr Accrued income	€3
	<i>Being an immaterial difference in accrued bank interest – note 2.3</i>	

2.12 Reclassifications

RECL 1	Dr Trade receivables	€12
	Cr Trade payables	€12
	<i>Being credit balance included in trade receivables' list – note 2.2</i>	
RECL 2	Dr Trade receivables	€115
	Cr Trade payables	€115
	<i>Being debit balance included in trade payables' list – note 2.4</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 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