

The Mayor
Qormi Local Council
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Malta

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REGISTRY

24 FEB 2023

NATIONAL AUDIT OFFICE

Our Ref MB/mf/058623

7 February 2023

Dear Sir,

Financial statements for the year ended 31 December 2021

During the course of our audit for the year ended 31 December 2021 we have reviewed the accounting system and procedures operated by Qormi Local Council (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 Income

We are pleased to note that we have not identified irregularities in LES administration fees, general income and accrued income.

1.2 Creditors

We again identified debit balances in the creditors' list (refer to note 5.3).

We are pleased to note that we did not identify any discrepancies in accruals and deferred income aside from note 2.1

1.3 Expenditures

We are pleased to note that we did not identify misstatements in prepayment account.

1.4 Financial statements

We are pleased to note that the council prepared financial statements in line with IFRS.

2 Income

Funds received from central government

- 2.1 During our testing of funds received from central government, particularly on other government income account, we noted that the council recognised an income from funds received for playing fields project which was signed on 3 December 2021. The income recognised amounted to €14,015.88 which is an advance payment

representing 75% of the total funds. However, we noted that the project has not started as of 31 December 2021. With this, an audit adjustment was proposed to reverse the income recognised and record a deferred income instead. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

Joint Committee

- 2.2 We noted that the Central Joint Committee, of which Qormi Local Council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2010.
- 2.3 We have obtained the last audited financial statements of the Central Joint Committee and noted that reserves at that date amount to €43,207. In the absence of audited financial statements we were unable to determine whether the council is entitled to receive any further income from the Joint Committee. As a result, our audit report has been qualified.
- 2.4 Nevertheless, we recommend that the council raises this issue with the Department for Local Government and ensures that the joint committee is liquidated and that the council receives any further income that may be due to it.

3 Property, plant, and equipment

Fixed asset register

- 3.1 When reviewing the fixed asset register, we noted that relevant details like invoice number and location are missing. Furthermore, the description of the assets in the FAR does not always contain the desired detail. Examples include:

Asset category	Asset code	Description	Net book value €
Trees	KLQ00292	57 Trees/670 Shrubs	6,295.39
Furniture and fittings	KLQ00937	19mm Laminated Glass w/structure	1,068.90
Furniture and fittings	KLQ00942	Galvanised Shelving	251.17
Furniture and fittings	KLQ01101	Computer Desk	87.69

- 3.2 We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:
- Description of asset
 - Date of purchase
 - Supplier details
 - Invoice number
 - Asset tag code (where applicable)
 - Cost
 - Depreciation rate
 - Location of the asset
 - Grants received

- 3.3 An updated fixed asset register enables the council to exercise proper control over the council's property, plant, and equipment. It provides a suitable inventory/checklist

which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the council's fixed asset register is fully updated.

4 Debtors

Overdue receivables

- 4.1 The council's books of account include the provision for doubtful debts of €11,486.39 for the below long outstanding balances:

Debtor	€
Ballut Blocks	460.74
Force 5 Limited	417.86
Fur Play Rabbit Farm	329.98
GreenMT	9,277.81
Qormi Football Club	1,000.00
	<u>11,486.39</u>

- 4.2 The council should ensure that the balances are valid and, if so, pursue these debtors by sending them reminders for the long overdue amounts.

- 4.3 We have also noted some long-term receivables which have not been provided for. These are summarised below:

Debtor	€
Bugeja Lucas Maria Paula	1,666.66
Ben's Pizzeria	1,048.14
Department for Elderly and Community	449.66
GO PLC	72.23
Malta Libraries	1,584.47
Planning Authority	17,180.80
Rokky Productions	232.92
Regjun Centru	6.97
Regjun Ghawdex	6.99
Regjun Tramuntana	4.67
Regjun Xlokk	140.59
Royalty Bedding	186.34
Sarcia Tattoo Parlour	232.92
Water Services Corporation	9,921.14
	<u>32,501.58</u>

- 4.4 We recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings. Furthermore, the council should send continuous reminders/statements to its debtors to ensure that it still has the right to collect the amounts due.

Confirmation of debtors

- 4.5 As part of our audit procedures we circularised confirmation letters to selected debtors. From our testing of the balance with Water Services Corporation, the supplier confirmed the amount of €nil which differs from the amount of €10,265.05 shown in the books of account by €10,265.05. From our analysis we noted that certain invoices which the council sent to Water Services Corporation were not

being taken into consideration, however these did not make up the full discrepancy noted above. No audit adjustments were proposed in this regard since no reconciliation was provided by the council to reconcile the discrepancies noted. Alternatively, we vouched the differences to the invoices.

- 4.6 We recommend that, as with all debtors, regular reconciliations of amounts due are prepared to promptly highlight any differences and is in a position to tackle these in a timely manner.

5 Creditors

Long outstanding trade creditors

- 5.1 Whilst reviewing the council's aged supplier list we have again noted that the council has long overdue balances. These amount to €154,763.90 and have been carried forward from preceding accounting periods. The following are the suppliers' balances that have been overdue for more than a year:

Supplier	In creditors' list €
Rockcut Ltd	127,107.73
Progressive Solutions Ltd	28,712.52
Road Maintenance Services	22,653.61
WM Environmental Ltd	14,567.32
The Light Housekeeper	3,133.87
Water Services Corporation -	904.96
Curmi Paul	900.00
Caruana Sandro	893.01
Gasam Mamo Insurance	767.91
Joint Committee	502.89
Smartlight Systems	424.80
Socjeta Filarmonika Pinto	350.00
Munch & Crunch	326.80
OPAL Ltd	300.00
Twanny Ironmongery	212.15
Falzon Christopher	100.00
Guard & Warden Service	53.79
Strand Electronics	41.30
Vodafone Malta Ltd	32.77
Gino Chairs & Tables	11.80
APCO SYSTEMS LTD	5.31
Image Systems Ltd	-
TSS Sound Rentals	-
WasteServ Malta Ltd	-
ARMS Ltd (WSC)	-
Cassarino Salvatore	-
R & A Waste Services Ltd	-
	154,763.90

- 5.2 We advise the council to individually review these amounts, and either settle them or, if not due, reverse them after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

Debit balances in creditors' list

- 5.3 We have identified the following debit balances in the creditors' list amounting to €43,060.77:

Supplier	€
Arms Ltd (note a)	2,056.46
Cassarino Salvatore (note b)	16,794.21
R&A Waste Services Ltd (note c)	21,150.10
TSS Sound Rental	60.00
	43,060.77

- (a) The council notified us that this is due to the fact that the council used to pay the electricity bills, even when the estimate used to be sent. This resulted in them making noting an overpayment when the results with the actual consumption arrived. The council is now netting off any amounts due with the amounts overpaid in prior years.
- (b) The council stated that this amount is in debit due to the fact that a payment was made twice to the supplier resulting in the debit balance. This will eventually be netted off with future invoices.
- (c) In the case of R&A Waste, the council stated that this resulted in a debit balance due to the fact that the council should not have been paying the supplier for the green bags.

Debit balances in the creditors' list have been reclassified to other debtors by means of an audit reclassification.

Wages control account

- 5.4 Upon examination of wages and salaries of the Local Council, we noted that the balance due to CIR for the month of December was subsequently cleared in the bank on 18 January 2022 with a check dated 22 December 2021. Upon further examination, we noted that this amount was included as part of unrepresented checks in the bank reconciliation. The unrepresented checks was recorded as part of the account 5016 APS Current Account 0016 which was presented at bank borrowings.
- 5.5 We recommend that the council passes the reclassification to ensure that the balances are accurately presented in the financial statements. The council agreed to book the adjustment.

6 Bank and Cash

Bank loan

- 6.1 When re-performing loan calculations to measure the loan into its short and long-term portions, we noted that the Council does not distinguish between current and non-current loan liability in their accounting system. However, the split between short and long term was correctly passed in the financial statements. An audit reclassification was passed from our end to split the amounts agreeing to the financial statements.

- 6.2 We recommend that the council passes the reclassification when closing off to ensure that the correct split between the short- and long-term portion of loan is accounted for. This is because an overstatement in the current portion of loan impacts the council's liquidity position and FSI.

FWT on bank interest

- 6.3 We noted that the BOV savings account is subject to final withholding tax.
- 6.4 We recommend that the council instructs the bank not to withhold tax on interest since councils are exempt from income tax.

7 Inventory

Net realisable value of inventory

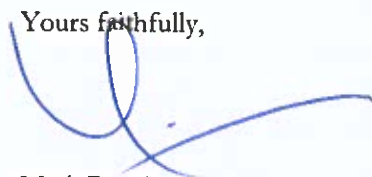
- 7.1 During the audit fieldwork it was noted that in its books of account the council has an amount of €2,620 worth of stock. It was noted that this is made up of old stock, some of which were published in 2018, with the council still having a number of copies of these publications.
- 7.2 We recommend that the council assesses whether such assets are being carried out at the lower of cost and net realisable value in the financial statements as required by generally accepted accounting principles. Provision or write-off of this inventory might be considered if the council sees that such inventory is slow-moving.

Conclusion

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 primarily designed for the purpose of expressing an 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 defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Ms Karen Camilleri and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Mark Bugeja
Partner