

**KUNSILL LOKALI, HAL LIJA  
RECEIVED**

27 JUN 2023

The Mayor  
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Our ref: MB/mf/106723

13 June 2023

Dear Sir,



### **Financial statements for the year ended 31 December 2022**

During the course of our audit for the year ended 31 December 2022 we have reviewed the accounting system and procedures operated by your 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 Other Government income**

We noted that the council did not correctly account for certain grants received (refer to notes 2.1 and 2.2).

##### **1.2 Accrued income**

We are pleased to note that we did not identify any shortcomings in relation to accrued income.

##### **1.3 Accruals and prepayments**

We again identify issue relating to the supporting document on accrual for claims by third parties (refer to note 6.2).

##### **1.4 Fixed assets**

The fixed asset register is once again lacking information as requested by the Local Council (Financial) Procedures, 1996 (refer to note 3).

##### **1.5 Depreciation**

We have noted inaccuracies in the depreciation amounts (refer to note 2.2).

##### **1.6 Trade and other receivables**

We noted that the council still has a provision for long outstanding balances (refer to Note 5.1).

We have again noted a discrepancy during our confirmation of a debtor (refer to Note 5.3).

#### 1.7 **Creditors statements**

We are pleased to note that the council has obtained all the monthly statements from suppliers with whom the council trades the most.

#### 1.8 **Presentation of financial statements**

We again noted shortcomings in the unaudited financial statements (refer to note 7).

### **2 Income**

#### **Other Government income**

2.1 During our testing, we noted that the council received €16,000 in relation to Skema Progett Kulturali, Sports, Muzika, Jum Il-lokal, Banded Fondi. The total amount received was recorded in full as other government income. However, the council has unutilised amount of €3,960 as at 31 December 2022. An audit adjustment was proposed to recognize the unutilised portion as deferred income. This adjustment was correctly incorporated in the audited financial statements.

2.2 We noted that the council incurred expenses and capitalized asset amounting to €11,588 and €1,062, respectively, in relation to Skema Progetti Ta' Titjeb Fil-Lokalita. No related other government income and government grant was recorded. Since the realizability of the income is already established because the total amount of the scheme fund amounting to €35,000 was received after year-end by the council, we proposed to accrue the other government income of €12,650 and reverse the depreciation taken. These adjustments were correctly incorporated in the audited financial statements.

2.3 We recommend that the council accounts for capital grants received under the capital approach as specified by Directive 1/2017 issued by the Department for Local Government.

### **3 Fixed assets**

#### **Fixed asset register**

3.1 To date, the council has not yet compiled a fixed asset register. This contravenes the Local Councils (Financial) Procedures, 1996 which state that every council is to create, maintain and control an accurate and up-to-date fixed asset register. This is strengthened by Directive 01/2017 stating that councils must have a fixed asset register which agrees to the nominal ledger. Furthermore, the same directive stated that councils who previously did not have a fixed asset register could start preparing one by including the total net book values of the previous assets purchased. The above was not provided to us.

3.2 We strongly recommend that the council prepares a fixed asset register comprising 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 During our audit, we were only provided with the cost, accumulated depreciation and net book values for past years on excel and their depreciation workings. Due to the lack of a fixed asset register, the depreciation is also being calculated on excel.

3.4 A fixed asset register is essential to maintain proper control over the assets in the council's custody. It provides a checklist to enable periodic physical inspection of assets to verify existence and condition. Furthermore, the information contained above allows any disposals to be correctly accounted for.

#### **4 Right of use asset**

4.1 We noted that the rent for the office of the council is payable in advance each year. However, the prepaid rent was not properly considered in the initial measurement of the right of use asset resulting to a difference of €2,987. Audit adjustment was proposed to correct the balance. This adjustment was correctly incorporated in the audited financial statements.

#### **5 Trade and other receivables**

##### **Long outstanding debtors**

5.1 We noted that a total provision of €430 was recorded as at 31 December 2022 in the books of account for the trade receivables. Based on schedule, the following have been long overdue:

<b>Debtor</b>	<b>€</b>
Regjun Xlokk	185.00
LESA	120.00
	<u>305.00</u>

5.2 We recommend that, although a provision has been made, the council should continue trying to obtain settlement from these debtors reminding them that the amounts have been long overdue.

##### **Confirmation of debtor**

5.3 The council is issuing invoices on a monthly basis to WasteServ Malta Limited for the reimbursement of organic waste collection. We have obtained a statement from Wasteserv dated 31 December 2022 stating a balance of €12,656 whilst the council has a book balance of €22,221 resulting in a discrepancy of €9,566. Upon further investigation we noted that Wasteserv did not record the invoice covering December 2021, August 2022, November 2022 and December 2022.

- 5.4 We recommend that the council contacts Wasteserv and ensures that all invoices are approved and recorded in their books.

## **6 Trade and other payables**

### **Accrued expenditure**

- 6.1 The council failed to record invoices received in January 2023 but pertaining to December 2022 expenses totaling €3,637. Of this amount €2,039 pertains to an expense for which an income has already been recognized. The remaining €1,598 pertains to unrecorded waste disposal expense. An audit adjustment was proposed to accrue the amount. This adjustment was correctly incorporated in the audited financial statements. We recommend that the council ensure completeness of accrual as at year-end.
- 6.2 The council was found liable to pay €6,162 with regards to a case in 2014 relating to damages suffered by a citizen. The council is liable for the 1/3 portion and the remaining are for the architect and contractor. In 2020, the architect appealed and the council's lawyer has instructed that the council should also appeal. In 2022, the engagement team failed to obtain an update on the case since this is not included on the litigation being handled by the current year representative. We recommend that the council turnover all the ongoing cases to the current year representative if they don't have any intention to render services with multiple legal representatives.
- 6.3 We noted that there's an over accrual in the performance bonus of Executive Secretary of €593. An audit adjustment was proposed and incorporated in the financial statements.

## **7 Financial statements**

### **Presentation of financial statements**

- 7.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards (IFRS). During our audit we identified that the below findings:
- i. No accounting policy is disclosed for expenditures.
  - ii. Note 11 to the financial statements does not disclose the financial and non-financial receivables.
  - iii. The council failed to disclose separately LES Debtors and their respective provision including any movement noted during the year.
- 7.2 We recommend that the council gives more attention to the preparation of the financial statements and includes all the disclosures required by accounting standards.
- ### **Groupings**
- 7.3 We noted that expenses and income accounts are not being classified consistently from year to year.
- 7.4 We recommend that the classification of expenses and income is applied consistently to enhance the comparability of financial statements with previous years.

## **8 Deferred Income**

- 8.1 We noted that the local council recognised the grants and deferred income amounting to €3,719 for the retention monies for the rubble wall project. However, the amount is not yet received subsequent to year-end. An audit adjustment was proposed to reverse the grants recognized and adjust the depreciation taken. These adjustments were correctly incorporated in the audited financial statements.

## **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 Pamela Borg and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

