

The Mayor
Lija Local Council
36, Videnza, Windmill Street,
Lija LJA 1803
Malta

**KUNSILL LOKALI, HAL LIJA
RECEIVED**

29 SEP 2022

Grant Thornton
Fort Business Centre,
Triq L-Intornjatur, Zone 1
Central Business District
Birkirkara CBD1050
Malta

T +356 20931000

www.grantthornton.com.mt

Our ref: MB/cs/118122

14 September 2022

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 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 Accounting Function

We are pleased to note that we did not note major deficiencies in the council's accounting function.

1.2 Reconciliation of books of accounts to financial statements

We are pleased to note that the trial balance provided for 2021 was in agreement with the unaudited financial statements.

1.3 Annual Government income

We did not identify any issues in the recording and disclosure of the annual government income.

1.4 Other Government income

We noted that the council did not correctly account for certain grants received (refer to notes 2.1, 2.2 and 2.4).

1.5 Other supplementary Government income

We did not identify any issues in the recording and disclosure of other supplementary government income.

1.6 **LES administration fees**

We did not identify any issues in the recording and disclosure of LES administration fees.

1.7 **Accrued income**

We noted certain income attributable to 2021 that was not recorded as accrued income (refer to note 4.5).

1.8 **Accruals and prepayments**

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

We identify issue relating to the supporting document on accrual for claims by third parties (refer to note 5.3).

1.9 **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).

We are pleased to note that no issues relating to classification of assets were identified.

We did not identify any irregularities in the recording of fixed asset additions.

1.10 **Depreciation**

We have noted inaccuracies in the depreciation amounts (refer to notes 2.1 and 2.2).

1.11 **Right of use asset**

We did not identify any irregularities in the recording of right of use assets.

1.12 **Trade and other receivables**

We noted that the council still has a provision for long outstanding balances.

We have again noted a discrepancy during our confirmation of a debtor.

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

1.13 **Bank reconciliations**

We did not identify any irregularity in the bank reconciliations.

1.14 **Petty cash**

We did not identify any shortcomings while testing petty cash.

1.15 **Creditors statements**

The council failed to obtain monthly statements from all suppliers (refer to note 5.1).

1.16 **Debit balances in creditors list**

We did not identify any shortcomings within the list of creditors.

1.17 Payroll

We did not identify any issues in the payroll cost allocation by category.

1.18 Presentation of financial statements

We have noted shortcomings in the unaudited financial statements (refer to note 6).

2 Income**Other Government income**

2.1 During our testing, we noted that the council received the amount of €9,552 on 22.11.2021 from Centre Region in relation to Scheme 06/2020. This was recorded under 'other Government income'. We noted that the council capitalised Urban Improvements amounting to €8,000 in relation to this scheme. To this end an audit adjustment was proposed to reclassify the €8,000 income to grants and reverse the depreciation taken. This adjustment was correctly incorporated in the audited financial statements.

2.2 Similarly, we noted that the council received the amount of €1,853 on 04.10.2021 from Centre Region in relation to Scheme 01/2020. This was recorded under 'other Government income'. We noted that the council capitalised Street Lanterns amounting to €1,853 in relation to this scheme. To this end an audit adjustment was proposed to reclassify the €1,853 income to grants and reverse the depreciation taken. This adjustment was 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.

General income

2.4 The council classified income from organic waste collection amounting to €13,021 in 'general income' instead of allocating it to 'other Government income'. We proposed an audit adjustment to reallocate this amount to 'other Government income'. This adjustment was correctly incorporated in the audited financial statements.

2.5 We recommend the council to allocate income receivable to the appropriate accounts so that the income of the council is properly reported.

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.

Grants in 'Property, plant and Equipment' schedule

- 3.5 Whilst reviewing grants we noted that amounts included in the books of account in each category do not agree to grants as included in the 'property, plant and equipment' schedule in the financial statements. We have passed an audit reclassification to reclassify grants to agree to the financial statements.
- 3.6 We recommend the council to correctly classify grants in the appropriate asset category. Furthermore, amounts included in the books of account should agree to the financial statements.

4 Trade and other receivables

Long outstanding debtors

- 4.1 We noted that a total provision of €430 was recorded as at 31 December 2021 in the books of account for the trade receivables out of which the following have been long overdue:

Debtor	€
Regjun Xlokk	180.00
LESA	250.00
	<u>430.00</u>

- 4.2 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

- 4.3 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 2021 stating a balance of €5,334 whilst the council has a book balance of €3,556 resulting in a discrepancy of €1,778. Upon further investigation we noted that Wasteserv did not record the invoice covering December 2021 collections amounting to €1,778.

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

Accrued income

- 4.5 During our audit fieldwork, we noted that the council did not record accrued income amounting to €1,915 in relation to the collection of organic waste for the month of December 2021. We have proposed an audit adjustment to rectify this. This adjustment was correctly incorporated in the audited financial statements.
- 4.6 We recommend that the council accounts for its income in the year to which it pertains. Thus, income is reported in the appropriate period.

5 Trade and other payables

Supplier statements

- 5.1 It was noted that the council failed to request monthly statements from all suppliers. May we remind the council that DLG memos specifically state that councils should obtain monthly statements.
- 5.2 Suppliers' statements are essential, especially for those suppliers with whom the council trades most. We recommend that the council makes sure that the creditor accounts agree to supplier statements on a regular basis and investigates and reconciles any differences.

Accrued expenditure

- 5.3 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 2021, 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 Financial statements

Presentation of financial statements

- 6.1 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. The Right-of-use asset should be disclosed separately rather than included with 'Property, plant and equipment'.
 - ii. Note 12 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.
- 6.2 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

- 6.3 We noted that expenses and income accounts are not being classified consistently from year to year.
- 6.4 We recommend that the classification of expenses and income is applied consistently to enhance the comparability of financial statements with previous years.

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,

