

The Mayor
Lija Local Council
27, Triq Robert Mifsud Bonnici,
Lija LJA 1403
Malta

**KUNSILL LOKALI, HAL LIJA
RECEIVED**

06 JUN 2024

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

T +356 20931000

www.grantthornton.com.mt

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20 May 2024

Dear Sir,



Financial statements for the year ended 31 December 2023

During the course of our audit for the year ended 31 December 2023 we have reviewed the accounting system and procedures operated by your 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 Other Government income

We noted that the council did not correctly account for certain grants received (refer to note 2).

1.2 Fixed Assets

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

1.3 Accruals and prepayments

We identified issues relating to recording of accruals and prepayments (refer to note 6).

1.4 Rights of use asset

We noted shortcomings relating to right of use asset account (refer to note 4).

1.5 Trade and other receivables

We have again noted a discrepancy during our confirmation of a debtor (refer to note 5.1).

1.6 Trade and other payables

We identified under accruals of expenses incurred during the year and understatement of trade payables. (refer to note 7).

1.7 Deferred Income

We noted shortcomings relating to recognition of deferred income (refer to notes 2 and 8).

1.8 Presentation of financial statements

We again noted shortcomings in the unaudited financial statements (refer to note 10).

2 Income

Other Government income

- 2.1 During our testing, we noted that the council was granted €35,000 in relation to Skema Progetti Ta' Titjeb Fil-Lokalita in 2022. In 2022, the council incurred expenses and capitalized asset amounting to €11,588 and €1,062, respectively. These were recognized as accrued income in prior year which was reversed in the beginning of 2023 since amount was received. In 2023, the council has utilized and received a total of €34,901. The total amount received was recorded in full as deferred income and was not subsequently reversed during the year. Hence, overstating deferred income and understating other government income by €11,588 and grants related to fixed assets by €21,513. An audit adjustment was proposed to appropriately account the grants received and correctly incorporated in the audited financial statements.
- 2.2 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.
- 2.3 We noted that the council incurred expenses in relation to Christmas decorations amounting to €2,330 and received a grant for the same amount in 2024. The Council failed to accrue for the income in 2023, therefore an adjustment was proposed to accrue for such income. The adjustment was correctly incorporated in the audited financial statements.
- 2.4 We recommend that the council ensures completeness of accruals as at year-end.

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. Furthermore, due to the numerous adjustments passed which were affecting the total cost and related grants of fixed assets, the depreciation schedule had to be entirely reworked and reposted. An adjustment was passed to correct for the resulting differences and was incorporated in the audited financial statements.
- 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.
- 3.5 During 2022, the Council paid an advance of €4,000 in relation to a motor vehicle. In 2023, the council paid the remaining amount for the asset, however, the advance payment was incorrectly not released to fixed assets. We proposed an adjustment to correct this and was incorporated in the audited financial statements.
- 3.6 We recommend that the council monitors its capital expenditure to ensure completeness of capitalised expenditure.

4 Right of use asset

- 4.1 We noted that the amortization for right of use asset was understated by €3,136.83. An adjustment was made to correctly recognized net book value at year end. The adjustment was incorporated in the audited financial statements.
- 4.2 We recommend that the Council accounts for the lease of premises in accordance with IFRS 16.

5 Trade and other receivables

Confirmation of debtor

- 5.1 During our audit fieldwork we identified a difference between a third-party confirmation and the debtors' list provided by the council, namely:

Debtor	Balance in books of account €	Balance confirmed by debtor €	Difference €
Wasteserv (Malta) Limited	8,949.25	-	8,949.25

Upon further investigation we noted that Wasteserv's provided statement of account did not include various invoices for 2021 to 2022 amounting to €7,351.05. Furthermore, the balance of €1,598.20 pertains to 2022 invoices which were properly accounted for in the council's book as accrued expense (payable to Wasteserv) in prior year. Both entities practice offsetting of balance. Per Wasteserv's statement of account, this amount was offset against the payable amount to the council. Thus, total due from Wasteserv per council's book is overstated by €1,598.20. An adjustment was proposed to rectify the issue and correctly incorporated in the audited financial statements.

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

6 Accruals and prepayments

- 6.1 We noted that the council was granted funds for project on playing field amounting to €16,612.53. The council received 75% advance payment or €12,459.40 on 14 December 2021. The fund was fully utilized in 2023 but the 25% balance is yet to be received by the council. An adjustment was proposed to recognize the receivable of €4,153.13 as accrued income and release the advance payments to fixed asset grants. We also noted that capitalised costs in relation to this project amounting to €32,546 were incorrectly posted to the grant account. We proposed an adjustment to show this amount under Urban Improvements instead. The adjustments were correctly incorporated in the audited financial statements.
- 6.2 We noted that the council was granted funds from the Regional Council for local improvements. The Council incurred €35,114 capital expenditure and received €32,138 funds during 2023. The remaining €2,861 was received during 2024 but no accrual was made for this amount in 2023. An adjustment was proposed to recognize the amount as accrued income and grants related to urban improvement. The adjustment was correctly incorporated in the audited financial statements.
- 6.3 During our testing we noted that in 2023, a circular was issued relating to waste collection management, stating that waste transactions will be directed to and covered by the Regional Council for payment. In effect, the annual allocation received in 2023 was reduced by €22,805 which is equivalent to 70% of waste allocation of tranches 2 and 3 withdrawn from the local council's allocation and given to the Regional Council. Per circular, the local council shall record the full annual allocation as income and the allocation not received in cash shall be considered as accrued income due by the Local Government Division to the local council. The council failed to account for this accrued income. An adjustment was

proposed to correctly recognize the amount as accrued. This adjustment was correctly incorporated in the audited financial statements.

- 6.4 We noted that the council failed to recognize below expenses paid in advance as prepayments. Thus, understating income and asset.

	€
Van License & Insurance	4,288.22
Insurance Coverage	2,076.26
Rent	256.10
	6,620.58

An audit adjustment was proposed and incorporated in the financial statements.

7 Trade and other payables

- 7.1 We noted that the council failed to record invoices, resulting to under accrual of the following contractual and administrative expenses incurred during the year:

	€
Bulky Refuse Collection	3,314.58
Domestic Refuse Collection	3,032.41
Social & Cultural Events	1,609.05
Other Repairs & Upkeep	2,930.53
Cleaning & upkeeping of public gardens	708.00
	11,594.57

An audit adjustment was proposed and incorporated in the financial statements.

- 7.2 We noted that the council recorded a liability of €5,422 for bonuses to the Council staff under the deferred income account instead of accruals. Furthermore, the bonus expense was understated by €1,794. An audit adjustment was proposed to rectify the difference and correctly incorporated in the financial statements.
- 7.3 We further noted that checks for December CFR payment amounting to €2,338.42 and purchase payment of 800.00 were deposited and subsequently withdrawn in 2024. Thus, understating cash and payables account. An adjustment was proposed to recognize the €2,338.42 as accruals and the €800.00 as trade payables. The adjustment was correctly incorporated in the audited financial statements.
- 7.4 We further noted that there were cancelled checks amounting to a total of €1,479.82 during the year. An audit adjustment was proposed to reverse entry made to cash and trade payables account. The adjustment was correctly incorporated in the audited financial statements.

8 Deferred Income

- 8.1 We noted that the local council recognized grants and deferred income amounting to €3,719.37 for the retention monies for the rubble wall project. However, the amount is still yet to be received. An audit adjustment was proposed to reverse the grants recognized. These adjustments were correctly incorporated in the audited financial statements.

- 8.2 We noted that an agreement with Infrastructure Malta (IM) was made to receive grants for paving works done in the locality. Upon checking the agreement, IM will only pay once billed. In 2023, the local council was billed €257,223.62 and reimbursed the same amount from the IM. The total amount was capitalized as urban improvement and erroneously accounted as deferred income and annual government income. An adjustment was proposed to properly recognized grants related to the fixed asset. The adjustment was correctly incorporated in the audited financial statements.
- 8.3 We noted that the council received €3,221 which is 75% of grants for installation of cameras in the garden during the year. The amount was still not yet utilized in 2023, however the Council incorrectly treated the amount as income for the year. An adjustment was proposed to properly recognize the unutilized fund as deferred income. The adjustment was correctly incorporated in the audited financial statements.
- 8.4 We noted that the council received in advance 75% payment of total funds allocated for 2024 Citrus festival amounting to €5,828. This was erroneously recognized as other government income in 2023. An audit adjustment was proposed to recognize the unutilized amount as deferred income. The adjustment was correctly incorporated in the audited financial statements.
- 8.5 We noted that €3,717 was granted for maintenance of fountain in 2022 and the Council received the 75% or €2,788 of the grant which was recognized as deferred income on the same year. The local council incurred a total of €3,843 in 2023. The Council failed to reverse the deferred income and to accrue for the remaining income to be received. An audit adjustment was proposed to reverse the deferred income and recognize accrued income amounting to €2,788 and €929, respectively. The adjustment was correctly incorporated in the audited financial statements.
- 8.6 We also noted that €3,750 was granted for cultural activities in 2021 per SPI/SCI/3/2021 Council received the 75% or €2,951 of the grant which was recognized as deferred income on the same year. The local council utilized this amount in 2023. The Council failed to reverse the deferred income, therefore, an audit adjustment was proposed to reverse the deferred income and treat it as Other Government Income. The adjustment was correctly incorporated in the audited financial statements.

9 Lease Liability

- 9.1 Furthermore, we noted that the payments made in relation to the lease of council premises amounting to €13,800 were incorrectly treated as rent expense. We proposed an adjustment to reverse the rent expense and instead reduce the lease liability by €11,921 and record lease interest expense of €1,879. The adjustment was correctly incorporated in the audited financial statements.
- 9.2 We recommend that the Council accounts for the lease of premises in accordance with IFRS 16.

10 Financial statements

Groupings

- 10.1 We noted that expenses and income accounts are not being classified consistently from year to year.
- 10.2 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 Seguna and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

