

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

Our ref: AB/mf/136525

18 June 2025

Dear Sir,



Received  
05.07.25

**REGISTRY**

30 JUN 2025

NATIONAL AUDIT OFFICE

### Financial statements for the year ended 31 December 2024

During the course of our audit for the year ended 31 December 2024, we have reviewed the accounting system and procedures operated by Lija Local Council (the “Local 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 again noted that the Local 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 have again identified issue relating to recording of accruals during the year under review (refer to note 6.6).

##### 1.4 Rights of use asset and lease liabilities

We are pleased that we have not noted any short comings related to rights of use asset and lease liabilities.

##### 1.5 Trade and other receivables

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

## 1.6 Trade and other payables

We have again noted a discrepancy on trade and other payables during the year under review (refer to note 6.1).

## 1.7 Deferred income

Once again, we have identified errors in the recognition of deferred income (refer to note 6.4).

## 1.8 Presentation of financial statements

We again noted shortcomings in the unaudited financial statements (refer to note 8).

## 2 Income

### Other government incomes

- 2.1 The Local Council was awarded grants of €3,700 for Christmas 2024 and €8,900 for the Citrus Festival 2025. It received a total of €3,770, representing 30% of the approved amount. Initially, the entire sum was recorded as other government income. However, since the funds relate to events in both 2024 and 2025, only the portion applicable to the 2024 event should be recognized as other government income. Therefore, after reallocation, the Local Council should recognize only €3,700 as other government income for the 2024 event. The Local Council has accepted our adjustments and amended the financial statements accordingly.
- 2.2 Additionally, the Local Council received approval for financial assistance of €3,000 each from the Malta Tourism Authority and the Easter Region for Christmas decorations. However, as of year-end, the funds had not yet been received, despite expenses already being incurred. Consequently, the Local Council was unable to recognize this as income, necessitating an adjustment. The Local Council has since accepted our adjustments and updated the financial statements accordingly.
- 2.3 We recommend that the Local Council ensures that income is recognized in the correct period and that the correct portion of the grant is recognized in the financial statements to avoid misstatements.
- 2.4 At the beginning of the year, deferred income related to Skema Progetti Ta' Titjieb Fil-Lokalita amounted to €1,800. Upon review, it was found that the Local Council had incurred the related expense of €637 in 2023. However, to reverse the deferred income during the year under review, the Local Council recorded only €1,162 as a credit to other government income and €637 as a credit to expenses. Since the project is complete and no repayment to the government is required, the full deferred income of €1,800 should be recognized as revenue. Crediting the expense in 2024 incorrectly removes an already incurred expense, leading to a financial misstatement. The Local Council has accepted our adjustments and amended the financial statements accordingly.

- 2.5 We recommend that the Local Council ensures that deferred income is correctly recognized as revenue, and that expenses are properly accounted for without duplication or misstatement.

### 3 Fixed assets

#### Fixed asset register

- 3.1 To date, the Local Council has not yet compiled a fixed asset register. This contravenes the Local Councils (Financial) Procedures, 1996 which state that every Local 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 Local Councils must have a fixed asset register which agrees to the nominal ledger. Furthermore, the same directive stated that Local 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 Local 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 Local 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.

#### Additions

- 3.5 The Local Council was entrusted with executing works at Vjal It-Transfigurazzjoni, Hal Lija on behalf of the Water Services Corporation (WSC). Throughout the year, the Local Council incurred total expenses amounting to €34,837 and received €23,832 as

reimbursement from WSC. However, the Local Council did not fully capitalize the costs, failed to recognize any corresponding grants related to the project, and did not account for the €11,005 shortfall between the incurred expenses and the received funds as accrued income. The Local Council has accepted our adjustments and updated the financial statements accordingly.

#### 4 Trade and other receivables

##### Confirmation of debtor

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

Debtor	Balance in books of account €	Balance confirmed by debtor €	Difference €
Wasteserv (Malta) Limited	7,531.25	-	8,949.25

4.2 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. This has been a recurring difference of balances.

4.3 We recommend that the Local Council contacts Wasteserv and ensures that all invoices are approved and recorded in their books.

##### LES Debtor

4.4 We noted that based on LESA report 622, the recorded amount is €7,723.41, while the financial records reflect only €1,463.49. The Local Council has recognized this discrepancy, accepted our adjustments, and applied the necessary corrections to the financial statements.

4.5 To prevent similar discrepancies in the future, we recommend that the Local Council implements more rigorous reconciliation procedures between LESA reports and financial records.

#### 5 Trade and other receivables

##### Confirmation of debtors

5.1 We have obtained a statement from Wasteserv Malta Limited showing a balance of nil due to the Local Council. However, the Local Council's books of account indicate a balance of €40,933. The discrepancy resulted from the invoices issued by the Local Council during the current year to Wasteserv which were not recorded by the latter due to the finalisation of the contract.

- 5.2 We recommend the Local Council to perform regular reconciliations with all debtors to promptly highlight the differences. We also recommend that the Local Council diligently finalize timely-sensitive contracts and issue invoices to customers on a timely manner.

**Long outstanding debtors**

- 5.3 Whilst reviewing receivables we noted the following overdue balances which are not provided for in the books of account:

	€
WasteServ (Malta) Ltd	7,351.03
LESA	1,423.24
Water Services Corporation	6.99
	<u>8,781.26</u>

- 5.4 We recommend that the Local Council undertake a comprehensive review of all long outstanding debtor balances to assess their recoverability. Where recovery is deemed unlikely, appropriate provisions or write-offs should be recorded in line with accounting standards and the Local Council's accounting policies.

**6 Trade and other payables**

**Confirmation of creditors**

- 6.1 We identified a discrepancy between the financial records and the supplier's confirmation. Upon reviewing the variance, we found that the Local Council recorded deposits to a creditor as a debit to expense and a credit to the creditors account. However, when the deposit was refunded, no corresponding entry was made, resulting in an overstatement of expenses and payables amounting to €1,400. The Local Council accepted our adjustments and applied the necessary corrections to the financial statements.
- 6.2 We further identified a discrepancy between the financial records and the supplier's confirmation. The Local Council initially credited the creditors account but failed to reverse it upon payment, leading to a €620 overstatement in payables. An adjustment was passed to correct for the resulting differences and was incorporated in the audited financial statements.
- 6.3 We recommend that the Local Council should enhance its financial controls to ensure accurate recording and reconciliation of transactions. Specifically, proper accounting procedures should be implemented for payable reversals, ensuring that refunds and payments are correctly recorded to prevent overstatements. Regular reconciliation between financial records and supplier confirmations should also be conducted to promptly identify and rectify discrepancies.

### Deferred income

- 6.4 The Local Council was granted funding for the beautification of the Recreation Center Garden. However, as confirmed by the Executive Secretary, the council has not yet received the funds and has not incurred any related expenses. Despite this, an entry was recorded, debiting accrued income and crediting deferred income for €36,217. While this results in a net effect of zero, it incorrectly suggests that revenue has already been earned and is awaiting receipt, whereas deferred income typically applies to funds received in advance—neither of which accurately reflects the current financial position. Therefore, we proposed an adjustment to reverse the entry. The adjustment was passed and was incorporated in the audited financial statements.
- 6.5 We recommend that the Council revises its approach to recording grants. Instead of debiting accrued income and crediting deferred income prematurely, grants should only be recognized as revenue when received and expenses are incurred.

### Accruals

- 6.6 We noted that the bonus expense was understated by €1,884.26. An audit adjustment was proposed to rectify the difference and correctly incorporated in the financial statements.
- 6.7 To ensure accurate financial reporting and prevent future understatements, we recommend that the Local Council implements stronger internal controls over expense recognition. This includes conducting regular reconciliations, maintaining proper documentation for bonus calculations, and ensuring timely adjustments when discrepancies arise.

## 7 Cash

- 7.1 Upon examining the cash balance, we determined that the negative cash recorded in the books was due to an understatement of other payables. The Local Council had credited cash even though the payment to the Commissioner for Revenue (CFR) amounting to €2,821.88 was made in January 2025. The Local Council has accepted our adjustments and updated the financial statements accordingly.
- 7.2 We further noted that there were cancelled checks amounting to a total of €490 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 financial statements.
- 7.3 Furthermore, the negative cash balance resulted from an understatement of trade and other payables amounting to €70. The Local Council initially recorded the expense correctly but, upon payment, wrongly debited expense again instead of reversing the accounts payable, leading to a misstatement. The Local Council has accepted our adjustments and updated the financial statements accordingly.

7.4 We recommend that the Local Council ensures that all liabilities are correctly recorded, properly reversing accounts payable upon settlement, and maintaining clear documentation for cancelled checks to avoid errors in financial reporting.

## 8 Financial statements

### Groupings

8.1 We noted that expenses and income accounts are not being classified consistently from year to year. We have updated the classification accordingly.

8.2 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 Local 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,

