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20 July 2022

Dear Madam,

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 set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Income from Joint Committee

The council failed to resolve the issue with the income from the Joint Committee (refer to note 2).

1.2 Long outstanding balances

The council was able to collect significant long outstanding receivable balances.

1.3 Confirmation of debtor

The council was able to reconcile the differences with regards to the receivable from Wasterserv Malta Limited.

1.4 Bank account

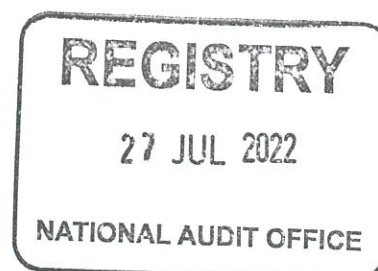
The council was able to include BOV bank account 40021887275 in its books.

1.5 Accounting for grants

The council again did not rectify the issue during the year under review (refer to note 3).

1.6 Tagging of fixed assets

The council again did not rectify the issue during the year under review (refer to note 6).



2 Income

Income from Joint Committee

- 2.1 We noted that the North Joint Committee, of which Naxxar local council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2009.
- 2.2 The reserves of the committee at that date amount to €1.6 million. 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.
- 2.3 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 Grants

Accounting for grants

- 3.1 As stated in previous year's management letter, during 2018 the council has adopted the capital approach in line with Directive 1/2017. In 2018, it was noted that the amount released to income for special programmes and computer equipment categories up to 2016 was €145,897 and €3,605 respectively as indicated in the schedules provided by the council in audit 2018. However, in the audited financial statements for the year ended 2018 the amounts of grants released for special programmes and computer equipment categories were of €182,945 and €3,336 respectively. During the 2018 audit, the council failed to provide explanation for these discrepancies. In 2020 and 2021, no action was taken in this respect. As a result, our audit report has been qualified.
- 3.2 We recommend the council to investigate these discrepancies and establish whether the release of deferred income schedule or audited financial statements 2018 are correct and if necessary, the books of account should be adjusted accordingly.

4 Court cases

Provision for court cases

- 4.1 Upon examination of the reply of the lawyer, we noted that the case Vella Group Limited vs Is-Sindku u Segretarju Ezekuttiv Tal-Kunsill Lokali Naxxar Ref: ARB 4286-2015 which was an arbitration claim for payments of works amounting to circa € 27,000 was already finalized against the local council in 2022. The council was ordered to pay €30,059 to the plaintiff which is inclusive of other court fees. We proposed an entry for the additional provision of €3,169 since the council already recorded a payable to Vella Group Limited amounting to €26,899.
- 4.2 We recommend that the council should accrue for those court cases with probable unfavourable outcome against the council based on the assessment of the lawyer.

5 Financial statements

Presentation of financial statements

- 5.1 The council's financial statements are not compliant with IFRSs in the following instance:
 - i. Note 'New and amended standards adopted by the Local Council' was not updated for the financial period ended 31 December 2021.
- 5.2 The above shortcoming has been amended in the audited financial statements.

5.3 We recommend that the council gives more attention in the preparation of the financial statements.

6 Fixed Assets

Upkeep of Fixed Asset Register

6.1 When reviewing the fixed asset register, we noted again that relevant details like invoice number, date of purchase, location and depreciation for the year are missing. Examples include:

Asset category	Asset code	Description	Cost Price	Depreciation Rate (%)	Depreciation to date (€)	Net book value (€)
Motor Vehicles	MVEH002	Sliding Side Step for Naxxar Community Van	1,298	20	778.80	3,644.20
Property	PROP005	Organizzazzjoni ghattpoggija tal-armar tal-Millied	160	1	1.73	158.27

6.2 We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:

- Date of purchase
- Supplier details
- Invoice number
- Location of the asset
- Grants received

6.3 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 updated.

6.4 Reconciliation of Financial Statements with Fixed Asset Register

We identified various differences between the net book value of assets in the financial statements and the net book value in the fixed asset register. These are summarised below:

Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Urban improvements	282,211	63,921	218,290
Plant, machinery and equipment	3,925	3,528	397
Special programmes	408,483	621,944	(213,461)
	694,619	689,393	5,226

- 6.5 We remind the council that any variances between the assets disclosed in the financial statements and the plant register need to be investigated and reclassified accordingly.

7 Trade and other Payables

Supplier Statements

- 7.1 We noted that council did not obtain statements as at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account. Circulars issued from time to time by the Department of Local Government specifically emphasise that the council should acquire monthly statements from all its suppliers.
- 7.2 We understand that the council does make every effort to obtain statements from its suppliers and that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However, we recommend the council keeps on chasing its suppliers for regular statements. This will ensure that the council's creditors are properly recorded in the accounts and that any differences or disputes are highlighted promptly.

Long-outstanding creditors

- 7.3 The council's creditors' list includes the following balance which have been outstanding for more than one year:

Creditor	€
Vella Group Limited	26,899
TCTC	4,200
SRF & Valedrians	5,928
Planet IT Solutions Ltd.	2,377
Dimbros Ltd.	6,617
Carmel Camilleri	2,224
	48,245

Debit Balances in creditor's list

- 7.4 The council's creditors' list includes a debit balance amounting to €1,718.46 from the Ministry of Finance.
- 7.5 We recommend that the council investigates all debit balances in the creditors' list and writes them off if not applicable. In addition, these balances should also be disclosed separately with receivables rather than set off against trade creditors.

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 Mr Paul Gatt and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Mark Bugeja
Partner