



14th July 2023

Director General

Local Government Division

## **MANAGEMENT LETTER FOR FINANCIAL YEAR 2022**

The Naxxar Local Council (NLC) makes reference to the attached management letter for the financial year ending 31st December 2022. We would like to point out the following:

### **2. Income from Joint Committee**

The Local Council is pleased to note the commitment by the Finance Directorate within the Local Government Division to conclude the process of liquidation of the joint committee. Until this process is concluded the NLC cannot make progress in this regard however we urge the DLG to speed up the process as much as possible.

### **3. Accounting for grants**

The NLC commits itself to investigate these discrepancies and to adjust the books of account accordingly.

### **4. Upkeep of Fixed Asset Register**

We will continue to do our utmost to keep the FAR as updated as possible as per Auditor's recommendations. Still we have to point out that even though for most of the FA's the details are included, for some reason the report extracted from Sage excludes them. In this regard we will seek the provider's assistance to ensure that report includes all the relevant details.

### **Reconciliation of Financial Statements with FAR**

Every effort will continue to be made to ensure having a correct plant register. Therefore we will investigate and make the necessary adjustments.

## 5. Supplier statements and long-outstanding creditors

As rightly recognised by the Auditors, the Local Council does every effort possible to obtain monthly statements but suppliers do not always comply quickly. We will however continue to make every effort possible.

### Creditors' list

Delays in payment resulted mostly in issues which were disputed, not clear enough or purposely withheld. From the four listed two of them (TCTC) and WM Environmental have been settled. Dimros still has money retained for Asphaltting works (Triq San Gorg) but the one of Planet IT Solutions is still unpaid due to lack of clarification/justification from their end.

### Debit balances in creditors' list

This small figure related to the Finance Ministry will be investigated and adjusted accordingly.

The NLC would like to take the opportunity to thank the auditors for their work and for being so courteous during the course of the audit.



**Anne Marie Muscat Fenech Adami**

Mayor



**Paul Gatt**

Executive Secretary

cc: National Audit Office

The Mayoress  
Naxxar Local Council  
Civic Centre  
21<sup>st</sup> September Avenue  
Naxxar NXR 1017  
Malta

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

T +356 20931000  
[www.grantthornton.com.mt](http://www.grantthornton.com.mt)

Our ref: MB/mf/86323  
26 April 2023

Dear Madam,

### **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 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 Accounting for grants**

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

##### **1.3 Tagging of fixed assets**

The council again did not rectify the issue during the year under review (refer to note 5).

##### **1.4 Provision of court case**

The council was able to accrue the court fees in relation to the prior year 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. The case is closed during the current year after the final settlement made by the council.

##### **1.5 Presentation of financial statement**

The council gave more attention in the preparation of the financial statement. The council was able to amend the presentation of the unaudited financial statements in the following instance:

- i. Note 'New and amended standards adopted by the Local Council' was updated for the financial period ended 31 December 2022.

**REGISTRY**

28 APR 2023

NATIONAL AUDIT OFFICE

## 1.6 Trade and other payables

The council again did not rectify the issue during the year under review (refer to note 5).

## 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 2010.

2.2 The reserves of the committee at that date amount to €1.7 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.

2.4 Further to the point above, the Department for Local Government has recently engaged an accountant as part of the process to liquidate the joint committee.

## 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. During the current financial year-end, the Council provided a schedule showing the breakdown of the amount as recorded in their books however, no reconciliation was done for the discrepancies noted as mentioned above. 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 Fixed Assets

### Upkeep of Fixed Asset Register

4.1 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	1,038.40	259.60

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Property	PROP00 5	Organizzazzj oni ghat- tpoggija tal- armar tal- Millied	160	1	3.33	156.67
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4.2 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

4.3 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.

#### Reconciliation of Financial Statements with Fixed Asset Register

4.4 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 (a) €	NBV in fixed asset register (b) €	Difference (a – b) €
Urban improvements	275,575	50,755	224,820
Plant, machinery and equipment	1,673	9,722	(8,049)
Special programmes	292,612	510,100	(217,488)
	<b>569,860</b>	<b>570,577</b>	<b>(717)</b>

4.5 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.

## 5 Trade and other Payables

### Supplier statements and long-outstanding creditors

5.1 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. 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.

5.2 We also noted that the council's creditors' list includes the following balance which have been outstanding for more than one year:

Creditor	€
TCTC (net of discount)	2,350
Planet IT Solutions Ltd.	2,597
Dimbros Ltd.	6,267
WM Environmental Ltd	4,484
	<b>15,698</b>

- 5.3 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.

**Debit Balances in creditor's list**

- 5.4 The council's creditors' list includes a debit balance amounting to €99.43 from the Ministry of Finance.
- 5.5 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