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Our ref: MB/mf/102622

13 July 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 the Local Council. We set out in this report the more important points that arose as a result of our review.

#### **1 Previous year management letter**

##### **1.1 Income**

We again noted shortcomings in relation to general income receipt deposits (refer to note 2.1).

We again identified discrepancies in LES reports (refer to note 2.3).

The Local Council once again failed to obtain the latest audited financial statements of the Birkirkara Joint Committee (refer to note 2.5).

We did not encounter any shortcomings on other government income.

##### **1.2 Expenditure**

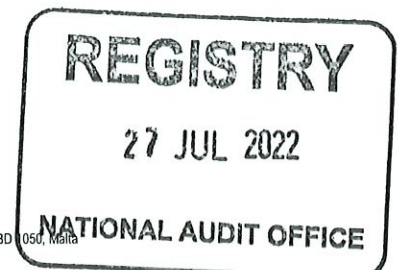
We again noted shortcomings in relation to rent expense (refer to note 3.1).

##### **1.3 Payroll**

We did not identify any irregularities in personal emoluments.

##### **1.4 Fixed assets**

We again identified discrepancies between the classification of fixed assets with fixed assets register and the classification of fixed asset with the financial statements and accounting records (refer to notes 4.1 and 4.3).



**1.5 Receivables**

We again identified shortcomings in relation to confirmation of receivables, pre-regional LES debtors and other debtors (refer to notes 5.1, 5.3 and 5.6).

**1.6 Cash and cash equivalents**

We did not identify any irregularities in cash and cash equivalents.

**1.7 Trade and other payables**

We again identified shortcomings in suppliers' statements and debit balance in creditors list (refer to notes 6.1 and 6.3).

We again identified very old deposit guarantees (refer to note 6.5).

**1.8 Financial statements**

We again identified shortcomings in the presentation of financial statements (refer to note 7.1).

**2 Income**
**General income**

2.1 During our audit, we came across instances where the Local Council did not deposit its general income receipts on a regular basis. Examples include:

Receipt number	Details	Receipt date	Deposit date	€
44190	Permits	5 March 2021	9 March 2021	5,172.60
44266	Permits	11 March 2021	16 March 2021	215.00
44370	Permits	23 March 2021	24 March 2021	1,000.00
44435	Permits	5 April 2021	8 April 2021	5,708.75
45155	Permits	20 July 2021	23 July 2021	342.23
45279	Permits	4 August 2021	06 August 2021	242.33
45306	Permits	10 August 2021	18 August 2021	242.33

2.2 Apart from the security implications of leaving cash and cheques on the premises unnecessarily, this contravenes the relevant regulations. We recommend that the Local Council implements procedures so that all receipts are deposited at least twice weekly.

**Income from LES administration fee**

2.3 We obtained Loqus report 483 and reconciled to income from LES administration fees and established that the Local Council's income from LES administration fees for 2019 is understated by € 6,254.35.

2.4 We did not propose an audit adjustment due to the fact that the Local Council provided invoices and payments tying up to the amounts found in the books of account. This discrepancy will be transferred to our list of uncorrected misstatements.

We recommend that the Local Council generates the Loqus report frequently and reconciles amounts to fees claimed for collection of fines. Any discrepancies should be reconciled with Loqus.

### Joint Committee

- 2.5 We also noted that the Local Council formed part of the Birkirkara Joint Committee up to 31 August 2011.
- 2.6 We have obtained the last audited financial statements of the Birkirkara Joint Committee and noted that reserves of the committee only amount to € 5,229. To this end our audit report was not qualified as the amount to be divided between all committee members would not be material.
- 2.7 Nevertheless, we recommend that the Local Council raises this issue with the Department for Local Government and ensures that the joint committee is liquidated, and that the Local Council receives any further income that may be due to it.

## 3 Expenditure

### Rent Expense

- 3.1 Whilst performing audit procedures, we noted that the Local Council recorded a rent expense amounting to € 61,547 in the books of account all of which are short term which is excluded from IFRS 16 'Leases'. We noted that the Local Council did not account this amount in accordance IFRS 16. The Local Council did not provide us with an assessment of leases in line with the applicable standard.

However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.

- 3.2 We recommend that the Local Council reviews all its lease contracts in place and considers the impact of IFRS 16 on the Local Council's financial statements and adjust if the need arises.

## 4 Fixed assets

### Classification of financial statements with accounting records

- 4.1 We identified differences between the net book value of certain assets in the financial statements and the net book value in the accounting records of the same categories. These are summarised below:

Asset category	NBV in financial statement €	NBV in unaudited accounting record €	Difference €
Urban improvements	366,497	330,814	35,683
Special programmes	56,210	91,893	(35,683)
	<u>322,588</u>	<u>322,588</u>	-

- 4.2 We recommend that the Local Council investigates these classifications and ensures that the financial statements reflect what is included in the books of account.

### Classification of financial statements with fixed assets register

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

Asset category	NBV in unaudited financial statements €	NBV in Fixed assets register €	Difference €
Property	229,856	263,000	(33,144)
Urban improvements	366,497	284,929	81,568
Special programmes	56,210	147,105	(90,895)
	<b>1,058,768</b>	<b>1,165,979</b>	<b>(42,471)</b>

- 4.4 Whilst going through the fixed asset register, we noted various assets which were not included in their proper category. This includes various assets in relation to the public convenience in St. Rita which are included in urban improvements in the books of account and financial statements, however these are included under property in the fixed asset register. We also identified air conditioners in the fixed assets register which are included in computer equipment and office equipment.
- 4.5 We recommend that the Local Council ensures that the fixed asset register is updated with the categories shown in the fixed asset register tying up with both the financial statements and the nominal accounts so as to have the correct net book value for both tangible and intangible assets.

## 5 Trade and other receivables

### Confirmation of trade receivables

- 5.1 We have obtained a statement from Wasteserv Malta Ltd showing a balance of € 4,534 due to the Local Council. However, the Local Council's books of account indicate a balance of € 28,647. Difference is due to the September to November 2021 invoices not being recorded in Wasteserve statement.
- 5.2 We recommend that, as with all debtors, regular reconciliations of amounts due are prepared to promptly highlight any differences.

### Pre-regional LES debtors

- 5.3 During our review of pre-regional LES debtors, we noted that the tribunal pending payments in report 622 amounted to € 215,539 which contrasts with the amount of € 219,889 shown in the accounting records. We did not propose an audit adjustment to account for these LES debtors because it has no effect on the financial statements since LES debtors are carried at € nil value following a provision for doubtful debts for the same amount.
- 5.4 We also noted that there was no movement in tribunal pending payments in the books of account which contrasts with the amount of € 3,494 shown in report 483 for pre-regional contraventions paid during the year.
- 5.5 The findings above cast doubts on the integrity of the data being generated from the Loqus IT system. Therefore, we recommend the council takes the matter up with Loqus to determine what this difference relates to.

**Other debtors**

- 5.6 During our review of other debtors, we noted that the Local Council has a receivable for a guarantee amounting to € 1,000. We were not provided with any supporting documentation or explanation for which project this guarantee relates to or an indication whether it is still receivable
- 5.7 We recommend that the Local Council obtains advice on whether such amount is still receivable or not. Furthermore, before removing such amounts from the guarantees to the profit or loss, approval in council meeting should be obtained and approval minutes.

**6 Trade and other payables****Suppliers' statements**

- 6.1 During the course of our audit, we noted that the Local 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 for Local Government specifically emphasise that the Local Council should acquire monthly statements from all its suppliers.
- 6.2 We recommend that the Local Council obtains monthly statements from all suppliers in order to ensure proper recording of creditors in the Local Council's ledgers. This will highlight any discrepancies between amounts recorded in the ledger and amounts in suppliers' statements.

**Debit balance in creditors' list**

- 6.3 The Local Council's creditors' list includes an amount of € 163.75 debit balance in the creditors' list. We have proposed an audit reclassification to reclassify the amount above to other debtors.
- 6.4 We reiterate our recommendation to separately disclose debit balances in the financial statements rather than set off against trade creditors. Furthermore, the Local Council should investigate why this creditor account is in debit.

**Contractor's deposit guarantee**

- 6.5 Upon enquiry about the Local Council's deposit guarantees amounting to € 8,379, we were informed that these relate to deposits requested upon application for permits of construction/ work by an individual or body corporate. Some of these deposits go back to 2007 which were never claimed. We were not provided with the list making up the amount.
- 6.6 We recommend that the Local Council obtains advice on whether such amounts are still due to the contractor or whether legally, these are now the Local Council's revenue. Furthermore, before removing such amounts from the guarantees to the profit or loss, approval in council meeting should be obtained.



## **Accruals**

- 6.7 Included with accruals is an amount of € 229,915 having a debit balance. This refers to the European Agricultural Fund for Rural Development (EAFRD) 2014-2020 measure 4.3. In 2018 the Local Council received a grant amounting to € 806,537 to cover eligible costs to improve accessibility to rural areas in the locality whereby various road resurfacing or construction works will be carried out. The eligible cost incurred will be accrued during the year while the ineligible costs incurred will be paid by the council. The total eligible and ineligible costs incurred during the year for the road works in Triq l-Imtahleb amounted to €229,915 and nil, respectively. Thus, we proposed for the reclassification entry of the same amount to accrued income.
- 6.8 We recommend that the Local Council always evaluate and assess the agreement for the council to be in line with it. Furthermore, the council should verify and check the proper presentation of the financial statements.

## **7 Financial statements**

### **Presentation of financial statements**

- 7.1 The Local Council is required to prepare financial statements in conformity with International Financial Reporting Standards (IFRS). During our audit, we identified that the Local Council's unaudited financial statements needed updates and further corrections in accordance with IFRS.
- 7.2 We recommend that the Local Council gives more attention to the preparation of the financial statements. The required updates and corrections have been amended in the audited financial statements.

## **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 Anthony Bonello and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,