

The Mayor
Hal-Safi Local Council
Dar il-Kunsill,
School Street,
Hal Safi, SF11404
Malta

Grant Thornton
Fort Business Centre
Triq l-Intornjatur, Zone 1
Central Business District
Birkirkara CBD 1050
Malta

T +356 20931000

www.granthornton.com.mt

Our ref: MB/mf/112122

10 August 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 management letter

1.1 Income

We are pleased to note that we did not note any further issues with regards to revenues.

We have once again identified shortcomings with respect to the Local Council's accrued income (refer to note 2.1).

1.2 Expenditure

We have once again identified shortcomings with respect to the Local Council's accrued expenses and prepayments (refer to note 3.1) and failure to account for leases under IFRS 16 '*Leases*' (refer to note 3.3).

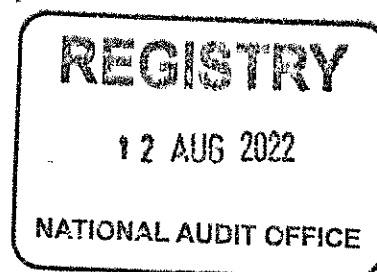
1.3 Wages and salaries

We are pleased to note that we did not note any issue in wages and salaries.

1.4 Fixed assets

We are pleased to note that we did not identify any issues related to the fixed assets additions during the year.

We have once again identified shortcomings with respect to the Local Council's upkeep of fixed asset register (refer to note 4.1).



1.4 **Trade and other receivables**

We are pleased to note that we did not identify any issues in relation to pre-regional LES debtors.

We have once again identified shortcomings with respect to the Local Council's long outstanding trade receivables balances (refer to note 5.1).

1.5 **Cash and cash equivalents**

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

1.6 **Trade payables**

The Local Council once again failed to obtain all statements from suppliers (refer to note 6.1).

We again noted issues in relation to the Local Councils' long outstanding payable balances (refer to note 6.3).

The creditors' list provided by the Local Council again included a number of debit balances (refer to note 6.5).

1.7 **Financial statements**

We again noted shortcomings in the Local Council's presentation of financial statements (refer to note 7.1).

2 Income

Accrued income

2.1 During the year under review, we noted that the Local Council did not reverse the beginning balance of accrued income amounting to EUR 11,336.06, except for WS Tripping Fees. An audit adjustment was proposed since the invoice for the respective accruals have already been issued to customers. The adjustment was approved by the Local Council and was properly reflected in the audited financial statements.

2.2 We recommend that the Local Council monitor the breakdown of accrued income and make sure that it will be reversed on proper period. Thus, income is reported accurately in the financial statements.

3 Expenditure

Accrued expenses and prepayments

3.1 During the course of our audit, we noted that the Local Council did not reverse the beginning balance of accrued expenses amounting to EUR 7,904.86. An audit adjustment was proposed since the invoice for the respective accruals have already been received from suppliers. The adjustment was approved by the Local Council and was properly presented in the audited financial statements.

We also noted that the Local Council did not reverse the beginning balance of prepayments amounting to EUR 2,251.03. An audit adjustment was proposed since the covered period for the prepayments have already been utilised during the year. The adjustment was approved by the Local Council and was properly presented in the audited financial statements.

- 3.2 We recommend that the Local Council monitor the breakdown of accrued expenses and prepayments and ensure that it will be reversed on proper period. Thus, expenses are reported accurately in the financial statements.

IFRS 16 'Leases'

- 3.3 Whilst performing audit procedures, we noted that the Local Council recognised rent expense amounting to EUR 5,731 in the books of account. We noted that the Local Council did not account for this amount in accordance IFRS 16 '*Leases*'. The Council also failed to provide us with an assessment of leases in line with the new standard. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 3.4 We recommend that the Local Council reviews all lease contracts in place and consider the impact of IFRS 16 '*Leases*' on the Local Council's financial statements and adjust if the need arises.

4 Fixed assets

Upkeep of fixed asset registers

- 4.1 With the same observations noted as in prior year, in relation to the fixed assets register provided to us during the audit fieldwork, we recommend that every possible effort should be made to update the fixed asset register and include at least the following details:
- Description of asset
 - Date of purchase
 - Supplier details
 - Invoice number
 - Asset tag code (where applicable)
 - Cost
 - Depreciation method and rate
 - Location of the asset
 - Grants received
- 4.2 An updated fixed asset register enables the Local Council to exercise proper control over the Local 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 Local Council's fixed asset register be updated.

5 Trade and other receivables

Long outstanding balances

5.1 Whilst reviewing receivables we noted the following overdue balances:

	EUR
Dimbros	200.00
GreenPak	42.00
Innovations Limited	368.00
Joe Cachia	167.50
LESA	0.80
Magic Clean Discount Detergent	42.00
Malta Libraries	126.30
Marlon Balzan	21.00
Global Limited Project	200.00
ST Technics Malta Ltd	84.00
WasteServ	118.33
	<u>1,369.93</u>

5.2 We recommend that the Local Council regularly reviews overdue receivables for recoverability. The Local Council should determine how the receivable amount originated and if it is not valid or no longer recoverable the Local Council should obtain approval in a council meeting to make a specific provision or write it off.

Confirmation of trade receivables

5.3 We have obtained a statement from Wasteserv Malta Ltd as at year end which shows a balance of EUR nil due to the Local Council. However, the Local Council's books of account indicate a balance of EUR 1,800.53. Upon investigation of the difference, we have noted that invoices OWC - Oct 21 32/2021, OWC - Nov 41/2021 and Door to door extra glass collection 04/2021 amounting to a total of EUR 1,800.53 were not showing in the statement provided by Wasteserv Malta Ltd but were included in the Local Council's books.

5.4 We recommend that the Local Council closely coordinate with Wasteserv Malta Ltd and ensures that all invoices are approved and recorded in their books. The Local Council should also regularly chase for the payments.

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.

Long outstanding creditors

- 6.3 The Local Council's creditor list includes the following balances which have been outstanding for more than one year:

Creditors	EUR
Archit works	4,564.38
GO plc	271.01
	<u>4,835.39</u>

- 6.4 We recommend that the Local Council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the Local Council. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

Debit balance in creditors' list

- 6.5 The Local Council's creditors' list includes the following debit balances in the creditors' list:

Other Debtors	EUR
ARMS Limited	1,860.49
Carmel Camilleri	100.00
	<u>1,960.49</u>

We have proposed an audit reclassification to reclassify the amount above to other debtors. This was already reflected in the unaudited set of financial statements.

- 6.6 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.

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 above shortcomings 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 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 Mrs Doris Baldacchino and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

A handwritten signature in cursive script, appearing to read "Gwen R. Anderson", with a horizontal line underneath.