

The Mayor
Swieqi Local Council
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Triq G. Bessiera
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16 October 2023

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 your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Opening balances

We are pleased to note that we did not identify further issues with the council's opening balances.

1.2 Joint committee

The Swieqi Local Council formed part of the Lvant Joint Committee up to 31 August 2011.

We have obtained the last audited financial statements of the Lvant Joint Committee and noted that the reserves of the committee only amount to €1,680. To this end our audit report was not qualified as the amount to be divided between all committee members would not be material.

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.

1.3 Government allocation

We are pleased to note that we did not identify any further issues with the council's government allocation.

1.4 Supplementary Government income

We again identified shortcomings in the supplementary government income (refer to note 2.1).

1.5 Other Government income

We are pleased to note that we did not identify further issues on the council's other government income.

1.6 General income

We again identified shortcomings in the general income (refer to note 2.3).

1.7 Income from LES administration fees

We are pleased to note that we did not any identify further issues on the council's income from LES administration fees.

1.8 Personal emoluments

We have identified shortcomings in the presentation of Personal emoluments (refer to note 3.1).

1.9 IFRS 16 'Leases' assessment

The council failed to provide us with the IFRS 16 '*Leases*' assessment (refer to note 4.1).

1.10 Tagging of fixed assets

The council did not rectify the issue during the year under review (refer to note 5.1)

1.11 Upkeep of fixed asset register

The council did not rectify the issue during the year under review (refer to note 5.3)

1.12 Reconciliation of financial statements with fixed asset register

The council did not rectify the issue during the year under review (refer to note 5.6)

1.13 Reconciliation of financial statements to accounting records

We still identified differences while reconciling financial statements to accounting records (refer to note 5.8)

1.14 Additions to asset under construction

We again identified shortcoming while performing audit procedures on additions to fixed assets (refer to note 5.10).

1.15 Grants

We have identified shortcomings while performing audit procedures on grants (refer to note 5.12).

1.16 Intangible assets

We are pleased to note that we did not any identify further issues on the council's intangible assets.

- 1.17 **Pre-regional receivables**
We again noted shortcoming in pre-regional receivables (refer to note 6.1).
- 1.18 **Overdue receivables**
We again noted shortcomings in overdue receivables (refer to note 6.3).
- 1.19 **Confirmation of trade receivables**
We again encountered shortcomings in confirmation of trade receivables (refer to note 6.5).
- 1.20 **Accrued income**
We again noted an issue in accrued income recognised as at year end (refer to note 6.7).
- 1.21 **Prepayments**
We are pleased to note that we did not identify further issues on the council's prepayments.
- 1.22 **Bank accounts**
We are pleased to note that we did not identify further issues on the council's bank accounts.
- 1.23 **Supplier statements**
The council did not obtain all supplier statements as at year end (refer to note 7.1).
- 1.24 **Long-outstanding creditors**
We again noted long-outstanding creditors recorded in the books of account (refer to 7.3).
- 1.25 **Debit balance in creditors list**
The council did not rectify the issue during the year under review (refer to 7.5).
- 1.26 **Confirmation of trade creditors**
We again encountered shortcomings in confirmation of trade creditors (refer to note 7.7).
- 1.27 **Accruals**
We are pleased to note that we did not identify further issues on the council's accruals.
- 1.28 **Deferred income**
The council did not rectify the issue during the year under review (refer to 7.9).

2 Income

Supplementary government income

- 2.1 During the year, the council recorded supplementary government income amounting to €114,348.23 for Road Maintenance - Urban Road Sweeping which was supported by the government allocation of 2020 under Circular 23/2019. However, the council failed to provide proof of receipt of the funds.
- 2.2 We remind the council that supporting documents should be filed accordingly for ease of provision during the audit fieldwork.

General income

- 2.3 As part of our audit procedures, we have selected transactions related to permits and requested the relevant supporting document. The council provide us a monthly financial report which indicated all the permits issued by the council during the specified month. We have selected a sample of the months and made a reconciliation of this according to the amounts recorded per council's books of account and noted discrepancies. There were no explanations provided by the council for the differences noted. The samples include:

Month	Amount per books €	Amount per financial report €	Difference €
July	5,235.39	5,270.62	(35.23)
August	2,311.48	4,332.53	(2,021.05)
September	2,760.86	8,691.97	(5,931.11)
October	11,136.13	2,428.46	8,707.67
	21,443.86	20,723.58	720.28

- 2.4 We recommend that the council performs reconciliation of amounts being recorded in the books against the financial report issued in relation to permits.

3 Personal Emoluments

- 3.1 During the audit, we have noted that the amount recorded per books did not match the FS3s of the employees. We have proposed a reclassification entry which was not approved by the council. This adjustment was not included in the final set of financial statements.
- 3.2 We recommend that the council ensures that amounts recorded per books properly match the breakdown per FS3s.

4 Expenditure

IFRS 16 'Leases' assessment

- 4.1 Whilst performing our audit procedures we noted that the council recorded a rent expense amounting to €4,458.60 (2020: €6,811.32) in the books of account in relation to properties leased by the council. The council failed to assess and account for the leases in accordance with IFRS 16.

- 4.2 We recommend that the council performs an IFRS 16 assessment to establish whether the council should account for the rent expense in accordance with IFRS 16 accounting treatment. In accordance with the new standard, at lease commencement date, the council should recognise a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the council, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).
- 4.3 The council should depreciate the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of, the end of the useful life of the right-of-use asset, or the end of the lease term. The council should also assess the right-of-use asset for impairment when such indicators exist. At the commencement date, the council should measure the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the council's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. After initial measurement, the liability should be reduced for payments made and increased for interest.

5 Fixed assets

Tagging of fixed assets

- 5.1 We noted that the council's assets are not tagged (where applicable). This is in breach of the Local Councils (Financial) Procedures, 1996.
- 5.2 We recommend that the council tags its fixed assets, where applicable, as soon as possible. This would enable individual assets to be identified and their physical existence verified with the plant register.

Upkeep of fixed asset register

- 5.3 When reviewing the fixed asset register, we noted that relevant details like invoice number, location and depreciation for the year are missing.
- 5.4 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 rate
 - Location of the asset
 - Grants received.

- 5.5 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

- 5.6 We identified various differences between the net book value of assets in the unaudited 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	22,146	26,426	(4,280)
Street Lights & mirrors	12,340	8,060	4,280
	34,486	34,486	-

- 5.7 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.

Reconciliation of financial statements to accounting records

- 5.8 We identified several differences between the net book value of certain asset categories in the unaudited financial statements and the net book value in the nominal ledger. These are summarised below:

Category	NBV in unaudited financial statements €	NBV in nominal ledger €	Difference €
Urban improvements	22,146	21,890	256
Street lights and mirrors	12,340	12,596	256
Assets under construction	69,411	52,752	122,163
Special programmes	106,450	228,615	122,165
	210,347	210,349	(2)

- 5.9 We remind the council that any variances between the assets disclosed in the financial statements and the nominal ledger need to be investigated and adjusted accordingly.

Addition to asset under construction

- 5.10 During the year, the council accounted for the works carried out for various assets under construction, amounting to €107,810.78. The amount was recorded as an accrual for the completion of works. Up to the signing of the management letter, we did not receive any architects' certificates that would support the additions made to asset under construction. Thus, our audit report has been qualified in this respect.

- 5.11 May we remind the council that obtaining and retaining all architect certificates is of vital importance. Recognition of the addition must only be done when there are actual works carried out as at year end.

Grants

- 5.12 As part of our audit procedures, we have requested for the supporting documents of additional grants for the year. The council up to date of completion of our audit did not provide any of the requested documents. Hence, we could not perform audit procedures on the selected grants. Our audit reports has been qualified in this respect. The selected sample include:

Details	Amount €
Capitalised 2021	73,136.12
Grants 2021	140,202.04
	213,338.16

The amount presented above is gross of reversals amounting to €52,578.81 which brings the net grant received to €160,759.35 as stated in note 13 to the financial statements.

- 5.13 We have also noted that in the unaudited financial statements, the council reclassified a grant of €20,253 from Asset under construction to Special Programmes. This reclassification was not reflected in the books of account.
- 5.14 We have proposed an audit adjustment to reclassify the amount of €20,253 as special programmes to reflect the classification made in the financial statements.

6 Trade and other receivables

Pre-regional receivables

- 6.1 During our audit, we noted that according to report 622 generated from Loqus system, the adjudicated contraventions balance (LES debtors) as at 31 December 2021 were €66,747.10, however, the amount reported in the financial statements is €109,006.55. This results in a difference of €42,259.45 for which the Council did not provide us with any explanation. We did not propose an audit adjustment to account for the reduction of 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.
- 6.2 We recommend that the Council should obtain plausible explanation and evidence from Loqus supporting the decrease in adjudicated contraventions.

Overdue receivables

- 6.3 We noted the following long-term receivables which have not been provided for in the books of account:

Debtor	€
Wastserv - EkoCentre	11,359.01
Frank Salt (Real Estate) Ltd	938.67
Izibet	116.47
LESA	3,250.43
	<u>15,664.58</u>

- 6.4 We recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings. Furthermore, the council should send continuous reminders/statements to its debtors to ensure that the council still has the right to collect the amounts due.

Confirmation of trade receivables

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

Debtor	Balance in books of account €	Balance confirmed by debtor €	Difference €
WasteServ Malta Limited	69,499	4,680	64,819.01

The council failed to reconcile the above difference. Thus, our audit report has been qualified in this respect.

- 6.6 We recommend that the council should prepare regular reconciliations to promptly highlight any differences.

Accrued income

- 6.7 During the course of our audit, we have noted that the council recorded accrued income for the grants to be received from its on-going projects. The provided supporting documents did not agree with the amount recorded per books. No explanation was given in relation to the discrepancies noted. The audit samples selected include:

Accrued income	Per books €	Per audit €	Difference €
Clubhouse	25,493.74	7,493.74	18,000.00
Madliena Rubble walls	(1,558.71)	26,173.98	(27,72.68)
FX Ebejer Wooden Fence	21,999.00	24,238.41	(2,239.41)
Sidra – Gejza Project	5,306.30	18,780.96	(13,474.66)
	<u>51,240.33</u>	<u>76,687.09</u>	<u>(2,285.93)</u>

- 6.8 We recommend that the council obtains proper documentation and explanations for accrued income recorded in the books.

7 Trade and other payables

Supplier statements

- 7.1 We again noted that the council did not obtain all 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 again recommend that the council obtains monthly statements from all suppliers in order to ensure proper recording of creditors in the council's ledgers. This will highlight any discrepancies between amounts recorded in the ledger and amounts in suppliers' statements.

Long-outstanding creditors

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

Creditor	€	Note
Dieter Falzon	1,175.63	
Lands Department	8,092.98	
J Micallef Group	4,802.60	(a)
MICA MED Limited	4,129.72	
Road Servicing Ltd	7,085.01	
WasteServ malta Ltd	<u>29,389.21</u>	
	<u>54,675.15</u>	

- (a) The executive secretary explained to us that the council has a dispute with the creditor with respect to the tender 'Embellishment/upgrading of FX Ebejer garden, Swieqi into a sensory garden utilising environmentally friendly construction material and products. The council is claiming that the specifications of planted shrubs were not in accordance with the tender and therefore council refused to settle the invoice.
- 7.4 We recommend that the council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the council. We also recommend the council to follow up on the dispute and to update its books accordingly once the dispute is resolved. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

Debit balance in creditors' list

- 7.5 The council's creditors' list includes a long overdue debit balance of €2,320.22. The council explained to us that this amount pertains to ARMS Limited. From 2012 to 2014 the council was operating from another premises which had solar panels, however when the council changed the premises the solar panels could not be installed. The council informed us that it is currently reconciling the balance with ARMS Limited. We have proposed an audit reclassification to reclassify the amount above to other debtors. The council did not approve audit reclassification.

- 7.6 We reiterate our recommendation to separately disclose debit balances in the financial statements rather than set off against trade creditors. Furthermore, the council should continue investigate this balance and update its books accordingly.

Confirmation of trade creditors

- 7.7 As part of our audit procedures, we sent confirmation letters to selected creditors but these were not answered. The council failed to provide us with the invoices and proof of payments made from 1 January 2022 up to date of audit fieldwork with respect to outstanding balances as at 31 December 2021 as well as we were not provided with the suppliers' statements as at year end. Hence, we could not perform audit procedures on the selected creditors' balances. Our audit report has been qualified in this respect. The selected sample included:

Creditor	€
Costantino Galea	78,053.39
Mica Med Limited	21,539.98
Road Servicing Ltd	7,085.01
	<u>106,678.38</u>

- 7.8 We again remind the council that effort must be done in obtaining monthly statements from its suppliers and if any discrepancies are identified promptly address them.

Deferred income

- 7.9 In 2020, the council received an amount of €50,000 from the Forum Complex developer. Upon enquiry with the council, it was established that the Planning Authority ordered the developer to undertake a project worth of €50,000 in the locality. However, the developer opted to donate €50,000 to the council so the latter can undertake the project which they deem to be necessary in the locality. The council is establishing which project they can implement in Piazza Uqija using the above funds. The council erroneously recorded €50,000 in profit or loss for the year. Therefore, we proposed an audit adjustment to account for received funds as deferred income. This was approved by the council and incorporated in the financial statements. Furthermore, the council failed to provide us with the official documentation supporting the decision taken by Planning Authority.
- 7.10 We recommend that the council adheres to the accrual basis of accounting and that income received is recorded in the appropriate accounting period. Thus, income is reported accurately in the financial statements. Furthermore, the council should obtain signed agreements with the planning authority for the above received funds.

8 Financial statements

Comparative figures

- 8.1 Upon review of the financial statements, we have noted that there was a discrepancy between the comparative figures presented in the 2021 financial statements against the audited figures of 2020 financial statement. The discrepancies noted are presented in the succeeding page.

Accounts	Per 2020 AFS €	Per 2021 FS €	Difference €
Statement of Comprehensive Income			
Operations and maintenance	543,687	577,435	(33,748)
Administrative and other expenditure	179,718	145,970	33,748
Note 10 Operations and Maintenance			
Repairs and upkeep Roads	24,862	58,610	(33,748)
Note 11 Administrative and other expenditure			
Repairs and Maintenance	38,061	4,313	33,748
			-

8.2 Up until the date of this management letter, we have failed to obtain an explanation from the local council regarding the reclassifications made on the comparative figures.

8.3 We recommend that the council ensure that all reclassifications made, even in the comparative figures, are properly supported and documented. Amendments made in the comparative figures should also have a separate note disclosure in the financial statements.

Disclosures

8.4 The local council did not include certain information and amendments proposed by the auditors in the final set of financial statements.

8.5 Although the omission of the proposed additional information for the disclosures do not materially misstate the financial statements as a whole, we recommend that the council considers the inclusion of these information as they provide a clearer understanding of the accounts.

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 Vincent Tanti and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,