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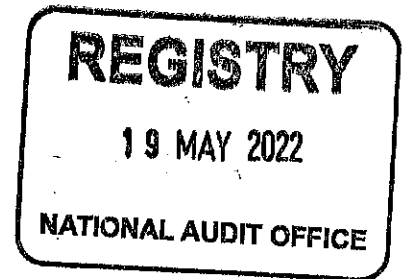
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Our ref: MB/mf/75722

10 May 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 Birzebbuga Local Council (the "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 Deferred income**

We again noted issues while testing deferred income (refer to notes 2.1 and 2.2)

**1.2 Payroll**

We did not identify any significant issues regarding the councillor's allowances and FS7.

**1.3 Fixed assets**

We did not note any significant issues in the allocation of assets and fixed assets register.

**1.4 Trade receivables**

We again identified receivable balances which are long outstanding (refer to note 4.1).

We noted that the council did not resolve the issue involving a receivable balance from Zurrieq Joint Committee (refer to note 4.3).

We did not identify any significant issues while testing the confirmation of our sampled debtors.

**1.5 Accrued income**

We did not identify any significant issues regarding accrued income.

**1.6 Prepayments**

We noted that the council has resolved the issue surrounding prepayments.

### 1.7 Trade payables

It was noted that the council is still not obtaining supplier statements from all creditors (refer to note 5.1).

We did not identify any debit balances included within the trade payables balance.

We again identified payable balances which are long outstanding (refer to note 5.3).

### 1.8 Accruals

We again noted shortcomings while testing accruals (refer to note 5.6).

### 1.9 Bank and cash

We are pleased to note that the council has resolved the issues involving the 'LC other entities' bank account and petty cash reconciliation.

We also noted that the issue relating to final withholding tax is still not resolved.

## 2 Income

### Deferred income

2.1 During our audit fieldwork we noted that in 2019 the council received funds amounting to €2,616 in terms of Circular SPI 10/2019. These funds remained unutilised during 2021. On 10.03.2022 the council refunded the amount back to the Department for Local Government. We have proposed an adjustment to record this amount under 'other payables'. The council has included this adjustment in the final set of financial statements.

2.2 We also noted that in 2018 the council received funds amounting to €30,000 in terms of an agreement with the Department for Local Government, which remained unutilised during 2021. To date of the audit fieldwork the council did not have a signed extension agreement with the Department for Local Government.

2.3 We recommend that the council obtains an extension agreement that is signed by both parties. This would ensure that both parties are abiding by the contract and that both parties are aware of what their rights and obligations are.

## 3 Fixed assets

### Depreciation of fixed assets

3.1 During the year under review we noted that the council erroneously accounted for twelve months depreciation on all fixed assets purchased in 2021. The above resulted in overstatement of depreciation of €11,346. We proposed an adjustment to rectify this issue. The adjustment was correctly included in the audited financial statements.

3.2 We recommend that the plant register is updated to agree to the proposed adjustment and to depreciate fixed asset additions based on the purchase month. This will ensure that the depreciation calculated by the plant register is correctly reflected in the financial statements.

**4 Trade and other receivables**
**Long outstanding balances**

- 4.1 Whilst reviewing receivables we noted the following overdue balances which were not provided for in the books of account:

	€
Water Services Corporation	448.68
South Eastern Region	754.72
WasteServ Malta Ltd	8,753.64
	<u>9,957.04</u>

- 4.2 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.

**Zurrieq Joint Committee**

- 4.3 We noted that included with receivables is an amount of €67,619 due from the Zurrieq Joint Committee of which Birzebbuga Local Council had formed part of. The council is claiming that this amount relates to pre-regional contraventions paid since December 2008 and remitted to the Committee erroneously. We further noted that no movement took place during the current year.
- 4.4 We further noted that this amount is not provided for. Furthermore, the Zurrieq Joint Committee is no longer in operation and recoverability of this balance remains highly doubtful. As a result, our audit report has been qualified.
- 4.5 We recommend that the council queries this issue with the Department for Local Government and tries to obtain audited financial statements so as to verify whether the council has any amounts which are still due to it.

**5 Trade and other payables**
**Supplier statements**

- 5.1 It was noted that the council failed to request monthly statements from all suppliers we selected during our sample selection. May we remind the council that DLG memos specifically state that councils should obtain monthly statements.
- 5.2 Suppliers' statements are essential, especially for those suppliers with whom the council trades most. We recommend that the council makes sure that the creditor accounts agree to supplier statements on a regular basis and investigates and reconciles any differences.

**Long outstanding creditors**

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

Creditor	€
Zurrieq Joint Committee for LES	8,485.24
Alfred Schembri & Sons Ltd (note 5.4)	303,513.69
	<u>311,998.93</u>

- 5.4 The council informed us that no payments are being made to Alfred Schembri & Sons Ltd as the supplier became black-listed and the council was instructed not to make any payments. We recommend that the council seeks guidance on the matter from the Department for Local Government.
- 5.5 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. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

#### **Accruals**

- 5.6 Whilst reviewing accruals we noted that the amount accrued for the executive secretary's performance bonus was of €3,234 however payments made after year end amount to €1,617. An audit adjustment was proposed to decrease the expense and accruals as appropriate. Our proposed audit adjustments were approved by the council and reflected in the audited financial statements.
- 5.7 The council should make adequate provisions for accrued expenditure so that it is recorded in the correct accounting period. We recommend that the council evaluates all accruals for reasonableness before closing off the books of account.

### **6 Bank and cash**

#### **Final withholding tax**

- 6.1 From the bank confirmation letters sent by the banks and also from bank statements provided by the council, we noted that the BOV account 40022149420 is subject to withholding tax on interest received.
- 6.2 Given that councils are exempt from income tax, we recommend that the council sends instructions to the banks not to withhold tax from these 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 Ms Rosalie Mintoff and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

