

The Mayor
Paola Local Council
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20 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 Paola 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 Income from Central Government

We did not encounter any shortcomings in income from Central Government.

1.2 Other Government income

We again noted that the council failed to properly account for other Government income (refer to note 2.1).

1.3 Income from LES administration fees

We are pleased to note that the council has rectified the issue during the current year.

1.4 Joint Committee

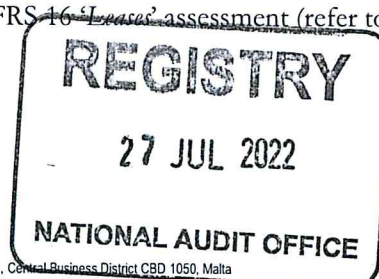
The council failed to obtain the financial statements of the Zejtun Joint Committee (refer to note 2.10).

1.5 Expired contracts

We noted that the council is still utilising expired contracts (refer to notes 3.1 and 3.2).

1.6 IFRS 16 'Leases' assessment

The council failed to provide us with IFRS 16 'Leases' assessment (refer to note 3.4).



1.7 **Wages' reconciliation**

The mayor's allowance was not recorded in the appropriate nominal account (refer to note 4.1).

1.8 **Fixed asset register**

The fixed asset register does not include all necessary information (refer to note 5.1).

1.9 **Reconciliation of unaudited financial statements with fixed asset register**

We noted discrepancies when reconciling the unaudited financial statements with the fixed asset register (refer to note 5.3).

1.10 **Additions to fixed assets**

We again noted shortcomings when testing fixed asset additions (refer to note 5.5).

1.11 **Grants**

We are pleased to note that the council obtained an extension agreement for the grants received in prior years.

1.12 **Pre-regional receivables**

We again noted that debtors in the Loqus IT system are more than LES debtors recorded in the council's books of account (refer to note 6.1).

1.13 **Overdue trade receivables**

We are pleased to note that the council has rectified the issue during the year.

1.14 **Confirmation of debtor**

We again identified a discrepancy between a debtor confirmation and the books of account (refer to note 6.3).

1.15 **Supplier statements**

Despite the council's efforts, not all supplier statements as at year end were obtained to confirm the balances as at 31 December 2021 (refer to note 7.1).

1.16 **PPP payables**

The council once again failed to distinguish between trade creditors and capital creditors in the trial balance (refer to note 7.13).

1.17 **Confirmation of trade creditor**

We again identified a discrepancy between the amount in council's books and the amount in creditor confirmation (refer to note 7.5).

1.18 **Accruals**

We have again encountered shortcomings in accruals (refer to note 7.7).

2 Income

Other Government income

- 2.1 Whilst reviewing other Government income received from Wasteserv for the reimbursement of organic waste collection, we noted that the income for the year was understated by €22,457.84. Furthermore, the council failed to properly account for accrued income and the receivable balance. To this end we have proposed an audit adjustment to properly record the income and receivable balance. The audited financial statements of the council reflect this adjustment.
- 2.2 Furthermore, we also noted that in prior years the council failed to account for €8,228.52 for the Pilot Project October to December 2018 invoiced to WasteServ. To this end we have proposed an audit adjustment to record the above invoice during the current year. Our proposed audit adjustment was approved by the council and reflected in the audited financial statements.
- 2.3 We remind the council that the books of account should reflect the actual amounts received or still to be received. Furthermore, the council should ensure that invoices issued are in accordance to signed agreements.
- 2.4 In 2021, the council received €21,861.92 from the Department for Local Government for Wasteserv tipping fees. The council included this amount with other Government income. We have proposed a reclassification to include the amount as supplementary Government income. This has been reflected in the final set of financial statements.
- 2.5 The council should ensure that transactions are properly allocated to the correct account.

General income

- 2.6 In 2021 the council received €10,000 from the Malta Arts Councils for Christmas decorations. The council included this amount with general income. We have proposed an audit reclassification to include this amount with other Government income. The council has amended the financial statements to include our audit adjustment.
- 2.7 We recommend that the council records income obtained from various Departments to be recorded under other Government income as appropriate.
- 2.8 We obtained Loqus report 483 and reconciled to the LES administration fees and established that the council's income from LES administration fees for 2021 is understated by €1,091. We were not provided with an explanation for the difference.
- 2.9 We recommend that the council generates the Loqus report frequently and reconciles amounts to fees claimed for collection of fines.

Joint committee

- 2.10 We noted that the Zejtun Joint Committee, of which Paola Local Council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2014.

- 2.11 The reserves of the committee at that date amount to €840,665. 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.
- 2.12 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.

3 Expenditure

Expired contract agreements

- 3.1 During the year under review we noted that the council is using services provided by Nexos Street Lighting for street lighting in the locality of Paola even though the contract has expired. We were also notified by the council that the tender will be issued at regional level. To date of the audit fieldwork no tender has been issued.
- 3.2 We noted that the tender for the collection of mixed household waste expired on 16 October 2020. The council evaluated the tender in 2021 and signed an agreement on 17 March 2021. We further noted that the council recorded an amount of €36,001 and €9,968 for the collection of mixed household waste and organic waste respectively using an expired agreement.
- 3.3 We would like to remind the council that Procurement Guidelines 2017 state that the council shall initiate all necessary preparations at least six months before the expiry date of the existing contract.

IFRS 16 'Leases' assessment

- 3.4 Whilst performing audit procedures we noted that the council has a rent expense amounting to €2,547 in the books of account. We noted that the council did not account for this amount in accordance with IFRS 16 'Leases'. Given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 3.5 We recommend the council to perform IFRS 16 assessment to establish whether the council must account for the rent expense in accordance with IFRS 16 accounting treatment.

Rent agreements

- 3.6 Whilst reviewing the list of rental agreements we noted that the contract agreement in relation to the site in Gnien Paul Boffa (local council offices and playground) has expired. This was also the case with respect to the rental agreement for the Civic centre.
- 3.7 We reiterate our recommendation from previous management letters stating that the council should obtain a contract for all properties being rented for the council's purposes. This will ensure that the rights and obligations of each party are clear.

Reimbursement

- 3.8 During the audit it was established that the council incurred €4,140 for the Mayor's car lease.

- 3.9 We would like to bring to the attention of the council the fact that the mayor receives an annual allowance of €2,400 for all costs sustained in executing council related duties.

Library

- 3.10 When reviewing the nominal ledger we noted that the library expense account had nil transactions for the year. Furthermore, the account in the trial balance included an amount of €1,001.47. No explanation was provided by the council.
- 3.11 We recommend the council recheck the nominal ledger extracted from the system and reconcile it to the final report.

4 Payroll

Wages' reconciliation

- 4.1 During our audit fieldwork we noted that the council has erroneously classified €2,400 as mayor's honoraia instead of the councillors' allowances account. We have proposed an audit reclassification to rectify this issue. The council has amended the financial statements to include our audit adjustment.
- 4.2 We recommend that the council properly classifies accounting entries to the respective nominals to agree to the financial statements.

5 Fixed assets

Fixed asset register

- 5.1 When reviewing the fixed asset register, we noted that relevant information is missing. We then recommend adding and updating the following:
- Clear description of the asset
 - Date of purchase
 - Supplier details
 - Invoice number
 - Asset tag code (where applicable)
 - Location of the asset
 - Grants received.
- 5.2 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

- 5.3 We identified the following discrepancies between the net book value of assets in the unaudited financial statements and the net book value in the fixed asset register.

Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Trees	2,849	-	2,849
Office equipment	9,501	10,278	(777)
Construction and urban improvements	31,938	66,878	(34,940)
	<u>44,288</u>	<u>77,156</u>	<u>(32,868)</u>

- 5.4 The council should ensure that the fixed asset register agrees to the nominal ledger. Any variances between the assets disclosed in the financial statements and the plant register need to be investigated and addressed accordingly. We recommend that the council reviews the financial statements and compares the figures for fixed assets to the fixed asset register to ensure proper preparation of the financial statements.

Additions to fixed assets

- 5.5 Whilst performing testing on fixed assets' additions we noted that the council capitalised the amount of €17,003.80 in relation to an advance payment made for the monument of Don Mintoff under the Urban Improvements account. The council confirmed that the payment made was advanced to the supplier before initiation of works. To this end we have proposed an adjustment to reclassify to advance payment and reverse the depreciation previously accounted for. The council has amended the financial statements to include our audit adjustment.
- 5.6 We advise the council that assets should be capitalised once the asset is completed. To this end payments made in advance should be included with advance payments. Furthermore, the council should monitor the status of all ongoing projects regularly.

6 Trade and other receivables

Pre-regional receivables

- 6.1 Whilst testing pre-regional receivables, we noted a balance of €144,957 in the council's books of account whilst report 622 shows a balance of €488,643. This results in a difference of €343,686 for which the council could not provide us with any explanation. We did not propose an audit adjustment 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 would like to remind the council that it is the council's responsibility to investigate and reconcile the movements in the Loqus reports.

Confirmation of debtor

- 6.3 We have obtained a statement from Wasteserv Malta Limited showing a balance of €37,004.80 due to the council. However, the council's books of account indicate a balance of €1,809.04. The discrepancy of €35,195.76 resulted from omitted invoices which were issued by the council to Wasteserv Malta Limited amounting to €29,731.40. Furthermore, the council had another invoice coming forward from previous year of €8,228.52 which was also omitted from the books of account (refer to note 2.2). The resultant difference of €2,764.16 could not be reconciled.

- 6.4 We recommend the council to perform regular reconciliations with all debtors to promptly highlight the differences.

7 Trade and other payables

Supplier statements

- 7.1 Despite the council's efforts, we again noted that there were various suppliers for which the council did not obtain statements as at or near year-end 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 council should acquire monthly statements from all its suppliers.
- 7.2 We understand 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 creditors' list

- 7.3 The council's creditors' list included debit balances amounting to €48,296. Details of the debit balances are presented below:

Debtor	€
Reanda (refer to note 8)	37,465
Saviour Mifsud	10,090
Smart Office Supplies	285
Tech.mt	450
Epic Communications Limited	6
	48,296

- 7.4 We recommend that the council investigates all debit balances in the creditors' list since they may arise from overpayments or omitted invoices. In addition, these balances should also be disclosed separately with other receivables rather than set off against trade creditors.

Confirmation of trade creditors

- 7.5 As part of our audit procedures we circularised confirmation letters to selected suppliers. We noted the following discrepancy between the amount in the council's books of account and the amount in the confirmation reply:

Supplier	Amount in council's books of account €	Amount in confirmation reply €	Difference €
Koperattiva Tabelli u Sinjali	4,476.11	-	4,476.11

- 7.6 We reiterate our recommendation that the council should reconcile creditors' balances on a regular basis. The council should obtain monthly statements in order

to reconcile balances with the accounts. Furthermore, decisions and discussions regarding the balance should be minuted during the council meetings.

Accruals

- 7.7 During our inspection of invoices related to the accruals account, we noted that on 14.01.2022 the council received invoices from Kerber Security Limited in relation to security services rendered during the months of November and December 2021 with invoice numbers INV-2328 and INV-2329 amounting to €394 and €478 respectively. The council failed to accrue for the above-mentioned invoices. We have proposed an audit adjustment to include the accrual for the period. The audited financial statements of the council reflect this adjustment.
- 7.8 The council should endeavour to compute accruals as accurately as possible so that expense is recorded in the correct financial period based on the accruals concept of accounting.
- 7.9 We noted that the FSS and NI due for December 2021 amounting to €4,766.61 was included in the list of accruals. Furthermore, the council failed to reclassify this balance to non-financial liabilities. To this end we have proposed an audit reclassification to properly disclose amounts. Our proposed audit adjustment was approved by the council and reflected in the audited financial statements.
- 7.10 We recommend the council to properly disclose financial assets and liabilities in accordance with IFRS 9.

Unrecorded Liabilities

- 7.11 Whilst reviewing subsequent year end payments, it came to our attention that the council received two invoices from Societa Filarmonika De Paule of €3,500 each and both dated 15.12.2021. The nominal ledger only included one of the invoices. To this end we have proposed an audit adjustment to record the other invoice. The council approved our audit adjustment and included it in the final set of financial statements.
- 7.12 We recommend that the council records expenditure when it is incurred such that expenses and liabilities are recorded in the correct financial year.

PPP payables

- 7.13 We again noted that the council did not distinguish between trade creditors and capital creditors in the trial balance. We have proposed an audit reclassification to reclassify PPP payables of €19,446.13 to a separate account. The audited financial statements includes our proposed audit reclassification.
- 7.14 We reiterate our recommendation from our previous management letter that capital creditors are disclosed separately, especially when they are long term, to avoid taking incorrect figures when calculating liquidity and FSI ratios. Separate disclosure will also aid in the preparation of the cash flow statement.

8 Prior year adjustment

- 8.1 During the current year, the council noted a misstatement in the expenses incurred for accountancy services received during 2018 to 2021. The total amount overcharged was of €37,170. The amount included in the tender document was of €3,540 per year, however the council was being charged €3,540 per quarter. In accordance with IAS 8,

the accounting error should be adjusted by restating the opening balances of assets, liabilities and equity for the earliest periods presented.

- 8.2 Due to the above misstatement, the opening reserves as at 1 January 2019 had to be adjusted by €15,930 against receivables. The effect of the error for the year ending 2019 was of €10,620 against administrative expenses. The effect of the error for the year ending 2020 was also of €10,620 against administrative expenses.
- 8.3 We also remind you that it is the responsibility of the executive secretary and council's members under the Local Councils (Financial) Procedures to ensure that the financial statements present fairly the income, expenditure and retained funds of the council as at the year-end.

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 Kurt Scerri and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

