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Birzebbuga Local Council  
Dar Birzebbuga,  
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Our ref: MB/mf/082023

17 April 2023

Dear Sir,



**Financial statements for the year ended 31 December 2022**

During the course of our audit for the year ended 31 December 2022, 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 have again identified shortcomings in deferred income (refer to note 6.1).

**1.2 Depreciation of fixed assets**

The depreciation workings for the current were understated (refer to note 2.1).

**1.3 Long outstanding receivables**

We have again noted long outstanding receivables in the books of account (refer to note 3.1).

**1.4 Zurrieq Joint Committee**

The books of accounts include a receivable balance from the Zurrieq Joint Committee. The council is communicating with the department for collected (refer to note 3.3).

**1.5 Supplier Statements**

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

**1.6 Long outstanding creditors**

The creditors list still includes long-outstanding creditors (refer to note 5.1).

**1.7 Accruals**

We did not encounter any shortcomings in accruals.

**1.8 Final withholding tax**

We again noted that a bank account is being taxed (refer to note 4.1).

## 2 Fixed assets

### Depreciation

- 2.1 In 2022, the council was requested to return a grant previously received for Triq Brolli since some expenses were disallowed by the funding authority. To this end, in October 2022 the council recorded the amount refunded in the fixed asset register thus accounting for depreciation for October to December 2022. The depreciation charge for the year should have been for twelve months since the actual asset was capitalised in 2021. We have proposed an audit adjustment to increase depreciation by €4,620, however this was not approved by the council.
- 2.2 The council explained that the adjustment was not included in the audited financial statements because the fixed asset register allows assets to be recorded on the date reported in sage (i.e., reversal date). Our audit report is not qualified since the adjustment proposed was below our tolerable error.
- 2.3 We recommend the council to depreciated fixed assets based on the purchase month. Furthermore, the council should ensure that the depreciation calculated in the plant register is correctly reflected in the financial statements.

## 3 Trade and other receivables

### Long outstanding balances

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

	€
LESA	718.33
Water Services Corporation	448.68
	<u>1,167.01</u>

- 3.2 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

- 3.3 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.
- 3.4 As of audit date, we were informed by the Council that it has formally requested the payment of €67,619. The process is being monitored by the Department for Local Governance.
- 3.5 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.
- 3.6 We recommend that the Council continues to query 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.

**Confirmation of debtor**

- 3.7 We noted that the Council's books of account include a balance of €15,962.42 receivable from WasteServ Malta. The latter confirmed a nil balance. We identified that the below invoices were not accounted for by WasteServ.

	€
Claim for Reimbursement Sept 2022	3,766.56
Claim for Reimbursement Oct 2022	4,080.44
Claim for Reimbursement Nov 2022	3,452.68
Claim for Reimbursement Dec 2022	4,080.44
	<b>15,380.12</b>

- 3.8 We recommend that the Council to liaise with WasteServ Malta Limited to ensure that all invoices are approved and recorded correctly in their books. The remaining balance of €582.30 could not be reconciled since this is carried forward from previous years.

**Pre-regional LES debtors**

- 3.9 According to report 622 generated from the Loqus system, the tribunal payments as at 31 December 2022 were €93,493.24. The opening balance of LES debtors included in the books of account amounts to €104,564. The council received €1,046 from these respective debtors during the current year. The remaining difference of €10,024 was passed by the council to decrease the debtors and respective provision to agree to the Loqus report. The net result in the profit and loss was nil.
- 3.10 We recommend that the council should obtain plausible explanation and evidence from Loqus supporting the increase in tribunal pending payments.

**4 Bank and cash**
**Final withholding tax**

- 4.1 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.
- 4.2 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.

**5 Trade and other payables**
**Long outstanding creditors**

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

Creditor	€
Lands Authority	232.94
Zurrieq Joint Committee for LES	8,485.24
Alfred Schembri & Sons Ltd (note 5.2)	303,513.69
	<b>312,231.87</b>

- 5.2 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.

- 5.3 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**

- 5.4 During our testing we noted that the council erroneously classified the amount of €4,544.48 pertaining to 'FSS liability' as 'accruals'. We have proposed an audit reclassification to reclassify the amount with other creditors. The council has included this adjustment in the final set of financial statements.
- 5.5 We recommend that the council allocates liabilities to the appropriate accounts to ensure proper disclosure of financial and non-financial liabilities.

### **6 Deferred income**

- 6.1 During our audit fieldwork, we noted that in 2018 the Council received funds amounting to €30,000 in terms of an agreement with the Department for Local Government (DLG), which remained unutilised during 2022. To date of the audit fieldwork, the Council expressed to the DLG that it is in the process of starting the capital project. To date, the council did not obtain the final approval from the DLG since further requirements had to be submitted to the department.
- 6.2 We recommend that the council furnishes the DLG with its requested requirements to obtain approval and proceed with the necessary works accordingly.

### **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 Jordy Brincat and Ms Eleanor Manicaro and their staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

