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Our Ref: NAO 107/2021/37
Your Ref:

8 August 2022

The Mayor
Mellieħa Local Council
Mellieħa

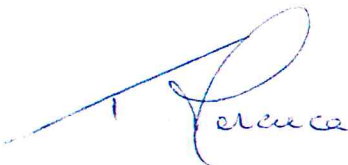
Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2021**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2021.

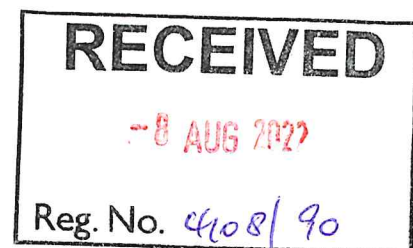
After seeking the Local Council's approval, you are kindly requested to submit your response to the Director (Monitoring & Support) Local Government Division, the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,



Tanya Mercieca
Asst. Auditor General

Encls.



The Mayor
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Our ref MB/mf/108122

27 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 Mellicha 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

We again identified shortcomings in the presentation of revenue items in its proper category (refer to notes 2.1 and 2.2).

We again identified discrepancies between report 483 and the books of account (refer to note 2.3).

We are pleased to note that we did not encounter any custodial receipts not deposited within the required timeframe.

The council once again failed to obtain audited financial statements of the Joint Committee (refer to note 2.8).

1.2 Expenditure

We again identified shortcomings in the council’s accounting for rent (refer to note 3.1).

Fixed assets

We again noted that the net book value in the fixed asset register does not agree to the books of account and the unaudited financial statements (refer to note 4.1).

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1.4 Trade receivables

Once again we identified overdue trade receivables (refer to note 5.1).

We again identified discrepancies in our trade debtors testing (refer to note 5.3).

We are pleased to note that we have not identified irregularities in accrued income.

1.5 Trade payables

We again identified long outstanding trade creditors, some of which are still in dispute (refer to notes 6.1, 6.3 and 6.4).

We again noted that the council is not obtaining supplier statements for all creditors (refer to note 6.7).

We again identified irregularities in accounting for Government grants and deferred income (refer to notes 6.8 to 6.11).

1.6 Financial statements

We again found shortcomings in the financial statements' disclosures required by certain accounting standards (refer to notes 7.1).

2 Income**Annual Government income**

2.1 During our testing of Government income, it was noted that the council included the money received in relation to tourism zones and adjustment fund for decrease in allocation from 2019 amounting to €7,000 with the annual Government Income. A reclassification adjustment was proposed in this regard to reclassify these to other Government Income. The reclassification adjustment was approved by the council and was properly presented in the audited financial statements.

2.2 We recommend that the council recognises income to the appropriate accounts so that the income of the council is properly reported.

LES administration fees

2.3 During our audit fieldwork, we tested income from LES administration fees by comparing report 483 generated from the Loqus system and the amounts in the books of account. We found that the amount in the books of account is overstated by €240. We did not propose an audit adjustment to correct this discrepancy since no explanation was forthcoming for the difference.

2.4 We recommend that the council regularly reconciles invoices with the 483 report to ensure accuracy and completeness.

2.5 Furthermore, we also compared the amount of pre-regional tickets as stated in report 483 which was generated from the Loqus system with the figure in the financial statements. We found that the amount in the books of account is understated by €70. We did not propose an audit adjustment to correct this discrepancy since no explanation was provided for the difference.



- 2.6 During our review of pre-regional LES debtors, we noted that the decrease in tribunal pending payments in report 622 was €4,765 which contrasts with the amount of €236 shown in report 483 for pre-regional contraventions paid during the year. We did not propose an audit adjustment in this respect.
- 2.7 The findings above cast doubts on the integrity of the data being generated from the Loqus IT system. Therefore, we recommend that the council takes the matter up with Loqus to determine what this difference pertains to. We also recommend that the council accounts for the movement from year to year so that the council is aware of what amounts are still due from pre-regional debtors at any point in time.

Joint Committee

- 2.8 We noted that the North Joint Committee, of which Mellieha Local Council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2009.
- 2.9 The reserves of the committee at that date amount to €1.6 million. In the absence of audited financial statements 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.
- 2.10 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 Expenses

Rent

- 3.1 Whilst performing audit procedures we noted that the council recorded a rent expense amounting to €3,760 in the books of account. We noted that the council did not account this amount in accordance IFRS 16 'Leases'. The council also failed to provide us with an assessment of leases in line with the standard. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 3.2 We recommend that the council reviews all lease contracts in place and considers the impact of IFRS 16 'Leases' on the council's financial statements and adjust if the need arises.

**4 Fixed assets****Reconciliation of financial statements to fixed asset register**

- 4.1 We have noted that the fixed asset register is not in agreement with the financial statements. The following are the variances noted:

Asset category	NBV in fixed asset register €	NBV in unaudited financial Statements €	Difference €
Urban improvement & construction	2,554	452,111	(449,557)
Plant, machinery & equipment	14,166	8,314	5,852
Office furniture & fittings	71,377	71,131	246
Special programmes	1,039,298	671,677	367,621
	1,127,395	1,203,233	(75,838)

- 4.2 We recommend the council revisits the fixed asset register and ensures that this agrees to the books of account. This is to ensure that the fixed asset register is complete and that all classifications are included in their proper category.

5 Trade receivables**Overdue trade receivables**

- 5.1 The books of account includes the following overdue receivables for which no provision was made in the books of account:

Debtor	€
Sport Malta	349.8

- 5.2 The council should regularly review overdue receivables for recoverability and if so, chase these debtors by sending reminders for the long overdue amounts. If recoverability of these debtors remains doubtful, the council should also consider making a provision for doubtful debts in the books of account after obtaining council approval in a meeting.

Confirmation of debtor

- 5.3 During the year under review, the council has signed an agreement with Wasteserv Malta Ltd for the reimbursement of organic waste collection. The council is issuing invoices on a monthly basis. We have obtained a statement from Wasteserv Malta Ltd stating that the balance due by them at year-end, amounts to €12,817. The council has a book balance of €18,133. This results in a difference of €5,316. Upon further investigation we noted that the debtor did not record the following invoices: 097147, 097639, 098051 and 098135 amounting to €865, €3,037, €1,344 and €21 respectively.



5.4 We recommend that the council contacts Wasteserv Malta Ltd and ensures that all invoices are approved and recorded in their books. The council should also chase for payment.

6 Trade payables

Long-outstanding creditors

6.1 Whilst scanning the aged list of creditors we noted that the council’s creditors’ list includes the following balances which have been outstanding for more than one year:

Creditor	€
Salvu Mifsud	674
	<hr style="width: 100%; border: 0.5px solid black;"/>
	674

6.2 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.

Amounts in dispute

6.3 During our audit fieldwork it was noted that the council has an overdue balance with Mr. Antoine Fenech amounting to €258. It was noted by the council that the pending amount is in dispute due to skips provided not in line with contractual requirements. Therefore, the council did not pay the invoices which were issued in this regard.

6.4 Moreover, the council noted that the amount of €674 due to Salvu Mifsud is also disputed since the council is not in agreement with the number of skips being provided by the contractor.

6.5 We recommend that the council does its utmost to protect its interests and reflects the outcome of any negotiations or agreements in the books of account. Furthermore, the council should not have posted the invoices prior to the receipt of services.

Supplier statements

6.6 We noted that the council did not obtain statements at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account.

6.7 This is contrary to the relevant procedures, which require the council to request monthly statements from all suppliers. Memos/circulars issued by the Department for Local Government specifically state that the council should reconcile the creditors to supplier statements monthly.



Deferred Income

- 6.8 During our testing on deferred income, we noted a grant in relation to Erasmus+ Project LGBTIQ Rights' amounting to €22,548.80. The council confirmed that during October of 2021, this project was fully cancelled, and the budget received was paid back to the European Union, as traced to the bank statement. An audit adjustment was proposed in this regard to reverse the amount shown as deferred revenue. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 6.9 Similarly, we noted a grant relating to the LC Care Project 2019 amounting to €4,000. Such amount was also doubly recorded in 2021 under a separate deferred income account. As at June 2021, the council received a refusal of development permission letter from the planning authority. With this, the council resolved on September 2021 that the project will be cancelled and that the initial grant received be returned to the Ministry for Agriculture, Fisheries, Food and Animal Rights. Audit adjustments was proposed in this regard to reverse the amount shown as deferred income to the creditors control account and to reverse the double entry recorded, respectively. The audit adjustments were approved by the council and were properly presented in the audited financial statements.
- 6.10 Additionally, the council also recorded the receipt of cash amounting to €697, a grant received for the purchase of a gym equipment as reduction from the deferred income, when the same was zeroed out in the prior year as this was not yet received by the end of 2020. An audit adjustment was proposed to reverse this entry. The audit adjustment was approved by the council and were properly presented in the audited financial statements.
- 6.11 Further, we noted a grant relating to the LC Care Project 2020 amounting to €3,070. As confirmed by the council, such amount was fully utilised during the year to purchase cat foods. An adjustment entry was proposed to reclassify this deferred income item to other government income. The audit adjustment was approved by the council and were properly presented in the audited financial statements.
- 6.12 We recommend that the council revisits the deferred income account composition every quarter to check which grants should be released to income or which grants are cancelled and should be reverted to creditors account .

7 Financial statements

Presentation of financial statements

- 7.1 The council is required to prepare financial statements in conformity with International Financial Reporting Standards (IFRS). During our audit, we identified that the council's unaudited financial statements needed updates and further corrections in accordance with IFRS.
- 7.2 We recommend that the council gives more attention to the preparation of the financial statements. The required updates and corrections 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 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 Carmel Debono and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

