

Our Ref: NAO 107/2021/39

Your Ref:

1 August 2024

The Mayor
Mosta Local Council
Mosta

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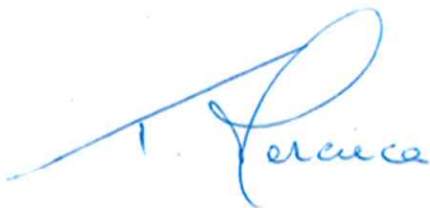
Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2023**

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 2023.

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,



T. Mercieca
Asst. Auditor General

Encls.

The Mayor
Mosta Local Council
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Our ref: MB/bb/118924

30 May 2024



Dear Sir,

Financial statements for the year ended 31 December 2023

During the course of our audit for the year ended 31 December 2023, we have reviewed the accounting system and procedures operated by Mosta 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 Joint Committee

We again noted that the issue of the joint committee was not resolved during the year (refer to note 2.1).

1.2 Other Government income

We again noted instances of income not being recorded in the appropriate account (refer to note 2.4).

1.3 Expired contracts

We again noted that the council is still using expired contracts (refer to note 3.1).

1.4 IFRS 16 'Leases' assessment

We again noted that the council failed to assess and account for leases in accordance with IFRS 16 (refer to note 3.3).

1.5 Upkeep of fixed asset register

The council again failed to update the fixed asset register (refer to note 4.1).

1.6 Additions to fixed assets and grants

We have again noted a number of shortcomings in fixed assets additions (refer to note 4.4).

1.7 Slow moving stock

During the year, we noted that the council's inventory is slow moving (refer to note 5.1).

1.8 Overdue receivables

We have again noted long outstanding receivables in the books of account (refer to note 6.1).

1.9 Credit balances in debtor's list

We again noted a debtor with credit balances in aging report provided (refer to note 6.3).

1.10 Debit balances in creditor's list

We are pleased to note that there were no material debit balances noted per creditor's list as at 31 December 2023.

1.11 Supplier statements

We are pleased to note that the council has obtained all suppliers statements as at 31 December 2023.

1.12 Long outstanding creditors

We are pleased to note that the council has no outstanding creditors as at 31 December 2023.

1.13 Other creditors

The council again failed to resolve the issue of other creditors balances (refer to notes 7.1 and 7.9).

1.14 Refundable deposits

The council again failed to resolve the issue of the refundable deposits (refer to notes 7.5).

1.15 Deferred income

We again identified income recorded in the books which had to be accounted as deferred income (refer to note 8.1).

1.16 Accrued income

We again identified shortcomings in accrued income (refer to note 9.1)

1.17 Personal emoluments

We again identified discrepancies on the FS filings of personal emoluments (refer to note 10.1)

1.18 Books of account

The council is still recording grouped transactions and not including the details identifying the items which are being reclassified (refer to note 11.1).

1.19 Presentation of financial statements

We did not note any shortcomings in the presentation of financial statements.

2 Income**Joint committee**

- 2.1 We noted that the North Joint Committee, of which Mosta Local Council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2009.
- 2.2 The reserves of the committee at that date amount to €1.6 million. In the absence of audited financial statements for 2011 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.
- 2.3 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.

Other Government income

- 2.4 The Council normally receives advanced payments from Department of Local Government to subsidize the salary of a personnel that is under a Community Inclusive Employment Scheme (CIES). The advanced payment is recorded as part of deferred income.
- During 2023, the Council failed to release the advanced payment amounting to €12,595. The Council credited the debtors control account instead of recognizing deferred income. An adjustment was passed to reflect the amount to the proper account.
- 2.5 We further noted that the Council failed to recognize the income related to the actual incurred CIES salaries expense in 2023. The Council received the advance payment for 2023 salaries in 2022 amounting to €10,717. The beginning deferred income was erroneously reversed to cash account. We proposed an adjustment to reverse the entry made and recognized the actual incurred expense of €10,214 as other government income and corrected understatement of deferred income amounting to €512. This adjustment was correctly incorporated in the audited financial statements.
- 2.6 The council should ensure that transactions are properly allocated to the correct account. Furthermore, the council should ensure that the trial balance is agreeing to the financial statements.

3 Expenditure

Expired contracts

- 3.1 The council continued using expired contracts during the year under review and kept on using the service from the same supplier under the old terms and conditions. The following are the expired contracts:

Tender number	Details	Date of expiry	Notes
KLM 02-2011	Provision for services of a legal consultant for Mosta Local Council	30.04.2015	(a)
KLM03-2011	Provision for a service of a maintenance hand/ messenger for the Mosta Local Council	31.05.2015	(b)
	Construction of footpaths and culverts and various other works	06.11.2015	(c)

(a) The total expenditure for the provision for legal services incurred in 2023 amounts to €5,914. To date of audit fieldwork, the council did not issue a call for quotations.

(b) The council incurred total expenditure of €53,856. To date of audit fieldwork, the council did not issue a call for tenders.

(c) The council did not issue a call for quotation or tender during the year.

- 3.2 We would like to remind that the council should start preparing for a new call for tenders ahead of the expiry.

IFRS 16 'Leases' assessment

- 3.3 Whilst performing our audit procedures we noted that the council recorded rent expense amounting to €43,632 in the books of account in relation to five properties leased by the council. The council did not assess IFRS 16 for the rentals since the rental agreements for the contracts have already expired and the council did not enter into a renewal agreement to determine the number of years the properties will be rented.

- 3.4 We recommend that the council enters into renewal agreements with the lessors and assess IFRS 16. 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.

4 Fixed assets

Fixed asset register

- 4.1 During our audit fieldwork we were not presented with a fixed asset register. In our previous management letter we had noted that during the transition of directive 1/2017 the council had a number of shortcomings in the fixed asset register which were not addressed.

- 4.2 During the audit, we were presented with asset workings in excel which included the net book value of assets as at prior reporting period and additions for the year. The schedule did not included details of assets purchased during the year.
- 4.3 We suggest that the council updates its fixed asset register and categorises assets appropriately. This will ensure the appropriate treatment of depreciation and hence the correct net book value.

Additions to fixed assets and grants

- 4.4 Whilst reviewing the fixed asset schedule we noted that grants recorded amounting to €15,336 was incorrectly included in special programmes grant instead of recording the grant as part of urban improvement grants. We have proposed an audit adjustment to rectify the issue. The adjustment was correctly included in the audited financial statements.

5 Stock

Net realisable value of inventory

- 5.1 During the year we noted that the council's inventory is slow moving.
- 5.2 The council should assess whether the books are being carried at the lower of cost and net realisable value in the financial statements in accordance with International Financial Reporting Standards. Write-offs or provisioning of inventories might be necessary if the books remain slow-moving or have no realisable value.

6 Trade and other receivables

Overdue receivables

- 6.1 We noted that a total provision of €16,086 was recorded as at 31 December 2023 in the books of account for the trade receivables out of which the following have been long overdue:

Debtors	€
Other Debtors - Alphonse	6,291
LESA	4,282
Ministeru tas-Sahha, l-Anzjani u l-Kura	4,528
Transport Malta	3,108
Shaun Theuma Marshall	2,666
Water Services Corporation	503
Parrocca Mosta	540
Owen Galea	470
Aisha	299
Magical Moments	291
Mario Borg	280
Other debtors	890
Total	24,148
Provision per books	(16,086)
Under provision	€ 8,062

- 6.2 We recommend that, although a provision has been made, the council should continue trying to obtain settlement from these debtors reminding them that the amounts have been long overdue.
- 6.3 The debtor's aging report includes a credit balance of €12,595 from Department of Local Government (DLG). DLG subsidizes a salary of a personnel working in the Council and usually pays in advance. We were able to validate that the amount was received in advanced. An adjustment is made to record the balance as part of deferred income.

7 Other payables

Other creditors

- 7.1 Included with other creditors is a balance of €13,370 with respect to 'rent due to Lands Department'. This balance is being carried forward from previous years. The council failed to provide us with supporting documentation. Our audit report was qualified in this respect.
- 7.2 We advise the council to review this amount, and either settle the balance or, if not due, reverse this after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.
- 7.3 We noted that other creditors also include a balance of €2,285 with respect to 'other creditors – library'. The council informed us that it collects income on behalf of the library for photocopying services. The income is recorded in the council's books of account and included with other creditors. The income is then used to cover expenses in connection with library such as printer toner etc.
- 7.4 We recommend that all payables included in the books of account are adequately supported by invoices. The council should appropriately record any income or expenditure in the profit and loss statement.

Refundable deposits

- 7.5 During our audit fieldwork we noted that the council collects deposits for permits of construction works carried out in the locality of Mosta. The deposits are refunded back only if the council obtains assurance that the sites were left in a good condition after all works have been carried out.
- 7.6 The books of account include an amount of €62,004 in relation to refundable deposits. The deposits vary from 2007 to 2019. The council also informed us that the permit deposits are deposited in two separate bank account (one savings and one current). As at 31 December 2023 the council had €66,211 in its bank accounts. When compared to the books of account this highlights a difference of €4,207.
- 7.7 The council should review this balance and reconcile all differences noted above. Furthermore, the council should seek legal advice to check if these deposits are time-barred and in that case recognise them in income accordingly.
- 7.8 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.

Other creditors – Lands Department and LESA

- 7.9 During the year under review we noted that included with 'other creditors' is an amount of €14,572 pertaining to a suspense account for the balances due to LESA and Lands Department for the receipts not yet paid to these entities. The council informed us that the account is being used to input all bank deposits made pertaining to LESA and Lands and then effect payments to them from the same account. The council failed to keep a list of payments received and made during the year. To this end the council could not identify which payments are still due to LESA and Lands and no supporting documentation was provided to us for the above amount. Our audit report was qualified in this respect.
- 7.10 We recommend the council to prepare a list with all receipts made by residents to the council, deposits made in council bank account and transfers made to LESA and Lands. Furthermore, this will help the council in identifying balances due easily and avoid any double payments.

8 Deferred income**Realisation of deferred income**

- 8.1 During the year under review we noted that included with 'deferred income' are amounts of €3,200 and €49,278 pertaining to the LC Care Scheme and construction and restoration of rubble walls in Mosta, respectively. These projects have already been issued with a completion report hence the amounts should be reclassified to fixed asset grants. An adjusting entry was recorded to eliminate the transactions in the deferred income account.
- 8.2 We recommend the council review balances as at year end and ensure that amounts are classified correctly.

9 Accrued income

- 9.1 We noted that the council was granted funds for annual cultural activities amounting to €18,000. The council received 75% advance payment for this grant and the fund was fully utilized in 2023, but the 25% balance is yet to be received. An adjustment was proposed to recognize the balance of €4,500 as accrued income and other government income. The adjustment was correctly incorporated in the audited financial statements.
- 9.2 We noted that the accrued income of €5,371 on project for construction of rubble was found to be still receivable as of year-end but no accrual was recorded. An adjustment was passed to correct the understatement of accrued income.
- 9.3 We inspected the supporting documents pertaining to the accrued income recorded for the project on 'creation of outdoor gym at Zokkrija'. The contract stipulated that the Council is eligible to receive €122,313 as grant however, the amount recorded as accrued income is €148,360 since the Council foresees that the entire disbursements made for the works can be claimed.
- 9.4 The overaccrual amounting to €26,047 should be reversed as the amount is unsupported with any agreement and there is no high probability that the amount is collectible. We passed an adjustment to reverse the entry.

- 9.5 We inspected the supporting documents pertaining to the accrued income recorded for the project on 'refurbishment of Gnien 15 t'Ottubru'. The balance for accrued income based on the contract that the Council is eligible to receive is €26,600. However, the amount recoded as accrued income is €57,054 since the Council foresees that the entire disbursements made for the works can be claim.
- 9.6 The overaccrual amounting to €30,454 should be reversed as the amount is unsupported with any agreement and there is no high probability that the amount is collectible. We passed an adjustment to reverse the entry.
- 9.7 We inspected the supporting documents pertaining to the accrued income recorded for the project on 'refurbishment of Gnien Gorg Grognet de Vasse'. The contract stipulated that the Council is eligible to receive €171,406 as grant however, the amount recoded as accrued income is €216,801 since the Council foresees that the entire disbursements made for the works can be claimed.
- 9.8 The overaccrual amounting to €45,395 should be reversed as the amount is unsupported with any agreement and there is no high probability that the amount is collectible. We passed an adjustment to reverse the entry.
- 9.9 We have noted that several projects were recognised as income and capitalised as grants during the year, but are still deferred income as at end of the year, amounting to €48,018. These projects are 'refurbishment of road with printed concrete – Bufula Hamra', 'embellishments of roads with printed concrete in Triq Charles J. Vassallo and Triq Dun Mikiel Xerri', and 'embellishment of road with paving blocks at Sqaq Xorxa and Triq San Anton Abbati Sqaq Nru 3.' An adjusting entry was posted to reverse the entry.
- 9.10 We recommend that the Council maintain a masterfile for all grants whereby amounts already received reconciles with the deferred income and amounts which are still for collection reconciles with accrued income. In this way, errors in postings are minimized.

10 Personal Emoluments

- 10.1 We noted a difference on the Councilors' allowances per FS 3 filing against the balance per books amounting to €1,670. The Council did not provide any explanation on the difference.
- 10.2 We recommend that the council perform reconciliation, at least annually, on the FS filings versus amounts recorded per books.

11 Books of account

- 11.1 During audit fieldwork we identified a number of transactions passed in the books of account which consisted of grouped transactions, particularly . The nominal ledger did not include details identifying the items which are reclassified and thus it was difficult to trace all movements. This was noted in YE2023 adjustments posted in the books of account as at 31 December 2023.
- 11.2 Transactions in the books of account should be posted individually. In particular all journal entries should be substantiated by a detailed narrative explaining the purpose of the journal entry.



12 Cash in bank accounts

- 12.1 During audit fieldwork we identified that there was a transaction in 2022 that was deleted. Hence, the opening balance from the accounting system does not agree with the audited balance per books. The entry includes a €5,895 credit to cash in bank account. This is determined while performing review of the client's bank reconciliation procedures.
- 12.2 We recommend that the Council reviews its monthly closing balances to confirm that the balances were true as of end of periods.

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. Christopher Grech and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,