

The Mayor
Zabbar Local Council
Ċentru Ċiviku,
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Haż-Żabbar ZBR 1322

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20 June 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 Zabbar 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 Trade payables

We again noted that the Council again 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.

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.

We understand that the Council does make every effort to obtain statements from its suppliers and 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.

1.2 PPP creditor

We again noted the same issues in the prior year, when testing the PPP creditor, the council failed to obtain the statement from the supplier. Provided that the 2017 statement showed a discrepancy of €37,874, and the fact that no statement has been obtained since then, we had to modify our audit report once again.

We acknowledge that the Council believes that the 2017 statement was not correct; however, we advise the Council to obtain a statement from the PPP creditor to review any differences and reconcile accordingly.

We also noted that the amounts in the unaudited financial statements differed from the amounts shown in the workings provided by the council as follows:

	Amounts in unaudited financial statements	Amounts in council's working	Difference
	€	€	€
Short-term	24,597	-	24,597
Trade Payables	-	24,597	(24,597)
Total	24,597	24,597	-

A reclassification was proposed to the council to show the amount of PPP creditor separately from trade payables. This reclassification was correctly incorporated in the audited financial statements.

As confirmed by the management, the Council is expected to settle the amount once the Vella Group, creditor, provides its bank account details.

1.3 Reconciliation of financial statements with accounting records

We identified several differences between the net book value (NBV) of certain classes of assets in the financial statements and the respective net book value in the nominal ledger. These are summarised in the table below:

Asset category	NBV in unaudited financial statements	NBV in accounting records	Difference
	€	€	€
Construction works	536,547	41,213	495,334
Furniture and fittings	37,265	18,363	18,902
Urban improvements	153,905	582,625	(428,720)
Office and computer equipment	13,935	25,754	(11,819)
Plant and machinery	2,398	14,321	(11,923)
Motor vehicles	6,834	7,667	(833)
Assets not yet capitalised	38,128	99,074	(60,946)
	801,778	801,783	5

We remind the Council that any variances between the assets disclosed in the financial statements and the nominal ledger need to be investigated and reclassified accordingly.

1.4 Details of fixed asset register

When reviewing the fixed asset register, we again noted that certain details like invoice numbers and suppliers' details are missing.

We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)
- Cost
- Depreciation rate
- Location of the asset
- Grants received

1.5 Reconciliation of financial statements to fixed asset register

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 €
Trees	39,201	12,766	26,435
Construction works	349,478	536,547	(83,571)
Furniture and fittings		37,265	1,671
Urban improvements	167,831	153,905	13,926
Office and computer equipment		13,935	(2,763)
Plant and machinery	3,505	2,398	1,107
Motor vehicles	7,251	6,834	417
Assets not yet capitalised		38,128	(57,284)
	717,516	801,778	(100,063)

The difference in the NBV results to a possible understatement of depreciation expenses amounting to an approximate amount of €7,096. Since this amount is only an approximation and cannot be ascertained based on the reconciliation made, no adjustment was proposed.

We recommend that 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. This is also to ensure that the correct depreciation expenses was computed and recorded during the year

2 Income

2.1 Unidentified cash deposit

We noted that the Council has an unidentified Cash deposit amounted to € 1,798.42. It was explained that this is related to the bulk transactions of contraventions collected and remitted to the Council in a single payment. Details of the payor is highly dependent on the information provided to Council.

We recommend that the Council continuously communicate with the different Councils in preparing the monitoring and reconciliation for the remittance of contraventions. This is to ensure that revenue is appropriately record and the record per books and per the other Councils are reconciling.

2.2 **Income from contraventions**

We noted a difference of €33,192.51 between the pre-regional 483 report and the amount recorded in the books. As enquired with the Council's executive secretary, this was due to the contraventions that were waived off as per the instruction of LESA but was not reflected in the Loqus system wherein the pre-regional 483 report is extracted.

We recommend that the council continuously communicate with the LESA to ensure that the details in the Loqus system are updated.

3 **Trade and other payables**

3.1 **Long outstanding creditors**

While reviewing the committee's aged suppliers' list we have again noted that the committee has long-overdue balances amounting to € 37,443.70. The following are the creditors' balances that have been overdue for one hundred eighty (180) days and more:

Supplier	In creditors' list €
Vella Group Limited	26,948.52
S.Spagnol Constructions Ltd.	6,039.14
Andre Gialanze	1,550.00
Central Asphalt Limited	1,149.93
Telemalta/ Go	687.41
Public Cleansing Department	600.00
Equinox Advisory	177.00
Emanuel Mallia & Associates	141.60
RC Pools	57.00
AIS Technology Limited	53.10
Jane Gauci	40.00
Total	37,443.70

We advise the committee to review all balances, and either settle or, if considered non-payable, reverse after careful consideration and approval by the committee. Any decisions taken should be fully explained and minuted.

4 Trade and other receivables

4.1 Overdue receivables

The council's debtors' list includes long outstanding balances receivable from the following:

Debtor	In Debtors' list
Water Services Corporation	40,359.18
Zebbug - Malta Local Council	1,131.57
LESA	1,120.02
Kalkara Local Council	873.35
Centro Moda	500
Paola Local Council	409.35
Regjun Xlokk	407.66
Tribunal Fgura	256.02
Don Berto	250.00
Sliema Local Council	232.96
Zejtun Local Council	232.88
HSBC	200.00
SC Engineering Supplies Ltd	186.35
Fgura Local Council	139.39
Birkirkara Local Council	134.94
Isla Local Council	128.04
Msida Local Council	116.44
Kenneth Hardware Store	93.17
Pitty's Rent A Car	83.86
Kercem Local Council	83.23
Valletta Local Council	69.91
Gzira Local Council	69.88
Regjun Centru	58.23
Ghaxaq Local Council	58.22
Luqa Local Council	58.2
San Gwann Local Council	46.63
Qrendi Local Council	46.58
Birgu Local Council	46.56
San Pawl Il- Bahar Local Council)	46.55
Tarxien Local Council	46.51
Marsascala Local Council	46.45
Bormla Local Council	46.38
Zabbar - Online	37.26
Santa Lucija Local Council	34.95
Gharghur Local Council	34.94
Xghajra Local Council	34.94
Lija Local Council	23.29
Siggiewi Local Council	23.29
Naxxar Local Council	23.28
Transport Malta	14.02
Santa Venera Local Council	11.65
Drainage Department	4.66
Water Services Drainage Section	4.66
	€47,825.45

The council should ensure that the balances are valid and, if so, pursue these debtors by sending reminders for the long overdue amounts. In the event that

recoverability of these debtors remains doubtful, the council should also consider making a provision for doubtful debts in the books of account after obtaining approval in meeting.

3 Other Matters

3.1 Preparation of financial statements

We would like to point out that in accordance with the Department's communications and instructions, councils shall prepare their financial statements in conformity with International Financial Reporting Standards (IFRSs). While the Council have complied with the minimum requirements of the standards, we recommend that the Council maintains consistency in the preparation of the financial statements in the areas of note captions, alignment and referencing.

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 Stephanie Testaferrata de Noto and the staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Mark Bugeja
Partner