

The Mayor
Zabbar Local Council
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29 April 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 Zabbar Local Council (the Local 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 Local 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 Local Council to request monthly statements from all suppliers. Memos/circulars issued by the Department for Local Government specifically state that the Local Council should reconcile the creditors to supplier statements monthly.

We understand that the Local 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 Local Council keeps on chasing its suppliers for regular statements. This will ensure that the Local 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 issue in the prior year when testing the PPP creditor, the Local Council failed to obtain the statement from the supplier. We confirmed the balance with the PPP creditor and based on their reply, the amount due to them is € 58,584 while the amount recorded in the Local Council's books is € 24,597, resulting to a difference of € 33,987. Since 2017, this discrepancy has been noted. The fact that no statement and reconciliation have been obtained since then, we had to modify our audit report once again.

We acknowledge that the Local Council believes that the 2017 statement was not correct; however, we advise the Local 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 is different from the amounts shown in the workings provided by the Local 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 Local 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 Local 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	445,821	(30,600)	476,421
Furniture and fittings	32,772	13,868	18,904
Urban improvements	238,106	634,216	(396,110)
Office and computer equipment	15,785	27,605	(11,820)
Plant and machinery	1,329	13,248	(11,919)
Motor vehicles	4,281	5,115	(834)
Assets not yet capitalised	18,546	93,188	(74,642)
	756,640	756,640	-

We remind the Local 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 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	43,875	17,440	26,435
Construction works	-	445,820	(445,820)
Furniture and fittings	34,442	32,771	1,671
Urban improvements	213,421	238,106	(24,685)
Office and computer equipment	13,023	15,785	(2,762)
Plant and machinery	5,806	1,329	4,477
Motor vehicles	4,698	4,281	417
Assets not yet capitalised	281,774	18,546	263,228
	<u>597,039</u>	<u>774,078</u>	<u>177,039</u>

We recommend that the Local 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 expense was computed and recorded during the year.

1.6 Reconciliation of additions of fixed assets and disclosures in the financial statements

We noted that the additions in the general ledger for certain fixed assets categories are not in agreement with the amounts disclosed in the financial statements.

Asset category	Additions in general ledger €	Additions in unaudited financial statements €	Difference €
Construction works	18,914	-	18,914
Urban improvements	76,532	93,888	(17,356)
Assets not yet capitalised	20,236	21,794	(1,558)
	<u>115,682</u>	<u>115,682</u>	<u>-</u>

We recommend that the Local Council revisits the disclosure in the financial statements and ensure that the amounts of the addition are accurate with respect to the fixed asset category. This is also to ensure that the succeeding roll-forward of each category is correct.

2. Income

2.1 Unidentified cash deposit

We noted that the Local Council has an unidentified cash deposit amounted to € 6,942. It was explained that this is related to the bulk transactions of contraventions collected and remitted to the Local Council in a single payment. Details of the payor is highly dependent on the information provided to Local Council.

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

3 Trade and other payables

3.1 Long outstanding creditors

While reviewing the Local Council's aged suppliers' list we have again noted that the Local Council has long-overdue balances amounting to € 56,018. The following are the creditors' balances that have been overdue for one hundred eighty (180) days and more:

Suppliers	In creditors' list €
Vella Group Limited	26,949
WasteServ Malta	19,729
S. Spagnol Constructions Ltd	6,040
Central Asphalt Limited	1,150
Public Cleansing Dept.	600
Telezone	448
JMD Technical Support & Services	311
Telemalta / Go	248

Equinox Advisory	177
Leslie Balzan	177
The Wignacourt Garden	117
Jane Gauci	40
Reuben's Iron Works	32
Total	56,018

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

4 Trade and other receivables

4.1 Receivable from Water Services Corporation

The Local Council has recorded a receivable from Water Services Corporation amounting to € 40,554 relating to the invoices issued with respect to the agreement for the permanent reinstatement of the surfaces of roads which are excavated by or on behalf of the corporation within the locality of Zabbar. We sent confirmation letter to the corporation to confirm the balance, and per their reply, the corporation has no outstanding balance payable to the Local Council as at 31 December 2023. We asked for the reconciliation of the variance, however the Local Council failed to provide.

We recommend the Local Council to send statements to other government agencies at least on an annual basis for confirmation to ensure the accuracy of its books of accounts.

4.2 Long-outstanding debtors

The Local Council's debtors' list includes long outstanding receivable from the following:

Debtors	In debtor's list €
Water Services Corporation	40,429
LESA	1,120
Zebbug - Malta Local Council	1,132
Regjun Xlokk	256
KALKARA Local Council	873
Centro Moda	500
PAOLA Local Council	409
ZEJTUN Local Council	280
Tribunal Fgura	256
Don Berto	250
SLIEMA Local Council	233
HSBC	200
Zabbar - Online	37
SC Engineering Supplies Ltd	186
FGURA Local Council	139
BIRKIRKARA Local Council	135
ISLA Local Council	128
MSIDA Local Council	116

Kenneth Hardware Store	93
Pitty's Rent A Car	84
KERCEM Local Council	83
VALLETTA Local Council	70
GZIRA Local Council	70
Regjun Centru	58
GHAXAQ Local Council	58
LUQA Local Council	58
SAN GWANN Local Council	47
QRENDI Local Council	47
BIRGU Local Council	47
SAN PAWL IL-BAHAR Local Council	47
TARXIEN Local Council	47
MARSASCALA Local Council	46
Bormla Local Council	46
SANTA LUCIJA Local Council	35
GHARGHUR Local Council	35
XGHAJRA Local Council	35
LIJA Local Council	23
SIGGIEWI Local Council	23
NAXXAR Local Council	23
Transport Malta	14
SANTA VENERA Local Council	12
GO	9
Regjun Ghawdex	7
Water Services Drainage Section	5
Drainage Department	5
	47,806

The Local 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 becomes doubtful, the Local Council should consider making a provision for doubtful debts in the books of account after obtaining approval of the Local Council committee.

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, Local Councils shall prepare their financial statements in conformity with International Financial Reporting Standards (IFRSs). While the Local Council have complied with the minimum requirements of the standards, we recommend that the Local 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 Local 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