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Qormi Local Council
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Malta

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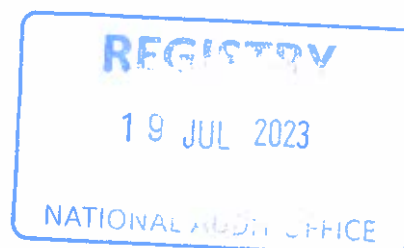
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Our Ref: MB/mf/108423

6 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 Qormi 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 that there are the transactions recognized as other government income which are still deferred and should be recorded under deferred income (refer to note 2.1).

1.2 Upkeep of fixed asset register

We again noted that the fixed asset register does not include all necessary information (refer to note 3.1).

1.3 Debtors

We again noted that there are still long outstanding receivables which have not yet been provided for (refer to note 4.1).

1.4 Creditors

We again identified debit balances in the creditors' list (refer to note 5.3).

We are pleased to note that we did not identify any discrepancies in deferred income aside from note 2.1

1.5 Bank and Cash

We are pleased to note that the council prepared financial statements in line with IFRS.

1.6 Inventory

We are pleased to note that we did not identify misstatements in inventory account.

2 Income

Funds received from central government

- 2.1 During our testing of funds received from central government, particularly on other government income account, we noted that the council recognised an income from funds received for capital projects funding which was signed on 30 November 2022. The income recognised amounted to €62,625 which is an advance payment representing 75% of the total funds. However, we noted that the project has not been utilized as of 31 December 2022. With this, an audit adjustment was proposed to reverse the income recognised and record a deferred income instead. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

General Income

- 2.2 We noted that the Council received in advance €10,534.48 in 2022 for the salary of two of their employees on 2023 which is part of the CIES funding. The Council recorded the CIES 2023 on 2022 as income which should be deferred as it is for the salary in 2023. With this, an audit adjustment was proposed to treat the fund as deferred income. The council then approved the adjustments and was properly presented in the financial statements.

Joint Committee

- 2.2 We noted that the Central Joint Committee, of which Qormi Local Council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2010.
- 2.3 We have obtained the last audited financial statements of the Central Joint Committee and noted that reserves at that date amount to €43,207. 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.
- 2.4 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 Property, plant, and equipment

Fixed asset register (FAR)

- 3.1 When reviewing the fixed asset register, we noted that relevant details like invoice number and location are missing. Furthermore, the description of the assets in the FAR does not always contain the desired detail. Examples include:

Asset category	Asset code	Description	Net book value €
Furniture and fittings	KLQ00056	Desk Mayor's Office	185.86
Furniture and fittings	KLQ00057	Desk Secretary's Office	233.64
Furniture and fittings	KLQ00059	Conference Table	84.77

3.2 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

3.3 An updated fixed asset register enables the council to exercise proper control over the council's property, plant, and equipment. It provides a suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the council's fixed asset register is fully updated.

4 Debtors

Overdue receivables

4.1 We have also noted some long-term receivables which have not been provided for. These are summarised below:

Debtor	€
Bugeja Lucas Maria Paula	1,666.66
Ben's Pizzeria	1,048.14
Department of Active and Comunity Care	449.66
Sarcia Tattoo Parlour	232.92
GO plc	72.23
	<u>3,469.61</u>

4.2 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 it still has the right to collect the amounts due.

Confirmation of debtors

4.3 As part of our audit procedures we traced the receivables from Wasteserv Malta Ltd to its statement of accounts. From our testing of the balance, we noted that the amount shown in the SOA is €27,079.26 compared to the amount per books of €36,105.68 resulting to a difference of €9,026.42. No audit adjustments were proposed in this regard since no reconciliation was provided by the council to reconcile the discrepancies noted.

4.4 We recommend that, as with all debtors, regular reconciliations of amounts due are prepared to promptly highlight any differences and is in a position to tackle these in a timely manner.

Provision for doubtful debts

- 4.5 Per checking of the entries, we noted that €2,208.58 was written off this year with an entry to debit bad debt expense and a credit to debtors control account. Since the write off is included as part of the provision for doubtful accounts, the entry for write off should be a debit for provision for doubtful accounts and a credit for trade creditors for the amounts written off. With this, we have proposed an adjustment to correct the initial entry by the council.
- 4.6 We recommend that the council should properly record the write-off of long outstanding debtors.

Prepayments

- 4.7 We noted that a transaction for maintenance agreement with High Rise was recorded by the council as prepayment amounting to €4,234.52 however per further checking, the transaction was only invoiced for €390.00 which resulted into a should be prepayment of €137.84. With this, we proposed an adjustment for the difference of the amount recorded as prepayment of €4,372.36.
- 4.8 We recommend that there should be a proper checking of invoices and computation of prepayments.

5 Creditors

Long outstanding trade creditors

- 5.1 Whilst reviewing the council's aged supplier list we have again noted that the council has long overdue balances. These amounts have been carried forward from preceding accounting periods. The following are the suppliers' balances that have been overdue for more than a year:

Supplier	€
Rockcut Ltd	127,107.73
Road Maintenance Services Ltd	22,653.61
WM Environmental Ltd	10,344.88
The Light Housekeeper	3,133.87
Progressive Solutions Ltd	1,794.54
Water Services Corporation - Civil Works	904.96
Curmi Paul	900.00
Caruana Sandro	893.01
Joint Committee	502.89
Smartlight Systems	424.80
Munch & Crunch	326.80
OPAL Ltd	300.00
Guard & Warden Service House	53.79
Strand Electronics	41.30
Vodafone Malta Ltd	32.77
APCO SYSTEMS LTD	16.52
Gino Chairs & Tables	11.80
Zrinzo Azzopardi Dr Stefan - Avukat	-47.20
LESA	-110.11
Pace Fire Prevention	-163.31
Mifsud Adrian	-212.40
TSS Sound Rentals	-1,770.00
LK Limited	-2,313.30
R & A Waste Services Ltd	-10,670.39

Cassarino Salvatore	-16,794.21
Mifsud Salvu	-39,172.08
	<u>71,497.83</u>

- 5.2 We advise the council to individually review these amounts, and either settle them or, if not due, reverse them after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

Debit balances in creditors' list

- 5.3 We have identified the following debit balances in the creditors' list amounting to €71,817.18:

Supplier	€
Mifsud Salvu	39,172.08
Cassarino Salvatore	16,794.21
R & A Waste Services Ltd	10,670.39
LK Limited	2,313.30
TSS Sound Rentals	1,770.00
WasteServ Malta Ltd	564.18
Mifsud Adrian	212.40
Pace Fire Prevention	163.31
LESA	110.11
Zrinzo Azzopardi Dr Stefan - Avukat	47.20
	<u>71,817.18</u>

- 5.4 We recommend that the council investigates all debit balances in the creditors' list and writes them off if not applicable. In addition, these balances should also be disclosed separately with receivables rather than set off against trade creditors.

6 Accrued expenditure

- 6.1 During the year under review, we noted that the invoice for an accrual made in 2021 amounting to €41,07.55 has been received during 2022. We have proposed an audit adjustment to this respect. This was correctly reclassified in the audited financial statements.

7 Bank and Cash

Bank loan

- 7.1 When re-performing loan calculations to measure the loan into its short and long-term portions, we noted that the Council does not distinguish between current and non-current loan liability in their accounting system. However, the split between short and long term was correctly passed in the financial statements. An audit reclassification was passed from our end to split the amounts agreeing to the financial statements.
- 7.2 We recommend that the council passes the reclassification when closing off to ensure that the correct split between the short- and long-term portion of loan is accounted for. This is because an overstatement in the current portion of loan impacts the council's liquidity position and FSI.

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 Karen Camilleri and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Mark Bugeja
Partner