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Mdina Local Council
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26 July 2022

Dear Sir,

Financial statements for the year ended 31 December 2021

During our audit for the year ended 31 December 2021, we have reviewed the accounting system and procedures operated by Mdina Local Council (the “Local Council”). We set out in this report the more important points that arose from our review.

1 Previous management letter

1.1 Income

We are pleased to note that we did not note any issue in other government income, general income, and income raised from bye-laws.

We have once again noted shortcomings in accrued income (refer to note 2.1).

Shortcomings were once again noted in deferred income (refer to note 2.3).

1.2 Payroll

We are pleased to note that we did not note any issue in payroll.

1.3 Expenditure

We have once again noted shortcomings in rent expense (refer to note 3.1).

We are pleased to note that we did not identify any significant issues related to the other aspects of the Local Council’s expenditures.

1.4 Fixed Assets

We are pleased to note that we did not identify any issues related to the reconciliation of fixed asset register and the financial statements.

We have once again noted shortcomings in depreciation (refer to note 4.1).

The Local Council has shortcomings in grants received (refer to notes 2.1).

REGISTRY

27 JUL 2022

NATIONAL AUDIT OFFICE

Certified Public Accountants
Member firm of Grant Thornton International Ltd
A list of partners and directors of the firm is available at Fort Business Centre, Triq L-Intornjatur, Zone 1, Central Business District, Birkirkara CBD 1050, Malta

1.5 **Receivables**

We are pleased to note that we did not note long overdue receivables in the debtors' list.

1.6 **Bank and Cash**

We are pleased to note that we did not encounter any issues regarding the Local Council's cash balances.

1.7 **Trade payables**

It was again noted that the Local Council is still not obtaining supplier statements (refer to note 5.1).

Once again, we identified long outstanding creditors (refer to note 5.3).

We have again noted debit balances in the creditors' list (refer to note 5.5).

Inaccuracies were once again noted in accrued expenditure (refer to note 5.7).

1.8 **Financial statements presentation**

The unaudited financial statements had minor shortcomings in the presentation of financial statements (refer to note 6.1).

2 Income

Accrued income

- 2.1 On 26 August 2019, the Local Council entered into an agreement with the Rehabilitation Projects Office within the Department for Local Government, whereby the Local Council took within its remit the general maintenance of lighting of the locality. The Rehabilitation Projects Office will, in return, contribute the sum of € 3,500 per year. During the audit fieldwork, we noted that the outstanding receivable for the services incurred in 2021 was invoiced on 28 February 2022. Hence, this amount should be recognised under accrued income rather than in debtor's account.

An audit adjustment was proposed from our end to account for the accrual. The adjustment was approved by the Local Council and was properly presented in the audited financial statements.

Also, the Local Council recorded an accrual pertaining to the financial incentive of Transport Malta in the form of grant to promote greener and sustainable transport electric vehicles - Vehicle registration number MDN021 and Application Number ECS/102. The incentive was approved by Transport Malta on 22 April 2022 amounting to € 7,189.46.

An audit adjustment was proposed to reverse the accrual and grants received, considering that it was applied by the Local Council and approved by regulating authority in 2022. The adjustment was approved by the council and was properly presented in the audited financial statements.

- 2.2 We recommend that the Local Council accounts for its income in the year to which it pertains. Thus, income is reported in the appropriate period.

Deferred income

- 2.3 In 2021, the Ministry for the National Heritage signed an acceptance agreement with the Local Council for the Annual Cultural Scheme. This is in relation with the Mdina Knights Guard cultural activity. On 16 November 2021, the Local Council received the initial amount of € 7,500, traced on the bank statement of BOV A/C 3667.

An audit adjustment was proposed to reverse the income and recognise deferred income, considering that there is no progress on the project as at reporting date. The adjustment was approved by the Local Council and was properly presented in the audited financial statements.

- 2.4 We recommend that the Local Council adheres to the accrual basis of accounting and income received is recorded in the appropriate accounting period. Thus, income is reported accurately in the financial statements.

3 Expenditure

Rent expense

- 3.1 The Local Council has recognised a rent expense of € 3,474 in its books of account. We noted that the Local Council did not account for rental agreements in line with IFRS 16 'Leases'. The Local Council also failed to provide us with an assessment of leases in line with this new 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 Local Council reviews all lease contracts in place and considers the impact of IFRS 16 'Leases', if any, on the Local Council's financial statements and adjust if the need arises.

4 Fixed Assets

Depreciation of fixed assets

- 4.1 During the year under review, we noted that the Local Council's depreciation charge for the year in the books of account amounted to € 4,898. It was noted that the current year charge as per fixed asset register amounted to € 7,327. This resulted in a discrepancy of € 3,426.

We recommend for the Local Council to check and investigate this difference and ensure accurate computation of depreciation.

5 Trade and other payables

Supplier statements

- 5.1 During the course of our audit we noted that the Local Council did not manage to obtain monthly suppliers' statements or year-end statements for all suppliers.
- 5.2 Suppliers' statements are essential, especially for those suppliers with whom the Local Council trades most. We recommend that the Local Council makes sure that the creditor accounts agree to supplier statements on a regular basis and investigates and reconciles any differences.

Long outstanding creditors

- 5.3 The Local Council's creditors' list includes the following balances which have been outstanding for more than one year:

Creditor	€
European Cities Against Drugs	1,200
Melita Cable plc	117
WM Environmental Ltd	914
European Walled Towns	280
	2,511

- 5.4 We recommend that the Local Council reviews these amounts and either settles them if still due, or else, reverses them after having obtained approval from the council members. Furthermore, decisions and discussions regarding these balances should be part of minutes during the Local Council meetings.

Debit balances in creditors' list

- 5.5 During the audit, we identified that the WasteServ Malta Ltd balance in the creditors' list, amounting to € 130, are shown as a debit balance. This has been reclassified to other debtors by means of an audit reclassification. The reclassification was correctly incorporated in the audited financial statements.
- 5.6 We recommend that the Local Council investigates and discloses this debit balance with receivables rather than as set off against trade creditors. Debit balances in creditors may indicate a possible overpayment or omitted purchases or expenses.

Accrued expenditure

- 5.7 We again noted that the Council is still leasing its administrative offices from the Lands Authority. However, to date, no contract has been signed between the two parties even though various attempts were made by the Local Council to regularise this. The Local Council noted that in 2013, a draft contract was drawn up by the Lands Department, but this did not materialise. No rent payments have ever been made by the Local Council with respect to the renting out of these offices since no invoices, statements or request for payments were sent by the Lands Authority. As in the previous year, the Local Council accrued the amount of € 10,000 covering a period of five years, since request for payment is time barred.
- 5.8 We recommend that the Local Council ensures that the rental of premises is always covered by a signed contract covering the current year period. Therefore, the Local Council should contact Lands Authority to draft a contact agreement which is to be signed by both parties. In this manner it is ensured that the contract is binding for both parties to the agreement, and it also ensures that each party is aware of the rights and obligations under the agreement.

6 Financial statements

Presentation of financial statements

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

Yours faithfully,

