

The Members
Mdina Local Council
Corte Capitanale,
Misrah il-Kunsill,
Mdina
Malta

28 April 2025

Dear Members of the Mdina Local Council,

We have completed our audit of the financial statements of Mdina Local Council for the year ended 31 December 2024. Our audit is primarily based on verifying balances in the financial statements to ensure that they are free from material error and comply with relevant legislation.

Our aim is to offer guidance to the Council such that it would be in a better position to improve its internal controls, enhance its book-keeping function and consolidate its overall governance. We would like to point out that, in accordance with the Local Councils Act (CAP 63) 1993 and the Local Council (Financial Regulation) 1993, it is the responsibility of the Executive Secretary of the Local Council to ensure that a proper system of internal control is in operation to ensure that the proper accounting, recording and handling of financial operations are in place to safeguard the Local Council's assets at all times. For this reason, this document is of particular relevance to the Local Council's Executive Secretary.

The matters dealt with in this report, came to our notice during the conduct of our 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 systems of control but that of obtaining an understanding of the controls which are in place, on the basis of which, we design our audit procedures. For this reason, this report cannot be relied upon to necessarily disclose other defalcations or other irregularities which may exist, had a specific and more extensive assignment for this specific purpose been commissioned.

Our engagement obliges us to distribute copies of this report to the Council Members. Consequently, this report, in part or in full, may not be distributed, used or quoted except for the scope it is prepared, without our prior written consent, unless such disclosure is required by Law.

During the course of our audit for the year ended 31 December 2024, we examined the principal documents, systems and controls applied by the Council, to help it ensure, in so far as it is possible, far as possible, the accuracy and completeness of the accounting and to safeguard the assets of the Council.

In order to facilitate your responses to the deficiencies we noted in the course of our audit, have been presented these shortcomings in columnar form. On the left hand side of the document we specify the weaknesses and the recommended courses of action. On the left hand side you are required to insert the remedial action you intend to take and a time frame by which these will be remedied. We also attach for your perusal, a summary of the audit adjustments which we were put through the accounting records, once these were approved by yourselves. Should you require our assistance in bringing to fruition the suggested recommendations do not hesitate to contact us.

We would like to thank you for the courtesy and co-operation extended to us in the course of our audit.

Yours faithfully,


Arthur Douglas Turner
Partner - Parker Russell Turner

PREVIOUS MANAGEMENT LETTER

During the course of our audit for the year ended 31 December 2024, we have also reviewed the points highlighted in the previous management letter along with their respective feedback:

i. Property, plant and equipment

We have once again noted differences between the amounts disclosed in the fixed asset register and the financial statements, as per note 1.1 as on page 3.

ii. Trade receivables

We are pleased to note that no issues were noted in relation to debtor balances. Further, omissions in previous year have not repeated themselves in the current year. Nonetheless, we have effected adjustments to LES Debtors and accrued income as explained in note 2 on page 5.

iii. Cash in hand and cash in bank

We are pleased to note that we did not note any issues in relation to cash in hand and cash at bank during the year under review.

iv. Creditors

In previous year management letter, we had noted that suppliers' statements have not been kept by the Council. This deficiency has been rectified, and suppliers' balances have been reconciled to suppliers' statements.

v. Accruals and prepayments

We are pleased to note that no issues were encountered with prepayments.

Various shortcomings in relation to accruals have not repeated themselves during 2024 except for the limitation on the accrued rent for the Administration offices in Mdina.


vi. Revenue

We have once again noted shortcoming in revenue as per note 4 to the management letter on pages 7 and 8.

vii. Expenditure

We have once again noted shortcoming in rent expense as per note 5 to the management letter. In relation to payroll costs, no discrepancies were noted this year in the wages and salaries reconciliation. Other observations are included in note to the management letter in relation to the revised collective agreement.

Deficiencies noted in the course of our audit of the financial statements of the Mdina Local Council for the year ended 31 December 2024



A summary of the deficiencies noted in the course of our audit and our recommendations thereto is as follows:

1. *PROPERTY, PLANT AND EQUIPMENT*
2. *RECEIVABLES*
3. *ACCRUALS*
4. *REVENUE*
5. *DEBIT TRANSACTIONS*
6. *PAYROLL AND HUMAN RESOURCES*
7. *PRESENTATION OF FINANCIAL STATEMENTS*
8. *CONCLUSIONS*



Deficiencies noted in the course of our audit of the financial statements of the Mdina Local Council for the year ended 31 December 2024

FINDINGS ARISING FROM 2024 AUDIT

WEAKNESS NOTED / RECOMMENDED IMPROVEMENT	LOCAL COUNCIL REPLIES
<p>1. PROPERTY, PLANT AND EQUIPMENT</p> <p>1.1. Fixed Asset Register</p> <p><i>Weakness</i></p> <p>1.1.1. Despite the fact that the Council has taken the necessary measures to compile a fixed asset register, it is not robust enough to incorporate all asset types, category and location, linked to a labelled physical asset. Further, the system is not integrated with the Fixed Asset Module and to the General Ledger of the accounting software. This leads to differences between the total net book value in the nominal ledger to balances held in the fixed asset registry. We have noted that the difference between the accounting system and the fixed assets module is € 29,630. This understatement is noted in the fixed assets module and needs to be analysed further.</p> <p><i>Recommendation</i></p> <p>1.1.2. We strongly believe that the implementation of the fixed asset register should be kept on an appropriate software and should be synchronised within the accounting system. We recommend that the fixed asset</p>	

<p>register implementation process is discussed in detail with the IT service provider and the accountant in charge, in order to adapt the necessary software for the needs of the Council and incorporate the integration of the plant register within the general ledger.</p>	
<p>1.2. Reclassification of capital expenditure</p> <p><i>Weakness</i></p> <p>1.2.1. During our testing of the professional fees, we have noted that there were architect fees of € 11,597 in relation to Howard Garden Project and Pavement Works Project, which are still in progress. These costs have been expensed outright into the income statement, and have been reallocated to the Property, Plant and Equipment at audit level, to reflect their capital nature.</p>	
<p><i>Recommendation</i></p> <p>1.2.2. It is highly recommended that the reclassification of capital assets and corresponding capital grants are properly evaluated for the disclosure of balances. Incorrect classification of assets will lead to distorted financial results.</p>	

<p>2. TRADE AND OTHER RECEIVABLES</p> <p>2.1. LES Debtor</p> <p><i>Weakness</i></p> <p>2.1.1. We have noted that the Council has a debtor balance relating to LES Pre-Regional contraventions amounting to € 36,077 which is fully provided for in the accounts, and which was agreeing with the balance as per the LES Report 622 generated from the Logus system. However, the movement during the year of € 734 was not accounted for correctly since the decrease in the provision on the LES debtor was reflected incorrectly against the LES debtor rather than being shown properly as a decrease in provision for doubtful debts with a corresponding bad debt write off for unrecovered balances.</p>	
<p><i>Recommendation</i></p> <p>2.1.2. We recommend that regular reconciliations of the amounts due are carried out to reconcile any differences with the LES system. It is essential that any write-offs are discussed at council meetings for their approval and matters communicated to the accounting officers to reflect any "bad debt write-offs" as appropriate.</p>	

	<p>2.2. Accrued income</p> <p><i>Weakness</i></p> <p>2.2.1. We noted that income in relation to maintenance and restoration of decorative lights receivable through grants under Mdina Rehabilitation Project to the value of € 2,000 were omitted. We had to account for these contributions in the income statement with corresponding balances in accrued income.</p>
	<p><i>Recommendation</i></p> <p>2.2.2. We recommend that proper reconciliations are carried out to ensure that no omitted entries are left unattended, thereby, resulting in understated revenue amounts and corresponding receivables.</p>
	<p>3. ACCRUALS</p> <p>3.1. Accrued rent on Mdina Administration Office</p> <p><i>Weakness</i></p> <p>3.1.1. We have noted that despite the absence of a formal agreement for leasing of the premises from the Lands Department, the Council has been accruing rent for the last five years at € 2,000 per annum. This amount has been accumulating for the last 5 years without this being confirmed with the Lands Department. Furthermore, the council was advised in the past to reverse</p>

Deficiencies noted in the course of our audit of the financial statements of the Mdina Local Council for the year ended 31 December 2024

	<p>outstanding amounts prior to the five-year period since this could be considered as time-barred.</p> <p>During 2024, further legal guidance has been obtained whereby it was advised that a period of ten years should be provided for. Consequently, the rental charge for the year under review, and corresponding accruals have been increased by a further € 10,000. As a result, rental costs for the year are not comparable with those of previous year in the financial statements.</p>
	<p><i>Recommendation</i></p> <p>3.1.2. We recommend the Council to seek clear clarification on the matter as to the prescription period and also to formalise a contract between the Lands Department and the Council at the earliest. The amounts outstanding for the period 2015 to 2024 are not being paid and were not even verified. It is essential that clarifications are obtained on the matters since balances for periods pertaining to pre-2015 were also written off.</p>
	<p>4. REVENUE</p> <p>4.1. General income</p> <p><i>Weakness</i></p> <p>4.1.1. During our audit fieldwork, while performing our audit testing between the total receipts issued from the Council's online portal permit system and the total income recorded in the accounting system, an overall difference of € 1,947 has resulted. This evidently shows that the online permit system is not</p>

<p>updated ongoingly and reconciled to the accounting system leading to discrepancies.</p>	
<p><i>Recommendation</i></p> <p>4.1.2. We recommend that a receipt is issued from the Council's online portal permit system for each specific income, and that the Council regularly reconciles the receipts issued from the online portal system with the income recorded in the accounting system to ensure accuracy and completeness of amounts.</p>	
<p>4.2 LES Administration Fee</p> <p><i>Weakness</i></p> <p>4.2.1. Whilst performing a proof-in-total test between the total LES administrative fee as per the LES Report 483 – LESA Tickets generated from the Loqus system, and the total income recorded in the financial statements, it was noted that the amount in the financial statements was overstated by € 280. We did not propose an audit adjustment to correct this discrepancy, because no proper reconciliation is being carried out with the LESA system.</p>	
<p><i>Recommendation</i></p> <p>4.2.2. We recommend that the Council regularly reconciles the income recorded in the accounting system with the LES Report 483 to ensure accuracy and completeness.</p>	

Deficiencies noted in the course of our audit of the financial statements of the Mdina Local Council for the year ended 31 December 2024

<p>5. DEBIT TRANSACTIONS</p> <p>5.1 Rent</p> <p><i>Weakness</i></p> <p>5.1.1. No formal agreement is in place between the Council and the Lands Authority for the rental of the Administration Offices in 'Corte Capitanale' amounting to € 2,000 per annum.</p>	
<p><i>Recommendation</i></p> <p>5.1.2. We recommend that the Local Council adheres to the Memo 13/2013 issued by the Department of Local Government which highlights the importance that contracts in place should not be expired. We also recommend that the Council continues to chase for an updated contract to be in place as soon as possible.</p>	
<p>5.2. Waste disposal and domestic refuse</p> <p><i>Weakness</i></p> <p>5.2.1. During our testing of the expenditures and reconciliation of balances against the books of Regjun Punent, we have noted that waste disposal and refuse collection costs have been overstated by € 253 in Council's accounting records. An adjustment has been reflected to reverse this overstatement against the creditor balance.</p>	

	<p><i>Recommendation</i></p> <p>5.2.2. We recommend that the Council ensures correct classification of balances and accurate accounting of transactions, particularly with other related entities. Ongoing reconciliations should be carried out with Regjun Punent, so the Council will ensure that transactions are a mirror reflection of the related entity books of accounts. Additionally, implementing measures to enhance the review and approval process for recording transactions can help prevent similar errors in the future.</p>
	<p>6. PAYROLL AND HUMAN RESOURCES</p> <p>6.1. New Collective agreement</p> <p><i>Weakness</i></p> <p>6.1.1. The Council has not reflected the required provisions and/or disclosures in relation to the new Collective agreement for clerical staff within Local Councils and Regional Councils. In view of the fact that by the time of the audit, no approval of workings had as yet been attained by the Council, a contingent liability note has been included at audit level, to disclose appropriately the potential impact on the financials.</p>
	<p>7. PRESENTATION OF FINANCIAL STATEMENTS</p> <p>7.1. Various reclassification adjustments have been reflected as per below:</p> <ul style="list-style-type: none"> - Repairs and upkeep costs of € 11,573 have been reclassified from Public property;

	<ul style="list-style-type: none"> - Repairs and upkeep costs of € 4,484 have been reclassified from experts costs; - Engineering services of € 1,062 have been reclassified from legal services - IT Development costs of € 2,419 have been reclassified from Office Furniture and Equipment; - Telecommunications of € 1,166 have been reclassified from Office Services; - Other reclassifications were affected in relation to income.
	<p><i>Recommendation</i></p> <p>7.2. It is recommended that the Council regularly reviews the accounting work in liaison with the accountant to ensure accuracy and completeness of the Councils' records.</p>
	<p>8. CONCLUSIONS</p> <p>8.2. We have noted that good internal procedures are being instilled by the Council. The Council and its employees should continue to strive to achieve a good control environment by ensuring that optimum use of public funds.</p> <p>8.3. We would be pleased to assist the Council to come up with an action plan, with clearly set target dates and by which the Council will address the weaknesses reported in this report. We are at your disposal should you need our assistance in any of the specific areas referred to in this report.</p>