

PREVIOUS MANAGEMENT LETTER

During the course of our audit for the year ended 31 December 2022, 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. Debtors

We are pleased to note that we did not note any issues whereby a debtor balance relating to LES Pre-Regional contraventions were not agreeing with the balance as per the LES Report 622.

iii. Cash in hand and cash in bank

We are pleased to note that we did not note any issues whereby cash in hand being excluded in the financial statements.

iv. Accrued and Deferred income

We are pleased to note that we did not note any issues in the accrued and deferred income.

v. Accruals and prepayments

We are pleased to note that we did not note any issues in the prepayment.

However, we have once again noted shortcoming in accruals as per note 5 as on page 8.

vi. Revenue

We have once again noted shortcoming in revenue as per note 5 as on page 12.

vii. Expenditure

We have once again noted shortcoming in rent expense as per note 6 as on page 13.

Deficiencies noted in the course of our audit of the financial statements of the Mdina Local Council for the year ended 31 December 2023



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. *DEBTORS*
3. *CASH IN HAND AND AT BANK*
4. *CREDITORS*
5. *ACCRUALS*
6. *REVENUE*
7. *DEBIT TRANSACTIONS*
8. *PAYROLL AND HUMAN RESOURCES*
9. *CONCLUSIONS*

Deficiencies noted in the course of our audit of the financial statements of the Mdina Local Council for the year ended 31 December 2023



FINDINGS ARISING FROM 2022 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 € 19,420. This understatement is noted in the fixed assets module and needs to be analysed further.</p>	<p>As stated by the auditors measures were taken during the year on the sage system to address this issue and as a Council we will continue to implement other measures to incorporate the integration of the plant register within the general ledger.</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>	

Deficiencies noted in the course of our audit of the financial statements of the Mdina Local Council for the year ended 31 December 2021

<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 repairs and upkeep, we have noted that there is an expense in relation to the restoration of fountain works amounting to € 5,224, with a corresponding grant of€ 1,115. This has been expensed outright into the income statement and with the corresponding grant not being classified properly within the statement of financial position. We adjusted for the asset and recalculated the depreciation charge with the corresponding amortisation of the grant.</p>	<p>Comment noted. As commented by the auditors, since the costs referred to a restoration, and thus maintenance, our opinion was that it's a current cost, keeping also in mind that amount was Eur5224 for which the Council received a grant of Eur1115 and thus cannot be considered as a capital project from a monetary side of view. Since the auditors had a different opinion and suggested that transaction should be capitalized, we reflected the adjustment in the updated financial statements</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 depreciation charge and amortisation of grants.</p>	

<p>2. DEBTORS</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€ 36,811 which is fully provided for in the accounts, and which was agreeing with the balance as per the LES Report 622 generated from the Loqus system. However, the movement during the year of € 815 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>With regards to the LES Pre-regional contraventions, it is to be noted that this is a recurring issue on which the Council has no control</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. MTA debtor</p> <p><i>Weakness</i></p> <p>2.2.1. We noted that MTA contributions received by the Local Council to the value of € 305 were omitted. We had to account for these contributions in the income statement with corresponding balances in debtors.</p>	<p>The Council has taken note of the auditor's recommendation and adjusted accordingly</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 trade debtors.</p>	
<p>3. Cash balances</p> <p><i>Weakness</i></p> <p>3.1. During the testing of the cash in hand, we have observed a difference of € 21 when reconciling the cash as per nominal ledger against the amount as per the cash count carried out at year end.</p>	<p>The Council has taken note of the auditor's recommendation and adjusted accordingly</p>

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<p><i>Recommendation</i></p> <p>3.2. We recommend the local council to conduct regular reconciliations between the cash balance in the nominal ledger and the physical cash count. When discrepancies are identified, this should be addressed promptly to prevent any recurrence.</p>	
<p>4. CREDITORS</p> <p>4.1. Suppliers' Statements</p> <p><i>Weakness</i></p> <p>4.1.1. Despite the council's efforts to attain suppliers' statements, we noted that from our selections carried out on suppliers' testing, we noted that no statements were being attained. Although we noted that balances were correctly confirmed to payments after year end, we did not have third party confirmations to attest independent third party verification.</p>	<p>It is a normal practice of the Council that all creditors are paid immediately once an invoice is received for payment. However, we will heed to the advise of the auditors and do our utmost to pursue our creditors on a regular basis for end of month statement</p>
<p><i>Recommendation</i></p> <p>4.1.2. We recommend that the Council adheres to circulars issued by the Department of Local Government, which emphasise the importance of obtaining monthly statements from all suppliers. We recognise that acquiring monthly statements can be challenging at times due to supplier inefficiency. However, we advise the council to persistently pursue regular statements</p>	

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<p>from suppliers. This practice will ensure accurate recording of the council's creditors in the accounts and facilitate prompt resolution of any differences.</p>	
<p>4.2. Debit balances</p> <p><i>Weakness</i></p> <p>4.2.1. The Council's creditors' list at year includes a debit balance amounting to € 167 which relates to overpayments done in the previous years to Wasteserv Malta Ltd. This should have been reclassified within other receivables for presentation of balances.</p>	<p>The Council has taken note of the auditor's recommendation and adjusted accordingly</p>
<p><i>Recommendation</i></p> <p>4.2.2. We recommend that the Council ensures correct classification of balances and ensure that if overpayments were effected, these are recovered.</p>	
<p>5. ACCRUALS</p> <p>5.1. Performance bonus - employees</p> <p><i>Weakness</i></p> <p>5.1.1. We have noted that the accruals for performance bonuses to employees of € 807 was overstated. An incorrect calculation was carried out and this was</p>	<p>The Council has taken note of the auditor's recommendation and adjusted accordingly</p>

	confirmed to pay-outs which were effected post year end. An adjustment was affected at audit level to account for this discrepancy.
	<p><i>Recommendation</i></p> <p>5.1.2. We recommend that the yearly performance bonuses are calculated correctly before the presentation of the financial statements and to ensure the correctly stated amounts.</p>
<p>5.2. Accrued rent on "Torre della Standardo"</p> <p><i>Weakness</i></p> <p>5.2.1. We observed that the accrued rent of Torre della Standardo was understated by € 2,470 according to the signed agreement with the Lands Department on October 3, 2022. The provision in the financial statement was for € 975 when it should have been € 3,445. An adjustment has been adjusted at audit level to account for this effect.</p> <p><i>Recommendation</i></p> <p>5.2.2. We recommend the Council to perform a thorough review of all lease agreements to ensure accurate reflection of the rental amounts. It is essential that all accruals are being accounted for in the financial statements.</p>	<p>The provision taken by the Council reflects the amount shown on the invoice sent by the Lands Department covering rent for years 2023/24 and recently also for 2024/25. This Council has noted the Auditors recommendation.</p>

<p>5.3. Accrued rent on Mdina Administration Office</p> <p><i>Weakness</i></p> <p>5.3.1. 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 outstanding amounts prior to the five-year period since this could be considered as time-barred.</p>	<p>We had taken legal advice from our lawyers who had stated that amounts would be time barred after 5 years. With regards to the administration offices please note the auditor's comment about the absence of a proper rental agreement is an issue which the Council had already replied in previous management letters and unless the Lands Authority heeds to our concerns as the Council has done its utmost to have this in place without any response from the Authority, this will continue to be singled out by the auditor's. According to the Council, it was given the premises by the Department of Local Government in 1994 with no lease agreement being made at the time. When the Vilhena Palace was taken by Heritage Malta, the latter stated that the administrative office forms part of the Vilhena Palace. This was always denied by the Local Council and eventually Heritage Malta never insisted on this claim</p>
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<p><i>Recommendation</i></p> <p>5.3.2. 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 2019 - 2023 are not being paid and were not even verified. It is essential that clarifications are obtained on the matters since prior periods balances were also written off.</p>	
<p>5.4. Accrued water and electricity costs</p> <p><i>Weakness</i></p> <p>5.4.1. Furthermore, we have noted during our testing of the water and electricity expenses that no accrual was made for three locations: Horse Shed, MTA Office, and Mustering Room. We also identified instances of over-accruals at various locations. However, the overall impact of these discrepancies is</p>	<p>Matter noted. Suggested audit adjustments included in the updated FS.</p>

Deficiencies noted in the course of our audit of the financial statements of the Mdina Local Council for the year ended 31 December 2023



deemed non-material, and as such, no audit adjustment has been proposed. This table presents an extract of the discrepancies noted.			
Location	Accrual as per audit	Accrual as per listing	Under/ (over) accrual
Casino Notabile	36	73	(36)
Horse Shed	133	-	133
Howard Garden	118	99	19
MTA Office	97	-	97
Mustering Room	76	-	76
On Pole CCTV	333	696	(363)
Playing field	251	405	(153)
Torre della Standardo	98	58	40
	<u>1,142</u>	<u>1,330</u>	{188}
<i>Recommendation</i>			
5.5. We recommend that the local council prepares a comprehensive workings for all water and electricity locations and ensure that these are worked out correctly at year end.			



<p>6. REVENUE</p> <p>6.1. General income</p> <p><i>Weakness</i></p> <p>6.1.1. 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 € 6,625 resulted in under declaration in the Loqus system. This shows evidently that the Loqus system is not updated ongoingly and reconciled to the accounting system leading to discrepancies.</p>	<p>Every effort is being made to reconcile the receipts issued from the online portal system with the income recorded in the accounting system.</p>
<p><i>Recommendation</i></p> <p>6.1.2. 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>6.2. Contributions of MTA Howard Garden</p> <p><i>Weakness</i></p> <p>6.2.1. During our audit fieldwork, it was noted that income for the MTA Howard Garden was understated by€ 1,405. An adjustment was affected to account for the income for the year against the debtor control account as noted in point 3.2.</p>	<p>Matter has been noted and adjustments accounted for in the FS</p>

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<p><i>Recommendation</i></p> <p>6.2.2. We recommend that all sales invoices are included in the system when they are issued to ensure accuracy and completeness of amounts. Further, we reiterate that regularly reviews are carried out to ensure at all times the completeness of the contributions received by Council.</p>	
<p>7. DEBIT TRANSACTIONS</p> <p>7.1. Rent</p> <p><i>Weakness</i></p> <p>7.1.1. Whilst reviewing rent expenses for the year, we noted that the agreement which the Council has with the Lands Authority for the rental of "Torre della Standardo" is dated in August 2010 covering the period up to August 2013. An amendment to the contract was made on 3 October 2022 with the total consideration as from 2023 to be € 3,445 per annum in pursuance to the Government policy on 'devolution'. Despite the new agreement, the Lands Authority still charged € 975 to the local council, and no accrual was made to account for the difference. This has been adjusted for at audit level as also noted in point 5.2.</p> <p>7.1.2. 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>As per point 5.2</p> <p>With regards to the administration offices please note the auditor's comment about the absence of a proper rental agreement is an issue which the Council had already replied in previous management letters and unless the Lands Authority heeds to our concerns as the Council has done its utmost to have this in place without any response from the Authority, this will continue to be singled out by the auditor's.</p>

According to the Council, it was given the premises by the Department of Local Government in 1994 with no lease agreement being made at the time. When the Vilhena Palace was taken by Heritage Malta, the latter stated that the administrative office forms part of the Vilhena Palace. This was always denied by the Local Council and eventually Heritage Malta never insisted on this claim.

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<p><i>Recommendation</i></p> <p>7.1.3. 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>7.2. Waste disposal and domestic refuse</p> <p><i>Weakness</i></p> <p>7.2.1. During our testing of the expenditures and reconciliation of balances against the books of Regjun Punent, we have noted that invoices 147 and 157, amounting to €353, were recorded twice in the Council's books. This led to an overstatement of both expenses and creditors amount.</p> <p><i>Recommendation</i></p> <p>7.2.2. We recommend that the Council rectify the duplicate entries for invoices 147 and 157 in the accounting records to ensure accurate financial reporting. Additionally, implementing measures to enhance the review and approval process for recording transactions can help prevent similar errors in the future.</p>	<p>The Council has taken note of the auditor's recommendation and adjusted accordingly</p>

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<p>8. PAYROLL AND HUMAN RESOURCES</p> <p>8.1. Overall Payroll Procedures</p> <p><i>Weakness</i></p> <p>8.1.1. We have performed a wages reconciliation between FSS documentation submitted and the wages as per the accounts. Wages in the accounts were overstated by € 296. No adjustments were affected to this affect since the adjustments that are required are within the submissions of the FSSs to the Commissioner for Revenue.</p>	<p>Matter noted and any immaterial difference is deeply regretted and adjusted in the FS</p>
<p><i>Recommendation</i></p> <p>8.1.2. We recommend that reviews are performed consistently to ensure that FSSs forms are completed properly and are always reconciled to the accounting system at all times. We recommend that the necessary adjustments be performed.</p>	
<p>9. CONCLUSIONS</p> <p>9.1. 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>9.2. 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>	<p>Conclusions have been noted</p>

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