

The Mayor
Isla Local Council
2, St Joseph Street,
Isla

Grant Thornton
Fort Business Centre
Triq L-Intornjatur, Zone 1
Central Business District
Birkirkara CBD 1050
Malta

Our ref MB/mf/75622

T +356 20931000

28 April 2022

www.grantthornton.com.mt

Dear Sir,

Financial statements for the year ended 31 December 2021

During the course of our audit for the year ended 31 December 2021, we have reviewed the accounting system and procedures operated by Isla 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 Supplementary Government income

Supplementary Government income is properly disclosed in the financial statements.

1.2 Re-imburement from Regjun Xlokk

We are pleased to note that the council has rectified the issue during the year under review.

1.3 Income from EU projects

We did not encounter any shortcomings in income from EU projects.

1.4 Accrued income

Accrued income disclosed in the unaudited financial statements reflects the actual amount receivable by the council.

1.5 Rent agreements

The council did not provide us with contracts for certain rented properties (refer to note 3.3).

1.6 Reconciliation of fixed asset register to financial statements

We did not note any material differences between the fixed asset register and financial statements.

1.7 Disposals of fixed assets

No disposals were made during the year under review.



1.8 **Reconciliation of financial statements to accounting records**

We did not note any material differences between the financial statements and accounting records.

1.9 **Pre-regional LES debtors**

Debtors in the Loqus IT system agree to LES debtors recorded in the council's books of accounts.

1.10 **Overdue receivables**

We have again noted instances where debtors are taking long to pay (refer to note 4.1).

1.11 **Confirmation of debtors**

We identified a difference between a debtor confirmation letter and debtors' list (refer to note 4.2).

1.12 **Debit balances in creditors' list**

Debit balance in creditors' list were properly disclosed in the financial statements.

1.13 **Confirmation of trade creditors**

We did not identify differences between the creditors' list and creditor's confirmation letters.

1.14 **Accruals**

No shortcomings were identified in the list of accruals.

1.15 **Unrecorded liabilities**

We did not encounter any issues in relation to unrecorded liabilities.

2 Income

Government income

2.1 In 2021, the council received €18,000 from the Department for Local Government in terms of the commercial zone fund and Capital, and Cities fund. The council has included this amount with the annual allocation in the unaudited financial statements. An audit adjustment was proposed in this regard to reclassify revenue under the appropriate line item. The adjustment has been reflected in the audited financial statements.

2.2 We recommend that the council ensures proper allocation of income and records income received from the Department through various schemes as other Government income, unless otherwise directed by the Department.

3 Expenditure

Petty cash expenditure

3.1 During our audit fieldwork we noted that the council failed to record €181.48 as petty cash expenditure. We have proposed an audit adjustment to rectify the issue. Our proposed adjustment was incorporated in the audited financial statements.

- 3.2 We recommend that the council ensures that all expenses are recorded in the proper accounting period.

Rent agreements

- 3.3 The council did not present the contract for the rental of Misrah 4 ta' Settembru amounting to €600. We were only presented with the invoices for the respective period. The council still failed to provide the full rental agreement.
- 3.4 We reiterate our recommendation from previous management letters stating that the council should obtain a contract for all properties being rented for the council's purposes. This will ensure that the rights and obligations of each party are clear.

4 Trade and other receivables

Overdue receivables

- 4.1 The council's debtors' list includes long outstanding balances receivable from the following:

Debtor	Amount in council's books €
Green MT Ltd. (note a)	2,890.00
Local Enforcement System Agency	628.15
North Region	8.14
South Region	51.20
South Eastern Region	226.81
WasteServ Malta Ltd.	14,484.16
Water Services Corporation (note a)	20,050.00
	<u>38,338.46</u>

- (a) We further noted that the balances due by Green MT Limited and Water Services Corporation were provided for in full.

- 4.2 The 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 remains doubtful, the council should also consider making a provision for doubtful debts in the books of account after obtaining approval in meeting.

Confirmation of debtors

- 4.3 We have obtained a statement from WasteServ Malta Limited showing a nil payable balance. The council's books of account show a receivable balance of €14,763.79. The difference arose from invoices issued by the council from May 2021 to December 2021 which were not recorded by WasteServ Malta Limited. Furthermore, we also noted that invoices for March 2021 and April 2021 amounting to €1,819.94 and €1,679.74, respectively were erroneously recorded by WasteServ Malta Limited as €1,959.93 and €1,819.94, respectively.
- 4.4 We recommend that the council continues to liaise with Wasteserv Malta Limited to ensure that all invoices are approved and recorded correctly in their books.

5 Trade and other payables

Deferred Income

- 5.1 On 5 March 2021, the council has entered into an agreement with Energy Cities as a beneficiary to receive financial support under the European City Facility (EUCF) project for the development of investment concepts needed for acceleration of implementation of the energy and climate action plans. We noted that whilst the related grant agreement entitled, 'Grant Agreement for Cottonera Municipalities (Malta)', has been signed by the council, the council has failed to obtain the counterparty's signature.
- 5.2 During the year under review, the council received seventy per cent of the aggregate financial support of €60,000 amounting to €42,000. Accordingly, it has recorded such receipt as advance payment (i.e., liability). However, as the grant received is with respect to expense items we have reclassified the amount to deferred income. The council has amended the financial statements to include our adjustment.
- 5.3 It is essential for the council to make sure that all contracts which are entered into are signed by all the necessary parties thus ensuring that the contract is binding for both parties to the agreement. It also ensures that each party is aware of its rights and obligations under the agreement.
- 5.4 We recommend the council to allocate grants received to the appropriate account to ensure that the amounts are being disclosed appropriately.
- 5.5 During the current year the council incurred costs for the 4th September Lift. The council included the cost incurred with assets under construction however failed to reclassify a portion of the grant received amounting to €7,034 to the property, plant and equipment schedule. To this end we have proposed an audit adjustment to account for the grant appropriately. This adjustment has been correctly recorded in the financial statements.
- 5.6 May we recommend the council to assess the basis for which these grants were received and confirm that all costs have been capitalised. The council should ensure that grants have been allocated to the correct category and necessary reclassification or adjustments should be made to properly record the grants.

Outstanding invoices

- 5.7 Whilst reviewing the council's outstanding invoices we noted that the council has erroneously recorded an invoice which was not addressed to the council. To this end we have proposed an audit adjustment of €1,758.75 to be reversed against the appropriate expense. The council has amended the financial statements to include our proposed audit adjustment.
- 5.8 We recommend the council to ensure that all invoices recorded in its books of account are addressed to the council.

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. Graziella Gellel and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

