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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 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 Government income

Government income is properly disclosed in the financial statements.

1.2 Petty cash expenditure

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

1.3 Rent agreements

The council failed to provide the rental agreement for Misrah 4 ta' Settembru (refer to note 3.1).

1.4 Overdue receivables

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

1.5 Confirmation of debtors

We again identified a difference between a debtor confirmation letter and debtors' list (refer to note 4.3).

1.6 Deferred income

Shortcomings were noted in deferred income (refer to note 5.1).

1.7 Outstanding invoices

We did not note instances where invoices were not addressed to the council.



2 Income

Other government income

- 2.1 Included with other government income is an amount of €12,838.40 for the glass and recycle refund for 2021. The council failed to record this income in the previous year. To this end the income was recorded in 2022.
- 2.2 We recommend that the council records such amounts when they have been approved for payment and are certain to be received. Furthermore, the council should ensure that accrued income received during the year is reversed accordingly.

3 Expenditure

Rent

- 3.1 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.
- 3.2 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
Water Services Corporation (note a, b)	20,050.00
	<u>23,568.15</u>

- (a) We further noted that the balances due by Green MT Limited and Water Services Corporation were provided for in full.
- (b) Amount confirmed by Water Services Corporation was nil and the council approved to reverse the provision and debtor accordingly. To this end we have proposed an audit adjustment for the write-off. Our proposed audit adjustment was approved by the council and reflected in the audited financial statements.
- 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 confirming an amount due of €5,039.83. The council's books of account show a receivable balance of €15,182.95. The difference arose from invoices issued by the council for June, July, November and December 2022 which were not recorded by WasteServ Malta Limited. Furthermore, we also noted that invoices from August to October 2022 amounting to €1,819.94, €1,679.94 and €1,539.95, respectively were erroneously recorded in the system as €1,959.86, €1,819.84 and €1,679.94, respectively.
- 4.4 We recommend that the council continues to liaise with Wasteserv Malta Limited and ensures that all invoices are approved and recorded correctly in the books.

Pre-regional LES debtors

- 4.5 When testing the pre-regional receivables, we noted a balance of €111,875.53 in the unaudited council's books whilst the 622 Loqus report shows a balance of €108,015.41. We did not propose an audit adjustment because it has no effect on the financial statements since LES debtors are carried at nil value following a provision for doubtful debts for the same amount.
- 4.6 We would like to remind the council that it is the council's responsibility to investigate these differences and refer them to Loqus.

Prepayments

- 4.7 During the year under review, we noted that the prepayments for the 4G transmission and remote monitoring platform for the Gardjola Gardens and Pjazza are understated by €837.32. We have proposed an audit adjustment to this respect. The council has amended the financial statements to include our proposed adjustment.
- 4.8 We recommend that the council makes appropriate provisions for prepayments to reflect the expenditure in the correct accounting period based on the accrual concept.

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. During the year under review, the council received thirty per cent of the aggregate financial support of €60,000 amounting to €18,000. Accordingly, it has recorded such receipt as advance payment. We have proposed an adjustment to reclassify amount to deferred income. The adjustment was correctly included in the audited financial statements.
- 5.2 We recommend the council to allocate grants received to the appropriate account to ensure that the amounts are being disclosed appropriately.

Other creditors

- 5.3 In 2021 the council received an amount of €36,540.21 in relation to SPCI/SCI/8/2020. The letter of approval states that the project should be completed by 16 January 2023. To date the council did not commence the project

and failed to obtain an extension approval from the Department for Local Government.

- 5.4 We recommend the council to liaise with the Department and obtain approval for the extension of the project.

Confirmation of creditors

- 5.5 As part of our audit procedures we circularised a confirmation letter to Water Services Corporation. The latter confirmed that the amount due to them is of €7,051.01. The amount confirmed was in relation to works which are still to be performed to 'Triq Sant' Anglu, Isla. The council's books of account include a long outstanding payable of €3,506.96. The Council was of the opinion that the payable balance of €3,506.96 should be written off since it is now time barred.
- 5.6 We recommend that the council continues to liaise with Water Services Corporation to ensure that all invoices are approved and recorded correctly in their books. Furthermore, the council should obtain approval from all council members and discuss the above issue during council meeting.

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,

