

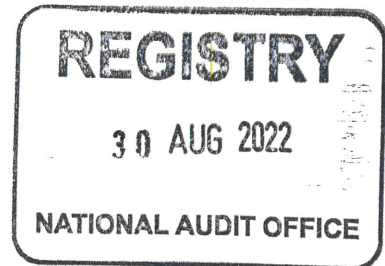
- 7 SEP 2022**RECEIVED**

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Our ref: MB/mf/112822

25 August 2022

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 Balzan 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 Opening balances

We have not noted any shortcomings in the opening balances this year.

1.2 Income

We have noted shortcomings in the proper classification of revenue items during the year (refer to note 3).

1.3 Accrued income

We are pleased to note that we have not noted any shortcomings in accrued income during the year.

1.4 General income

We are pleased to note that the council has rectified the issue noted last year.

1.5 Income from LESA and regional committees

We are pleased to note that the council has rectified the issue noted last year. However, we have noted an improper classification issue on some revenue items (refer to note 3).

1.6 Expenditure

1.6.1 Petty cash payments

We did not encounter any differences on the petty cash balances and payments during the year.

1.6.2 Leases

We are pleased to note that we have not noted any differences on the IFRS 16-related accounts during the year.

1.7 Payroll

1.7.1 Mayor Honoraria

We are pleased to note that we have not noted any issues on the account this year.

1.7.2 Performance bonuses

We are pleased to note that we have not noted any issues on the account this year.

1.7.3 Wages' reconciliation

During the reconciliation of the FSS tax declared in FS5 forms to that declared in the FS7 form, we came across the following differences:

Description	Declared in FS5s €	Declared in FS7 €	Difference €
FSS full-time	78,461	94,069	(15,608)
FSS part-time	17,865	2,261	15,604
Total	96,326	96,330	(4)

While the net amount has no impact to the financial statements, it is important that FSS forms are filled in properly to ensure that all amounts paid are correctly declared to the Commissioner for Revenue.

1.8 Trade and other receivables

1.8.1 Overdue receivables and credit balance in debtors' list

We are pleased to note that we have not noted any issues on overdue receivables and credit balance on debtors' list during the year.

1.8.2 Confirmation of debtors

We have noted differences on the amount per Wasterserv statement of account and the council's books which the latter eventually reconciled (refer to note 2).

1.9 Prepayments

During our audit fieldwork we noted that the council failed to account for the expensed portion of the council video-on-demand expenditure amounting to €413. The council made adjustments to correct the prepayment and expense accounts.

We recommend that the council review the prepayment items to properly record the asset and expense portion of the prepayment accounts.

1.10 LES receivables

According to report 622 issued from Loqus, the council's tribunal payments for the pooling period up to 31 August 2011 is €52,077. Similar to last year, no amount is recognised as an LES receivable in the council's books of account and in the financial statements in this respect. We did not propose an audit adjustment to account for LES debtors since it has no effect on the financial statements as LES debtors are carried at nil value following a provision for doubtful debts for the same amount.

We reiterate our recommendation that the council takes the matter up with Loqus to determine what the correct balance is and then considers whether an adjustment should be passed in the council's books.

1.11 Trade and other payables

1.11.1 Confirmation of trade creditors

We have noted differences on the amount per Wasteserv statement of account and the council's books which the latter eventually reconciled (refer to note 2).

We remind the council that circular 1/2020 states that the council should reconcile creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible.

1.11.2 Long outstanding trade creditors

We have not noted any material long outstanding trade creditors as of year-end.

2 Wasteserv Reconciliation

During our confirmation procedures for debtors and creditors accounts, we have noted the following differences for Wasteserv accounts:

	Per books	Per Wasteserv Statement of Account	Difference
Debtor	9,508	-	9,508
Creditor	(4,362)	(2,325)	(2,037)

The council was able to provide the reconciliation of the differences. One of the differences are a set-off made by Wasteserv in its books amounting to €1,955 which the council eventually entered as an adjustment in its books.

The remaining difference pertains to the invoices issued and correctly recorded by the council which were not yet reflected in Wasteserv's books. We recommend that the council maintains constant communication with the supplier to timely account for invoices issued.

3 Income Classification

During our audit, we noted some revenue items were not recorded in its correct account. We noted one revenue account related to Wasteserv amounting to €356 recorded under supplementary government income. We also noted a contravention revenue amounting to €66 recorded under other government income. We proposed these items to be reclassified to government income from public entities and contraventions, respectively. This was correctly reflected in the financial statements.

4 Fixed assets

4.1 Upkeep of fixed asset register

When reviewing the fixed asset register, we noted that relevant details like invoice number, date of purchase, location and depreciation for the year are missing. Furthermore, the description of the assets in the FAR does not always contain the desired detail.

We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)
- Cost
- Depreciation method and rate
- Location of the asset
- Grants received

An updated fixed asset register enables the council to exercise proper control over the council's property, plant, and equipment. It provides a suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the council's fixed asset register is updated.

4.2 Reconciliation of financial statements and fixed asset register

As discussed above, since the fixed asset register does not present the grants received, we noted the following discrepancies. While the difference is immaterial, we recommend that the council present the grant amounts in the fixed asset register for monitoring.

	Per Financial Statement	Per Fixed Asset Register	Difference
Office furniture and fittings			
Cost	31,897	31,906	(9)
Grants	(737)	-	(737)
Accumulated depreciation	(13,842)	(14,586)	744
Net book value	17,318	17,320	(2)
Office equipment			
Cost	22,097	22,097	-
Grants	(11,031)	-	(11,031)
Accumulated depreciation	(6,184)	(17,215)	11,031
Net book value	4,882	4,882	-
Urban improvements			
Cost	716,886	716,885	1
Grants	(488,863)	-	(488,863)
Accumulated depreciation	(167,597)	(656,460)	488,863
Net book value	60,426	60,425	1
Special programmes			
Cost	254,130	254,130	-
Grants	(143,182)	-	(143,182)
Accumulated depreciation	(110,948)	(254,130)	143,182
Net book value	-	-	-
Total			
Cost	1,025,010	1,025,018	(8)
Grants	(643,813)	-	(643,813)
Accumulated depreciation	(298,571)	(942,401)	643,820
Net book value	82,626	82,617	(1)

5 Other Matters

5.1 Preparation of financial statements

We would like to point out that in accordance with the Department's communications and instructions, councils shall prepare their financial statements in conformity with International Financial Reporting Standards (IFRSs). The council's unaudited set of financial statements diverge from this requirement in the instance noted below:

- i) Failure to update the disclosure on the accounting policies related to IFRS 9 Financial Instrument particularly on the classification, recognition, derecognition and measurement requirements of the standard.
- ii) Failure to add accounting policy on assets not yet capitalized and impairment on non-financial assets.

We recommend that the council gives more attention to the preparation of the financial statements. The above shortcomings have been amended in the financial statements.

6 Specimen chart of accounts

It was noted that the account numbers in the trial balances do not agree to the specimen chart of accounts that is standard to local councils and regional committees.

We recommend that the chart of accounts presented by the council should be in accordance with those set out in the Local Councils (Financial) Procedures section b.02 – b.04 and explanatory notes C.01 to C.07. Using the standard accounts will enhance comparability of profit and loss and balance sheet from year to year. It will also enable comparison of results between councils.

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 Doriette Farrugia and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Mark Bugeja
Partner