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22 September 2025

Local Council San Lawrenz
22A, Triq id-Duluri,
San Lawrenz SLZ 1261,
Gozo

Department For
03 NOV 2025
Local Government

Dear Mayor,

RE: MANAGEMENT REPORT – FOR YEAR ENDED 31 DECEMBER 2024

We have completed our audit of the financial statements of the Local Council San Lawrenz for the year ended 31 December 2024. The purpose of this report is to summarise our principal findings arising from this work.

Our audit was primarily based on verifying balances in the financial statements to ensure that they are free from material error and comply with relevant legislation. Consequently, the matters raised in this report cannot be regarded as a comprehensive statement of all weaknesses that might exist and/or of all improvements that might be made. 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.


Our engagement obliges us to distribute copies of this report to (a) the Council; (b) the National Audit Office; and (c) the Local Councils Department. Consequently, this report may not be distributed, used or quoted, in part or in full, except for the scope it is prepared, without our prior written consent.

This report has been prepared on the basis of the limitations set out in the Responsibility Statement as presented on page 11 of this Report.

During the course of our audit for the year ended 31 December 2024, we examined the principal documents, systems and controls used by the Council, to help it ensure, as far as possible, the accuracy of these documents and to assess how much can one rely on these documents to safeguard the assets of the Council. We also examined whether or not your Council abided by the procedures as they are provided for in the Local Councils Act, 1993, the Financial Procedures, Legal Notices applicable to Local Councils and various Memos issued to your Council.

The objective of this letter is to bring to your attention those divergences in the system that were noticed during our audit work and suggest ways of how these can be remedied.

We would like to take this opportunity to thank the Executive Secretary and Staff members for their assistance during the course of our audit.



Conrad Borg (Principal)
for and on behalf of
RSM Malta

REGISTRY
10 OCT 2025
NATIONAL AUDIT OFFICE

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Local Council San Lawrenz

Management Report for the year ended 31 December 2024

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1.0 FOLLOW-UP TO LAST YEAR'S MANAGEMENT REPORT

1.1 Property, plant & equipment

The management letter of the previous year pointed out the following issues in relation to the Council's property, plant and equipment:

- From the limited procedures we could perform, we noticed that the adoption of Directive 01/2017 was not properly carried out.
- No proper fixed asset register was provided to us during our audit.
- We noted grants that were being accounted for in the respective cost accounts instead of the capitalised grants accounts.
- Deferred income was capitalised upon the adoption of Directive 01/2017 despite the projects to which they related were not done by that date.

The above weaknesses were found again this year.

1.2 Receivables

In the prior year, the following issues were noted:

- There were long outstanding items within the accrued income, the recoverability of which could not be confirmed.
- We noted that the provision for the accounts receivable balances older than two years, was not being updated.

The first weakness was noted again this year.

1.3 Cash & Bank

With respect to cash and bank, the following weaknesses were pointed out:

- The Local Council received several funds for specific projects but were utilised to cover other expenditure.
- Limited information was made available to us with respect to the APS Bank plc bank accounts and the bank audit letter was not received either.

These issues were noted again during the current year.

1.4 Payables

The following weaknesses were pointed out:

- We did not receive the architect's letter requested about the projects completed during the year and those ongoing as at the end of the year.
- The amount due to Maltapost plc, did not tally with the balance held in the bank account used solely for this activity.
- The aged creditors list provided did not agree with the balance as per books and no explanation was given.
- No confirmation or statement was obtained from one of the suppliers chosen for the testing of the accounts receivable.
- No documentation was provided with respect to the accrual relating to the accountancy services.

The first issue was encountered again during the current year.

1.5 Income

We noted that the income from the central government allocation was accounted for net of the amounts paid to the Gozo Regional Council for refuse collection.

No such issue was noted during the year.

1.6 Expenditures and tenders

The following weaknesses were pointed out:

- The Council did not draw up a purchase request or a purchase order.
- The procurement procedures were not always followed by the Local Council.
- The Council has exceeded the budgeted expenditure in certain categories.
- The contract for open skips was drafted but not signed by both parties.
- From the samples tested, we noted an expenditure that related to the prior year.
- The Council did not have a rental agreement for one of the rents being paid.

The first three issues were still unresolved during the current year.

1.7 Payroll

The following weaknesses were pointed out:

- The amounts shown in the FS3s and FS7 did not agree with the amounts shown in the FS5s.
- There were several CFR receipts that were not provided by the Local Council and payments that did not agree with the FS5s provided.
- A difference was noted between the payroll costs recorded in the accounts and those shown in the FS7 for which no explanation was provided.

The first issue was noted again during the current year.

1.8 Financial Situation Indicator

We have noted that the Financial Situation Indicator held by the Local Council at the statement of financial position date stood at negative 10% which falls below the 10% threshold required by the Financial Provisions to the Local Councils Act.

A similar situation existed as at 31 December 2024.

1.9 Other Matters

When we were provided with the financial statements for the audit, we noted that the amendments to International Accounting Standard 1 – Presentation of Financial Statements, relating to the disclosures of the accounting policies, effective for annual periods beginning on or after 1 January 2023, were completely ignored.

This issue was not encountered this year.

2.0 PROPERTY, PLANT & EQUIPMENT

- 2.1 Following Directive 01/2017 issued by the Department for Local Government to Local Councils on the change in the accounting policies on depreciation, whereby the straight-line method is to be applied instead of the reducing balance method and the accounting policy on government grants, whereby the capital approach is to be applied instead of the income approach, we noticed from the limited procedures that we could carry out that:
- 2.1.1 Items of property, plant and equipment whose useful life expired were not written off upon the adoption of the new depreciation accounting policy.
 - 2.1.2 The depreciation is not being worked out on the remaining useful life of the assets.
 - 2.1.3 Grants received for specific projects, were allocated to several items of property, plant and equipment rather than those specific projects, clearly indicating that the allocation of grants to the respective assets was not properly carried out.
- 2.2 We highly suggest that the exercise of applying the changes in the accounting policies is redone diligently and the necessary corrections made to the accounts through a prior year adjustment. When doing such an exercise, it is important to keep all the necessary workings to be able to understand the transition, the accounting entries passed with respect to such transition and be able to reconcile the costs, accumulated depreciation and grants as previously reported in the financial statements with the updated figures.
- 2.3 No proper fixed assets register was provided to us during our audit and hence we could not perform any checks on the existence and completeness of the property, plant and equipment. The fixed assets register provided included one line item with the net book value of all the assets up to 1 January 2018 when there was the adoption of Directive 01/2017 and then included the details of the items of property, plant and equipment that were acquired from 2018 onwards. No financial information was included of the items that were completely covered by funds. Other items that were partially covered by grants, were recorded at the net amount of cost less grant.
- 2.4 Further to the above, the fixed assets register provided did not agree with the figures shown in the unaudited financial statements. The cost, grants, accumulated depreciation and net book value as per financial statements amounted to €2,475,764, €1,547,480, €764,398 and €163,886 respectively. The cost, accumulated depreciation and net book value in the fixed assets register amounted to €254,832, €144,399 and €110,433 respectively. The net book value of the assets under construction in the financial statements amounted to €7,859 whilst the difference noted between the two net book values quoted above amounted to €53,453.
- 2.5 We recommend that a proper fixed assets register is built that would contain complete details of every item of property, plant and equipment of the Local Council. Fixed assets should be properly coded to facilitate the identification of the assets. Periodic inspections should be conducted to check the completeness and validity of the items in the fixed assets register, thereby increasing control over the assets and maintaining the integrity of the data in the fixed assets register. If the correct costs and accumulated depreciation could not be recorded in the fixed assets register due to the change in the accounting policy for the depreciation, then a separate register containing this information should be maintained that would then be used when reconciling the costs, accumulated depreciation and grants found in the fixed assets register with those found in the accounts and financial statements.
- 2.6 During our testing, we noted that grants relating to urban improvements were being accounted for in the cost account instead of the capitalised grants account. The total amount €98,268 was reclassified for proper presentation purposes. We also noted that additions relating to an asset under construction were mistakenly recorded as additions

to urban improvements. In this respect, the amount of €29 408 was reclassified from urban improvements to under assets under construction.

- 2.7 We recommend that care is taken when recording transactions in the books of accounts to ensure that the correct nominal accounts are used. This would ensure proper presentation of the detailed property, plant and equipment note to the financial statements.
- 2.8 As at 31 December 2017, the Local Council had deferred income amounting to €53,140 relating to projects that were not yet carried out as of that date. Yet, we noticed that when the comparative figures were restated following the change in the accounting policy on government grants, these grants were still allocated against property, plant and equipment rather than left under deferred income. Since then, €26,026 were reclassified back to deferred income. It transpired that all these projects have not been done by 31 December 2023. Consequently, the deferred income and the property, plant and equipment are understated by €27,114.
- 2.9 We recommend that the Local Council prepares a proper analysis of all the funds it has received over time and allocates them to the costs of the projects they were intended to cover. This should be made as part of the exercise mentioned further above on the proper adoption of Directive 01/2017. The funds not yet utilised should be clearly identified and should be transferred under the deferred income until such time, these projects are carried out.
- 2.10 When checking the grants capitalised in relation to the motor vehicles acquired during the year, we noted that the amount capitalised was not in line with the grant agreement. Upon enquiring about this, it resulted that the grants in relation to the motor vehicles that were received in 2025, have not been accrued for. An adjustment of €17,780 was passed to reflect the accrued income and capitalise the remaining unreceived grants.
- 2.11 We recommend that the Local Council maintains a list of all projects undertaken together with the relevant details of their status, invoices issued, payments made and details of the respective grant agreements, including amounts of grants received. Reference should then be made to this list when calculating the funds yet to be received and that must be accrued for as at the end of the financial year.
- 2.12 During the year ended 31 December 2018, we noted that the note relating to property, plant and equipment, was not properly prepared following the changes in the accounting policies in accordance with Directive 01/2017. The amounts added to the grants, did not represent the gross amounts of grants received but the gross amounts of grants received less the amortisation up till 31 December 2016. The amortisation up till 31 December 2016 should have been netted off against the accumulated depreciation as of that date. This error in the presentation of figures in the financial statements was not corrected as the same figures of previous years were brought forward in Note 10 both for the grants and for the accumulated depreciation.
- 2.13 We highly suggest that the Council updates the figures shown in the note to the financial statements relating to property, plant and equipment to ensure that figures are properly presented.

3.0 RECEIVABLES

- 3.1 During our audit, we have noted that amounts written off as bad debts during the year amounting in total to €1,613, were accounted for in the revenue accounts rather than in the bad debts written off account. Adjustments were passed to correct these errors.
- 3.2 Write-off of receivables as bad debts should be accounted for in the bad debts written off account and not netted off against the income for the year in which the write off is made. This would ensure proper presentation of the amounts in the statement of comprehensive income.

- 3.3 When checking the accrued income as at the end of the year, we noted that the Council has long outstanding accrued income amounting to €34,541, which were older than 2 years. €2,650 pertains to the 2020 Christmas concert, €1,375 pertains to a cultural activity held during 2021, €4,170 pertains to the Dwejra Spring Festival, €1,997 pertains to the animal care scheme, €5,570 relates to the 2022 Christmas activities, €257 pertains to the 2021 playing field project, €8,907 pertains to a completed project "Improvement of Farm Access Roads in San Lawrenz" and €9,615 pertains to a grant in relation to Triq il-Wied road resurfacing. No documentation was provided to us to confirm the recoverability of these long outstanding amounts.
- 3.4 The Local Council should regularly monitor the accrued income particularly those amounts that have been long outstanding to verify whether they are recoverable or not. It might be the case that the Council would have not filed the application on time and would have lost its entitlement to such funds. It could also be case that the funds would have been received, and the receipt thereof would have not been set off against the accrued income. It is important that the Council maintains all documentation relating to such accrued income and that it actively chases these amounts due to it to improve its liquidity. If any funds are no longer recoverable, then they should be written off.
- 3.5 Within the accrued income, we also noted an amount of €23,294 pertaining to the MEPA Planning Gain Fund which was not yet received by the Local Council as at 31 December 2024 due to pending submission of proposed projects by the Local Council for which such funds may be used. This amount has been carried forward for years and no supporting documentation was available. The corresponding entry was found in the deferred income. Given that this amount has been carried forward for several years now, and there are no planned projects for the utilisation of such funds, it was agreed to reverse this amount from the accrued income and the deferred income.
- 3.6 The Local Council should make use of the grants available by submitting projects for which such grants could be utilised, otherwise, it will risk losing such available funds. At the end of each financial year, the Local Council should obtain confirmations from the relevant authorities of the amounts of funds it is entitled to and till when they will remain available. Any funds that may no longer be used, should be reversed from the accounts

4.0 CASH & BANK

- 4.1 The Local Council has bank accounts with APS Bank plc, which were previously used for its operations, but it seems that they are no longer in use. We received limited information about these accounts as statements were only available for one of the two accounts, and the bank audit letter was not received. Bank account no. 12218030025 does not reconcile with the books. There is a difference of €130 which seems to represent bank charges incurred over the years that were never reflected in the accounts. However, we have not been provided with the bank reconciliation report as at the end of the year to confirm this. The Local Council has not provided us with the bank statements for bank account no. 20000008379. We could not verify the correctness and completeness of the balance of this bank account as we did not receive the bank audit letter requested from the APS Bank plc.
- 4.2 We highly recommend that the Local Council should request all the bank statements relative to all its bank accounts, at least on a yearly basis, to be able to reconcile the balances in the books of accounts with the balances shown on the bank statements. Furthermore, if these bank accounts are not going to be used anymore, the Local Council should close them immediately.
- 4.3 We have also noted a difference between the books of account and the bank statement of the Bank of Valletta plc account no. 40025249301 of €70, resulting from a bank charge that was not accounted for in the books. It seems that not all the banks accounts are being reconciled regularly.

- 4.4 We recommend that the Local Council should always ensure that all the bank accounts are reconciled on a regular basis and any differences are investigated and action taken accordingly.
- 4.5 At the end of the year, the Local Council had balances in the various bank accounts amounting in total to €123,812. As at the same date, the Local Council had an amount of €184,820 representing money received in advance for projects and expenditure not yet carried out and incurred, which amount forms part of the deferred income as at the end of the year. This means that the Local Council has used such funds received for specific projects and expenditure, for other purposes.
- 4.6 The Council should perform an exercise to plan how the funds that have been utilised for other purposes will be replaced, to be able to carry out the projects and incur the expenditure it has committed itself to. Using funds for purposes other than the projects and expenditure committed to in the various funding agreements entered into, is a breach of such agreements.

5.0 PAYABLES

- 5.1 We have not received the letter requested from the architect of the Accessibility and Mobility project relating to works in Triq Wied Merill, Triq il-Gebli and Triq i-Wilegt. This project was still ongoing as at the end of the year and the asset is being correctly classified under assets under construction. Hence, we could not ascertain whether an accrual should be recorded in the books as at the end of the year for any works carried out but not yet invoiced by the contractor.
- 5.2 The Local Council should always request letters from all the architects involved in the various projects of the Local Council, to provide information about the completed projects during the year as well as information about those projects that are still ongoing as at the end of the year, to ascertain the correctness and completeness of the amounts being recorded in the books. Through these letters, the Council would be able to verify the amount of the accrual that needs to be accounted for in the books for those ongoing projects as at the end of the year.
- 5.3 When testing the accruals, it was noted that the invoice provided to us to support the accrual relating to outdoor media and design, amounting to €1,829, was received in 2024. An audit adjustment was passed to reclassify this invoice from the accruals to under the accounts payable.
- 5.4 The Local Council should ensure that all the invoices received from the suppliers during the year are accounted for under creditors control account and not under the accruals, ensuring proper presentation of balances in the financial statements.
- 5.5 When browsing through the various liabilities' nominal accounts, we noted a debit balance in account number 4051 of €865. When checking further on this balance, we noted that there was a corresponding related credit balance in account number 4001. An adjustment was passed to net off these related balances.
- 5.6 Care should be taken when recording transactions to ensure that the correct nominal accounts are used. Furthermore, it is important that the Council browses through the final trial balance to see whether there are any anomalies such as a debit balance in a liability account. If such cases are noted, they are to be investigated immediately.

6.0 PAYROLL

- 6.1 When testing the payroll, we noted that the payments of the monthly taxes and social security contributions for the months of January, March, September, October and November were not paid on time. Kindly note that such payments are to be affected by

the last working day of the month following the month in which the emoluments are paid.

- 6.2 The Council should ensure that payments due to the Commissioner for Revenue are affected within the timeframes stipulated within the law.
- 6.3 Within the list of prepayments as at the end of the year, we have noted items relating to personal emoluments. When we enquired about these, we were informed that there was an overpayment of €50 in the month of July to one of the Councillors and then there were three double payments in the month of August of €160 each to three different Councillors. These were then corrected in January 2025.
- 6.4 Care should be taken both when calculating the payroll for the month as well as when affecting the payments thereof, to ensure that no mistakes are taken in the payroll calculations and in the payments affected.
- 6.5 When checking the various FSS forms, we noted several variances and errors. The taxable fringe benefit paid to the part-timer, was correctly presented under fringe benefits in the FS3 of the employee but was included within the gross emoluments of part-timers in the FS7. The same was done with the taxable fringe benefit paid to executive secretary. In the FS3 it was correctly presented whilst in the FS7 it was included within the gross emoluments of full-timers. Furthermore, differences were noted between the figures in the FS5s and the figures in the FS7. The gross emoluments of full-timers, the gross emoluments of part-timers and the taxable fringe benefits as per the FS5s amounted to €117,228, €7,441 and €3,390 respectively. Those declared in the FS7 amounted to €119,909, €8,152 and €nil respectively.
- 6.6 We suggest that on an annual basis, a reconciliation is performed between all the FSS forms to ensure that they all tally with the accounting records and between themselves before submitting them to the Commissioner for Revenue. It is also to be ensured that the various FSS forms are properly filled in with the various payments affected as part of the personal emoluments properly categorised in such forms.

7.0 EXPENDITURE AND TENDERS

- 7.1 The Local Council did not draw up a purchase request or a purchase order in line with the Local Councils Procurement Procedures. This matter was discussed with the Council, and we were informed that they just started using a purchase request or order form in the August 2024.
- 7.2 The Local Council should always adhere to the Government Procurement Procedure in order to have a substantiation of those cashflow transactions. This will help the Local Council to monitor and have a record keeping of those transactions materialised during the year.
- 7.3 The total actual expenditure exceeded the budgeted expenditure in several categories, as follows:
 - 7.3.1 Repairs and Upkeep (Category 2300) by €158
 - 7.3.2 Rent (Category 2400) by €985
 - 7.3.3 National and International Memberships (Category 2500) by €234
 - 7.3.4 Office Services (Category 2600) by €3,513
 - 7.3.5 Transport (Category 2700) by €628
 - 7.3.6 Travel (Category 2800) by €13,255
 - 7.3.7 Information Services (Category 2900) by €13,049
 - 7.3.8 Contractual Services (Category 3000) by €32,737
 - 7.3.9 Professional Services (Category 3100) by €9,475
 - 7.3.10 Community and Hospitality (Category 3300) by €19,674
 - 7.3.11 Incidental Expenses (Category 3400) by €274
 - 7.3.12 Local Enforcement Expenses (Category 3600) by €947

- 7.4 The Financial Procedures applicable for Local Councils require Councils to draw up twelve (12) months budgets, three (3) years business plans, quarterly reports and eventually yearly administrative reports at the end of the year. The Council is also allowed to revise budgets in line with actual requirements and there are enough reporting tools to note which areas in the budget need revising.
- 7.5 We recommend that the Council makes use of the reporting tools in hand to take corrective measures in the budget every quarter.
- 7.6 We were not provided with sufficient supporting evidence to confirm whether the Local Council abided with Directive 03/2017 issued by the Department for Local Government to Local Councils on the change in the public procurement regulations, where it comes to giving direct orders instead of obtaining quotations. No documentation was retained to justify the reason as to why direct orders were used rather than quotes being obtained.
- 7.7 It is understood that at times, the urgency of matters might require the reduction of bureaucracy as much as possible, however we are still of the opinion that the necessary paperwork should have been done in line with the financial procedures. Therefore, we strongly recommend that the Council takes immediate action to regularize itself on these matters and to ensure that such occurrences are not repeated in the future.

8.0 FINANCIAL SITUATION INDICATOR

- 8.1 The Financial Situation Indicator held by the Council at the statement of financial position date, stood at 1% which falls below the 10% threshold required by the Financial Provisions to the Local Councils Act. Kindly note that a Financial Situation Indicator which falls below the 10% margin implies that the Council is not effectively managing its payables and cash flows, venturing into activities which are not budgeted for.
- 8.2 Kindly note that the Financial Situation Indicator has been calculated as the non-restricted current assets less current liabilities (excluding the deferred income) as a percentage of the Central Government allocation received in terms of Section 55 of the Local Councils Act (Chap. 363) after providing for cash and cash equivalents that are restricted to specific projects not yet carried out.
- 8.3 The Council should manage the working capital more attentively, to avoid such a negative Financial Situation Indicator. Moreover, it is recommended that the Council obtains the necessary clearance from the Department for Local Government if it anticipates a Financial Situation Indicator level which will fall below the 10% threshold in future years.

9.0 OTHER MATTERS

- 9.1 The unaudited financial statements and the initial trial balance provided to us for the audit, did not reflect one of the audit adjustments passed in the prior year. The accounts that were affected were the provision for doubtful debts account and the retained earnings account. The variance was of €549. This variance was noted when we were carrying out the test on the opening balance. We were thereafter provided with an updated trial balance.
- 9.2 The Council should ensure that all audit adjustments approved and passed during the audit are correctly reflected in the accounts and that a check is thereafter carried out to ensure that all the opening balances agree with the signed audited financial statements

Responsibility Statement

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of the Local Council arising out of our audit, we emphasise that our consideration of the Local Council's system of internal financial control was conducted solely for the purpose of our audit having regard to our responsibilities under International Standards on Auditing.

We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.