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Our Ref: NAO 107/2021/55

Your Ref:

11 June 2025

The Mayor and Executive Secretary
St Paul's Bay Local Council
St Paul's Bay

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2024**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2024.

After seeking the Local Council's approval, you are kindly requested to submit your response to the Director (Monitoring & Support) Local Government Division, the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,



T. Mercieca
Asst. Auditor General

Encls.

Grant Thornton Malta

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The Mayor
San Pawl il-Baħar Local Council
St. Paul's Street
St. Paul's Bay
SPB 3418
Malta

Our Ref PC/mf/120225

13 May 2025

Dear Sir,



Financial statements for the year ended 31 December 2024

During the course of our audit for the year ended 31 December 2024, we have reviewed the accounting system and procedures operated by San Pawl il-Baħar 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 Income from the joint committee

We again noted that the council failed to obtain the Joint Committee financial statements [refer to note 2.1].

1.2 General income

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

1.3 Upkeep of fixed asset register

The fixed asset register still did not include all the necessary details [refer to note 3.1].

1.4 Reconciliation of financial statements to fixed asset register

We again noted differences between the fixed asset register and amounts included in the unaudited financial statements [refer to note 3.4].

1.5 Fixed asset additions

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

1.6 Special programmes

The council failed to obtain the architect certificates from Infrastructure Malta for the special programmes (refer to note 3.7).

1.7 Pre-regional LES debtors

We still encountered differences between the Loqus report (622) and the books of account (refer to note 4.1).

1.8 Overdue balances

The council did not address the issue of long-outstanding debtors (refer to note 4.3).

1.9 Accrued income

We again noted shortcomings in accrued income (refer to notes 4.8, 4.10 and 4.11).

1.10 Other receivables

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

1.11 Supplier statements

The council is still not obtaining supplier statements from all its suppliers as at year-end (refer to note 5.1).

1.12 Debit balances in creditors list

We again noted debit balances in creditors list during the current year (refer to note 5.3).

1.13 Confirmation of creditor

We noted a difference between a creditor confirmation letter and the council's books of account (refer to note 5.5).

1.14 Deferred income

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

1.15 Refundable deposit

We again identified a balance in the council's books of account (refer to note 5.7).

1.16 Write-off of payables

We are pleased to note that we did not encounter the same issue during the year under review.

1.17 Accruals

We have again noted shortcomings in accruals (refer to note 5.9).



1.18 Refundable amount due to Regjun Tramuntana

We are pleased to note that we did not encounter the same issue during the year under review.

1.19 FSS and NI payable

We are pleased to note that we did not encounter the same issue during the year under review.

1.20 Books of account

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

2 Income

Income from Joint Committee

2.1 We noted that the North Joint Committee, of which San Pawl il-Baħar Local Council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2009. The reserves of the committee at that date amount to €1.6 million. In the absence of audited financial statements for 2011 we were unable to determine whether the council is entitled to receive any further income from the Joint Committee. As a result, our audit report has been qualified.

2.2 Nevertheless, we recommend that the council raises this issue with the Department for Local Government and ensures that the joint committee is liquidated and that the council receives any further income that may be due to it.

3 Fixed assets

Upkeep of fixed asset register

3.1 During the audit fieldwork, we noted that assets in the fixed asset register had generic names and noted one asset with no details.

3.2 The fixed asset register should at least include 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

3.3 We suggest that the council updates its fixed asset register and categorises assets appropriately. This will ensure the appropriate treatment of depreciation and hence the correct net book value.

Reconciliation of financial statements with fixed asset register

- 3.4 We identified the following discrepancies between the cost and net book value of assets in the unaudited financial statements and the cost and net book value in the fixed asset register.

Asset category	Cost in unaudited financial statements €	Cost in fixed asset register €	Difference €
Office furniture & fittings	50,320	46,117	4,203
Urban improvements	1,182,115	1,005,520	176,595
Special programmes	2,352,022	1,879,363	472,659
Computer & office equipment	45,699	51,719	(6,020)
Motor vehicles	86,762	93,762	(7,000)
Plant & machinery	120,471	119,662	809
Playground furniture	43,489	37,604	5,885
Construction works	1,763,373	2,857,709	(1,094,336)
	5,644,251	6,091,456	447,205

- 3.5 Upon enquiry to the council, we noted that these discrepancies were a result from the application of Directive 1/2017 whereby the NBV was adjusted for including deferred income and depreciation was recalculated based on the remaining useful life of the asset.
- 3.6 The council should ensure that the fixed asset register agrees with the general ledger. Any variance between the assets disclosed in the financial statements and the register needs to be investigated and addressed accordingly. We recommend that the council reviews the financial statements and compares the figures for fixed assets to the fixed asset register to ensure proper preparation of the financial statements

Special programmes

- 3.7 In our 2020 management letter we noted that the council has capitalised €500,000 for resurfacing and patching works of various roads. We were only provided with the memorandum of understanding and respective invoice for the above works. The council failed to obtain an architect certification prior to issuing payment to the supplier and capitalising works in the financial statements. We also noted that the council failed to distinguish between patching and resurfacing works. In 2020, this amount was included within 'construction works' until architect certificate is provided. To date the council failed to obtain an architect certificate. During 2021, the council reclassified the amount to special programmes. Our audit report has been qualified as the council did not investigate whether such works should be expensed or capitalised.



3.8 We recommend that prior to issuing payments the council obtains all necessary documentation and invoices to establish the correct treatment in the council's books of account. May we remind the council to obtain and review architect's certificates to establish whether the above costs should be expensed as patching works or capitalised as resurfacing costs.

4 Trade and other receivables

Pre-regional LES Debtors

4.1 When testing the pre-regional receivables, we noted a balance of €56,702 in the unaudited financial statements of the council whilst the 622 Loqus report shows a balance of €818,210. The council mentioned that this has been a recurring issue. 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.

4.2 We would like to remind the council that it is the council's responsibility to investigate these differences and refer them to Loqus.

Overdue receivables

4.3 We noted that the council has the following long-overdue receivables:

Debtor	€
Blues Limited	24,000
Sirens Sports Facilities Limited	11,210
Malta Tourism Authority	6,228
Pepe Nero	1,373
Dimbros Limited	1,250
Malta Classic Car Collection Ltd.	466
Micheles Café	172
Mecca Enterprises Limited	90
Sammut Christian	71
Total	44,860

4.4 We also noted that a total provision of €33,406 was recorded as at 31 December 2024 in the books of account for the trade receivables:

Debtor	€
Blues Limited	24,000
Malta Tourism Authority	6,228
Pepe Nero	1,201
Dimbros Limited	1,250
Malta Classic Car Collection Ltd.	465
Mecca Enterprise Limited	172
Mecca Enterprise Limited	90
Total	33,406



- 4.5 We noted that a long-outstanding receivables balance of €11,455 does not have a corresponding provision.
- 4.6 We recommend that although in most cases a provision has been made, the council should continuously obtain settlement from these debtors, reminding them that the amounts have been long overdue. We also recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings.
- 4.7 Furthermore, we would like to remind the council that in case overdue and provided for receivables are settled by the debtors, the council should reflect this in the books of account and adjust the corresponding provision.

Accrued income

- 4.8 During the year, we noted that included with accrued income is an amount of € 29,571 with respect to Triq San Frangisk panoramic balcony. The project was concluded in 2023, and the amount was invoiced and received from Malta Tourism Authority during the same year. The council also confirmed that no further amounts are expected to be received in respect to this grant. An adjustment was proposed to reverse accrued income by debiting Other Income – MTA. Our proposed audit adjustment was approved by the council and posted in the Council's books.
- 4.9 We recommend that the council regularly reviews the accrued income at year-end to ensure that the balance appropriately reflects the actual collectible amount.
- 4.10 In our previous management letter, we noted that the council has accrued income amounting to €132,270 with respect to Thallassalejn playing field. The council provided an agreement with MEPA dated 20 October 2011. The project was finalised in 2018 and the respective accrued income was accounted for in the same year. Up to date, no amount was received by the council for this Project.
- 4.11 We further noted in our previous management letter that in June 2017, the council entered into agreement with the Planning Authority for €154,694 in terms of the 'Resurfacing of roads' project. During 2019, the council received an amount of €102,054. No further payments were made by the Planning Authority from 2020 to 2024. The remaining balance of accrued income in accordance with the books of account as at 31 December 2024 is €52,640.
- 4.12 We recommend the council to contact and chase the Planning Authority for payment and, if any issues arise, to ask assistance from the Department for Local Government. Furthermore, should the council fail to collect the amount receivable in the coming year, the council should assess the recoverability of the balance since it is long-outstanding.



5 Trade and other payables

Supplier statements

- 5.1 Despite the council's efforts, we again noted that there were various suppliers for which the council did not obtain statements as at or near year-end to confirm the year-end balances and to ensure the completeness of the books of account. Circulars issued from time to time by the Department for Local Government specifically emphasise that the council should acquire monthly statements from all its suppliers.
- 5.2 We understand that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However, we recommend the council keeps on chasing its suppliers for regular statements. This will ensure that the council's creditors are properly recorded in the accounts and that any differences or disputes are highlighted promptly.

Debit balances in creditors' list

- 5.3 The council's creditors' list included immaterial debit balances amounting to €1,609.19. Details of the debit balances are presented below:

Creditor	€
Arms Limited	1,582.86
Go PLC	26.33
Total	<u>1,609.19</u>

- 5.4 We recommend that the council investigates all debit balances in the creditors' list and writes them off if not applicable. In addition, these balances should also be disclosed separately with receivables rather than set off against trade creditors.

Confirmation of trade creditors

- 5.5 As part of our audit procedures we circularised confirmation letters to selected suppliers. We noted the following:

Supplier	Amount in council's books of account €	Amount in supplier statement €	Difference €
Regjun Tramuntana	152,630.99	153,267.35	(636.36)

- 5.6 We remind the council that circulars issued by the Department state that the council should reconcile creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible.



Refundable deposits

- 5.7 During our audit fieldwork, we noted that the council collects deposits for permits of construction works carried out in the locality of San Pawl il-Baħar. The deposits are refunded back only if the council obtains assurance that the sites are left in a good condition after all works have been carried out. The books of account include an amount of €4,070 in relation to refundable deposits.
- 5.8 We recommend that the council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the council. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

Accruals

- 5.9 Our testing of accruals revealed that the council has erroneously under accrued for Christmas Decorations by €11,376.98. An audit adjustment was proposed to increase the expense and accruals. The council has amended the financial statements to include our audit adjustment.
- 5.10 The council should endeavour to compute accruals as accurately as possible so that expenditure is recorded in the correct financial period based on the accruals concept of accounting.

Unrecorded liabilities

- 5.11 Whilst reviewing subsequent year end payments, it came to our attention that the council has omitted an invoice for road and street cleaning amounting to €16,822.41. We have proposed an audit adjustment to record an accrual in this respect. Our proposed audit adjustment was approved by the council and reflected in the audited financial statements.
- 5.12 We recommend that the council ensures that expenditure is accounted for when it is incurred so that expenses and liabilities are accounted for in the proper financial year.

6 Expenditure

Legal Dispute

- 6.1 The council had an ongoing court case with respect to an accident that took place in St. Paul's Bay on 14 September 2008. On 26 February 2024, the final judgement was issued by the court stating that St. Paul's Bay Local Council joint and severally with Kevin Micallef, Alan Bugeja, Maurice Attard and Karl Cini as Liquidator of Sonlit Limited are liable to settle the amount of €551,589 pertaining to damages suffered by the plaintiff together with 80% of the costs for the legal case. Upon reviewing the expenses recorded in the books of account, we noted that the council recognised an amount of €829,848 for the above legal case. The council confirmed that the members of the previous legislature had approved to settle off the debt in full on behalf of the other parties to avoid incurring further interest. To date, the council has not yet started legal proceedings against the other parties involved.
- 6.2 Due to the significance of the amount, the council should carefully consider whether it is possible to initiate legal proceedings against the other parties. Furthermore, following discussions with the legal advisor the council should determine the amount which can be recovered from the proceedings and also performs an assessment for the recoverability of the balance receivable once determined.



Car park attendants

- 6.3 Whilst reviewing contractual services, we noted that the council incurred an amount of €73,367 (2023: €10,184) for car park attendants. Upon further enquiry to the council, we were informed that residents are having difficulty finding parking in the locality, hence the council has approved the initiative to utilise the school property as parking and be held responsible for the ongoing supervision of parking hours.
- 6.4 We recommend that the council obtains approval from the Department for Local Government for such initiative. Furthermore, the council should consider introducing a bye-law with respect to parking fees to cover some of the costs being incurred by 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 all the staff for their cooperation and assistance during the course of the audit.

Yours faithfully,

A handwritten signature in blue ink that reads "Grant Thornton".