National Audit Office
MALTA

13 JUL 2026
SS/LC/58/26/I.

Our Ref: NAO 107/2021/55

9 July 2026

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 2025

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 2025.

After seeking the Council's approval, you are kindly requested to submit your response to this Office, to the Director (Monitoring & Support) Local Government Division and the Local Government Auditor, 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

Tanya Mercieca
Consultant, Local Government Auditing

Encls.

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The Mayor
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St. Paul's Street
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SPB 3418
Malta

Our Ref PC/mc/142926

11 June 2026

Dear Sir,

Financial statements for the year ended 31 December 2025

During the course of our audit for the year ended 31 December 2025, 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 Upkeep of fixed asset register

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

1.3 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).

1.4 Special programmes

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

1.5 Pre-regional LES debtors

We still noted differences between the Loqus report (622) and the books of account (refer to note 5.1).

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1.6 **Overdue balances**

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

1.7 **Accrued income**

We again noted shortcomings in accrued income (refer to note 5.3, 5.5 and 5.6).

1.8 **Supplier statements**

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

1.9 **Confirmation of trade creditors**

We again noted a variance in the confirmation replies from creditors (refer to note 6.3).

1.10 **Debit balances in creditors list**

We again noted debit balances in creditors list during the current year (refer to note 6.6).

1.11 **Refundable deposit**

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

1.12 **Unrecorded liabilities**

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

1.13 **Legal dispute**

We again noted that no further proceedings were issued against the other parties involved (refer to note 7.1)

1.14 **Car park attendants**

We again noted the same issue with car park attendants under contractual services (refer to note 8.1).

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 our audit fieldwork, we noted that certain assets in the fixed asset register continue to be recorded using generic descriptions and that one asset remains recorded with insufficient details. We note that similar observations were raised in prior years and the council had previously indicated that steps were being taken to improve asset documentation and recordkeeping.

3.2 Notwithstanding the council's previous responses and ongoing efforts, the matter has not yet been fully resolved, as the fixed asset register still does not consistently include all key descriptive and financial information. For completeness and effective asset management, the fixed asset register should, at a minimum, contain the following details for each asset:

- 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 reiterate our recommendation that the Council finalises the enhancement of the fixed asset register, not only for newly acquired assets but also through a review and update of existing asset records. Addressing this long-standing observation will strengthen internal controls over fixed assets, facilitate accurate depreciation calculations, and ensure the appropriate determination of the net book value of assets.

Reconciliation of financial statements with fixed asset register

3.4 During our audit fieldwork, we identified discrepancies between the cost and net book value of certain asset categories as disclosed in the unaudited financial statements and the corresponding balances reflected in the fixed asset register. We note that similar reconciliation differences were also reported in prior-year audits, indicating that this matter remains unresolved. A summary of the key differences identified is set out below:

Asset category	Cost in unaudited financial statements €	Cost in fixed asset register €	Difference €
Office furniture & fittings	48,808	46,117	2,691
Urban improvements	1,201,141	1,008,458	192,683
Special programmes	2,352,022	1,879,363	472,659
Computer & office equipment	48,627	54,647	(6,020)
Motor vehicles	86,762	93,762	(7,000)
Plant & machinery	115,168	120,722	(5,554)
Playground furniture	43,489	37,604	5,885
Construction works	1,814,029	2,913,211	(1,099,182)
	5,710,046	**6,153,884**	**(443,838)**

3.5 Upon enquiry, management explained that these discrepancies arise from the application of Directive 1/2017, whereby the net book value of assets was adjusted to reflect deferred income, and depreciation was recalculated based on the remaining useful life of the assets. While we acknowledge this explanation, we note that the fixed asset register has not been fully updated to reflect these adjustments, resulting in ongoing differences between the register and the general ledger.

3.6 We recommend that the Council ensures full and consistent alignment between the fixed asset register and the general ledger, including the reflection of all adjustments relating to deferred income and revised depreciation calculations. Given that this matter has been raised in previous years, we further recommend that management undertakes a comprehensive review of existing asset records, rather than limiting updates to newly acquired assets only. Resolving this recurring issue will strengthen controls over fixed assets and support the accurate preparation and presentation 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 reiterate our recommendation that, prior to issuing payments, the Council ensures that all necessary documentation, including architect's certifications and detailed invoices, is obtained and reviewed. This is necessary to appropriately determine whether road works should be expensed as patching works or capitalised as resurfacing works in accordance with the applicable accounting policies.

Fixed asset additions

3.9 During our testing of additions relating to construction works, we identified a variance of €10,550 between the contractor's invoice amounting to €63,743 and the architect's certificate of €53,193. Further review indicated that certain items included in the bill of quantities were not certified. Management has advised that the contractor will issue a credit note in 2026 to reflect this difference. No adjustment has been recorded in the Council's financial statements for the year ended 31 December 2025. The Council should follow up with the supplier to obtain the credit note and ensure that the necessary adjustment is appropriately recognised in the accounting records.

3.10 We reiterate our recommendation that, prior to recording invoices, the council obtains and reviews the relevant architect's certifications to ensure that the amounts recorded are valid, accurate, and appropriately supported.

4 Leases

Accounting for lease of administrative offices

4.1 We noted that, in relation to the lease of the Council's administrative offices, the lease liability and corresponding right-of-use asset were not initially measured in full compliance with IFRS 16, Leases. In particular, the lease amortisation schedule was prepared using an incorrect lease payment structure and discounting methodology, resulting in misstated balances for the right-of-use asset, lease liability, depreciation charge, and interest expense. The lease agreement specifies fixed payments of €23,000 payable semi-annually in advance, whereas the original workings were based on a reduced number of payments and annualised assumptions. Furthermore, interest was not calculated consistently using the effective interest method, and the right-of-use asset depreciation was not aligned to the four-year lease term.

4.2 We further noted that the treatment of advance lease payments was not applied correctly. Under IFRS 16, lease payments made in advance should reduce the lease liability immediately at commencement, with interest accruing only on the outstanding balance thereafter. In addition, we observed that, as at 31 December 2025, the current and non-current split of the lease liability was misstated. Only one lease payment of €23,000, due on 30 January 2026, falls within the next twelve months and should therefore be classified as current, with the remaining balance classified as non-current.

4.3 As a result, a number of audit adjustments were proposed to remeasure the lease liability and right-of-use asset based on the contractual payment structure, apply discounting aligned to the payment frequency using the incremental borrowing rate of 3.65% per annum, recognise interest using the effective interest method, correct the depreciation charge, and appropriately classify the lease liability between current and non-current portions. Management subsequently agreed to record these adjustments.

4.4 We recommend that the council ensures that future lease agreements and lease modifications are evaluated and accounted for in accordance with IFRS 16 from inception, and that lease amortisation schedules are prepared using contractual payment dates, appropriate discounting aligned to payment frequency, and a consistent application of the effective interest method. This will reduce the risk of misstatement and the need for audit adjustments in future periods.

Derecognition of expired lease

4.5 During our audit, we noted that the lease agreement in respect of the council offices dated 2011 expired during the year. While the council subsequently entered into a new lease contract for the same premises, the right-of-use asset relating to the expired lease had not been fully derecognised and continued to be included within non-current assets at year-end. In accordance with IFRS 16, once a lease expires, the associated right-of-use asset is required to have a nil carrying amount, as the right to use the underlying asset under that contract no longer exists. An audit adjustment was therefore proposed to derecognise the remaining right-of-use asset balance. No gain or loss arose, as the related lease liability had already been fully settled.

4.6 We recommend that the council performs a review of lease contracts upon expiry or termination to ensure that right-of-use assets relating to expired leases are timely and fully derecognised. In addition, where a new lease is entered into for the same asset, care should be taken to ensure that the expired lease and the new lease are clearly distinguished and accounted for separately in accordance with IFRS 16.

5 Trade and other receivables

Pre-regional LES Debtors

5.1 During our testing of pre-regional LES receivables, we noted a variance between the balance of €49,960 reported in the unaudited financial statements and the balance of €806,364 per the 622 Loqus report. The council advised that this remains a long-standing and recurring issue relating to historic balances. No audit adjustment has been proposed, as the LES debtors are fully provided for and therefore carried at a nil net value, resulting in no impact on the financial statements.

5.2 As noted in prior years, these variances appear to relate to historical matters that should ideally be addressed through continued consultation with the DLG and Loqus, with the objective of clarifying and regularising the underlying balances. We note the council's continued commitment to working with the relevant authorities to resolve these differences. Nevertheless, we reiterate that it remains the council's responsibility to investigate such variances and ensure that reconciliations between internal records and third-party reports are appropriately followed up and resolved on a timely basis.

Accrued income

5.3 We continue to note that certain accrued income balances relate to historic agreements and projects completed in prior years, including the Ħal-Lija (Thallassajlen) playing field project with MEPA and the 'Resurfacing of Roads' project with the Planning Authority. These balances have remained outstanding for an extended period and have not been settled to date. As a result, there is an increased risk that the accrued income recognised may not represent amounts that are probable of collection.

5.4 We reiterate our recommendation that the Council continues to actively follow up with the relevant authorities to pursue settlement of these balances and, where appropriate, seek assistance from the Department for Local Government. In addition, the Council should continuously assess the recoverability of long-outstanding accrued income balances at each year-end and consider whether reversal or impairment is warranted where recovery is no longer considered probable.

5.5 In respect of the SPI/SCI/09/2022 Cassarino Playing Field project, we noted that 25% of the approved grant funding remained outstanding and receivable from the Directorate for Local Government (DLG) as at year end. The total approved grant amounted to €107,000, of which 75% (€80,250) was received on 2 December 2022, in accordance with the grant agreement. Given that the Council has already incurred eligible project costs, the remaining balance was recognised as accrued income. The outstanding amount is contractually receivable upon completion of the project and submission of the requisite supporting documentation to DLG.

5.6 With respect to the SPI/SCI/01/2022 Playing Fields Scheme – Burmarrad Playing Field project, we similarly noted that 25% of the approved grant remained outstanding at the reporting date. The total grant approved was €45,000, of which 75% (€33,750) was received on 19 November 2022, in line with the terms of the agreement. As the related project expenditure has already been recognised in the financial statements, the unreceived balance has accordingly been recognised as accrued income. Settlement of the remaining grant is conditional upon finalisation of the project and submission of the required documentation to DLG.

5.7 We recommend that the council continues to closely monitor the progress of these projects and maintains regular follow-up with the relevant authorities to ensure timely submission of final documentation and recovery of the outstanding grant balances. No audit adjustment was proposed in this regard, subject to continued compliance with the grant conditions and the ultimate recoverability of the amounts outstanding.

6 Trade and other payables

Supplier statements

6.1 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.

6.2 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.

Confirmation of trade creditors

6.3 During our confirmation testing, we noted a variance per council's books and per creditor's reply as per below.

Creditor	Per books €	Per reply €	Variance €
Infrastructure Malta	5,000	101,523	96,523

6.4 The council insists that these amounts are not due and will not be settled for various reasons, including that the related works were neither requested nor approved by the council. To date, this matter remains unresolved with Infrastructure Malta and, accordingly, our audit report has been qualified.

6.5 Management should ensure timely settlement of outstanding balances and maintain proper documentation to facilitate future confirmation procedures.

Debit balances in creditors' list

6.6 The council's creditors' list included immaterial debit balances amounting to €7,230.64. Details of the debit balances are presented below:

Creditor	€
Arms Limited	6,298.19
5H Limited	910.96
Go PLC	21.49
Total	**7,230.64**

6.7 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.

7 Expenditures

Legal dispute

7.1 The council has an ongoing court case relating to an accident that occurred in St Paul's Bay in previous years. In 2024, the council confirmed that members of the previous legislature had approved a full settlement of the debt on behalf of the other parties to avoid incurring further interest. However, to date, the council has not initiated legal proceedings against the other parties involved.

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7.2 Due to the significance of the amount, the council should ensure 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 proceeding and also performs an assessment for the recoverability of the balance receivable once determined.

8 Car park attendants

8.1 In prior years, we noted that the council incurred an amount of €74,706 (2024: €73,367) 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.

8.2 We again 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,

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