



The Mayor
Birgu Local Council
Auberge de France,
Triq Hilda Tabone,
Birgu BRG 1252
Malta



Our ref: PC/mc/153726

13 July 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 Birgu 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 Audit opinion

A disclaimer of opinion has been issued in relation to the audited financial statements for the year ended 31 December 2025 (refer to note 2).

1.2 Income

During the year under review the council approved the write-off for long outstanding receivables. The council failed to investigate the reason as to why these balances remain unpaid and to pursue the respective debtors (refer to note 7.3).

EU projects income was again included with 'Other Government income' in the audited financial statements (refer to note 3.3).

The council failed to adjust the grant previously received by the council for the Local Council's lighting project amounting to €28,000. As noted in our previous management letter, the grant was in relation to capital assets and hence should not have been recorded as income in 2023 and 2024.

The amount recorded in previous years from Visit Malta was written off during the year under review (refer to note 7.3).

1.3 Expenditure

The imprest system is still not yet implemented by the council (refer to note 5.12).

We again noted that the council is still utilising expired contracts (refer to note 5.14).

The council's schedule of payments does not include all details as required by memos and circulars issued by the department (refer to note 5.16).

1.4 Payroll

We are pleased to note that the mayor's allowance has been presented as a separate line item in the current year. However, we identified that the amount included in the unaudited financial statements was not accurately stated and was subsequently corrected during the course of the audit.

We also noted that FSS and NI contributions were not consistently remitted within the statutory timeframe and remained outstanding beyond the required deadline (refer to note 4.1).

After year-end, the Council submitted adjustment forms for the 2019 and 2020 FSS returns, and the related liability was settled in March 2026 (refer to note 4.5).

We again noted that non-financial liabilities are still included with other creditors - financial liabilities (refer to note 4.7).

1.5 Fixed assets

Differences were identified between accounting records and amounts disclosed in the financial statements (refer to notes 6.1 and 6.3).

We note improvements in certain areas during the current year, including the resolution of prior year issues relating to grant recognition, previously unrecorded balance of €10,132, and the clearance of the unsupported balance of €2,621 within assets under construction.

Notwithstanding these improvements, we continue to identify discrepancies in depreciation calculations (refer to note 6.7).

1.6 Receivables

We have again identified issues on the LES receivables and the Loqus report 622 (refer to note 7.1).

We did not identify long-overdue receivables and issues with other receivables as the council has approved the write off of all long-outstanding balances (refer to note 7.3).

1.7 Cash and cash equivalents

We are pleased to note that the matters identified in our previous management letter concerning the preparation of bank reconciliations and the classification of petty cash balances have been resolved.

The council did not open the 'LC other entities' bank account required to segregate third-party funds from its own funds (refer to note 8.1).

1.8 Trade and other payables

The Council did not consistently obtain supplier statements at year-end to support creditor balances (refer to note 9.1).

We are please to note that the creditors list has been reconciled to amounts included in the trial balance.

We again identified long-outstanding creditors (refer to note 9.3).

During our testing of creditors, we noted that one creditor confirmed an amount due that was lower than the balance recorded in the council's books of account (refer to note 9.5).

The amount payable to Water Services Corporation was written off during the year under review.

We identified shortcomings in accruals (refer to note 9.8).

1.9 Deferred income

We again identified shortcomings in the accounting and management of deferred income during the year under review (refer to notes 10.1 and 10.2).

1.10 Contingent liabilities

The omission of a contingent liability noted in previous year has been addressed during 2025. The appropriate disclosure has been included in note 20 to the unaudited financial statements.

1.11 Financial statements

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

2 Audit opinion

Similarly to the prior year, we issued a disclaimer of opinion stating that we are unable to form an audit opinion because of significant matters encountered during our audit fieldwork. Further explanations are given in previous management letters and below to enable the council to better understand the reason for the disclaimer of opinion.

Furthermore, our audit report has been qualified because we were unable to ascertain whether the opening balances as at 1 January 2025 are materially misstated, and consequently, whether adjustments to the results for the year ended 31 December 2025 and opening retained earnings at 1 January 2025 might be necessary. The deficiencies brought forward from previous years have been reported in our previous management letters.

3 Income

Income from Central Government

3.1 In January 2025, the Department paid an amount of €5,000 for the additional allocation on councillor allowances. The council has included this amount with the annual allocation. We have proposed an audit adjustment to reclassify this amount to other Government income. The council has included this adjustment in the final set of the financial statements.

3.2 The council should ensure that transactions are properly allocated to the correct account.

Other Government income

3.3 Included with Other Government Income is an amount of €80,720 for grants received in relation to capital projects. A total of €56,428 pertains to assets capitalised by the council back in 2022 and 2023. The release from deferred income was not accounted for in the respective accounting year. The council failed to prepare an assessment on the assets purchased, depreciation already accounted for and total grant which had to be recorded since previous years. The above highlights an overstatement of income for which the misstatement had to be adjusted for retrospectively. Furthermore, the deferred income had to be adjusted for against property, plant and equipment. Our audit reports is qualified to this respect.



- 3.4 May we remind the council that the accounting policy specifies that the capital approach has been adopted, hence any grants related to capital project should be netted off from the book value of the asset.

Build It Together project

- 3.5 During the course of our audit, we noted that income amounting to €31,013 relating to the Build It Together project was classified as other Government income rather than presented with funds received from the European Union. Based on our review of the underlying grant agreement and supporting documentation, this income relates to EU funding and was only classified otherwise due to reliance on descriptions within the deferred income schedule. Our reclassification was accepted by the council and included in the audited financial statements.
- 3.6 Although this matter does not affect the total income recognised for the year, it gives rise to a misclassification within the statement of comprehensive income. We recommend that the Council ensures grant income is classified according to its underlying source rather than system-generated descriptions, thereby enhancing the consistency, accuracy, and transparency of financial reporting.

4 Payroll

Payment of FSS tax and NI

- 4.1 The Council did not consistently remit FSS and NI contributions within one month as required by law. For instance, FSS and NI payments for January were settled in April while payments for May were settled in July.
- 4.2 We recommend that the Final Settlement System Rules, 1998 are adhered to. FSS and NI should be remitted to the Commissioner of Inland Revenue by the last working day of the month following that during which the Council has paid the emoluments. Interest at the rate of 1% per month might be levied on unpaid amounts.

Wages' reconciliation

- 4.3 Whilst reconciling the amounts declared in FS5 forms to that declared in the FS7 form of the council, we came across the following differences:

Description	Declared in FS5s €	Declared in FS7 €	Difference €
Gross salary full-time	166,792	168,834	(2,042)
FSS full-time	26,523	26,932	(409)
Maternity contribution	391	402	(11)
Total	193,706	196,168	(2,462)

- 4.4 It is important that FSS forms are filled in properly to ensure that all amounts paid are correctly declared to the Commissioner for Revenue.

Payroll liabilities

- 4.5 We again noted that included with other creditors is an amount of €3,896 due to the Commissioner for Revenue, in relation to December 2019. During the current year, the council submitted adjustments forms for financial years 2019 and 2020 with an additional tax payment of €3,259. A total amount of €7,574 remained outstanding as at year end and only paid in March 2026.
- 4.6 We recommend that the council keeps track of its liabilities and affects payments in a timely manner to avoid any interest and penalties.



- 4.7 Included with accruals is an amount of €7,574 for the December FSS. The council failed to reclassify the amount with other creditors and separately disclose the balance with non-financial liabilities.
- 4.8 We recommend that the council reviews the balances as at year end and ensures proper allocation between financial and non-financial liabilities in accordance with IFRS 9.

5 Expenditure

Allocation of expenses

- 5.1 During the audit testing on expenditure, we noted that the council erroneously classified the amount of €5,664 pertaining to 'Christmas Street lighting' as 'other repairs and upkeep'. We have proposed an audit adjustment to reclassify the amount in with street lighting. The council approved our audit adjustment and included it in the final set of financial statements.
- 5.2 Whilst reviewing expenses we also noted that the council erroneously classified an amount of €110,648 pertaining to 'EU projects' as 'cultural events'. To this end we have proposed an audit adjustment to reclassify the amount. This has been reflected in the final set of financial statements.
- 5.3 We recommend that the council allocates expenditure to the appropriate accounts so that the expenses of the council are properly reported.

Write-off of receivables

- 5.4 During the year under review the council has recorded journal entries amounting to €10,435 for various long-outstanding receivable. A summary is provided below:

Description	Difference €
Other receivables (refer to note 5.5)	7,345
Provision for doubtful debts (refer to 5.6)	(1,060)
Regional Committees (refer to note 5.7)	988.21
Various debtors (refer to note 5.8)	3,162.08
Total	10,435.29

- 5.5 In our previous management letter, we noted that the Council's books of account included €7,345 in other receivables for which no supporting documentation was available. The council failed to determine how the receivable amount originated and has proceeded with the write off.
- 5.6 In our previous management letter we noted that the provision for doubtful debts was brought forward from previous years and related to a balance from Green MT. The council wrote off the balance without investigating the payment received and clarification from the customer.
- 5.7 An amount of €988.21 included various transactions from different regional committees. The council wrote off the balance without further investigating the invoices and determining whether any amounts are still due by the regional committees.
- 5.8 Similarly to the above the council has proposed the write off this balance without determining the origination of such amounts and confirming whether these were received in previous years.

- 5.9 As noted in our previous management letters, the council should ensure to perform adequate investigations/ reconciliation on these balances prior to writing them off in the books of accounts. The council should also ensure why such invoices have been recorded for which funds were never collected.

Kottonera Foundation

- 5.10 During the year under review, the council entered into an agreement with Kottonera Foundation. The parties agreed that the council should transfer an amount of €50,000. The funds will be utilised by the foundation for events taking place in the Kottonera area. Upon further enquiry to the executive secretary, we noted that the council will no longer pursue such projects and the amount previously paid is to be refunded back to the council. To this end, we have proposed an audit adjustment to account for the amount as other receivables rather than an expense.
- 5.11 We recommend to the council to properly reflect amounts in the books of accounts. Furthermore, the council should obtain and retain any documentation with respect to withdrawals of agreements.

Imprest system

- 5.12 During the year we noted that the council did not employ the Imprest system for petty cash expenditure. Cheques are continuously being issued in the name of the executive secretary for the settlement of petty cash expenditure.
- 5.13 We would like to bring to the council's attention to the clause in the Local Councils (Financial) Procedures, 1996, which states that the executive secretary should institute an Imprest system for petty cash and thus control can be implemented over this kind of payments.

Expired contracts

- 5.14 We again noted that the council is still utilising services from expired contracts as noted below:

Tender

Street sweeping services	01.11.2012
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- 5.15 We would like to remind the council that Procurement Guidelines 2017 state that the council shall initiate all necessary preparations at least six months before the expiry date of the existing contract.

Schedules of payments

- 5.16 During our review of the schedules of payments, we noted various deficiencies relating to the amount of detail shown in the schedules. Some instances include:
- Account numbers are not included on the schedules of payments.
 - Purchase orders are not listed on the schedules of payments.
 - Invoice number details are not listed on all the schedules.

This is not in accordance with the template schedule of payment issued by the Department for Local Government.

- 5.17 The Local Council should fill in all details in the schedule of payments. The required details allow easy cross-referencing between the schedule of payments and the expenses included in Sage.

- 5.18 We recommend that the schedules of payments are reviewed for accuracy and jointly signed by the mayor and the executive secretary to serve as evidence that these have been duly approved by the Local Council.

6 Fixed assets

Reconciliation of financial statements to accounting records

- 6.1 We identified differences between the net book value of fixed assets included in the financial statements and those recorded in the trial balance. These are summarised below:

Asset category	NBV in unaudited financial statements €	NBV in trial balance €	Difference €
Office equipment	6,412	7,544	(1,132)
Computer equipment	12,561	13,535	(974)
Urban improvements	43,625	(106,223)	149,848
Office furniture and fittings	79,113	97,772	(18,659)
Construction	27,341	150,861	(123,520)
Assets under construction	-	2,626	(2,626)
Plant and machinery	-	2,935	(2,935)
	169,052	169,050	2

- 6.2 Although the overall variance is immaterial, significant discrepancies remain at an individual asset category level, particularly in urban improvements and construction.

- 6.3 We recommend that the Council continues to strengthen its reconciliation procedures between the fixed asset register and the general ledger. All variances should be investigated in a timely manner and supporting adjustments processed to ensure consistency and accuracy of asset balances reported in the financial statements.

Reconciliation of financial statements to fixed asset register

- 6.4 During our audit, we noted that the fixed asset register does not fully agree with the trial balance. A summary of the differences is presented below:

Asset category	NBV in fixed asset register €	NBV in trial balance €	Difference €
Motor vehicles	60,693	52,457	8,236
Office equipment	8,494	7,544	950
Computer equipment	12,578	13,535	(957)
Urban improvements	36,478	(106,223)	142,701
Office furniture and fittings	88,460	97,772	(9,312)
Construction	27,338	150,861	(123,523)
Assets under construction	2,621	2,626	(5)
Plant and machinery	-	2,935	(2,935)
	236,662	221,507	15,155

- 6.5 While some balances are closely aligned, significant variances persist in certain asset classes, particularly urban improvements and construction, indicating inconsistencies between the fixed asset register and accounting records.



- 6.6 We recommend that the Council ensures that the fixed asset register is regularly reconciled to the general ledger. Differences identified should be promptly investigated, supported, and adjusted where necessary. Strengthening these reconciliation procedures will improve the accuracy and reliability of fixed asset reporting in the financial statements.

Depreciation

- 6.7 Depreciation calculations continue to be maintained using Microsoft Excel rather than an integrated fixed asset register. We also identified discrepancies in the depreciation charge for the year, particularly in relation to motor vehicles and urban improvements, which required correction. However, this adjustment was not passed in the books as the issues on the fixed assets register are still open.
- 6.8 We recommend that the Council formalises and maintains a complete fixed asset register within its accounting system to ensure that depreciation is calculated consistently and accurately. This will reduce the risk of manual errors and eliminate the need for audit adjustments in future periods.

Grant

- 6.9 In 2022, the Department for Local Government approved a total grant of €31,450 for SPI/SCI/9/2022. In previous years the council received €23,587 in advance for the project. The project was completed during the year and capitalised. In our previous management letter, we had noted that the council failed to record the remaining grant receivable upon completion of the project. The remaining amount of €7,863 was only recorded by the council in 2025.
- 6.10 The council should ensure that grants received, which are of a capital nature, are accounted for under capital approach in line with Directive 1/2017 issued by the Department for Local Government. Furthermore, the unpaid portion for grants should be recorded as accrued income and capitalised accordingly. Capitalised assets should be allocated to the correct categories thus ensuring appropriate depreciation charge.
- 6.11 In our previous management letter, we had pointed out that in 2022 the Department had approved a grant of €40,531.23. Upon acceptance of the grant, the Department paid 75% of the total cost amounting to €30,398.42. Additions to grants for 2022 only included the amount paid by the Department and not the full amount. In 2025, the council recorded the remaining balance of €10,132.81 as accrued income.
- 6.12 We recommend the council to record grants received on an accrual basis. Approved amounts should be recorded upon signing of the agreement and deferred until utilised by the council. Furthermore, the council should chase the respective department for collection of the remaining funds.

7 Receivables

Pre-regional receivables

- 7.1 When testing the pre-regional receivables, we noted a balance of €107,142 in the unaudited financial statements of the Council whilst the 622 Loqus report shows a balance of €79,393. 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.
- 7.2 We would like to remind the Council that it is the Council's responsibility to investigate these differences and refer them to Loqus.

Receivables write- off

- 7.3 During the year under review the council has approved a write-off of receivables for which a provision was previously recorded.

Debtor	Receivable €
Green MT (refer to note 5.6)	1,061
Malta Council for Culture & Arts	100
MEDEEA	967
Mira Motors Ltd	1,000
Regjun Xlokk	824
Edwards Lowell Co. Ltd	300
Stargate Studios	180
Energy and Water Agency	4,496
Visit Malta (refer to note 7.6)	29,598
	<u>38,526</u>

- 7.4 Similarly to the write-offs noted in note 5.4 the council has proposed the write off this balance without sufficient information or supporting documentation to confirm whether the balances had been paid or otherwise settled.
- 7.6 With respect to Visit Malta, the council provided a remittance advice dated 23 April 2024. Since the remittance advice did not include the total outstanding balance of the supplier, we were unable to determine whether there were any further transactions during the previous or current year. The council also provided cheques and a bank advice dated 2021 as support for the balances relating to the Energy and Water Agency, Stargate Studios and Edwards Lowell Co. Ltd. However, it remains unclear whether these cheques were encashed and whether the related transactions were properly recorded in the council's books of account.
- 7.5 As noted in our previous management letters, the council should ensure to perform adequate investigations/ reconciliation on these balances prior to writing them off in the books of accounts. The council should also ensure why such invoices have been recorded for which funds were never collected.

Other receivables

- 7.6 Included with other debtors is an amount of €5,421 for debit balances in creditors list brought forward from previous years. We could not verify the existence and whether the amounts are recoverable. The council explained that the balance pertains to advance payments made to suppliers for purchases which remained unclaimed. No supporting documentation was available for the balance. We have qualified our audit report due to the lack of information available.
- 7.7 We reiterate our recommendation to the council to determine how the receivable amount originated and if it is not valid or no longer recoverable, the local council should obtain approval in meeting to make a provision or write it off. It is strongly recommended that write-off of each balance in the local council's books of account is approved during the meeting and minuted.



Accrued income

- 7.8 Included with accrued income is an amount of €80,720 for a grant contracted back in 2020. The remaining amount receivable was only accounted during the current year. As noted in note 3.3 the council incurred costs in relation to the project in 2022 and 2023. The council failed to provide correspondence with the planning authority confirming that the amount is still receivable. To this end we have qualified our audit report as recoverability of the balance is uncertain.
- 7.9 We recommend the Local Council to contact Planning Authority and to chase the latter for payment and if any issues arise to ask assistance from the Department for Local Government.
- 7.10 During the previous years, the council applied for the Built It Together project. We were provided with the signed agreement dated 2023. In accordance with agreement, the funds being awarded amount to €195,570. To date the council received an amount of €117,342 while the remaining €78,228 was recognised as accrued income only in 2025. The majority of the related expenses had already been incurred in 2024 and only €14,382.15 of income was recognised that year, income for 2024 was understated and required retrospective adjustment. The council confirmed that the project has been completed in 2025 but is still subject to final approvals from the contracting authority prior to receiving the remaining amount. As noted above, the income is reported in the wrong accounting period hence, we have qualified our audit report to this respect.
- 7.11 We recommend that the council records such amounts when they have been approved for payment and are certain to be received thus ensuring that the income is reported in the correct accounting period on the accrual basis.

8 Cash and cash equivalents

'LC other entities' bank account

- 8.1 During the audit fieldwork, it was noted that the council did not open a new bank account which is to be used for the deposits of funds and subsequent transfer of the amounts due to entities such as LESA and Lands Department. The council was transferring amounts to the respective parties from their bank account.
- 8.2 We recommend that the Local Council opens a new account and adopt the new system to be in line with the Directive 05/2020.

9 Trade and other payables

Supplier statements

- 9.1 During the course of our audit, we noted that the Council did not manage to obtain monthly suppliers' statement for all suppliers to confirm the year-end balances and to ensure the completeness of the books of account.
- 9.2 We again recommend that the Council obtains monthly statement from all suppliers in order to ensure proper recording of creditors in the Council's ledger. This will highlight any discrepancies between amounts recorded in the ledger and amounts in the suppliers' statements.

Long-outstanding creditors

- 9.3 The council's creditors' list include the following balances which have been outstanding for more than one year:

Creditor	2025 €
ABC Print Ltd	1,131.62
Trading Antonio Piscopo Ltd	3.41
Electrical Supplies	18.41
Genista Foundation	12,490
Go Plc	1,837.15
Koperattiva Tabelli u Sinjali	69.50
Local Enforcement	3.49
System Light Sound Agency Vision	108.01
Renergy	1,854.30
Saviour Mifsud	4,792.51
	<u>22,308.40</u>

- 9.4 We recommend that the council reviews these amounts and either settles it if still due or else reverses it after having obtained approval from the local council. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

Confirmation of trade creditors

- 9.5 As part of our audit procedures, we circularised confirmation letters to selected suppliers. We noted the following discrepancy between the amount in the council's books of account and the amount in the confirmation reply:

Supplier	Amount in council's books of account €	Amount in confirmation reply €	Difference €
Genista Foundation	43,991.55	31,501.55	12,490

- 9.6 Upon further enquiry to the executive secretary we noted that the balance is not due to the foundation. The council should review the transactions recorded for this supplier and identify the outstanding invoice/s. Transactions over the years should be investigated to confirm why such balance remained in the council's books if it has been paid. Due to the above our audit report is qualified.
- 9.7 We reiterate our recommendation that the council should reconcile creditors' balances on a regular basis. We refer to Procedures and circular 1/2020 which states that councils should obtain monthly statements in order to reconcile balances with the accounts. Furthermore, decisions and discussions regarding the balance should be minuted during the council meetings. The differences noted in the circularisation are included in the summary of unrecorded misstatements.

Accruals

- 9.8 During accruals' testing we noted that the council did not accrue for various expenses amounting to €17,547. This resulted in an understatement of accruals and expenses. An audit adjustment was proposed to correct the timing of recognition.
- 9.9 The council should make adequate provisions for accrued expenditure so that it is recorded in the correct accounting period. We recommend that the council evaluates all accruals for reasonableness before closing off the books of account.



10 Capital projects grants

- 10.1 In 2021, the council received an amount of €28,854.72 in relation to SPCI/SCI/3/2020. 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.
- 10.2 In previous years, the council had received a grant amounting to €30,000 in relation to SPI/SCI/5/2023. An advance payment was given to the council amounting to €28,500. In 2025 the council only utilised €2,200 out of the grant. The letter of approval provided by the department confirmed that the project should be completed by February 2025. To date, the council did not commence the project and failed to obtain an extension approval from the Department for Local Government.
- 10.3 We recommend the council to liaise with the Department and obtain approval for the extension of the project.

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 the Executive Secretary, Mr. Christian Raggio Vella, and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

Grant Thornton