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The President
Local Councils' Association
Local Government Building
Triq il-Gvern Lokali
Marsa
Malta

Our ref: PC/mc/114926

10 March 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 the Local Councils' Association (the 'association'). We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Fixed assets

We are pleased to note that no issues were identified during our testing on the association's fixed assets.

1.2 Right-of-use asset and lease liability

The unaudited financial statements included amounts pertaining to the right-of-use asset which were not recorded in the trial balance (refer to note 2.1).

1.3 Rent expense

During the current year, we noted that the council failed to prepare an assessment for a lease agreement entered into by the association (refer to note 3.1).

2 Right of use assets and lease liabilities

2.1 Whilst reviewing the unaudited financial statements, we noted that the association recorded finance costs and right-of-use amortisation amounting to €1,897 and €12,954 respectively. The trial balance provided to us did not include a right-of-use asset nor liability. Furthermore, it was also noted that the council has entered into a new agreement with the lessor in 2025 (refer to note 4.1). The above amounts were removed from the financial statements to agree to the audited trial balance.

2.2 We recommend that the association undertakes a review to ensure that amounts presented in the financial statements are fully aligned with those recorded in the trial balance and the related supporting schedules.

3 Trade and other receivables

3.1 The council's debtors' list includes long outstanding balances receivable from the following:

	Amount in debtor's list €
Derek Garden Centre Limited (refer to note 3.3)	33,181.87
Noel Zarb	2,349
	35,530.87

3.2 The council should ensure that the balances are valid and, if so, pursue these debtors by sending reminders for the long overdue amounts. In the event that recoverability of these debtors remains doubtful, the Council should also consider making a provision for doubtful debts in the books of account after obtaining approval during the council meeting.

3.3 During our review of debtors' listing, we noted that the balance relating to Derek Garden Centre had been recorded as a receivable on the basis that the association is disputing the amount payable. Management was only able to provide an invoice issued by the association to the supplier. As at the date of this management letter, the dispute remains unresolved; therefore, the recognition of this receivable is not appropriate. In view of the above, we have recorded an audit adjustment to reverse the receivable and reclassify the payable amount to accruals.

3.4 We recommend that the association follows up with the supplier to obtain a credit note for the previously issued invoice.

4 Expenses

4.1 Whilst performing our audit procedures we noted that the association recorded a rent expense amounting to €31,232 in the books of account in relation to a leased property. The association failed to assess and account for the leases in accordance with IFRS 16.

4.2 We recommend that the association performs an IFRS 16 assessment to establish whether the association should account for the rent expense in accordance with IFRS 16 accounting treatment. In accordance with the new standard, at lease commencement date, the council should recognise a right-of-use asset and a lease liability on the balance sheet.

Conclusion

We would like to point out that the matters dealt within 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 association. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Ms Lianne Cassar and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,