

The Members
Hal Kirkop Local Council
31, Triq San Benedittu,
Hal Kirkop
Malta

25 May 2024

Dear Members of the Hal Kirkop Local Council,

We have completed our audit of the financial statements of Hal Kirkop Local Council for the year ended 31 December 2023. Our audit is primarily based on verifying balances in the financial statements to ensure that they are free from material error and comply with relevant legislation.

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. We would like to point out that, in accordance with the Local Councils Act (CAP 63) 1993 and the Local Council (Financial Regulation) 1993, it is the responsibility of the Executive Secretary of the Local Council to ensure that a proper system of internal control is in operation to ensure that the proper accounting, recording and handling of financial operations are in place to safeguard the Local Council's assets at all times. For this reason, this document is of particular relevance to the Local Council's Executive Secretary.

The matters dealt with in this report, came to our notice during the conduct of our 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 systems of control but that of obtaining an understanding of the controls which are in place, on the basis of which, we design our audit procedures. For this reason, this report cannot be relied upon to necessarily disclose other defalcations or other irregularities which may exist, had a specific and more extensive assignment for this specific purpose been commissioned.

Our engagement obliges us to distribute copies of this report to the Council Members. Consequently, this report, in part or in full, may not be distributed, used or quoted except for the scope it is prepared, without our prior written consent, unless such disclosure is required by Law.

During the course of our audit for the year ended 31 December 2023, we examined the principal documents, systems and controls applied by the Council, to help it ensure, in so far as it is possible, far as possible, the accuracy and completeness of the accounting and to safeguard the assets of the Council.

In order to facilitate your responses to the deficiencies we noted in the course of our audit, have been presented these shortcomings in columnar form. On the left hand side of the document we specify the weaknesses and the recommended courses of action. On the left hand side you are required to insert the remedial action you intend to take and a time frame by which these will be remedied. We also attach for your perusal, a summary of the audit adjustments which we were put through the accounting records, once these were approved by yourselves. Should you require our assistance in bringing to fruition the suggested recommendations do not hesitate to contact us.

We would like to thank you for the courtesy and co-operation extended to us in the course of our audit.

Yours faithfully,


Arthur Douglas Turner
Partner - Parker Russell Turner



PREVIOUS MANAGEMENT LETTER

During the course of our audit for the year ended 31 December 2023, we have also reviewed the points highlighted in the previous management letter along with their respective feedback:

i. Rent expenses

We are pleased to note that no shortcoming arose in rental expenses.

ii. Fixed Assets

We have once again noted shortcoming in the fixed asset register as per note 1 on page 3.

iii. Cash in hand and at bank

We have once again noted the same deficiencies noted in page 5.

iv. Receivables

We have once again noted several long outstanding receivables as per note 3 on page 5.

v. Accrued income

Even though an improvement was made in relation to accrued income, we still noted minor transactions which were not accounted for.

vi. Payables

We are pleased to note that we did not encounter any difficulties in obtaining supplier statements at year end, however we have once again noted several long outstanding creditors as per note 5 on page 8.

vii. Accruals & Prepayments

We have noted some missing accruals for the year ended 31 December 2023.



A summary of the deficiencies noted in the course of our audit and our recommendations thereto is as follows:

1. *PROPERTY, PLANT AND EQUIPMENT*
2. *CASH IN HAND AND AT BANK*
3. *DEBTORS*
4. *ACCRUED INCOME*
5. *CREDITORS*
6. *ACCRUALS AND PREPAYMENTS*
7. *REVENUE*
8. *DEBIT TRANSACTIONS*
9. *PAYROLL AND HUMAN RESOURCES*
10. *FUNDS HELD BY TRIBUNAL COUNCIL*
11. *INFORMATION PROVIDED ON THE PORTAL*
12. *PRESENTATION OF FINANCIAL STATEMENTS*
13. *CONCLUSIONS*



FINDINGS ARISING FROM 2023 AUDIT

WEAKNESS NOTED / RECOMMENDED IMPROVEMENT	LOCAL COUNCIL REPLIES																
<p>1. PROPERTY, PLANT AND EQUIPMENT</p> <p>1.1. Fixed Assets Additions</p> <p><i>Weakness</i></p> <p>1.1.1. During our audit fieldwork on the fixed assets additions, some irregularities were noted whereby the Local Council did not obtain any quotations for the following acquisitions:</p> <table border="1" data-bbox="831 808 1102 1933"> <thead> <tr> <th>Detail</th> <th>Supplier</th> <th>Date</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Preparation of 3D Visuals re Observation Area</td> <td>MEDDEV</td> <td>01/03/2023</td> <td>2,065</td> </tr> <tr> <td>Professional Services re Observation Area</td> <td>MEDDEV</td> <td>01/03/2023</td> <td>3,422</td> </tr> <tr> <td>Professional Fees re Proposed embellishment re Observation A</td> <td>MEDDEV</td> <td>09/05/2023</td> <td>2,035</td> </tr> </tbody> </table>	Detail	Supplier	Date	Amount	Preparation of 3D Visuals re Observation Area	MEDDEV	01/03/2023	2,065	Professional Services re Observation Area	MEDDEV	01/03/2023	3,422	Professional Fees re Proposed embellishment re Observation A	MEDDEV	09/05/2023	2,035	
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Professional Fees re Proposed embellishment re Observation A	MEDDEV	09/05/2023	2,035														
<p><i>Recommendation</i></p> <p>1.1.2. In accordance with the Procurement Guidelines 2017 issued by the Department for Local Government, the Council should obtain at least three</p>																	

<p>signed quotations for purchases exceeding € 50 up to € 5,000 unless, for purchases exceeding € 50 but not € 500, a direct order approved by the Executive Secretary is issued. Furthermore, for any purchases exceeding € 5,000 but not exceeding € 10,000, a quotation through the EPPS should be issued.</p>	
<p>2. CASH IN HAND AND AT BANK</p> <p><i>Weakness</i></p> <p>2.1. Included with cash in hand and at bank, there is a cash balance of € 223, which was traced to a cash reconciliation effected at year end. However, the balance did not agree to the petty cash reconciliation, resulting in a variance of € 141.24.</p>	
<p><i>Recommendation</i></p> <p>2.2. We recommend that a cash count is carried out on a frequent basis prior to amounts deposited in the company's bank accounts, and a cash reconciliation is documented and kept by the Council. We suggest that more control is carried out to ensure that cash in hand agrees to cash amounts in the accounting records at all times.</p>	

3. DEBTORS

3.1. Long outstanding debtors

Weakness

3.1.1. During our audit testing, we noted that the Council's debtor list includes the following balances which have been outstanding for more than one year, and which are coming from 2019 and 2020:

Debtor	€
Elbros Limited	500
Festivals Malta	500
Leap (Access) Community Resources	390
Primary Health Care Department	1,110
	2,500

3.1.2. Further, it was noted that the Council has recorded a full provision for doubtful debts on balances pertaining to Green MT amounting to € 2,010 which were coming from 2014 and on the balances with the Housing Authority amounting to € 786 which were coming from 2019.

	<p><i>Recommendation</i></p> <p>3.1.3. We recommend that the Council regularly reviews overdue amounts for recoverability. If their recoverability is doubtful, the Council should consider making a provision for all amounts in accordance with IFRS 9, and after obtaining the approval in a Council's meeting. Furthermore, the Council should send continuous reminders / statements to its debtors to ensure that the Council still has the right to collect the amounts due.</p>
	<p>3.2. LES Debtors</p> <p><i>Weakness</i></p> <p>3.2.1 Furthermore, the Council has another LESA debtor pertaining to the outstanding 10% administration fee on the current contraventions. As at year end, this balance amounted to € 1,391, however we could not obtain any confirmation of such debtor amounts.</p>
	<p><i>Recommendation</i></p> <p>3.2.2 We recommend that the Council obtains regular statements from LESA to reconcile the debtor balances. Furthermore, the Council should send continuous reminders / statements to its debtors to ensure that such balances are settled at the earliest opportunity.</p>



<p>4. ACCRUED INCOME</p> <p><i>Weakness</i></p> <p>4.1. During our audit fieldwork, we noted that the Council failed to record various transactions pertaining to accrued income:</p> <ul style="list-style-type: none"> • Water and electricity contributions relating to Primary Health Care and BOV ATM amounting to € 3,808 and € 81 respectively. In addition to this, we have reduced the accrued income amount by € 114 in relation to LEAP water and electricity contributions. Their corresponding expense was reflected at audit level as explained in notes 6 and 8. <p>An adjustment was affected at audit level to account for the accrued income.</p>	
<p><i>Recommendation</i></p> <p>4.2. We recommend that the Council's books of accounts should be recognised on an accrual basis, whereby any income pertaining to the current year, irrespective of whether they were received or not, should be accounted for in order to ensure completeness of income.</p>	
<p>5. CREDITORS</p> <p>5.1. Long outstanding creditors</p> <p><i>Weakness</i></p>	

5.1.1. During our audit testing, we noted that the Council's creditor list includes the following balances which have been outstanding for more than one year:

Creditor	€
Koperativa Tabelli u Sinjali	84
LESA	128
Wasteserv	8,556
	<u>8,768</u>

Recommendation

5.1.2. We recommend that the Council reviews these amounts and, either settles them if still due, or else reverse them after having obtained approval from the Council. Furthermore, decisions and discussions regarding these balances should be minuted during the Council meetings.

6. ACCRUALS AND PREPAYMENTS

Weakness

6.1. We have noted the following weakness in accounting for accruals and prepayments:

- Performance bonus under accruals was overstated by € 203. An adjustment was affected at audit level;

<p><i>Recommendation</i></p> <p>6.2. We recommend that a procedure is in place to ensure that invoices relating to goods or services are properly accounted for and to ensure that these are posted in the correct accounting period. Failing to do so could result in the understatement of assets and liabilities at year end and distortion of financial results.</p>	
<p>7. REVENUE</p> <p>7.1. General income</p> <p><i>Weakness</i></p> <p>7.1.1 During our audit fieldwork, while performing a proof in total test between the total receipts issued from the Council's online permit system and the total income recorded in the accounting system, an overall difference of € 33 arose in under declaration in the accounting system. This clearly indicates that the Council is correctly capturing most of its receipts through the online system.</p> <p>7.1.2 During our audit fieldwork, it was noted that water and electricity income for the BOV ATM was overstated by € 81 and an additional € 3,808 in relation to Primary Health Care. This was a result of a timing difference.</p> <p>7.1.3 We noted that € 3,194 relating to the government funds allocation were not properly classified, as such amount was shown as other income.</p>	



	<p>Recommendation</p> <p>7.1.3. We urge the Council to continue updating the permit's online system so that a complete audit trail will be available for all income issued, reconciling with receipts reflected in the accounting system. It is of utmost importance for the Council to regularly reconcile the receipts issued from the system with the income recorded in the accounting system.</p> <p>7.1.4 Furthermore, we recommend that the local council properly classifies its revenue streams.</p>															
	<p>8. DEBIT TRANSACTIONS</p> <p>8.1. Procurement Guidelines</p> <p>Weakness</p> <p>8.1.1. During our audit fieldwork on the transactions, the following irregularities were noted:</p> <table border="1" data-bbox="1117 873 1356 1937"> <thead> <tr> <th>Detail</th> <th>Supplier</th> <th>Date</th> <th>Amount</th> <th>Notes</th> </tr> </thead> <tbody> <tr> <td>Engineering Design re Pjazza Zerniq</td> <td>R+ Engineering</td> <td>26/10/2023</td> <td>1,711</td> <td>(a)</td> </tr> <tr> <td>Monthly gardening services</td> <td>Mark Taliana</td> <td>31/12/2023</td> <td>9,061</td> <td>(b)</td> </tr> </tbody> </table>	Detail	Supplier	Date	Amount	Notes	Engineering Design re Pjazza Zerniq	R+ Engineering	26/10/2023	1,711	(a)	Monthly gardening services	Mark Taliana	31/12/2023	9,061	(b)
Detail	Supplier	Date	Amount	Notes												
Engineering Design re Pjazza Zerniq	R+ Engineering	26/10/2023	1,711	(a)												
Monthly gardening services	Mark Taliana	31/12/2023	9,061	(b)												

Maintenance re Council Van plus Service	Clean away	05/09/2023	1,044	(c)
Malta Daily- Advert for Gigantinc	Malta Daily	14/12/2023	649	(d)
Labour Works re GIGANTIC	MIMI	05/12/2023	1,457	(e)

(a) The Council did not obtain any quotations. The Council used this supplier for architect works as per signed tender. However, for this particular job, no quotations were obtained.

(b) The Council obtained two quotations instead of three as the third one took long to reply. The cheapest option was chosen. In addition to this, no agreement was signed for the monthly service.

(c) The Council did not obtain any quotations. The Council advised that this was the only mechanic who agreed to carry out the job.

(d) The Council did not obtain any quotations. The Council advised that they engaged Malta Daily as an online platform to reach a more audience for the Gigantic event.

(e) The Council did not obtain any quotations. The Council advised that it was difficult to find people to carry out this job.

<p><i>Recommendation</i></p> <p>8.1.2. We recommend that formal agreements are entered into with parties who offer recurrent services to the Council. Furthermore, in accordance with the Procurement Guidelines 2017 issued by the Department for Local Government, the Council should obtain at least three signed quotations for purchases exceeding € 500 up to € 5,000 unless, for purchases exceeding € 50 but not € 500, a direct order approved by the Executive Secretary is issued and for any purchases exceeding € 5,000 but not exceeding € 10,000, a quotation through the EPPS should be issued.</p>	
<p>9. PAYROLL AND HUMAN RESOURCES</p> <p>9.1. Overall Payroll Procedures</p> <p><i>Weakness</i></p> <p>9.1.1 We have performed a wages reconciliation between FSS documentation submitted and the wages as per the account. Wages in the accounts were understated by € 85. No adjustments were passed to this effect.</p> <p>9.1.2 Furthermore, we noted that the Executive Secretary's performance bonus was not calculated on the basis of the percentage approved by the Department for Local Government. An adjustment of € 203 was affected to rectify this discrepancy.</p>	

	<p><i>Recommendation</i></p> <p>9.1.3 We recommend that reviews are performed to ensure that FSS forms are filled in properly to ensure that all amounts paid are correctly declared to the Commissioner for Revenue. Further, we recommend that performance bonuses are worked out on approvals attained.</p>
	<p>10. FUNDS HELD BY THE TRIBUNAL COUNCIL</p> <p><i>Weakness</i></p> <p>10.1 During past years, the Council was part of a Tribunal Council, which was managed by seven Local Councils, one of which was the Hal Kirkop Local Council. Funds held by the Tribunal Council as at 22nd October 2021 amounted to € 43,134, which funds were to be equally distributed between the seven Councils as agreed unanimously by the respective Councils on 3rd February 2023. Consequently, since such income has not yet been approved by the Department of Local Government, the balance of € 6,162 was reversed from accrued income.</p>
	<p><i>Recommendation</i></p> <p>10.2 We recommend that the Council continues to follow up on the matter with the Department of Local Government for the final approval of the funds. Further, we recommend that proper controls should be in place to reduce the number of adjustments being affected at audit level, which could also lead to a delay in the audit process.</p>



<p>11. INFORMATION PROVIDED ON THE PORTAL</p> <p><i>Weakness</i></p> <p>11.1 Whilst checking the Local Council's portal on the Local Government website, we have noted that the unaudited financial statements for the year ended 31 December 2023 were not uploaded on the Council website.</p>	
<p><i>Recommendation</i></p> <p>11.2. We recommend that the Council uploads all documents in pdf format within the required time for each specific report as per the Local Councils (Financial) Regulations.</p>	
<p>12. PRESENTATION OF FINANCIAL STATEMENTS</p> <p><i>Weakness</i></p> <p>12.1. The Local Council is required to prepare financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the EU. During our audit, we identified that the Council's unaudited financial statements needed updating and further disclosures in accordance with IFRS as adopted by the EU.</p>	



<p>Recommendation</p> <p>12.2. We recommend that the Local Council gives more attention to the preparation of the financial statements. The above shortcomings have been amended in the audited financial statements.</p>	
<p>13. CONCLUSIONS</p> <p>13.1. More controls should be instigated to improve the level of efficiency within the Council. The Council should also analyse employees' work efficiencies to ensure that optimum use is made of public funds.</p> <p>13.2. We would be pleased to assist the Council in coming up with an action plan, with clearly set target dates and by which the Council will address the weaknesses reported in this report. We are at your disposal should you need our assistance in any of the specific areas referred to in this report.</p>	

