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4th June, 2024

The Auditor General  
**National Audit Office**  
Notre Dame Ravelin,  
Floriana

Dear Sir,


***Management Letter for the year ended 31<sup>st</sup> December 2023***

We are in receipt of the Management Letter prepared by Parker Russell Turner as external Auditors of Hal Kirkop Local Council for the year ended 31st December 2023. We would like to show our appreciation for the work done and look forward to take recommendations and suggestions. Whilst expressing our thanks, we submit our reply to clarify some of the points mentioned.


We will insert our reply for each shortcoming, in the column as prepared.

We would like to take this opportunity to thank Mr. Arthur Douglas Turner, Ms. Daphne Ann Azzopardi and Ms. Deidra Brincat from Parker Russell Turner, for their guidance and cooperation.

Regards,



Terence Agius  
Mayor



Antonia Demicoli  
Acting Executive Secretary

**Sindku** | Is-Sur Terence Agius  
**Viçi Sindku** | Is-Sur Joseph Schembri  
**Kunsillier** | Is-Sur John Luke Cassar  
**Kunsilliera** | Is-Sa. Ritienne Caruana  
**Kunsillier** | Is-Sur Cody Galea  
**Segretarju Eżekuttiv** | Is-Sa. Antonia Demicoli

## FINDINGS ARISING FROM 2023 AUDIT

| WEAKNESS NOTED / RECOMMENDED IMPROVEMENT  | LOCAL COUNCIL REPLIES |            |        |        |   |        |            |       |   |        |            |       |  |        |            |       |  |
|---|-----------------------|------------|--------|--------|---|--------|------------|-------|---|--------|------------|-------|--|--------|------------|-------|--|
| <p><b>1. PROPERTY, PLANT AND EQUIPMENT</b></p> <p><b>1.1. Fixed Assets Additions</b></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="230 815 1339 1086"> <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 | <p>As explained during meeting, kindly note that the Local Council has a tender covering Architect Professional Fees. These invoices fall under this tender.</p> |
| 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  |        |   |        |            |       |   |        |            |       |  |        |            |       |  |
| <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>   |                       |            |        |        |   |        |            |       |   |        |            |       |  |        |            |       |  |

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| <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><b>2. CASH IN HAND AND AT BANK</b></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>Cash in hand is the amount of petty cash retained at the Council's Office. The Council issues a petty cash reconciliation every month. Issue will be discussed with Council's Accountant to confirm that cash in hand agrees to cash amounts as per accounting records.</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        |
|                                   | <b>2,500</b> |

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.

The Council will review the long outstanding debtors for recoverability and record full provision for those debtors which are doubtful. It is the Council's norm that statements/reminders are sent to collect debts.

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| <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. <b>LES Debtors</b></p> <p><b>Weakness</b></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>Kindly note that these amounts have been discussed with LESA and paid during current year.</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>  |   |

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| <p><b>4. ACCRUED INCOME</b></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"> <li>• 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.</li> </ul> <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>Recommendation noted.</p> |
| <p><b>5. CREDITORS</b></p> <p>5.1. <b>Long outstanding creditors</b></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:

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

*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.

The Council will review these amounts and discuss way forward during Council meeting as recommended.

**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;

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| <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>Recommendation noted.</p> |
| <p><b>7. REVENUE</b></p> <p><b>7.1. General income</b></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><i>Recommendation</i></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 reconciles 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>Recommendation noted.</p> |            |        |        |       |                                     |                |            |       |     |                            |              |            |       |     |  |
|---|------------------------------|------------|--------|--------|-------|-------------------------------------|----------------|------------|-------|-----|----------------------------|--------------|------------|-------|-----|--|
| <p><b>8. DEBIT TRANSACTIONS</b></p> <p><b>8.1. Procurement Guidelines</b></p> <p><i>Weakness</i></p> <p>8.1.1. During our audit fieldwork on the transactions, the following irregularities were noted:</p> <table border="1" data-bbox="280 1102 1335 1353"> <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)    |       |                                     |                |            |       |     |                            |              |            |       |     |  |

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|---|-------------|------------|-------|-----|
| 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                | MMI         | 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.

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| <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>It is the Council's norm that quotations are obtained for all purchases as per Procurement Guidelines issued by the Department for Local Government. Unfortunately, there are instances whereby the Council does not receive the recommended amount of quotes even though these are requested.<br/>Recommendation re agreements noted.</p>   |
| <p><b>9. PAYROLL AND HUMAN RESOURCES</b></p> <p><b>9.1. Overall Payroll Procedures</b></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>The discrepancy is due to the fact that in the wages reconciliation one needs to take into consideration the performance bonus accrued 2022 and 2023 because performance bonuses accrued for 2022 are paid in 2023. When closing year 2023, the full 15% are accrued since the actual amount is not yet approved by the Local Government Department. Therefore if percentage Approved is not full, that would generate the difference.</p> |

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| <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><b>10. FUNDS HELD BY THE TRIBUNAL COUNCIL</b></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 22<sup>nd</sup> 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 3<sup>rd</sup> 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>   |  |

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| <p><b>11. INFORMATION PROVIDED ON THE PORTAL</b></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>All documents are timely uploaded on the portal as per Local Councils Regulations. This was a one time occurrence.</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><b>12. PRESENTATION OF FINANCIAL STATEMENTS</b></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> |   |

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| <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>Recommendation noted.</p>   |
| <p><b>13. CONCLUSIONS</b></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> | <p>It is very important to note that we are doing our utmost to work on the shortcomings pointed in the Management Letter, so as to have a better situation this financial year end.</p> |