

The Members

Hal Kirkop Local Council

31, Triq San Benedittu,
Hal Kirkop
Malta

11th June 2025

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 2024. 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 2024, 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 2024, we have also reviewed the points highlighted in the previous management letter along with their respective feedback:

i. Revenue

We have once again noted shortcomings in revenue as per note 6.

ii. Debit Transactions

We have once again noted shortcomings arising from debit transactions as per note 7.

iii. Rent expenses

We are pleased to note that no shortcomings arose in rental expenses during the year under review.

iv. Fixed Assets

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

v. Cash in hand and at bank

We have once again noted the same deficiencies as described in note 1 to the management letter.

vi. Receivables

We have once again noted several long outstanding receivables as per note 3 to the management letter.

vii. Accrued income

We are pleased to note that we did not encounter any difficulties in relation to accrued income as per note 4 to the management letter.

viii. Payables

We have once again noted several long outstanding creditors and lack of supplier statements, as described in note 5 to the management letter.

ix. Accruals

We have once again noted misstatements in accruals as per note 6 to the management letter.

Deficiencies noted in the course of our audit of the financial statements of the Hal Kirkop Local Council for the year ended 31 December 2024

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. *CREDITORS*
5. *ACCRUALS AND OTHER PAYABLES*
6. *REVENUE*
7. *DEBIT TRANSACTIONS*
8. *PAYROLL AND HUMAN RESOURCES*
9. *INFORMATION PROVIDED ON THE PORTAL*
10. *PRESENTATION OF FINANCIAL STATEMENTS*
11. *CONCLUSIONS*

FINDINGS ARISING FROM 2024 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 procedures, we noted that there were capital expenses relating to professional costs from Med Developments Ltd amounting to € 8,614 which were incorrectly accounted for within administrative expenses. These were capitalised at audit level.</p>	
<p><i>Recommendation</i></p> <p>1.1.2. We recommend that more attention is affected in the updating of accounting records to segregate properly between revenue expenditure and capital expenditure. Further, we recommendation that the classification of the assets being purchased is identified in terms of the following categories:</p> <ul style="list-style-type: none"> - Assets purchased in terms of IAS 16 Property, Plant and Equipment; - Assets leased, and consequently disclosed for the purpose of the leasing arrangements in compliance with IFRS 16 Finance Leases; and - Assets under development and not yet brought to use. 	

<p>2. CASH IN HAND AND AT BANK</p> <p><i>Weakness</i></p> <p>2.1. Whilst testing cash at year-end we requested a petty cash reconciliation, however, this was not provided.</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 Local Council'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>	
<p>3. DEBTORS</p> <p>3.1. Long outstanding debtors</p> <p><i>Weakness</i></p> <p>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 2020 and 2022. We have accounted for a full provision for bad debts in relation to the following long outstanding debtors:</p>	

Debtor	€
Festivals Malta	500
Archimed Projects	9,765
	<u>10,265</u>

3.1.2. Further, it was noted that the Council has recorded a bad-debt write-off on balances pertaining to Green MT amounting to € 2,010 which were brought forward from 2014. The Council however, did not minute this write-off during the Council's meeting.

Recommendation

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.

3.2. LES Debtors

Weakness

3.2.1. The Local Council's debtors' list includes debtor balances from LESA pertaining to the outstanding 10% administration fee on the current

<p>contraventions. As at year end, this balance amounted to € 1,432, 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, we reiterate that the Local Council should enhance its debtor collection procedures.</p>	
<p><i>Recommendation</i></p> <p>3.3. 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>4. CREDITORS</p> <p>4.1. Long outstanding creditors</p> <p><i>Weakness</i></p> <p>4.1.1. 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:</p>	

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

<p><i>Recommendation</i></p> <p>4.1.2. We recommend that the Council review these long-outstanding creditor balances and either settle them if they are still due or reverse them, subject to Council approval. Additionally, all decisions and discussions regarding these balances should be formally recorded in the Council meeting minutes.</p>	
<p>4.2. Supplier statements</p> <p><i>Weakness</i></p> <p>4.2.1. During our verifications, we also noted that the Local Council is not obtaining supplier statements on a regular basis and hence we were not able to obtain third party evidence of supplier balances.</p> <p><i>Recommendation</i></p> <p>4.2.2. We recommend that the Council adheres to circulars issued by the Department of Local Government, which emphasise the importance of obtaining monthly</p>	

<p>statements from all suppliers. We recognise that acquiring monthly statements can be challenging at times due to supplier inefficiency. However, we advise the council to persistently pursue regular statements from suppliers. This practice will ensure accurate recording of the council's creditors in the accounts and facilitate prompt resolution of any differences.</p>	
<p>5. ACCRUALS & OTHER PAYABLES</p> <p><i>Weakness</i></p> <p>5.1. We have noted the following weakness in accounting for accruals:</p> <ul style="list-style-type: none"> • Water and Electricity costs were over-accrued for by € 4,393. We have passed an audit adjustment in this regard upon performing a reconciliation with ARMS bills. 	
<p><i>Recommendation</i></p> <p>5.2. 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 or overstatement of assets and liabilities at year end and distortion of financial results.</p>	
<p><i>Weakness</i></p> <p>5.3. We noted that the Local Council has been holding funds on behalf of LESA, Lands, and the Housing Authority for an extended period. In fact, the amount</p>	

<p>due accumulated to € 24,458, which was only paid in January 2025. Furthermore, these funds were not maintained in a separate bank account.</p> <p><i>Recommendation</i></p> <p>5.4. We recommend that the Local Council performs monthly reconciliations with the relevant third parties, following by the processing of the corresponding transfers via bank transfer. Furthermore, the Council should open a client account to ensure that these funds are kept separate from its operational finances.</p>	
<p>6. REVENUE</p> <p>6.1. General income</p> <p><i>Observation</i></p> <p>6.1.1. 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 € 205 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>6.1.2. During our audit fieldwork, it was noted that water and electricity recharges to third parties are not being done in a timely manner. As a matter of fact, accrued income for the year increased substantially.</p> <p>6.1.3. During our audit fieldwork, while performing a proof in total test between the report issued from LESA and the total income recorded in the accounting system relating to the 10% administration fee on LESA tickets, an overall difference of € 471 arose in over declaration in the accounting system.</p>	

<p><i>Recommendation</i></p> <p>6.1.4. 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>6.1.5. Furthermore, we recommend that the Local Council properly classifies its revenue streams and conducts ongoing reconciliations with third-party systems to ensure the completeness of revenue recorded in the accounting system.</p>																
<p>7. DEBIT TRANSACTIONS</p> <p>7.1. Procurement Guidelines</p> <p><i>Weakness</i></p> <p>7.1.1. During our audit fieldwork on the transactions, the following irregularities were noted:</p> <table border="1" data-bbox="302 1050 1359 1372"> <thead> <tr> <th>Detail</th> <th>Supplier</th> <th>Date</th> <th>Amount</th> <th>Notes</th> </tr> </thead> <tbody> <tr> <td>Terrance Agius- Hospitality drinks re Jum Kirkop</td> <td>Terence Agius</td> <td>10/06/2024</td> <td>196</td> <td>(b)</td> </tr> <tr> <td>Glenn Mizzi- Refund re Christmas Party Hampers</td> <td>Glenn Mizzi</td> <td>28/12/2024</td> <td>275</td> <td>(b)</td> </tr> </tbody> </table>	Detail	Supplier	Date	Amount	Notes	Terrance Agius- Hospitality drinks re Jum Kirkop	Terence Agius	10/06/2024	196	(b)	Glenn Mizzi- Refund re Christmas Party Hampers	Glenn Mizzi	28/12/2024	275	(b)	
Detail	Supplier	Date	Amount	Notes												
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Glenn Mizzi- Refund re Christmas Party Hampers	Glenn Mizzi	28/12/2024	275	(b)												

Works re Cameras	Faro Group	24/06/2024	1,182	(a)
Stationery	Smart Office	24/07/2024	673	(c)
Payment for Design – Pjazza Zernieq	R+ Engineering	29/02/2024	1,711	(c)
37 Bins	ERSL Ltd	10/12/2024	4,047	(c)
Advertising re GIGANTIC	Malta Daily	09/12/2024	885	(d)
Advertising re GIGANTIC	Gwida	27/11/2024	619	(d)
Electrical supplies re Gigantic	Ghaqda Muzikali San Leonardu	04/12/2024	4,550	(c)
Sound re Live Crib - Gigantic 2024	Dynamic	30/12/2024	885	(c)

(a) The Council did not obtain any quotations. The Council used this supplier for initial cameras installation. However, for this particular job, no quotations were obtained.

(b) The Council did not obtain a receipt or fiscal invoice in the name of the Council.

(c) The Council did not obtain any quotations.

<p>(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.</p> <p>7.1.2. We also noted that bulky refuse collection cost for 2024 doubled. This is not in line with the quotation submitted by Mr Mark Taliana, reason being that additional costs were charged for additional collections required. Nonetheless, the variance from the quotation is relatively high.</p>	
<p><i>Recommendation</i></p> <p>7.1.3. 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>8. PAYROLL AND HUMAN RESOURCES</p> <p>8.1. Overall Payroll Procedures</p> <p><i>Weakness</i></p> <p>8.1.1. We have performed a wages reconciliation between FSS documentation submitted and the wages as per the account. Wages in the accounts were overstated by € 2,954. No adjustments were passed to this effect.</p>	

<p><i>Recommendation</i></p> <p>8.1.2. 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.</p>	
<p>8.2. Collective agreement</p> <p>8.2.1. The Council has not reflected the required provisions and/or disclosures in relation to the new Collective agreement for clerical staff within Local Councils and Regional Councils. In view of the fact that by the time of the audit, no approval of workings had as yet been attained by the Council, a contingent liability note has been included at audit level, to disclose appropriately the potential impact on the financials.</p>	
<p>9. INFORMATION PROVIDED ON THE PORTAL</p> <p><i>Weakness</i></p> <p>9.1. 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 2024 were not uploaded on the Council website.</p>	
<p><i>Recommendation</i></p> <p>9.2. 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>10. PRESENTATION OF FINANCIAL STATEMENTS</p> <p>Weakness</p> <p>10.1. 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. Furthermore, reclassification adjustments were affected at audit level.</p>	
<p>Recommendation</p> <p>10.2. 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>11. CONCLUSIONS</p> <p>11.1. More controls should be instigated to improve the level of efficiency within the Local Council. The Local Council should also analyse employees' work efficiencies to ensure that optimum use is made of public funds.</p> <p>11.2. We would be pleased to assist the Local 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>	