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16 September 2021

Dear Sir,

Financial statements for the year ended 31 December 2020

During the course of our audit for the year ended 31 December 2020 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Tagging of fixed assets

The council still did not tag all assets (refer to note 5.6)

1.2 Depreciation

We are pleased to note that the council has rectified the issue during the year under review.

1.3 Repairs and maintenance

We noted that the council addressed this matter.

1.4 Amount receivable from Green MT

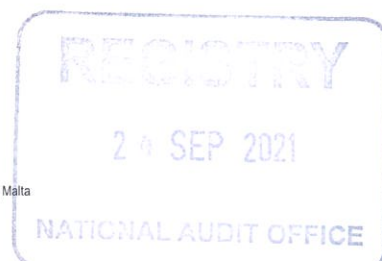
The amount from Green MT is still pending to date. This was provided for in full by the council in prior years.

1.5 Expected credit loss

We noted that the council has addressed the matter during the year.

1.6 Accrued income – tipping fees

We again noted differences between the amount that should have been recognised in the income statement and the amount received during the year in relation to tipping fees (refer to note 3.5 and 3.6).



1.7 Accrued income - other

We are pleased to note that the council has rectified the issue during the year under review.

1.8 Stale cheques

We again identified stale cheques in the bank reconciliations prepared by the council (refer to note 7.1).

1.9 Cash payments

During the year under review the council did not make any cash payments higher than the €50 threshold.

1.10 Creditor reconciliations

We again noted that the council did not obtain monthly statements and no reconciliations were prepared for creditors (refer to note 8.1).

1.11 Debit balances

We are pleased to note that the council has rectified the issue during the year under review.

1.12 Creditors' list

We noted that the council addressed this issue during the year under review.

1.13 Accruals

We are pleased to note that the council has rectified the issue during the year under review.

1.14 Amounts due to Regional Committees

We noted that the council addressed this issue during the year under review.

1.15 Rent payable

The council failed to address the issue during the current year (refer to note 4.10).

1.16 Financial situation indicator (FSI)

We are pleased to note that the council's FSI is in line with regulations.

1.17 Financial allocation

We noted that the council has addressed the issue during the year under review.

1.18 Wages reconciliation

We are pleased to note that the council has rectified the issue during the year under review.

1.19 Health insurance

The council has provided its employees with health insurance in the year under review even though the council registered a deficit in 2020.

1.20 IFRS 16 adoption

The council once again failed to perform an analysis in relation to the adoption of IFRS 16 (refer to note 4.8).

1.21 Comparison with annual budget

During the year under review the council did not exceed budgeted amounts.

2 Financial statements

Presentation of financial statements

2.1 Councils are required to prepare financial statements in conformity with International Financial Reporting Standards (IFRS) and Financial Procedures. During our audit we pointed out that the council's unaudited financial statements were not prepared in accordance with IFRS. Below is the instance of the non-compliance identified:

- i. The council failed to include disclosures required by IFRS 9.

2.2 The council correctly amended point i above in the audited financial statements.

2.3 The following shortcomings were also identified in the unaudited financial statements of the council:

- i. Income received from organic waste collection was classified as general income in error.
- ii. Note 12a note does not cast.
- iii. The council used the term 'total comprehensive expense for the year' rather than 'total comprehensive loss for the year' in the statement of changes in equity.

2.4 The council correctly amended points i to iii in the audited financial statements.

2.5 We recommend that the council gives more attention to the preparation of the financial statements.

3 Income

Other Government income

3.1 In 2020, the council received €5,460 in relation to the upkeep of public convenience and adjustment fund. The council has included this amount with the supplementary government income. We have proposed an audit adjustment to include this amount with other Government income. This adjustment has been correctly incorporated in the audited financial statements

3.2 We recommend that the council records income obtained from the Department through various schemes under other Government income as appropriate, unless otherwise directed by the Department.

3.3 We have also noted that in 2020, the council has written off debtors amounting to €1,300.32 which have been debited to the other government income account in error. We have proposed an audit adjustment to show these write-offs as expenses rather than income. The council has amended the financial statements to include our audit adjustment.

3.4 We recommend that the classification of expenses is applied consistently to enhance the comparability of financial statements with previous years.

Supplementary Government income

- 3.5 In 2020, the council received €22,759.31 from the Department for Local Government for Wasteserv Malta Ltd tipping fees. The council had accounted for such income in 2019 by mistake by including it as accrued income. The amount of €22,759.31 was still showing as creditor in the creditors list. To this end we have proposed an audit adjustment to reverse the accrued income against the creditor. Our audit adjustments were approved by the council and incorporated in the final set of financial statements.
- 3.6 We have further noted that an amount of €2,375.85 which was paid by the Department for Local Government in prior year has been omitted from the accounts in 2019 and recorded in the current year.
- 3.7 We recommend that the council records such amounts when they have been approved for payment and are certain to be received.

LES administration fees

- 3.8 We noted that the LES administration fees, when checked against the Loqus reports 483, are understated by €3,083. The council failed to provide an explanation for this.
- 3.9 We recommend that the council ensures that invoices have been issued correctly to the regional committees and LESA and that there are no mispostings.

General income

- 3.10 We came across a couple of instances where the council failed to deposit receipts on a timely basis. Examples are:

Description	Receipt number	Receipt date	Deposit date	€
Lifter permit	6131	09.04.20	17.04.20	10.00
Festa 2020 permit	6307	09.07.20	18.07.20	23.29

- 3.11 We recommend that the council deposits cash twice weekly, primarily to comply with the Local Council (Financial) Procedures but also for security purposes.

Custodial receipts

- 3.12 The same shortcomings were noted during the course of our audit work on the council's custodial receipts of LES fines:

Description	Receipt number	Receipt date	Deposit date	€
LES income	4439272	10.01.20	17.01.20	11.65
LES income	4470534	17.02.20	21.02.20	11.65
LES income	4492513	13.03.20	20.03.20	58.00
LES income	4517947	15.05.20	22.05.20	23.29
LES income	4551247	11.07.20	16.07.20	34.94
LES income	4623827	12.10.20	15.10.20	23.29

- 3.13 We remind the council that the Financial Procedures and LN 28/2000 require the council to deposit its cash collected from general income and custodial receipts at least twice weekly. We advise the council not to leave cash and cheques on the premises for a prolonged period of time since, apart from contravening the Procedures, it can give rise to security concerns.

4 Expenditure

Asset Insurance

- 4.1 During our audit we identified the stated below discrepancies between the asset insurance cover and net book value of assets included in the prior year audited financial statements:

Asset	Sum insured €	NBV €
Building	605,000	-
Electronic & office equipment	52,000	10,965
Furniture, fixtures & fittings	52,000	13,010
Plant, machinery and equipment	-	253
CCTV cameras	12,000	-
Photovoltaic equipment	47,200	-
Total	768,200	24,228

- 4.2 It is evident that some of the fixed assets are over insured. May we advise the council to perform at least an annual review of its insurance policy in order to ensure that the council's insurance coverage is in line with current legislation.
- 4.3 Directive 3/2017 and Legal Notice 269 of 2017 state that the council must ensure that administrative offices, including all the furniture and office machinery are insured by a 'buildings and content' insurance. The insurance shall cover fire, theft and damage due to natural events. Circular 33/2016 also states that the insurance policy should be based on the net book value of assets included in the last audited financial statements. We recommend that the insurance at least covers the replacement cost of the assets.

Motor vehicle insurance policy

- 4.4 We noted that the council's motor vehicle insurance covers 'third party fire and theft'. May we remind the council that as from 1 January 2018, motor vehicles should be insured as 'fully comprehensive'. The council must also ensure that drivers are aged 25 and over as included in the insurance policy.
- 4.5 We recommend that the council amends its insurance policy and ensures that the motor vehicle insurance is 'fully comprehensive' to be in line with LN 269 of 2017.

Payment approval

- 4.6 Whilst performing the test on cheque payments we noted instances when cheques were issued and almost all encashed prior to being approved by the council.

Examples include:

Supplier	Cheque no.	Encashment date	Approval date	€
Kikka's party poopers	3308	17.03.2020	18.03.2020	190.00
Agius Decorations	3439	01.06.2020	18.06.2020	237.65
ARMS Ltd	13283	31.07.2020	11.08.2020	134.76

- 4.7 No payments should be made without approval of council members. The above payments have only been authorised by the cheque signatories, i.e. mayor and executive secretary who do not constitute a quorum of members. All councillors should be aware of payments and purchases made in the name of the council.

IFRS 16 'Leases' assessment

- 4.8 Whilst performing audit procedures we noted that the council recorded a rent expense amounting to €1,340.91 in the books of account. We noted that the council did not account this amount in accordance with IFRS 16 'Leases'. The council also failed to provide us with an assessment of leases in line with the new standard. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 4.9 We recommend the council to perform IFRS 16 assessment to establish whether the council has to account for the rent expense in accordance with IFRS 16 accounting treatment.

Expired contract

- 4.10 We also noted that the rent agreement for the premises at 55. St. Benedict Street, Kirkop, is dated 6th January 1997. The contract specifies that the agreement is renewable on a yearly basis. However, no further renewals of such contract were noted.
- 4.11 We recommend that the council renews this agreement on an annual basis as stipulated in the agreement.

5 Fixed assets

Fixed asset register

- 5.1 We have noted that the fixed asset register does not contain complete details such as reference numbers, description of assets, invoice numbers, suppliers' details or location of all assets thus posing difficulty in the identification of specific assets.
- 5.2 We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)
- Cost
- Depreciation rate
- Location of the asset
- Grants received

- 5.3 An updated fixed asset register enables the council to exercise proper control over the council's property, plant and equipment. It provides a suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the council's fixed asset register is updated.

Reconciliation of financial statements with fixed asset register

- 5.4 We identified differences between the net book value of assets in the financial statements and the net book value in the fixed asset register. These are summarised below:

Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Construction	210,146	11,973	198,173
Urban improvements	4,864	28,935	(24,071)
Buildings	-	172,401	(172,401)
	215,010	213,309	1,701

- 5.5 Circular 2/2019 states that council should ensure that the fixed asset register agrees to the nominal ledger and hence the financial statements. To this end we reiterate our recommendation to the council to investigate and reclassify the variances identified between asset categories in the financial statements and the fixed asset register.

Tagging of fixed assets

- 5.6 We noted that not all assets are tagged (where applicable). This is in breach of the Local Councils (Financial) Procedures, 1996.
- 5.7 We recommend that the council tags its fixed assets, where applicable, as soon as possible. This would enable individual assets to be identified and their physical existence verified with the plant register.

6 Receivables

Overdue receivables

- 6.1 We have noted the following long-term receivables which have not been provided for in the books of accounts:

Debtor	€
Leap community resources	390.15
Primary Health Department	1,109.83
Wasteserv Malta Ltd	238.95
	1,738.93

- 6.2 We recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings. 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.

Trade receivables

- 6.3 During our audit fieldwork we identified a difference between a third party confirmation and the debtors' list provided by the council namely:

Debtors	Balance in books of accounts €	Balance confirmed by debtor €	Difference €
Wasteserv Malta Ltd	16,847.45	15,758.90	1,088.55

- 6.4 In order to solve the above problem, council should match any pending invoices with receipts from the debtor to establish and reconcile discrepancies.

7 Bank and cash

'Stale' cheques

- 7.1 During the audit we were presented with BOV current account reconciliation. This included the following 'stale' cheque.

Cheque number	Cheque date	Amount €
3414	25.05.2020	255.67

- 7.2 It is important that the council investigates any 'stale' cheques to determine why they were not cashed. If the cheque is unlikely to be cashed or has been replaced, the amount should be reversed against the respective expense or creditor after approval by the council.

8 Payables

Supplier statements

- 8.1 We again noted that the council did not obtain statements at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account. Memos and circulars issued from time to time by the Department specifically emphasise that the council should acquire monthly statements from all its suppliers.
- 8.2 We understand that the council does make every effort to obtain statements from its suppliers and that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However, we recommend the council keeps on chasing its suppliers for regular statements. This will ensure that the council's creditors are properly recorded in the accounts and that any differences or disputes are highlighted promptly.

Trade creditors

- 8.3 While reviewing creditors' balances we noted that in the creditors' list, the amount owed by the council to Raymond Attard amounted to €5,473.70. However, in the confirmation letter received from the supplier, the amount due was of € 5,119.70. The difference of €354 arose from invoices dated December 2019 and January 2020 which are shown as partly settled by the council but are fully settled in the supplier's books.

- 8.4 We reiterate our recommendation that the council should reconcile creditors' balances on a regular basis. We refer to the Procedures and circular 2/2019 which state that councils should obtain monthly statements in order to reconcile balances with the accounts.

Long-outstanding creditors

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

Creditor	€
Aquani	18.64
Koperattiva Tabelli u Sinjali	4.12
LESA	2,135.80
Raymond Attard	177.00
Tower Ironmongery	65.86
Wasteserv Malta Ltd	19,929.31
	<u>22,330.73</u>

- 8.6 We recommend that the council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the council. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings. With respect to outstanding amount due to creditors which are in dispute, council should ensure that the books are updated accordingly once the final decision is given.

9 Electronic site

Uploading of meeting minutes and schedules of payments on website

- 9.1 During our audit work we noted that the council is not uploading schedules of payments, meeting minutes, business plan, audited financial statements and annual administrative report in accordance with memos 36/2011 and 01/2014. Some examples are listed below:
- i. The council failed to upload the quarterly reports for January to March, April to June, July to September and October to December within the stipulated time frame.
 - ii. Meeting minutes 13-20, 14-20, 16-20, 17-20, 18-20 were not uploaded on the website within the required time frame.
 - iii. Schedules of payments 13-20, 14-20, 15-20, 17-20, 19-20 were not uploaded on the electronic site of local councils within three working days from their approval.
- 9.2 We reiterate our recommendation that the council should abide by memo 02/2014 wherein it is stated that all meeting minutes and schedules of payments must be uploaded in pdf format on the electronic site of local councils within three days of approval in council meeting.

Uploading of management letter and its reply

- 9.3 During our audit fieldwork, we noted that the council uploaded the 2019 Management Letter and its reply in full in accordance with circular 21/2019.

- 9.4 We would like to remind the council of the recent General Data Protection Regulations as indicated to councils in SPI 7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that they do not contravene GDPR prior to uploading on the website. This is also highlighted in circular 7/2019 which states that names of third parties not directly connected with the operations of the council should not be published.
- 9.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

10 Meetings

Length of meetings

- 10.1 We noted that most council meetings took place at before half past five in the afternoon and as early as eleven o'clock in the morning. We would like to remind you of memo 68/2009 wherein it is stated that council meetings should take place after half past five in the afternoon and not later than half past seven. However, we have noted that most councillors attend most meetings.
- 10.2 We suggest that the council ensures that meetings do not exceed three hours and comply with memo 68/2009 and section 43(3) of the Act.

11 Schedules of payments

Schedules of payments

- 11.1 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:
- i. Account numbers are not included on the schedules of payments.
 - ii. Cheque numbers are not listed on all schedule.

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

- 11.2 The council should fill in all details in the schedule of payments as required by memo 37/2011. The required details allow easy cross-referencing between the schedule of payments and the expenses included in Sage.
- 11.3 Whilst reviewing schedules of payments we identified that BOV cheques 3183, 3215, 3216, 3217, 3230, 3253, 3254, 3267, 3273, 3410, 3450, 3486, 3488, 3494, 3495, 3535, 3547, 3548, 3549, 3551, 3552, 3553, 3554, 3559, 3568, 3573, 3586, 3587, 3590, 3601, 3602, 3604 and 3605 were not listed in the schedules of payments.
- 11.4 In accordance with P1.11 of the Local Councils (Financial) Procedures, 1996 the executive secretary must prepare complete and accurate schedules of payments containing information in sequential order and present them for committee's approval. All cheques, including those cancelled should be included on the schedule. The cancelled cheque should be retained as proof of its cancellation.

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 Ms Antonia Demicoli and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

