

The Mayor  
Kirkop Local Council  
31  
Triq San Benedittu  
Kirkop KKP 1243  
Malla

11th June 2020

Dear Sir,

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

During our audit for the year ended 31 December 2019, we have reviewed the accounting systems and procedures operated by the Council. We set out in this report the more important points that arose as a result of our review.

### **1. Management letter points for the year (for the year ended 31 December 2018)**

#### **1.1 Fixed assets register**

We are pleased to note that the Council provided us with a fixed asset register which is compliant with the terms of the Regulations.

#### **1.2 Tagging of fixed assets**

As in previous year, not all of the Council's assets have been tagged. This contravenes the Local Councils (Financial) Procedures, 1996 (refer to point 2.1).

#### **1.3 Fixed assets – AED project**

We are pleased that the Council recognized income relating to the AED project grant during the year.

#### **1.4 Depreciation**

We were able to verify that the depreciation charge for the year was calculated using the straight-line method on a monthly basis as per directive 1/2017 issued by the Department for Local Government, as we were provided with an up to date fixed assets register, including all the workings.

#### **1.5 Amount receivable from Green MT**

Similarly, to the previous year, we enquired about the recoverability of the receivable balance from Green MT of €2,010 as at year-end. The Executive Secretary reaffirmed that even though this particular entity is in financial difficulties, such a balance should still be retained. A full provision was taken on this amount receivable as at year end (refer to point 2.4).

### **1.6 Provision for doubtful debts**

The movement in provision for doubtful debts for the year under review was not misstated.

### **1.7 IFRS 9**

As in previous year, the Local Council did not calculate and account for expected credit loss as required by IFRS 9 (refer to point 2.5).

### **1.8 Accrued income / Accruals – Tipping fees**

We noted that income recognized in the profit or loss account with respect to funds received from the Department for Local Government in relation to tipping fees charged by Wasteserv Malta Ltd was understated (refer to note 2.6).

### **1.9 Bank balances**

We regret to note that after reviewing the list of unrepresented cheques, it transpired that there were stale cheques as in previous year (refer to note 2.8).

### **1.10 Accruals**

During the audit of the current financial year, the year-end accrual of rent payable of the Primary Healthcare Building and water & electricity were correctly classified in the unaudited financial statements.

The year-end accrual attributable to street lighting expense was overstated (refer to note 2.13).

### **1.11 Creditors – reconciliations**

As in previous year while performing our testing on creditors, we noted that reconciliations were not carried out for all the creditors (refer to note 2.10).

### **1.12 Amounts due to Regional Committees**

The Council still did not provide us with a breakdown of the amount of €1,099 payable to Regional Committees (refer to note 2.14).

### **1.13 Rent payable**

As reported in the previous year, an updated rental contract was still not available (refer to note 2.15).

### **1.14 Income**

When testing the Council's financial allocation received from Central Government vis-à-vis the expenditure incurred during the year, we noted that the Council did not manage to obtain a positive result and neither a minimum of 10% of the financial allocation as required by Section 4c of the Local Council (Financial) Regulations, 1993 (refer to note 2.17).

### **1.15 Wages reconciliation**

We regret to note that similar to the previous year, there is a difference between the FSS forms (refer to note 2.18).

### **1.16 Health insurance**

As in previous year, the Council has provided its employees with a health insurance cover irrespective of the fact that the Council registered a deficit during the year (refer to note 2.19).

### **1.17 Comparison of budget and actual expenditure**

We regret to note that there were some material differences between budgets and actuals as in the previous year (refer to note 2.21).

## **2. Management letter points for the year**

### **2.1 Tagging of fixed assets**

While we are aware that the tagging process has started, not all of the Council's assets have yet been tagged. This contravenes the Local Councils (Financial) Procedures, 1996.

As per Local Councils (Financial) Procedures, we recommend that the Council tags every asset held so that their physical existence can be verified accordingly. Proper tagging facilitates traceability to the fixed assets register.

### **2.2 Depreciation**

The depreciation charge for the year was overstated by €64. Since this amount is not material, no adjustment was proposed, and it was included with the unadjusted errors (refer to UE07/19 in note 2.25).

We recommend that the depreciation charge is checked for accuracy before the accounts are passed for the audit.

### **2.3 Repairs and maintenance**

While testing the repairs and maintenance expense we noted that an amount of €990 relating to construction works was erroneously classified under repairs and maintenance. Since this amount is not material no adjustment was proposed, and it was included with the unadjusted errors (refer to UE06/19 in note 2.25).

We recommend that the Council reclassifies all capital expenditure before the accounts are approved for the audit.

### **2.4 Amount receivable from Green MT**

Similarly to the previous year, we enquired about the recoverability of the receivable balance from Green MT of €2,010 as at year-end. The Executive Secretary reaffirmed that even though this particular entity is in financial difficulties, such a balance should still be retained. A full provision was taken on this amount receivable as at year end. We are aware that such balance is still being chased.

We reiterate our recommendation that such a balance is written off if there are no tangible prospects of recoverability.

## **2.5 Expected Credit loss**

The Local Council did not calculate and account for expected credit loss as required by IFRS 9. The receivable balances of the Committee are composed of balances with government related entities. Given the low risk associated with such entities the default risk is considered to be insignificant and will not result into a material amount. Since effect is not material, no adjustment was proposed, and the extrapolated amount was included with the list of unadjusted errors (refer to UE04/19 in point 2.25)

## **2.6 Accrued income – tipping fees**

We noted that income recognized in the profit or loss account with respect to funds received from the Department for Local Government in relation to tipping fees charged by Wasteserv Malta Ltd was understated by €22,759. An adjustment was proposed to correct this omission, and this was eventually approved by the Council and passed (refer to AA01/19 in note 2.24).

We recommend that all amounts relating to tipping fees which are funded by the Department for Local Government and/or incurred by the Local Council in each respective financial year are correctly provided for.

## **2.7 Accrued income - Other**

While testing the accrued income, we noted that accrued income from the Development Planning Fund was overstated by €1,718. Since this amount is not material no adjustment was proposed, and it was included with the unadjusted errors (refer to UE03/19 in note 2.25).

We recommend that the Local Council accounts for the correct accrued income.

## **2.8 Bank balances**

After reviewing the list of unpresented cheques, it transpired that there were stale cheques totalling €10,461. The Accountant advised that it is the Council's policy not to reverse stale cheques. A reclassification was proposed, and it was passed after the approval of the Local Council (refer to RECLB/19 in note 2.23).

We recommend that the Council passes the necessary reclassifications before the accounts are approved for the audit.

## **2.9 Cash payments**

After analysing the list of payments made by the Local Council it came to our attention that there was an instance where a cash payment exceeded the €50 threshold.

As per the DLG directive 16/2016 the Local Councils should not exceed the payments of €50 inclusive of tax on the same day. We recommend that these guidelines are adhered to.

## 2.10 Creditors – reconciliations

While performing our testing on creditors, we selected nine suppliers for testing and found that no reconciliations were carried out. Reconciliations were not carried out for the following:

Supplier	Annual turnover	Year-end balance
Raymond Attard	€71,779	€177
Wasteserv Malta Ltd	€32,491	€Nil
MQUIP	€15,174	€Nil
Med Developers Designers & Cons Ltd	€19,172	€Nil
Calbros Ltd	€5,900	€Nil
Fara Group Ltd	€5,754	€Nil
MM Installations	€16,363	€Nil
Nicholas Alluminium	€5,827	€Nil
Synthesis Management Services Ltd	€7,080	€Nil

While we acknowledge that a number of creditors do not prepare statements and duly make them available, we strongly suggest that a periodical exercise that confirms creditor balances is still performed. For Nil balances, we recommend that a statement is obtained from the supplier showing Nil balance when the last payment is effected.

Creditor reconciliations are an essential element of a good internal control system. They can assist in enhancing the internal control system of the Council while also ensuring that the supplier balances reflected in the accounts are accurate.

## 2.11 Creditors – debit balances

While performing our testing on creditors, we noticed that the creditors' list included debit balances amounting to € 1,442. We should point out that the creditors' list should not have debit balances as the Local Council cannot settle a balance unless the related invoice is in hand. A reclassification was proposed and was passed after the Local Council's approval (Refer to RECL A/19 in note 2.23).

We recommend that the Local Council will only settle amounts when in possession of the related invoice.

## 2.12 Creditors list

While performing our testing on creditors, we noticed that the creditors' list was understated by €1,248. Since this amount is not material no adjustment was proposed, and it was included with the unadjusted errors (refer to UE05/19 in note 2.25).

We recommend that the Council performs such reconciliation and passes the necessary adjustments before the accounts are approved for the audit.

## 2.13 Accruals

During the audit of the current financial year, the year-end accrual attributable to street lightning expense was overstated by €1,196. Since amount is not material no adjustment was proposed, and it was included with the unadjusted errors (refer to UE01/19 in note 2.25).

We recommend that the Council passes the necessary adjustments before the accounts are approved for the audit.

#### **2.14 Amounts due to Regional Committees**

The Council did not provide us with a breakdown of the amount of €1,099 payable to Regional Committees, which was included in the year end creditors' list provided. The Executive Secretary advised that such amounts have been outstanding for several years and the prospect of such a balance remaining payable is clearly in doubt.

Given that such amounts have been outstanding for several years, we recommend that the Council investigates whether such balances are still due, and if not, write them off accordingly after being approved at a Council meeting.

#### **2.15 Rent payable**

As reported in the previous year, the only contract which the Council has in relation to rent payable at its disposal is dated 6th January 1997. The terms of such a contract indicate that the lease of the Local Council premises amounting to €447.24 per annum is renewable on a yearly basis. However, there were no further renewals of such a contract.

We recommend that the Council chases for an updated contract to be in place as soon as possible.

#### **2.16 Income - Deficit**

When testing the Council's financial allocation received from Central Government vis-à-vis the expenditure incurred during the year, we noted that the Council did not manage to obtain a positive result and neither a minimum of 10% of the financial allocation as required by Section 4c of the Local Council (Financial) Regulations, 1993.

#### **2.17 Income – Financial allocation**

When testing the Council's financial allocation received from Central Government during the year, we noted that the amount was understated by the amount of €663. Since amount is not material no adjustment was proposed, and it was included with the unadjusted errors (refer to UE02/19 in note 2.25).

We recommend that the Council passes the necessary adjustments before the accounts are approved for the audit.

### 2.18 Wages reconciliation

During the testing of the salaries we noted that there was a difference between the total salaries as per FS7 and the total salaries as per FS5s amounting to €995. The salaries as per accounts agreed to the FS7.

	€
Gross Wages as per FS7	83,047
1/2 the total social security as per FS7	4,894
Total wages for year as per FS7	<u>87,941</u>
Gross Wages as per FS5	84,041
1/2 the total social security as per FS5	4,894
Total as per accounts	<u>88,936</u>
Difference	<u>(995)</u>

We recommend that the FS5s are completed as appropriate so that they will be in agreement to the FS7.

### 2.19 Health insurance

The Council has provided its employees with a health insurance cover irrespective of the fact that the Council registered a deficit during the year. We take note of the Council's feedback that this is not material and is included in the employee's collective agreement.

We reiterate that such insurance cover should be discontinued as long as the Council does not have a positive profit balance or such scheme does not result in a loss in the Council's accounts. This is stipulated in the Local Councils (Financial) Regulations.

### 2.20 IFRS 16 – new adoption

IFRS 16, which became effective for periods that begin on or after 1 January 2019, introduced the single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Committee did not calculate and account for this 'Single lessee accounting model'. Since the departure from IFRS 16 is not material, the audit report is not qualified in this respect. Since the departure from IFRS 16 is not material, no adjustment was proposed and it was included in the list of unadjusted errors (refer to UE08/09 point 2.25).

## 2.21 Comparison of budget and actual expenditure

We noted the following material differences between budgets and actuals:

Nature	Budget (€)	Actual (€)	Difference (€)
Waste disposal	12,000	33,391	(21,391)
Hospitality	6,950	20,520	(13,570)
Water and electricity	7,442	20,335	(12,893)
Depreciation	22,509	33,530	(10,931)

The budgeting process is essential to monitor and control costs and to prioritise cash outflows. Therefore, budgets should be as accurate as possible.

## 2.22 Reclassifications list

The following reclassifications were considered necessary for appropriate presentation in the financial statements. Refer to audit reclassifications list below:

No.	Nominal code	Description	Management letter point	Statement of Comprehensive Income	Statement of Financial Position
				Dr (+) / Cr (-)	Dr (+) / Cr (-)
				€	€
RECL A/19	NEW	Purchases Ledger Debit balances	2.11		1,442
	4000	Trade creditors - posting account			(1,442)
		Being Debit balances in Creditors List.			
RECL B/19	5011	APS Current 11376130013	2.8		10,461
	4000	HSBC Savings 155050			(10,461)
		Being reclassification of stale cheque.			

## 2.23 Audit adjustments list

The following audit adjustments were considered necessary for appropriate presentation in the financial statements. Refer to audit adjustments list below:

No.	Nominal code	Description	Management letter point	Comprehensive Income	Statement of Financial Position
				Dr (+) / Cr (-)	Dr (+) / Cr (-)
				€	€
AA01/19	0241	Accrued Income	2.6		22,759
	0002	Supplimentary Government Income		(22,759)	
		Being Income for the year understated due to Tipping fees.			



## 2.24 Unadjusted errors

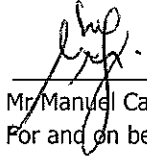
During the course of our audit, we noted a number of misstatements of a non-material nature both individually and in aggregate. The following is a list of the unadjusted errors including a brief explanation. We recommend that similar matters are addressed by the Council before the unaudited financial statements are presented for the audit.

No	Nominal codes	Description	Management Letter point	Statement of Comprehensive Income Dr (+) / Cr (-)	of Financial Position Dr (+) / Cr (-)
UE 01/19	4100	Dr Accruals - SOFP	2.13		1,196
	3065	Cr Street lighting - P/L		(1,196)	
		<b>Being overstatement of Accruals.</b>			
UE 02/19	N/a	Dr Balance sheet	2.17	663	
	0001	Cr Financial allocation from gov			(663)
		<b>Being Revenue</b>			
UE 03/19	0001	Dr Income - P/L	2.7	1,718	
	0241	Cr Accrued income			(1,718)
		<b>Being Overstatement of accrued income.</b>			
UE 04/19	New	Dr expected credit loss - P/L	2.5	191	
	New	Cr expected credit loss - BS			(191)
		<b>Being ECL not adjusted</b>			
UE 05/19	N/a	Dr. Expenses - P/L	2.12	1,248	
	4000	Cr. Trade Payables			(1,248)
		<b>Being trade payables extrapolated error value.</b>			
UE 06/19	7100	Dr Construction Works - NCA	2.3		990
	2730	Cr Repairs and Maintenance		(990)	
		<b>Being invoice relating to PPE additions included as Repairs and Maintenance.</b>			
UE 07/19	8030	Dr Depreciation - SOFP	2.2		64
	8000	Cr Depreciation - P/L		(64)	
		<b>Being overstatement of depreciation.</b>			
UE 08/19	New	Dr Right of use Asset	2.2	3,958	
	New	Dr P/L interest		214	
	0400	Cr Retained Earnings		494	
	New	Cr Lease Liability			(4,666)
		<b>Being Lease workings as per IFRS 16 not accounted</b>			
		<b>Total potential adjustment</b>		1,570	(1,570)



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 designed primarily for the purpose of expressing our 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 defalcations or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would also like to take this opportunity to thank the Mayor, Executive Secretary and staff for their help during the course of our audit.



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Mr Manuel Castagna  
For and on behalf of Nexia BT