



Grant Thornton

An instinct for growth™

The Mayoress
Kalkara Local Council
1, Binja tas-Salvatur,
Triq Luigi Pisani,
Il-Kalkara, KKR 1330

Grant Thornton
Fort Business Centre,
Mrieħel Bypass
Birkirkara BKR 3000
Malta

T +356 20931000
F +356 21331161
www.grantthornton.com.mt

Our ref ABC/mf/52618

9 May 2018

Dear Madam,



Financial statements for the year ended 31 December 2017

During the course of our audit for the year ended 31 December 2017 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 Audit opinion

During the year under review the council had a qualified audit report stating that we were unable to form an audit opinion (refer to note 2.1).

1.2 Books of account

We still encountered movements in the books for which no supporting documentation nor explanations were available (refer to note 3.1).

1.3 Other supplementary Government income

The council failed to record DLG shortages paid directly to WasteServ Malta (refer to note 7.1).

1.4 LES administration fee

We still encountered differences between the books of account and the LES administration report 483 (refer to note 7.10).

1.5 Income from regional committees and LESA

We again noted that the council is not issuing regional committees and LESA invoices within the first week of the following month (refer to note 7.12).

1.6 General income

We noted that the council failed to address the deposits' issue (refer to note 7.14).

1.7 Custodial receipts

We still came across instances where the council failed to deposit its custodial receipts on time (refer to note 7.16).

1.8 Wages' reconciliation

We again found a difference in the wages' reconciliation (refer to note 8.1).

1.9 Declaration of councillor's allowances

We again noted that the council is reporting councillor's allowances under 'Part Time Gross Emoluments' in FS3's (refer to note 8.3).

1.10 Councillors' allowances

We again noted that councillors' allowances are not recorded properly in the books of account (refer to notes 8.5 and 8.6).

1.11 Performance bonuses

The council has again failed to disclose performance bonuses in a separate account (refer to note 8.11).

1.12 Overtime

We again noted instances where overtime was classified in other expense accounts (refer to note 8.13).

1.13 Fixed asset register

The council has still not prepared a fixed asset register (refer to note 9.1).

1.14 Tagging of fixed assets

The council has again failed to tag fixed assets in accordance to The Local Councils (Financial) Procedures, 1996 (refer to note 9.4).

1.15 Assets under construction

The council still did not rectify the issue during the year under review (refer to note 9.6).

1.16 Petty cash expenditure

We again identified that most petty cash expenditure is supported by cash register chits (refer to note 10.3).

The council is not using the Imprest system as required by the Local Council (Financial) Procedures, 1996 for petty cash expenses (refer to note 10.1).

1.17 Tendering procedures

The council did not issue any tenders during the year under review.

1.18 Expired contracts

The council is still utilising an expired contract for the upkeep of parks and gardens (refer to note 10.8).

1.19 Asset insurance

We noted that council did not address the issue (refer to note 10.13).

1.20 Use of mobile phone

We noted that the council did not rectify the issue during the year under review (refer to note 10.16).

1.21 Reimbursement

We still noted shortcomings in the reimbursement of expenses (refer to note 10.18).

1.22 Procurement

We were not provided with all purchase orders supporting council purchases (refer to note 10.21).

1.23 Expenditure for locality day

The council has again failed to address the issue (refer to note 10.25).

1.24 Cleaning services

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

1.25 Rental of properties

We have again noted shortcomings in the rent account (refer to note 10.29).

1.26 LES receivables

We noted certain irregularities between the gross carrying amount of LES debtors and the reports generated from the LES system (refer to note 11.1).

1.27 Overdue receivables

The debtors' list is still showing amounts which are long overdue (refer to note 11.3).

1.28 Trade receivables

We identified variances between debtor confirmation letters and debtors' list (refer to note 11.4).

1.29 Credit balances in debtors' list

We have again noted some credit balances in the debtors list (refer to note 11.6).

1.30 Accrued income and grants

During the audit we noted that the council reversed the accrued income however, no supporting documentation and explanations were provided (refer to note 11.9).

1.31 Prepayments

We again noted a shortcoming in the list of prepayments (refer to note 11.15).

1.32 Trade payables' reconciliation

The council did not reconcile the creditors' list to the creditors' control account in the books of account (refer to note 13.1).

1.33 Supplier statements

The council has again failed to obtain supplier statements and reconcile supplier balances (refer to note 13.3).

1.34 Unrecorded liabilities

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

1.35 Debit balances in creditors' list

The council did not reclassify debit balances in creditors' list to other debtors (refer to note 13.9).

1.36 Outstanding invoices

We have again noted that the council is making suppliers payments on account (refer to note 13.14).

1.37 Deferred income brought forward

The release of grants to profit and loss is incorrect (refer to notes 14.1 and 14.2).

1.38 Uploading of meeting minutes and schedules of payments on website

The council did not upload meeting minutes and schedules of payments within the required time frame (refer to note 15.1).

1.39 Quarterly financial reports

The council failed to approve the quarterly financial reports for January to December 2017 (refer to note 15.3).

1.40 Binding of minutes

We have again noted that the minutes of the council are not hard bound (refer to note 16.1).

1.41 Liquidity position

The council's liquidity position did not improve during the year being audited (refer to note 19.1).

1.42 Financial Situation Indicator

We again noted that the FSI is negative (refer to note 19.2).

1.43 Opening balances

The councils opening balances do not agree to the financial statements (refer to note 5.1).

1.44 Prior year adjustments

We again encountered unexplained or incorrect prior year adjustments made during the year under review (refer to notes 4.1 and 4.2).

1.45 Presentation of financial statements

We again noted issues in the presentation of financial statements (refer to notes 6.1 and 6.2).

2 Audit opinion

- 2.1 We have issued a qualified audit report, for the year under review, stating that we are unable to form an audit opinion because of significant matters encountered during our audit fieldwork. Further explanations are given in this management letter to enable the council to better understand the reason for the disclaimer of opinion.
- 2.2 On 17 April 2018 we informed the council by email that no audit adjustments would be proposed by us in view of the fact that we were going to disclaim our opinion. By means of another email dated 20 April 2018 we reminded the council that since no audit adjustments would be proposed, the council could proceed to reapprove the accounts. However the council only reapproved the financial statements on 9 May 2018 and delivered same to us on 22 May 2018.

3 Books of account

- 3.1 During the audit we noted that the council passed several adjustments dated 1 January 2017 for which no supporting documentation nor explanation was provided. Upon enquiry we were informed that these adjustments were the same adjustments which have been passed by the council in 2016 for the financials statements which were approved on 12 April 2017. In our previous management letter we stated that the financial statements approved on 9 February 2017 were taken as the final financial statements and reapproved on 30 November 2017. The adjustments passed on 1 January 2017 are reproduced below:

Adjustment no.	Account no.	Details	Dr	Cr
JE01/17	4002	Deferred income	9,321	
	0230	Accrued income		9,321
Being accrued income never received (refer to note 11.10).				
JE02/17	4002	Deferred income	240	
	0230	Accrued income		240
Being MEPA permit refunds never received (refer to note 11.10).				
JE03/17	1201	Executive secretary salary	1,388	
	0002	Supplementary Government income	502	
	0066	General income	2,609	
	3065	Street Lighting	6,460	
	3380	Community services	4,952	
	7501	Urban improvements – other grants	6,676	
	8090	Accumulated depreciation on construction	181	
	0230	Accrued income		22,768
Being accrued income never received (refer to note 7.3, 7.8, 8.1 and 9.8).				
JE04/17	4002	Deferred income	3,015	
	0066	General income		3,015
Being reversal of income deferred by the auditors in 2012 (refer to note 7.7).				
JE05/17	500	Prior year adjustment	4,476	
	4002	Deferred income		4,476

Being the adjustment to release deferred income due to adjustments up to 2015.

JE06/17	0015	Grants received	3,746	
	4002	Deferred income		3,746

Being adjustment to release deferred income due to the adjustment above.

- 3.2 The points mentioned above indicate that the council's accounting function is of serious concern and needs to be addressed promptly and improved significantly. In addition, the management letter shows that the extent of our audit work was considerably limited due to poor book-keeping practices and lack of proper listings and documentation in support of the books of account. These are critical for proper financial reporting and therefore the council should take a more proactive role in the accounting function.
- 3.3 Because of the significance of these matters, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and consequently we did not express an opinion on the council's financial statements.
- 3.4 We recommend that greater attention is paid to the book-keeping function to ensure that the annual financial statements do give a true and fair view of the council's results and statement of affairs. Also, may we remind the council that circular 3/2018 states that the council must ensure that the person in charge of the preparation of the accounts, apart from possessing the CPA warrant, should be up-to-date with accounting standards and regulations.

4 Prior year adjustments

- 4.1 In 2016 the council had passed a prior year adjustment of €33,564 of which €27,311 pertains to deferred income and €6,253 to the creditor balance adjustment. It was also noted that in 2017 the council has passed another prior year adjustment of €67,801 of which €63,323 pertains to property, plant and equipment and €4,478 to deferred income. Refer to note 9.6.
- 4.2 As mentioned in our previous management letter and further discussed in point 14, the deferred income adjustment is posted incorrectly in the prior year adjustment. When passing the property, plant and equipment adjustment the council did not consider investigating the balance. Furthermore, the council failed to provide supporting documentation and explanations regarding the above prior year adjustments.
- 4.3 As outlined in IAS 8, a material prior year error should be corrected retrospectively in the first set of financial statements authorised for issue after its discovery by restating the comparative amounts for the prior period presented in which the error has occurred. In addition to this, IAS 1 adds that when a retrospective restatement of items in the financial statements is made, as a minimum, three statements of financial position, two of each of the other statements and related notes should be presented in the financial statements.
- 4.4 We would like to inform the council that prior year adjustments should only be used in rare circumstances and not to pass any omissions due to poor accounting.
- 4.5 We reiterate our recommendation from our previous management letter stating that the preparation of reliable and timely accounting information is essential to the efficient operation of a council. Several points mentioned in this management letter indicate that there are serious shortcomings in the updating of the council's accounting records and preparation of financial statements.

5 Opening balances

- 5.1 Whilst testing opening balances we noted that the council had a difference of €78 in retained earnings. This difference was then found in the bank charges account. No audit reclassification has been proposed to adjust the above-mentioned difference.
- 5.2 The council should ensure that the books of account are properly updated, particularly ensuring that all audit adjustments proposed and accepted by the council in 2015 are included before closing off the year end and accounted in the correct account.

6 Financial statements

Presentation of financial statements

- 6.1 In line with the Department's requirements, the council is obliged to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs). The council's financial statements diverge from this requirement in the instances noted below:
- i. No disclosures were given relating to the reconciliation of the provision of doubtful LES receivables which is required by IFRS 7.
 - ii. The financial statements do not include the disclosures relating to the prior period errors required by IAS 8.
- 6.2 In addition to the above, we identified further shortcomings in the council's financial statements:
- i. The statement of changes in equity is not casting.
 - ii. The council failed to update note (d) and (f) Local Enforcement System and Government grants respectively to the notes to the financial statements.
 - iii. The council is referring to the incorrect note in note (l) related parties in the notes to the financial statements.
 - iv. The prior year adjustment note is not casting and is not in agreement with the description provided in the same note.
 - v. Notes 4, 11, 12 and 13 to the financial statements are not casting.
 - vi. The 2016 figures in note 5 to the financial statements are not cross casting to the amount included in the balance sheet.
 - vii. The council failed to include and separately disclose the LESA distribution income in LES income.
 - viii. The IFRSs included in note 2b should be those which are applicable to the council. They should not include all amendments or changes made to IFRSs; for example, IAS 12 which relates to deferred tax assets, IFRS 2 which refers to share based payments IFRS 10 and IAS 28 which refer to the sale of contribution between an investor and its associate or joint venture.
- 6.3 We further recommend that the cash flow statement is prepared correctly and reflects actual cash movements in accordance with IAS 7, *Cash Flow Statements*.

Groupings

- 6.4 We also noted that expenses are not being classified consistently from year to year.
- 6.5 We recommend that the classification of expenses is applied consistently to enhance the comparability of financial statements with previous years.

7 Income**Other supplementary Government income**

- 7.1 During the year under review, the Department paid the amount of €3,608.78 to WasteServ Malta Limited relating to tipping fees incurred in previous years. The council did not record this transaction. No audit adjustment has been proposed to this respect.
- 7.2 In accordance with circular 3/2018 this income should be disclosed with 'Other Supplementary Government Income'.
- 7.3 During the audit we noted that the council has passed a reversal of accrued income of €502 for which no supporting documentation and explanation was provided.
- 7.4 We recommend that the council obtains proper documentation, explanations and approval from the council regarding any reversals made in the books of account.

Income from LESA distribution

- 7.5 The council has classified the receipt of €2,432.38 from LESA, with respect to the LESA distribution scheme, as other Government income. All LES income should be disclosed as a separate line item in the financial statements. No audit adjustment has been proposed to this respect.
- 7.6 We recommend that the council discloses all income from LES separately in the financial statements.

General income

- 7.7 The council has passed a reversal of €3,015 against account 0066 general income. The entry details in the nominal ledger state that this was a reversal of income deferred by the previous auditors in 2012. To date of the management letter the council failed to provide supporting documentation in relation to this reversal.
- 7.8 It was also noted that the same account has two debit entries of €2,000 and €609 being the reversals of accrued income. We were not provided with any explanation regarding the above reversals.
- 7.9 We recommend that the council obtains proper documentation, explanation and approval from the council regarding any reversals made in the books of account.

LES administration fees

- 7.10 During the audit we noted that the LES administration fees, when checked against the Loqus reports 483, are overstated by €19. No adjustment was proposed to correct this difference.
- 7.11 We recommend that the council ensures that invoices have been issued correctly to the regional committees and LESA and that there have not been any mispostings.

Income from regional committees and LESA

- 7.12 The following invoices were not sent to the regional committees or LESA in the first week of the following month:

Invoice month	Invoice date
January 2017	13.02.2017
February 2017	16.03.2017
March 2017	13.04.2017
May 2017	14.06.2017
August 2017	19.09.2017

- 7.13 In accordance with memo 91/2011 local councils are required to issue the regional committees and LESA invoices in the first week of each of the following month.

General income

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

Description	Receipt number	Receipt Date	Deposit date	€
Crane permit	03361	14.01.17	23.02.17	10.00
High up permit	03415	22.02.17	29.03.17	30.00
Truck permit	03454	22.03.17	04.05.17	90.00
Crane permit	03510	02.05.17	15.06.17	20.00
Kiosk permit	03556	01.06.17	17.07.17	302.77
Crane permit	03626	31.07.17	12.09.17	10.00
Magazine advert	03673	19.09.17	13.10.17	30.00
Truck permit	03708	13.10.17	04.12.17	50.00
Scaffolding permit	03720	28.10.17	04.12.17	13.98
Crane permit	03756	01.12.17	25.01.17	10.00

- 7.15 We recommend that the council deposits its receipts at least twice a week to ensure that no cheques or cash are left on the council premises longer than necessary.

Custodial receipts

- 7.16 The following shortcomings were noted during the course of our audit work on the council's custodial receipts of Lands Department and LES fines:

Description	Receipt number	Receipt date	Deposit date	€
Lands Department	738464	03.05.17	17.05.17	46.25
Lands Department	743075	23.06.17	17.07.17	37.90
Lands Department	745723	17.07.17	02.08.17	1,082.74
Lands Department	750547	01.08.17	01.09.17	250.00
Lands Department	766051	04.09.17	11.10.17	152.15
Lands Department	776023	06.11.17	28.11.17	117.63
Lands Department	778460	01.12.17	27.12.17	232.94
LES income	3547584	06.02.17	23.02.17	69.65
LES income	3567109	27.02.17	27.03.17	23.29
LES income	3696150	18.07.17	01.08.17	34.94
LES income	3722590	17.08.17	31.08.17	100.00

LES income	3740646	05.09.17	10.10.17	81.53
LES income	3830067	01.12.17	27.12.17	23.29

- 7.17 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.

8 Payroll

Wages' reconciliation

- 8.1 During the audit we noted a discrepancy of €1,388 between the wages' accounts to the personal emoluments found in the FS7 form sent to the Inland Revenue Department. We also noted that the wages account was affected by JE03/17 of €1,388 (refer to note 3.1).
- 8.2 The council should ensure that all FSS forms agree to the payroll expenditure in the accounts. Furthermore, the council must ensure that amounts payable to the CIR are correctly declared.

Declaration of councillors' allowances

- 8.3 During the financial year under review we noted that the council is still taxing councillors' allowances under the part-time rules at the rate of 15%.
- 8.4 We would like to remind the council that councillors' allowances do not qualify for the Part-Time Work Regulations (1996) and these should be declared under 'Gross Emoluments' (FSS Rules). We recommend that the council adheres to these regulations.

Councillors' allowances

- 8.5 During the audit fieldwork we noted that the councillors' allowances for the year should total to €6,400. We further noted that the books of account show councillor allowances of €4,080 thus resulting in a difference of €2,320. This difference was included in the wages and salaries account.
- 8.6 It was further noted that €1,600 mayor allowance was included in the mayor honoraria account and €720 was erroneously included in the wages and salaries account. We did not propose an audit adjustment to this respect.
- 8.7 We recommend that the council classifies councillor allowances separately from that of employees wages and salaries.

Councillors' excuse letters

- 8.8 When reviewing the minutes for meetings held during 2017, we noted that in four instances the councillors did not supply a valid reason for their absence but still received the full allowance. We were unable to trace a letter of excuse giving reasons for their absence.
- 8.9 We also noted that in meeting 06-2017 the council was not provided with a formal excuse letter; however, the excuse was sent by a message/phone call. Furthermore, the council failed to attach the excuse letter to the meeting minutes.

- 8.10 For the councillors who did not provide a valid reason for their non-attendance, the council should have deducted their allowance on a pro rata basis. This was not done by the council; thus the council is in breach of memo 89/2009 which outlines that councillors should be paid in accordance with article 32(2) of the Local Councils Act, based on the number of meetings attended in proportion to the number of meetings held per calendar year. Furthermore, the memo states that valid reasons should be presented in writing to the council and a copy of the letters must be kept with the minutes.

Performance bonuses

- 8.11 It was again noted that the council did not distinguish between employee bonuses and wages and salaries.
- 8.12 We reiterate our recommendation to keep separate accounts for bonuses and employee wages and salaries for ease of extraction.

Overtime

- 8.13 During the audit we noted that the council has classified overtime of €2,703.47 and €98.80 as other support services and social events respectively. This was paid to the IPSL workers. We did not propose an adjustment to rectify the issue.
- 8.14 We recommend that the council keeps a separate account for overtime. This should be included in the wages reconciliation and declared in the council's FS5s.

9 Fixed assets

Fixed asset register

- 9.1 To date, the council has not yet compiled a fixed asset register. This contravenes the Local Councils (Financial) Procedures, 1996 which state that every council is to create, maintain and control an accurate and up-to-date fixed asset register. This is strengthened by circular 03/2018 stating that councils must have a fixed asset register which agrees to the nominal ledger for the period ending 31 December 2017. The above was not provided to us.
- 9.2 We strongly recommend that the council prepares a fixed asset register comprising at least the following details:
- Description of asset
 - Date of purchase
 - Supplier details
 - Invoice number
 - Asset tag code
 - Cost
 - Depreciation method and rate
 - Location of the asset
- 9.3 We reiterate our recommendation to the council to prepare a fixed asset register since this, apart being a requirement in line with the above stated regulations, is essential to maintain proper control over the assets in the council's custody. It provides a checklist to enable periodic physical inspection of assets to verify existence and conditions. Additionally, the information contained above allows any disposals to be correctly accounted for.

Tagging of fixed assets

- 9.4 We should also point out that furniture, fittings, office and computer equipment are not tagged.
- 9.5 The Local Councils (Financial) Procedures, 1996 required assets to be tagged (where applicable) and referenced to the fixed asset register.

Assets under construction

- 9.6 During our audit fieldwork we noted that in the financial statements the council passed a prior year adjustment of €63,323 pertaining to assets under construction, but this prior year adjustment was not reflected in the books of account. In our previous management letters, we pointed out that the above stated amount was included in the financial statements, but no supporting documentation was available. The only information obtained was that these assets have been brought forward from prior years. During current year audit the council failed to provide supporting documentation for the assets under construction's write off.
- 9.7 In accordance with LAS 16, *Property, Plant and Equipment* when an asset is completed then it should be transferred to the respective fixed asset account. Based on the information obtained from the executive secretary there are no fixed assets which are still under construction. The council should ensure that the books of account are updated to agree to the financial statements.

Grants received in fixed assets schedule

- 9.8 During audit fieldwork we noted that the council reversed €6,676 and €181 of accrued income against urban improvements and construction categories respectively (refer to note 3.1). This reversal was disclosed in the fixed assets' schedule as 'grants received'. The council could not explain the nature of the reversal and could not provide supporting documentation in this respect (refer to note 11.10).
- 9.9 We recommend that the council obtains all necessary supporting documentation and explanations prior to approving such entries.

Additions to fixed assets

- 9.10 Our testing on additions to fixed assets revealed the following irregularities:

Details	Supplier	€	Note
Fremy Investments Limited	To complete and replacement part of slide at playground situated at Kalkara sea front	1,380.84	(a, b)
M Quip Co Limited	Play structures, safety material	1,141.16	(a)
Inter-Power Limited	Power washer K5 full control	385.00	(c)

- (a) The council did not raise a purchase order.
- (b) The council did not obtain three quotations.
- (c) The council has erroneously classified 'power wash' with office equipment instead of classifying it with plant and machinery category. We did not propose an audit adjustment.

- 9.11 According to the Local Councils (Financial) Procedures, 1996, all council purchases are only valid if they are initiated through properly authorised written council purchase orders, contracts or purchase agreements. Furthermore, the council should obtain at least one signed quotation for purchases not exceeding €1,165 and at least three quotations for all purchases in excess of this amount up to €4,658.

10 Expenses

Petty cash expenditure

- 10.1 We have again noted that the council did not yet employ the Imprest system for petty cash. Cheques are continuously being issued in the name of the executive secretary for the settlement of petty cash expenditure.
- 10.2 We would like to bring council's attention to the clause in the Local Councils (Financial) Procedures, 1996, which states that the executive secretary should institute an Imprest system for petty cash and thus control can be implemented over this kind of payments.
- 10.3 Moreover throughout the audit fieldwork we discovered that a significant number of petty cash expenses are only supported by cash till chits that are not addressed to the council. Below are some examples:

Details	Supplier	Date	€
Utilities for clinic	Franka Lira	27.02.2017	11.00
Books	Bookends Fgura	04.05.2017	12.74
Bag	Mary Rosaria Buhagiar	08.08.2017	10.00
Office necessities (plastic cutlery, cups, plates)	Lasco supermarket	20.09.2017	11.00
Milk	Bighi confectionery	29.12.2017	7.76

- 10.4 Cash register chits do not satisfy the requirements of the Local Councils (Financial) Procedures, 1996 that supplies should only be made on the provision of a valid invoice which is addressed to the council. To this end, we recommend that, where possible, the council obtains a tax invoice or a VAT receipt addressed to the council to ensure that the expenditure is required for council activities.
- 10.5 Directive 3/2017 and LN 269 of 2017 state that in cases where the supplier is unable to issue an itemised bill the council is required to fill in a petty cash voucher and include all details pertaining to the goods being purchased. Furthermore, the same legal notice states that all petty cash vouchers should be signed by the purchaser and the executive secretary. This legal notice came into force on 1 January 2018.

Petty cash summary

- 10.6 The petty cash summaries do not include all necessary details, namely account numbers and petty cash voucher reference numbers. This lack of information makes it difficult to identify which petty cash expenditure was included in the summaries.
- 10.7 We recommend the council includes all necessary information in the petty cash summaries to ensure no payments are omitted or double posted in the summaries and the council has a clear view of its petty cash expenditure.

Expired contracts

- 10.8 The council is utilising an expired contract agreement with Environmental Landscapes Consortium (upkeep of parks and gardens). The contract expired in 2008.
- 10.9 Furthermore we identified that the rental contract with Charles Vella for the library and clinic premises expired on 31 December 2016. We were not provided with the new agreement for the renting of the above premises. In addition, we also noted that the landlord is not providing the council with valid receipts in respect of paid rental.
- 10.10 We would like to remind the council that the extension of expired contracts is strictly prohibited according to memo 10/2013 issued by the Department. It also states that the council should start preparing for a new call for tenders ahead of the expiry date of existing contracts.

Contracts

- 10.11 We noted that in 2016 the council adjudicated the following tenders:

Tender number	Description	Supplier
KLC/T004/2015	Services for street/pavement sweeping, weeding and cleaning of soft areas, gardens and playing fields for the Kalkara local council	Saviour Mifsud
KLC/T005/2015	Service tender for the services of EU projects co-ordinator for 3 years programme at the Kalkara local council	Heritage Enterprise Consultancy Limited
KLC/T006/2015	Provision of services of a qualified accountant to the Kalkara local council	GMM and Associates Malta Limited
KLC/T006/2015	Provision of services of a qualified accountant to the Kalkara local council	Chris Pullicino

Up to the date of the audit, the council did not sign the above agreements.

- 10.12 It is essential for the council to make sure that all contracts which are entered into are signed by all the necessary parties thus ensuring that the contract is binding for both parties to the agreement. It also ensures that each party is aware of its rights and obligations under the agreement.

Asset insurance

- 10.13 Whilst reviewing the asset insurance policy, we noted the following exceptions:

	Sum insured €	Cost in records €
Buildings/furniture and fittings	26,000	22,020
Computer equipment	4,500	17,378
Office equipment	14,000	9,681
Plant and machinery	-	6,935
Total	44,500	56,014

10.14 May we recommend that council annually reviews the appropriateness of the insurance exposure as required by the Local Councils (Financial) Procedures, 1996.

10.15 Directive 3/17 and Legal Notice 269 of 2017 state that assets must be insured on the asset value as included in the financial statements. The council should not insure any 'community assets'. This notice has an effective date of 1 January 2018.

Use of mobile phone

10.16 In our previous management letter we emphasised that the council was paying the executive secretary's mobile phone expenditure. During the current year the situation remained unchanged. No reimbursement claim is made.

10.17 May we remind the council that Local Council's Procedures and memo 21/2013 have established guidelines on the use of mobile phones by the council. The council is required to obtain a new contract in the name of the council and purchase a new mobile number.

Reimbursement

10.18 During the audit it was established that council is still giving approximately €20 per week to the IPSL workers for fuel. This contradicts the Local Council Procedures affirming that fuel expenses should be reimbursed on a mileage basis once being approved by the council in meetings.

10.19 On the other hand it was noted that expenditure incurred during the year included €55 for the taxi services rendered to the council.

10.20 Moreover, we would like to bring to the attention of the council the fact that the mayoress receives an annual allowance of €1,600 for all costs sustained in executing council related duties. May we strongly recommend that the council should observe memo 107/2010 which clearly states that the councillors and mayoress have no right to claim any other expenditure in relation to performing their council duties apart from the honorarium and the allowance.

Procurement

10.21 Our testing on cheque payments revealed instances where a purchase was not supported by a purchase order in accordance with the Procedures. We were not provided with any evidence of the relevant purchase orders during our fieldwork. Examples include:

Supplier	Details	€
Best Print	Calendar printing	400.00
Eco Pure Limited	Drinking water for offices	237.00
TCTC	Robotica course	1,200.00
Smart Office Supplies Limited	Council stationery	366.58
Bonnici Press	Easter leaflets	493.50
Charlo Grech	2 invoices for patching works	1,781.00
Ghaqda Muzikali San Guzepp	Band for Kalkara day 2016	950.00
Duncan Brincat	Drapp tal-bandiera	88.00

- 10.22 In accordance with the Local Councils (Financial) Procedures, 1996 the council should raise purchase orders for all purchases of more than €23.29. Furthermore, the council should obtain at least one signed quotation for purchases not exceeding €1,165 and at least three quotations for all purchases in excess of this amount up to €4,658.

Payment approval

- 10.23 Whilst performing the test on cheque payments we noted instances when cheques were issued prior to being approved by the council. Examples include:

Supplier	Cheque no.	Cheque date	Approval date	€
Resource Support & Services Limited	6504	31.07.2017	29.08.2017	225.77
Darren Spiteri	6406	24.04.2017	23.05.2017	25.00
Eco Pure Limited	6590	23.11.2017	30.11.2017	237.00
ELC	6549	13.10.2017	24.10.2017	3,105.80
TCTC	6526	12.09.2017	26.09.2017	1,200.00
Smart Office Supplies Limited	6543	13.10.2017	24.10.2017	366.58
Nexos Street Lighting	6378	12.04.2017	25.04.2017	2,820.41
Charlo Grech	6384	12.04.2017	25.04.2017	1,781.00

- 10.24 We reiterate our recommendation to the council that cheque payments must be approved by the council in meeting prior to issuing cheques. This procedure minimises the risk of unapproved purchases or uncertified work.

Expenditure for locality day

- 10.25 During the audit we noted that the council spent €3,738.81 on locality day activities. May we remind the council that memo 8/2011 specifically states that the cost of the council's locality day should not surpass the higher of €3,500 or 0.5% of the annual Government allocation (equivalent to €1,244).
- 10.26 We strongly recommend that the council carefully budgets the locality activity and ensures that expenses do not exceed the thresholds specified in the memo.
- 10.27 During our audit fieldwork we were not provided with purchase orders, quotations, tax invoices, fiscal or VAT receipts in respect of the below listed services acquired during the locality day, namely:

Details	Supplier	€	Note
Ghaqda Muzikali San Guzepp	Musical services	950.00	(a), (c)
D Xquisite Pasticceria	Refreshments	1,330.45	(a), (b)
D Xquisite Pasticceria	Refreshments	59.00	(a)
Frans Stivala	Extra hours Kalkara Day	205.77	(a), (c)
Horace Enterprises Limited	17 plaques	542.88	(a)

- (a) The council did not raise a purchase order.
(b) The council did not obtain three quotations.
(c) The council did not provide to us tax invoices/ VAT receipts.

- 10.28 We reiterate our recommendation that the council should raise purchase orders for all purchases of more than €23.29 and the council should obtain at least one signed quotation for purchases not exceeding €1,165 and at least three quotations for all purchases in excess of this amount up to €4,658. Furthermore in accordance with the Local Councils (Financial) Procedures, 1996 all purchases made by the council must be supported by a tax invoice/fiscal receipt.

Rental of properties

- 10.29 During the audit we noted that the rental expenditure was understated by €625. Whilst reviewing the nominal ledger we also noted that the council failed to account for the prepayment of the clinic and library rent for January 2017. No audit adjustment was proposed to this respect.
- 10.30 We recommend that the council accounts for the expenditure in the correct accounting period based on the accrual concept.

11 Receivables

LES receivables

- 11.1 The Loqus report 622 stated that LES receivables pertaining to the pooling period up to 31 August 2011 amount to €62,734.76. LES debtors as at year end in the financial statements amount to €82,777.22. When compared to the amount stated in the books of account this resulted into a difference of €20,042.46. We did not propose an audit adjustment to this respect.
- 11.2 We reiterate our recommendation that the council investigates this significant difference and adjusts the LES receivables at the reporting date to reflect all adjudicated contraventions not yet paid once a satisfactory explanation is received.

Overdue receivables

- 11.3 During our audit fieldwork we noted that receivables from Maltacom plc (now Go plc) amounting to €1,237.86 and from Water Services Corporation amounting to €647.58 have been outstanding for more than five years. However, the above stated receivables are provided in full. We have obtained the debtor confirmation letter from Maltacom plc stating that the latter does not have any outstanding payments.
- 11.4 Furthermore we noted the following overdue receivables for which no provision was made in the books of account:

Debtor	€	Note
LESA	31.45	(a)
Gozo regional committee	93.14	
South regional committee	135.11	(b)
South East regional committee	84.55	
	<u>344.25</u>	

- (a) We received a confirmation letter from LESA not agreeing to the overdue amount.
- (b) We received a confirmation letter from South regional committee stating that the outstanding balance should be €27.86 and not €135.11.

- 11.5 We would like to recommend once again that the council should pursue these debtors by sending reminders for the long overdue amounts and establish whether the amounts recorded in the council's books of account are correct. Otherwise if council still believes that amounts are unrecoverable, the former should evaluate the possibility of writing them off in the books of account after obtaining approval in meeting.

Credit balances in debtors' list

- 11.6 The council's debtors' list includes the following credit balances:

Creditor	€
Central regional committee	49.08
North regional committee	75.73
	<u>124.81</u>

- 11.7 We recommend that the council presents debit balances separately from creditors as other debtors in the financial statements.
- 11.8 Further to the above, the council should investigate all credit balances in the debtors' list as these could indicate payments allocated to the wrong debtor account, invoices not recorded or overpayments.

Accrued income and grants

- 11.9 The council's accrued income last year included the below amounts:

	€
Kalkara Boat House	2,500
Uniking	20,620
Payroll refund	1,175
UIF MEPA Scheme	7,974
Difference from books of account	60
	<u>32,329</u>

- 11.10 In our previous management letter we mentioned that no supporting documentation was provided for the accrued income of the Kalkara Boat House, Uniking and UIF MEPA Scheme. During the year under review the council has reversed the above amounts against various accounts. The below accounts were affected by the reversal:

	€
Deferred income (JE01/17)	9,321
Deferred income (JE02/17)	240
Executive secretary salary (JE03/17)	1,388
Supplementary Government income (JE03/17)	502
General income (JE03/17)	2,609
Street lighting (JE03/17)	6,460
Community services (JE03/17)	4,952
Urban improvements – other grants (JE03/17)	6,676
Accumulated depreciation on construction (JE03/17)	181
	<u>32,329</u>

- 11.11 To date of the management letter the council did not provide any supporting documentation and valid explanations as to why the above amounts were taken to these accounts. It was also noted that the council did not approve this reversal during meeting.

- 11.12 We recommend that the council obtains approval during council meetings as required by the Procedures and ensures that all journal entries are understood.
- 11.13 We also noted that the list of accrued income includes €227.63 for permits not deposited in the bank account.
- 11.14 We recommend the council includes any payments received for permits and not deposited as cash in hand and not accrued income.

Prepayments

- 11.15 During the year under review it was noted that the prepayment for the rent of public convenience has been omitted from the list of prepayments. This has resulted in an understatement of €300. No audit adjustment has been proposed to this respect.
- 11.16 We recommend that the council makes appropriate provisions for prepayments to reflect the expenditure in the correct accounting period based on the accrual concept.

12 Bank and cash

List of unpresented cheques

- 12.1 During audit fieldwork we noted that the council included cheque 6548 of €593.99 in the bank reconciliation. We identified that this cheque was returned by the supplier to the council during the year under review. Upon further investigation we established that the council erroneously issued two cheques for the same invoice and the supplier identified this error and returned to the council second cheque. We did not propose an audit adjustment to this respect.
- 12.2 May we remind the council that bank reconciliations should be prepared on a regular basis thus identifying and investigating differences promptly.

13 Payables

Trade payables' reconciliation

- 13.1 According to the council's creditors' list as at 31 December 2017, trade payables amount to €182,785.68. The balance disclosed in the trial balance as trade payables amount to €168,610.06, that is a difference of €14,175.62. The council was unable to reconcile the above-mentioned difference.
- 13.2 We recommend that the council reconciles the creditors' list with the creditors' control account. According to the Local Councils (Financial) Procedures, 1996, records and ledgers should be reconciled at least monthly.

Supplier statements

- 13.3 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.

- 13.4 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

- 13.5 A number of exceptions were identified in our testing of creditors balances:

- (a) We noted that the creditor balance of Char Construction was overstated by €950.
- (b) The creditor balance of Anglu Grech was overstated by €1,243.99.
- (c) The creditor balance of Smart Technologies was overstated by €141.80.

- 13.6 We reiterate our recommendation that the council should reconcile creditors' balances on a regular basis. We refer to Procedures and circular 3/2018 which state that councils should obtain monthly statements in order to reconcile balances with the accounts.

Confirmation of trade creditors

- 13.7 As part of our audit procedures we circularised confirmation letters to selected suppliers. We noted the following:

Supplier	Amount in council's books of account €	Amount in confirmation reply €	Difference €
Saviour Mifsud	101,394.25	83,708.59	17,685.66
Alex Fenech (note a)	22,319.93	13,281.10	9,038.83

- (a) Whilst reviewing creditor transaction history we noted that during the current year the council posted four invoices in relation to 2012 and 2013 with a total amount of €13,281.10. Upon enquiry, we found that the above invoices were erroneously omitted by the council. In prior years the council failed to provide a supplier statement and no reply was sent to us confirming the creditor balance.

To date of the management letter the council did not provide a reconciliation and explanation for the above differences.

- 13.8 We remind the council that circular 3/2018 states that the council should reconcile creditors' balances on a regular basis, thus identifying and investigating any differences as soon as possible.

Debit balances in creditors' list

- 13.9 The council's creditors' list at the end of the year includes debit balances amounting to €403.55 which have arisen in the current year and €520.55 which have arisen in 2016. Details of the debit balances are presented below:

Debtor	€
B. Grima & Sons Ltd	386.15
Kenneth Hardware Store	17.40
	<u>403.55</u>
Greenlines Environmental	127.44
Johan Aquilina	300.27
Kenneth Hardware Store	57.14
Merlin Library	35.70
	<u>520.55</u>

- 13.10 We recommend that the council investigates all debit balances in the creditors' list since they may arise from overpayments or omitted invoices. In addition, these balances should also be disclosed separately with other receivables rather than set off against trade creditors.

Long-outstanding creditors

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

Creditor	€
Amabile Galea	17.70
Catering Contractors	300.00
Claudio Catania	300.00
Quick	300.00
General Distributors Ltd	41.06
GDL Trading Services Ltd	28.82
Gino Chairs and Tables	123.90
Grezzju Azzopardi	80.00
MDC Exports Ltd	111.65
M-Gas Sound Company	80.00
Photocity	236.00
PM Home Affairs	100.00
Perit Alan Saliba (note 13.12)	1,002.53
Savelec Co Ltd	100.01
Super 1 Radio	130.56
Vella Emmanuel	50.00
Walter Barbara Photography	245.00
Saviour Mifsud	31,937.04
	<u>35,184.27</u>

- 13.12 The council's creditors' list includes a long outstanding balance of €1,002.53 due to Perit Alan Saliba. During the audit fieldwork the council could not provide us with outstanding invoices in this respect. Upon enquiry, the secretary explained that the council has not obtained services from the said supplier.

- 13.13 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.

Outstanding invoices

- 13.14 Whilst reviewing the supplier activity it was noted that the council is making supplier payments on account and not on specific invoices. In this respect we were unable to identify specific long-outstanding invoices. However we noted that some balances have been brought forward from the previous year.
- 13.15 We reiterate our recommendation in last year's management letter stating that the council should issue payments against specific invoices. In this way the council will be able to reconcile creditor balances and identify any differences on time. Payments should be allocated to the specific invoices in order to identify any misallocation immediately.

Accrued expenditure

- 13.16 Our testing on accruals revealed that the council's provision for library services was overstated by €654. It was further noted that the council has passed an accrual for services provided from July to September 2017. However, on receipt of the invoice the council failed to reverse the accrual posted. No audit adjustment has been proposed to this respect.
- 13.17 We also noted that the accrual for the nurse services is overstated by €366.25. It was noted that the council has passed an accrual for January to April 2017. This was not reversed upon receipt of the invoice. No audit adjustment has been proposed to this respect.
- 13.18 The council has passed an accrual for MITA services of €1,511.96 which will be deducted from the 2018 allocation. This should not have been accrued for as the deductions from Government allocation related to 2018.
- 13.19 The council has accrued for the council lunch held in January 2018 for €420. This should not have been accrued for. We also noted that during the year under review the council has recorded another €240 for the Christmas lunch held on 23 January 2017. By passing the accrual the council has accounted for two Christmas lunches in 2017.
- 13.20 The council has also accrued for WasteServ tipping fees of €7,614.32. No breakdown was provided for the above amount. When comparing the supplier transaction history to the creditors and accruals accounts we noted that the council failed to record an invoice for July and the invoices for November and December. These invoices should have been recorded when received and not left in accruals. Furthermore, we still encountered a difference of €533.08 for which no explanation was obtained.

14 Grant accounting**Deferred income brought forward**

- 14.1 During the performance of our audit the council provided us with the deferred income workings. In 2015 the council did not have any workings and supporting documentation for the deferred income recognised in the financial statements. The council failed to provide us with information and supporting documentation about the grants listed in the deferred income schedule.
- 14.2 In 2016 the council passed a prior year adjustment of €27,311 to deferred income against retained earnings. We were not provided with any supporting explanations and documentation regarding this adjustment.

- 14.3 We have also mentioned that in previous management letters the predecessor auditor pointed out that the deferred income was being recognised under the capital approach. In this case the prior year adjustment passed in 2016 by the council was incorrect and should not have been passed through retained earnings.
- 14.4 During the year under review the council has passed another prior year adjustment against deferred income of €4,476. The council did not provide any supporting documentation and explanations. Furthermore, as mentioned in our previous management letter the prior year adjustment passed in 2016 was incorrect thus on the same basis this prior year adjustment is incorrect.
- 14.5 We reiterate our recommendation from our previous management letter to analyse all past grant agreements and prior year management letters to ensure that grants are treated under the income approach as laid down in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. In accordance with this standard, grants are recognised as income on a systematic and rational basis over the useful life of assets, that is, in accordance with the annual depreciation charge.
- 14.6 In view of the above we were unable to perform audit procedures with respect to deferred income.

15 Electronic site

Uploading of meeting minutes and schedules of payments on website

- 15.1 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. Audited financial statements and management letter for 2016 were uploaded late on the council website.
 - ii. Meeting minutes 1-17, 4-17, 6-17, 7-17, 8-17 and 10-17 were not uploaded on the website within the required time frame.
 - iii. Schedules of payments 4-17, 6-17, 7-17, 8-17 were not uploaded on the electronic site of local councils within three working days from their approval.
 - iv. Schedule of payments number 3-17 was still not uploaded at the time of the audit.
- 15.2 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 on the electronic site of local councils within three days of approval in council meeting.

Quarterly financial reports

- 15.3 It came to our attention that to date of the management letter the quarterly financial reports for January to December 2017 were not approved by the council.
- 15.4 We reiterate our recommendation that the council should present the quarterly report within two weeks after the end of each fiscal quarter in line with the Local Councils (Financial) Procedures.

16 Meetings**Binding of minutes**

- 16.1 We observed that the minutes of the council are not hard bound at the end of each financial period or legislature.
- 16.2 We recommend that, at the end of each council's financial year, the executive secretary arranges for the previous year's minutes to be bound as further reference will be required from time to time in accordance with the Local Councils (Office) Procedures, 1996. This bound copy should be given due importance since it serves as the only permanent, unchangeable record of all council meetings and decisions taken.

Numbering of minutes

- 16.3 We noted that the minutes of the council do not always follow sequential numbering.
- 16.4 This contravenes the requirements of memo 84/2011, which states the executive secretary of the council should assign every meeting a unique and distinct reference number in sequence even in cases where a quorum is not reached or the meeting is continued on another day.

Length of meetings

- 16.5 During our audit we were unable to establish the length of each meeting. This is because the minutes do not state the time the meeting ended.
- 16.6 We have noted that council meetings take place at four o'clock in the afternoon. 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 noticed that most councillors attend most meetings.
- 16.7 We suggest that the council includes the time the meeting was ended to ensure that meetings do not exceed three hours and complying with memo 68/2009 and section 43(3) of the Act.

17 Business plan

- 17.1 We have again noted that the council failed to prepare the business plan for 2018 - 2020 in accordance with the Local Councils (Financial) Procedures.
- 17.2 We reiterate our recommendation from our previous management letter stating that the executive secretary should prepare and present the business plan to the council for its consideration. The business plan must be reviewed as often as necessary, but at least once every year prior to the budgeting process to evaluate the council's performance and adjust the business plan as appropriate. The executive secretary must forward a copy of the business plan to the Minister by the fifteenth day of November of each year and make the final draft by the end of December.

18 Budget

- 18.1 During the audit we noted that the council failed to approve the budget within the stipulated time frame. According to the executive secretary the 2018 budget was only approved in an informal meeting. The above is in contravention to article 56 of Local Councils Act, 1993.

- 18.2 We recommend that the council prepares a budget for approval by the council not later than 15 February of each year. It is important that the council approves the budget early at the start of the year for proper financial planning and to prioritise expenditure.

19 Liquidity position

- 19.1 It was again noted that the council has closed off 2017 with a negative cash liquidity position. Current liabilities were €167,797 more than the current assets as at year end. This reveals that the council will find difficulty in meeting its current obligations as they fall due in the coming year.

Financial Situation Indicator

- 19.2 At the end of the financial year under review the council's Financial Situation Indicator (FSI) was negative. This is taken based on the minimum positive balance of ten per cent of the annual Government allocation.
- 19.3 The Local Council (Financial) Regulations, binds the council to maintain a positive balance of ten per cent from the annual Government allocation. If below this, the executive secretary must explain the actions to be taken to remedy the situation.

20 Schedules of payments

- 20.1 During audit fieldwork we noted that cheque numbers 6280, 6287, 6294, 6310, 6345, 6365, 6449, 6548 and 6572 were omitted from the schedules of payments. Upon enquiry we were informed that the omitted cheques were cancelled and erroneously not listed in the schedules of payments.
- 20.2 On the other hand we identified that cheque number 6500 was listed in schedule of payments 9-17 issued to the community working scheme for €143.48 but upon further investigation we found that the cheque was cancelled. The cancellation was not indicated on the schedule of payments.
- 20.3 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 council's approval. We recommend that the schedules of payments are reviewed for accuracy and jointly signed by the mayor and the executive secretary to serve as evidence that these have been duly approved by the council. We also recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedule of payments.

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 Elaine Caruana and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

