

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

23rd April 2018

Dear Sir,



## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

During our audit for the year ended 31 December 2017, 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. Previous Management letter**

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

The Council did not prepare the fixed assets register (refer to note 2.1).

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

The Council has still not tagged the fixed assets (refer to note 2.2).

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

We regret to note that the Council did not account for the annual release of €291 of the grant as income during the current year (refer to note 2.3).

#### **1.4 Depreciation**

We are pleased to note that the Council has provided us with monthly depreciation workings of fixed assets using the reducing balance method. Following testing performed, it was noted that depreciation charge for the year is overstated by €4,514 (refer to note 2.4).

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

During 2017, there was a partial settlement of the amount receivable from Green MT of €2,000. An audit adjustment was proposed to reduce the amount of provision with such an amount as at year-end.

Also, a receivable amount of €2,010 has not yet been recovered from Green MT (refer to note 2.5).

#### **1.6 Amount receivable from Water Services Corporation**

During the audit of the current year, an audit adjustment was proposed and passed to write off the amount receivable from Water Services Corporation of €2,600. (refer to note 2.6).

### **1.7 Accrued income – Opening balances**

As in the previous year, the Council did not provide us with workings and supporting documentation for the amount of €15,231 representing opening accrued income (refer to note 2.7).

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

We regret to note that as in the previous year, income recognized in the profit and loss account in 2017 relating to tipping fees was understated by €6,450 (refer to note 2.8).

### **1.9 Accrued income – Special projects**

We are pleased to note that unclaimed funds from the Southern Regional Committee regarding special projects were correctly included as accrued income as at year-end. However, an audit adjustment was proposed and passed in order to reverse accrued income relating to special projects which were not yet performed by the Local Council (refer to note 2.9).

### **1.10 Deferred income – Opening balances**

The opening balance of deferred income is correct, as all the workings and supporting documentation were provided and a prior year adjustment was passed in the audit of the previous financial year.

### **1.11 Bank reconciliations**

We are pleased to note that the Council has prepared monthly bank reconciliations for all the bank accounts during the year.

In addition, the list of unpresented cheques as at year-end did not include stale cheques.

### **1.12 Trade payables' list**

We are pleased to note that the total as per trade payables' list provided is in agreement with the balance as per accounts as at year-end.

### **1.13 Creditors – reconciliations**

Similar to the previous year, the Council did not perform creditors reconciliations for all creditors (refer to note 2.11).

### **1.14 Creditors – unreconciled differences**

We regret to note that as in the previous year, there were unreconciled differences while testing supplier balances as at 31 December 2017 (refer to note 2.12).

### **1.15 Other payables – Progett Piroteknika**

We are pleased to note that the amount of €4,222 payable to the Xaghra Local Council was settled during the year under review.

### **1.16 Amounts due to Regional Committees**

An amount of €1,099 was still payable to Regional Committees as at 31 December 2017 (refer to note 2.13).

### **1.17 Rent payable**

We regret to note that the Council did not perform an updated rent agreement with the Department for Local Government for the rent of the Local Council premises (refer to note 2.14).

### **1.18 Income**

As in the previous year, there were certain instances whereby income was not correctly classified (refer to note 2.15).

### **1.19 Expenditure**

We regret to note that during the year under review, there was an expense which was posted in the wrong account (refer to note 2.16).

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

We are pleased to note that the depreciation charge for the year was included in the budget.

However, it was again noted that the budget included different segregation of expenses than those presented in the financial statements (refer to note 2.17).

### **1.21 Presentation of financial statements**

We are pleased to note that the financial statements which were provided by the Local Council were in accordance with Local Councils (Financial) Procedures, 1996, and included the quantitative disclosures required by IFRS 7.

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

### **2.1 Fixed assets register**

Similarly to the previous year, the Council did not provide us with a fixed asset register. Local Councils Procedures require Local Councils to maintain a fixed asset register in order to have a record of all fixed assets held by the Council.

We reiterate that the Council should start preparing a fixed assets register that includes the following details: Description of the assets; Date of purchase; Cost; Supplier details; Asset tag code; Depreciation method; Location of the asset.

### **2.2 Tagging of fixed assets**

The Council's assets have not 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. This recommendation is in line with the above-mentioned recommendation to prepare and continuously monitor a fixed assets register. Proper tagging facilitates traceability to the fixed assets register.



### 2.3 Fixed assets – AED project

The Council did not recognize income relating to the AED project grant during the current year under review. The amount of unrecognized income in accordance with the respective depreciation charge for the year on such a fixed asset is €291. This was included in the summary of unadjusted errors (refer to note 2.21).

We recommend that the Council recognizes income emanating from grants related to assets on a systematic basis over the useful life of such assets.

### 2.4 Depreciation

We noted that the depreciation charge in the financial statements is misstated by €4,514 as per working below:

Fixed Asset	Depreciation as per financial statements	Depreciation as per audit calculation	Difference
	€	€	€
Office Furniture & Fittings	1,638	1,583	55
Plant and machinery	10	9	1
Office & computer equipment	1,943	2,032	(89)
Motor vehicles	276	252	24
Urban improvements (Street furniture)	3,734	2,815	919
Construction works	79,445	75,841	3,604
<b>Total</b>	<b>87,046</b>	<b>82,532</b>	<b>4,514</b>

Audit adjustment AA 07/17 was proposed, approved and passed in this respect (refer to note 2.19). We recommend that the Council correctly classifies fixed assets in order to avoid the depreciation charge being misstated.

### 2.5 Amount receivable from Green MT

During the year, an amount of €2,000 was received from Green MT. The Council did not reduce the year-end provision on the overall receivable balance by such an amount. Therefore, we proposed an audit adjustment (AA 02/17), which was approved and passed (refer to note 2.19).

In line with the above, the receivable balance from Green MT was reduced to €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.

We reiterate our recommendation to investigate whether such amount is still recoverable. We recommend that such a balance is written off if there are no prospects of recoverability.

### 2.6 Amount receivable from Water Services Corporation

As reported in the previous year's management letter, the receivable balance of €2,600 was made up of an invoice which Water Services Corporation never confirmed. The Executive Secretary advised that such an amount should be written off on grounds that it was no longer recoverable.

In this respect, audit adjustments AA 04/17 and AA 05/17 were proposed in order to write off such an amount receivable and decrease the provision for bad debts respectively. Such adjustments were approved and passed by the Local Council (refer to note 2.19).

## 2.7 Accrued income – Opening balances

Similarly to the previous year, the Local Council failed to provide us with workings and supporting documentation for the amount of €15,231 representing opening accrued income. This was not reversed during the year. No adjustment was proposed as we did not have any information. This amount is not material for audit purposes. This was included in the summary of unadjusted errors (refer to note 2.21).

We recommend that the Local Council investigates the nature of such a balance and prepares supporting workings and documentation so that appropriate action may be taken.

## 2.8 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 were understated by €6,450. Audit adjustment AA 01/17 was proposed, approved and passed accordingly (refer to note 2.19).

We recommend that all amounts relating to tipping fees which are funded by the Department for Local Government in each respective financial year are correctly recognized as income.

## 2.9 Accrued income – Special projects

We noted that an amount of €6,000 of unclaimed funds from the Southern Regional Committee relating to special projects which were not yet performed at the locality of Kirkop were still recognised as accrued income as at year end. Audit adjustment AA 03/17 was proposed in order to reverse such income given that the projects were not yet performed by the Local Council. This was approved and passed by the Council (refer to note 2.19).

We recommend that all funds relating to special projects which were unclaimed by the Local Council as at year-end are only recognized as income if the respective expenditure incurred on the project/s is accounted for in line with the matching concept of accounting.

## 2.10 Deferred income – Measure 313 and Measure 323

During the audit of the current financial year, the Executive Secretary advised that unutilised funds relating to government grants provided for measure 313 and measure 323 were claimed back in 2018 by ARPA. As at 31 December 2017, such funds amounting to €1,554 (measure 313) and €25,295 (measure 323) were saved under BOV bank accounts 40019294702 and 40019316910 respectively.

In light of the above, it was deemed appropriate to reverse such deferred income amounting to €26,849 as at year-end. This was proposed by audit adjustment AA 06/17, which was approved and passed by the Local Council (refer to note 2.19).

## 2.11 Creditors – reconciliations

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

Supplier	Annual turnover	Year-end balance
Nexos Lighting Technologies	€2,507	€1,563
Med Developers Designers & Cons Ltd	€5,465	€531
GO	€2,011	€116
Mr Raymond Attard	€30,703	€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.

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.

## 2.12 Creditors – unreconciled differences

While testing supplier balances, it transpired that there is an unreconciled difference with respect to the below supplier:

Supplier	Balance as per Local Council	Balance as per supplier	Unreconciled difference
Wasteserv Malta Ltd	€13,183.73	€12,180.89	€1,002.84

The unreconciled difference denoted above relates to an over-statement of invoices issued by the supplier in the accounts of the Local Council as at year-end.

We recommend that an adjustment is passed to eliminate such differences before the accounts are approved for the audit. The extrapolated difference of €1,833 was included in the unadjusted errors list (refer to note 2.21).

## 2.13 Amounts due to Regional Committees

The debtors' list included a credit balance of €1,099 payable to Regional Committees. Given that such an amount was included in the debtors' list, reclassification RECL A/17 (refer to note 2.20) was proposed in order to correctly classify such an amount as a liability. This was approved and passed by the Council.

The Council did not provide us with a breakdown of such a balance. The Executive Secretary advised that such amounts have been outstanding for more than eight years and the prospect of such a balance being settled is clearly in doubt.

Given that such amounts have been outstanding for more than eight 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.

## 2.14 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.

In light of the fact that no updated contract is available, we recommend that the Council has an updated contract in place as soon as possible.

## 2.15 Income

We noted that income relating to funds received from the Local Councils Association for the collection of funds from the Local Enforcement System amounting to €5,601 was erroneously classified as 'LES Commissions' in the unaudited financial statements. An audit reclassification (RECL C/17) was proposed, approved and passed by the Local Council to recognize such an amount as 'Other Govt income' (refer to note 2.20). Similarly, it was

noted that income relating to 10% administration fee payable to the Kirkop Local Council on contraventions paid amounting to €2,063 was erroneously classified as 'Contraventions' in the financial statements. Audit reclassification RECL D/17 was proposed, approved and passed by the Local Council to recognize such an amount as 'LES commissions' (refer to note 2.20).

We recommend that income is classified in the appropriate account before the accounts are approved for the audit.

#### **2.16 Expenditure**

Expenditure relating to movement in provision for LES debtors amounting to €291 was incorrectly inputted as 'Contraventions'. An audit reclassification (RECL B/17) was proposed, approved and passed in this respect (refer to note 2.20).

We recommend that it is ensured that expenses are accounted for in the correct expense account before the accounts are approved for the audit.

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

As in the previous year, the budget included different segregation of expenses than those presented in the financial statements, hence comparison could not be performed adequately. We reiterate that the budget is prepared using the same items of expenses as those in the financial statements.

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

#### **2.18 Payroll**

A difference amounting to €262 was noted when comparing the wages and salaries as per FS7 to the amounts as per FS5s. Given that the amount is not material, no further testing was deemed necessary for audit purposes.

We recommend that the Council performs a full reconciliation of the amounts as per FS5s to the amount as per FS7 as at year end.

In addition, there was a minor over-accrual of the performance bonus for the year and a minor understatement of wages and salaries for the year amounting to €111 and €102 respectively. These were included in the summary of unadjusted errors (refer to note 2.21).

## 2.19 Accounting function

The unaudited financial statements showed a surplus of €84,945 which after our proposed audit adjustments as per below, changed to a surplus of €91,907. 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 results and state of affairs. Refer to audit adjustments list below:

No.	Nominal code	Description	Management letter point	Statement of Comprehensive Income	Statement of Financial Position
				Dr (+) / Cr (-) €	Dr (+) / Cr (-) €
1	0241	Accrued Income			6,450
	0002	Supplementary Govt. Income		(6,450)	
		<b>Being increase in other supplementary government income (tipping fees) as per direction issued by the DLG</b>	<b>2.8</b>		
2	1106	Provision for doubtful debts			2,000
	3411	Provision for bad debts		(2,000)	
		<b>Being decrease in provision for bad debts for the year</b>	<b>2.5</b>		
3	0015	Other Govt. income		6,000	
	0241	Accrued Income			(6,000)
		<b>Being reversal of accrued income relating to funds not yet claimed from regional committee re special projects</b>	<b>2.9</b>		
4	0200	Debtors Control Account			(2,600)
	8100	Bad Debt Write Off		2,600	
		<b>Being write off of amount receivable from Water Services Corporation</b>	<b>2.6</b>		
5	1106	Provision for doubtful debts			2,600
	3411	Provision for bad debts		(2,600)	
		<b>Being decrease in provision on amount receivable from Water Services Corporation following write off as per AA 04/17</b>	<b>2.6</b>		
6	4101	ROAD RESURFACING (SFNDS)			26,849
	4201B	Other creditors			(26,849)
		<b>Being unutilised grant to be transferred to ARPA during 2018</b>	<b>2.10</b>		
7	8032	Acc. Dep.-Office Furniture			55
	8037	Acc. Dep.-Plant & Machinery			1
	8036	Acc. Dep.-Office Equipment			(89)
	8038	Accum. Dep.-Motor Vehicles			24
	8035	Acc. Dep.-Urban Improvement			919
	8031	Accum. Dep.- Construction			3,604
	8002	Dep. Exp.-Office Furniture		(55)	
	8007	Dep. Exp.-Plant & Machinery		(1)	
	8006	Dep. Exp.-Office Equipment		89	
	8008	Dep. Exp.- Motor Vehicles		(24)	
	8005	Dep. Exp.-Urban Improvement		(919)	
	8001	Dep. Expense-Construction		(3,604)	
		<b>Being over-statement of depreciation charge for the year</b>	<b>2.4</b>		



## 2.20 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 (-)	
					€		€
A	0200	Debtors Control Account				1,099	
	0	Credit balances in debtors' list					(1,099)
		<b>Being reclassification of credit balances in debtors' list</b>	<b>2.13</b>				
B	0036	Contraventions		291			
	3699	Provision LES Debtors			(291)		
		<b>Being reclassification of movement in provision for LES debtors</b>	<b>2.16</b>				
C	0039	LES Commissions		5,601			
	0015	Other Govt income			(5,601)		
		<b>Being reclassification of income received from AKL (government entity)</b>	<b>2.15</b>				
D	0036	Contraventions		2,063			
	0039	LES Commissions			(2,063)		
		<b>Being reclassification of LES commissions received</b>	<b>2.15</b>				

## 2.21 Unadjusted errors

As in the previous year, 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.

Dr	Purchase ledger control	€1,833
Cr	Administration and other expenses	€1,833

*Being extrapolated error in trade payables balance as at year end (Management letter point 2.12)*

Dr	Office equipment (AED)	€291
Cr	Other government income	€291

*Being release of funding provided by Southern Regional Committee for the purchase of the AED (Management letter point 2.3)*

Dr	Accrual	€111
Cr	Performance bonus	€111

*Being over accrual of performance bonus for the year (Management letter point 2.18)*

Dr	Wages and salaries	€102
Cr	Bank	€102

*Being minor understatement of wages and salaries for the year (Management letter point 2.18)*

Dr	Other Govt income	€15,231
Cr	Accrued income	€15,231

*Being reversal of accrued income brought forward from previous years (Management letter point 2.7)*

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