

15
The Mayor
Kirkop Local Council
31
Triq San Benedittu
Kirkop KKP 1243
Malta

2nd May 2017

Dear Sir,

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

During our audit for the year ended 31 December 2016, 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 Duration of Committee meetings

We are pleased to note that in cases whereby meetings exceeded three hours, consensus was obtained from all present in line with memo 68/2009 and section 43(3) of the Local Councils Act.

1.2 Attendance of Committee meetings

We are pleased to note that there were no members who failed to attend four meetings or in the aggregate more than one third of the meetings called within a period of six months.

1.3 Fixed assets register

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

1.4 Tagging of fixed assets

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

1.5 Fixed assets – AED project

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

1.6 Depreciation

We regret to note that we were unable to properly test the depreciation charge for the year (refer to note 2.4).

1.7 Amount receivable from Green MT

During 2016, 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 €4,010 has not yet been recovered from Green MT (refer to note 2.5).

1.8 Amount receivable from Water Services Corporation

During the year under review, no adjustments were deemed necessary to the balance receivable and the respective provision as at year-end. However, we regret to note that the receivable amount of €2,600 as per previous year management letter has not yet been recovered from Water Services Corporation (refer to note 2.6).

1.9 LES debtors

We are pleased to note that there was no over/under provision with respect to the balance receivable relating to LES debtors.

1.10 Amount receivable from Asfaltar Limited

We are pleased to note that during 2016 all year-end receivable balances were deemed to be recoverable. Hence, no adjustments were proposed in this regard.

1.11 Accrued income – Eco wardens

During 2016, no audit adjustments were deemed necessary as all funding made available by the regional committee were accounted for accordingly.

1.12 Accrued income – CCTV cameras

During 2016, no audit adjustments were deemed necessary as income emanating from grants related to assets was recognized on a systematic basis over the useful life of such assets.

1.13 Accrued income – Opening balances

Apart from the balance mentioned below, we are pleased to note that opening accrued income was correctly reversed during the year under review.

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).

1.14 Accrued income – Tipping fees

We regret to note that income recognized in the profit and loss account in 2016 relating to tipping fees were understated by €6,339 during the year under review (refer to note 2.8).

1.15 Deferred income – Opening balances

We are pleased to note that the Council has provided us with all the workings and supporting documentation with respect to deferred income. A prior year adjustment was passed in order to correct the deferred income balance in accordance to the workings provided (refer to point 2.10).

1.16 Deferred income – Measure 313 and Measure 323

We are pleased to note that funding which was made available by the Paying Agency within the Ministry for Resources and Rural Affairs in relation to such projects was correctly classified as deferred income during the year under review.

1.17 Presentation of financial statements

We regret to note that the financial statements which were provided by the Local Council were not in accordance with Local Councils (Financial) Procedures, 1996, and did not include the quantitative disclosures required by IFRS 7 (refer to note 2.21).

1.18 Bank reconciliations

The Council did not prepare bank reconciliations on a monthly basis (refer to note 2.11).

In addition, the list of unrepresented cheques as at year-end included a stale cheque. An audit adjustment was proposed in this respect.

1.19 Petty cash expenditure

We are pleased to note that all petty cash expenditure selected for testing was supported by petty cash voucher in accordance with circular 32/2016 having effective date 19th October 2016 issued by the Department of Local Government.

1.20 Creditors – unauthorized suppliers

We are pleased to note that there were no unauthorized suppliers as at year-end.

1.21 Creditors – reconciliations

We regret to note that out of the eight suppliers which were selected for testing during the year under review, no reconciliations were presented for five suppliers (refer to note 2.13).

1.22 Creditors – unreconciled differences

We regret to note that there were unreconciled differences while testing supplier balances as at 31 December 2016 (refer to note 2.14).

1.23 Amounts due to Regional Committees

An amount of €1,099 was still payable to Regional Committees as at 31 December 2016 (refer to note 2.16).

1.24 Contingent liabilities

We are pleased to note that all existing contingent liabilities as at year-end were properly disclosed in the financial statements provided by the Council.

1.25 Three-year plan

We are pleased to note that the Council prepared a three-year budget plan during the year under review.

1.26 Rent payable

We regret to note that the Council did perform an updated rent agreement with the Department for Local Government for the rent of the Local Council premises (refer to note 2.17).

1.27 Income

We are pleased to note that during 2016 the Council managed to record a profit in accordance with Section 4c of the Local Council (Financial) Regulations, 1993.

In addition, it was noted that there were certain instances whereby income was not correctly classified (refer to note 2.18).

1.28 Expenditure

We regret to note that during the year under review, there were certain expenses which were posted in the wrong accounts (refer to note 2.19).

1.29 Health insurance

The Council provided its employees with a health insurance cover. This was allowed in the year under review, that the Council registered a surplus.

1.30 Wages reconciliation

We are pleased to note that wages and salaries for the year were classified in the correct accounts during the year under review.

In addition, we are also pleased to note that the amount of unused leave which was carried forward to the following year did not exceed 48 hours per employee.

1.31 Employment contracts

We are pleased to note that all salary increments were approved through a motion passed during Council meetings as per collective agreement for government employees for the years 2011 – 2016.

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.

Our audit report is qualified in this respect.

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 2.24).

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 were not provided with the depreciation workings of Property, Plant and Equipment. As a result, we were not able to properly test the depreciation charge.

The Local Councils (Financial) Procedures, 1996 require Councils to use the month-end facility on the Sage accounting package to calculate depreciation on fixed assets. Moreover, depreciation should be calculated on a monthly basis using the reducing balance method in line with the respective Procedures and Memos.

Our audit report is qualified in this respect.

2.5 Amount receivable from Green MT

During the year under review, 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 01/16) which was approved and passed (refer to note 2.22).

In line with the above, the receivable balance from Green MT was reduced to €4,010 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 remaining balance of €2,600 is made up of an invoice which Water Services Corporation have not yet confirmed to date. The Executive Secretary provided us with correspondence which confirms that the invoice is valid, and thus the balance should be receivable. There have been no receipts during the year under review.

We reiterate our recommendation to determine whether the remaining balance of €2,600 is recoverable and write it off if there are no prospects of recoverability.

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. Amount is not material for audit purposes.

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 €6,339. Audit adjustment AA 04/16 was proposed, approved and passed accordingly (refer to note 2.22).

2.9 Accrued income – Special projects

We noted that a portion of unclaimed funds from the Southern Regional Committee regarding special projects were erroneously included in the debtors' control account as at year-end. The amount of €1,611 was reclassified to accrued income through reclassification RECL I/16 (refer to note 2.23). Such an amount comprises of the following:

Type of funding	Amount
25% cash distribution	€368
10% administration fee	€7
Traffic signs	€1,236

Such a reclassification was approved and passed by the Local Council.

We recommend that all funds relating to special projects which were unclaimed by the Local Council as at year-end are classified as accrued income accordingly.

2.10 Deferred income – Opening balances

During the year under review, the Local Council has reviewed the workings of government grants provided from 2009 to date. This was done retrospectively, affecting the release to the income statement for 2014 and 2015. Misstatements in the deferred income balance as at 31 December 2014 and as at 31 December 2015 were misstated as follows:

Deferred income as at 31.12.2014 - as per audited financial statements	€ 1,080,317
Deferred income as at 31.12.2014 - as per workings	€ 1,234,670
Difference	€ 154,353

Deferred income as at 31.12.2015 - as per audited financial statements	€ 1,174,057
Deferred income as at 31.12.2015 - as per audited financial statements (revised as per above adjustment)	€ 1,328,411
Deferred income as at 31.12.2015 - as per workings	€ 1,209,718
Difference	-€ 118,693

As per the above, the overall misstatement in opening deferred income and retained earnings as at 1 January 2016 was €35,661. This contributed to the below prior year adjustment:

No.	N/C	Description	Statement of Comprehensive Income	Statement of Financial Position
			Dr (+) / Cr (-) €	Dr (+) / Cr (-) €
1	4101	ROAD RESURFACING (SFNDS)		(35,661)
	0400	Profit & Loss Account (2014)	154,354	
	0400	Profit & Loss Account (2015)	(118,693)	
		Being misstatement in opening balance of deferred income		

In furtherance to the above, it transpired that the income which was released to the Statement of Profit or Loss and Other Comprehensive Income in accordance with the useful life of the asset (Construction works 10%) during 2016 was misstated by €89,558, Audit adjustment AA 03/16 was proposed, approved and passed in this respect (refer to note 2.22).

Following the above adjustments, audit reclassification RECL E/16 was proposed to reclassify deferred income between long term and short term, as appropriate. This was approved and passed by the Local Council (refer to note 2.23).

2.11 Bank reconciliations

The Council does not perform reconciliations of bank accounts on a monthly basis. We reiterate our recommendation to adopt a strict policy of performing monthly reconciliations for all bank accounts and investigate any differences found.

In addition, whilst testing year-end reconciliations of bank balances provided by the Council, it was noted that the list of unpresented cheques includes a stale cheque (Ref: 1186) amounting to €46.71 dated 24/09/2015. This cheque related to a refund given by the Local Council of a deposit which was paid by stall owners for the 2015 Irkottafest. The Executive Secretary advised that such an amount may be claimed in the future. Audit adjustment AA 02/16 was proposed to transfer such amount to 'other creditors' (refer to note 2.22).

We reiterate our recommendation that all stale cheques which are included in the list of reconciling items are reversed and re-issued.

2.12 Trade payables' list

The trade payables total as per accounts and the total of the trade payables list are not agreeing by €863. The difference relates to a payment of supplier invoice (ref 001721) which was made on 23/12/2016. Such a payment was not presented by the supplier as at year-end.

The accountant advised that this is an error of the accounting system which cannot be rectified. Given that the balance as per accounts is correct, no audit adjustment was proposed. We recommend that the total as per trade payables' list is reconciled in full with the balance as per accounts as at year-end.

2.13 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
Ms Glorianne Grima	€2,409.34	€Nil
Island Insurance Brokers	€3,077.24	€Nil
Nexos Lighting Technology	€8,447.86	€Nil

Mr Raymond Attard

€31,384.49

€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 company whilst also ensuring that the supplier balances reflected in the accounts are accurate.

2.14 Creditors – unreconciled differences

While testing supplier balances, it transpired that there are unreconciled differences with respect to the below suppliers:

Supplier		Balance as per Local Council	Balance as per supplier	Unreconciled difference
Environment Landscapes Consortium Ltd.		€277.08	€554.16	€277.08
Wasteserv Malta Ltd		€14,336.50	€14,436.09	€99.59
ARMS Ltd		€266.69	€347.69	€81.00

All the unreconciled differences denoted above relate to invoices issued by the suppliers which were not posted by 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 €789.27 was included in the unadjusted errors list (refer to note 2.24).

In furtherance to the above, audit reclassification RECL F/16 was passed as invoice issued by Asfaltar Ltd on 30.06.2016 amounting to €4,286 was erroneously posted as accruals (refer to note 2.23).

2.15 Other payables – Progett Piroteknika

While testing the schedule of fixed assets as at year-end, it transpired that the closing net book value included a payable balance of €4,222. The Executive Secretary advised that this related to a joint project with various Local Councils. Funding was provided by the Department for Local Government with respect to such a project. Such funding was kept in a bank account in the name of Kirkop Local Council. After the termination of such a project all remaining funds were split and transferred to the respective Local Councils.

The amount denoted above relates to the balance of funds payable to the Xaghra Local Council. The Executive Secretary advised that such an amount was paid by cheque by the Kirkop Local Council on 31 October 2013. Confirmation was obtained that such a cheque was never presented by the Xaghra Local Council.

In line with the nature of such a balance, audit reclassification RECL C/16 was proposed, approved and passed accordingly (refer to note 2.23).

2.16 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/16 (refer to note 2.23) 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.

2.17 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.

2.18 Income

We noted that income relating to funds received from the Southern Regional Committee amounting to €5,212 was erroneously classified as 'General Income' in the unaudited financial statements. An audit reclassification (RECL B/16) was proposed, approved and passed by the Local Council (refer to note 2.23). Similarly, it was noted that income relating to funds raised from the 2016 Irkottafest amounting to €5,604 was erroneously classified as funds relating to 'Social Events' in the financial statements. Audit reclassification RECL H/16 was proposed, approved and passed by the Local Council (refer to note 2.23).

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

2.19 Expenditure

We noted that certain expenses were posted in the wrong accounts.

Expenses relating to repairs and maintenance amounting to €32 were incorrectly inputted as miscellaneous motor expenses. An audit reclassification (RECL D/16) was proposed, approved and passed in this respect (refer to note 2.23).

In addition, expenses relating to 'Hospitality costs' amounting to €382 were erroneously posted as 'Cultural Activities'. In this respect, audit reclassification RECL G/16 was proposed, approved and passed (refer to note 2.23).

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

2.20 Comparison of budget and actual expenditure

While comparing the actual results to the budget, we noted that depreciation amounting to €96,174 was not included in the budget.

Moreover, it could be noted that the budget included different segregation of expenses than those presented in the financial statements, hence comparison could not be performed adequately. We recommend 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.

2.21 Presentation of financial statements

We reiterate that the presentation of the Council's financial statements diverges from the requirement with respect to quantitative and qualitative disclosures required by IFRS 7, Financial Instruments: Disclosures. These include information of the Council's aged debtors, classes of financial assets and financial liabilities, the maximum exposure to credit risk, the qualitative disclosure of liquidity risk, contractual maturities of financial liabilities, and categories of financial assets and liabilities. Our auditor report is qualified in this respect.

2.22 Accounting function

The unaudited financial statements showed a deficit of €36,115 which after our proposed audit adjustments as per below, changed to a surplus of €61,782. As reported in this letter and in the audit report, several factors also contributed to a Qualified report. 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	1106	Provision for doubtful debts			2,000
	3411	Provision for bad debts		(2,000)	
		Being decrease in provision for bad debts	2.5		
2	4201B	Other creditors			(47)
	5011	BOV 40011999869			47
		Being deposit on refund paid by stall owners for the Irkottafest - stale cheque	2.11		
3	0005	Grants		(89,558)	
	4101	ROAD RESURFACING (SFNDS)			89,558
		Being adjustment to correct the release of deferred income to P/L for the year	2.10		
4	0241	Accrued income			6,339
	0002	Supplementary Govt.Income		(6,339)	
		Being accrued income re tipping fees for 2016 not yet allocated to supplier (Wasteserv)	2.8		

2.23 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 Credit balances in debtors' list			1,099 (1,099)
		Being reclassification of credit balances in debtors' list	2.16		
B	0066 0024	General Income - Regjuni		5,212 (5,212)	
		Being reclassification of income received from Regional Committees	2.18		
C	7564 4201	Progett Piroteknika Amounts due to other councils			4,222 (4,222)
		Being reclassification of other payable balances	2.15		
D	7800 7304	Repairs and Renewals Miscellaneous Motor Expenses		32 (32)	
		Being reclassification of repairs and maintenance expenses	2.19		
E	4101 4102	ROAD RESURFACING (SFNDS) Deferred Income - Longterm			101,400 (101,400)
		Being reclassification of deferred income between short term and long term	2.10		
F	4100 4000	Accruals Account Creditors Control Account			4,286 (4,286)
		Being invoice issued by Asfaltar Ltd on 30.06.2016 erroneously posted as accruals	2.14		
G	3340 0023	Other Hospitality Costs Cultural activities		382 (382)	
		Being reclassification of other hospitality costs	2.19		
H	3360 0002	Social Events Supplementary Govt. Income		5,604 (5,604)	
		Being reclassification of income from Irkottafest	2.18		
I	0241 0200	Accrued income Debtors Control Account			1,611 (1,611)
		Being reclassification of funding provided by the Southern Regional Committee re special projects - unclaimed as at 31.12.2016	2.9		

2.24 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	Administration and other expenses	€789
Cr	Purchase ledger control	€789

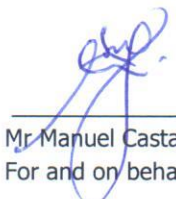
Being extrapolated error in trade payables balance as at year end (Management letter point 2.14)

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)

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.



Mr. Manuel Castagna
For and on behalf of Nexia BT