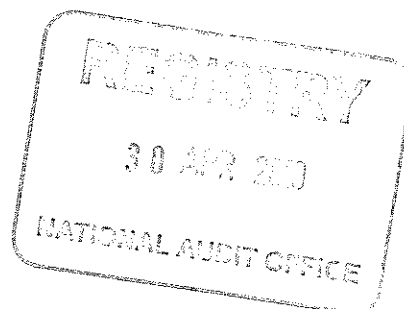




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The Mayor  
Kirkop Local Council  
31  
Triq San Benedittu  
Kirkop KKP 1243  
Malta

26th April 2019



Dear Sir,

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

During our audit for the year ended 31 December 2018, 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**

Since we were not provided with an up to date fixed assets register including all the workings, we could not verify the useful lives of the assets. Hence, we could not determine if the depreciation charge for the year is materially misstated (refer to note 2.4).

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

We regret to note that the 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**

We are pleased to note that as at the end of the current year under review, there were no balances receivable from Water Services Corporation. Hence, there were no recoverability issues in this regard.

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

We are pleased to note that during the year under review, balance of accrued income brought forward from previous years amounting to €15,231 was reversed.

### **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 2018 relating to tipping fees was not correct (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.

### **1.10 Deferred income – Measure 313 and Measure 323**

As part of audit procedures carried out, it was confirmed that funds amounting to €26,849 which were claimed by ARPA in the previous financial year were transferred during the year under review.

### **1.11 Creditors – reconciliations**

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

### **1.12 Creditors – unreconciled differences**

Following audit procedures carried out while testing supplier balances as at 31 December 2018, we are pleased to note that there were no unreconciled differences.

### **1.13 Amounts due to Regional Committees**

As in the previous year, the debtors' list included a credit balance of €1,099 which was still payable to Regional Committees as at 31 December 2018 (refer to note 2.12).

### **1.14 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 2.13).

### **1.15 Income**

As in the previous year, there were certain instances whereby income was not correctly classified (refer to note 2.14).

### **1.16 Expenditure**

We are pleased to note that during the year under review, all expense items were classified in the correct account.

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

We regret to note that during the year under review, there were instances whereby actual expenditure exceeded budgeted expenditure which resulted in material adverse variances (refer to note 2.17).

### **1.18 Payroll**

We regret to note that as part of audit procedures carried out for the year under review, differences arose while performing the wages reconciliation (refer to note 2.15).

## **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. Given that we had no documentation in relation to the useful lives of the assets, and thus we could not determine whether depreciation charge for the year is materially misstated, our audit report is being 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 2.19).

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 could not verify if the depreciation charge for the year was calculated using the straight-line method on a monthly basis as per directive 1/2017 issued by the Department for Local Government as we were not provided with an up to date fixed assets register, including all the workings.

In line with this directive issued by the Department for Local Government, following shift of accounting for grants in line with IAS 20 from the 'income approach' to the 'capital approach', a prior year adjustment was passed whereby grants received to fund the acquisition of fixed assets were credited directly against the fixed asset account and depreciation brought forward from previous years was reduced by the total amount of annual releases to the income statement from deferred income previously recognized. The depreciation charge for 2017 was restated to a negative amount due to the fact that the deferred income release in the previous year of €105,519 was higher than the depreciation charge on 'Construction works' of €75,814. This indicates that the capitalization of assets acquired from grants was not recognized under the correct asset category in the fixed assets schedule in previous years, hence the depreciation charge was not being calculated correctly. We could



not verify under which asset category the missing cost of assets subject to grants was included because we were not provided with an up to date fixed asset register including all the workings.

As outlined above, our opinion is qualified in this regard.

#### **2.5 Amount receivable from Green MT**

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

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 Provision for doubtful debts**

The movement in provision for doubtful debts for the year under review was misstated as it included an amount of €500 which represented bad debts written off. In this respect, audit reclassification RECL D/18 was proposed in order to separately classify bad debts written off of €500. This was approved and passed by the Local Council (refer to note 2.18).

We recommend that the Local Council appropriately classifies movements in provision for doubtful debts and bad debts written off in the income statement in line with the NAO's instructions and memo 59/2012.

#### **2.7 IFRS 9 – new adoption**

IFRS 9, which became effective for periods that begin on or after 1 January 2018, introduced 'an expected credit loss' model for the impairment of financial assets.

The Committee did not calculate and account for this 'expected credit loss'. The receivable balances of the Committee are composed of balances with government related entities. Given the low risk associated with such entities the default risk is considered to be insignificant and will not result into a material amount. Since effect is not material, the audit report is not qualified in this respect.

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

We noted that income recognized in the profit or loss account with respect to funds received from the Department for Local Government in relation to tipping fees charged by Wasteserv Malta Ltd was overstated by €83. In addition, as part of our testing it was also noted that expenses incurred in relation to waste disposal tipping fees were understated by €1,845. These were included in the summary of unadjusted errors (refer to note 2.19).

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

#### **2.9 Bank balances**

After reviewing the list of un-presented cheques, it transpired that there were stale cheques totalling €190. The Accountant advised that it is the Council's policy not to reverse stale cheques. These cheques were reclassified to creditors through RECL A/18. This reclassification was approved and passed by the Council (refer to note 2.18).

### 2.10 Accruals

During the audit of the current financial year, it was noted that the year-end accrual of rent payable of the Primary Healthcare Building amounting to €368 was erroneously classified as deferred income in the unaudited financial statements. In this regard, audit reclassification RECL B/18 was proposed, approved and passed by the Local Council (refer to note 2.18).

In addition, it was noted that the year-end accrual attributable to the water and electricity expense was understated by €100. No audit adjustment was proposed in this respect (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 seven suppliers no reconciliations were carried out. Reconciliations were not carried out for the following:

<b>Supplier</b>	<b>Annual turnover</b>	<b>Year-end balance</b>
Arms Ltd	€9,148	€2,713
Christopher Bezzina	€4,221	€256
Dimbros Ltd	€16,143	€Nil
Koperattiva Tabelli u Sinjali	€10,624	€221
MMS Installations	€5,593	€Nil
Raymond Attard	€24,756	€Nil
Premier Business Limited	€16,363	€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 Amounts due to Regional Committees

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

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

### 2.13 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.

**2.14 Income**

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

In furtherance to the above, it was also noted that deductions from annual Government income amounting to €1,141 and €120 representing services provided by MITA and WIFI services at the Local Council respectively, were erroneously included as part of expenditure for the year instead of being deducted from income. In this regard, audit reclassification RECL C/18 was proposed, approved and passed by the Local Council (refer to note 2.18).

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

**2.15 Wages reconciliation**

A difference of €102 arose between the salaries as per accounts and the amounts as per FSS forms, as shown in the wages reconciliation below:

	€
Gross Wages as per FS7	78,173
1/2 the total social security as per FS7	5,386
	<hr/>
Total wages for year as per FS7	83,559
	<hr/>
Gross Wages as per accounts	78,786
1/2 the total social security as per accounts	5,386
Movement in accrual	(511)
	<hr/>
Total as per accounts	83,661
	<hr/>
Difference	(102)

Since the difference is not material, an audit adjustment was not proposed (refer to note 2.19).

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

**2.16 Health insurance**

The Council has provided its employees with a health insurance cover irrespective of the fact that the Council registered a deficit during the year.

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



## 2.17 Comparison of budget and actual expenditure

We noted that there were the following material differences between budgets and actuals:

Nature	Budget (€)	Actual (€)	Difference (€)
Repairs and upkeep	5,740	23,744	(18,044)
Refuse collection	24,545	33,532	(8,987)
Electricity/Water	3,310	12,684	(9,374)

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 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	4201B	Other creditors			(190)
	5011	BOV 40011999869			190
		<b>Being reclassification of stale cheque</b>	<b>2.9</b>		
B	4103	Deferred Income			368
	4100	Accruals Account			(368)
		<b>Being reclassification of accrued rent payable</b>	<b>2.10</b>		
C	3110	IT Development Services		(1,261)	
	0001	Annual Govt. Income		1,261	
		<b>Being reclassification of deductions from annual government income</b>	<b>2.14</b>		
D	8100	Bad Debt Write Off		500	
	3999	Provision LES Debtors		(500)	
		<b>Being reclassification of receivable balances written off during the year under review</b>	<b>2.6</b>		

## 2.19 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	Other supplementary government income	€ 83
Cr	Accrued income	€ 83

*Being minor over statement of accrued income for the year in relation to tipping fees (Management letter point 2.8)*

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

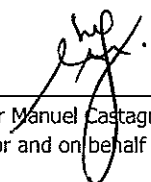
*Being release of funding provided by Southern Regional Committee for the purchase of the AED (Management letter point 2.3)*



Dr	Waste disposal – tipping fees	€1,845
Cr	Accruals	€1,845
<i>Being minor under statement of expenses incurred in relation to tipping fees (Management letter point 2.8)</i>		
Dr	Wages and salaries	€102
Cr	Bank	€102
<i>Being minor understatement of wages and salaries for the year (Management letter point 2.15)</i>		
Dr	Accrual	€100
Cr	Water and electricity	€100
<i>Being under accrual of water and electricity expense (Management letter point 2.10)</i>		

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