



**KUNSILL LOKALI KALKARA
KALKARA LOCAL COUNCIL**

Kalkara Local Council

1,2 Binja tas-Salvatur

Triq Luigi Pisani

Kalkara KKR 1330

19/06/2020

Grant Thornton

Fort Business Centre

Mriehel Bypass

B'Kara BKR 3000

RE: Audit- Financial Statements 31st December 2019

We write to you in relation to the management letter received in respect to the above captioned year. At the outset, allow us to point out that the Council has met to discuss the contents of clauses 2 and 3 in the management letter which are of great concern to the member of the Council. This has resulted yet again in a qualified opinion by the Auditors that they are unable to form an opinion on the financial statements which is untenable.

The Council has appointed a new accountant since year 2019 to carry out works and all necessary with regards accountancy and technical work needed.

With respect to the management letter please also allow us to reply in order of question raised;



1. Previous Management Letter

The matters in respect of previous year management letter will be tackled in detailed under their respective sections.

2. Audit Opinion.

The Council has improved its accounting system during 2019 and is aware of the discrepancies still pending from previous periods. As a fact from previous management letter the only salient material balance relates to LES debtors not being updated. We note that according to the directions given by DLG these should have been written off. Consequently, the effect of this adjustment is neutral on the retained earnings of the Local Council. The Council will take note to include this in its accounting system and will provide for the corresponding provision in the 2020 accounting system.

The Council is not aware that any other material balance result and hence would be happy not to have the auditors report a disclaimer of opinion based on past balances in subsequent years.

3. Liquidity position

Unfortunately the Local Council is aware that it is not meeting the financial targets imposed by DLG. The Local Council cannot make ends meet in view of the fact that the subvention only covers administration and contractual services. No capital expenditure is being approved and this is very worrying as the Council cannot keep up with the infrastructural needs of the locality. We are not committing to any new expenditure except for services which the Council is duty bound to provide by law. On the otherhand, as part of our plan to curb recurrent expenditure, the Council intends to find alternative premises for the library and the health centre to reduce the rent cost that is being incurred and also limit other costs such as professional services, community and hospitality.

4. Accounting adjustments passed in previous years The Local Council will go through the various adjustments passed by previous accountants in 2017 and 2016 in order to provide supporting documentation to the auditors. A meeting with will be scheduled with our accountants and the auditors before closing off 2020 books of accounts so that this matter will be rectified.



5. Opening Balances

The difference in opening balance of € 20 was adjusted for in 2019 as stated by the auditors.

6. Financial Statements

Presentation of financial statements

6.1 to 6.4 Auditors comments well noted.

Groupings / Specimen chart of accounts

6.5 to 6.8 In respect of grouping of expenses the Local Council will ensure that there is consistency over the years. During the year the new accountants have split up expenses to various accounts as per the specimen chart of accounts.

7. Fixed Assets

Fixed Assets Register

7.1 to 7.3. The Council has given instructions to the accountants Parker Randall Turner to compile a Fixed Assets Register as required.

Tagging of Fixed Assets

7.4 & 7.5. The tagging of Council assets will be done concurrently with the compiling of the FAR.

Depreciation

7.6 & 7.7. The Directive 1/2017 issued by the Local Government assumes that the Local has a fixed asset registry in place and that every asset bought was recorded. In view of the lack of a plant registry the Local Council could not work out the depreciation according to Directive 1/2017. In this respect the change to straight line method has been worked out based on the Fixed assets additions in the financial statements. This will be addressed when the fixed asset registry is complete.

7.8 & 7.9. We will ensure that Purchase Orders are issued and quotations are obtained in accordance with the Procurement Guidelines issued by DLG whenever fixed assets are procured.

Assets under construction

7.10 to 7.12. The Local Council will go through the prior year adjustments passed in 2017 in respect of assets under construction. However, the Local Council confirms that there are no assets under construction as at 31 December 2017 and 31 December 2018 and this matter will be rectified.

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Tel. No: 00356 2166 5500

Email: kalkara.lc@gov.mt

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Grants received in fixed assets schedule

7.13 to 7.14. The Local Council will go through the prior year adjustments passed in 2017 in respect of grants received.

8. Receivables

Pre-regional receivables

8.1 to 8.2 – The Local Council will adjust the amounts due from pending tribunal payments to agree to the Loqus system. The Local Council will identify the years to which these present and adjust accordingly. The adjustment should not effect the retained earnings of the Local Council. Any income from past fines received during the years 2011 to 2017 was recorded directly as income. Instead the receipts should have been deducted from the debtor balance with a corresponding decrease in the provision for bad debts recorded as income.

Overdue receivables

8.3 & 8.5 – The Local Council will review the long outstanding debtors, reconcile and pass the relevant adjustments and provisions.

Trade receivables

8.6 & 8.7 The Difference of € 647.58 found by the auditors on Water services balance will be investigated and adjusted.

Accrued Income

8.8 & 8.9 – The Council will investigate the accrued income of € 228 relating to balance prior to 2018.

9. Trade Creditors

Supplier Statements

9.1 & 9.2 The Council will request creditors statements ongoingly during the year. The Council did request creditors statements as at 31 December 2019 from it's main suppliers.



Confirmation of trade creditors

9.3 to 9.4. The Council will reconcile Pavia Hardware store balance creditors and account for the missing invoice of € 1,115.19

Alternatives on trade creditors

9.5 & 9.6. This Local Council will go through the creditors reconciliations and adjust accordingly.

Debit balances in creditors' list

9.7 & 9.8. The Local Council will reclassify any debit balance under creditors accordingly.

Long-outstanding creditors

9.9. & 9.10. The Council is aware of the long-term liabilities and of the liquidity problems. Unfortunately, long outstanding creditors will take longer to be repaid unless the annual government allocation is increased substantially.. From the list of creditors, the largest balances are owed to Saviour Mifsud (The current contractor on street sweeping and waste collection) and Waste Serve Malta which amount to € 134K out of € 137K respectively.

Outstanding invoices

9.11 & 9.12. The payments on account that the auditors identified in relation to creditors payments were paid to our long outstanding creditors Saviour Mifsud and Wasteserv Limited. All other creditors are paid on invoices.

Unrecorded liabilities

9.13 to 9.15. The Local Council will account for the invoices received after the accounts were issued in 2020.

Accruals

9.16 & 9.17. The date of the cheque for the payment of December 2019 FS 5 is 6 January 2020. To this effect the FSS & NI outstanding is correctly shown as an accrual.



10. Grant Accounting

The Council, given the lack of information from the previous accountants, has established the grants in accordance to additions in audited financial statements, when working the change in accounting policy on grant accounting in accordance to Directive 1/2017.

The grant schedule will be prepared in conjunction with the Fixed asset registry as explained in Note 7.

The Local Council will record the € 13,884.75 received in the accounts of 2020 after liaising with Ambjent Malta as recommended by the auditors.

11. Income

Government Income

11.1 & 11.2. The Council has noted the recommendations of the auditors and in 2020 will account income as proposed.

Supplementary Government Income

11.3 to 11.6. The Local Council has noted the recommendations of the auditors and in 2020 will account income as proposed.

General Income

11.7 & 11.8. The Local Council has noted the recommendations of the auditors and in 2020 will account income as proposed.

LES administration fee 11.9 & 11.10. The Local council will reconcile the Loqus report and account for the € 119 difference accordingly.

LES Invoices

11.11 & 11.12 The Local Council will submit invoices to debtors in time.

General Income



KUNSILL LOKALI KALKARA KALKARA LOCAL COUNCIL

11.13 to 11.16. The Council will adhere to the Procedure and deposit such custodial receipt at least twice weekly. Moreover, all receipts from permits will be recorded separately as recommended by the auditors for improve traceability.

Custodial receipts

11.17 & 11.18. Same as 11.13, the council will adhere to the Procedure and deposit such custodial receipts at least twice weekly.

12. Payroll

Reconciliation of wages between FS5s and books of accounts

12.1 & 12.2. The Council is aware of the difference between the FS 5 and FS 3 and FS 7 since the new accountants has noted an error in the calculation of wages. The wages in the financial statements have been reported correctly and the difference paid in 2020.

Mayor Honoraria / Councillor allowances

12.3 to 12.6. Action has already been taken and honoraria and allowances underpaid during the year under review have been paid to the previous Mayor accordingly.

Councillors' excuse letters

12.7 & 12.8. The Council will ensure that letters of excuse by Councillors are kept, filed and included in minutes. Furthermore, the Council will deduct from the allowance any unjustifiable absence in accordance to Circular 17/2016. The Council will implement a system of control over the attendance of Council meetings. This will include

- a) Informing all councillors on the date and time of the Council meetings
- b) Requesting attendance confirmation by councillors.
- c) Requesting a letter of excuse from councillors that will not attend the meeting.
- d) The letter of excuse will be considered for approval by the other councillors before the starting of the Council meeting.

Performance Bonuses

12.9 & 12.10. The Local Council has noted the auditors' recommendation and performances bonus will be recorded in a separate account in the nominal ledger.



Payment of overtime

12.11 & 12.12. The Council will implement a system whereas overtime is approved by both the Mayor and the executive secretary and payment will be effected to employees following official approval by the Council

13. Expenses

Petty cash expenditure

13.1 to 13.6 Effective from 1st July, the Council will employ the imprest system as recommended by the Auditors. Moreover, we will ensure that every petty cash expense is supported by a Petty Cash Voucher and an invoice or fiscal receipt.

Petty Cash Summary

13.7 & 13.10. The Council will ensure that all details are included in the petty cash summary prepared.

Rent agreement

13.11 & 13.12 The Council will ask the Land Registry to forward copies of the contracts.

Asset Insurance

13.13 to 13.16 - The Council will update the fixed assets register during 2020 and will then be in a position to determine the value of its assets. This will also be the basis to update its insurance policy to reflect the fair value of the Council assets.

Personal Accident Insurance

13.17 to 13.19. The Local Council will ensure that personal accident insurance will cover only the Maltese territory and will ensure that from 2020 only one insurance is obtained.

Health Insurance

13.20 & 13.21. The Local Council will update the health insurance with the current councillors.

Money Insurance

13.22 & 13.23 The Local Council will ensure that from 2020 only one insurance is obtained.

Use of Mobile Phones

13.24 & 13.25. The Council will follow Memo 21/2013 on the use and payments of mobile calls and obtain a new contract in the name of the Local Council.



KUNSILL LOKALI KALKARA KALKARA LOCAL COUNCIL

Reimbursement

13.26 to 13.28. The Local Council will ensure that reimbursements of fuel expenses to employees are based on reimbursements claims calculated on mileage basis and not on a pre-determined amounts as per current procedure.

Procurement procedures

13.29 to 13.32 The Council will obtain quotations as requested by the Local Council Financial Procedures. At times, due to the urgency of the situation the Council just orders from well known suppliers but we understand that quotations are important for better controls. We understand that the Local Council needs to update its internal control procedures for better controls.

Expired contracts

13.33 to 13.37. The Local Council will ensure that all contracts are signed. In respect of expired contracts the Local Council will issue tenders in view of the change in the online tendering process performed by the Department of Contracts.

Tenders exceeding budget amount

13.38 & 13.39. The Council is aware that the lowest offer on the tender exceeded the budget by € 40,980 but had to award the tender since the collection of household waste is an essential duty provided to the locality and is also an obligation on the Local Council.

Tendering procedures

13.40 to 13.44. The Local Council will ensure that all procedures detailed in the Procurement Guidelines 2017 issued by the Department of Local Government are followed.

Rent

13.45 & 13.46. The Local Council has accounted for IFRS 16 in the books of accounts after presenting the Trial balance to the auditors. A revised trial balance could be sent to the auditors. The workings on the IFRS 16 were forwarded to the auditors.

14. Electronic site

The Local Council will ensure that the audited accounts, management letter and its reply, quarterly management accounts, schedule of payments and minutes are all uploaded on the Local Council Website as per Memo 02/2014.

15. Meetings

15.1 to 15.2 The Local Council is hereby confirming that all minutes covering year 2019 are hard bound and were presented to the auditors.

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Length of meetings

15.3 to 15.7 Auditors comments noted and the Council will start to include the time every meeting ends and if a meeting exceeds 3 hours, it will either be continued on another date or obtain the required consensus.

16. Schedule of payments

The Local Council will ensure that Memos 10/2016 and 37/2011 are adhered to. The Local Council will ensure that all cheques payments are included in the schedule of payments, even the cheques that have been cancelled.

17. Business Plan

The Local Council will prepare a business plan for the period 2020-2022 as required by the Local Council (Financial) Procedures.

The Local Council suggests that from next year a closing meeting will be held in the presence of the accountants and the auditors before these are signed by the Local Council.

Please do not hesitate to contact the undersigned should you require any additional clarifications. As formerly stated, in line with the Councils' decision, we will be seeking to take action on the various issues noted by the Auditors together with the new accountant which require urgent actioning.

Yours faithfully,

Wayne Aquilina
Kalkara Mayor

Elaine Caruana
Exec.Sec