

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

Our ref: MB/bb/98424

Date: 22 May 2024

Dear Sir,



Financial statements for the year ended 31 December 2023

During the course of our audit for the year ended 31 December 2023, we have reviewed the accounting system and procedures operated by Kalkara Local Council (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 Liquidity position

We have again noted that the council has a negative liquidity position (refer to note 2.1).

1.2 Fixed asset register

The council failed to prepare a fixed asset register (refer to note 7.1).

1.3 Depreciation

Shortcomings identified in the depreciation workings did not reveal any material differences (refer to note 7.3).

1.4 Pre-regional receivables

We have again noted a shortcoming with respect to pre-regional receivables (refer to note 8.1).

1.5 Overdue receivables

We again noted that the debtors' list is still showing amounts which are long overdue (refer to note 8.3).

1.6 Confirmation of trade receivables

We again noted a discrepancy between a third-party confirmation and the debtors' list provided by the council (refer to notes 8.5).



1.7 Accrued income

We again noted shortcomings in accrued income (refer to note 8.8).

1.8 List of unrepresented cheques

We did not note any issues during the year for the unrepresented cheques.

1.9 Bank accounts

We again noted shortcomings in the council's list of bank accounts (refer to note 9.1).

1.10 Supplier statements

The council has again failed to obtain supplier statements and reconcile supplier balances (refer to note 10.1).

1.11 Long outstanding creditors

We again noted long outstanding creditors in the books of account (refer to note 10.3).

1.12 Alternatives on trade creditors

We again noted shortcomings on alternatives on trade creditors (refer to note 10.5).

1.13 Outstanding invoices

We noted that the cash payments of the council are not on a per invoice basis (refer to note 10.10).

1.14 Accruals

We again noted shortcomings in the accruals list (refer to note 10.12).

1.15 Income from organic waste

We did not identify any issues on income from organic waste.

1.16 Income from permits

The council rectified the issue noted on income from permits.

1.17 Performance bonuses

The council has again failed to disclose performance bonuses in a separate account (refer to note 5.1).

1.18 Reconciliation between FS7 and FS5s

We are please to note that the council has rectified the issue during the year under review.

1.19 Rent agreement

The council was able to provide rent contracts for all premises.



1.20 Allocation of expenses

We have again noted that the council failed to record expenses in the correct account (refer to note 6.1).

1.21 Overstated expenses

We again noted double posting of invoices in the councils' books of account (refer to note 10.6).

2 Liquidity position

Going concern

2.1 The council has a negative liquidity position of €188,266. This shows that the council is unable to meet its current expenditure or pay creditors. We also noted that the council is holding back until the next tranche of the allocation is received. Contractual payments are equivalent to the annual allocation and therefore the council will still be unable to pay its long-outstanding creditors.

2.2 We reiterate our recommendation from our previous management letters stating that the council should take immediate remedial action to improve the liquidity position. The council should try its utmost to curb recurring and capital expenditure falling in its functions, but without negatively impacting the long-term future of the locality.

2.3 We included an emphasis of matter paragraph in our auditor's report in the financial statements to highlight the existence of this material uncertainty regarding the council's ability to continue as a going concern.

3 Opening balances

3.1 Whilst testing opening balances we noted that the opening trial balance provided during the 2023 audit included balances of for the below income statements accounts:

Nominal account	€
Festa Citru – other income	1,516
Donation – various	3,400
Donation from film industries	2,700
Other donations	1,798
Total	9,414

Furthermore, the opening balance for the deferred income account amounted to zero which differed by €9,414 to the closing balance noted in the prior year audited financial statements. To this end we have proposed an audit adjustment to re-instate the above balances to agree to the 2022 audited financial statements. The council has included this adjustment in the final set of the financial statements.

3.2 The recommend that the council ensures that the books of account are properly updated, and that all audit adjustments proposed and accepted by the council are included before closing off the year end and accounted for in the correct account.



4 Revenue

Supplementary Government income

- 4.1 During 2023, the council received €1,800 from the Department for Local Government for Lejla Rnella. The council included this amount with other income. We have proposed an audit adjustment to reclassify the above with other government income. The council has amended the financial statements to include our audit adjustment.
- 4.2 We recommend that the council records income obtained from the Department through various schemes to be recorded under other Government income as appropriate, unless otherwise directed by the Department.

5 Payroll

Performance bonuses

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

Councillors' allowances

- 5.3 During our audit fieldwork we noted that the council has erroneously classified €2,021 as councillors' allowances instead of wages and salaries. We have proposed an audit reclassification to rectify this issue. The audited financial statements of the council reflect this reclassification.
- 5.4 We recommend that the council properly classifies accounting entries to the respective nominals to agree to the financial statements.

6 Expenses

Allocation of expenses

- 6.1 During our audit testing on expenditure, we noted that the council erroneously classified the amount of €3,362 pertaining to 'road and street cleaning', as 'cleaning and upkeeping of soft area. Furthermore, the council incorrectly classified the amount of €1,054 and 1,023 pertaining to 'bulky refuse' as 'refuse collection' and 'road and street cleaning' respectively.
- 6.2 Our testing also revealed that the council erroneously classified the amount of €3,374 pertaining to 'refuse collection' as bulky refuse' and the amount of €291 pertaining to 'road and street cleaning' as hire of transport. We have proposed audit reclassifications to reclassify the above amounts in the proper account. Our reclassifications were approved by the council and reflected in the audited financial statements.
- 6.3 Whilst reviewing the cultural events account, we noted that the council erroneously classified an amount of €1,545 pertaining to 'IT Services'. To this end we have proposed an audit adjustment to reclassify the amount. This has been reflected in the final set of financial statements.
- 6.4 We recommend that the council allocates expenditure to the appropriate accounts so that the expenses of the council are properly reported.



7 Fixed assets

Fixed asset register

7.1 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 (where applicable)
- Cost
- Depreciation rate
- Location of the asset
- Grants received

7.2 A fixed asset register 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 condition. Furthermore, the information contained above allows any disposals to be correctly accounted for.

Depreciation

7.3 In 2018 the council had to adopt a change in accounting estimate from reducing balance method to straight line method. When computing depreciation, the council worked out the depreciation from 2012 onwards using the straight-line method. The above was not in line with the Directive issued by Local Government nor in accordance with IAS 8 which states that a change in accounting estimate should be applied prospectively. We have computed the depreciation workings in accordance with the guidelines issued and IAS 8 and noted that all assets purchased prior to 2018 have been fully depreciated. To this end we suggest that the council compiles a fixed asset register with assets purchased from 2018 onwards and ensures that the cost and accumulated depreciation are properly accounted for.

7.4 May we remind the council that Directive 1/2017 specifies that the depreciation should be worked out prospectively. The Department of Local Government has issued guidelines with the steps to be addressed for the depreciation of councils which do not have a fixed asset register.

Additions in grants

7.5 Whilst reviewing the other Government income account we noted that in 2023 the council received an amount of €3,138 for 'Project Green'. The above receipt was erroneously taken to income for the year rather than capitalised as grants utilised in the 'property, plant and equipment' schedule. We have proposed an audit adjustment to record the amount with capital assets. The council has amended the financial statements to include our audit adjustment.

7.6 We recommend the council to allocate its capital expenditure to the appropriate accounts so that the assets of the council are properly reported.



8 Receivables

Pre-regional receivables

8.1 According to report 622 generated from Loqus system, tribunal pending payments as at 31 December 2023 amounted to €50,357. The council’s books of account include €52,039 receivable from LES debtors. The above results in a difference of €1,682. We did not propose an audit adjustment to account for LES debtors since it has no effect on the financial statements as LES debtors are carried at nil value following a provision for doubtful debts for the same amount.

8.2 We recommend that the council takes the matter up with Loqus to determine what the correct balance is and then considers whether an adjustment should be passed in the council’s books.

Overdue receivables

8.3 During our testing on receivables, we noted that the council’s debtors list still includes the following overdue receivables for which no provision was made in the books of account:

Debtor	€
Gozo Regional Committee	45.38
South Regional Committee	107.25
Wasteserv (Malta) Limited	2,284.80
	2,437.43

8.4 We recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings. Furthermore, the council should send continuous reminders/statements to its debtors to ensure that the council still has the right to collect the amounts due.

Confirmation of trade receivables

8.5 During our audit fieldwork we identified a difference between a third-party confirmation and the debtors’ list provided by the council, namely:

Debtor	Balance in books of account €	Balance confirmed by debtor €	Difference €
Wasteserv (Malta) Limited	2,284.80	-	2,284.80

8.6 Upon further investigation, we noted that the difference was rolled forward from previous year. It was further noted, that invoice 128 recorded in the Wasteserv statement was understated by €330. The council failed to provide a reconciliation for the remaining difference of €1,955.

8.7 We recommend the council to perform regular reconciliations with all debtors to promptly highlight the differences.

Accrued income

8.8 During the year of review, we noted that the council's accrued income related to Department of Local Government (DLG) and Port Regional Council are not reconciling as follows:

	Balance in books of account €	Balance confirmed €	Difference €
DLG (note 8.9)	10,724	21,448	(10,724)
Regjun Port Council (note 8.10)	4,641	12,233	(7,592)

8.9 Upon further enquiry, we noted that the council failed to recognise the full amount of accrued income receivable from the department for the 70% waste management allocation deducted in tranche 2 and 3 of the annual Government allocation. An amount of €10,724 was netted off from deferred income from the subvention given in advance by the Department. We have proposed an audit adjustment to this respect. Our proposed audit adjustment was accepted by the council and approved in the audit financial statements.

8.10 During the audit we noted that the council did not accrue for the income receivable for Festa Rnella. The Port Regional Council had already approved the funds in 2023. To this end we have proposed an audit adjustment to increase accrued income and the respective income account by €7,592. Furthermore, the adjustment has been approved by the council.

8.11 We remind the council that income should always be recorded in the period to which it relates based on the accruals concept.

Prepayments

8.12 During our testing on prepayments' we noted that the council did not account for the prepaid insurance coverage amounting to €194. An audit adjustment was proposed to increase the expense and prepayments as appropriate. This was accepted by the council and corrected in the final set of financial statements.

8.13 It was further noted that the council has over-accounted for the prepayment of 'rent' amounting to €307. An audit adjustment was proposed to decrease the expense and prepayments as appropriate. This was accepted by the council and corrected in the final set of financial statements.

8.14 The council should make adequate provisions for accrued expenditure so that it is recorded in the correct accounting period. We recommend that the council evaluates all prepayments for reasonableness before closing off the books of account.



9 Cash and cash equivalents

Bank Accounts

- 9.1 The bank reply received from Bank of Valletta includes current accounts 16505534023 and 50010708054. Upon enquiry to the council, we were informed that both accounts are not being used by the council and thus removed from their books of account.
- 9.2 We recommend that the council monitors its bank accounts and maintains a bank statement for each account.

10 Payables

Supplier statements

- 10.1 The council did not obtain monthly statements from all its suppliers. Circulars issued from time to time by the Department for Local Government specifically state that the council should obtain monthly statements from all suppliers.
- 10.2 We again recommend that the council obtains monthly statements from all suppliers to ensure proper recording of creditors in the council's ledgers. This will highlight any discrepancies between amounts recorded in the ledger and amounts in suppliers' statements.

Long-outstanding creditors

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

Creditor	€
Adrian Mifsud (Boom Consultancy)	177.00
AID Ltd	849.25
Aidan Drakard	200.00
Alca Ceramics Ltd	120.00
Allied Newspapers	77.53
Antonio Piscopo	135.77
APE Centre	870.43
ARMS	333.54
Audio Systems Malta	619.50
Bank of Valletta	4.50
Bestprint Ltd	393.75
Bezzina Refuse Collection	6,229.56
Charlo Brigulio (Agrichecktural Design & Mgt)	1,027.60
CC Solutions Ltd	1,180.00
Carmelo Brigulio	1,027.60
Cleansing	118.00
Holma Store	549.82
Infine Fusions Technologies Ltd	1,534.00
Kenneth Hardware Store	278.49
Kian Bugeja	180.00
KHS Mega Store	13.50
Koperattiva Tabelli u Sinjali	3,965.29



Creditor (continued)	€
Lands Authority	1,900.00
LESA	3,365.59
Melita Cable	44.45
Merchandise Malta	200.00
N. Cordina Marketing	106.20
Kunsill Regionali Port	14,440.92
Promo Signs	531.00
Ryan Drainage Works	236.00
Savelec Co Ltd	647.60
Saviour Mifsud	135,613.23
Smart Office Supplies	442.19
	<hr/> 177,412.31 <hr/>

- 10.4 We again noted that the council is unable to pay its creditors owing to the insufficient cash available. Supplier payments are made only upon the receipt of the allocation.

Alternative procedures on trade creditors

- 10.5 Upon performing alternative procedures on the amount due to Pavia Hardware Store by analysing subsequent payments and outstanding invoices, we noted that in 2023 the council recorded 5 invoices dated in 2022 amounting to €282.29. Upon enquiry to the council, we noted that the supplier failed to provide the invoices in a timely manner and invoices were instead reflected in 2023.
- 10.6 During trade payables testing we found that the council recorded duplicate invoices amounting to €669.84 to two creditors. Audit adjustments were proposed to decrease the expense and trade payable as appropriate. This was accepted by the council and corrected in the final set of financial statements.
- 10.7 We emphasise the importance in obtaining monthly statements from all suppliers to ensure proper recording of creditors in the council's ledger. Furthermore, the council should emphasise the importance of receiving invoices in a timely manner to ensure proper allocation.

Confirmation of creditors

- 10.8 When comparing the balance due to ARMS Limited in the books of account with the supplier's statement, we identified an unreconciled difference of €314.68. The council failed to provide a reconciliation of the difference identified.
- 10.9 The above situation highlights the importance of reconciling creditors' balances to suppliers' statements. The council should expense the invoices received from the supplier and not expense cost based on its calculations.

Outstanding invoices

- 10.10 We have again noted that the council is making supplier payments on account and not on specific invoices.
- 10.11 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



to identify any misallocation immediately.

Accruals

- 10.12 During accruals' testing we noted that the council did not accrue for the executive secretary performance bonus amounting to €1,517 and for an employee bonus amounting to €418. An audit adjustment was proposed to increase the expense and accruals as appropriate. This was accepted by the council and corrected in the final set of financial statements.
- 10.13 Furthermore, the list of accruals omitted an amount of €927 for the December Cleaning and Upkeeping of Soft Area. We have proposed an audit adjustment to rectify the issue. The council has included this adjustment in the final set of financial statements.
- 10.14 The council should make adequate provisions for accrued expenditure so that it is recorded in the correct accounting period. We recommend that the council evaluates all accruals for reasonableness before closing off the books of account.

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 Mr Etienne Scicluna and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Grant Thornton", with a horizontal line underneath.