

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

Our ref: PC/mf/110425

30 April 2025

Dear Sir,

Financial statements for the year ended 31 December 2024

During the course of our audit for the year ended 31 December 2024, 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 Opening balances

The council's books of account still include income statement accounts in its opening balance trial balance (refer to note 3.1).

1.3 Supplementary Government income

We did not identify any issues on Supplementary Government income.

1.4 Performance bonuses

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

1.5 Councillors' allowances

We are pleased to note that the councillors' allowances were properly recorded in the books of account.





1.6 **Allocation of expenses**

The council has rectified the issue during the year under review.

1.7 **Fixed asset register**

The council failed to prepare a fixed asset register (refer to note 6.1).

1.8 **Depreciation**

Shortcomings identified in the depreciation workings did not reveal any material differences (refer to note 6.3).

1.9 **Additions to grants**

The council did not have any additional grants capitalised during the current year.

1.10 **Pre-regional receivables**

We have again noted a shortcoming with respect to pre-regional receivables (refer to note 7.1).

1.11 **Overdue receivables**

During the current year the council resolved to write-off the long-overdue balance (refer to note 7.3).

1.12 **Confirmation of trade receivables**

We again noted a discrepancy between a third-party confirmation and the debtors' list provided by the council (refer to note 7.3).

1.13 **Accrued income**

We did not identify any deficiencies in accrued income.

1.14 **Prepayments**

The list of prepayments was properly compiled during the current year.

1.15 **Bank accounts**

We recommend the council to follow up with the bank to ensure closure of unused bank accounts (refer to note 8.1).

1.16 **Supplier statements**

The council has again failed to obtain supplier statements and reconcile supplier balances (refer to note 9.1).

1.17 **Long-outstanding creditors**

The creditors list still includes long-outstanding creditors (refer to note 9.3).



1.18 **Alternative procedures on trade creditors**

We again identified differences between the council’s books of account and outstanding invoices provided by the council (refer to note 9.7).

1.19 **Confirmation of creditors**

We have again identified differences between a creditor confirmation letter and the books of account (refer to note 9.5).

1.20 **Outstanding invoices**

We again noted that the council is still making supplier payments on account and not on specific invoices (refer to note 9.9).

1.21 **Accruals**

We again identified shortcomings in accruals (refer to note 9.11).

2 Liquidity position

Going concern

2.1 The council has a negative liquidity position of €40,796. 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 2024 audit included balances for the below income statements account:

Nominal account	€
Other supplementary Government income	10,724

Furthermore, we noted that the council has reversed the amounts included in the above account to deferred income to agree to the prior year signed 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

- 4.1 During audit fieldwork we identified a number of transactions passed in the books of account which consisted of grouped transactions. We were not provided with an adequate breakdown or explanation of each figure, for example the other income and bank account.
- 4.2 Transactions in the books of account should be posted individually. In particular all journal entries should be substantiated by a detailed narrative explaining the purpose of the journal entry.

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.

6 Fixed assets

Fixed asset register

- 6.1 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
- 6.2 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

- 6.3 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.

- 6.4 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.

Property, plant and equipment roll-forward analysis

- 6.5 Whilst reviewing the property, plant and equipment accounts we noted that the council passed reclassification between the grants and depreciation accounts as follows:

Nominal account	€
Acc. dep – urban improvements	28,581
Urban improvements grants	(28,581)
Acc. dep – office equipment	1,212
Grant – camera Regjun Port	(1,212)
Acc. dep – computer equipment	721
Live streaming grant	(721)
Total	-

- 6.6 The council failed to provide an explanation for the reclassifications made. We recommend that any reclassification passed by the council are properly documented and supported.

7 Receivables

Pre-regional receivables

- 7.1 According to report 622 generated from Loqus system, tribunal pending payments as at 31 December 2024 amounted to €48,816. The council’s books of account include €52,039 receivable from LES debtors. The above results in a difference of €3,223. 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.
- 7.2 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.



Confirmation of trade receivables

7.3 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

7.4 Upon further investigation, we noted that the difference was rolled forward from previous years. The council further confirmed with Wasteserv that the amount is no longer due hence it was resolved to write-off the balance. We have proposed an audit adjustment to write-off the balance. The council approved our audit adjustment, and it was reflected in the financial statements.

Accrued income

7.5 Whilst reviewing accrued income we noted that the council has an agreement in place for the reimbursement of granny services. The council failed to accrue for an amount of €322 for services provided in December 2024. To this end, we have proposed an audit adjustment, and the above was properly reflected in the audited financial statements.

7.6 We remind the council that the books of account should reflect the actual amounts received or still to be received and avoid any omission. This would ensure that the books of account show a true view of the situation.

8 Cash and cash equivalents

Bank Accounts

8.1 The bank reply received from Bank of Valletta includes current accounts 16505534023 and 16505534049. 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. Furthermore, the council also provided a letter sent to the bank requesting closure of both accounts.

8.2 We recommend that the council follows up with the bank and ensures that both accounts are closed.

9 Payables

Supplier statements

9.1 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.



- 9.2 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

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

Creditor	€
AID Ltd	849.25
APE Centre	1,074.79
ARMS	1,333.93
Audio Systems Malta	283.20
Bezzina Refuse Collection	927.14
Galea Cleaning Solutions	3,894.00
Holma Store	252.33
Image Systems	285.39
KHS Mega Store	2,173.33
Koperattiva Tabelli u Sinjali	4,239.77
Lands Authority	500.00
LESA	3,435.10
Lino Micallef	177.00
Promo Signs	531.00
Saviour Mifsud	37,983.76
	<u>57,939.99</u>

- 9.4 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.

Confirmation of creditors

- 9.5 When comparing the balance due to Regjun Port in the books of account with the supplier's statement, we identified an unreconciled difference of €7,867. We further noted that an amount of €4,154 was recorded in accruals in the council's books of account. The council failed to provide a reconciliation for the remaining difference of €3,713.

- 9.6 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.

Alternative procedures on trade creditor

- 9.7 Upon performing alternative procedures on the amount due to Saviour Mifsud amounting to €37,894 by analysing subsequent payments and outstanding invoices, we noted that the outstanding invoices kept by the council amount to €32,372. The council could not provide a reconciliation for the remaining difference of €5,522.

- 9.8 We emphasise the importance in obtaining monthly statement from all suppliers to ensure proper recording of creditors in the council's ledger. This will highlight any discrepancies between amounts recorded in the ledger and amounts in the suppliers' statements.

Outstanding invoices

- 9.9 We have again noted that the council is making supplier payments on account and not on specific invoices.
- 9.10 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

- 9.11 During accruals' testing we noted that the council did not accrue for the 5% additional performance bonuses due to the executive secretary amounting to €1,549. 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.
- 9.12 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,

