

**The Members**  
**Hal Safi Local Council**  
40, 'Dar il-Kunsill',  
School Street,  
Hal Safi  
Malta

16 May 2024

Dear Members of the Hal Safi Local Council,

We have completed our audit of the financial statements of Hal Safi Local Council for the year ended 31 December 2023. Our audit is primarily based on verifying balances in the financial statements to ensure that they are free from material error and comply with relevant legislation.

Our aim is to offer guidance to the Council such that it would be in a better position to improve its internal controls, enhance its book-keeping function and consolidate its overall governance. We would like to point out that, in accordance with the Local Councils Act (CAP 63) 1993 and the Local Council (Financial Regulation) 1993, it is the responsibility of the Executive Secretary of the Local Council to ensure that a proper system of internal control is in operation to ensure that the proper accounting, recording and handling of financial operations are in place to safeguard the Local Council's assets at all times. For this reason, this document is of particular relevance to the Local Council's Executive Secretary.

The matters dealt with in this report, came to our notice during the conduct of our 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 systems of control but that of obtaining an understanding of the controls which are in place, on the basis of which, we design our audit procedures. For this reason, this report cannot be relied upon to necessarily disclose other defalcations or other irregularities which may exist, had a specific and more extensive assignment for this specific purpose been commissioned.

Our engagement obliges us to distribute copies of this report to the Council Members. Consequently, this report, in part or in full, may not be distributed, used or quoted except for the scope it is prepared, without our prior written consent, unless such disclosure is required by Law.

During the course of our audit for the year ended 31 December 2023, we examined the principal documents, systems and controls applied by the Council, to help it ensure, in so far as it is possible, far as possible, the accuracy and completeness of the accounting and to safeguard the assets of the Council.

In order to facilitate your responses to the deficiencies we noted in the course of our audit, have been presented these shortcomings in columnar form. On the left hand side of the document we specify the weaknesses and the recommended courses of action. On the left hand side you are required to insert the remedial action you intend to take and a time frame by which these will be remedied. We also attach for your perusal, a summary of the audit adjustments which we were put through the accounting records, once these were approved by yourselves. Should you require our assistance in bringing to fruition the suggested recommendations do not hesitate to contact us.

We would like to thank you for the courtesy and co-operation extended to us in the course of our audit.

Yours faithfully,

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**Arthur Douglas Turner**  
**Partner - Parker Russell Turner**

## **PREVIOUS MANAGEMENT LETTER**

During the course of our audit for the year ended 31 December 2023, we have also reviewed the points highlighted in the previous management letter along with their respective feedback:

### **i. Fixed Assets**

We have once again noted shortcomings in the fixed asset register as per note 1 on page 4. Deficiencies in procurement of fixed assets were not found during the year under review.

### **ii. Cash at bank and in hand**

We have noted that the Local Council has taken steps to rectify the deficiencies noted in the Petty Cash and on the Treasury Management. In fact, it took action to close certain bank accounts, and to segregate better its financials.

### **iii. Debtors**

We have noted that the Local Council has taken action in relation to long outstanding debtor balances. Nonetheless, it was noted that negative balance on debtors' control of € 91 in relation to Regjun Nofsinar has not been addressed.

### **iv. Accrued income**

We have once again noted shortcoming in accrued income as per note 3 on page 8, since at year end these were again not fully determined.

### **v. Creditors**

it was noted that the long outstanding creditor of € 271 in relation to Go plc has not been addressed. Further, we have once against noted outstanding other payables brought forward from previous year as per note 4 on page 9.

### **vi. Accruals and prepayments**

We have once again noted various inaccuracies in the accrued expenses and prepayments as per note 5 on page 10.

### **vii. Deferred income**

We are pleased to note that we did not identify any issues relating to deferred income.

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2023

**viii. Revenue**

We have once again noted shortcoming in revenue as per note 6 on pages 11 and 12.

**ix. Debit transactions**

We are pleased that improvements have been noted in this area, and certain limitations mentioned in previous year management letter have been addressed. Last year we mentioned national insurance was being paid on behalf of a handyman, for which the Council took action and stopped effecting such payments during 2023. Further a new tender was issued for Street Sweeping as recommended by us during previous year audit. We have noted other limitations on procurement and expired contract as per note 7 on pages 13 and 14.

**x. Payroll**

In previous year there was an issue in relation to the incorrect declaration of car allowances in the FSS system which was addressed during the year under review. Other limitations were noted in note 8 on pages 14 and 15.

**xi. Funds held by the Tribunal Council**

This limitation has not been addressed, as denoted in note 9 on page 15.

**xii. Information provided on the Portal**

Information required has been uploaded on the portal.

**xiii. Accounting system and Financial statements presentation**

Various improvements were noted during the year under review whereby certain accounting deficiencies noted in previous year were address. Nonetheless, we have noted shortcomings in the presentation of the unaudited financial statements, as per note 10 on page 16.

A summary of the deficiencies noted in the course of our audit and our recommendations thereto is as follows:

1. *PROPERTY, PLANT AND EQUIPMENT*
2. *DEBTORS*
3. *ACCRUED INCOME*
4. *CREDITORS*
5. *ACCRUALS AND PREPAYMENTS*
6. *REVENUE*
7. *DEBIT TRANSACTIONS*
8. *PAYROLL AND HUMAN RESOURCES*
9. *FUNDS HELD BY TRIBUNAL COUNCIL*
10. *PRESENTATION OF FINANCIAL STATEMENTS*
11. *CONCLUSIONS*

**FINDINGS ARISING FROM 2023 AUDIT**

WEAKNESS NOTED / RECOMMENDED IMPROVEMENT	LOCAL COUNCIL REPLIES
<p><b>1. PROPERTY, PLANT AND EQUIPMENT</b></p> <p><b>1.1. Fixed Asset Register</b></p> <p><i>Weakness</i></p> <p>1.1.1. Despite the fact that the Council has taken the necessary measures to compile a fixed asset register, it is not robust enough to incorporate all asset types, category and location, linked to a labelled physical asset. Further, the manual system is not integrated with the Fixed asset Module and to the General Ledger of the accounting software.</p>	<p>Comments Noted</p>
<p><i>Recommendation</i></p> <p>1.1.2. We strongly believe that the implementation of the fixed asset register should be kept on an appropriate software and should be synchronised within the accounting system. We recommend that the fixed asset register implementation process is discussed in detail with the IT service provider and the accountant in charge, in order to adapt the necessary software for the needs of the Council and incorporate the integration of the plant register within the general ledger.</p>	<p>Comments noted. It provider and Accountant will be tackling same.</p>

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2023

<p><b>1.2. Classification of Transactions</b></p> <p><i>Weakness</i></p> <p>1.2.1. During our audit procedures, we noted that there were capital expenses relating to architectural costs amounting to € 926 and engineering costs amounting to € 10,738 which were incorrectly accounted for within administrative expenses. These were capitalised at audit level.</p>	<p>Comments noted and as indicated in the report the Local Council has approved the audit adjustment and adjustment has been incorporated in the Audited Financial Statements.</p>
<p><i>Recommendation</i></p> <p>1.2.2. We recommend that more attention is affected in the updating of accounting records to segregate properly between revenue expenditure and capital expenditure. Further, we recommend that the classification of the assets being purchased is identified in terms of the following categories:</p> <ul style="list-style-type: none"> <li>(a) Assets purchased in terms of IAS 16 Property, Plant and Equipment;</li> <li>(b) Assets leased, and consequently disclosed for the purpose of the leasing arrangements in compliance with IFRS 16 Finance Leases; and</li> <li>(c) Assets under development and not yet brought to use.</li> </ul>	<p>The Local Council notes the auditors' recommendations to ensure that the classification of the assets being purchased is identified in terms of the listed categories.</p>

<p><b>1.3. Capital Grants</b></p> <p><i>Weakness</i></p> <p>1.3.1. During 2021, the Council received approval for a grant pertaining to the Accessibility and Mobility Scheme which was issued by Department of Local Government and amounting to € 15,275. The Council received the amount of € 11,456 in 2021, out of which an amount of € 7,847 was expensed in 2022. The costs against this grant were fully incurred during 2023. Nonetheless accounting for the grant was incorrectly carried out against income for the year, and consequently an adjustment of € 3,609 was reflected to reverse the income against the Capital Grant, with the remaining grant receivable being accounted for as accrued income.</p> <p>1.3.2. Furthermore, it was noted that adjustments had to be reflected in the presentation of the Fixed Asset Schedule in order to present fairly the correct reclassification of assets between <i>Asset under Construction</i> and <i>Urban Development</i> costs pertaining to completed projects of Alexander Ball Phase I and the Rubble walls.</p>	<p>Comments noted.</p>
<p><i>Recommendation</i></p> <p>1.3.3. Proper classification of Grants is crucial in line with the capital costs incurred, in order to ensure that the Matching Concept is being adhered to. Wrong classifications can lead to inaccurate depreciation costs and incorrect cut-offs.</p> <p>1.3.4. We recommend that Bill of Quantities are prepared for each capital project, to ensure that proper costings are made prior to embarking on new projects.</p>	<p>The Local Council notes the auditors' recommendations to ensure that proper classification of grants is made in line with the capital cost incurred.</p> <p>The Local Council notes the auditors'</p>

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2023

<p>In addition, proper classification of supplier invoices, including the correct details of project, need to be obtained and recorded, so that the Council has accurate information available at all times. This is even more critical in relation to projects which are partly financed through Government Grants, and which should be accounted for in separate nominal accounts.</p>	<p>recommendations that Bill of Quantities are prepared for each capital project to ensure that proper costings are made.</p>
<p><b>2. DEBTORS</b></p> <p><b>2.1. LES Debtor</b></p> <p><i>Weakness</i></p> <p>2.1.1. We have noted that the Council has a debtor balance relating to LES Pre-Regional contraventions amounting to € 77,719 which is fully provided for in the accounts, and which was reconciled during the year according to the LES Report 622 generated from the Logus system, through an adjustment effected by the Local Council. This adjustment should have been confirmed by the Council during the monthly Council Meetings. In addition, we could not obtain clear understanding of the movements effected during the year.</p>	<p>Comments noted</p>
<p><i>Recommendation</i></p> <p>2.1.2. We recommend that regular reconciliations of the amounts due are carried out to reconcile any differences with the LES system. No breakdown is being obtained from LES System and to the reason for such-write-offs. In addition, an exercise needs to be carried out on the LES Pre-Regional contraventions to understand whether such amounts are recoverable or</p>	<p>Auditors' recommendations noted and Local Council has been in contact since last year asking for the necessary directions from the Department of Local Government in order to see the best way forward.</p>

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2023

<p>otherwise. If these amounts are irrecoverable, we propose that the Council should consider reversing the provision and accounting for the amounts as 'bad debts write-offs'. A disclosure note is also required to bring this matter to the attention of the Council, and every effort should be made to get the necessary directions from the Department of Local Government.</p>	
<p><b>3. ACCRUED INCOME</b></p> <p><i>Weakness</i></p> <p>3.1 During our audit fieldwork, we noted that the Council failed to record accrued income pertaining to the following:</p> <ul style="list-style-type: none"> <li>• Financial assistance for the Accessibility and Mobility Scheme received from the Department of Local Government amounting to € 3,818 was not accrued for.</li> </ul> <p>An adjustment was affected at audit level to account for the above transactions.</p> <p><i>Recommendation</i></p> <p>3.2 We recommend that the Council's books of accounts should be recognised on an accrual basis, whereby any income pertaining to the current year, irrespective of whether this was received or not, should be accounted for in order to ensure completeness of income.</p>	<p>Comments noted and as indicated in the report the Local Council has approved the audit adjustment and adjustment have been incorporated in the Audited Financial Statements.</p>
	<p>The Local Council notes the auditors' recommendation to ensure that any income pertaining to the current year, even if it had not been received, this is to be accounted for in order to ensure completeness of income.</p>

<p><b>4. CREDITORS</b></p> <p><b>4.1 Other Creditors</b></p> <p><i>Weakness</i></p> <p>4.1.1. During our audit testing, we noted that other creditors pertaining to 'MCCF Deduction plus Sundry' amounting to € 111 and 'Net Wages' amounting to € 170, were still outstanding from the previous year with no movement being recorded for the year.</p> <p>4.1.2. Further, other creditors pertaining to the funds received from the Community Inclusive Employment Scheme (CIES) for the employment of people with disability amounting to € 2,937 was accounted for. The CIES funded the Council the total employee's wage for the year 2022, however the employee was let to go in May 2022. Consequently, funds should be refunded at the earliest.</p> <p><i>Recommendation</i></p> <p>4.1.3. We recommend that the Council reviews these amounts and settles them at the earliest. Furthermore, decisions and discussions regarding these balances should be included in the Councils' meeting minutes.</p>	<p>Comments noted</p> <p>Comments noted</p> <p>The Local Council notes auditors recommendations. These amounts are to be reviewed in order to discuss settlement of same.</p>
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Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2023

5. ACCRUALS AND PREPAYMENTS	
<p><i>Weakness</i></p> <p>5.1 We have noted the following weaknesses in accounting for accruals and prepayments:</p> <ul style="list-style-type: none"> <li>• Water and electricity accruals were understated by € 913. An adjustment was affected at audit level;</li> <li>• Communication accruals were understated by € 1,062. An adjustment was affected at audit level;</li> <li>• IT Development accruals were understated by € 620. An adjustment was affected at audit level;</li> <li>• Waste disposal accruals were understated by € 256. An adjustment was affected at audit level;</li> <li>• Memberships with local organisations prepayments were understated by € 2,143. An adjustment was affected at audit level;</li> <li>• Insurance prepayments were understated by € 161. An adjustment was affected at audit level.</li> </ul>	<p>Comments noted and as indicated in the report the Local Council has approved the audit adjustment and adjustment has been incorporated in the financial statements.</p>
<p><i>Recommendation</i></p> <p>5.2 We recommend that a procedure is in place to ensure that invoices relating to goods or services hovering around the year end, are properly verified to</p>	<p>The Local Council notes auditors Recommendations. Unfortunately at year end</p>

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2023

<p>ensure that these are accounted for in the correct accounting period. Failing to do so could result in the understatement of assets and liabilities at the year end.</p>	<p>We are always working under pressure with many activities, however will be doing our utmost in order to properly verify invoices relating to goods or services.</p>
<p><b>6. REVENUE</b></p> <p><b>6.1 General income</b></p> <p><i>Weakness</i></p> <p>6.1.1. During our audit fieldwork, whilst performing a proof-in-total test between the total receipts issued from the Council's online permit system and the total income recorded in the accounting system, an overall difference of € 5,785 arose, representing income which was received by the Council but for which a receipt has not been issued from the online system. This primarily includes income from Hire of Football Ground and income for the use of Hall, which are not being registered on the online system.</p> <p>Furthermore, when we endeavoured to reconcile solely the permits as per online system with amounts held in the books, a difference of € 573 arose, which clearly shows that the permits are not being reconciled with the cash received.</p>	<p>Comments noted</p>
<p><i>Recommendation</i></p> <p>6.1.2. We recommend that a receipt is issued from the Council's online system for each specific income, and that the Council regularly reconciles the receipts</p>	<p>As per recommendation the Local Council</p>

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<p>issued from the system with the income recorded in the accounting system to ensure accuracy and completeness at all times. We also recommend that the receipts from other revenue streams, apart from the permits, are kept in a separate bank account, so that better control is effected with the permit system and the cash received from other sources.</p>	<p>will be keeping a separate account for receipts from other revenues in order to better control the permit system from cash received from other sources.</p>
<p><b>6.2 LES Administration Fee</b> <i>Weakness</i></p> <p>6.2.1. Whilst performing a proof-in-total test between the total LES administrative fee as per the LES Report 483 – LESA Tickets generated from the Loqus system, and the total income recorded in the financial statements, it was noted that the amount in the financial statements was overstated by € 413. We did not propose an audit adjustment to correct this discrepancy, because no proper reconciliation is being carried out with the LESA system.</p>	<p>Comments noted</p>
<p><i>Recommendation</i></p> <p>6.2.2. We recommend that the Council regularly reconciles the income recorded in the accounting system with the LES Report 483 to ensure accuracy and completeness.</p>	<p>Will be regularly reconciling the income Recorded in the accounting system with the Les Report 483.</p>

## 7. DEBIT TRANSACTIONS

### 7.1 Procurement Guidelines

#### Weakness

7.1.1 During our audit fieldwork on the debit transactions, the following irregularities were noted:

Detail	Supplier	Date	Amount
Various traffic Signs	Koperattiva, Tabelli u Sinjali	07/11/2023	823.14
Pruning of trees	Mr Nicholas Grima	15/01/2023	3,304
New Statue	Manuel Buhagiar	21/08/2023	1,784
Hire of tent. Generator and ramps	A&S	18/11/2023	4,602
Hire of Trackless train	Malta Funtrains	13/11/2023	1,180
Video on demand service	Correct Termination Limited	20/3/2023	2,124
Christmas Decorations	Noel Borg	accrual	1,815

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2023

<p><i>Recommendation</i></p> <p>7.1.2. In accordance with the Procurement Guidelines 2017 issued by the Department for Local Government, the Council should obtain at least three signed quotations for purchases exceeding € 500 up to € 5,000.</p>	<p>The Local Council is always doing its utmost in order to obtain at least three signed quotes for purchases exceeding €500 up to €5,000</p>
<p><b>7.2 Expired Contracts</b></p> <p><i>Weakness</i></p> <p>7.2.1 In relation to cleaning services offered by Ms Carmen Camilleri it was noted that the contract has expired and no extension to contract have been affected.</p>	<p>Comments noted</p>
<p><i>Recommendation</i></p> <p>7.2.2 It is recommended that the Council monitors very closely the expiry dates of contracts in place with suppliers. The Council should re-issue quote for quotations or another tender, once the stipulated period included in the previous tender document has expired.</p>	<p>New quote for Ms Carmen Camilleri has already been re-issued.</p>
<p><b>8 PAYROLL AND HUMAN RESOURCES</b></p> <p><i>Weakness</i></p> <p>8.1. During our audit fieldwork, we noted that payroll reconciliation with the FSS statutory forms resulted in a discrepancy of € 500.</p>	<p>Comments noted</p>

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2023

<p><i>Recommendation</i></p> <p>8.2 We recommend that reviews are performed to ensure that FSS forms are reconciled on a monthly basis with the payroll system and the nominal ledger, so that any differences are rectified and adjusted for in a timely manner.</p>	<p>The Local Council will be performing reviews to ensure that FSS forms are reconciled on a monthly basis with the payroll system.</p>
<p><b>9. FUNDS HELD BY THE TRIBUNAL COUNCIL</b></p> <p><i>Weakness</i></p> <p>9.1. During past years, the Council was part of a Tribunal Council, which was managed by seven Local Councils, one of which was the Hal Safi Local Council. Funds held by the Tribunal Council as at 22<sup>nd</sup> October 2021 amounted to € 43,134, which funds were to be equally distributed between the seven Councils as agreed unanimously by the respective Councils on 3<sup>rd</sup> February 2023. Consequently, since such income has not yet been approved by the Department of Local Government, the balance of € 6,162 was not accounted for in the financial statements.</p>	<p>Comments noted.</p>
<p><i>Recommendation</i></p> <p>9.2. We recommend that the Council continues to follow up on the matter with the Department of Local Government for the final approval of the funds. Further, we recommend that proper controls should be in place to reduce the number of adjustments being affected at audit level, which could also lead to a delay in the audit process.</p>	<p>Auditors' recommendation noted. Will be Following up on the matter with the Department for Local Government for the final approval of funds.</p>

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2023

<p><b>10. PRESENTATION OF FINANCIAL STATEMENTS</b></p> <p><i>Weakness</i></p> <p>10.1. The Local Council is required to prepare financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the EU. During our audit, we identified that the Council's unaudited financial statements needed updated and further corrections in accordance with IFRS as adopted by the EU. Main weaknesses were found in the presentation of the fixed asset schedule and related classifications. Furthermore, we passed other reclassification adjustments during the course of the audit.</p>	<p>Comments noted.</p>
<p><i>Recommendation</i></p> <p>10.2. We recommend that the Local Council gives more attention to the classification of amounts in the nominal ledger and the preparation of the financial statements. The above shortcomings have been amended in the audited financial statements.</p>	<p>Recommendations noted.</p>
<p><b>11. CONCLUSIONS</b></p> <p>11.1. We have noted that the Local Council has taken head of certain recommendations denoted in previous year management letter. We urge the Council to continue its work in refining the systems in place and in addressing other weaknesses found throughout the audit.</p>	<p>The Local Council kindly accepts the auditors assistance in order to come up with an action plan in order to address the above mentioned weaknesses.</p>

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2023

