

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

Department For
19 MAY 2025
Local Government

21 April 2025

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 2024. 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 2024, 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,


Arthur Douglas Turner
Partner - Parker Russell Turner

REGISTRY
13 MAY 2025
NATIONAL AUDIT OFFICE

PREVIOUS MANAGEMENT LETTER

During the course of our audit for the year ended 31 December 2024, 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 and capital grants as per note 1 on page 4. Deficiencies in procurement of fixed assets were not found during the year under review.

ii. Debtors

Similar limitation on LES Debtors were found during the year under review.

iii. 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.

iv. Creditors

We have once against noted outstanding other payables brought forward from previous year as per note 4 on page 10.

v. Accruals and prepayments

We have once again noted various inaccuracies in the accrued expenses and prepayments as per note 5 on page 11.

vi. Revenue

We have once again noted shortcoming in revenue as per note 6 on pages 12 to 14.

vii. Debit transactions

We have once again noted shortcoming in debit transactions as per note 7 on pages 14 to 16, particularly in relation to procurement and expired contracts

viii. Payroll

Similar discrepancies were noted this year in relation to FSS reconciliation, as explained in note 8 on page 17.

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2024



ix. Funds held by the Tribunal Council

This limitation has not been addressed, as denoted in note 9 on page 18.

x. 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 to the management letter.


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 DEFERRED INCOME*
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 2024 AUDIT

WEAKNESS NOTED / RECOMMENDED IMPROVEMENT	LOCAL COUNCIL REPLIES
<p>1. PROPERTY, PLANT AND EQUIPMENT</p> <p>1.1. Fixed Asset Register</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><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>	

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2024



<p>1.2. Classification of Transactions</p> <p><i>Weakness</i></p> <p>1.2.1. During our audit procedures, we noted that there were capital expenses relating to architectural and engineering costs amounting to € 6,225 which were incorrectly accounted for within administrative expenses. These were capitalised at audit level.</p> <p>1.2.2. There were additions of € 104,810 in relation to Sir Alexander Ball project, which has been completed in 2024, but which was still classified as Asset under Construction. An audit adjustment was reflected to transfer the said amounts to Urban Improvements.</p> <p>1.2.3. Consequent to the above adjustments, the impact on the depreciation charge for the year amounted to € 464, which was also reflected accordingly at audit level.</p>	
<p><i>Recommendation</i></p> <p>1.2.4. 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> <p>(a) Assets purchased in terms of IAS 16 Property, Plant and Equipment; (b) Assets leased, and consequently disclosed for the purpose of the leasing arrangements in compliance with IFRS 16 Finance Leases; and</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 2024

	(c) Assets under development and not yet brought to use.
<p>1.3. Capital Grants</p> <p><i>Weakness</i></p> <p>1.3.1. Included within deferred income there were amounts of € 44,907 pertaining to approved funds from ARPA and Director of Local Government in relation to Sir Alexander Ball Phase II. The costs against this grant were fully incurred during 2024. Nonetheless accounting for the grant was incorrectly carried out against deferred income for the year, and consequently an adjustment of € 44,907 was reflected to reverse the deferred income against the Capital Grant.</p> <p>1.3.2. Furthermore, it was noted that approved additional funding pertaining to the same project of € 38,291 were omitted from accounting records. Although these funds have not as yet been received, the costs against this funding have been incurred, and consequently an adjustment was reflected to account for the said accrued income against the <i>Capital Grant, in Property, Plant and Equipment</i>.</p> <p>1.3.3. Additionally, 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 Sir Alexander Ball Phase II.</p> <p><i>Recommendation</i></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 2024

<p>1.3.4. 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>1.3.5. 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. 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>2. DEBTORS</p> <p>2.1. LES Debtor</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 € 77,160 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><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 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>3. ACCRUED INCOME AND DEFERRED INCOME</p> <p>3.1. Accrued income</p> <p><i>Weakness</i></p> <p>3.1.1. 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"> - Remaining amounts receivable in relation to financial assistance for the Embellishment of Sir Alexander Ball Garden Phase II approved by Department of Local Government of € 1,632; and 	

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2024

- Remaining amounts receivable in relation to financial assistance for the Embellishment of Sir Alexander Ball Garden Phase II approved by GAL Xlokk of € 36,659.

An adjustment was affected at audit level to account for the above transactions, as explained in notes 1.3.2 above.

3.2. *Deferred income*

3.2.2. During 2024, the Council received approval for a grant pertaining to the 'Komunitajiet aktar b'Sahhithom u Inklussivi' which funds will be utilized in 2025. The Council received the amount of € 2,230 in 2024 as pre-financing for the project. Nonetheless accounting for the grant was incorrectly carried out against income for the year, and consequently an adjustment of € 2,230 was reversed from income against *Deferred Income*.

3.2.3. Similarly, during 2024, the Council received financing for ARPA in relation to Measure 19.2, submeasure 3 of € 5,000. This income was included completely within income for the year. Nonetheless, it was noted that this was only partly used against costs incurred during the year under this measure. Consequently an adjustment of € 1,726 was reflected to reclassify the said income to *Deferred Income*.

3.2.4. Included with income for the year, there was an amount of € 5,426 in relation to grants receivable which pertain to the project of the Mobile App. Despite the fact that the project has been completed, there are significant doubts as to whether these funds will be recovered. Consequently, such income was reversed from income to *Deferred Income*, until there will be reasonable expectation that the grant will be received.

<p><i>Recommendation</i></p> <p>3.2.5. 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>4. CREDITORS</p> <p>4.1 Other Creditors</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 for the total employee's wage for the year 2022, however the employee was let to go in May 2022. Consequently, funds should be refunded back at the earliest.</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 2024

<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>5. ACCRUALS AND PREPAYMENTS</p> <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"> • Water and electricity accruals were understated by € 2,812. An adjustment was affected at audit level; • Waste disposal accruals were understated by € 577. An adjustment was affected at audit level; • Memberships with local organisations prepayments were understated by 1,786. An adjustment was affected at audit level; • Insurance prepayments were understated by € 646. An adjustment was affected at audit level. 	
<p><i>Recommendation</i></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 2024

<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 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>6. REVENUE</p> <p>6.1 General income</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 € 7,991 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 € 450 arose, which clearly shows that the permits are not being reconciled with the cash received.</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>	

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2024

<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>6.2 LES Administration Fee</p> <p><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 understated by € 923. 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><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>6.3 Assurances from Regional Council</p> <p><i>Weakness</i></p> <p>6.3.1 During our testing of income and reconciliation of balances against the books of Regjun Punent, we have noted double counting of assistances in</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 2024

<p>relation to 'Calming Measures Scheme' of € 841 in Council's accounting records. An adjustment has been reflected to reverse this overstatement against the Regjun Punent debtors' balance.</p> <p><i>Recommendation</i></p> <p>6.3.2 We recommend that the Council ensures accurate accounting of transactions, particularly with other related entities. Ongoing reconciliations should be carried out with Regjun Punent, so the Council will ensure that transactions are a mirror reflection of the related entity books of accounts. Additionally, implementing measures to enhance the review and approval process for recording transactions can help prevent similar errors in the future.</p>	
<p>7. DEBIT TRANSACTIONS</p> <p>Omitted transactions</p> <p><i>Weakness</i></p> <p>7.1.1. Our detailed tests on road and street cleaning revealed that invoices for the months of October and November 2024 amounting to € 3,610 were omitted from the accounting system. These were accounted for through audit adjustment in the income statement against the Creditors Control.</p> <p>7.1.2. Furthermore, it was noted that there were prior period invoices which were omitted in previous year and which were included in 2024 books of accounts of € 10,237 pertaining to preliminary site inspections and other architect costs for the restoration of statutes project which had been completed in 2023.</p>	

Deficiencies noted in the course of our audit of the financial statements of the Hfal Safi Local Council for the year ended 31 December 2024

<p>Recommendation</p> <p>7.1.3. We recommend that the Council carries out detailed analysis on the costs incurred to ensure these are captured. Further, creditors' balances should be reconciled with transaction histories from service providers on a regular basis to ensure that any differences are promptly identified and investigated. It is of utmost importance that regular reviews are done by the accountant in liaison with the Executive Secretary to ensure that all expenditure is included in the accounts, and that for every third-party expenditure incurred by the Council, a corresponding invoice is issued and presented.</p>																	
<p>7.2. Procurement Guidelines</p> <p>Weakness</p> <p>7.2.1. During our audit fieldwork on the debit transactions, the following irregularities were noted in procurement, whereby no quotations were obtained for the below costs:</p> <table border="1" data-bbox="967 920 1359 1939"> <thead> <tr> <th>Detail</th> <th>Supplier</th> <th>Date</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Bouncy Castles Malta.com</td> <td>Rentals of Trampoline and carousel</td> <td>23/11/2024</td> <td>1,947</td> </tr> <tr> <td>Equipment and games hire</td> <td>After Glow Events</td> <td>17/11/2024</td> <td>2,006</td> </tr> <tr> <td>Helpers for Festa Familja</td> <td>Proutist Universal Malta</td> <td>3/12/2024</td> <td>1,851</td> </tr> </tbody> </table>	Detail	Supplier	Date	Amount	Bouncy Castles Malta.com	Rentals of Trampoline and carousel	23/11/2024	1,947	Equipment and games hire	After Glow Events	17/11/2024	2,006	Helpers for Festa Familja	Proutist Universal Malta	3/12/2024	1,851	
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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 2024

Hire of tents and lights	Electron Rentals	7/12/2024	3,680
Hire of Trackless train	Malta Funtrains	21/11/2024	1,652
Christmas Decorations	Kazin Tal-Banda	accrual	2,140
<i>Recommendation</i>			
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.			
7.3. Expired Contracts			
<i>Weakness</i>			
7.3.1. Our tests revealed that the following contracts have expired in 2024, and for which no new tenders or calls for quotations were issued by the Council:			
- Bulky Refuse Collection provided by Mr Joseph Farrugia;			
- Handyman Services provided by Mr Ronnie Barber;			
- Gardening services provided by Mr Josef Mifsud;			

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2024

<p>- Cleaning and Maintenance services provided by Mr Joe Cachia for the upkeep of Sir Alexander Ball Garden.</p>	
<p><i>Recommendation</i></p> <p>7.3.2. 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>8. PAYROLL AND HUMAN RESOURCES</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 € 503.</p>	
<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><i>Weakness</i></p> <p>8.3. The Council has not reflected the required provisions and/or disclosures in relation to the new Collective agreement for clerical staff within Local Councils and Regional Councils. In view of the fact that by the time of the</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 2024

<p>audit, no approval of workings had as yet been attained by the Council, a contingent liability note has been included at audit level, to disclose appropriately the potential impact on the financials.</p>	
<p>9. FUNDS HELD BY THE TRIBUNAL COUNCIL</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 22nd 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 3rd 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><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>	

10. PRESENTATION OF FINANCIAL STATEMENTS	
<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. Furthermore, we passed other reclassification adjustments during the course of the audit.</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>	
11. CONCLUSIONS	
<p>11.1. We have noted that the Local Council has taken note 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>	

Deficiencies noted in the course of our audit of the financial statements of the Hal Safi Local Council for the year ended 31 December 2024