



11th July 2024

The Auditor General
National Audit Office
Notre Dame Ravelin,
Floriana CMR02

Dear Sir/Madam,

Management letter reply- Financial year ending 31st December 2023

The Siġġiewi Local Council endeavours to address all comments and recommendations drawn up by the Auditors during the conduct of the statutory financial audit of the Council's financial statements for the year ending 31st December 2023.

The replies are endorsed in the attached document.

The Siġġiewi Local Council and the Executive Secretary would like to thank the auditors for their service and their recommendations.

Yours truly,

Julian Borg
Mayor

Ritiene Giorgino
Executive Secretary

Approved in Council sitting 456 (8-84) on 24th June 2024

Ad

The Members
Siggiewi Local Council
18, St Nicholas Square,
Siggiewi SGW 1073,
Malta

16 May 2024

Dear Members of the Siggiewi Local Council,

We have completed our audit of the financial statements of Siggiewi 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 right 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



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. Property plant and equipment

We have once again noted shortcoming in the property, plant and equipment as per note 1 as on page 3.

ii. Trade Receivables and Joint Committee

We have once again noted shortcoming in the trade receivables and joint committee as per note 2 as on page 8.

iii. Accrued income

We have once again noted shortcoming in the accrued income as per note 4 as on page 10.

iv. Cash at bank

We have once again noted shortcoming in the cash at bank as per note 5 as on page 11.

v. Trade payables

We have once again noted shortcoming in the trade payables as per note 6 as on page 12.

vi. Deferred income

We have once again noted shortcoming in the deferred income as per note 7 as on page 13.

vii. Debit transactions

We have once again noted shortcoming on debit transactions as per note 8 as on page 15.

viii. Revenue

We have once again noted shortcoming in the revenue as per note 9 as on page 19.

ix. Payroll and human resources

We have once again noted shortcoming in the payroll and human resources as per note 10 as on page 20.

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



x. Prior year adjustments

We have once again noted prior year adjustments as per note 11 as on page 21.

xi. Presentation of financial statements

We are pleased to note that we did not note any issues in the presentation of financial statements.

xii. Bookkeeping and accounting issues

We have, once again noted, that accrued income was not properly recognised as per note 12 on page 24.

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



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. *TRADE RECEIVABLES AND JOINT COMMITTEE*
3. *PREPAYMENTS*
4. *ACCRUED INCOME*
5. *CASH IN HAND AND AT BANK*
6. *TRADE PAYABLES*
7. *DEFERRED INCOME*
8. *DEBIT TRANSACTIONS*
9. *REVENUE*
10. *PAYROLL AND HUMAN RESOURCES*
11. *PRIOR YEAR ADJUSTMENTS*
12. *BOOKKEEPING AND ACCOUNTING ISSUES*
13. *ANNUAL BUDGET*
14. *OTHER MATTERS*
15. *CONCLUSIONS*

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



WEAKNESS NOTED / RECOMMENDED IMPROVEMENT	SIGGIEWI 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, we noted that the system is manual and is not robust enough to incorporate all asset types, category and location, linked to a labelled physical asset. Furthermore, the manual system is not integrated with the Fixed asset Module and to the General Ledger of the accounting software. This does not only leads to duplication of effort in keeping one's records in order, but can also result in incorrect postings to the General ledger.</p> <p>1.1.2. We have noted the below differences between the net book value in the financial statements and the net book value in the fixed assets registrar as follows:</p>	<p>1.1 Fixed Asset Register – The council affords the necessary and available resources to maintain an updated FAR. Whilst the council acknowledges the recommendations of the auditors, namely 1.1.3/1.1.4/1.1.5, it notes, like it has done in previous years, that for the council to maintain full compliance with LC Regulations and relative accounting standards, it requires more resources.</p>





Asset	Net book value as per audited financial statements	Net book value as per registrar	Difference
Office furniture	€ 9,746	€ 9,793	€ (47)
Office equipment	758	2,348	(1,590)
Urban Improvements	99,287	182,177	(82,890)
Special Programme			
resurfacing	<u>312,684</u>	<u>366,718</u>	<u>(54,034)</u>
	<u>422,475</u>	<u>561,036</u>	<u>(138,561)</u>
Recommendation			
1.1.3. We highly recommend maintaining the fixed asset register digitally by employing suitable software tools. It is essential to synchronise this register within the accounting system for better control.			
In the coming months, the council will investigate new systems and resources on how we can improve this lack.			

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

<p>1.1.4. It is highly advisable to engage in thorough discussions with your IT service provider and the responsible accountant in order to affect the synchronisation of the fixed asset module within the nominal ledger.</p> <p>1.1.5. Furthermore, any discrepancies between the net book value of assets as indicated in financial statements and the fixed assets register should be thoroughly investigated and rectified after these are verified. It is also important that ongoing spot checks are carried out to ensure the condition of the assets and provide for any necessary impairments.</p>	
<p>1.2. Classification of transactions and recognition of grants</p> <p><i>Weakness</i></p> <p><u>Measure 4.3 Roads Resurfacing (Special Programmes)</u></p> <p>1.2.1. The issue concerning the classification of transactions related to fixed arises from incorrect postings during the entry stage. This deficiency can lead to significant implications, including material misstatements between different categories of fixed asset balances and incorrect recognition of grants. The problems primarily stem from invoices received in previous years but accounted for in 2023 at audit level. We have proposed the necessary adjustments, and the Local Council has agreed to incorporate them. The following is the list of capital expenses which were omitted in the accounting system. These were adjusted by</p>	<p>1.2.1 The council recognizes the deficiencies noted by the auditors, as the cause of huge delays by the contractors to produce the necessary bills of quantities for necessary verification prior to accounting for these within the books of the council. The problem is further augmented as some of the contractors service the council with different services, i.e. capital expenses and recurring expenses, and at services are commingled, making it even more difficult for the council and its accountant to decipher what is what.</p>



way of a prior year adjustment as noted in Point 11.1. These were the transactions pertaining to previous years:

Supplier	Invoice ref	Date	Amount
Infrastructure Malta	1819	19/05/2022	293,000
Infrastructure Malta	1820	19/05/2022	163,073
Philip Agius & Sons	7670	06/06/2019	64,740
Philip Agius & Sons	7671	06/06/2019	181,870
Foresight Architectural Services	42018	01/03/2018	1,854
Foresight Architectural Services	72018	22/05/2018	5,547

1.2.2. During our transaction verification process, we discovered that the Local Council failed to recognise also a Central Bank of Malta Account EAFRD 2014 to 2020 associated with Measure 4.3. As a result, grants received, deferred income, and supplier payments were not being recognised correctly, necessitating adjustment on the financial statements through prior year adjustments as required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Measure 4.4 Rubble Walls (Special Programmes)

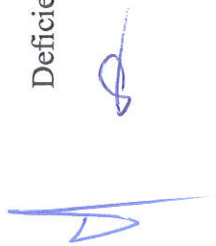
1.2.3. We have also noted that two invoices relating to the construction of rubble walls, which were capitalised in prior year for a total of € 52,625, were not certified and required revision. Subsequent to their inclusion, an approved

1.2.2 As noted in the previous year, the council did not recognize the funds held by the central bank, as its own funds. Unfortunately, direction from the DLG was not forthcoming on the matter.

1.2.3 As per note 1.2.1 above the huge delays by the contractors in providing the necessary invoices creates difficult situation for the council.

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

<p>invoice of € 36,510 was received in 2023 and we had to rectify the overstated balance by € 16,115 as a prior year adjustment.</p> <p>1.2.4. Furthermore, the related grant, covering 80% of the eligible costs, was not accounted for appropriately. This oversight not only impacts the cost and capital grant but also affects the calculation of depreciation and presentation of the financial statements.</p> <p><u>SPI/SCI/9/2022 Finanziament – Komunitajiet Isbah U Aktar B'sahhithom (Urban Improvements)</u></p> <p>1.2.5. Upon reviewing the deferred grants, we have noted that the capital grant has been mistakenly classified as a revenue grant. This means that instead of being recognised as funding for long-term assets, it was treated as income for the period. As a result, the depreciation calculations for the year were affected because the capital grant should have been offset against the cost of the assets and depreciated over the asset's useful life. We have adjusted this at audit level.</p>	<p>1.2.4 Noted</p> <p>1.2.5 Noted</p>
<p><i>Recommendation</i></p> <p>1.2.6. We recommend the Council to identify the classification of the assets being purchased in terms of the following accounting standards:</p> <ul style="list-style-type: none"> - Assets purchased in terms of IAS 16 Property, Plant and Equipment; 	<p>1.2.6 As noted in 1.1 above, the council would have no objection to conducting the necessary review of all of its assets spread across the locality and take stock of the asset conditions, subject to the council being afforded more resources.</p>



- Assets leased, and consequently disclosed for the purpose of the leasing arrangements in compliance with IFRS 16 Finance Leases; and
- Assets under development and not yet ready for use.

Additionally, it is crucial to differentiate between assets financed through internally generated funds and those funded via grants. Failure to distinguish grant-funded assets will complicate auditors' verification of deferred grants and corresponding depreciation schedules, particularly for prior years.

Furthermore, a comprehensive reassessment of all Council-held assets is essential to evaluate their condition and status. Ongoing impairment tests should be conducted, with regular reports prepared to gauge asset conditions. This assessment should encompass all assets within the same transaction class and necessitates updating accordingly.

1.2.7. The Local Council is advised to prepare its financial statements under the accrual basis, which involves matching revenues with expenses when they are earned and incurred. This accounting method provides a more accurate representation of the Council's financial position and performance by reflecting all economic activities as they occur, regardless of when cash transactions take place.

1.2.7 As noted in last year's management letter reply, the council prepares its financial statements under the Accrual basis following the change of accounting principles by the DLG.

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

<p style="text-align: center;">2. TRADE RECEIVABLES AND JOINT COMMITTEE</p> <p><i>Weakness</i></p> <p>2.1. We have noted a debtor balance concerning LESA old balances amounting to € 46,403, which is fully provisioned for in our accounts. However, this figure does not align with the balance of € 45,262 reported by LESA. Thus, we have proposed an adjustment of € 1,140 to be allocated for bad debt provisions and write-offs.</p> <p>2.2. Prior to August 31, 2011, all income and expenditure relating to this matter were centralised through the Central Joint Committee. Unfortunately, we haven't been provided with supporting documentation to ascertain whether the Local Council is entitled to receive any additional income.</p>	<p>The council notes the observations being made by the auditors. For as many years since the Central Joint Committee took over the administration of the LESA, the Council has tried to get the necessary information to be able to reconcile what was due in terms of fines. Unfortunately, such information was never made available and has over the years noted this in all of its management letter replies. The council requests the intervention of DLG and central government on this matter.</p>
<p><i>Recommendation</i></p> <p>2.3. We recommend that the Local Council addresses the discrepancies and queries with LESA directly. It is crucial to seek clarification from them regarding the differences in the debtor balance and to obtain any necessary documentation or explanations.</p>	<p>This issue will be treated with LESA.</p>



<p>3. PREPAYMENTS</p> <p><i>Weakness</i></p> <p>3.1. During our testing, we have noted that the following prepayments were not correctly accounted for:</p> <ul style="list-style-type: none"> - Prepaid insurance is understated by € 1,460; - Prepaid rent is understated by € 10; and - Other prepayments in relation to membership fees and subscriptions were understated by € 2,747. 	<p>The council takes note of the weaknesses raised by the auditors and will look into implementing the recommendations.</p>
<p><i>Recommendation</i></p> <p>3.2. We recommend that the Local Council carries out proper calculations of the prepayment at year end, prior to the financial statements being reported.</p>	
<p>4. ACCRUED INCOME</p> <p><i>Weakness</i></p> <p>4.1. During our audit work we noted that the Local Council did not recognise accrued income amounting to € 5,589 in relation to the completion of ERASMUS+ Programme and € 5,500 in relation to various reimbursement from Regjun Punent.</p>	<p>The council takes note of the weaknesses raised by the auditors and will look into implementing the recommendations.</p>

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

<p>4.2. Furthermore, an accrued income of € 10,000 in relation to the Permanent Sustainable Mobility Measure program was provided for during the year, when in actual fact, the project has not yet been started. We had to reverse this at audit level.</p>	<p>The council further notes that in the majority of cases when it applies for funding programmes, the funding is approved and made available generally close to the termination of the event or just after.</p>
<p><i>Recommendation</i></p> <p>4.3. We recommend that the Local Council adopts a policy of recognising income when it is earned, rather than when it is received. This approach aligns with the accrual basis of accounting and the matching concept, ensuring that income is accurately matched against the corresponding costs incurred.</p>	
<p>5. BANK</p> <p><i>Weakness</i></p> <p>5.1. We have noted that the Local Council has not been recognising all balances and transactions held with the Central Bank of Malta in its books of account, particularly CBM account EAFRD 2014 to 2020. This amount relates to funds for road resurfacing project undertaken. The balance at year end amounted to €42,316, and movements on the account were not reflected. As a result of this, we had to adjust deferred income, account for the grants, and affect the payment to suppliers which were omitted in the books of accounts. We have adjusted this at audit level.</p>	<p>The council needs to note the funds held by the Central Bank of Malta where never considered as being council funds as these specifically cover the funding under the specific EU Fund and not the funds covered by the council.</p>

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




<p><i>Recommendation</i></p> <p>5.2. We recommend that the Local Council conducts an examination of such accounts, ensuring that all adjustments are correctly posted by the end of the financial year. It is crucial that each transaction is recognised in the Local Council's accounting books correctly and that all documentations are reviewed to ensure that there are no omitted transactions.</p>																							
<p>6. TRADE PAYABLES</p> <p><i>Weakness</i></p> <p>6.1. We have noted that the Local Council has an amount long outstanding with the following trade payables:</p> <table border="0"> <thead> <tr> <th style="text-align: left;">Supplier's name</th> <th style="text-align: right;">Euro</th> </tr> </thead> <tbody> <tr> <td>Abakus Solution</td> <td style="text-align: right;">1,064.36</td> </tr> <tr> <td>Big Friends Guggen Musik</td> <td style="text-align: right;">1,165.00</td> </tr> <tr> <td>Chris Bezzina</td> <td style="text-align: right;">450.38</td> </tr> <tr> <td>Foresight Architectural Services</td> <td style="text-align: right;">727.87</td> </tr> <tr> <td>Nicholas Farrugia</td> <td style="text-align: right;">4,374.26</td> </tr> <tr> <td>Ivan Borg</td> <td style="text-align: right;">3,822.44</td> </tr> <tr> <td>Liftman Malta Ltd</td> <td style="text-align: right;">283.2</td> </tr> <tr> <td>Red Agency</td> <td style="text-align: right;">372.75</td> </tr> <tr> <td>Stefano Sferazzo</td> <td style="text-align: right;">1,620.00</td> </tr> <tr> <td>Warren Camilleri</td> <td style="text-align: right;">181.97</td> </tr> </tbody> </table>	Supplier's name	Euro	Abakus Solution	1,064.36	Big Friends Guggen Musik	1,165.00	Chris Bezzina	450.38	Foresight Architectural Services	727.87	Nicholas Farrugia	4,374.26	Ivan Borg	3,822.44	Liftman Malta Ltd	283.2	Red Agency	372.75	Stefano Sferazzo	1,620.00	Warren Camilleri	181.97	<p>The council acknowledges the observations of the Auditors in respect of obtaining regular statements from its suppliers, and the need to review whether long outstanding balances are still due.</p>
Supplier's name	Euro																						
Abakus Solution	1,064.36																						
Big Friends Guggen Musik	1,165.00																						
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Deficiencies noted in the course of our audit of the financial statements of the Siggiewi Local Council for the year ended 31 December 2023

<p>WM Environmental Ltd 3,816.60</p> <p>Upon enquiry, we have noted that these pertain to amounts withheld from suppliers due to defaults, invoices received for work that was not carried out, retention guarantees, and adjustments made to invoices.</p> <p>6.2. The Local Council has a balance due to Philip Agius & Sons Ltd amounting to € 10,514. Upon enquiry it transpired that this amount was not settled and was retained by the Local Council for damages incurred by the supplier.</p>	<p>Whilst acknowledging the observations of the Auditors in respect of the said supplier, the council opted to keep the balance on its books in the lack of definitive resolution of outcome between itself and the supplier.</p>
<p><i>Recommendation</i></p> <p>6.3. The Local Council should regularly review any outstanding balances and reconcile them ongoingly. Any long outstanding amounts should be addressed immediately and investigated as to the reason why these are no longer payable. If reversed, this should be approved during council meetings.</p>	
<p>7. DEFERRED INCOME</p> <p><i>Weakness</i></p> <p>7.1. During our testing of the deferred income, we identified an amount of € 47,079 related to the Scheme on Development and Improvement of Playing Fields. Although costs associated with the grant were incurred in 2023, no capitalisation of the grant was recorded. Out of the total grant amount, excess funds of</p>	<p>The council takes note of the observations made by the auditors and will endeavor to align itself further with the procurement procedures.</p>

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





<p>€ 40,415 were returned to the Government. The remaining grant amount of € 6,664 has been adjusted as capital grant at audit level.</p> <p>7.2. Furthermore, we have noted that the Local Council received funds totaling € 5,570 for the Young EU bilateral program, covering the period from 2023 to 2024. However, the portion allocated to 2024, amounting to € 2,228, was not recorded as deferred income. We have adjusted this at audit level.</p>	
<p><i>Recommendation</i></p> <p>7.3. We recommend that the Local Council conducts a comprehensive reconciliation process to ensure accurate accounting for grants received, adhering to the principles and guidelines outlined in "IAS 20 Accounting for Government Grants and Disclosure of Government Assistance". This entails systematically reviewing the grant transactions, verifying their allocation and amortization according to the grant agreement or principles as outlined in IAS 20.</p>	

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

8. DEBIT TRANSACTIONS

8.1. Procurement procedures

Weakness

8.1.1. Whilst verifying debit transactions, it was noted that the Council was not adhering to the Procurement procedures and three quotes were not always being attained. These relate to the following:

Supplier	Details	Eur	Note
ESS Building	Chapel Lanterns Providenza	5,939	[2]
Anthony Pace	Floodlights And Fustun	3,000	[2]
Anthony Pace	Floodlights, Brazzi and Tree Lighting	3,500	[2]
D Street Lighting	Christmas Lighting 2023	1,038	[2]
Armar Siggiewi	Operating Material	6,000	[2]
Gerald Borg	Boards For Signage	1,340	[3]
Bradly Media	Printing Of Posters And Flyers	1,280	[3]
Y-Kreations	Laminated Prints	1,316	[1]
Besprint Co. Ltd.	Newsletter Lehen II Kunsill	1,838	[3]
Manifest By Design	Printing Brochures	1,569	[1]
Manifest By Design	Posters And Designs	2,289	[1]
Progressive Information Systems Ltd	Sage 50 System	2,785	[2]
Correct Termination Ltd	1 Year Video Streaming And On Demand Service August 22-Jul 23	2,124	[1]
Easystream Malta	Livestreaming Services	3,304	[3]

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

<p>8.2. Bank guarantees treated as an expense</p> <p><i>Weakness</i></p> <p>8.2.1. We have noted that bank guarantees amounting to € 8,100 in relation to the construction of the family park were erroneously treated as expenses in the accounting records rather than being accounted for as bank balances held under guarantee.</p>	<p>The council thanks the auditors for noting the error which it will rectify and pursue not to repeat.</p>
<p><i>Recommendation</i></p> <p>8.2.2. We recommend that the Local Council always analyse the nature of the transactions and accounting for them appropriately as to whether these are an income statement item or otherwise.</p>	
<p>8.3. Classification of expenses and presentation to the financial statements</p> <p><i>Weakness</i></p> <p>8.3.1. During our testing, we have encountered several instances wherein expenses were improperly categorised. This indicates that certain expenditures were not allocated to their respective designated categories or accounts as intended. These are summarised in audit reclassification numbers. 15 and 29 in Appendix II.</p>	<p>The council acknowledges that it has some weaknesses, which is generally characterized by a proper immediate recognition of the expense when incurred and which later results in the accountant being provided with erroneous information on the nature of the expense/s.</p>

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



<p>8.3.2. Furthermore, we have noted that costs related to the restoration of statues, totalling € 17,383, were included within the category of cultural activities. Given the nature and materiality of this expenditure, it should have been presented as a separate line item in the financial statements.</p>	<p>As for the costs related to the restoration of statues, costing €17,383, the council disagrees with the recommendation of the auditors to have a separate line item within the financial statements, on the basis that if this had to be the norm any cost of such or bigger value would be reported in separate lines.</p>
<p><i>Recommendation</i></p> <p>8.3.3. We recommend that the Local Council ensures expenses are recorded under the correct account classification, reflecting the nature of each transaction. This ensures adherence to accounting standards and policies, and provides a clearer representation of the Council's financial activities.</p> <p>8.3.4. We also recommend that the Local Council adopts a financial reporting practice ensuring that significant expenditures, such as those related to the restoration of statues, are presented as separate line items in the financial statements. This will enhance transparency and facilitate a clearer understanding of the Council's costs.</p>	

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

<p>9. REVENUE</p> <p>9.1. Permit fees</p> <p><i>Weakness</i></p> <p>9.1.1. We obtained the report issued by the Council's Loqus system and a difference of € 174 arose between the amount as per the online system and the nominal ledger.</p>	<p>The council notes the weakness and recommendations brought forward by the auditors</p>
<p><i>Recommendation</i></p> <p>9.1.2. We recommend that the Local Council maintains reconciliation of such balances to ensure accuracy, and any variances between the reports and accounts are appropriately explained. Additionally, it is advisable for the Council to distinguish between different income streams and account for them in the correct nominal ledger accounts.</p>	
<p>9.2. LESA Administrative fees</p> <p><i>Weakness</i></p> <p>9.2.1 We obtained the LESA Report 483 and a difference of € 365 arose when reconciling these against the amount as per the nominal ledger.</p>	<p>The council notes the weakness and recommendations brought forward by the audito</p>

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

<p><i>Recommendation</i></p> <p>9.2.2. We recommend that reconciliation should always be carried out and any discrepancies should be ironed out on an ongoing basis so this should be investigated accordingly.</p>	
<p>10. PAYROLL AND HUMAN RESOURCES</p> <p>10.1. Overall Payroll Procedures</p> <p><i>Weakness</i></p> <p>10.1.1. We have performed a wages reconciliation between FSS documentation submitted and the wages as per the accounts. Wages in the accounts were overstated by € 540. No adjustments were affected to this affect.</p>	<p>The council notes the weakness and recommendations brought forward by the audito</p>
<p><i>Recommendation</i></p> <p>10.1.2. We recommend that reviews are performed to ensure that FSS forms are completed properly to ensure that all amounts paid are correctly declared to the Commissioner for Revenue.</p>	

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



<p>11. PRIOR-YEAR REINSTATEMENTS</p> <p><i>Weaknesses</i></p> <p>11.1. Roads Resurfacing (Measure 4.3)</p> <p>11.1.1. The Local Council did not account for the full cost of € 710,184 in relation to roads resurfacing under Measure 4.3. This project commenced in 2019 and was concluded in March 2021. Of the total cost, € 25,396 which is attributed to architect fees were already capitalised in 2019.</p> <p>The architect fees of € 25,396 was depreciated from the invoice date, despite the project not being completed from that time. This meant that the depreciation expense was being recognised prematurely. We had to reverse the depreciation that had already been taken.</p> <p>To determine the correct depreciation to be taken, we recalculated the depreciation from the start of the project to the completion, which occurred in March 2021 when the asset was brought into use. The depreciable amount was based on the total cost of the asset, net of the associated grant funds received.</p> <p>These adjustments were made at audit level as prior year adjustments.</p> <p>11.1.2. The Local Council also received a capital grant of € 705,099 which was not accounted for in the accounting records. This grant consists of € 566,545 from the Ministry of Agriculture, Fisheries, and Animal Rights, and € 138,554 from Infrastructure Malta as offsets against invoices charged by them.</p>	<p>On the various weaknesses noted by the auditors predominantly in relation to treatment of capital expenditure between the years 2018 and 2022, and the bank account held with central bank, the council notes the following:</p> <ul style="list-style-type: none"> - Treatment of the capital expenditure – Certain projects could not be accounted for within the specific years due to extreme delays by the contractors to provide final bills of quantities for review and analyses by the council's architects and the council. - Central Bank Account – contrary to popular belief, the council is not the account holder of these accounts. These accounts were opened by the paying agency in the name of the council however the council has not control over them. - Being that every year the council has had its accounts audited, the council is surprised to note that previous auditors did not pick up these weaknesses dating back to 2018/19/20/21.
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Deficiencies noted in the course of our audit of the financial statements of the Siggiewi Local Council for the year ended 31 December 2023




The funds from the Ministry of Agriculture, Fisheries, and Animal Rights were received in multiple installments through the Local Council's Central Bank of Malta account from 2018-2024. However, receipts from 2018-2022 were omitted from the accounting records.

Of the total grant amount, € 42,815 was received in 2023 and 2024. This is recognised as an accrued income and accounted for at audit level as a prior year reinstatement.

11.2. Rubble walls (Measure 4.4)

11.2.1. During the previous year, the Local Council recorded costs totalling € 52,625 for the construction of rubble walls, which was completed in December 2022. However, these costs were based on supplier invoices that were neither certified nor approved, resulting in cancellation of the invoices. Subsequently, a revised invoice of € 36,510 was issued in 2023 and treated as an addition to fixed assets. A prior year reinstatement was affected to reflect the actual cost based on the revised invoice.

11.2.2. Additionally, the capital grants which is equivalent to 80% of the total eligible cost were accounted for based on the superseded supplier's invoices. As a result, we had to reverse this entry and recalculate the capital grant using the revised invoice amount. This has been accounted for at audit level as prior year reinstatement.

<p>11.3. Bank interest charge</p> <p>11.3.1. During our audit process, we found that the Central Bank of Malta account labeled "EARFD 2014 – 2020" was excluded from the accounting records of previous years, despite transactions dating from 2018. Upon conducting a thorough analysis of transactions from the bank account opening date, we have also noted that apart from the transactions mentioned in Point 10.1, the Local Council also incurred bank charges totalling € 1,654 up to 31 December 2022. To address this omission, we treated these bank charges as part of the prior year reinstatement at the audit level.</p>	
<p><i>Recommendation</i></p> <p>11.4. We recommend that the Local Council implements robust internal controls and procedures to prevent prior period misstatements from occurring in the future. This has already been taken place in subsequent period and the Council has continuously left out number of capital projects out of the accounting books. This involves conducting regular reviews of financial records, reconciling accounts diligently, and ensuring that all transactions are accurately recorded and classified. Moreover, it is pertinent that the minutes taken by Council referring to this projects reflect the transactions which are being discussed in the accounting system.</p>	



12. BOOKKEEPING AND ACCOUNTING ISSUES

Weakness

12.1. During our audit process, we identified several bookkeeping and accounting issues that required various accounting adjustments. These adjustments are detailed in the Audit Adjustment Sheets, which are provided as Appendices I to III of the Management Letter. In total, we passed 29 audit adjustments and reclassifications, in addition to addressing several prior year reinstatement.

12.2. The nature of the deficiencies noted in this area are various and included the following instances:

- Inability to distinguish between Revenue and Capital Grants;
- Matching project costs to relevant income received to support the project - There is a lack of alignment between project costs incurred and the corresponding income received to fund those projects;
- Accounting treatment of Government Grants - There is inconsistency on how Government Grants are accounted for, particularly regarding whether they should be accrued or deferred, impacting the recognition of income.
- Proper reclassification of income and expense accounts - There are instances where income and expense accounts need to be reclassified to accurately reflect the nature of transactions and ensure proper financial statement presentation.

The council thanks the auditors for their thorough work and for pointing out the necessary audit adjustments and reclassifications. The council notes that the majority of these adjustments relate to capital expenditure. The council generally relies on the experience of its Council Secretary to determine which expenses is Revenue or Capital grant related, and this information is than relayed to the council's accountant for the necessary postings. The council does not exclude the possibility of an error of judgement in the determination of whether an expense is Revenue or Capital Grant related.

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

<ul style="list-style-type: none"> • Depreciation calculation - Depreciation being taken from the invoice date rather than when the asset was put into use, and depreciation being calculated on the asset's purchase cost rather than its depreciable value (purchase cost less associated capital grants). • Improper calculation of prepayments and accruals <p>12.3. The primary risk stemming from inadequate record-keeping and accounting practices is the inability to ensure the completeness and accuracy of accounting records. This poses significant concerns regarding the reliability and correctness of the financial statements presented to the Council.</p>	
<p><i>Recommendation</i></p> <p>12.4. We recommend the Local Council that in order to ensure consistency and accuracy in both transaction entry and financial reporting, it is crucial to pay close attention to detail at every stage of the accounting process. This requires not only diligence in recording transactions accurately but also expertise and competence in preparing financial statements.</p> <p>12.5. We recommend that the Council establishes regular meetings specifically dedicated to reviewing its financial affairs. These meetings provide an opportunity for council members to engage with the accountant, conduct interim reviews of financial information, and proactively address any accounting issues as they arise. This ongoing dialogue ensures that the Council remains informed about its financial position and facilitates timely decision-making to address any challenges or discrepancies.</p>	

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<p>13. ANNUAL BUDGETS</p> <p><i>Weakness</i></p> <p>13.1. We have conducted a comparison between the audited financial performance of the Local Council and the annual budget prepared for the financial year 2023. Our analysis reveals that the actual expenditures exceeded the budgeted expenses by € 98,153, representing an increase of 10%.</p> <p>While the Council managed to achieve savings in expenses related to waste disposal and refuse collections, these savings were offset by a significant increase in expenses associated with social and cultural activities, amounting to € 112,551. The detailed comparison of income and expenditures can be found in Appendix IV.</p>	<p>The council is cognizant of its own efforts to operate within the approved budgets. The council faces the brunt from all quarters – from the citizens it represents when basic services are not met due to budget constraints, from the political sphere when something does not go as planned, and from the central government when it exceeds its budgeted expenditure. The council is not autonomous in its function having its umbilical cord still attached to central government. The Council does not have the autonomy to generate its own income through the enactment of its own byelaws, which means that the council's only source of income remaining central government.</p>
<p><i>Recommendation</i></p> <p>13.2. We recommend the Council to conduct a detailed analysis of the significant increase in expenses related to social and cultural activities. The Council should also implement appropriate measures to control and manage expenses more effectively which may involve setting stricter budgetary controls, renegotiating contracts or agreements to reduce costs, or identifying opportunities for cost-saving initiatives without compromising the quality of services provided.</p>	

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

<p>13.3. We further recommend the Council to review the budgeting process to ensure that future budgets accurately reflect anticipated expenses. This may involve revisiting budget assumptions and incorporating historical expenditure trends in the budgeting process to ensure comprehensive planning and forecasting.</p>	
<p>14. OTHER MATTERS</p> <p>14.1. We advocate for a more in-depth analysis of accounting figures presented to the Council, extending beyond merely identifying anomalies, particularly concerning Administrative and Operating expenses. It is essential to establish connections between certain costs and their associated revenue streams, such as correlating Cultural event and Community activities costs with the revenue generated from these activities. This approach ensures a thorough examination of the reasonableness of accounting figures, fostering a deeper understanding of the proper use of funds.</p> <p>14.2. Additionally, we recommend implementing more robust internal control procedures on an ongoing basis. These procedures should include continuous testing and monitoring, supported by regular reports to the Council Board on any identified weaknesses in the systems. Prompt action and timely response to these findings are crucial to maintaining the effectiveness and reliability of the internal control framework.</p>	



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

<p>15. CONCLUSIONS</p> <p>15.1. More controls should be instigated to improve the level of efficiency within the Council. The Council should also analyse employees' work efficiencies to ensure that optimum use is made of public funds.</p> <p>15.2. We would be pleased to assist the Council in coming up with an action plan, with clearly set target dates and by which the Council will address the weaknesses reported in this report. We are at your disposal should you need our assistance in any of the specific areas referred to in this report.</p>	<p>The Executive Secretary together with the staff thank the auditors for the professionalism with which they carried out the audit process.</p> <p>The Executive Secretary ensures continuity, efficiency and effectiveness in management and good governance as expected and according to the powers given by law</p>
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