KUNSILL LOKALI
IS-SIĠĠIEWI
Città Ferdinand

24/08/2026

The Auditor General
National Audit Office
Notre Dame Ravelin
Floriana CMR02

Dear Sir,

Management Letter Reply – Financial Year Ending 31st December 2025

We refer to the Management Letter issued following the audit of the Council's financial statements for the financial year ended 31 December 2025.

The Council and the Executive Secretary would like to express our sincere appreciation to you and your audit team for the professional manner in which the audit was conducted, as well as for the constructive observations and recommendations provided. We value the guidance and insights arising from the audit process, which contribute towards strengthening the Council's financial management, internal controls and overall administration.

The Council takes note of the matters raised and is committed to implementing the recommendations and taking the necessary corrective measures within its powers and resources. We remain committed to ensuring efficiency, accountability, transparency and good governance, in accordance with the powers, duties and responsibilities vested in the Council by law.

Please find enclosed the response to the Management Letter approved in yesterday's Council sitting 491.

Regards,

Ryan Cachia
Mayor

Ritienne Giorgino
Executive Secretary

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

15 June 2026

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 2025. 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 2025, 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

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PREVIOUS MANAGEMENT LETTER

During the course of our audit for the year ended 31 December 2025, we have also reviewed the points highlighted in the previous management letter along with their respective feedback:

i. Property plant and equipment

We are pleased that most of the shortcomings in the property, plant and equipment last year were tackled.

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 4.

iii. Accrued income

We have once again noted shortcoming in the accrued income as per note 3 as on page 5.

iv. Trade payables

We are pleased to note that the issue in respect of long outstanding creditors has been tackled by the Council during the year.

v. Deferred income

We have once again noted shortcoming in the deferred income as per note 5 as on page 6.

vi. Third party transactions

We are pleased to note that there were no issues in respect of third-party transactions during the year.

vii. Debit transactions

We are pleased to note that we found no issues in respect of debit transactions.

viii. Revenue

We have once again noted shortcoming in the revenue as per note 7 as on page 9.

ix. Payroll and human resources

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We have once again noted shortcoming in the payroll and human resources as per note 8 as on page 10.

x. Bookkeeping and accounting issues

We have, once again noted, that a number of adjusting and reclassifying journals were required in the nominal ledger particularly in the classification of assets and related costs, grant recognition and the determination of accrued income.

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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. *ACCRUED INCOME*
4. *TRADE PAYABLES*
5. *DEFERRED INCOME*
6. *CLASSIFICATION OF EXPENSES AND PRESENTATION OF THE FINANCIAL STATEMENTS*
7. *REVENUE*
8. *PAYROLL AND HUMAN RESOURCES*
9. *BOOKKEEPING AND ACCOUNTING ISSUES*
10. *ANNUAL BUDGET*
11. *OTHER MATTERS*
12. *CONCLUSIONS*

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WEAKNESS NOTED / RECOMMENDED IMPROVEMENT	SIGGIEWI LOCAL COUNCIL REPLIES
1. PROPERTY, PLANT AND EQUIPMENT 1.1. **Fixed Asset Register** *Weakness* 1.1.1. As in previous year, 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.	The SLC acknowledges the observation and recognises the limitations of the current manual fixed asset register. The Council will continue to strengthen the register to ensure that all assets are properly recorded, categorised, located and physically labelled. Management will also assess the feasibility of integrating the register with the Fixed Asset Module and General Ledger to improve accuracy, completeness and reconciliation.
Recommendation 1.1.2. 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. 1.1.3. 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.	The SLC acknowledges the recommendation and will discuss with the IT service provider and responsible accountant the feasibility of maintaining the fixed asset register digitally and synchronising the Fixed Asset Module with the nominal ledger. This will enhance the accuracy, control and reconciliation of fixed asset records

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2. TRADE RECEIVABLES AND JOINT COMMITTEE

Weakness

2.1. We note a debtor balance in relation to LESA old balances amounting to € 43,644, which is fully provisioned for in our accounts. However, this figure does not align with the balance of € 43,120 reported by LESA. Thus, we have proposed an adjustment of € 524 to be allocated for bad debt provisions and write-offs.

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.
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The Council notes the auditors' observation. This matter has been brought to the attention of the Department for Local Government (DLG), as it is a common issue being experienced by Local Councils. Despite the Council's continued efforts to obtain the necessary information to reconcile amounts due in respect of LESA fines and their recoverability, the required information has still not been made available. The Council will continue to raise the matter with DLG and seek the necessary intervention to resolve this recurring issue.
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Recommendation

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.
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3. ACCRUED INCOME *Weakness* 3.1. During our audit work we noted that the Local Council recognised accrued income amounting to € 17,200 representing 20% funds not yet received in relation to the Open Gym project pertaining to 2026. However, no works have been done on this project in 2025. An audit adjustment was passed where we reversed this income included in the income statement. 3.2. We also noted that the Local Council has reversed income from the LC Care scheme amounting to € 3,612.98 which amounts have not yet been received. These pertained to 2023. An audit adjustment was passed to reverse this entry and report the accrued income in the financial statements since these are not yet received.	Noted and rectified
Recommendation 3.3. 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.	The council takes note of the weaknesses raised by the auditors and will look into implementing the recommendations.

4. TRADE PAYABLES *Weakness* 4.1. Following our recommendations, we are pleased to note that the Local Council has decided in Council Meeting 482 (9-25) held on 16 February 2026 to reverse long outstanding creditors amounting to € 24,988.80 after it obtained legal advice that such amounts were prescribed by law. However, this reversal of long outstanding creditors was not included in the financial statements and an adjustment was proposed.	Noted and will be rectified
Recommendation 4.2. We recommend that the Local Council always gives information to the accountants of any Council decisions affecting the financial statements of the Local Councils in order for the financial statements to report correct financial results.	The Council will ensure that relevant decisions, including those relating to the reversal of long-outstanding creditors, are communicated to the accountants in a timely manner to enable the appropriate accounting treatment and ensure that the financial statements accurately reflect the Council's financial position.
5. DEFERRED INCOME *Weakness* 5.1. During our testing of the deferred income, we noted that the Local Council failed to account for the following deferred income.	

• Deferred Income amounting to € 354,412.90 in relation to invoices issued by the Local Council to Project Green on a garden project which works haven not yet started and which straddle over a number of years. • The Local Council has transferred to the income statements an amount received in advance during 2024 in relation to the Eco Green project, without analyzing its stage of completion. The Local Council has an EU grant amounting to € 158,580, out of which an amount of € 95,148 was received in advance during 2024. This project consists of six events, out of which three events occurred during 2025 with the remaining three events to be done in 2026. The correct treatment was to report € 79,290 as income during 2025 with the remaining amount of € 15,858 deferred for 2026. An adjustment was proposed to correct the accrued income. 5.2. During the year we noted that in 2019, advance payments to the value of € 69,870 were received in relation to the Shelter project. These were accounted and reported incorrectly in the income statement, when in actual fact they related to advance proceeds on a capital project that has to be undertaken. A prior year reinstatement was effected to this effect.	

Recommendation 5.3. 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.	Recommendation is being noted. The Council will work with its accountants to strengthen the reconciliation and review of grant transactions, ensuring that grants are appropriately recorded, allocated and recognised in line with the relevant grant agreements and accounting principles.
6. Classification of expenses and presentation to the financial statements *Weakness* 6.1 During our testing, we have encountered two 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 below: • Expenses on Gal Majistral book were included with stationery expenses and not in the Gal Majjistral Measure expense account. This amounted to € 5,145; • Invoices for works at Vjal il Ktieb amounting to € 2,400 were included within transport expenses and not under Road and Street Patching account.	The Council acknowledges the observation. As the accounting function is outsourced, occasional misclassifications may occur due to the accountants relying on information provided by the Council. Ideally, accounting postings would be carried out in-house to allow for closer oversight and control; however, given the Council's current resource limitations, this is not presently feasible. The Council will continue to improve communication and review processes with the outsourced accountants to minimise such errors.

Recommendation 6.2 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.	

7 REVENUE **7.1 Permit fees** *Weakness* 7.1.1. We obtained the report issued by the Council's Loqus system and a difference of € 30 arose between the amount as per the online system and the nominal ledger.	
Recommendation **7.1.2** 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.	The Council will also continue to ensure that the various income streams are correctly identified and recorded under the appropriate nominal ledger accounts.

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7.2 LESA Administrative fees *Weakness* 7.2.1 We obtained the LESA Report 483 and a difference of € 29 arose when reconciling these against the amount as per the nominal ledger.	The council takes note of the weaknesses raised by the auditors and will look into implementing the recommendations.
Recommendation 7.2.2 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.	

8 PAYROLL AND HUMAN RESOURCES **8.1 Overall Payroll Procedures** *Weakness* 8.1.1 We have performed a wages reconciliation between FSS documentation submitted and the wages as per the accounts. Wages in the accounts were overstated by € 693. No adjustments were affected to this affect and no explanation were forthcomming.	

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8.1.2 We have passed a reclassification adjustment on the difference wages accounts in the nominal ledger since the accounts were not correctly classified. The adjustment is as follows: Mayor's honoraria – Increased by € 603; Executive secretary salary – Increased by € 10,485 Mayor and Councillor allowances – Increased by € 7,762 Employees' salaries – Decreased by € 18,850. The above adjustments are of a reclassifying nature and were correctly stated.	
Recommendation 8.1.3 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. 8.1.4 We recommend that reconciliation of wages and salaries with FS3 is performed prior to finalisation of the accounts to correctly report wages to their respective category.	The Council acknowledges the auditors' recommendations and agrees on the importance of ensuring that FSS forms are completed accurately and that all amounts paid are correctly declared to the Commissioner for Revenue. The Council will also strengthen the reconciliation of wages and salaries with the FS3 prior to the finalisation of the accounts, in coordination with the outsourced accountants, to ensure that amounts are correctly reported under the respective categories.

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9 BOOKKEEPING AND ACCOUNTING ISSUES	
Weakness	
9.1 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 of the Management Letter. In total, we passed 22 audit adjustments including reclassifications.	The Council thanks the auditors for their thorough work and for highlighting the necessary audit adjustments and reclassifications. The Council notes that the majority of these adjustments relate to the classification of capital expenditure and grants.
9.2 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. • Improper calculation of accrued income, deferred income and prepayments.	The Council generally relies on the experience and of the Council Secretary in determining whether expenditure is revenue or capital in nature, with the relevant information then provided to the Council's accountant for the appropriate accounting treatment. While the Council takes care in making these assessments, it acknowledges that errors of judgement may occasionally occur in determining the appropriate classification.

• A prior year adjustment needed to record advance payments on a project received in 2019, which amount was recorded as income in 2019. 9.3 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.	
Recommendation 9.4 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. 9.5 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.	The Council acknowledges the auditors' recommendation and agrees on the importance of accuracy and consistency throughout the accounting process. The Council will seek to strengthen its review of financial information and improve communication with the outsourced accountant. The Council will also consider holding regular meetings with the accountant to review the Council's financial position, address any accounting matters and ensure that issues are identified and resolved in a timely manner.

10 ANNUAL BUDGETS *Weakness* 10.1 We have conducted a comparison between the audited financial performance of the Local Council and the annual budget prepared for the financial year 2025. Our analysis reveals that the actual results for 2025 are a surplus of € 156,798 while the Budget is showing a deficit of € 43,217. The detailed comparison of income and expenditures can be found in Appendix II. 10.2 It is to be noted that the preparation of budgets are not in line actual results of the Local Council and that detailed attention is not being provided in the estimation of the revenue streams and recurrent expenditure. We point out that on particular line items, such as Cultural and Community expenditure these were misaligned with the budgets.	The Council is cognisant of its efforts to operate within the approved budgets. The Council faces pressure from all sides, from the residents it represents when basic services cannot be provided due to budgetary constraints, from the political sphere when planned initiatives cannot be implemented, and from central government when expenditure exceeds the approved budget. The Council is not fully autonomous in its functions and remains largely dependent on funding from central government. Having said this, the Council does its utmost to apply for every available scheme and funding opportunity to secure additional resources for projects aimed at improving the quality of life of its residents. The Council also actively collaborates with various entities to implement projects and, where possible, secure full or partial funding for initiatives that cannot be financed through the Council's local allocation alone.
Recommendation 10.3 We recommend the Council to conduct a detailed analysis of the significant increase in expenses. The Council should also implement appropriate measures to control and manage expenses more effectively which may involve setting	The Council acknowledges the auditors' recommendations and recognises the importance of closely monitoring expenditure and ensuring that budgets are realistic and properly aligned with anticipated income and expenses.

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stricter budgetary controls, renegotiating contracts or agreements to reduce costs, or identifying opportunities for cost-saving initiatives without compromising the quality of services provided. 10.4 We further recommend the Council to review the budgeting process to ensure that future budgets accurately reflect anticipated income and expenses. This may involve revisiting budget assumptions and incorporating historical expenditure trends in the budgeting process to ensure comprehensive planning and forecasting.	The Council will continue to review significant variances and expenditure trends and, where possible, implement measures to contain costs without compromising the level and quality of services provided. Future budgets will also take into consideration historical expenditure, known commitments and anticipated income to improve the accuracy of budgeting and forecasting.
11 OTHER MATTERS 11.1 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. 11.2 Additionally, we recommend implementing more robust internal control procedures on an ongoing basis particularly on the proper recording of assets and liabilities and classification of revenue and costs. These procedures should include continuous testing and monitoring, supported by regular reports to the	The Council acknowledges the auditors' recommendations and agrees on the importance of carrying out a more detailed review of accounting figures, particularly administrative and operating expenses. Where applicable, the Council will seek to better assess the relationship between expenditure and related income generated from activities and events. The Council will also continue to strengthen its internal control procedures, particularly in relation to the recording of assets and liabilities and the classification of income and expenditure.

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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.	

12 CONCLUSIONS 12.1 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. 12.2 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.	The Council acknowledges the auditors' recommendation and agrees on the importance of strengthening controls and ensuring the efficient use of public resources. The Council will continue to monitor work processes and staff performance, within the resources available, to improve efficiency and effectiveness. The Council also welcomes the auditors' offer of assistance and will consider their support, where required, in developing and implementing an action plan to address the weaknesses identified in the report. The Executive Secretary, together with the Council's staff, would like to thank the auditors for their professionalism and cooperation throughout the audit process. The Executive Secretary remains committed to ensuring continuity, efficiency and effectiveness in the Council's management and operations, while promoting good governance and carrying out the

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	responsibilities entrusted to the Council in accordance with the applicable legislation.

Ryan Cortis

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