RSM

RSM Malta
Mdina Road,
Zebbug ZBG 9015,
Malta.
T +356 2278 7000

www.rsm.com.mt

29th April 2022

Il-Munxar Local Council
Profs. Guze Aquilina Street,
Munxar VCT 114
Gozo

Dear Mayor

RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

We have completed our audit of the financial statements of the Il-Munxar Local Council for the year ended 31 December 2021. The purpose of this report is to summarise our principal findings arising from this work.

Our audit was primarily based on verifying balances in the financial statements to ensure that they are free from material error and comply with relevant legislation. Consequently, the matters raised in this report cannot be regarded as a comprehensive statement of all weaknesses that exist or all improvements that might be made. Our aim is to offer guidance to the Local 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.

Our engagement obliges us to distribute copies of this report to (a) your Council; (b) the National Audit Office; and (c) the Local Councils' Department. Consequently, this report may not be distributed used or quoted, in part or in full, except for the scope it is prepared, without our prior written consent.

This report has been prepared on the basis of the limitations set out in the Responsibility Statement as presented on page 6 of this report.

During the course of our audit for the year ended 31 December 2021, we examined the principal documents, systems and controls used by the Council, to help it ensure, as far as possible, the accuracy of these documents and to assess how much can one rely on these documents to safeguard the assets of the Council. We also examined whether or not your Council abided by the procedures as they are provided for in the Local Councils Act, 1993, the Financial Procedures and various Legal Notices issued to your Council.

The objective of this letter is to bring to your attention those divergences in the system that were noticed during our audit work and suggest ways of how these can be remedied.

We would like to take this opportunity to thank the Executive Secretary and the clerk for their assistance during the course of our audit.

Conrad Borg (Principal)
for and on behalf of
RSM Malta

REGISTRY
- 2 MAY 2022
NATIONAL AUDIT OFFICE

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

Munxar Local Council

Management Report for the year ended 31 December 2020

Contents

1.0 FOLLOW-UP TO LAST YEAR'S REPORT

1.1 Property, plant and equipment

Last year we noted that Directive 01/2017 was not properly applied, and the following weaknesses were pointed out:

- Items of property, plant and equipment whose useful life expired were not written off.
- Depreciation for the year has been applied on the carrying values as at 1 January 2018 at the applicable depreciation rates as if the assets' useful lives started in 2018.
- The cost column in the fixed asset register reflects the total cost of property, plant and equipment less the grants and no date of acquisition was recorded in the same register.

This year the situation remained the same.

1.2 Payables

In the prior year we noted that an accrual relating to the rent of the basement from the Housing Authority was increasing year on year due to their being no lease agreement signed by the parties and no invoices being issued. During the year under review, there was no update in this regard.

It was also noted that an accrual was mistakenly recorded under the incorrect expenditure account. No such instance was noted during the current audit.

1.3 Income

During last year's audit, we noted that the Local Council's recharge for the September organic waste collection was not recorded in the books. No such instance was noted during the year.

1.4 Expenditure and Tenders

During last year's audit, it was pointed out that the Council has exceeded the budgeted expenditure in certain categories. During the current year, some expenditure still exceeded the budget.

1.5 Payroll

Last year we noted that tax deductions were recorded together with the social security costs under one account. No such instance was noted during the year.

2.0 PROPERTY, PLANT AND EQUIPMENT

2.1 Following Directive 01/2017 issued by the Department for Local Government to Local Councils on the change in the accounting policies on depreciation, whereby the straight-line method is to be applied instead of the reducing balance method and the accounting policy on government grants, whereby the capital approach is to be applied instead of the income approach, we noticed from the limited procedures that we could carry out that:

2.1.1 Items of property, plant and equipment whose useful lives expired were not written off. We could not quantify the value of such assets as we were not provided with the dates of acquisition of all the items of property, plant and equipment.

2.1.2 Depreciation has been applied on the carrying values as at 1 January 2018 at the applicable depreciation rates as if the assets' useful lives started in 2018.

2.2 We highly suggest that the exercise of applying the changes in the accounting policies is redone diligently and the necessary corrections made to the accounts through a prior year adjustment if material. Once the exercise is completed, the fixed assets register would need to be updated as well. When doing such an exercise, it is important to keep all the necessary workings to be able to reconcile the costs and accumulated depreciation as per updated fixed assets register to the figures shown in the note to the financial statements on property, plant and equipment.

2.3 The items of property, plant and equipment found in the fixed assets register provided to us, do not have the date of acquisition recorded. This means that we could not identify which assets should have been fully depreciated as at the end of the financial year. Furthermore, we noted that the cost column reflects the total cost of property, plant and equipment less the grants. This means that if an asset has been fully covered by grants received, there is no track of such an asset in the register. If the asset is disposed of one day, it would be difficult to trace the information about its cost and the grants received to remove them from the accounts.

2.4 We highly suggest that the Council should register the acquisition date of every asset in the fixed assets register. The Council should also adopt a system whereby information about those assets for which grants have been received is maintained, unless it can use the fixed assets register itself to keep such information.

2.5 During the year under review, we noted that in the case of two capital projects, the total amount of grants capitalised and released from the deferred income was understated due to the Council not having yet received all of the funds. Consequently, two adjustments were passed to reflect the accrued income in this respect:

- €5,481 in respect of Xlendi Tower
- €23,959 in respect of Xadba (Measure 4.4)

2.6 It was also noted that in the case of the project for the refurbishment of Pjazza Munxar, an accrual was taken, and costs capitalised in line with the Architect's reply. However, no grant was recognised against it. Consequently, an adjustment was passed to release €41,361 from the deferred income and to recognise €60,041 as accrued income since not all the grant was yet received.

2.7 We recommend that the Council performs a thorough review of all the status of its projects and ascertain that the respective grants are recognised in line with each respective grant agreement, if applicable, as the project costs are capitalised, in accordance with IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance.

3.0 PAYABLES

3.1 When testing the accruals, we noted that the Council has an accrual relating to the rent of the basement under the Council's offices from the Housing Authority that has been increasing from one year to the other. When we enquired why this accrual is always increasing and never invoiced, we were told that this is since there is no agreement in place between the Local Council and the Housing Authority. The annual rent being accrued for is €2,446.

3.2 We recommend that the Local Council should approach the Housing Authority and ensure that an agreement is signed between the two parties for the rent of the basement under the Local Council's office, clearly specifying the applicable terms and conditions.

3.3 During the year under review, we also noted that accruals have been accounted for in respect of two lease agreements which covered a period of 3 years, and which were automatically renewable for a further 3 years unless either party wished to suspend the arrangement. Both renewable periods have expired and no update to the lease agreement has been made.

3.4 We recommend that the Local Council approaches the lessors and ensures that the agreements are brought up to date or a document referring to the renewal of such agreements be drafted.

4.0 INCOME

4.1 During the year, we noted that the Local Council recognised a lower income in respect of the lease agreement with HSBC Bank Malta p.l.c. This occurred due to the transactions being recorded incorrectly in another account. Consequently, a reclassification of €931 was passed to reflect the total income of €4,720 in the correct account.

4.2 It is recommended that the Local Council reviews the accounts diligently to ensure that each account is representative of the correct amount and is consistent with the prior years.

5.0 EXPENDITURE AND TENDERS

5.1 The Council has exceeded the budgeted expenditure under the following headings:

- 5.1.1 Rent (Category 2400) by €410
- 5.1.2 Professional services (Category 3100) by €9,385
- 5.1.3 Hospitality (Category 3300) by €18,123

5.2 The Financial Procedures applicable for Local Councils require Councils to draw up twelve (12) months budgets, three (3) year business plans, quarterly reports and eventually yearly administrative reports at the end of the year. The Council is also allowed to revise budgets in line with actual requirements and there are enough reporting tools to help the Council revise the budgets in line with actual expenditure.

5.3 We recommend that the Council makes use of the reporting tools in hand to take corrective measures in the budget every quarter, such that by the end of the accounting period such discrepancies would not materialise.

5.4 During the year under review, we noted that the Council has several lease agreements in place which meet the criteria of IFRS 16 *Leases*. No assessment was conducted by the Local Council as to whether these agreements meet the definition of a lease. Through the limited procedures performed during the audit, it seems that the impact, if any, would not be material to the books of the Council.

5.5 We recommend that an assessment be conducted for all lease agreements entered into by the Council.

Responsibility Statement

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of the Local Council arising out of our audit, we emphasise that our consideration of the Local Council's system of internal financial control was conducted solely for the purpose of our audit having regard to our responsibilities under International Standards on Auditing.

We make these suggestions in the context of our audit, but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.