

RSM Malta

Mdina Road,
Zebbug ZBG 9015,
Malta.

T +356 2278 7000
F +356 2149 3318

www.rsm.com.mt

26th May 2020

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

Dear Mayor

RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

We have completed our audit of the financial statements of the Munxar Local Council for the year ended 31 December 2019. 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.

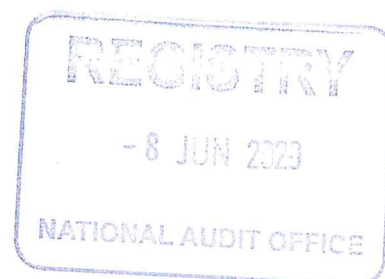
During the course of our audit for the year ended 31 December 2019, we examined the principal documents, systems and controls used by the Council, to help it ensure, as far as possible, the accuracy of these documents and to assess how much can one rely on these documents to safeguard the assets of the 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.

Signed

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



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Munxar Local Council

Management Report for the year ended 31 December 2019

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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:

- When carrying out the reconciliation between the fixed assets register and the accounts, we noticed that these were not agreeing, before passing any audit adjustments.
- Items of property, plant and equipment whose useful life expired were not written off.
- Depreciation for the year have 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 situation remained the same during the year under review.

1.2 Receivables

When scrutinizing the receivables aging analysis report, we noted that there was a balance of €1,637 which was older than 2 years, that was not provided for. We also noted that one of the opening accrued income was reversed against the wrong income account. No provision was made this year either.

1.3 Cash and Bank

When carrying the cash counts, we were provided with 3 cash boxes. In the nominal ledger, only 2 cash accounts were traced. This was also the case this year.

1.4 Payables

During our testing on the payables, statements were obtained from the sample of suppliers chosen. A discrepancy was found between the balance as per accounts and the balance shown in the statement obtained. During the current year, no discrepancies were found.

1.5 Expenditure and Tenders

During last year's audit, it was pointed out that the Council has exceeded the budgeted expenditure in certain categories. Other weaknesses noted in this area were that in some cases, no VAT fiscal receipts were obtained by the Local Council and that some procurement procedures were not followed. These issues, other than the latter one, were also encountered during the 2019 audit.

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.

2.1.3 No fixed assets register was built following the application of the Directive.

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. 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.

3.0 RECEIVABLES

3.1 When scrutinizing the receivables aging analysis report, we noted a balance of €1,637 receivable from the Gozo Regional Committee which relates to invoices that are older than 2 years and a provision was not made against such balances as instructed by the Department.

3.2 It is recommended that the Local Council makes a provision for doubtful debts for any balances that are older than 2 years so that the balance reported in the statement of financial position reflects the amounts that are deemed to be recoverable.

4.0 CASH AND BANK

4.1 When carrying the cash counts, we were provided with 3 cash boxes. In the nominal ledger, only 2 cash accounts were traced that matched with the cash counted after working back the movements that occurred since the end of the financial year. The third box with a balance as on the date of counting of €310 and a year-end balance of €38, seems not to be reflected in the accounts.

4.2 Kindly note that all cash balances held by the Local Council should be properly reflected in the accounts, with the transactions therein being regularly updated and not only reflected in the accounts when they are deposited into the bank account.

5.0 PAYABLES

5.1 During our cut-off testing, we came across two invoices that were issued in 2020 but pertained to the 2019 Christmas decorations for which no accruals were recorded in 2019. It was agreed that an adjustment is passed to accrue for the said expenses that amounted to €3,400.

5.2 The Local Council should be aware of the services it has been provided with during the year for which no invoices have yet been received, and it should accrue for such expenditure when closing off the accounts.

6.0 EXPENDITURE AND TENDERS

- 6.1 The Council has exceeded the budgeted expenditure under the following headings:
- 6.1.1 Repairs and upkeep (Category 2300) by €32,255
 - 6.1.2 Rent (Category 2400) by €75
 - 6.1.3 National & international memberships (Category 2500) by €448
 - 6.1.4 Transport (Category 2700) by €1,674
 - 6.1.5 Travel (Category 2800) by €233
 - 6.1.6 Contractual services (Category 3000) by €286
 - 6.1.7 Hospitality and community (Category 3300) by €29,993
- 6.2 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.
- 6.3 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.
- 6.4 When testing a sample of the expenditure for the year, we noticed that from the sample chosen, expenditure amounting in total to €3,422 were not covered by a VAT fiscal receipt.
- 6.5 The above issue goes against the Local Councils Financial Procedures that the Council should abide with. Therefore, we strongly recommend that the Council takes immediate action to regularize itself on this matter and to ensure that such occurrences are not repeated in the future.

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.