

22<sup>nd</sup> July 2021

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

Dear Mayor

**RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2020**

We have completed our audit of the financial statements of the II-Munxar Local Council for the year ended 31 December 2020. 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 2020, 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



**Munxar Local Council**

**Management Report for the year ended 31 December 2020**

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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:

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

This year the situation remained the same other than that a fixed assets register was prepared, on which some weaknesses were observed.

### 1.2 Receivables

When scrutinizing the receivables aging analysis report, we noted a balance of €1,637 that was older than two years and a provision was not made against such balance as instructed by the Department.

No such instances were found during this year's audit.

### 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. The third box with a balance as on the date of counting of €310 and a year-end balance of €38, was not reflected in the accounts.

This issue was not encountered during the current year.

### 1.4 Payables

During our cut-off testing, we came across two invoices that were issued in 2020 but pertained to 2019 expenditure for which no accruals were recorded.

We did not find such issue during the current audit.

### 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.

During the current year, some expenditure still exceeded the budget. VAT fiscal receipts were provided for all the samples selected for our testing.

## **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 this year, 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.

## **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 our testing, it was noted that a transaction relating to an accrual amounting to €6,729 was mistakenly recorded in the public convenience cleaning costs account instead of the road cleaning costs account. A reclassification adjustment was passed to correct this error.
- 3.4 The Local Council should ensure that transactions are posted in the correct expenditure nominal accounts to ensure that the expenditure breakdowns given in the notes to the financial statements are correct. This would also ensure proper comparability between one year and another.

#### **4.0 INCOME**

- 4.1 On a monthly basis, the Local Council recharges its organic waste collection costs to Wasteserv Malta Limited. When testing this income, it was noted that the recharge for the September organic waste collection amounting to €2,378, was not recorded in the books of accounts. An audit adjustment was passed to reflect this income.
- 4.2 It is recommended that the Local Council periodically reviews the invoices it issues on a regular basis to ensure that none are missed and also checks that all invoices issued are being recorded in the books of accounts.

#### **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 €3,154
  - 5.1.2 Professional services (Category 3100) by €11,165
- 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.

#### **6.0 PAYROLL**

- 6.1 When testing the payroll costs, we noted that in the nominal ledger 1500, that should contain the social security costs, there was also posted the tax deducted from the salaries amounting to €14,148. A reclassification adjustment was passed during our audit.
- 6.2 We recommend that the Council uses the correct nominal accounts when accounting for the different transactions relating to payroll costs to ensure easier reconciliations with the FSS forms and proper presentation in the financial statements.

## **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.