

RSM Malta

Mdina Road,  
Haż-Żebbuġ, Malta  
ZBG 9015

T: +356 2278 7000

[www.rsm.com.mt](http://www.rsm.com.mt)

30<sup>th</sup> April 2024

**Il-Munxar Local Council**  
Profs. Guze Aquilina Street,  
Munxar MXR 1012  
Gozo

Dear Mayor

**RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2023**

We have completed our audit of the financial statements of the Il-Munxar Local Council for the year ended 31 December 2023. 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.

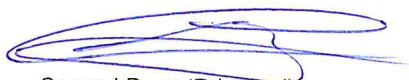
Our engagement obliges us to distribute copies of this report to (a) your Council; (b) the National Audit Office; and (c) the Local Councils' Department. Consequently, this report may not be distributed used or quoted, in part or in full, except for the scope it is prepared, without our prior written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

This report has been prepared on the basis of the limitations set out in the Responsibility Statement as presented on page 10 of this report.

During the course of our audit for the year ended 31 December 2023, 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



**THE POWER OF BEING UNDERSTOOD**  
ASSURANCE | TAX | CONSULTING



Munxar Local Council

Management Report for the year ended 31 December 2023

Contents	Page
Follow-up to last year's report	3
Property, plant and equipment	5
Payables	7
Income	8
Expenditure and Tenders	8
Other Matters	9
Responsibility Statement	10

## 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.

Furthermore, the following weaknesses were noted in relation to ongoing projects:

- For one project the amount of cost and grant capitalised were not in line with the certification of the architect.
- For another project, grants were not being accrued for and capitalised in line with the amount of costs capitalised within the property, plant and equipment.
- In another case, the grants were netted off against the costs of the project instead of showing them separately.
- Several projects classified as completed were transferred out of assets under construction without certifications being issued by the architect.
- Grants pertaining to projects not completed, were wrongly classified.
- The requested report from the architect about the Council's projects was not received.

Similar instances were noted during the current year.

### 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 being taken in relation to lease agreements that expired and for which no new agreements had been entered into. This is still applicable for the current year.

In the prior year, all deferred income was being classified as current when a portion related to projects which were still at tender stage or projects which were not planned to start in the subsequent year. There were no such instances this year.

### 1.3 Income

During last year's audit, we noted that the amount pertaining to the adjustment fund from the financial allocation was accounted for under supplementary government income.

This same weakness was noted during the current year.

1.4 Expenditure and Tenders

Last year, 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.

It was also noted that in the case of the procurement of five different services, the procurement policies in place were not followed. Similar instances were encountered this year.

1.5 Payroll

In the prior year, a discrepancy was noted between the FS5s and FS3s in the gross emoluments and fringe benefits.

No such instance was noted during the current 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 through which 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, as mentioned in point 6.1 below, we noted that all prior year audit adjustments pertaining to projects, and which only impacted the balance sheet accounts, were not passed in the books of accounts. As a result, an adjustment on the opening balances had to be passed, as well as several other adjustments to correct entries passed incorrectly during the year since the opening balances were not correct. These other adjustments are explained in the following 4 points.
- 2.6 GAG3 projects – 'Enhancing the Localities Environmental, Cultural and Artistic Value', was one of the projects in relation to which the prior year adjustments were not passed. Consequently, the following had to be reversed:
- 2.6.1 Movement accounted for by the Local Council of €10,857 which had been accounted for against the accrued and deferred income.
  - 2.6.2 Release of grants from deferred income of €50,644 which had already been released in the prior year.
  - 2.6.3 Reversal of opening accrued income amounting to €19,887.

We also noted that the amount of €50,410 was accounted for as additions for the year when these had already been accrued for in the previous year. The opening accrual was erroneously reversed against the deferred income rather than the cost account. Consequently, the amount was adjusted for against the property, plant & equipment.

An adjustment amounting to €1,033 was passed against the accrued income and deferred income in relation to part of the project costs that were temporarily funded by third parties and which amount is to be paid back by the Local Council to them as per the funding arrangement.

The project was also certified as completed by the end of year and as such the capitalised cost of €66,921 and the related grants of €65,582 were reclassified from under the assets under construction to special programmes.

- 2.7 GAGF project – ‘Valorising Gozo’s Potential and the Quality of Life for Young Persons and Young Families’, was another project in relation to which prior year adjustments were not passed. Consequently, the following had to be reversed:
- 2.7.1 Grants amounting to €12,451 that were received during the year and accounted for as deferred income, rather than reversed against the opening balance of the accrued income.
  - 2.7.2 Release of grants from deferred income of €24,583 which had already been released in the prior year.
- 2.8 Measure 4.4 – ‘Various Rubble Walls’ was another project in relation to which prior year adjustments were not passed. Consequently, the following had to be reversed:
- 2.8.1 Grants amounting to €14,734 that were received during the year and accounted for as deferred income, rather than reversed against the opening balance of the accrued income.
  - 2.8.2 Adjustments passed to bring the deferred income to zero against the asset under construction account and the accrued income, which adjustments amounted to €6,077 and €6,813 respectively.
  - 2.8.3 An adjustment of €27,624 passed between the accrued income and deferred income which amount already existed as part of the opening balances.
- 2.9 Measure 4.4 – ‘Xadba’ was another project in relation to which prior year adjustments were not passed. Consequently, the following had to be reversed:
- 2.9.1 Grants amounting to €13,383 that were received during the year and accounted for as deferred income, rather than reversed against the opening balance of the accrued income.
  - 2.9.2 An adjustment passed to bring the deferred income to zero against the asset under construction account, which adjustment amounted to €14,734.
  - 2.9.3 An adjustment of €28,117 passed between the accrued income and deferred income which amount already existed as part of the opening balances.
- 2.10 The Local Council should be fully aware of the status, funding and agreements relating to all the ongoing capital project and should ensure that the accounting records are reflecting the true picture with respect to property, plant and equipment, capitalised grants, deferred income, and accrued income. Also, it is to be ensured that the assets are properly classified between those completed and those still under construction, as apart from the presentation, it also affects the calculation of the depreciation.

- 2.11 During our procedures, we noted that in the case of the Waste Depots, grants were capitalised by recognising an accrued income of €10,341 when the Local Council had already received such funds, which were accounted for under the deferred income. Consequently, an adjustment was passed to reverse the accrued income and release the funds from deferred income. Furthermore, as per our discussion with the Executive Secretary, the project was finished in 2024 and consequently an adjustment was passed to reclassify the cost of €26,230 and grants of €15,889 to under assets under construction.
- 2.12 Other several projects and related grants, were classified incorrectly, and the following reclassifications were passed:
- 2.12.1 As noted by the Executive Secretary and minuted by the Council, the project of Torri Xlendi was completed and inaugurated by the end of the year. Consequently, the balance of €335,233 representing cost and €328,528 representing grants were reclassified out of assets under construction.
  - 2.12.2 Project MXR/02/2023 – 'Installation of Composite Railings' was not yet completed and consequently the grant €16,373 was reclassified to asset under construction to be in line with the classification of the cost.
  - 2.12.3 Project MXR/03/2023 – 'Light Fixtures and Electrical Material' was completed and the cost of €8,628 was reclassified out of assets under construction to be in line with the classification of the grant.
  - 2.12.4 Furniture bought during the year amounting to €944, had the respective grant classified under assets under construction. A reclassification was passed accordingly.
- 2.13 It was also noted that grants pertaining to the 'Slow Streets' project which was of a capital nature, were incorrectly taken to the statement of comprehensive income as revenue. An adjustment was passed to capitalise the grants amounting to €21,754 to under the assets under construction grants.
- 2.14 We recommend that the Council performs a thorough review of all the status of its projects to ensure that they are correctly classified and also 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.
- 2.15 We have requested a report from the architect about the projects that were completed during the year ended 31 December 2023 and the projects that were ongoing as of that date. This report was not received by the time of issuing this report. Consequently, we could not confirm whether there should have been any accruals as at 31 December 2023 relating to such projects that have not been reflected in these financial statements, which would result in an understatement of the accruals and of the property, plant and equipment.
- 2.16 We recommend that when closing the books of accounts, the Council asks for the architect's letter to be able to determine whether any further accruals are to be reflected with respect to ongoing projects as at the end of the year and to also ensure that projects are properly categorised between those completed and those still ongoing.

### 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 We also noted that accruals are being 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 and signed.

#### 4.0 INCOME

- 4.1 During the year under review, we noted that the amount of €2,893 pertaining to the adjustment fund from the financial allocation, has been accounted for under supplementary government income. This amount was reclassified together with the amount allocated in terms of Article 55 of the Local Councils Act for presentation purposes.
- 4.2 Care should be taken when posting the transactions in the books of accounts to ensure that each transaction is posted in the correct nominal ledger, that will consequently lead to correct presentation in the financial statements.

#### 5.0 EXPENDITURE AND TENDERS

- 5.1 The Council has exceeded the budgeted expenditure under the following headings:
- 5.1.1 Public & Office Utilities (Category 2100) by €1,896
  - 5.1.2 Repairs & Upkeep (Category 2300) by €33,196
  - 5.1.3 Rent (Category 2400) by €429
  - 5.1.4 Office services (Category 2600) by €3,051
  - 5.1.5 Travel (Category 2800) by €2,314
  - 5.1.6 Hospitality (Category 3300) by €101,391
- 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 According to the procurement procedures, if in a year, similar services provided by any one supplier exceed €10,000 in value, then a tender should be issued by the Local Council. During the year under review, it was noted that two suppliers were engaged to provide their services on different occasions and in relation to which quotations were obtained every time. The invoices in total amounted to €14,757 for one supplier and €14,254 for another supplier. The Executive Secretary explained that it is difficult to predict how many activities will be held in any particular year for which such services would be required. It was also noted that another supplier was engaged for the same service on different occasions and in relation to which the total invoices amounted to €8,259. In this case a direct order was issued with no approval from the DLG. Furthermore, we also noted that, in general, when direct orders were issued by the Executive Secretary no documentation was retained to justify the reason as to why direct orders were used rather than quotes being obtained.

- 5.5 It is understood that at times, the urgency of matters might require the reduction of bureaucracy as much as possible, however we are still of the opinion that the necessary paperwork should have been done in line with the financial procedures. Therefore, we strongly recommend that the Council takes immediate action to regularize itself on these matters and to ensure that such occurrences are not repeated in the future.
- 5.6 During our audit procedures, from the sample chosen, we noted that there were instances whereby the expenses recorded related to the prior years and there were no accruals for such expenses in the prior years.
- 5.7 The Local Council should be aware of the services received and goods acquired during the year, for which no invoices would have been received and all such expenditure should be properly accrued for at the end of the financial year.

#### 6.0 OTHER MATTERS

- 6.1 From our tests on the opening balances, we noted that all the audit adjustments passed in the previous year relating to capital projects, that did not affect the statement of comprehensive income, were completely ignored from the accounting records. The accounts affected were the property, plant and equipment, the capitalised grants, the accrued income, and the deferred income. Adjustments totalling to €934.556 were passed to reflect these adjustments.
- 6.2 It is important that the Local Council performs a proper reconciliation of the opening balances to ensure that all audit adjustments have been properly reflected in the accounts and should keep proper documentation to be provided to the auditors when asked for to check the opening balances.
- 6.3 When we were provided with the financial statements for the audit, we noted that the amendments to International Accounting Standard 1 – Presentation of Financial Statements, relating to the disclosures of the accounting policies, effective for annual periods beginning on or after 1 January 2023, were completely ignored.
- 6.4 The Local Council should be knowledgeable of the new and amended International Financial Reporting Standards as adopted by the European Union and should ensure that where applicable, any new requirements and amendments are implemented as from the effective date.

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.