

**RSM Malta**

Mdina Road,  
Haż-Żebbuġ, Malta  
ZBG 9015

T: +356 2278 7000

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

15<sup>th</sup> July 2025

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



Dear Mayor

**RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2024**

We have completed our audit of the financial statements of the II-Munxar Local Council for the year ended 31 December 2024. 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 2024, 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



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**Munxar Local Council**

**Management Report for the year ended 31 December 2024**

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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 action was taken on the above matter.

The below weaknesses were also noted with respect to property, plant and equipment:

- The cost column in the fixed assets register reflects the total cost of property, plant and equipment less the grants meaning that fully funded assets are not reflected.
- The fixed assets register does not show the acquisition dates of all the items of property, plant and equipment.
- There were items of property, plant and equipment, as well as grants, that were classified under the wrong assets' categories.
- Prior year audit adjustments pertaining to projects that affected only the statement of financial position were not passed in the accounts leading to incorrect adjustments passed during the year in relation to grants.
- The report requested from the architect about the projects completed during the year and the projects that were still ongoing at the end of the year, was not received by the time we concluded our audit.
- A grant relating to a capital project was wrongly accounted for in the statement of comprehensive income.

The above weaknesses, other than the last three, were encountered again during the current year audit.

### 1.2 Payables

In the prior year, we noted that an accrual relating to the rent of the basement under the Council's office from the Housing Authority, was increasing every year since 2008 as there is no lease agreement in place and no invoices are being issued to the Council.

We have also noted another accrual relating to rent whereby the related two lease agreements expired and they were never renewed.

The above matters have not been resolved during the current year.

### 1.3 Income

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

This weakness was not encountered during this 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 certain instances, the procurement procedures and policies in place were not followed. Similar instances were encountered this year.

During our testing, we also noted that there were invoices relating to the prior year, that were not previously accrued for. No such instances were encountered during the current audit.

1.5 Other matters

Not all the audit adjustments passed during the previous year's audit were reflected in the accounts of the Local Council, in particular those affecting only the statement of financial position. This was not the case during the current year.

The financial statements provided to us for the audit, did not reflect 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. This year, such amendments were reflected.

## 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:

- 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.
- 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 While reviewing the fixed assets register, it was noted that the figures in the fixed assets register did not tally to the figures shown in the unaudited financial statements. The following variances, before passing any audit adjustments, have been noted:

- The total cost as per the fixed assets register amounted to €867,888 whilst the total cost as per financial statements, excluding the assets under construction, amounted to €4,184,184.
- The total accumulated depreciation as per the fixed assets register amounted to €166,500 whilst the depreciation and grants as per financial statements amounted to €4,038,522.
- The net book value as per the fixed assets register amounted to €117,991 whilst the net book value as per financial statements, excluding the assets under construction, amounted to €145,662.

One can notice that when the accumulated depreciation is deducted from the total cost in the fixed assets register, the resulting net book value should be €701,388 whilst the shown net book value is €117,991. This resulted since for some of the items, the cost was included and then the accumulated depreciation was left as nil, and the net book value was also somehow marked as nil. If these assets were fully depreciated, then the accumulated depreciation should be equal to the cost.

- 2.6 We recommend that a proper fixed assets register is built that would contain complete details of every item of property, plant and equipment of the Local Council, including the grants allocated to certain assets. Fixed assets should be properly coded to facilitate the identification of the assets. Periodic inspections should be conducted to check the completeness and validity of the items in the fixed assets register, thereby increasing control over the assets and maintaining the integrity of the data in the fixed assets register. If the correct costs and accumulated depreciation could not be recorded in the fixed assets register due to the change in the accounting policy for the depreciation, then a separate register containing this information should be maintained that would then be used when reconciling the costs, accumulated depreciation and grants found in the fixed assets register with those found in the accounts and financial statements.
- 2.7 It was noted that within the category plant and machinery, there is included a fully depreciated photocopier bought in previous years at a cost of €2,596. Such item should have been classified under the category computer and office equipment. Similarly, within the category urban improvements we noted items that This error was not adjusted.
- 2.8 When accounting for acquisitions of property, plant and equipment, it is to be ensured that the items are classified under the correct categories both in the accounts and the fixed assets register. This would ensure that the proper depreciation rates are applied and that the presentation of the property, plant and equipment in the financial statements is correct.
- 2.9 We also noted that capitalised grants relating to different categories of assets were accounted for in an account named grants relating to special needs and in an account named grants relating to ANYC. Consequently, we passed adjustments to reclassify such grants and show them under separate nominal accounts depending on the assets category. These reclassifications amounted to €69,404 in relation to opening balances and €72,338 in relation to new grants during the year.
- 2.10 It is important that separate nominal accounts are maintained for the capitalised grants to keep them separate in line with the different categories of assets. This would ensure better monitoring of the grants relating to each class of assets and facilitates the preparation of the note disclosed in the financial statements relating to property, plant and equipment.
- 2.11 When testing the capitalised grants, the below errors were noted:
- The grant amounting to €944 relating to Skemi Regionali Libreriji fil-lokalita was received twice and both amounts were capitalised. As such, we passed an adjustment to transfer the additional grant to under deferred income.
  - A grant amounting to €1,800 relating to the Xlendi Sunset Festival was incorrectly capitalised. Consequently, an adjustment was passed to write off this grant to the statement of comprehensive income.
  - A grant amounting to €5,010 relating to Kultura Ghawdex activities was incorrectly capitalised. Consequently, an adjustment was passed to write off this grant to the statement of comprehensive income.
  - A grant amounting to €8,560 relating to GAG3 was incorrectly capitalised. Consequently, an adjustment was passed to write off this grant to the statement of comprehensive income.
- 2.12 We highly recommend that the Local Council takes more care when accounting for grants received and should distinguish between those grants that are related to capital projects that are to be capitalised if the project is done and those related to activities and therefore should be accounted for in the statement of comprehensive income to match them with the expenditure incurred they intend to cover. It is to be ensured that the Council abides with the

requirements of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance.

- 2.13 When browsing the nominal ledgers relating to property, plant and equipment, we noted an adjusting entry for €537 between the nominal account 7310, Office Equipment and the nominal account 7500, Special Programmes – Tax-Xatba. When we enquired what this entry represented, no explanation was provided to us, and it was agreed to reverse such accounting entry.
- 2.14 It is important that every entry passed in the books of accounts is supported with proper supporting documentation or workings and that the description included in every transaction clearly described what the transaction represents.

### **3.0 RECEIVABLES**

- 3.1 During our audit, we noted that the prepayments as at the end of the year were accounted for twice. As a result, we have passed an adjustment amounting to €3,003 to reverse the double entry made.
- 3.2 Care should be taken when closing the books of accounts to avoid such errors in the future. When the accounts are finalised, every figure should be checked against any supporting workings that would have been used to close off the accounts.

### **4.0 CASH**

- 4.1 When checking the bank reconciliation of the HSBC bank account, we noted that the book balance shown in the bank reconciliation report of €661,737 did not match the balance in the books of accounts of €661,318. The balance as per bank statement then agreed.
- 4.2 It is to be ensured that the bank reconciliation provided to the auditors is the most updated one. If any further transactions are passed in the accounts after printing the reconciliation, an updated reconciliation is to be printed and kept.
- 4.3 When going through the list of unrepresented cheques listed in the bank reconciliation report, we noted an unrepresented cheque dated in 2023 amounting to €350. Such cheque has become stale and should have been reversed.
- 4.4 We highly recommend that the Local Council reviews the reconciling items and any cheques that would have become stale, are investigated. Stale cheques might represent cheques that have been cancelled and never reversed in the accounts or cheques that were truly not presented and would need to be replaced or cheques that have been double posted and not got noticed.
- 4.5 When reviewing the nominal ledger relating to the petty cash, we noted two instances where the Council has made cash payments which were higher than the limit of €50.
- 4.6 The Council should abide with the Local Councils (Financial) Regulations which stipulate that payments for expenditure affected from the petty cash should not exceed the value of €50.

### **5.0 PAYABLES**

- 5.1 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 and the total accrual as at the end of the year amounted to €48,378. Due to the lack of a lease

agreement, we could not assess whether International Financial Reporting Standard 16: Leases is applicable to such lease.

- 5.2 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.
- 5.3 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. The total accrual as at the end of the year amounted to €8,770.
- 5.4 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.

## 6.0 EXPENDITURE AND TENDERS

- 6.1 The Council has exceeded the budgeted expenditure under the following headings:
  - Public & Office Utilities (Category 2100) by €4,754
  - Repairs & Upkeep (Category 2300) by €9,564
  - Rent (Category 2400) by €6,186
  - Office services (Category 2600) by €66
  - Transport (Category 2700) by €2,732
  - Various Operations and Maintenance (Category 3000) by €887
  - Loss on Disposal of assets (Category 3500) by €1,688
- 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 in order for the discrepancies would not materialise.
- 6.4 From the sample of expenditure items tested during the audit, we noted that no quotations were obtained for the telephony services provided to the Local Council despite there is more than one service provider for such service. We also noted that two suppliers, one for gardening services and the other for transport services, were issued several direct purchase orders for the same services during the year. The value of the services during the year amounted to €4,398 and €3,476 respectively. In these cases, a direct order was issued with no approval from the DLG. 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.
- 6.4 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.

## 7.0 PAYROLL

- 7.1 We have noted discrepancies between the gross emoluments reported in the FS5s and those reported in the FS7. The gross emoluments in the FS5s amounted to €111,973 whilst those in the FS7 amounted to €111,472. The difference seems to be coming from the non-taxable fringe benefits.
- 7.2 We suggest that on an annual basis, a reconciliation is performed between all the FSS forms to ensure that they all tally with the accounting records and between themselves before submitting them to the Commissioner for Revenue.
- 7.3 When browsing the accounts relating to payroll costs, we noted that the salary of the executive secretary was accounted for in the employees' salaries account rather than in the nominal account specifically available for the executive secretary's salary. A reclassification adjustment of €40,003 was passed to reflect the executive secretary's salary in the appropriate nominal account.
- 7.4 It is to be ensured that the payroll costs are accounted for in the various specific nominal accounts available that would then make it easier to prepare the note to the financial statements relating to personal emoluments.

### **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.