

RSM Malta

Mdina Road,
Zebbug ZBG 9015,
Malta.

T+356 2278 7000
F+356 2149 3318

www.rsm.com.mt

17th May 2021

Ghasri Local Council
6, Triq Dun Karm Caruana,
Ghasri GSR 1021,
Gozo

Dear Mayor,

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

We have completed our audit of the financial statements of the Ghasri 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 8 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 for his assistance during the course of our audit.

Yours faithfully



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

Ghasri Local Council

Management Report for the year ended 31 December 2020

Contents	Page
Follow-up to last year's report	3
Property, plant and equipment	5
Stocks	5
Bank and cash	6
Personal emoluments	6
Expenditure and tenders	7
Responsibility statement	8

1.0 FOLLOW-UP TO LAST YEAR'S MANAGEMENT REPORT

1.1 Property Plant and Equipment

The fixed assets register did not include enough details to be able to easily identify certain items of electronic equipment during the physical inspection and hence it was difficult to determine if they were still in use. During 2020, we noted that some of these old electronic equipment were disposed off. However, the fixed assets register still did not contain enough details on the various items of property, plant and equipment to make them easily traceable.

The Local Council should be depreciating its assets on a monthly basis in line with the accounting policies applicable to Local Councils, rather than on a yearly basis as was being done. The fixed asset register only included the year of purchase rather than the exact date of purchase, and as such, it was not possible to calculate the depreciation charge on a monthly basis. The same issue was still present in 2020.

1.2 Stocks

In the prior year, we emphasised the importance of a cash count for the cash float for the sale of stamps. This was not done for 2020.

We also emphasised the importance of recording the sale of stamps at least on a manual ledger so the Council could track the movement of the sales. This control was in place during 2020. The Council has also started recording the sale of stamps in accordance with the correct accounting treatment, as in the prior year, the commission on the sale of stamps and cards was being recognised on the date of purchase.

1.3 Receivables

The Council was not differentiating between postings in the accrued income account and the prepayments account and was not keeping a breakdown of these amounts. The Council also did not reverse accrued income that was received during the year. We did not encounter any such instances during the current year.

1.4 Bank and Cash

In the prior year, we found stale cheques within the bank reconciliations. During the year under review, we found similar instances.

1.5 Payables

From the architect's letter received, it transpired that works carried out by various contractors on resurfacing of roads, for which invoices have not yet been issued as at the end of the year, as either the works were not yet certified or the works were still in progress, have not been accrued for. No similar issues were encountered this year.

1.6 Income

During our testing on income, we noted that the Local Council is netting off the income received from Wasteserv for organic waste collection against the cost of waste collection

rather than showing them separately. During 2020, the Local Council accounted for these separately as income and expenditure.

Last year we also noted that income received from the central government was classified as general income. Within the income accounts, we also found funds received for a capital project not yet carried out which had to be accounted for as deferred income. No such weaknesses were found during the year under review.

1.7 Personal emoluments

A recurring problem is the lack of contracts between the Local Council and its employees in line with their present working conditions. The Council still does not have contracts for its employees.

Some reclassification adjustments had to be passed as some payroll costs were not accounted for in the correct nominal account. We had to pass similar adjustments in 2020.

Variances were noted between the amounts declared in the FS5s and the amounts declared in the FS7. A variance was also noted in the performance bonus accrued for at the end of the year. No such variances were found during the current year under review.

1.8 Expenditure and tenders

Last year, we pointed out that the expenditure in certain categories exceeded the budget. A similar situation was encountered this year.

The Council used one form for the purchase request and the purchase order which is not in line with the prescribed regulations. This was still being done during 2020.

One case was encountered where the Council did not issue a call for quotations despite the related expenditure exceeded the thresholds for direct orders. This was not noted in 2020.

When browsing through the administrative expenses' accounts, we noted that there was included therein a control account used for the Ghasri Sub Post office services. In the Sage accounting system, this account was set as an expense account and as a result thereof, it did not carry forward any balances from one year to the other. The same issue has been noted in the current year.

2.0 PROPERTY, PLANT & EQUIPMENT

- 2.1 When carrying out the physical inspection on a sample of assets found in the fixed assets register, we encountered issues as some items chosen could not be identified due to the lack of details found in the fixed assets register. Therefore, we could not verify whether the assets were still in use. In prior years, this weakness was already communicated to the Local Council, but no action has been taken.
- 2.2 We emphasise the importance that the Local Council maintains enough details in the fixed assets register to easily identify each item of property, plant and equipment listed therein. The Local Council should also carry out physical inspections regularly on a sample of items of property, plant and equipment, to check whether the assets are still in existence and in good condition for use. If any assets are found missing or not in good condition for use, the Council should follow the regulatory procedures to ensure that such assets are written off from the accounts and the fixed assets register.
- 2.3 The Local Council should be depreciating its assets on a monthly basis in line with the accounting policies applicable to Local Councils rather than on a yearly basis as is currently being done. The fixed asset register only includes the year of purchase rather than the exact date of purchase, and as such, it is not possible to calculate the depreciation charge on a monthly basis. We determined that the depreciation charge for the current year is not materially overstated. We urge the Council that going forward the fixed asset register should include the exact date of purchase, and the depreciation charge is to be calculated on a monthly basis in line with the accounting policy.
- 2.4 During our audit, we noted that grants relating to completed construction projects, being those on Triq tat-Tamar and Trejget San Pupalju, were not reclassified from deferred income to under property, plant and equipment. The total value of these grants was €215,772. An audit adjustment was passed to correct this error. The depreciation for this category was also recalculated due to other errors found in the depreciation charge for the year and a net adjustment of €47 was passed to reconcile the book balance with the revised fixed asset register.
- 2.5 It is important that the Local Council is fully aware of the grants accounted for under the deferred income and reclassifies any grants relating to completed projects to property, plant and equipment. Furthermore, the Council should also make sure that the depreciation is correctly calculated in the fixed asset register and reconciles the register with the book balances to avoid inconsistencies.
- 2.6 During the year, we noticed that the Local Council capitalised litter bins with a value of €443 and is depreciating such expenditure over 10 years. In accordance with the accounting policy adopted by the Local Council, such expenditure should not be classified as a capital expenditure and should be expensed during the year it is incurred. The Local Council should ensure that the accounting policies are properly adopted at all times.

3.0 STOCKS

- 3.1 During our audit, we noticed that the Local Council is not conducting any cash counts of the cash held for the sub-post office activities. The Council ended up having to pass management adjustments amounting to €1,497 to tally with the cash count performed during the audit process. After the management adjustments, the petty cash used for the sale of stamps remained overstated by €92.

- 3.2 Regular cash counts should be carried out and the result reconciled with the ledger and the accounting records.
- 3.3 After passing the above adjustments, the Council still had an overstated stock balance of €595. No reconciliation or explanation was provided by the Council from where this variance is arising.
- 3.4 We recommend that the Council performs monthly reconciliation of the stock account with the actual stock in hand.

4.0 BANK AND CASH

- 4.1 When checking the bank reconciliations, it was noted that cheques amounting to €254 became stale by the end of the year and have not been reversed.
- 4.2 At the end of each financial year, the Local Council should go through the list of unpresented cheques and any cheques that would have become stale by that date should be investigated. It could be that another cheque was issued to replace a particular cheque and the old cheque would have not been reversed.
- 4.3 When browsing through the petty cash account, we noticed that income arising from permits and other sources is sometimes being put into the petty cash box rather than in a separate cash box.
- 4.4 We highly recommend that the cash received from the various revenue streams is kept separate from the petty cash. On the petty cash, the imprest system should be adopted and only cheques issued from the bank account of the Local Council should be used to top up the balance.

5.0 PERSONAL EMOLUMENTS

- 5.1 The employees still do not have a signed contract of employment with the Local Council in line with their present conditions of work, except for the new executive secretary.
- 5.2 As per our previous years' recommendation, a contract should be drawn up for all the Council employees setting out the current conditions of employment. The employer is legally bound to have a signed contract of employment in place, with each employee.
- 5.3 During the year we noticed that a portion of the librarian salary was allocated in a non-payroll nominal expense account. During the audit, we had to pass a reclassification adjustment of €1,716 to correct this error.
- 5.4 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.
- 5.5 A variance of €465 was found between the payroll costs as per accounts and the payroll costs as per FS7, after adjusting for the accrued performance bonus. This was after the reclassification adjustment passed as mentioned in point 5.3 above.

- 5.6 The Council should carry out an annual reconciliation between the payroll costs as per accounts and the costs as per FS7, and any variances noticed should be investigated and corrective action taken.

6.0 EXPENDITURE AND TENDERS

- 6.1 It was noted that the Council has exceeded the budgeted expenditure for several categories, namely:
- 6.1.1 Rent (Category 2400) by €66
 - 6.1.2 Memberships (Category 2500) by €500
 - 6.1.3 Information services (Category 2900) by €163
 - 6.1.4 Contractual services (Category 3000) by €5,536
 - 6.1.5 Professional Services (Category 3100) by €2,445
- 6.2 The Financial Procedures applicable for Local Councils require Councils to draw up twelve (12) months budgets, three (3) years 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 note which areas in the budget need revising.
- 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/year such discrepancies would not materialise.
- 6.4 While testing expenditure, we noted that the Council uses one form for purchase requests which is then used as a purchase order instead of using a separate form in line with the prescribed regulations.
- 6.5 We recommend that the Council should adhere to the procedures applicable to Local Councils. Moreover, the proper use of purchase orders would also help the Council to identify all liabilities at year-end.
- 6.6 When browsing through the administrative expenses' accounts, we noted that there was included therein a control account used for the Ghasri sub-post office services. In the Sage accounting system, this account was set as an expense account and as a result thereof, it did not carry forward any balances from one year to the other. No adjustments were passed as the amount was immaterial.
- 6.7 The Local Council should ensure that the setting of this account is changed in the Sage accounting system and should also investigate what the balance as at the end of the year represents. The balance in this account should be reconciled with the amounts that are payable to Maltapost.
- 6.8 During our testing on the expenditure, we have noticed that the Local Council did not abide by the procurement procedures when requesting legal services for the evaluation of two tenders, as no quotations were obtained. The value of these services amounted to €200.
- 6.9 We understand that the bureaucratic requirements of the public procurement regulations may be cumbersome. However, we highly suggest that the Council adopts these regulations to full effect.

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.