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22 April 2022

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

Dear Mayor,

RE: MANAGEMENT REPORT – FOR THE YEAR ENDED 31 DECEMBER 2021

We have completed our audit of the financial statements of the Ghasri Local Council for the year ended 31 December 2021. 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.

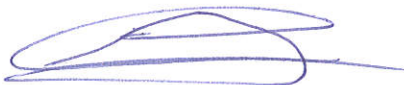
This report has been prepared on the basis of the limitations set out in the Responsibility Statement as presented on page 8 of this report.

During the course of our audit for the year ended 31 December 2021, 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 one can 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 her 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 2021

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1.0 FOLLOW-UP TO LAST YEAR'S MANAGEMENT REPORT

1.1 Property Plant and Equipment

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. During the year under review, we found similar instances.

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. This issue is no longer present in 2021 as for additions during the year, the date of purchase was included and depreciation computed from the month of purchase.

In the prior year, we noted that grants relating to completed construction projects, being those on Triq tat-Tamar and Trejzet San Pupalju, were not reclassified from deferred income to under property, plant and equipment. No such instance was noted during the year.

We also noticed that the Local Council capitalised litter bins with a value of €443 and was 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. No action was taken in this respect.

1.2 Stocks

In the prior year, we emphasised the importance of monthly reconciliations to be performed of the stock account with the actual stock in hand. This was conducted as at the end of 31 December 2021 and no adjustments were necessary for the year.

1.3 Bank and Cash

In the prior year, we found stale cheques within the bank reconciliations and noted that income from various revenue streams is being put into the petty cash box rather than being kept separate. During the year under review, we found similar instances.

1.5 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.

In the prior year we noted that a portion of the librarian salary was allocated in a non-payroll expense account. No such instance was noted during the year.

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. One such instance was noted during the year.

1.6 Expenditure and tenders

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

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. No action was taken in this respect.

One case was encountered where the Council did not issue a call for quotations. This was not noted in 2021.

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. This issue was not 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 During the year, it was noted that the amount of €36,001 which pertains to reimbursements received from Water Services Corporation for works on roads carried out by the Local Council, were recognised as income in the books. Per our review of the accounts, it was noted that the expenditure relating to such income was capitalised with property, plant & equipment. Consequently, an adjustment was proposed for this income to be reversed and instead accounted for against these capitalised costs. As a result, the depreciation charge was also adjusted by €6,562.
- 2.4 We recommend that when the Council receives funds to cover costs incurred, it should trace the costs being covered. If such costs are of a capital nature, then the funds should also be capitalised to be matched with the costs they intend to cover, which will result in a lower annual depreciation.

3.0 BANK AND CASH

- 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. A reconciliation was conducted by the audit team after which the cash used for sub-post office activities was noted to be overstated by €32. This was not deemed to be material and consequently, no adjustment was proposed.
- 3.2 Regular cash counts should be carried out and the result reconciled with the ledger and the accounting records.
- 3.3 When checking the bank reconciliations, it was noted that a cheque amounting to €50 became stale by the end of the year and had not been reversed. This was not deemed to be material and consequently, no adjustment was proposed.
- 3.4 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.
- 3.5 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.

- 3.6 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.

4.0 PERSONAL EMOLUMENTS

- 4.1 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.
- 4.2 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.
- 4.3 A variance of €63 was found between the payroll costs as per accounts and the payroll costs as per FS7. The allowance payable to one employee was subsequently cancelled and was not reflected in the books. An adjustment for the same amount was passed to reverse the transaction in the books.
- 4.4 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.

5.0 INCOME

- 5.1 During the year under review, we noted that the amount of €11,275 earned from the collection of organic waste was offset against the expense incurred by the Local Council for garbage collection. The Local Council should not offset income and expenses, as stipulated in IAS 1 *Presentation of Financial Statements*.
- 5.2 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.
- 5.3 It was noted that the financial allocation of the Council was understated by €417 due to funds received being net of the MITA expenditure incurred. An adjustment was passed to reflect the total funds that the Council was eligible for as well as the expenditure incurred in relation to IT.
- 5.4 Moving forward, we recommend that the total funds received as per the accounts be reconciled to the amounts as per Financial Allocation for Local Councils and where differences are noted these are investigated.

6.0 EXPENDITURE AND TENDERS

- 6.1 It was noted that the Council has exceeded the budgeted expenditure for several line items, namely:
- 6.1.1 Public Utilities (Category 2100) by €320
 - 6.1.2 Memberships (Category 2500) by €500
 - 6.1.3 Office Services (Category 2600) by €234
 - 6.1.4 Transport (Category 2700) by €576
 - 6.1.5 Contractual services (Category 3000) by €8,825
 - 6.1.6 Professional Services (Category 3100) by €2,145
 - 6.1.7 Hospitality (Category 3300) by €3,955
- 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 As in prior years we noted that 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.

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.