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05/05/16The Mayor  
Local Council Fontana  
Centru Civiku,  
Triq ta' Mulejja,  
Fontana,  
Gozo

Dear Mayor

**RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31<sup>st</sup> December 2015**

We have completed our audit of the financial statements of the Local Council Fontana for the year ended 31<sup>st</sup> December 2015. 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 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.

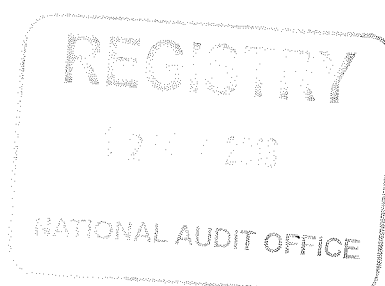
Our engagement obliges us to distribute copies of this report to (a) your Council; (b) the National Audit Office; and (c) the Local Councils Department. Consequently this report may not be distributed, used or quoted, in part or in full, except for the scope it is prepared, without our prior written 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 2015, 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 new Executive Secretary, the Acting Executive Secretary and the clerks for their assistance during the course of our audit

Conrad Borg (Partner)  
for and on behalf of  
RSM Malta**THE POWER OF BEING UNDERSTOOD**  
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**Local Council Fontana**

**Management Report for the year ended 31<sup>st</sup> December 2015**

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## **1.0 Follow-up to Last Year's Report**

### **1.1 Property Plant and Equipment**

The previous years' management letters showed a number of errors relating to the fixed assets register which was not agreeing with the nominal ledger. Although this year the fixed assets register was updated, the grants were not reflected therein.

It had also been noted that the computed depreciation charge for the year was incorrect. This issue also arose during the current period.

In the prior year, it was agreed that the various computer and office equipment that were disposed off during 2013 and that were not written off from the accounts, should have been written off in 2015. From a review of the accounts this year we noted that these assets were still not written off.

Last year we also noted that there were instances where the Local Council was not provided with a VAT fiscal receipt for payments affected for capital expenditure. The same issue was found this year.

An expenditure of a capital nature was found in the statement of comprehensive income. Although such an instance was not encountered this year, we found an instance where expenditure of a revenue nature was capitalised.

### **1.2 Receivables**

The Council did not address the issue relating to the accrued income not being recorded.

During the previous audit we had pointed out that the rent prepayment was being over estimated. No such errors were found this year.

A weakness which was highlighted during the previous year related to the amounts receivable from Green MT which had been long overdue and therefore we deemed to be doubtful to collect. An agreement was reached during the current year between the Local Council and Green MT with the full amount due being eventually settled.

### **1.3 Bank and cash**

During the previous year, it was noted that in the list of cheques not yet presented at the end of the year, there were several cheques that had become stale. No stale cheques were found in the current year list of cheques not presented.

A cheque was also found that had not been accounted for. No such instances were encountered this year.

### **1.4 Payables**

During the previous year, there were some incorrect calculations of the amortisation of the deferred grants. This issue was still not tackled in the current year.

#### 1.5 Income

During the previous year, it was noted that there were various receipts missing with respect to permits, hire of hall and an amount received from Department for Local Government. During the current year, no receipts were found missing.

#### 1.6 Expenditure and tenders

During the audit on expenditure for the year ended 31 December 2014, the following issues had emerged:

- A call for quotations or tenders for services which cost more than the direct order threshold was not made;
- Purchase requests and purchase orders were not drawn up in line with the Local Councils Financial Procedures;
- VAT fiscal receipts were not always obtained; and
- Particular cost categories exceeded the budgeted amount.

From the samples selected during the current year audit the first issue was not encountered, however the rest have been noted again.

#### 1.7 Payroll

Some issues that were highlighted during the audit for the year ended 31<sup>st</sup> December 2014. These include:

- The performance bonus has not been accrued for;
- Variances were found between the personal emoluments cost as per financial statements and the amounts shown in the FSS forms;
- Some payroll costs were posted in the wrong nominal account;
- There was lack of detail in some of the FSS forms; and
- A discrepancy was noted between the FS5s and FS7.

The first four points did not appear during the year under review, however the last one is still evident in the current audit file.

## **2.0 PROPERTY, PLANT AND EQUIPMENT**

- 2.1 It seems that the grants amounting to Euro 27,878 have not been taken into consideration when building the fixed assets register. This means that if the register is used to calculate the depreciation charge for the year, the depreciation charge would be overstated. Furthermore, over time, the amount of the accumulated depreciation would end up exceeding the cost less the grants.
- 2.2 It is recommended that the Council updates its fixed assets register to reflect such grants by adding them to the accumulated depreciation of the respective items of property, plant and equipment to which they relate.
- 2.3 In previous years, whilst reading the minutes of the Council we learnt that various computer and office equipment were to be disposed off during 2013, however these were not written off from the fixed assets register and from the accounts.
- 2.4 We suggest that the assets that are no longer in use or that became obsolete and had to be written off are identified by referring to the original invoices when they were acquired so that they would then be written off from both the fixed assets register and the accounts after following the necessary procedures.
- 2.5 Capitalised within the property, plant and equipment accounts we noticed that there were substantial costs relating to the cleaning of a valley. These costs were written off to the statement of comprehensive income under the expenditure category cleaning and maintenance of parks and gardens since such costs are of a revenue nature. These expenses amounted to Euro 19,559.
- 2.6 It is important that every expense incurred is analysed and accounted for depending on whether it is of a capital nature or of a revenue nature. Expenses of a capital nature should be capitalised while expenses of a revenue nature should be written off to the statement of comprehensive income. All expenditure forming part of the cost of the asset according to paragraph 16 of IAS 1: Property, Plant & Equipment should be capitalised
- 2.7 When testing the depreciation, we noticed that depreciation was not calculated correctly for the urban improvements and special programmes/construction categories. Depreciation for the two categories together as per accounts amounted to Euro 30,060 when it should have been Euro 26,595. Consequently an adjustment of Euro 3,765 was passed decreasing the depreciation charge for the year. Part of the variance resulted due to the adjustment passed relating to the wrong capitalisation of expenditure of a revenue nature mentioned above.
- 2.8 Care should be taken when calculating the depreciation charge for the year to ensure that the correct depreciation rates are used, that depreciation is started from the day an asset is acquired or a project is completed and that the calculations are carried out correctly.
- 2.9 While testing the additions for the year, we encountered instances whereby no VAT fiscal receipt was provided to the Council for the assets acquired. Such assets included banqueting tables amounting to Euro 826, bollards amounting to Euro 249 and a laptop amounting to Euro 550. The Council tried its utmost to obtain such VAT fiscal receipts by sending letters without any reply being received back till the date of our audit visit.
- 2.10 It is recommended that the Council should keep following up all the suppliers to submit the required VAT fiscal receipts or appropriate receipts as applicable under the VAT legislation. The Council might consider for those suppliers who are always in default, to not release their payments unless they go to the Local Council's offices with the VAT fiscal receipts book to collect the payment.

### **3.0     RECEIVABLES**

- 3.1     When confirming the year-end balance with the Gozo Regional Committee, it was found that the amount as per accounts did not agree with the confirmation received. Upon inquiry it was found that contravention commissions for the period April to December 2015 have not yet been accrued for. Such difference was immaterial and was not adjusted for.
- 3.2     It is important that the Local Council ensures that all income relating to the year under review is accounted for as it accrues. Ideally the Local Council should also issue the invoices for the contravention commissions on a regular basis.

### **4.0     BANK AND CASH**

- 4.1     Upon scrutinising the petty cash account it was noted that in one case, the purchase exceeded the limit set of Euro 23.29. The expense in question amounted to Euro 28.10.
- 4.2     The Council should follow the regulations with respect to petty cash expenditure and ensure that for any expenditure in excess of Euro 23.29, it issues a cheque and not affect payment through the petty cash.

### **5.0     PAYABLES**

- 5.1     During our testing, it was noted that the calculation of the amortisation of the deferred grants received was incorrect. Audit adjustments netting off to Euro 1,230 were passed in this respect, increasing the amortisation for the year.
- 5.2     We highly suggest that the Local Council adheres to the requirements of International Financial Standard 20 – Government Grants, ensuring that the income approach is adopted. Furthermore, it is important that the liabilities relating to deferred income are carefully split between current and non-current in accordance with International Accounting Standard 1.
- 5.3     Whilst going through the accounts payable list, it was noted that there were a number of balances that go back for a number of years. These overdue balances should be analysed to determine whether these are still actually payable. If it results that such balances are actually not payable, then they should be written off to the respective expenditure accounts.

### **6.0     EXPENDITURE AND TENDERS**

- 6.1     During our audit procedures on the expenditure, it has been noted that purchase requests and purchase orders were not being drawn up in line with the Local Councils Financial Procedures. There appears to be no specific reason behind this practice.
- 6.2     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.
- 6.3     The Council has exceeded the budgeted expenditure under the following headings:
  - 6.3.1         Office expenses (category 2600) – by Euro 2,136
  - 6.3.2         Contractual expenses (category 3000) – by Euro 29,209
  - 6.3.3         Professional services (category 3100) – by Euro 528
  - 6.3.4         Hospitality and services to the community (category 3300) – Euro 7,371
  - 6.3.5         Misc Expenses (category 3400) – by Euro 1,070

- 6.4 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 help the Council revise the budgets in line with actual expenditure.
- 6.5 We recommend that the Council makes use of the reporting tools in hand to takes corrective measures in the budget every quarter such that by the end of the accounting period such discrepancies would not materialise.

## **7.0 PAYROLL**

- 7.1 It was noted that the FS7 did not agree with the FS5s. The gross emoluments in the FS7 amounted to Euro 47,693 whereas the total gross emoluments as per FS5s amounted to Euro 47,267, hence resulting in a discrepancy of Euro 426

## **8.0 OTHER MATTERS**

- 8.1 While carrying out our audit testing, it transpired that the accounting records for 2016 were not being updated and therefore we could not make reference to them during our testing.
- 8.2 We highly recommend that the Council keeps its accounting records updated on a regular basis.
- 8.3 When we asked for the 2016 budgets of the Local Council these were not made available to us as they were not yet prepared.
- 8.4 The Local Councils Act stipulates that every Local Council should prepare and submit an annual budget during the month of January in each financial year or within fifteen days from the date the Council is notified about its allocation whichever is the later. It is important that the Local Council abides with this regulation.

### **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 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 comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.