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www.rsm.com.mt26th April 2017The Mayor
Local Council Fontana
Centru Civiku,
Triq ta' Mulejja,
Fontana,
Gozo

Dear Mayor

RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31st December 2016

We have completed our audit of the financial statements of the Local Council Fontana for the year ended 31st December 2016. 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 7 of this report.

During the course of our audit for the year ended 31 December 2016, 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 31st December 2016

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1.0 Follow-up to Last Year's Report

1.1 Property Plant and Equipment

In the previous years' management letter, it was highlighted that although the fixed assets register was updated, the grants were not reflected therein. During the year under review, this issue was resolved.

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 be written off. 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. There were no additions to property, plant and equipment this year.

In 2015, an expenditure of a revenue nature relating to the cleaning of a valley was capitalised instead of written off in the statement of comprehensive income. No such cases were encountered this year.

1.2 Receivables

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 mainly due to administrative fees not accounted for. No such discrepancies were found this year.

1.3 Bank and cash

During the previous year, when testing the payments from the petty cash, we noticed that in one instance the payment exceeded the maximum limit of Euro 23,.29. A similar situation was 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.

We also noticed that in the accounts payable list there were several balances that go back several years and we suggested that these are analysed to confirm whether these are truly payable. This exercise has not been carried out.

1.5 Expenditure and tenders

During the audit on expenditure for the year ended 31 December 2015, the following issues had emerged:

- Purchase requests and purchase orders were not drawn up in line with the Local Councils Financial Procedures; and
- Certain cost categories exceeded the budgeted amount.

From the samples selected during the current year audit these issues were noted again.

1.6 Payroll

Last year we found a discrepancy between the figures shown on the FS7 and the figures shown in the FS5s. Similar discrepancies were found this year.

2.0 PROPERTY, PLANT AND EQUIPMENT

- 2.1 In previous years, whilst reading the minutes of the Local 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.
- 2.2 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.
- 2.3 When testing the depreciation, we noticed that depreciation was not calculated correctly for the urban improvements and special programmes/construction categories. Depreciation for the category urban improvements as per accounts amounted to Euro 11,501 when it should have been Euro 8,692 while the depreciation for the category special programmes/construction as per accounts amounted to Euro 14,019 when it should have been Euro 15,741. Consequently, an adjustment was passed decreasing the depreciation charge for the year by Euro 1,087.
- 2.4 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.
- 2.5 Within the fixed assets category 'Assets Under Construction' there is an amount of Euro 1,272 representing architect's fee and planning authority application fee relating to the extension of the building. This has been brought forward for a number of years now and the project has not yet been carried out. If the project is not going to be done, this amount should be immediately written off to the statement of comprehensive income.

3.0 BANK AND CASH

- 3.1 Upon scrutinising the petty cash account, it was noted that in two cases, the purchase exceeded the limit set of Euro 23.29. The expenses in question related to the purchase of paint and paint brushed amounting to Euro 28.10 and to delivery charges amounting to Euro 32.00.
- 3.2 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.
- 3.3 When analysing the cash in hand account which amounted to Euro 1,505 as at 31 December 2016, we noted that these represented receipts dated between October to December 2016. These monies were deposited in the bank account of the Local Council on 26 January 2017, which is far after they were received.
- 3.4 Kindly note that the Local Councils (Financial) Procedures state that monies received by Local Councils must be deposited daily in the Local Council's bank account.

4.0 PAYABLES

- 4.1 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 1,035 were passed in this respect, increasing the amortisation for the year.
- 4.2 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.

- 4.3 Whilst going through the accounts payable list, it was noted that there were a number of balances that go back several years. These overdue balances should be analysed to determine whether these are still actually payable. If it results that such balances are not payable, then they should be written off to the respective expenditure accounts.

5.0 EXPENDITURE AND TENDERS

- 5.1 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.

- 5.2 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.

- 5.3 The Council has exceeded the budgeted expenditure under the following headings:

5.3.1	Utilities (category 2100) – by Euro 718
5.3.2	Office services (category 2600) – by Euro 502
5.3.3	Transport (category 2700) – by Euro 1,062
5.3.4	Information services (category 2900) – by Euro 1,296
5.3.5	Contractual expenses (category 3000) – by Euro 8,698
5.3.6	Community and hospitality services (category 3300) – Euro 3,793

- 5.4 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.

- 5.5 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.

6.0 PAYROLL

- 6.1 It was noted that the FS7 did not agree with the FS5s. The gross emoluments in the FS7 amounted to Euro 43,186 whereas the total gross emoluments as per FS5s amounted to Euro 42,067, hence resulting in a discrepancy of Euro 1,119. Also, the tax in the FS7 amounted to Euro 5,561, whereas the tax as per FS5s amounted to Euro 5,932, resulting in a discrepancy of Euro 371.

- 6.2 It is of utmost importance that a reconciliation is carried out between the various FSS forms, in particular before sending the annual forms. It has to be ensured that all the FSS forms tally with each other.

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.