

Il-Management Letter



Spiteri Bailey & Co.

Accountancy Audit Advisory

26/04/12

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Dear Mayor

RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

We have completed our audit of the financial statements of the Local Council Munxar for the year ended 31 December 2011. 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, 2011, 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.


William Spiteri Bailey FIA MIM CSA CPA (Partner)
for and on behalf of Spiteri Bailey & Co.



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Local Council Munxar

Management Report for the year ended 31 December 2011

Contents	Page
Follow-up to last year's report	3
Property, plant and equipment	5
Receivables	5
Bank and Cash	6
Payables	6
Income	7
Expenditure and Tenders	8
Financial Statements	9
Responsibility Statement	10

1.0 FOLLOW-UP TO LAST YEAR'S REPORT

1.1 Property, plant and equipment – Point 2.0

In 2010, the Local Council purchased a new photocopier to replace the old photocopier. It was noted that the old photocopier was not disposed of even though it was no longer in use. This meant that the cost in the Fixed Asset Register was overstated and the depreciation was still running on the old photocopier.

This year we noticed that the old photocopier is still in the accounts. We were told that it was not written off from the books since the old photocopier could still be used if the need arises.

1.2 Receivables – Point 3.0

The concept of accruing for income relating to the year under review which has not yet been received was not addressed. The issue of having an overstatement of the amounts receivable was also encountered again this year.

1.3 Bank and Cash – Point 4.0

Last year, we recommended that the Local Council should retain a copy of the cheques issued before mailing them to the suppliers, in case the Local Council needs to refer back to the cheques issued. In the year under review, it was observed that the Local Council took heed of this recommendation.

1.4 Payables – Point 5.0

It was observed that the wrong accounting treatment was applied where it came to the accounting for the deferred income and the related amortisation, where government grants were concerned. Cases were encountered where an amount payable and several accruals were not accounted for. In last year's management letter, it was also pointed out that special funds utilized during the year were still being shown as other payables. The amount payable to Wasteserv Malta Limited was not included as accounts payable since the Local Councils' Association instructions were, not to pay bills that exceeded the amount received by the Council from Central Government specifically for this purpose. The Local Council should have at least disclosed the amount still payable by way a contingency liability note.

We found out that weaknesses with respect to grants and accrued expenses still existed during the year 31st December 2011.

1.5 Income – Point 6.0

The amount of the Government income allocation was accounted for net off of one of the deductions from the first government tranche. Also, the Local Council received a commission fee from Maltacom p.l.c. for acting as an agent on its behalf but the agreement between the two parties was expired and was not renewed.

During our audit for the year ended 31st December 2011, no similar situations were found.



1.6 Expenditure and Tenders – Point 7.0

The Council's actual cost exceeded the budgeted costs in two expenditure categories. In some cases, purchase requests were not being drawn up in line with the Local Council Financial Procedures while purchase orders were prepared only for certain expenditure. We also noted that the expired contract for refuse collection was still being used by the Local Council. Furthermore invoices being posted in the accounting software only once these were approved for payment in a Council meeting.

Similar situations, except for the last point, were also encountered during our testing this year.

1.7 Payroll

In this section, it was noted that the FSS tax on the Mayor's gross emoluments was charged with a tax rate of 25% except for the allowance of six months of the year 2010, which were taxed at 20%.

During the year ended 31st December 2011, the Mayor's honoraria started being taxed at 25% on both the honoraria and the allowance.



2.0 PROPERTY, PLANT AND EQUIPMENT

- 2.1 When carrying out the physical inspection of a sample of assets found in the Fixed Asset Register, we found that some of the electronic equipment listed therein, was not being used since new electronic equipment was purchased to replace it. The Local Council informed us that these assets are kept just in case the existent ones stop functioning. Furthermore, we were also informed that in the year 2012, the Local Council will carry out an exercise to write off any of these assets which will be for sure no longer used, both from the Fixed Asset Register and the accounts.
- 2.2 It is important that the Local Council carries out physical inspections regularly on 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 a good condition for use, after making the necessary investigations, 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 When testing the additions for the year we noticed that two particular additions were classified under the wrong asset category. Two reclassifications were made:
- 2.3.1 the installation of rubber safety tiles was reclassified under the playground equipment category from under the urban improvements category; and
 - 2.3.2 the big stone monument was reclassified under the urban improvements category from under the building and improvements category.
- 2.4 We emphasise that care should be taken in order to classify each fixed asset additions under the most appropriate category, ensuring that the correct depreciation rate is applied to each asset and that the property, plant and equipment schedule shows a more realistic picture of the type of assets owned by the Local Council.

3.0 RECEIVABLES

- 3.1 During our audit, it was noted that the amount receivable under the Energy Saving Scheme amounting to Euro 6,700, which amount was eventually received by the Local Council in 2012, has not been accounted for even though the Photovoltaic system was installed in 2011 on the Local Council's premises. We had to pass an audit adjustment to reflect the amount receivable in the financial statements.
- 3.2 The bill received by the Local Council from Enemalta, dated 29th February 2012, indicated that the Local Council had generated income in relation to the production of electricity from the Photovoltaic array. The income generated that related to the year 2011 was not accrued for. Hence, the necessary adjustment was passed to account for the accrued income amounting to Euro 2,583.
- 3.3 The concept of recording accrued receivables and income in the period as they accrue should be respected. The Council should know what income is receivable and still not received by the time of drawing up the financial statements and as such should be able to either accrue for the income. We strongly recommend that the Accruals Concept is embraced by the Council.



- 3.4 During the year 2011 the Local Council held sports activities for children and adults for which the Local Council was given funds as per Memo 121/2010. The approved funds consisted of 50% of the estimated total costs. The amount receivable accrued for in the accounts amounted to the whole amount of the approved funds. Due to the fact that the Local Council incurred less than the estimated costs, the funds receivable should have been 50% of the costs actually incurred. The overstatement of the accrued income amounting to Euro 1,059 was reversed by way of an audit adjustment.
- 3.5 When accruing for income from government grants or financial aid schemes that are due to the Local Council but which have not yet been received, it is important that consideration is given to the agreed terms, including the percentage of the costs that the grant or scheme is intended to cover. This to ensure that no income is recognised in excess of the actual total amount that would be eventually received by the Local Council.
- 3.6 During our testing, we noticed that an amount of Euro 399 in relation to prepaid insurance costs was expensed in the insurance coverage account rather than being accounted for as a prepayment. The necessary adjustments have then been passed.
- 3.7 At the end of each financial year, it is to be ensured that any expenses relating to future periods are accounted for under the prepayments rather than written off to the statement of comprehensive income in the year the expense is invoiced. The Council may chose to account for prepayments as soon as the relevant invoice is posted, in order not to forget any such items at the end of the year.

4.0 BANK AND CASH

- 4.1 A batch of cheques was erroneously posted in the accounting system dated 30th January 2012 instead of with the correct issue date of 30th December 2011. These cheques should have been recorded and included in the list of unpresented cheques as at year-end. Instead they were accounted for as accruals. An audit adjustment was passed to reclassify these cheques.
- 4.2 When we came to perform the cash count, we were presented by just one cash box. We noticed that the Local Council uses one cash box for both the petty cash and the receipts from permits, tender documents, etc. This fact might easily lead to situations such as ending up using other cash for petty cash payments, which situations are not deemed appropriate.
- 4.3 We therefore suggest that for better control purposes, the petty cash and the cash from receipts, should be kept separate at all time.

5.0 PAYABLES

- 5.1 The funds received in 2010 in relation to two projects: Restoration of Historical sites and Project Ghar Karolina amounting to Euro 5,000 and Euro 15,000 respectively were erroneously recorded as income in the current year. Government grants should always be matched to the expenditure which the grant was intended to cover in accordance with IAS 20. These two particular projects were not carried out in 2011 since the Local Council was awaiting approval of MEPA permits and hence no income should have been recognised. Adjustments were passed to reverse the income and to reclassify the funds as deferred income.