

II-Management Letter



Spiteri Bailey & Co.

Accountancy Audit Advisory

24/04/2013

Munxar Local Council
Profs. Guze Aquilina Street,
Munxar VCT 114, Gozo.

Spiteri Bailey & Co.
Triq Dun Karm, Birkirkara Bypass
Birkirkara BKR 9038, Malta

Dear Mayor

Tel: +356 21499250
Mob: +356 79499248
Fax: +356 21444815

RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

advice@spiteribailey.com
www.spiteribailey.com

We have completed our audit of the financial statements of the Local Council Munxar for the year ended 31 December 2012. 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.

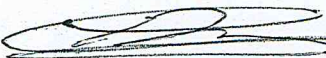
Our engagement obliges us to distribute copies of this report to (a) your Council; (b) the National Audit Office; and, (c) the Local Councils' Department. Consequently this report may not be distributed, used or quoted, in part or in full, except for the scope it is prepared, without our prior written consent.

This report has been prepared on the basis of the limitations set out in the Responsibility Statement as presented on page 12 of this report.

During the course of our audit for the year ended 31 December, 2012, 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.


Conrad Borg FCCA FIA DipIFR CPA (Partner)
for and on behalf of
Spiteri Bailey & Co.



Partners: **William Spiteri Bailey** F.I.A., M.I.M., C.S.A., C.P.A. Registered Auditor
Karen Spiteri Bailey B.A. Hons. (Accty.), F.I.A., A.M.I.T., C.P.A. Registered Auditor
Conrad Borg F.C.C.A., M.I.A., DipIFR, C.P.A. Registered Auditor



Local Council Munxar

Management Report for the year ended 31 December 2012

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1.0 FOLLOW-UP TO LAST YEAR'S REPORT

1.1 Property, plant and equipment – Point 2.0

In last year's management letter, it was pointed out that an exercise should be carried out in order to write off the fixed assets that are no longer in use. Although the Local Council stated in their comments on the Management Letter dated 8 June 2012 that this will be done, the exercise was not carried out.

Another point mentioned last year, was about the wrong classification of assets within the different categories. This year we encountered situations where assets that were still under construction were not classified as such but were put under another category.

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 maintain two separate cash boxes, to keep petty cash separate from other cash. Although the Local Council holds two cash boxes, in one box we found both the petty cash and the cash from receipts.

1.4 Payables – Point 5.0

It was observed that the wrong accounting treatment was applied where it came to the accounting for the government grants deferred income and the related amortisation. Cases were encountered where an amount payable and several accruals were not accounted for.

The weaknesses with respect to government grants and accrued expenses still existed during the year ended 31st December 2012.

1.5 Income – Point 6.0

The income receivable from water services was treated as recommended by us.

1.6 Expenditure and Tenders – Point 7.0

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

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

Last year the Council's actual cost exceeded the budgeted costs in three expenditure categories. This year the Local Council took appropriate measures to control that the actual costs does not exceed the budgeted costs.

Last year it was pointed out that the contract for engineering services was expired. During the year, the Council regulated itself by issuing a new tender and entering into an agreement with a new service provider.

With respect to the two quotes obtained over the phone, the Local Council stated that this will be avoided in future since the local council will request quotes in writing. No such situations were encountered this year.

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. We were informed that the Local Council should have carried out an exercise this year to write off any assets which were no longer being used, but the staff did not have sufficient time to carry out this exercise. This exercise is now planned to take place in 2013.
- 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 three particular additions were capitalized under various assets categories and started being depreciated, even though the projects were not completed or the asset was not yet installed. The items which were then reclassified to the category assets under construction, and the related depreciation reversed, were the following;
- 2.3.1 the furniture for Tal-Kantra was not yet installed in 2012 (Euro 20,070);
 - 2.3.2 the resurfacing of rural track, Tal-Ponta, Munxar, which project was not ready by December 2012 (Euro 27,934); and
 - 2.3.3 the furniture of Tal-Ponta and Tal-Kantra, although some items of the furniture were installed, the whole installation is to be ready in 2013 (Euro 7,720).
- 2.4 We emphasise that care should be taken to ensure that the fixed assets additions relating to projects not completed by the end of the year are correctly categorised as assets under construction and that no depreciation is calculated thereon until the project is fully completed and is put in use.
- 2.5 Moreover, an adjustment had to be passed in relation to a payment approved by the Local Council on 22 January 2013 which works were carried out by December 2012. Although the resurfacing of rural track, Tal-Ponta, Munxar, was not fully completed by the end of the year, the expense should have been accounted as an accrual as at year-end. An adjustment (AA.15) was passed for the amount of Euro 53,475 in this respect.
- 2.6 We also encountered an instance where a project was ready by the end of the year but it was not capitalized and accrued for. The Project was of Eco Gozo, Triq San Xmun, Xlendi and the costs amounted to Euro 57,133. Such project should have been included in the year under review by way of an accrual and therefore an adjustment (AA.16) was passed to reflect the cost of this project. This also had an impact on the deferred income relating to government grants. When the project is completed, the deferred income should be amortized at the same rate of the depreciation. This is done to match the amortisation of the deferred income with the related depreciation.