



Spiteri Bailey & Co.

Accountancy Audit Advisory

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements have been properly prepared in accordance with the Local Councils Act, (CAP 363); the Financial Regulations issued in terms of the said Act; and the Local Councils (Financial) Procedures.

**This copy of the audit report has been signed by
Conrad Borg FCCA FIA DipIFR CPA (Partner) for and on behalf of
Spiteri Bailey & Co.**

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22/04/2015



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Accountancy Audit Advisory

22/04/2015

Munxar Local Council

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Dear Mayor

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RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

We have completed our audit of the financial statements of the Munxar Local Council for the year ended 31 December 2014. 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.

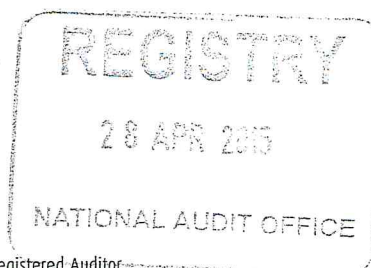
This report has been prepared on the basis of the limitations set out in the Responsibility Statement as presented on page 11 of this report.

During the course of our audit for the year ended 31 December, 2014, 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
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Munxar Local Council

Management Report for the year ended 31 December 2014

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1.0 FOLLOW-UP TO LAST YEAR'S REPORT

1.1 Property, plant and equipment

During last year's audit, it was pointed out that an exercise should be carried out in order to write off the items of property, plant and equipment that are no longer in use. Although the Local Council stated in its comments on the management letter dated 2nd June 2014 that the Council intends to carry out an exercise to write off such assets, this was not carried out.

This year depreciation on assets started as from the date of completion. On the other hand, we again encountered an instance where costs relating to a particular project were still categorized as asset under construction even though such project was ready during 2014.

During last year's audit it was pointed out the importance that the Fixed Asset Register is kept continuously updated. No action was taken on this matter since in 2014 the Fixed Asset Register and the Nominal Activity were still not agreeing. Moreover, the property, plant and equipment found outside the Council's premises are still under insured.

1.2 Receivables

The concept of accruing for income relating to the year under review which has not yet been received was not addressed. However, prepayments were accounted for correctly in 2014.

No action was taken on the matter relating to the balance due from Water Services Corporation. Moreover, more invoices were issued during 2014 which Water Services Corporation is disregarding as they are not in accordance with the agreement there is with the Corporation.

1.3 Bank and Cash

Last year, it was pointed out that all cheques need to be approved before sent to the suppliers. However, similar occurrences were found during the current audit.

It was also pointed out that it is important that the Local Council continuously monitors the list of unpresented cheques in order to check for stale cheques. No such instances were observed during the current year.

1.4 Payables

During last year's audit, it was noted that the wrong accounting treatment was applied to the deferred income and the amortisation thereof, where government grants were concerned. Cases were also encountered where an amount payable and several accruals were not accounted for.

It was found out that the weaknesses with respect to deferred income and accrued expenses still existed during the year ended 31st December 2014.



1.5 Income

The invoices issued to Water Services Corporation for road re-instatement which were not in accordance with the agreement were once again issued during 2014.

1.6 Expenditure and Tenders

In some cases last year, purchase requests were not being drawn up in line with the Local Council Financial Procedures. These situations were not encountered during our testing this year.

The Local Council has not issued a new tender for the services being provided by the Director for Tourism and Economic Development and therefore is still applying the expired contract.

During last year's audit it was pointed out that the Council has exceeded the budgeted expenditure in certain categories. This was also encountered during 2014.



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, were 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 to write off any assets which are no longer being used, but the staff did not have sufficient time to do this. This exercise is now planned to take place in 2015.
- 2.2 It is important that the Local Council carries 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 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 assets under construction we noticed that the costs relating to one particular project were still categorized as assets under construction even though such project was completely ready during 2014. These costs amounted to Euro 20,070 and related to the lamp posts and furniture of Tal-Kantra project, where the whole installation was ready by August 2014. In addition, we noticed that the above assets were not being depreciated after they were actually installed.
- 2.4 It is important that once a project is completed, all the relevant costs are capitalised under the specific asset category and depreciation started as from the date of completion. The property, plant and equipment schedule should show a more realistic picture of the types of assets owned by the Local Council and should clearly indicate the assets that are still under construction as at the end of the year and those that were completed.
- 2.5 When testing the depreciation, we noticed that depreciation was not calculated correctly for the urban improvements category. Depreciation as per accounts amounted to Euro 2,348 when it should have been Euro 7,280. An audit adjustment for the difference of Euro 4,932 has been passed to rectify this error.
- 2.6 Care should be taken when calculating and accounting for the depreciation charge for the year to ensure that it is being calculated on the correct figures. If the fixed assets register is not updated as per our recommendation in point 2.11 below, variances will surely result in the depreciation calculation. From the variance, only approximately Euro 1,000 resulted from our audit adjustments on property, plant and equipment meaning that the rest is resulting from the fixed assets register.
- 2.7 During the year, the Local Council also did the production and design of a leaflet and map relating to Measure 313 – encouragement of tourism, amounting to Euro 3,329. The Council did not account for such capital costs which formed part of an invoice which was dated in 2014. This has not only impacted the cost of the assets of the Local Council but also affected the depreciation and the deferred income since such project was co-financed from the Measure 313 scheme. Adjustments were passed to correct these errors.



- 2.8 During our testing, we found that a payment with respect to project management fees paid in relation to Tal-Kantra project was expensed instead of being capitalised. These fees amounting to Euro 5,470 were reclassified to property, plant and equipment through an audit adjustment.
- 2.9 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. Moreover, the Local Council should ensure that all invoices received are immediately recorded in the books of accounts.
- 2.10 When carrying the reconciliation between the Fixed Asset Register (FAR) and the Nominal Activity it was noticed that these were not agreeing, before passing any audit adjustments. The net book value in the accounts was lower by Euro 50,148, the cost was lower by Euro 66,530 and the accumulated depreciation was lower by Euro 16,382.
- 2.11 When we investigated the variances, it resulted that an invoice was inputted in the FAR as Euro 2,851 instead of Euro 26,839, a credit note of Euro 5,349 on the contract management fee of the Munxar Pjazza project was not reflected and an adjustment of Euro 14,794 in relation to the VAT refund and the 10% co-financing received during 2012 and which were netted of against the cost of the assets was also not reflected. Other audit adjustments which were passed in 2013 but were not reflected in the FAR include the following:
- Works carried out in 2013 on Measure 313 & 323 not accounted for and management fees in connection with Eco Gozo - Triq San Xmun which were expensed instead of capitalized, amounting to Euro 65,179
 - Works on restoration of underground mill in Xlendi not being of a capital nature amounting to Euro 165, 142.
- No adjustments were necessary to be passed in the accounts with respect to these costs since the accounting entries were correct.
- 2.12 It is important that the Fixed Assets Register is kept continuously updated with all movements accounted for in the nominal ledger and reconciliations carried out on a regularly basis, in particular before generating the depreciation calculations routine as mentioned above.
- 2.13 When inspecting the insurance coverage policy document we noticed that while the net book value of the Local Council's premises, equipment and furniture are adequately covered, the items of property, plant and equipment found outside the Council's premises are under insured. The insurance policy states that property in the open is covered up to Euro 60,000 while the net book value of all the items found in the open amount to Euro 971,979 excluding any assets under construction. The cost of these assets, again excluding any assets under construction, amount to Euro 1,607,716.
- 2.14 The Council should consider revising its insurance policy in order to ensure that all the items of property, plant and equipment falling under its responsibility are adequately covered so that in the case of an accident, the Local Council would be in a position to recover the losses incurred.