

26/04/16Munxar Local Council
Profs. Guze Aquilina Street,
Munxar VCT 114
Gozo

Dear Mayor

RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

We have completed our audit of the financial statements of the Munxar Local Council for the year ended 31 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 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 9 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 Executive Secretary and the clerk for their assistance during the course of our audit.


Conrad Borg (Partner)
for and on behalf of
RSM Malta

Munxar Local Council

Management Report for the year ended 31 December 2015

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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 8th June 2015 that the Council intends to carry out an exercise to write off such assets, this was not carried out.

Similar to last year, this year we encountered instances where costs relating to a particular project were still categorized as assets under construction even though such project was ready during the year.

During last year's audit it was pointed out that the depreciation was not calculated correctly. This was encountered again this year.

In addition to the above, last year we found some project management fees which were not being capitalised. However, action was taken on this matter as no such instances were found during the year.

It was also pointed out the importance that the Fixed Asset Register is kept continuously updated. No action was taken on this matter since in 2015 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 addressed, as accrued income was correctly accounted for in 2015. Similarly, accruing for grants which are still to be received by the Local Council relating to capital projects that have been completed has also been addressed in 2015.

During last year's audit, it was pointed out that in the list of accounts receivable there were balances coming from previous years which were probably not recoverable. This issue was taken care of this year.

1.3 Bank and Cash

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

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 accounts payable and several accruals were not accounted for. During this year's audit, it was found that the weaknesses with respect to deferred income still existed. However, the accruals and accounts payable issue was resolved.

1.5 Income

The invoices issued to Water Services Corporation for road re-instatement which were not in accordance with the agreement were not issued in 2015.

1.6 Expenditure and Tenders

The Local Council has still 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 contracts.

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 2015.

1.7 Payroll

No action was taken on the separate accounting of the performance bonuses of the Executive Secretary and the other employee since they are still being accounted for together with their salaries.

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 2016.
- 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 and started being used by the public during 2015. These costs amounted to Euro 196,696 and related to the upgrading of Triq Zghawri Nature Walk, where the whole project was ready by October 2015. Due to this, the above assets were not being depreciated from when they were actually completed.
- 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 In addition to the above, it was noted that as part of the upgrading of Triq Zghawri nature walk, there were repairs of the existing rubble walls which amounted to €9,608. The Council capitalised such costs when in fact these should have been transferred to profit or loss, given that these works are of a revenue nature. 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 2nd call scheme. Adjustments were passed to correct these errors.
- 2.6 It is important that every expenditure 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 category, the construction category and the special programmes category. Depreciation as per accounts for the urban improvement category amounted to Euro 7,281 when it should have been Euro 7,083. Depreciation as per accounts for the construction category amounted to Euro 9,128 when it should have been Euro 8,683. Depreciation as per accounts for the special programs category amounted to Euro 80,852 when it should have been Euro 104,479. An audit adjustment with the differences of Euro 22,905 has been passed to rectify this error.
- 2.8 Care should be taken when calculating and accounting for the depreciation charge for the year to ensure that the depreciation is started from when the project is completed.
- 2.9 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 higher by Euro 193,253, the cost in the accounts was higher by Euro 281,258 and the accumulated depreciation plus grants in the accounts were higher by Euro 88,005.