

27th April 2017

The Mayor
Local Council Qala
Qala Civic Centre
Bishop Michael Buttigieg Street
Qala, Gozo

Dear Mayor

RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

We have completed our audit of the financial statements of the Local Council Qala for the year ended 31 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 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, in part or in full, may not be distributed, used or quoted 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 6 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 Executive Secretary and the clerks for their assistance during the course of our audit.



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



Local Council Qala

Management Report for the year ended 31 December 2016

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1.0 FOLLOW UP TO LAST YEAR'S REPORT

1.1 Property, plant and equipment

During the previous year, we had noted that the depreciation was being calculated manually and not through the fixed assets register. Consequently, the fixed assets register did not agree with the accounts in this respect. Also, errors were found in the depreciation charge for the year. Whilst no errors were found in the depreciation charge during the year under review, the fixed assets register has still not been updated.

We had also pointed out the fact that certain invoices were not being provided to the Council on time and were not being accrued for. No such instances were found this year.

The insurance coverage was deemed inadequate as it did not cover all the assets owned by the Local Council. Following the issue of guidance to the Local Councils through Circular 33 of 2016, this issue has been resolved.

Last year, certain expenditure of a revenue nature has been capitalised instead of written off to the statement of comprehensive income. Another weakness found last year related to finished projects which were still being classified as assets under construction. There were no such cases in 2016.

1.2 Receivables

Last year no provision for doubtful debts on balances older than two years was made. A deferred expenditure relating to a project completed in 2015 was not transferred to under property, plant and equipment. An error was found in the amount of accrued income accounted for relating to the Belvedere project.

Similar issues to the first one were found again this year. The other issues were not encountered.

1.3 Payables

With respect to the payables, last year we noticed various errors relating to the deferred income and the related amortisation. Similar errors were found during the current year.

Another point we have mentioned last year was about the under accrued amount for street lighting. There were no such instances during the year under review.

1.4 Expenditure and Tenders

During our testing of expenditure and tenders, we had noted that certain expenditure categories exceeded the budget and certain procurement procedures were not being completely followed in all cases. These issues were not encountered this year. Last year, the Local Council was still using the services for street lighting under an expired contract. This matter was solved as the street lighting is now under the responsibility of the Gozo Regional Committee.

1.5 Personal Emoluments

Last year, as done in previous years, we brought to the attention of the Local Council that there are no signed contracts of employment in line with the present conditions of work. No action has been taken in this respect.

2.0 PROPERTY, PLANT AND EQUIPMENT

- 2.1 The fixed assets register is not being updated with the depreciation on the property, plant and machinery and therefore it does not agree with the figures shown in the books of accounts in this respect. The accumulated depreciation shown in the fixed assets register amounted to Euro 556,324 while the total accumulated depreciation plus grants as per financial statements before passing any audit adjustments amounted to Euro 1,002,026. This means that there is a variance of Euro 445,702 in this respect.
- 2.2 When checking the net book value as per fixed assets register, we noticed that the total amount shown of Euro 1,151,525 does not tally to the figure arrived at by deducting the accumulated depreciation from the cost as per fixed assets register which is very strange.
- 2.3 We suggest that the Local Council takes immediate action to reconcile the fixed assets register with the audited financial statements as the more time passes the more complex the exercise would become. If need be, assistance from the supplier is sought to identify the problem of the fixed assets register not computing the net book values correctly.

3.0 RECEIVABLES

- 3.1 The provision for doubtful debts on the accounts receivable was kept the same as last year at Euro 3,191. The total balances older than two years as at 31 December 2016, which should have therefore been provided for, amounted to Euro 2,640. This means that the provision for doubtful debts is overstated by Euro 551.
- 3.2 Within the accrued income, there was a balance of Euro 1,247 which has been brought forward for several years. This represented the difference between the amounts accrued for in the past years and the amounts actually received by the Local Council. From discussions held with the Executive Secretary, it transpired that this amount will not be received and therefore it was decided to write it off through an audit adjustment.
- 3.3 It is important that when closing off the accounts, the Council analyses every balance under the receivables especially those brought forward from previous years, to ensure that they are still recoverable. The Council must also abide with the instructions received from the Department to provide for any balance older than two years. Any movements in the provision should be accounted for irrespective whether it is a deduction or an increase.

4.0 CASH IN BANK

- 4.1 When reconciling the bank accounts in the books of the Local Council with the bank statements, we noticed that there was minor difference amounting to Euro 56.34 and Euro 27.37 under APS Savings account and BOV savings account respectively. Upon further analysis of the bank statements, it was noted that this variance related to unrecorded bank interest income and bank charges.
- 4.2 Care should be taken to make sure that bank reconciliations are carried out on a regular basis, and in particular as at year-end. Any variances found should be immediately investigated and the necessary actions taken thereon.

5.0 PAYABLES

- 5.1 While testing the deferred income, we noticed that the additional grants received in respect of the Belvedere at Triq iz-Zewwieqa funded by Measure 413.4 and Triq Wied Samar funded by Measure 125, representing refunds of VAT paid by the Local Council, should have been added as from the beginning of the year for amortisation purposes and not when the funds were received given that the relevant projects were already being depreciated. The variance was not deemed material to adjust.
- 5.2 We also noticed that the additional grants received during the year were not recorded in the correct nominal accounts of the respective projects' deferred income. Therefore, we have passed reclassification adjustments during our audit to rectify these errors.
- 5.3 We recommend that in the future, the matching concept and the International Accounting Standard 20 – Government Grants, are correctly applied by the Local Council. It is important that funds received are allocated as deferred income until the respective works are completed. Once the works are completed, the treatment of the grant is to be made on the income approach basis in accordance with International Accounting Standard 20. Furthermore, it is important that the correct nominal accounts are used when accounting for the various deferred income.

6.0 INCOME

- 6.1 When testing the income, we noticed that the income received by the Local Council in terms of Section 53 of the Local Councils Act (Cap. 363) was accounted for net of the deductions made by the Department of Euro 1,273. An audit adjustment was passed to gross up this income.
- 6.2 It is important that income is accounted for gross of any deductions and that no income and expenses are netted off unless a particular International Financial Reporting Standard permits it.

7.0 PERSONAL EMOLUMENTS

- 7.1 As was pointed out in previous years, the employees of the Local Council still do not have a signed contract of employment in line with their present conditions of work. The Local Council stated that it never received instructions regarding contracts of employments and these can only be done if there are standard contracts for all Local Councils.
- 7.2 We are still of the opinion that a contract should be drawn up for Council employees setting out the current conditions of employment. Every employer is legally bound to have a signed contract of employment in place, with each employee. If need be, guidance is sought on this matter from the Department.

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 way 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.