



25th April 2018

Ghasri Local Council
6, Triq Dun Karm Caruana,
Ghasri GSR 1021,
Gozo

Dear Mayor,

RE: MANAGEMENT REPORT – FOR THE YEAR ENDED 31 DECEMBER 2017

We have completed our audit of the financial statements of the Ghasri Local Council for the year ended 31 December 2017. 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 8 of this report.

During the course of our audit for the year ended 31 December, 2017, 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 for his assistance during the course of our audit.

Yours faithfully



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

Ghasri Local Council

Management Report for the year ended 31 December 2017

Contents	Page
Follow-up to last year's report	3
Property, plant and equipment	4
Stocks	4
Receivables	5
Income	5
Personal emoluments	6
Expenditure and tenders	6
Responsibility statement	8

1.0 FOLLOW-UP TO LAST YEAR'S MANAGEMENT REPORT

1.1 Property Plant and Equipment

Last year we had pointed out that certain categories of the property, plant and equipment of the Local Council were being under insured. During 2017, the Local Council was still under insuring its building.

The fixed assets register was not cleaned up in terms of a number of items relating to electronic equipment which could not be identified during the physical inspection and hence it remained difficult to determine if they were still in use. During 2017, it was noted that these items are still included in the fixed assets register.

A fax machine which was struck by lightning and left included in the fixed asset register in 2016 was disposed of in 2017.

Last year it was pointed out that the accumulated depreciation as per books and as per fixed assets register did not tally. This issue is still not yet resolved.

It was also pointed out that additions relating to 2014 and 2015 were not included in the fixed assets register. It was noted during the audit of 2017, that these items were still not included.

1.2 Receivables

Last year it was noted that no provisions for doubtful debts were made for receivable balances that were older than 2 years as instructions given. A similar situation was encountered this year.

Some of the prepaid expenditure and prepaid income were incorrectly accounted for last year. In 2017, prepaid income was accounted for in the incorrect nominal account once again.

1.3 Personal emoluments

A recurring problem is the lack of contracts between the Local Council and its employees in line with their present working conditions. A contract was made in 2017 for the new executive secretary, however no contracts exist for past employees.

Some reclassification adjustments had to be passed as some payroll costs were not account for in the correct nominal account. No such cases were encountered this year.

1.4 Expenditure and tenders

Last year we had noted that the Council was still using some expired contracts. This year, the Council used expired contracts for a period until the new tenders were issued.

We also pointed out that the expenditure in certain categories exceeded the budget for the year. A similar situation was encountered this year.

The Council used one form for the purchase request and the purchase order which is not in line with the prescribed regulations. This was still being done in 2017.

One case was encountered where the Council did not issue a call for quotations despite the related expenditure exceeded the thresholds for direct orders. No such cases were encountered during the year under review.

2.0 PROPERTY, PLANT & EQUIPMENT

- 2.1 The Local Council insured the building from where the administration of the Local Council is run together with its contents as follows: buildings at Euro 70,000, furniture and fittings at Euro 10,000 and electronic equipment at Euro 3,000, totalling to Euro 83,000. The net book values of these items as at 31 December 2017 stood at buildings Euro 106,970, furniture and fittings Euro 5,453 and electronic equipment Euro 2,795. This means that the buildings are not adequately covered.
- 2.2 In the case of an accident, the Local Council will not be in a position to recover all the losses incurred and it is suggested that the Council takes the necessary steps to revise its insurance policy, ensuring that it complies with the guidance of Circular 33 of 2016.
- 2.3 During a physical inspection carried out on a sample of assets found in the fixed assets register, we found that some of the electronic equipment could not be clearly identified and therefore we could not verify whether the assets were still in use. In prior years, this was already communicated to the Local Council, but this weakness was still present in 2017. We also noted that additions made in 2015 of computer equipment amounting to Euro 166 and additions made in 2014 relating to contract management fees amounting to Euro 1,527 were still not included in the register. An addition made in 2017 relating to a safe acquired at a cost of Euro 70 was not included in the fixed assets register.
- 2.4 We emphasise the importance that the Local Council maintains enough details in the fixed assets register to easily identify each item of property, plant and equipment listed therein. The Local Council should also carry 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. Furthermore, all additions must pass through the fixed assets register so that the register reflects all the assets of the Local Council.
- 2.5 Moreover, other than reflecting the above-mentioned additions to ensure that the costs as per fixed assets register tallies with the costs in the books of accounts, the Local Council must also reconcile the accumulated depreciation and grants amounting to Euro 452,014 shown in the accounts with the accumulated depreciation of Euro 454,738 shown in the fixed assets register.
- 2.6 Last year, an accrual of Euro 353 was made at the end of the year for an expenditure relating to some construction works. This year, when the invoice was received, it was accounted for under the repairs account whilst the accrual was properly reversed in the constructions account under the property, plant and equipment. An adjustment was passed to reclassify the invoice from the expense account to the constructions account.
- 2.7 Care should be taken when accounting for the invoices to ensure that the correct nominal account is used. Moreover, when reversing an accrual, it is to be ensured that in the account where the reversal is being posted, there is the respective invoice reflected there too.

3.0 Stocks

- 3.1 When we counted the stocks of stamps and cards during our audit visits and worked back the movements till 31st December 2017, we arrived at a theoretical closing stock value of Euro 2,080. However, the stock balance as per the books of accounts amounted to Euro 1,431. From our investigation, we found an amount of Euro 461 representing purchases of stocks that were accounted for as postage costs of the Local Council. An audit adjustment was passed to correct this error. The rest of the variance could not be traced.

- 3.2 The Local Council should carry out regular stock counts and reconcile the results with the figures shown in the accounting records. Any variances found should be immediately investigated and appropriate action taken. The current existing variance should be immediately investigated further.
- 3.3 During our audit, we also noticed that the Local Council is not conducting any cash counts of the cash held for sub-post office activities. Cash movements related to post office services are not being recorded in the accounts per transaction undertaken and no records of the movements are being kept on a manual ledger either as done for the petty cash. As a result, we could not obtain confirmation of the cash held in hand as at the end of the year from this activity.
- 3.4 The cash from the sub-post office activity is then just accounted for directly as an unrepresented deposit in the APS post office bank account. When analysing the accounts, we noticed that there was a similar transaction amounting to Euro 125 that was not properly reflected in the accounts and hence we passed an adjustment to correct this entry.
- 3.5 We urge the Local Council to start maintaining a manual ledger of all the transactions undertaken for the sub-post office activity, which ledger can then be used to update the accounts. Regular cash counts should also be carried out and the result reconciled with the ledger and the accounting records. Furthermore, the cash received should first be accounted for in a separate cash account in the books and then make a transfer to the bank account only when the actual deposit is made.

4.0 RECEIVABLES

- 4.1 It was noted that the accrued income was being allocated to nominal account 4150 – prepaid income. This is incorrect as accrued income should be allocated to nominal account 0250 – accrued income. The same issue was pointed out in the prior year.
- 4.2 It is important that care is taken when posting journal entries to ensure that the correct entries are passed. This would ensure that proper presentation of figures in the financial statements is made.
- 4.3 The Local Council did not make a provision for doubtful debts on balances which had been outstanding for more than two years as instructed by the Department. An adjustment was passed during our audit to provide for balances older than two years which amounted to Euro 183. This amount related to part of the balance receivable from the Gozo Regional Committee relating to 2015 invoices.
- 4.4 At the end of each financial year, the Local Council should make a provision for doubtful debts for any balances that are older than two years as per instructions received from the Department.

5.0 INCOME

- 5.1 When testing the income received from the central government in terms of Section 55 of the Local Councils Act (Cap. 363), we noticed that the income reported was net of the deductions of Euro 377 for MITA expenses. An adjustment was passed to gross up the income.
- 5.2 Kindly note that income should be accounted for gross of any deductions and the expense should be accounted for separately in the relevant expenditure account.

- 5.3 Within the income from the central government, we found an amount of Euro 250,664. When we obtained the necessary documentation and agreements, it transpired that this amount represented funds given to the Local Council to carry out resurfacing of roads which projects are to be done in 2018. Hence, an adjustment was passed to reallocate such funds to under deferred income.
- 5.4 Before accounting for any funds received, it is important that one checks the supporting documentation available and treat that income accordingly. If the income relates to future projects, then it should be deferred in order to be matched against the related costs that would be incurred in the future.

6.0 PERSONAL EMOLUMENTS

- 6.1 The employees still do not have a signed contract of employment in line with their present conditions of work, except for the new executive secretary.
- 6.2 As per our previous years' recommendations we continue to insist that a contract should be drawn up for all the Council employees setting out the current conditions of employment. The employer is legally bound to have a signed contract of employment in place, with each employee.
- 6.3 During our audit, we have passed several adjustments totalling to Euro 24,768 to reclassify the journal entries passed in relationship to the wages and salaries accounts to ensure that they are reflected in the correct payroll costs related nominal accounts.
- 6.4 To ensure correct and consistent disclosures of personal emolument costs in the notes to the financial statements, it is important that the correct nominal accounts are used when posting the payroll costs related transactions.
- 6.5 A variance of Euro 306 was found between the gross emoluments reported in the FS7 which amounted to Euro 48,819 and the gross emoluments reported in the monthly FS5s which amounted to Euro 48,513.
- 6.6 It is important that when preparing the FSS forms, all the figures reported therein tally. A reconciliation is to be carried out between the FS7, FS5s and FS3s.
- 6.7 When checking the tax deducted from the salary of the executive secretary, we noticed that for the first four months of 2017, the executive secretary was employed on a part-time basis as she was working elsewhere during that period. Therefore, tax was being deducted during that time at the part-time rate of 15%. However, we noticed that in her annual FS3, all the salary was declared under the gross emoluments from a full-time employment which is not correct.
- 6.8 Care should be taken when preparing the FS3s to ensure that all the information disclosed therein is correct.

7.0 EXPENDITURE AND TENDERS

- 7.1 We noted that with regards to the tender for the 'Cleaning and Maintenance of Public Convenience' the Council was using the services of Ms Maria Attard. The contract expired on 31st March 2016. A new call for tender was issued in 2017 and was awarded on 1st September 2017. The total amount invoiced by Ms Maria Attard during 2017 whilst the contract was expired amounted to Euro 3,696.

- 7.2 A similar situation was encountered with regards to the tender for 'Hire and operation of plant and machinery' where the Council was using the services of Anthony Mintoff. This contract expired on 13th July 2017. A new tender was issued in 2017 and a new contract was awarded on 1st February 2018. The supplier invoiced the Local Council Euro 16,721 during the expiration period of the contract.
- 7.3 A contract for the supply of ready mixed concrete, steel fabric reinforcement and aggregate with Road Construction Co. Ltd expired on 31st October 2016 and a new contract was awarded on 1st February 2018. The supplier invoiced the Local Council an amount of Euro 6,720 during the expiration period of the contract.
- 7.4 The contract of KIP Gozo Ltd for waste collection services had expired on 30th March 2017 and a new contract was awarded on 30th October 2017. The supplier invoiced the Local Council an amount of Euro 6,115 during the expiration period of the contract.
- 7.5 We recommend that contracts are assessed on a regular basis to ensure that those contracts which are close to expire are backed up by an immediate call for tender to ensure that the new contracts are entered into on time and avoid having the Council running on expired contracts.
- 7.6 During our testing of total expenditure of costs range to the total approved budget, the following categories were found to exceed the budget:
- Materials & supplies (Category 2200) – by Euro 232
 - Repairs & upkeep (Category 2300) – by Euro 358
 - Transport (Category 2700) – by Euro 470
- 7.7 The Financial Procedures applicable for Local Councils require Councils to draw up twelve (12) months budgets, three (3) years business plans, quarterly reports and eventually yearly administrative reports at the end of the year. The Council is also allowed to revise budgets in line with actual requirements and there are enough reporting tools to note which areas in the budget need revising. We recommend that the Council makes use of the reporting tools in hand to take corrective measures in the budget every quarter.
- 7.8 While testing expenditure, we noted that the Council uses one form for purchase requests which is then used as purchase order instead of using a separate form in line with the prescribed regulations.
- 7.9 We recommend that the Council should adhere to the procedures applicable to Local Councils. Moreover, the proper use of purchase orders would also help the Council to identify all liabilities at year-end.
- 7.10 A tender (2015-02) was awarded to Road Construction Limited for the supply of asphalt. However, the patching material that was being supplied by the supplier, was not of the standard agreed to and hence the Local Council made a direct order from Gatt Tarmac Ltd for Euro 2,845. The Local Council did not make a call for quotation for the materials being supplied as apparently the new supplier was the only alternative to use.
- 7.11 May we remind the Council that the Local Councils' Financial Procedures strictly oblige the Local Council to get a minimum of three (3) quotations for expenses which exceed Euro 1,165 but less Euro 4,659. These procedures are to be followed for all expenditure incurred by the Local Council.

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 a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.