

26th May 2020

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 2019

We have completed our audit of the financial statements of the Local Council Qala for the year ended 31 December 2019. 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 bookkeeping 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 8 of this report.

During the course of our audit for the year ended 31 December 2019, 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

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Local Council Qala

Management Report for the year ended 31 December 2019

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1.0 FOLLOW UP TO LAST YEAR'S REPORT

1.1 Property, plant and equipment

The management letter of the previous year pointed out that while testing the additions of property, plant and equipment for the year, we noted that an invoice capitalised under the category 'construction' represented patching works that should have been written off to the statement of comprehensive income. No similar occurrences were found during the current year.

No fixed assets register was provided to us during our audit and hence, we could not perform any checks on the existence and completeness of the items of property, plant and equipment. No proper fixed assets register was built during the current year.

1.2 Receivables

When testing the provision for doubtful debts on the accounts receivable, it was noted that the provision is understated. A similar case was encountered during the year under review.

1.3 Payables

When testing the payables, we noted an error with respect to the accrual accounted for relating to resurfacing works. No such errors were found during the current year.

When testing the accounts payable, no confirmations were received from some of the suppliers chosen. For one of the samples tested, a small variance was noted between the balance in the supplier's ledger and the statement received from the suppliers. No similar occurrences were encountered during the current year's audit.

No reports from the architect were received to verify the completed and on-going projects as at year-end. Hence, we could not confirm whether there should have been any accruals relating to such projects that have not been reflected in these financial statements. Once again, this year we did not receive the architect's report.

When checking the contingent liabilities, it was observed that amounts have not been included in the accounts on the basis that these costs have not been approved by the Local Council. We were not provided with any appropriate evidence as to the status of these claims. Hence, we could not satisfy ourselves as to whether these costs should have been included in the liabilities of the Local Council as at year end. Similar cases were encountered during the year under review.

1.4 Income

When analysing the various income accounts, we noted that a sponsorship income was accounted for under the cultural activities' income account rather than under the sponsorship income account. No such weakness was found this year.

1.5 Expenditures and tenders

Last year, we listed the following weaknesses in the management letter:

- The actual expenditure exceeded the budgeted costs in several categories.
- For two of the samples tested, no VAT fiscal receipt was obtained by the Local Council.

During the year under review, these issues were once again found.

1.6 Payroll

As in previous years, we noted that the Local Council's employees do not have a signed contract of employment. The situation remained the same during 2019.

2.0 PROPERTY, PLANT AND EQUIPMENT

- 2.1 No proper fixed assets register was provided to us during our audit and hence we could not perform any checks on the existence and completeness of the property, plant and equipment. We were only provided with the schedules used for the working of the depreciation that included the details of the items of property, plant and equipment that were acquired from 2018 onwards.
- 2.2 We recommend that a proper fixed assets register is built that would contain complete details of every item of property, plant and equipment of the Local Council. Fixed assets should be properly coded to facilitate the identification of the assets. Periodic inspections should be conducted to check the completeness and validity of the items in the fixed assets register, thereby increasing control over the assets and maintaining the integrity of the data in the fixed assets register. If the correct costs and accumulated depreciation could not be recorded in the fixed assets register due to the change in the accounting policy for the depreciation, then a separate register containing this information should be maintained that would then be used when reconciling the costs, accumulated depreciation and grants found in the fixed assets register with those found in the accounts and financial statements.
- 2.3 During the year, the Local Council bought bins with a value of €425 that were capitalised and are being depreciated at 10% per annum. Bins purchased in previous years were also capitalised and are being depreciated on the same basis. The accounting policy of the Local Council clearly states that bins are to be treated on a replacement basis.
- 2.4 The Local Council should ensure that when accounting for any item of expenditure, it follows the accounting policies that are disclosed in the financial statements.

3.0 RECEIVABLES

- 3.1 The provision for doubtful debts on the accounts' receivable was kept at €3,191 for several years. The total of the balances older than two years as at 31 December 2019, which should have therefore been provided for, amounted to €3,329. This means that the provision for doubtful debts is understated by €138.
- 3.2 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 balances older than two years.

4.0 CASH AND BANK

- 4.1 When checking the list of unrepresented cheques as at 31 December 2019, it was noted that cheques totalling to €874 were already considered as stale by the end of the year and hence should have been reversed. It was agreed to pass an audit adjustment to reverse these cheques.
- 4.2 At the end of each financial year, the Local Council should go through the list of unrepresented cheques and any cheques that would have become stale by that date should be investigated. It could be that another cheque was issued to replace a particular cheque and the old cheque would have not been reversed.

5.0 PAYABLES

- 5.1 When checking the accruals as at the end of the financial year, we noted that there is a long outstanding accrual amounting to €43,411 relating to resurfacing works done in Triq Sta. Marija and Triq Tas-Salib. We were informed that the delays resulted since the roads were

immediately damaged by a storm. No final bill of quantities was received from the architect and no invoices were received from the supplier either. The accrual was based on the original estimate of the costs that the architect made in the beginning of this project.

- 5.2 We recommend that this matter is investigated together with the architect who oversaw this project to get to know why this work was not yet certified as of today. If it is confirmed that the contractor should be paid for these works, then a certification needs to be issued and an invoice should be requested from the contractor. If it is confirmed that the amount is not due, then the amount should be reversed, and the respective depreciation should be adjusted as well. In the latter case, an agreement letter should be obtained from the contractor.
- 5.3 We have requested a report from the architect about the projects that were completed during the year ended 31 December 2019 and the projects that were ongoing as of that date. This report was not received by the time of issuing our report. Consequently, we could not confirm whether there should have been any accruals as at 31 December 2019 relating to such projects that have not been reflected in the financial statements, which would result in an understatement of the accruals and of the property, plant and equipment. Our opinion was modified in this respect.
- 5.4 The Local Council should ensure that this specific report from the architect is asked for during the closure of the accounts to make sure that all possible accruals are properly reflected in the accounts.
- 5.5 As disclosed in the note to the financial statements about the contingent liabilities, the Local Council has been invoiced €11,867 for architectural services and €15,392 for works carried out on the football pitch. These amounts have not been included in the accounts on the basis that these costs have not been approved by the Local Council. We were not provided with any appropriate evidence as to the status of these claims one of which is coming from 2017. Hence, we could not satisfy ourselves as to whether these costs should have been included in the liabilities of the Local Council as at 31 December 2019. Our audit report was modified in this respect as well.
- 5.6 We suggest that the Local Council should obtain in writing an opinion from the lawyer as to the probability of these costs materialising and hence becoming liabilities of the Local Council as at the end of the financial year. Ideally the issue is taken up with the suppliers so that an agreement is reached and either credit notes are issued by the suppliers or the invoices are accounted for by the Local Council, depending on the outcome.

6.0 INCOME

- 6.1 When testing the income of the Local Council, we noted that funds amounting to €4,500 that were received for restoration works not yet carried out, were accounted for as income for the year. An audit adjustment was passed to transfer such funds to under the deferred income.
- 6.2 It is important that when the Local Council receives funds for projects not yet carried out, such funds should be accounted for under deferred income until such time the project is carried out, at which point the funds should be released to the statement of comprehensive income to match the income with the expenditure that it intends to cover.

7.0 EXPENDITURE AND TENDERS

- 7.1 The Council has exceeded the budgeted expenditure under the following categories:
- 7.1.1 Materials and supplies (category 2200) – by €199
 - 7.1.2 National and international membership (category 2500) – by €1,254
 - 7.1.3 Office services (category 2600) – by €568
 - 7.1.4 Other contractual services (category 3000) – by €26,439
 - 7.1.5 Hospitality and community (category 3300) by €11,178

- 7.2 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.
- 7.3 We recommend that the Council makes use of the reporting tools in hand to take corrective measures in the budget every quarter such that by the end of the accounting year such discrepancies would not materialise.
- 7.4 Following Directive 03/2017 issued by the Department for Local Government to Local Councils on the change in the public procurement regulations, we noticed an instance from the samples tested, where the Council did not abide with the new regulations. The Local Council is acquiring services relating to the hiring of PA systems from the same supplier through direct orders. The amounts invoiced for 2019 totalled to €6,740.
- 7.5 We understand that the bureaucratic requirements of the public procurement regulations may be cumbersome. However, we highly suggest that the Council adopts these regulations to full effect.
- 7.6 From the samples chosen for the testing of the expenditure, we came across one instance where no VAT fiscal receipt was obtained by the Local Council. This expense amounted to €3,805.
- 7.7 The above issue goes against the Local Councils Financial Procedures that the Council should abide with. Therefore, we strongly recommend that the Council takes immediate action to regularize itself on this matter and to ensure that such occurrences are not repeated in the future.

8.0 PERSONAL EMOLUMENTS

- 8.1 When reconciling the allowances paid, a difference of €1,645 was noted. We found that this resulted due to double recording of the allowances for the months of July and August. When reconciling the payroll costs, we then found a cheque issued in 2019 that was not accounted for. This cheque was still unpresented as at the end of the year. These errors were corrected through audit adjustments.
- 8.2 When recalculating the mayor's honoraria as per Circular 1/2019 and Circular 14/2019, a difference of €82 was noted. The said difference resulted from the fact that the Council early adopted Circular 22/2019 which was effective from the beginning of the year 2020.
- 8.3 Care should be taken when calculating and recording the salaries, honoraria and allowances in order to avoid misstatements in the related accounts. The Local Council should carefully follow the instructions issued by the Department through the Circulars.
- 8.4 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 employment, and these can only be done if there are standard contracts for all Local Councils.
- 8.5 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 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.