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8th August 2023The Mayor
Local Council Qala
Qala Civic Centre
Bishop Michael Buttigieg Street
Qala, Gozo

Dear Mayor

RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

We have completed our audit of the financial statements of the Local Council Qala for the year ended 31 December 2021. 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 2021, 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 (Principal)
for and on behalf of
RSM Malta

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Local Council Qala

Management Report for the year ended 31 December 2021

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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 the following weaknesses with respect to property, plant and equipment:

- (a) 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.
- (b) Expenses relating to the issuance of tenders for two capital projects yet to be started, were being capitalised and depreciated.

The first weakness was noted again this year.

1.2 Receivables

The below weaknesses were noted when testing the receivables:

- (a) We noted that the invoice issued to Wasteserv for September 2020 was not accounted for.
- (b) The provision for doubtful debts on the accounts receivable was overstated.
- (c) The Council had long outstanding accrued income which was coming from the previous years, the recoverability of which was deemed to be doubtful and hence the accrued income might have been overstated.

The last weakness was noted again this year.

1.3 Payables

With respect to the payables, the following weaknesses were noted last year:

- (a) For one of the suppliers chosen for our testing, a variance was noted between the balance as per confirmation received and the balance as per accounts.
- (b) There was a long outstanding accrual relating to the resurfacing works of Triq Sta. Marija and Triq tal-Salib.
- (c) The performance bonus of the executive secretary that was being accrued for the years 2019 and 2020 was not approved.
- (d) The Local Council had invoices that have not been included in the accounts on the basis that the related costs were not approved by the Local Council. We were not provided with any appropriate evidence as to the status of these claims and hence, we could not satisfy ourselves as to whether these costs should have been included within the liabilities.
- (e) No report from the architect was 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 the accounts.

The above weaknesses, except for the last one, were noted again this year.

1.5 Income

The management letter of last year, highlighted the below weaknesses with respect to income:

- (a) Funds received for a festival that was not carried out due to COVID, were still being recognised within the revenue for the year.
- (b) Funds released with respect to the urban greening project exceeded the actual costs incurred.

The above weaknesses were not encountered again this year.

1.6 Expenditures and tenders

From our testing on the expenditure, the below weaknesses were noted:

- (a) The actual expenditure exceeded the budgeted costs in several expenditure categories.
- (b) The public procurement procedures were not always being followed.

Similar issues were encountered during the current year.

1.7 Personal Emoluments

With regards to payroll, we noted that the Local Council's employees still did not have a signed contract of employment. This weakness was still not tackled this year.

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 When analysing the information provided in the architect's letter, we noted that it was missing information about the final cost of the project relating to the water culverts at Conception Street, which project was completed by the end of the year. The other listed projects, that also had no financial information, were still not commenced by the end of the year.
- 2.4 The Local Council should advise the architect to include financial information about the projects in his letter to the auditors, to enable them to assess whether any adjustments might be required with regards to the capital projects completed or ongoing.

3.0 RECEIVABLES

- 3.1 When checking the accrued income as at the end of the year, we noted that the Council had outstanding accrued income amounting to €2,500 which has been coming from the previous years. €500 pertained to the grant for Qala International Folk Festival held in 2018 and €2,000 to a LESA grant. From discussions held by the Council, it transpired that both amounts will not be recovered. Therefore, it was agreed that there are to be adjusted for accordingly. Within the accrued income, there was also a grant relating to the restoration of a statue coming from prior years which amounted to €4,500. As per documentation provided during our audit testing, only €2,190 of this amount are recoverable and hence the difference of €2,310 was adjusted for during the audit. After these adjustments were passed, the Council still had other accrued income coming from prior years which has been outstanding for a long time and whose recoverability we could not confirm. This includes €10,000 relating to the grant for the Qala International Folk Festival held in 2019 and €4,000 relating to the 2019 carnival. Given that these amounts have been outstanding for so long, their recoverability is deemed to be doubtful and therefore the accrued income might be overstated.
- 3.2 The Local Council should make use of the grants available and ensure that it submits the necessary claim forms together with the supporting documentation within the stipulated timeframes as otherwise the Council risks losing the available funds. The Local Council should also chase any funds that it would have properly claimed, to ensure that it receives them in a timely manner to cover the costs that they intended to make good for. At the end of each financial year, the Local Council should also obtain confirmations from the relevant authorities of the amounts of funds it is entitled to and are yet to be received. Furthermore, when accruing for income earned but not yet received, reference should be made to any agreements signed or documentation received to ensure that the correct amount is accrued for. Such documentation is to be made available to the auditors during their audit work.

4.0 PAYABLES

- 4.1 For three of the suppliers chosen for testing, supplier statements were not provided. For another supplier chosen for the testing of the accounts' payable, a variance of €2,947 was noted between the balance as per confirmation and the balance as per accounts, for which no

explanation was given. The liability in the books of accounts was lower than that shown on the suppliers' statement.

- 4.2 The Local Council should regularly obtain statements from its suppliers and reconcile the balances shown therein with the balances shown in its own books of accounts. Any variances found should be investigated and the necessary actions taken to reconcile the balances. It is especially important that statements are obtained as at year-end and kept so that we can refer to them during our audit testing.
- 4.3 When checking the detailed creditors list with the amount shown in the control account in the trial balance, we noted that there was a variance of €1,072. After investigating the issue, we noted that two invoices that were posted twice in the accounting system, were reversed after the accounts were sent to us for the audit. One of the invoices amounting to €172 related to telecommunication expenses and the invoice amounting to €900 related to social events. These reversals were then reflected in the trial balance used for the audit to match the updated accounting records.
- 4.4 The Local Council should ensure that once the accounts are handed over to the auditors, no further adjustments are passed without notifying them. The starting trial balance should agree with the financial statements provided for audit purposes.
- 4.5 During our testing, we also noted that the performance bonus relating to the community workers scheme amounting to €2,655 was posted twice in the accounting records. This amount was adjusted for accordingly.
- 4.6 The Local Council should have a control in place to ensure that invoices are not posted twice in the accounting system, with the risk of paying the same invoice twice consequently.
- 4.7 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.
- 4.8 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.
- 4.9 When checking the accruals, we noted that the accrual for the performance bonuses of executive secretary for the years 2019 and 2020, were still reflected in the accounts. Last year, the mayor agreed to remove this accrual as the Council did not approve these performance bonuses of the Executive Secretary. However, we noted that the suggested adjustments were not reflected in the accounts neither last year nor this year.
- 4.10 The Local Council should properly analyse the breakdown of the accruals as at the end of the year and if there are any items that will certainly not materialise, they should be reversed rather than kept there rolling forward from one year to another.
- 4.11 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 2021.
- 4.12 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.

5.0 EXPENDITURE AND TENDERS

5.1 The Council has exceeded the budgeted expenditure under the following categories:

- 5.1.1 Public & office utilities (category 2100) – by €2,546
- 5.1.2 Materials and supplies (category 2200) – by €4,364
- 5.1.3 Rent (category 2400) – by €921
- 5.1.4 Office supplies (category 2600) – by €2,032
- 5.1.5 Travel (category 2800) – by €177
- 5.1.6 Information systems (category 2900) – by €1,214
- 5.1.7 Contractual services (category 3000) – by €9,953
- 5.1.8 Local enforcement expenses (category 3600) – by €1,133

5.2 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.

5.3 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.

5.4 Following Directive 03/2017 issued by the Department for Local Government to Local Councils on the change in the public procurement regulations, we noticed from the samples tested, that the Council did not abide with the new regulations in all instances. The Local Council is acquiring the services of an electrician and plumber without issuing a tender. The amounts invoiced for 2021 exceeded €10,000. In another two instances, no adequate supporting documentation was made available for a direct order for cleaning and landscape services amounting to €25,080 and €14,878 respectively. In another instance, no quotations were obtained for audio visual services totalling to €7,411 and when the Council purchased a laptop, it did not choose the cheapest quote that was received.

5.5 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 and that proper documentation is kept that supports every expenditure incurred.

6.0 PERSONAL EMOLUMENTS

6.1 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 employment, and these can only be done if there are standard contracts for all Local Councils.

6.2 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 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.