

**RSM Malta**

Mdina Road,  
Zebbuġ ŻBG 9015,  
Malta.  
T +356 2278 7000

[www.rsm.com.mt](http://www.rsm.com.mt)

28<sup>th</sup> July 2022

The Mayor  
Local Council Fontana  
Centru Civiku,  
Triq ta' Mulejja,  
Fontana,  
Gozo

Dear Mayor

**RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31<sup>st</sup> December 2021**

We have completed our audit of the financial statements of the Local Council Fontana for the year ended 31<sup>st</sup> 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 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.

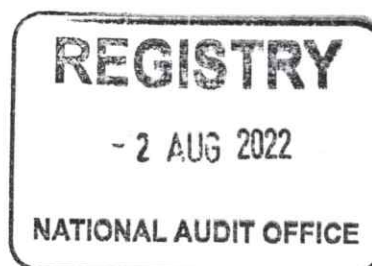
During the course of our audit for the year ended 31 December 2021, we examined the principal documents, systems and controls used by the Council, to help it ensure, as far as possible, the accuracy of these documents and to assess how much can one rely on these documents to safeguard the assets of the 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 for his assistance during the course of our audit.



Conrad Borg (*Principal*)  
for and on behalf of  
RSM Malta



**Local Council Fontana**

**Management Report for the year ended 31<sup>st</sup> December 2021**

<b>Contents</b>	<b>Pages</b>
<b>Follow-up to Last Year's Report</b>	<b>3</b>
<b>Property, Plant and Equipment</b>	<b>5</b>
<b>Cash and Bank</b>	<b>5</b>
<b>Receivables</b>	<b>6</b>
<b>Payables</b>	<b>6</b>
<b>Expenditure and Tenders</b>	<b>6</b>
<b>Mid-term Audit</b>	<b>7</b>
<b>Responsibility Statement</b>	<b>8</b>

## **1.0 Follow-up to Last Year's Report**

### **1.1 Property Plant and Equipment**

In the prior year, we noticed that the cost and accumulated depreciation of various items of computer and office equipment that were disposed during 2013 were still shown in the accounts and financial statements. The carrying value of these assets was nil as they were fully written off. No action was taken on this matter.

The expenditure classified under the category assets under construction, has been carried forward for a number of years. The Local Council had to assess whether this project is still going to be done in order to decide whether to write off such costs or not. The necessary permit was issued during the current year and the Council decided to go ahead with the project.

Whilst the fixed assets register agreed with the accounting records and lists all the items of property, plant and equipment, it lacked details of the actual cost and accumulated depreciation and grants of every asset. The fixed assets register has not been updated with the required details during the year under review.

It had been noted that the litter bins were being capitalised and depreciated at 10% which is not in accordance with the accounting policy. This issue has not been tackled during the current year.

We also noted that the payment voucher of one of the assets tested, lacked the necessary signatures thereon and no VAT fiscal receipt was made available. In another instance, no quotations were obtained in line with the Local Councils Financial Procedures. No such issues were encountered during the current year.

### **1.2 Inventory**

In the prior year, it was noted that the Council donated six books to several individuals which is prohibited as per Article 63 of the Local Councils' Act (Cap. 363). This was not noted during the current year.

### **1.3 Receivables**

Balances older than two years were not provided for as doubtful debts in line with the instructions issued by the Department. This was noticed again during the audit for the year ended 31 December 2021.

Variances were noted between the amounts confirmed by debtors and the amounts shown in the books. This issue was not noted during the current year audit.

### **1.4 Payables**

During the previous year, we noticed that in the accounts payable list, there were several balances that go back several years, and we suggested that these are analysed to confirm whether these are truly payable. This issue was not tackled during the current year.

### **1.5 Expenditure and tenders**

During the audit procedures on the expenditure for the year ended 31 December 2020, we found that purchase requests and purchase orders were not drawn up in line with the Local Councils Financial Procedures and that the Local Council exceeded the budget for certain expenditure categories. Similar findings were found during the audit for the year ended 31 December 2021.

In the prior year we also noted that the contract for the collection of organic waste had expired during 2018 and that a new tender was entered into during December 2020. This matter was solved with the signing of the new contract.

We also noted that certain procurement procedures were not being followed. This was not the case during the current year audit.

1.6 Mid-Term Audit

In the prior year it was noted that no mid-term audit was carried out when the Executive Secretary resigned. This issue was noted again in the current year.



#### **4.0 RECEIVABLES**

- 4.1 When checking the aged receivables' list, we noted that a balance of €934 was older than two years and should have been provided for as doubtful debts in line with the instructions issued by the Department.
- 4.2 It is important that at the end of each financial year, the list of receivables is analysed and checked for any balances that might be doubtful to recover. In any case, all balances older than two years are to be provided for.

#### **5.0 PAYABLES**

- 5.1 Whilst going through the accounts payable list, it was noted that there were some balances that go back several years. These overdue balances should be analysed to determine whether these are valid balances and are still actually payable, as these could be the result of the payments having been posted in the expense account rather than in the suppliers' ledgers or the invoices might have been posted twice. If it results that such balances are not payable, then they should be written off to the respective expenditure accounts.
- 5.2 During our audit, we did not obtain the supplier statements for two of the samples chosen as part of our audit procedures on the accounts payable. We also noted that not all these payable balances had been settled after year-end and consequently, we could not verify the correctness of these two balances as at year-end. It seems that the accounts payable are not being regularly reconciled.
- 5.3 We strongly recommend that each statement received from the suppliers is immediately reconciled. In cases where the suppliers do not send statements, the Council should ask for one especially at the end of the year. Any variances resulting from this exercise should be investigated immediately and appropriate action taken. This would ensure that the Local Council has a more accurate picture of its liabilities at any point in time which would help it in monitoring better its cash flows and monitor its debts. Statements received should be retained and presented to the auditors during the audit process.

#### **6.0 EXPENDITURE AND TENDERS**

- 6.1 The Council has exceeded the budgeted expenditure under the following headings:
- |       |   |
|-------|---|
| 6.1.1 | Office Materials and Supplies (category 2200) by €1,566 |
| 6.1.2 | Rent (category 2400) by €2,325                          |
| 6.1.3 | Travel (category 2800) by €6                            |
| 6.1.4 | Incidental expenses (category 3400) by €43              |
| 6.1.5 | Twinning (category 3600) by €294                        |
- 6.2 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 help the Council revise the budgets in line with actual expenditure.
- 6.3 We recommend that the Council makes use of the reporting tools in hand to takes corrective measures in the budget every quarter such that by the end of the accounting period such discrepancies would not materialise.

- 6.4 During the audit, it was noted that rent covering the periods prior to the one ended 31 December 2021, was being accounted for in the books in the current period due to no accruals having been included in the prior years.
- 6.5 We recommend that the Council keeps a schedule of all rental agreements it has entered into to ascertain that such expenditure is accrued for in the correct period, when the respective invoices would have not been issued on time by the respective parties.
- 6.6 During our audit procedures on the expenditure, it has been noted that purchase requests and purchase orders were not being drawn up in line with the Local Councils Financial Procedures. There appears to be no specific reason behind this practice.
- 6.7 It is understood that at times, the urgency of matters might require the reduction of bureaucracy as much as possible, however we are still of the opinion that the necessary paperwork should have been done in line with the financial procedures.

**7.0 MID-TERM AUDIT**

- 7.1 On 15 April 2021, the Executive Secretary terminated his employment with the Local Council and on 1 November 2021 an Acting Executive Secretary has been appointed. Nonetheless, no mid-term audit was carried out.
- 7.2 The above issue goes against the Local Councils Financial Procedures that the Council should abide with. Under the Local Councils Procedures 2006 (P2.02(b.02), P2.03(e), P2.04(d)), the Local Council is obliged to carry out a mid-term audit when there is a change in the Executive Secretary.

### **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.