

Our Ref: NAO 107/2021/22  
Your Ref:

17<sup>th</sup> May 2022

The Mayor  
Għajnsielem Local Council  
Għajnsielem

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS  
YEAR ENDING 31 DECEMBER 2021**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2021.

After seeking the Local Council's approval, you are kindly requested to submit your response to the Director (Monitoring & Support) Local Government Division, the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,



**Tanya Mercieca**  
Asst. Auditor General

Encls.

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28<sup>th</sup> April 2022

The Mayor  
Local Council Ghajnsielem  
J.F Chambray,  
Ghajnsielem GSM 1501,  
Gozo

Dear Mayor,

**RE: MANAGEMENT REPORT – FOR YEAR ENDED 31 DECEMBER 2021**

We have completed our audit of the financial statements of the Local Council Ghajnsielem 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 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 11 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 Council Staff for their assistance during the course of our audit.

Yours faithfully



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



**Local Council Ghajnsielem**

**Management Report for the year ended 31 December 2020**

<b>Contents</b>	<b>Page</b>
<b>Follow-up to last year's Management Report</b>	<b>3</b>
<b>Property, plant and equipment</b>	<b>5</b>
<b>Receivables</b>	<b>8</b>
<b>Payables</b>	<b>8</b>
<b>Income</b>	<b>9</b>
<b>Expenditure and Tenders</b>	<b>9</b>
<b>Personal Emoluments</b>	<b>10</b>
<b>Other Matters</b>	<b>10</b>
<b>Responsibility Statement</b>	<b>11</b>

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

### 1.1 Property, plant and equipment

During the previous audit, several weaknesses relating to the property, plant and equipment had been identified namely:

- During the exercises carried out by the Local Council on the fixed assets register in 2012 and in 2017, variances were found that were simply written off without the necessary justifications. The method used for the building up of the new fixed assets registers was not reliable.
- The fixed assets register lacked certain important details.
- The adoption of Directive 01/02017 was not properly carried out.
- Projects not yet completed were not being classified under assets under construction.
- Grants received for projects not yet carried out were still being capitalized and grants not yet received relating to completed projects, were not being accrued for. In other cases, grants relating to projects already capitalized, were still being shown under deferred income.

During the year being reviewed, the issues mentioned above still existed.

### 1.2 Receivables

With respect to receivables, the following weaknesses were found:

- From the four samples chosen for the confirmation of the accounts receivable, only one confirmation was received by the date we closed off our audit. A variance was noted between the confirmation received and the accounts.
- The provision for bad debts for balances older than two years was understated.
- There was an overstatement of accrued income relating to a grant.

During the current audit, only the first weakness was encountered again.

### 1.3 Payables

When testing the payables, the below weaknesses were encountered:

- The report we requested from the architect about the projects carried out during the year was not received.
- No balance confirmation was received for three of the samples of the accounts payable chosen.
- An accrual was found that was not accounted for.

The first two weaknesses were encountered again this year. This was not the case for the last weakness noted in the prior year.

#### 1.4 Income

The weaknesses encountered during our testing on the income, were the following:

- Certain items of income were classified under the wrong nominal account.
- Reimbursements were received by the Council that related to the prior year but were not accrued for in the prior year.
- CIES income not yet received was not accrued for.
- A reversal of a deposit was account for in the wrong nominal account.
- There was an understatement of income from organic waste collections due to an incorrect posting.

None of the above weaknesses were noted during the current year audit.

#### 1.5 Expenditure

During the previous audit, the following weaknesses had been highlighted:

- Actual expenditure in certain categories exceeded the budgeted expenditure.
- Purchase requests and purchase orders were not prepared regularly.
- Instances were noted where the procurement procedures were not properly followed.

The first two weaknesses were encountered again this year. This was not the case for the last weakness noted in the prior year.

#### 1.6 Personal Emoluments

During the previous audit, the following weaknesses had been highlighted:

- There were discrepancies both in gross emoluments and tax deductions between the FS5s and the FS7.
- FS7 provided to us was not signed.
- A variance was noted in the Mayor's allowance.

Weaknesses like the first two, were noted during the current year audit.

#### 1.7 Other Matters

In the prior year, it was noted that no meeting was held during the month of August. This was encountered again in 2021.

## **2.0 PROPERTY, PLANT AND EQUIPMENT**

- 2.1 During 2012, the Local Council outsourced the exercise of building the fixed assets register from scratch. One of the problems encountered in this exercise was the fact that the Council had no Sage backups of the accounts prior to the year 2008 since there was a change in the Council's accountant and apparently, he had the backups on his personal computer which were never given to the Local Council. We were given to understand that the procedure adopted was that the Council staff went around the Council premises and the urban areas within the locality to take note of the assets and then gathered all the relevant documents that could be found about the items of property, plant and equipment of the Council. As for the road resurfacing, the executive secretary contacted the architect who was responsible for the roads which were resurfaced by the Council from 1994 onwards and the costs connected to such works were taken from the final architect certification obtained. As for the Council premises, the Council listed all the assets present in the new civic centre and agreed them to the nominal ledger.
- 2.2 The method used by the Council created discrepancies in relation to the 2011 audited financial statements and the difference between the register and the nominal ledger has been accounted for as impairments through a prior year adjustment. The following were the variances noted:
- 2.2.1 The closing cost of property, plant and equipment as per the audited financial statements for the year ended 31<sup>st</sup> December 2011 amounted to €1,046,654 whilst the new opening cost as at 1<sup>st</sup> January 2012 amounted to €889,317. This means a difference of €157,337 out of which €1,108 represented a reclassification to under intangible assets.
- 2.2.2 The accumulated depreciation as per the audited financial statements for the year ended 31<sup>st</sup> December 2011 amounted to €464,800 whilst the new opening accumulated depreciation as at 1<sup>st</sup> January 2012 amounted to €361,049. This means a difference of €103,751 out of which €330 represented a reclassification to under intangible assets.
- 2.2.3 The resulting net figure after removing the reclassified amounts was €52,808. This amount has been passed as a prior year adjustment without an indication as to which assets the amounts written off relate to.
- 2.3 Moreover, the new fixed assets register still lacks important details with respect to the new civic centre. A one-line item under the buildings category shows the total balance of all the construction works, electrical works and other expenditure incurred in the building of the new civic centre. It is understood that the Council grouped all the assets together as one asset since the civic centre was capitalised wholly. During our audit visit, we were then provided with an itemised list on MS Excel.
- 2.4 The method used for the building of the new fixed assets register as described above, creates several problems. There is no assurance that the costs taken for the individual items of property, plant and equipment are all correct. It is very possible that items have been left out from the register even though they are still in existence and in good condition. There is no assurance that the new calculation of the depreciation of the assets was carried out correctly by commencing the

depreciation calculation from the correct date. The new register still lacks sufficient details to ease the traceability of the different assets.

- 2.5 Furthermore, since the above exercise was carried out, the fixed assets register was not being regularly updated. During 2017, another exercise to update the fixed assets register was carried out. Again, variances arose in both costs and depreciation that were written off without there being a real justification. The most material write offs related to the assets under construction as at 31 December 2016 amounting to €30,488 and the accumulated depreciation of the 'Special Programmes' category of €32,919. No justification was obtained for the former adjustment other than because no details were available about what the assets under construction were.
- 2.6 Due to the materiality of the amounts involved and the number of uncertainties in the new valuations of the Local Councils' property, plant and equipment, we had to qualify our audit report.
- 2.7 The current fixed assets register furthermore does not contain details of the costs, accumulated depreciation and grants of the assets fully written off. It only contains a description of some of these assets. Should the Local Council dispose of, or would need to write off, any of these fully depreciated assets, the information would not be available to pass the necessary adjustments in the accounts.
- 2.8 It is recommended that an exercise is carried out to identify the variances that arose between the accounts and the register during the two exercises that were carried out in 2012 and 2017, which variances were simply written off from the accounts. The register should include among other details, the detailed description of the assets, their identification codes, their locations and the category of the assets according to their nature. Assistance might be sought from the previous and current auditors of the Local Council, for any possible information that they might have which for some reason is not available at the Local Council. If the correct costs, accumulated depreciation and grants could not be recorded in the fixed assets register due to the change in the accounting policies in line with Directive 01/2017, 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 the financial statements.
- 2.9 Furthermore, we highly recommend that the Council obtains copies of the accounts' backups for the periods before the year 2008. Kindly note that the Council is obliged to have such backups available at its offices.
- 2.9 Following Directive 01/2017 issued by the Department for Local Government to Local Councils on the change in the accounting policies on depreciation, whereby the straight-line method is to be applied instead of the reducing balance method and the accounting policy on government grants, whereby the capital approach is to be applied instead of the income approach, we noticed from the limited procedures that we could carry out that:
  - 2.9.1 Items of property, plant and equipment whose useful life expired were not written off upon the adoption of the new depreciation accounting policy.
  - 2.9.2 The depreciation is not being worked out on the remaining useful life of the assets.

- 2.9.1 Grants received for specific projects, were allocated to several items of property, plant and equipment rather than those specific projects, clearly indicating that the allocation of grants to the respective assets was not properly carried out.
- 2.9.2 As at 31 December 2017, the Local Council had deferred income amounting to €101,363 relating to three different projects that were not yet carried out as of that date. Yet, we noticed that when the comparative figures were restated following the change in the accounting policy on government grants, these grants were still allocated against property, plant and equipment rather than left under deferred income. The projects were then completed in subsequent years.
- 2.10 We highly suggest that the exercise of applying the changes in the accounting policies is redone diligently and the necessary corrections made to the accounts through a prior year adjustment. Once the exercise is completed, the fixed assets register would need to be updated as well. When doing such an exercise, it is important to keep all the necessary workings to be able to reconcile the costs and accumulated depreciation as per updated fixed assets register to the figures shown in the note to the financial statements on property, plant and equipment. It is also to be ensured that grants are allocated to the correct projects given that some grants were capitalised before the projects were carried out and hence were allocated to projects which they did not intend to cover.
- 2.11 We noted that the net book value disclosed in the Fixed Asset Register, consisting of property, plant & equipment and intangible assets, does not reconcile to the net book value disclosed in the financial statements by €2,957. It was also noted that the amount of €220,133 in relation to a completed project was disclosed under assets under construction in the trial balance. A reclassification was passed to agree with the financial statements, however, the fixed asset register was not adjusted to reflect this.
- 2.12 We recommend that the classifications within the Fixed Asset Register be reconciled to those in the financial statements as this might subsequently impact the depreciation charge accounted for in the books.
- 2.13 An accrual of €151,300 in respect of Measure 4.3 was capitalized in the books of the Council. When the basis for this figure was inquired, it resulted that there was no support in its respect and that the resulting accrual was in excess of the final costs actually incurred on the project in the subsequent year. No amounts were yet certified and consequently, the amount was reversed.
- 2.14 We also noted that an invoice amounting to €39,796 and dated in 2020 was recorded in the 2021 accounts due to it being misplaced.
- 2.15 We recommend that the Council reviews its accounts thoroughly at year-end to ascertain that all accruals recorded in the books are appropriate and supported by the adequate documentation. The Council should also keep a record of all the works ordered and done relating to projects in cases where several suppliers are involved and there are many invoices relating to the same project. This list can then be used to reconcile the total project costs recorded in the books.
- 2.16 During the year, it was noted that the Local Council released funds from deferred income and capitalized them as grants, that were in excess of the total eligible expenditure. Consequently, an adjustment amounting to €13,559 was passed to reverse a portion of the capitalized deferred income.

- 2.17 It was also noted that in the case of Measure 4.3, costs were capitalised, but the amount of funds released from deferred income was understated due to the total amount not having yet been received. Consequently, an adjustment was passed to recognise €34,604 as accrued income since not all the grant was yet received. As a result, the depreciation charge for the year was also reduced by €1,918.
- 2.18 Where grants are concerned, the principles of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, are to be correctly applied using the capital approach in line with the accounting policy adopted by Local Councils. The Council should be aware of what costs have been capitalised for which the Council has received, or will receive, grants in accordance with agreements made, and should immediately reflect the related grants under the property, plant and equipment after considering the applicable terms and conditions as per agreement.

### **3.0 RECEIVABLES**

- 3.1 From the three samples chosen to test the accounts receivable as at the end of the year, which samples covered 94% of the total accounts receivable before deducting the provision for doubtful debts, one confirmation was received by the time we concluded our audit. This debtor's balance represented 31% of the total accounts receivable balances. A variance of €37,779 was noted between the accounts and the confirmation. Through the procedures conducted it transpired that the Local Council had not yet sent five 2020 invoices and all 2021 invoices to this customer which resulted in such a difference.
- 3.2 At the end of each financial year, during the process of closing off the accounts, the Local Council should ask for statements or confirmations from its customers to be able to reconcile the balances in the books of accounts with the balances confirmed by the customers and any variances found should be investigated. These statements or confirmations should be made available to the auditors during their audit. We further recommend that the Local Council issues its invoices on a monthly basis and that these are sent to customers on a regular basis. This would also help improve its liquidity.

### **4.0 PAYABLES**

- 4.1 From the seven samples chosen for the testing of the accounts payable, only three suppliers' statements were received by the time we concluded our audit despite the regular chasing made.
- 4.2 We recommend that the Local Council itself should ask its suppliers to provide it with statements at least at the end of the financial year, as we were given to understand that most of them do not send statements. Statements received are to be reconciled with the balances shown in the books of accounts. These statements are to be made available to the auditors during their audit.
- 4.3 We have requested a report from the architect about the projects that were completed during the year ended 31 December 2021 and the projects that were ongoing as of that date. This report was not received by the time we concluded our audit. Consequently, we could not confirm whether all the capital projects carried out by the Local Council during the year were properly reflected in the books of accounts, by referring to a third-party report.
- 4.4 The Local Council should ensure that this specific report is asked for during the closure of the accounts to make sure that all possible accruals are properly reflected in the accounts, and that the property, plant and equipment are correct. This report is to be made available to the auditors during their testing.

## 5.0 **INCOME**

- 5.1 During the year, we noted that the Local Council recorded an accrued income of €3,000 in respect of the funds to be received relating to tourism zones. It transpired that these funds were lost given that the Council did not apply for them on time. Consequently, the income was reversed.
- 5.2 We recommend that once the financial allocation is announced, the Council applies immediately for any funds that it is entitled to. Furthermore, at end of year it should revisit any accrued income accounted for and assess whether such income will actually be received after year end.

## 6.0 **EXPENDITURE AND TENDERS**

- 6.1 It was noted that the Council has exceeded the budgeted expenditure for several categories, namely:
- 6.1.1 Materials and supplies (Category 2200) by €288
  - 6.1.2 Repairs & upkeep (Category 2300) by €27,167
  - 6.1.3 Rent (Category 2400) by €702
  - 6.1.4 Office services (Category 2600) by €2,264
  - 6.1.5 Cleaning (category 3000) by €17,385
  - 6.1.6 Training (Category 3200) by €840
  - 6.1.7 Hospitality (Category 3300) by €63,760
  - 6.1.8 EU Projects (category 3700) by €6,791
- 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 note which areas in the budget need revising.
- 6.3 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 period/year such discrepancies would not materialise.
- 6.4 We noticed that the Council does not draw up purchase requests in line with the Local Councils Financial Procedures. With regards to the purchase orders, these are prepared for most of the purchases but there are still cases where these are not prepared. There appears to be no specific reason behind this practice. It is understood that at times the urgency of matters might require that bureaucracy is reduced to the minimum possible, however we are still of the opinion that the necessary paperwork should have been done in line with the financial procedures.
- 6.5 The above issues go 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 these matters and to ensure that such occurrences are not repeated in the future.

**7.0 PERSONAL EMOLUMENTS**

- 7.1 When reconciling the FS7 with the FS5s, we noted that the tax deductions as per FS7 amounted to €12,786 whilst the tax deductions in the FS5s amounted to €12,858, a variance of €72.
- 7.2 When reconciling the FS5 with the FS3s, we noted variances in the following:
- (i) Gross emoluments as per FS5 and FS3 amounted to €110,463 and €110,015 respectively, with a variance of €448.
  - (ii) Tax deductions as per FS5 and FS3 amounted to €28,210 and €28,819 respectively, with a variance of €609.
- 7.3 The copy of the FS7 provided to us during our audit, was not signed.
- 7.4 The Local Council should keep copies of the original forms sent to the Commissioner of Inland Revenue. At the end of the financial year, before sending the annual forms and the FS5 for the month of December, a reconciliation should be carried out between the 3 types of forms to ensure that all the information disclosed therein tally.

**8.0 OTHER MATTERS**

- 8.1 When inspecting the minutes of the Local Council's meetings, it was noted that no meeting was held during the month of April 2021.
- 8.2 Kindly note that Article 43(2) of the Local Councils Act states that Council meetings are to be held at least once a month or any shorter intervals as the Council may decide, as long as such period does not exceed five weeks.

### **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.