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9<sup>th</sup> June 2020

Gozo Regional Council  
The Duke Business Centre,  
10<sup>th</sup> June 1887 Street,  
Victoria VCT 1017,  
Gozo



Dear President,

**RE: MANAGEMENT REPORT – FOR THE YEAR ENDED 31 DECEMBER 2019**

We have completed our audit of the financial statements of the Gozo Regional Council 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 Regional 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.

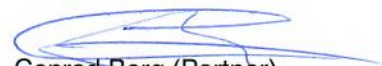
This report has been prepared on the basis of the limitations set out in the Responsibility Statement as presented on page 6 of this report.

During the course of our audit for the year ended 31 December 2019, we examined the principal documents, systems and controls used by the Regional 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 Regional Council. We also examined, whether or not your Regional 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 Regional 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

**Gozo Regional Council**

**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

It was noted that the Council did not have an insurance policy to cover its property, plant and equipment. The situation remained the same during the year under review.

### 1.2 Receivables and Income

As in the previous years, no discussions were held with Datatrak IT Services Limited to ensure that an IT system audit is performed on the Local Enforcement System (LES). This audit has still not been performed.

### 1.3 Payables

As in previous years, the Council did not provide us with an agreement regarding a balance payable to The Guard & Warden Service House Ltd which according to the Regional Council was assigned to the Law Enforcement System Agency. However, the Executive Secretary referred us to the Minutes of the Meeting held in virtue of the transfer of this debt and informed us that no repayment agreement was ever reached in this regard. No further confirmation could be obtained of this balance, not even during the current year under review.

### 1.4 Expenditure

Last year we noted that the Council was not provided with a VAT fiscal receipt for all the expenditure incurred. We also noted that there were instances where quotations were not obtained. We also noted that payment vouchers and purchase orders are not signed in all instances. During the year under review we noted again that VAT receipts were not obtained for all the expenditure and no purchase requests were prepared in certain instances.

### 1.5 Salaries

Last year we noted a difference between the gross emoluments as per FS7 and as per the monthly FS5's. Similar occurrences were not encountered during the audit for the year under review.

### 1.6 Financial Position

The Regional Council had a net liabilities position as at 31 December 2019. This situation has improved during the year under review, and in fact the Council is now in a net assets position.

### 1.7 Annual Budget

The Regional Council did not prepare budgets for the years 2018 and 2019. The Regional Council still did not prepare any budgets since then, not even for 2020.

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

- 2.1 During the year, the Regional Council invested again €7,548 in new property, plant and equipment. The total net book value of all its property, plant and equipment, as at 31 December 2019 amounted to €15,387. It was noted that the Regional Council still does not have an insurance policy in place to cover its property, plant and equipment.
- 2.2 We strongly recommend that the Regional Council purchases an insurance policy in order to cover its assets. In case of fire, theft or any other accident, the Regional Council could not currently recover any of the losses incurred.

## **3.0 RECEIVABLES AND INCOME**

- 3.1 The Regional Council has an accrued income from LES contraventions of €102,698 (2018: €103,255) out of which €102,698 (2018: €103,234) have been provided for, resulting in a net balance of LES contraventions receivable in the statement of financial position of €NIL (2018: €21). The income for the year from the contraventions amounted to €676 (2018: €185). The Regional Council continues to make use of the Local Enforcement System (LES) developed by Datatrak IT Services Limited to issue reports in order to account for contraventions not yet paid and contraventions paid at other Local Councils or online that have not yet been passed over to the Regional Council, as well as issues reports to account for and monitor the LES contraventions in general, including the provisions for doubtful debts.
- 3.2 As mentioned during the prior years, the LES system has never been subject to an IT audit to ensure that the reports generated therefrom are correct and reliable. The lack of such a verification means that although we have ensured through our testing that the figures with respect to LES income, accrued income and provisions shown in the financial statements of the Regional Council agree with the reports generated from the LES system, we could not actually conclude that they are truly completely correct. Our audit report was not qualified in this respect since the carrying amounts are immaterial and the management of the LES was passed to the Law Enforcement System Agency (LESA).

## **4.0 PAYABLES**

- 4.1 In the prior years, the balance payable to the Guard and Warden Service House Ltd was assigned to the Law Enforcement System Agency (LESA) who took over the management of the Law Enforcement System (LES). Consequently, the Regional Council reclassified the balance of €201,599 from under the accounts payable to under the amounts due to related parties. During the audit, we were not provided by any agreement that shows that all the parties involved have agreed on such assignment of debt, nor did we receive a confirmation from LESA of the above-mentioned balance. Due to the lack of such documents, we could not even confirm whether the classification of the liability as non-current is correct.
- 4.2 We strongly recommend that the Regional Council requests that a formal agreement is entered into by all the involved parties and that the agreement clearly specifies the payment terms. At the end of every financial period, the Regional Council is to obtain a written confirmation of the balance due by the Regional Council as at that date. If the payment of such balance is to be affected over several years, then it is to be ensured that the liability is accounted for in accordance with IFRS 9.

## **5.0 INCOME**

- 5.1 When testing the income, we noted that a reversal of an opening accrued income amounting to €7,292 and the accounting of the accrued income at the end of the year amounting to €6,599, were posted in the wrong income account. Reclassification adjustments were passed to reflect these entries in the correct nominal accounts.

- 5.2 The Council should know what every item in the accrued income represents and should hence know into which income account it should be reflected. Care should be taken when posting entries into the books of accounts to ensure that the proper nominal accounts are used. This would ensure that income is properly and consistently presented in the financial statements.
- 5.3 From our testing of the petty cash, it transpired that income relating to contraventions amounting to €17 which was already deposited in the bank account, was being shown in the petty cash account. The bank account reconciled to the bank statement meaning that this amount was also reflected in the bank account. Despite the amount was not traced in the bank account during our audit, it was agreed to reverse this amount against the contraventions' income account because the probability is that this income was double posted.
- 5.4 Care should be taken when accounting for any transaction to ensure that it would have not already been previously posted in the books of accounts. Furthermore, carrying periodical cash counts and reconciliations would help in identifying issues such as this.

## **6.0 EXPENDITURE**

- 6.1 During our testing on the expenditure, including testing on the acquisition of items of property, plant and equipment, we came across several instances whereby the Regional Council was not provided with a VAT fiscal receipt for the payments it had affected. The instances that came to our attention from the samples tested amounted to €1,092. From the samples tested, we also noted that there were instances where no purchase requests were prepared. The instances that came to our attention amounted to €2,002.
- 6.2 It is understood that at times, the urgency of matters might require as little bureaucracy as possible, however we are still of the opinion that the necessary paperwork and procedures should have been done and followed in line with the financial procedures. Furthermore, the Regional Council should ensure that VAT fiscal receipts are obtained for every payment affected.

## **6.0 ANNUAL BUDGET**

- 7.1 The Regional Council did not prepare the annual budgets for the years 2019 and 2020. The Executive Secretary explained that these were not drawn up given the financial position of the Regional Council.
- 7.2 The Financial Procedures applicable for the Regional Councils require Councils to draw up twelve (12) months budgets, three (3) year 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.

### **Responsibility Statement**

While our report includes suggestions for improving accounting procedures, internal controls and other aspects of the Regional Council arising out of our audit, we emphasise that our consideration of the Regional 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.



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26/28, Archbishop Street,  
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Malta

6th July 2020

**RE: MANAGEMENT REPORT FOR THE PERIOD ENDED 31 DECEMBER 2019**

**1.0 FOLLOW UP TO LAST YEAR'S REPORT**

Noted and as noted by the auditors themselves, the Region took action to address any pending issues which are under its control.

**2.0 PROPERTY, PLANT AND EQUIPMENT**

The Regional Council did not have a Government annual allocation and thus, was not in a position to seek quotations for the insurance. The Council is in the process of getting quotes for insurance to cover its assets.

**3.0 RECEIVABLES AND INCOME**

Whilst the Gozo Regional Council agrees with the proposal that the five Regional Councils plan to have the LES Software audited, the detailed accounting system carried out for the period under review shows that reports provided by the LES Software were accurate. These were confirmed by reconciliations with the bank statements and remittance advices received from the Local Councils and other debtors. Invoices are issued to LESA at the end of every month.

**4.0 PAYABLES**

The transfer of balance payable to Guard and Wardens to LESA took place in 2018 and although we had chased LESA to prepare such agreement, such agreement was never signed. Payment to Guard and Wardens issued from LESA and copies of receipts issued by the supplier were forwarded to Gozo Regional Council, and such documentation was made available to the auditor during the audit.

## 5.0 INCOME


Proposed reclassifications and immaterial audit adjustment reflected in the updated financial statements.

## 6.0 EXPENDITURE

The Region is doing its utmost to issue Purchase Requests and Purchase Orders as requested by Procurement Procedures. The Council abides by the Procurement Procedures not to exceed the annual limit of €5,000, net of Vat, from each supplier without issuing a tender on the EPPS platform. The Region requests all recipients of payment to forward their fiscal receipts upon receipt of payment.

## 7.0 ANNUAL BUDGET

The Regional Council was awaiting the finalisation of the Local Councils' Reform and to be made aware of the actual duties and responsibilities of the same Council to be in a position to prepare an annual budget based on the responsibilities to be assigned to the Region.



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Dr Samuel Azzopardi  
President



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George Refalo  
Executive Secretary