

1<sup>st</sup> October 2021

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 2020**

We have completed our audit of the financial statements of the Gozo Regional Council for the year ended 31 December 2020. 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 7 of this report.

During the course of our audit for the year ended 31 December 2020, 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 (Principal)  
for and on behalf of  
RSM Malta

**Gozo Regional Council**

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

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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 Income

Last year we noted that a reversal of an opening accrued income and the accounting of an accrued income at year end, were posted in the wrong account. We also noted that an income item relating to contraventions, was accounted for twice, in the petty cash account and in a bank account. No similar instances were encountered during this year's audit.

### 1.5 Expenditure

Last year we noted that the Council was not provided with a VAT fiscal receipt for all the expenditure incurred and paid. We also noted that purchase requests were not prepared in all instances. Whilst purchase requests were provided for the samples tested this year, we still encountered instances where no VAT fiscal receipt was given.

### 1.6 Annual Budget

The Regional Council did not prepare budgets for the years 2019 and 2020. The Regional Council still did not prepare any budgets since then, not even for 2021.

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

- 2.1 During the year, the Regional Council invested again €25,283 in new property, plant and equipment. The total net book value of all its property, plant and equipment, as at 31 December 2020 amounted to €20,756. 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 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.
- 2.3 When carrying out the physical inspection on a sample of items of property, plant and equipment, it transpired that a computer, printer and UPS bought in 2010 for €1,117 were thrown away but were still showing in the fixed assets register and in the accounts. We also noted that an executive chair bought in 2015 for €105 was damaged and again is still shown in the fixed assets register and in the accounts.
- 2.4 The Regional Council should immediately write off any items of property, plant and equipment that are damaged and disposed of, after it would have followed the necessary procedures. It must ensure that both the books of accounts, as well as the fixed assets register, are updated. Carrying out regular physical inspections would help the Regional Council identify such items immediately.

## **3.0 RECEIVABLES AND INCOME**

- 3.1 The Regional Council has an accrued income from LES contraventions of €102,082 (2019: €102,698) out of which €102,082 (2019: €102,698) have been provided for, resulting in a net balance of LES contraventions receivable in the statement of financial position of €NIL (2019: €NIL). The income for the year from the contraventions amounted to €530 (2019: €676). The Regional Council continues to make use of the Local Enforcement System (LES) developed by Datatrak IT Services Limited to issue reports 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).
- 3.3 During our testing on the EU funds receivable, it was noted that certain receipts of funds were posted in the wrong EU project account. A reclassification adjustment was passed to reclassify receipts amounting to €97,795 that were posted in the EU Enerj project account instead of Support EU project account. Additionally, it was noted that 2020 payroll costs that were claimed from the EU, were not posted in the respective EU project account but were left as part of the payroll costs in the statement of comprehensive income. An audit adjustment was passed to reclassify payroll costs amounting to €12,236. Some costs allocated to these receivable accounts were covered through co-financing agreements. Some of these agreements requested during our audit, were not provided to us.
- 3.4 We strongly suggest that reconciliations are regularly carried out between the accounts and the respective claims made to ensure that the respective projects' accounts reflect the correct amounts that have been claimed, that have been received and that are yet to be received.

The Council should also have copies of all the respective documents and agreements at hand and should be provided to the auditors upon request.

#### **4.0 CASH AND CASH EQUIVALENTS**

- 4.1 When checking the list of unpresented cheques at the end of the financial year, it was noted that there were some cheques which became stale. These stale cheques amounted to €5,855. An audit adjustment was passed to reverse these stale cheques.
- 4.2 Care should be taken when reviewing the bank reconciliations, to identify cheques that would have become stale. If the payments would still be valid, then a new cheque would have to be issued to the supplier to replace the previous one, after ensuring that the previous cheque is cancelled. However, stale cheques may also represent a cheque that has already been replaced, but the previous cheque would have not been reversed. Therefore, each case has to be carefully investigated.

#### **5.0 PAYABLES**

- 5.1 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.
- 5.2 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.
- 5.3 From the six samples chosen for the testing of the accounts payable, only three confirmations were received by the time we concluded the audit. The balances of the three accounts payable for which no confirmation has been received, amounted to €69,732. We could not conclude on whether the accounts' payable are complete and correct by using alternative audit procedures and therefore we have to qualify the audit report in this respect.
- 5.4 The Regional 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.

#### **6.0 EXPENDITURE**

- 6.1 During our testing on the expenditure, including our testing on the acquisition of items of property, plant and equipment, we came across 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 €974. In other instances, no quotations were obtained. The instances that came to our attention amounted to €26,225.
- 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.

**7.0 ANNUAL BUDGET**

7.1 The Regional Council did not prepare the annual budgets for the years 2020 and 2021. 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.