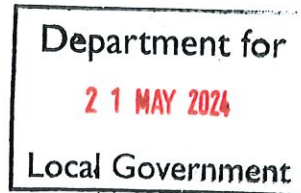


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[www.rsm.com.mt](http://www.rsm.com.mt)23<sup>rd</sup> April 2024The Mayor  
Local Council Nadur  
North Street,  
Nadur NDR 1222,  
Gozo

Dear Mayor,

**RE: MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2023**

We have completed our audit of the financial statements of the Local Council Nadur for the year ended 31 December 2023. 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 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 6 of this report.

During the course of our audit for the year ended 31 December 2023, 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**THE POWER OF BEING UNDERSTOOD**  
ASSURANCE | TAX | CONSULTING

Management Report for the year ended 31 December 2023

Contents	Page
Follow-up to last year's report	3
Property, plant and equipment	4
Payables	4
Expenditure and Tenders	5
Financial Situation Indicator	5
Responsibility Statement	6

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

### 1.1 Property, plant and equipment

The fixed assets register provided, included one line item with the net book value of all the assets up to 1 January 2018 when there was the adoption of Directive 01/2017 and then included the details of the items of property, plant and equipment that were acquired from 2018 onwards.

Within the category office and computer equipment, there was expenditure relating to the set-up and development of a web portal, that should have been classified as an intangible asset.

Through the letter received from the architect, it transpired that there were works carried out on Old Ramla Road that were not reflected in the accounts.

The above weaknesses were still present during the current year.

### 1.2 Payroll

In the prior year, a difference was noted between the payroll costs as per accounts and the payroll costs as per FS7.

No such difference was encountered during the year.

### 1.3 Income

The amount relating to the adjustment fund had been allocated under supplementary government income rather than with the remaining amount allocated in terms of Article 55 of the Local Councils Act for presentation purposes.

No such weakness was identified during the year.

### 1.4 Expenditure and Tenders

With regards to expenditure, last year we noted that the budgeted expenditure was exceeded in various categories.

This weakness was noted again during the current year.

### 1.5 Financial Situation Indicator

The Financial Situation Indicator of the Local Council as at 31<sup>st</sup> December 2022 stood at a negative 3.86% which fell well below the 10% threshold required by the Financial Provisions to the Local Councils Act.

As at 31<sup>st</sup> December 2023, the financial situation indicator was negative.

## 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. The fixed assets register provided included one line item with the net book value of all the assets up to 1 January 2018 when there was the adoption of Directive 01/2017 and then 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 During the financial year ended 31 December 2020, we noted that within the category office and computer equipment there was an amount representing expenditure relating to the set-up and development of a web portal. This should have been classified as an intangible asset and shown separately on the face of the statement of financial position. No changes were made during the years in this respect.
- 2.4 The Local Council should ensure that every expenditure is properly analysed and accounted for according to the accounting framework adopted, to ensure proper presentation in the financial statements.
- 2.5 Through the letter received from the architect, it transpired that there were further works carried out on Old Ramla Road that were not reflected in the accounts. Consequently, an amount of €20,373 was accrued for to reflect the additional work on the asset still under construction and in line with this, grants were capitalised in accordance with the percentage covered. The balance of €39,340 was accrued for to reflect the funds not yet received with respect to the work done.
- 2.6 As per the architect's letter, it was also noted that the project relating to the Open Space at San Gwann was completed by the end of 31 December 2023. Upon inspection, it transpired that costs and grants relating to this project were still being categorised as assets under construction. Consequently, an adjustment was passed to transfer the cost of €25,137 and the grants of €25,000 to under Urban Improvements.
- 2.7 It is important that the Local Council requests the letter from the architect about the projects concluded during the year and the projects ongoing as at the end of the year. Any work carried out, but for which no invoice would have been issued yet, is to be accrued for. Where there are grants for such projects, the respective grants are also to be reflected in the accounts in line with the progress of the project. In the case of completed projects, these are to be reclassified out of the assets under construction category to under the respective assets' category.

## 3.0 PAYABLES

- 3.1 During the audit, it was noted that the amount of €793 relating to funds received in respect of the San Blas project had not been released from deferred income upon completion of the project. It was explained that this amount could not be utilised and had to be repaid back. Consequently, the balance was reclassified to other payables.
- 3.2 We recommend that once a project is completed any funds not utilised and which need to be repaid back be reclassified to payables to ascertain that the books reflect a true picture as to which funds are still available to be utilised.

#### **4.0 EXPENDITURE AND TENDERS**

- 4.1 The Council has exceeded the budgeted expenditure under the following categories:
- 4.1.1 Allowances (Category 2100) by €466
  - 4.1.2 Repairs & Upkeep (Category 2300) by €1,612
  - 4.1.3 Transportation (Category 2700) by €5,828
  - 4.1.4 Overseas expenses (Category 2800) by €20,889
  - 4.1.5 Advertising (Category 2900) by €516
  - 4.1.6 Cleaning (Category 3000) by €797
  - 4.1.7 Professional Services (Category 3100) by €18,319
  - 4.1.8 Entertainment (Category 3300) by €16,590
  - 4.1.9 Sundry minor expenses (Category 3400) by €395
- 4.2 The Financial Procedures applicable for Local 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.
- 4.3 We recommend that the Council makes use of these reporting tools in hand to take corrective measures in the budget every quarter such that by the end of the accounting period such discrepancies would not materialise.
- 4.4 According to the procurement procedures, if in a year, similar services provided by any one supplier exceed €10,000 in value, then a tender should be issued by the Local Council. During the year under review, it was noted that two suppliers were engaged to provide their services on different occasions and in relation to which quotes, or direct orders by the Executive Secretary were issued for each activity. The invoices in total amounted to €10,580 in relation to one supplier and €11,943 in relation to another. The Executive Secretary explained that it is difficult to predict how many activities will be held in any particular year for which such services would be required. Furthermore, we also noted that, in general, when direct orders were issued by the Executive Secretary no documentation was retained to justify the reason as to why direct orders were used rather than quotes being obtained.
- 4.5 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. 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.

#### **5.0 FINANCIAL SITUATION INDICATOR**

- 5.1 The Financial Situation Indicator of the Local Council at the Statement of Financial Position date stood at a negative 1.49% which is below the 10% threshold required by the Financial Provisions to the Local Councils Act.
- 5.2 Kindly note that the Financial Situation Indicator has been calculated as the non-restricted current assets less current liabilities (excluding the deferred income) as a percentage of the Central Government allocation received in terms of Section 55 of the Local Councils Act (Chap. 363).
- 5.3 The Council should manage the working capital more attentively, in order to avoid such a negative Financial Situation Indicator. Moreover, it is recommended that the Council obtains the necessary clearance from the Department for Local Councils if it anticipates a Financial Situation Indicator level which will fall below the 10% threshold in future years.

### 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.