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4 August 2022

Dear Sir,

Financial statements for the year ended 31 December 2021

During the course of our audit for the year ended 31 December 2021, we have reviewed the accounting system and procedures operated by Regjun Nofsinhar (the “Regional Council”). We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Accruals

We have identified shortcomings in the accruals (refer to note 7.2).

1.2 Creditors – special project for local councils

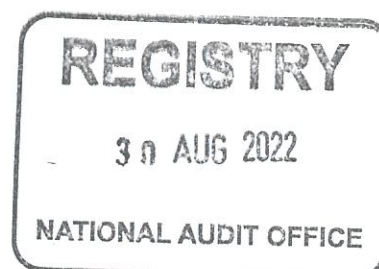
We have not identified shortcomings with respect to creditors – special projects for local councils.

1.3 Fixed asset register

We noted shortcomings in depreciation during the year under review (refer to note 6.3).

1.4 Salaries reimbursement

We are pleased to note that we have not identified shortcomings in the salaries reimbursement.



2 Trial balance

2.1 Reconciliation of books of accounts to unaudited financial statements

During our audit, the Regional Council presented us with a trial balance generated from its accounting software which did not agree to the unaudited financial statements as noted in the below table. Upon further enquiry, the Regional Council provided another trial balance in excel format agreeing to the unaudited financial statements for 2021. The Regional Council explained that journal entries prior to closing off the year-end were included in the Excel trial balance but not included in SAGE.

Details	Amount in the unaudited financial statements for 2021 €	Amount in the trial balance produced from SAGE €	Difference €
Bad debt provision	(1,680,288.66)	(1,684,045.66)	3,757
Administrative fee	(975.25)	975.25	(1,950.50)
Debtors Control	1,680,288.66	1,679,313.76	974.90
Creditors Control	(13,885.04)	(29,860.29)	15,975.25
Premises expenses (R&M)/Consumables	11,219	11,234.92	(15.92)
Movement in provision for doubtful debts	(3,757.00)	-	(3,757.00)
Other creditors	-	321,102.76	(321,102.76)
Project from previous years	-	(306,102.76)	306,102.76
Suspense Account	-	(16.08)	16.08

We recommend that book of accounts in the accounting software are updated and reconciled to the financial statements prior to the commencement of the audit.

3 Income

3.1 Reimbursement of expenses and salaries from LESA

On 24 May 2022, the Local Enforcement System Agency issued an email for the expense reimbursement for Regjun Nofsinhar. The email indicated the approved expense reimbursement for the period 1 January 2019 to 30 September 2021 amounting to €89,094.61. The Regional Council failed to record this amount as accrued income from LESA in accordance with Directive 06/2020. We have proposed an audit adjustment to account for the identified discrepancy.

We recommend that the Regional Council records its accrued income in accordance with the available supporting documentation thus ensuring that the income is reported in the correct accounting period on the accrual basis.

4 Payroll

4.1 President Honoraria

During our audit, we noted that the Regional Council erroneously classified the President honoraria amounting to €5,286 in the Commission for Revenue payment account. We have proposed an audit adjustment to include this amount to the correct account.

We recommend that the Regional Council should allocate its expenditure to the appropriate accounts so that its expenses are properly reported.

5 Local Enforcement System

5.1 Discrepancy in adjudicated contraventions

During our audit, we noted that according to report 622 generated from Loqus system, the adjudicated contraventions balance (LES debtors) as at 31 December 2021 were €1,617,556.59, however, the amount reported in the financial statements is €1,673,344.27. This results in a difference of €55,787.68 for which the Regional Council did not provide us with any explanation. We did not propose an audit adjustment to account for the reduction of LES debtors because it has no effect on the financial statements since LES debtors are carried at nil value following a provision for doubtful debts for the same amount.

We recommend that the Regional Council should obtain plausible explanation and evidence from Loqus supporting the decrease in adjudicated contraventions.

5.2 Loqus system

The Regional Council's financial statements are highly reliant on reports generated from the Loqus system. To date of the audit, we were not provided with evidence that an IT system audit was performed of this system. Therefore, we were not able to determine whether the information generated from the Loqus system is complete, accurate and free from material misstatement. Consequently, we could not verify without limitation the following amounts in the financial statements: LES expenses of €3,358.67 (this expense was accrued for in 2016) and receivables of €1,673,344.27, fully provided for.

We recommend that the Regional Council requests a copy of the independent auditor's report on the IT system of Loqus, which ideally must be carried out at least on an annual basis to determine its operating effectiveness and the integrity of the information emanating from the system. This would provide adequate and sufficient comfort to the committee to use the Loqus system as a reliable basis for the books of account and preparation of financial statements. Due to this limitation, our audit report is qualified.

6 Fixed assets

6.1 Tagging of fixed assets

We noted that the Regional Council's assets are not tagged (where applicable). This is in breach of the Local Councils (Financial) Procedures, 1996.

We recommend that the Regional Council tags its fixed assets, where applicable, as soon as possible. This would enable individual assets to be identified and their physical existence verified with the fixed asset register.

6.2 Fixed asset register

In accordance with circular 1/2021, the Regional Council must prepare a fixed asset register which reconciles with the nominal ledger. It was noted that the Regional Council keeps a fixed asset register on Excel workbook and not on its accounting software. Therefore, the depreciation is being calculated using Excel and thus some assets are continue being depreciated although they are fully depreciated.

We have also noted that the fixed asset register does not contain complete details such as reference numbers, invoice numbers, suppliers' details or location, depreciation for the year and accumulated depreciation of all assets thus posing difficulty in the identification of specific assets.

We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)
- Cost
- Depreciation rate
- Depreciation for the year
- Accumulated depreciation
- Location of the asset
- Grants received

An updated fixed asset register enables the Regional Council to exercise proper control over its fixed assets. It provides a suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the Regional Council's fixed asset register be updated.

6.3 Reconciliation of financial statements with fixed asset register

We identified various discrepancies between the net book value of assets in the unaudited financial statements and the net book value in the fixed asset register of the Regional Council. These are summarised below:

Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Computer equipment	11,128	23,360	(12,232)
Office equipment	634	8,596	(7,962)
Furniture and fittings	10,693	15,715	(5,022)
Motor vehicles	22,377	30,471	(8,094)
Construction works	63,017	72,077	(9,060)
	107,849	150,219	(42,370)

Furthermore, we noted that the difference is attributable to the fact that the Regional Council keeps its fixed asset register on Excel workbooks and the latter includes only the cost of assets and fails to include the accumulated depreciation.

We remind the Regional Council that any variances between the assets disclosed in the financial statements and the fixed asset register need to be investigated and reclassified accordingly and reiterate our recommendation to keep fixed asset register on the Regional Council's accounting software.

7 Trade and other payables

7.1 Supplier statements

We noted that the Regional Council did not obtain statements as at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of its books of account. Circulars issued from time to time by the Department of Local Government specifically emphasise that the Regional Council should acquire monthly statements from all its suppliers.

We understand that the Regional Council does make every effort to obtain statements from its suppliers and that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However, we recommend the Regional Council keeps on chasing its suppliers for regular statements. This will ensure that the Regional Council's creditors are properly recorded in the accounts and that any differences or disputes are highlighted promptly.

7.2 Accruals

We noted that in 2019, the Regional Council recorded an accrual of €10,678.36. The balance remained unchanged during the year under review. The Regional Council informed us that prior to October 2019 prosecutors for the tribunal were engaged by the Regional Council, however from November 2019 this function was taken over by LESA. The Regional Council performed an exercise in which it identified that the previously used prosecutor still has not billed the committee for 259 sittings over the 2017, 2018 and 2019. The Regional Council has contacted the prosecutor, but no reply was received and therefore it recorded an accrual in this respect.

We recommend the Regional Council to continue chasing the prosecutor in order to establish whether the amounts are still due and once it is established and invoices received, if still due, to update books of account accordingly.

7.3 **Deferred income**

While performing audit procedures on deferred income, we noted that the Regional Council received an amount of €622,773.17 in 2020 from the Department for Local Government for the local councils' grant schemes and signed the corresponding agreement on 25 January 2021. As of 31 December 2021, the fund balance amounted to €535,865. In accordance with the agreement, the Regional Council will be passing the funds to local councils for the grants schemes upon instructions received by the Department. To this end, the Regional Council will not recognise any income or asset from this amount in the future. However, amounts will be transferred to local councils. We have proposed an audit adjustment to record the amount received in other payables rather than deferred income.

May we remind the Regional Council that transactions should be properly allocated to the correct accounts thus giving a clear picture of the financial situation as in this case, Regional Council solely acts as a custodian.

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the Regional Council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Mr Philip Carabott and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

