

Our Ref: NAO 20/2022/5

Your Ref:

24 May 2023

The President
Kunsill Regjonali Nofsinhar
Hal Qormi

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2022**

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 2022.

After seeking the 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,



T. Mercieca
Asst. Auditor General

Encls.



The President
Regjun Nofsinhar
395, Triq il-Vitorja
Hal Qormi, QRM 2504
Malta

Grant Thornton
Fort Business Centre,
Triq L-Intornjatur, Zone 1
Central Business District
Birkirkara CBD 1050
Malta

T +356 20931000

www.grantthornton.com.mt

Our ref: MB/mf/81423

20 April 2023

Dear Sir,

Financial statements for the year ended 31 December 2022

During the course of our audit for the year ended 31 December 2022, we have reviewed the accounting system and procedures operated by your Committee. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Trial Balance

We are pleased to note that the Committee has rectified the issue of reconciling the books of accounts to unaudited trial balance in the year under review.

1.2 Income

We have again identified shortcomings in Regjun Nofsinhar's income (refer to note 2.1).

1.3 Payroll

We are pleased to note that the Committee has rectified the issue of properly classifying the salaries expense account in the year under review.

1.4 Local enforcement system

Regjun Nofsinhar's financial statements are highly reliant on the Loqus report. We were again not provided with the IT systems audit (refer to note 4.1).

1.5 Fixed asset register

The fixed asset register still does not include all the necessary details (refer to note 5.1)

REGISTRY

28 APR 2023

NATIONAL AUDIT OFFICE

1.6 **Trade and other payables**

We have again identified shortcomings in the completeness of accrual of expenses (refer to note 6.1).

1.7 **Deferred income**

We have again identified shortcomings in the deferred income (refer to note 6.2).

2 Income

2.1 **Grant received**

During our audit, we have noted that Regjun Nofsinhar received €3,600 as a grant for the purchase of computer equipment. This was initially recorded as part of the income under 'reimbursement of expenses from LESA'.

It was noted that since Regjun Nofsinhar received a grant for property, plant and equipment, this should not be reported as an income. Instead, this should be a reduction to the cost of the asset.

We have proposed audit adjustments to record grant received as a contra-asset to the cost of property, plant and equipment and the depreciation related to the grant amounting to €441. The Committee has included these adjustments in the final set of the financial statements.

We recommend that the Committee ensure that grants received for property, plant and equipment are accounted for properly.

3 Expense

3.1 **Classification of expenses**

We have noted that expenses related to the preliminary works on Regjun Nofsinhar's administrative building amounting to €12,331 were initially classified under 'Financial assistance to the local councils within the regional council'. Since the expense was related to Regjun Nofsinhar's transactions, we have proposed to reclass these expenses to 'Administration and other expenditure'.

4 Local Enforcement System

4.1 **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 2022 were €1,540,956, however, the amount reported in the financial statements is €1,653,784. This results in a difference of €112,828 for which the Committee 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 Committee should obtain plausible explanation and evidence from Loqus supporting the decrease in adjudicated contraventions.

4.2 **Loqus system**

Regjun Nofsinhar'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 LES receivables of €1,653,784 which was fully provided for.

We recommend that the Committee 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.

5 Fixed assets

5.1 **Fixed asset register**

In accordance with circular 1/2021, the Committee must prepare a fixed asset register which reconciles with the nominal ledger. It was noted that the Committee 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 Committee 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 Committee's fixed asset register be updated.

6 Trade and other payables

6.1 Accruals

We noted that the financial assistance for the local councils' Christmas decorations in 2022 were not yet accrued by the Committee. This funding has already been mostly approved by the Committee pending the actual claims to be submitted by the councils.

Since Regjun Nofsinhar is already expected to provide the financial assistance, we have proposed an adjustment to accrue for the expenses amounting to €11,700 in 2022 balances. The Committee has included these adjustments in the final set of the financial statements.

We recommend that the Committee records expenditures when it is incurred such that expenses and liabilities are recorded in the correct financial year.

6.2 Deferred income

While performing audit procedures on deferred income, we noted that Regjun Nofsinhar received an amount of €125,000 for the cultural activities to be performed in 2023. However, it was also noted that some of these funds were already used in 2022 as part of the preparation for the activities.

The initial usage of the fund was recorded only as a reduction of the deferred income account as Regjun Nofsinhar paid for the transactions. We have proposed an adjustment to record the expense and income arising from the usage of fund which amounts to €2,277. The Committee has included these adjustments in the final set of the financial statements.

We recommend that the Committee ensure that usage of the funds provided by the Local government is to be accounted for properly by reversing the deferred income and recognising it as part of Regjun Nofsinhar's income.

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 Regjun Nofsinhar. 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 Ms. Mariella Strout and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

