

Our Ref: NAO 107/2021/NAO 20/2022/5

Your Ref:

3 May 2024

The President and the Executive Secretary
Kunsill Regjonali Nofsinhar
Hal Qormi

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2023**

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 2023.

After seeking the Local 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
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Our ref: MB/bb/98724

29 April 2024

Dear Sir,

Financial statements for the year ended 31 December 2023

During the course of our audit for the year ended 31 December 2023, we have reviewed the accounting system and procedures operated by Regjun Nofsinhar (the “region”). We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Income

We have again identified shortcomings in the region’s income (refer to note 2.1).

1.2 Expense

We are pleased to note that the Committee has rectified the issue of properly classifying the expenses.

1.3 Local enforcement system

The region’s financial statements are dependent on the Loqus report for its administration fees. We were again not provided with the IT systems audit (refer to note 3.1).

1.4 Fixed asset register

The fixed asset register still does not include all the necessary details (refer to note 4.1)

1.5 Trade and other payables

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

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1.6 Deferred income

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

2 Income

2.1 Income from waste collection system

During our audit, we have noted that the region did not recharge all the mixed waste collection and tipping fees to the Local Councils of its region. Considering that waste collections are transactions of the Local Councils, it is necessary that proper recharges are made to these councils to reflect their accurate performance for the year.

We have proposed adjustments which totalled to €58,412 to accrue for the amounts to be recharged to the Local Councils. The region has included these adjustments in the final set of financial statements.

It is recommended that the region ensures that the Distribution of Expenses file is kept up to date to ensure accuracy of recharges to Local Council.

3 Local Enforcement System

3.1 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 2023 were €1,504,389, however, the amount reported in the financial statements is €1,637,071. This results in a difference of €132,682 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 region should obtain plausible explanation and evidence from Loqus supporting the decrease in adjudicated contraventions.

3.2 Loqus system

The region's financial statements are partly dependent on reports generated from the Loqus system, particularly for its income from administration fees. To date of the audit, we were not provided with evidence that an IT system audit was performed of this system. However, we have noted that the income from administration fees amounted to €1,027 during the year. This amount was deemed immaterial. Therefore, we have amended our audit report to be unqualified for the year ended 31 December 2023.

We still 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 region to use the Loqus system as a reliable basis for the books of account and preparation of financial statements

4 Fixed assets

4.1 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 region 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.

5 Trade and other receivables

Confirmation of debtors

- 5.1 As part of our audit procedures, we circularised confirmation letters to selected debtors. We noted a discrepancy amounting to €804,383 between the region's books and the confirmation reply received from WasteServ Malta Ltd. Per the reconciliation provided by your committee, invoices amounting to €146,252 for the months of November and December were not recorded in the books of WasteServe Malta Ltd.

It was further noted that the statement of account received from WasteServ Malta Ltd includes an offset of receivable and payable balances between the region and WasteServ Malta Ltd amounting to €658,136. An adjustment to offset the region's receivable and payable was included in the final set of financial statements in order to reflect this difference.

We recommend that the region contacts Wasteserv Malta Limited and ensures that all invoices are approved and recorded in their books. Furthermore, the Local Council should perform regular reconciliations with all debtors to promptly highlight any differences.

6 Trade and other payables

6.1 Accruals

We noted that the accrued expenses for Christmas decorations of 2022 amounting to €10,200 were not reversed in the current year upon recognition of the actual invoices.

We have further noted that the year-end schedule of accrued expenses included the accrual for the December 2022 FSS payable amounting to €9,380 and the remaining unpaid balance of salary in arrears of the previous executive salary amounting to €641.

We have proposed adjustments in order to reverse these accruals since these accruals were already settled or invoices were already received. The region has included these adjustments in the final set of the financial statements.

We recommend that the region properly monitors its accrual listing to ensure that timely reversals are made.

Deferred income

6.2 Regional cultural fund

At the beginning of the year, the region had a cultural fund of €122,723. However, it was noted that the usage of fund for the year was recorded only as a reduction of the deferred income account when the region paid for the transactions. We have proposed an adjustment to record the expense and income arising from the usage of fund which amounts to €149,571.

The excess amount between the fund and the transactions paid by the region amounted to €29,248 represents that amount that will be taken from the 2nd tranche of the regional fund to be received by Nofsinhar. This was reclassified as accrued income pending the actual receipt of funds.

DLG Funds

During the year, the Region has engaged with University of Malta for the Social Impact Assessment. The DLG funds amounting to €17,250 was used to pay for this project. Upon checking, no expense and income were recorded for the utilisation of funds.

Funds for Salaries of Managers and Animal Steward Officer

During our audit, we have noted that the region has already utilised funds to pay the salaries of its managers and animal steward officer. However, the usage of the fund was not recorded in the books.

Upon confirmation that the fund was used to pay the salaries of the managers and animal steward, we have proposed an adjustment to record €187,838 as reimbursement of managers' salaries and €7,340 as income from animal steward grant. The region has included all these adjustments in the final set of financial statements.

We recommend that the region ensures that usage of the abovementioned funds received by the region is to be accounted for properly by reversing the deferred income and recognising it as part of the region's income.

LESA Fund

It was also noted that the region received €75,000 from Local Enforcement System Agency (LESA) which is a fund only held by the Region and was intended to be transferred to the Local Councils for their expenditures related to the services of Police Force.

This amount was initially recorded as a deferred income despite the fact that the region only serves as a custodian of the funds. As such, we have proposed a reclassification of the remaining fund of €64,757 to other creditors. The region has included this adjustment in the final set of financial statements.

It is further recommended that the Committee maintains distinction between funds that are meant to be used for the region's own transactions or funds that are only given to the Region for custody and shall be transferred to the Local Councils.

7 Borrowings

During the year, the region received a fund amounting to €766,888 which were taken from the government allocation of the local councils within its jurisdiction. This amount was initially recognised as an income by the region.

However, upon further correspondence with the Local Government Division (LGD), this amount is meant to be refunded back to LGD. A confirmation of the balance due by the region was also issued by the LGD.

Considering that the amount is to be refunded back to LGD, an audit adjustment to reverse the income and recognise it as borrowings in accordance with the LGD's circular was recorded and included in the final set of financial statements.

We recommend that the region obtains official circular when funds were received from the government and verifies the accounting treatment of the said transaction.

8 Cash and cash equivalents

As part of our audit procedures, we have performed bank confirmation with Bank of Valletta. Upon receipt of the reply, it was noted that there was discrepancy between the confirmation and amounts recorded per books amounting to €1,919.

The discrepancy arose from an error in posting a year-end adjustment. We have proposed an adjusting entry to properly reverse the error. The Committee has included this adjustment in the final set of financial statements.

Timely performance of bank reconciliation before closing the accounts is recommended to ensure that discrepancies between the bank and the amount per books are resolved.

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,

