



KUNSILL REĠJONALI TAN-NOFSINHAR

Uffiċċju Amministrattiv, 395, Triq il-Vitorja, Ħal Qormi QRM 2504



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National Audit Office
Notre Dame Ravelin
Floriana FRN 1601

Date: 21st May 2024

Financial Statements for the year ended 31st December 2023 - Management Letter

Reference is made to the Auditor's management letter dated 29th April 2024. In terms of Section P2.06P (d.02) of the Local Councils (Audit) Procedures 2006, on behalf of the Southern Regional Council (hereinafter, “the Region”), we are presenting herewith the following comments on the points raised. During the first 3 months of the 2023 financial year, the Region was under the headship of Mr Philip Carabott as the Executive Secretary. Ms Mariella Strout first assumed responsibility as Deputy Executive Secretary from 1st April 2023, and was subsequently approved as Executive Secretary from 1st December 2023.

The Management Letter was presented to the Council for discussion during Regional Council Meeting number 31 which was held on the 21st May 2024. Consequently, the following comments were discussed and approved accordingly.

1. Previous management letter

The Region is pleased to note the positive observations of the Auditors on point 1.2 whereby the Council has taken measures to rectify issues related to classifying the expenses. Comments referring to points 1.1,1.3,1.4,1.5 and 1.6 are being addressed below.

2. Income

2.1 Income from waste collection system

In 2023 the Region assumed the role of the Contracting Authority for the Household Waste Collection and a one year additional service to collect commercial recycled waste in accordance to Article 37B of the Local Government Act and Waste Management Plan (2021 to 2030).

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The complex management, reconciliation and operation processes of this contract have put a strain on the Region's financial performance and results, especially considering the fact that the Region had to recover funds through agreements with Producer Responsibility Organizations, which agreements are still not finalized to date. The Region has also assumed the financial burden of the expense related to the collection of recycled waste (grey) bag and the collection of organic/black bag from cemeteries that fall within its localities.

Notwithstanding the complexity, the Region has gradually introduced improvements and audit checks in the Distribution of Expenses file to ensure the expense is accurately recharged to the Local Councils and any discrepancies noted are immediately tackled with the contractor or Wasteserv.

3 Local Enforcement System

3.1 Discrepancy in adjudicated contraventions

The Region agrees with the auditors' recommendation to obtain a plausible explanation and evidence from LESA to support decreases in adjudicated contraventions and has contacted them accordingly.

The response received will be analysed in detail and followed up by other clarifications and queries, as required, in order to understand, to account for and to resolve such discrepancies.

3.2 Loqus System

As indicated in previous years, the Region stresses that the audit of the IT system of Loqus is beyond its control and it does not agree with the auditors' comment that the financial statements are partly dependent on income from administration fees, since all outstanding balances are fully provided for.

Nonetheless, the Region has adopted the auditors' recommendation and has reached out for clarification on the audit report on the IT system of Loqus. We present their reply below:

“An IT Audit is carried out on yearly on the LES system as part of the wider scope of the company's Financial Audit. However, please be informed that in 2020, LESA requested an IT Audit of the LES System. This was concluded in March 2021 based on the objectives set out and confirmed by NAO. This is also mentioned directly in the Report by the Auditor General

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on the Workings of Local Government 2022, published in November 2023. A follow up on the recommendations listed in the IT Audit report was also being actively pursued.”

4.Fixed Assets

4.1 Fixed assets register

The Regional Council had previously taken note of the Auditors’ recommendation and had embarked on a process to train administration staff on an efficient accounting software. Our planned next step is to shift our excel-based asset register onto the Fixed Assets Module of our accounting system within the next 12 months.

5.Trade and other receivables

5.1 Confirmation of Debtors

We have no control on the accounting processes effected by Wasteserv Malta Ltd and we would not be aware whether they had included the invoices amounting to Eur146,252. Going forward, we can start reciprocating regular own statements to ensure our respective balances are tallying.

The offset of Eur658,136 was effected by the Region on 4th January 2024, while Wasteserv recorded it in their books during 2023. This was therefore just a timing difference.

Moreover, during a reconciliation exercise held in January 2024 that the Region has conducted in relation to waste carriers’ entries it was noted that Wasteserv had included waste that did not belong to the Region. The cost of these unauthorized entries amount to an estimate of Eur200,000 between May and December 2023. The Region is currently in discussions with Wasteserv to solve this matter. The verification exercise has intensified in the past months and discrepancies are highlighted and communicated immediately.

6. Trade and other payables

6.1 Accruals

The accrued salary arrears of the previous executive secretary for Eur658 had been left pending for any eventual claim. Having settled the 2023 performance bonus due to the previous executive secretary in January 2024 and since no any other claim had been received to date, the Region has agreed to the proposed adjustment and reversed this over-accrual.

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The other points are duly noted and the audit adjustments were accepted and effected as proposed.

6.2 Deferred income

Regional Cultural Fund

The Region was deducting the payments from the Deferred Income account in the Balance Sheet in order to be aware of the remaining balance available for usage of the fund. The Region agreed to the recommendation for recording the expense and income in the Statement of Comprehensive Income which cancel each other out and do not affect the end result.

Likewise, the reclassification of Eur29,248 from Deferred Income to Accrued Income does not affect the end result.

DLG Funds

The Region agreed to the recommendation for recording the expense and income in the Statement of Comprehensive Income which cancel each other out and do not affect the end result.

Funds for Salaries of Managers and Animal Steward Officer

Such funds were supposed to be released in 2022 and were not picked up in the previous audit. The audit adjustments were accepted and effected as proposed.

LESA Fund

The reclassification of Eur64,757 from Deferred Income to Other Creditors does not affect the end result and only changes the reporting lines. The reclassification was accepted and effected as proposed.

7. Borrowings

The Region does obtain official circular when funds are received from the government and does verify the accounting treatment of the said transactions. The funds received amounting to Eur766,888 were originally classified as Waste Collection Allocations. After the Region's Financial Statements had already been prepared, through Circular No 1/2024 issued on

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11/03/2024, the Region - and all other councils - were informed that this fund had to be repaid back by the Region to be redistributed to the local councils.

Since the amount is now meant to be refunded back to LGD, the Region has accounted for these funds as borrowings, in accordance with the Circular.

8. Cash and cash equivalents

This was a misposting to a bank account in error during the end-of-year adjustments, rather than to the Prepayments account. Bank reconciliations are effected on a regular basis. Since the reconciliations had already been effected at year-end, we did not recheck the bank reconciliations again after the end-of-year adjustments were posted since these adjustments do not normally affect the bank accounts.

Conclusion

As a follow-up, the Council will seek to address all the issues raised in this year's management letter and any points still pending from the previous one. However, we reiterate that certain points mentioned are outside the control of the Regional Council and hence very difficult to rectify. During the coming year, the Regional Council will continue to further strengthen and improve its operations, controls and accounting records.



Jesmond Aquilina
President

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Mariella Strout
Executive Secretary

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