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EASTERN
REGIONAL COUNCIL

The President
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Our ref MB/mc/87022

17 June 2022

Dear Sir,

Financial statements for the year ended 31 December 2021

During the course of our financial statements audit for the year ended 31 December 2021, we have reviewed the accounting system and procedures operated by 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 Opening balances

We noted a recurring issue with reference to opening balance discrepancies (refer to note 2).

1.2 Reconciliation of books of accounts to unaudited financial statements

We did not encounter any issues with regards to reconciliation of books of accounts to unaudited financial statements.

1.3 Income

We did not encounter any issues with regards to general income, LESA cultural funds project and income from LESA.

We noted a recurring issue with reference to recognition of reimbursement of expenses and salaries from LESA (refer to note 3).

1.4 Payroll

We did not encounter any issues with regards to FSS statutory documentations and payment of overtime.

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1.5 **Expenditures**

We noted a recurring issue with reference to expired contracts and accounting for leases in accordance with IFRS 16 'Leases' (refer to note 4).

1.6 **Local Enforcement System**

We noted a recurring issue with reference to collections (refer to note 5.1).

1.7 **Loqus system**

The Regional Council's financial statements are highly reliant on the Loqus report. We were again not provided with the IT systems audit (refer to note 5.4).

1.8 **Cash and cash equivalents**

We did not encounter any issues with regards to final withholding tax on BOV current accounts.

1.9 **Trade and other payables**

We did not encounter any issues with regards to trade and other payables.

2 Opening balances

2.1 We noted that two accounts in the trial balance were marked in the accounting system as a balance sheet account rather than income statement account. Upon checking the prior year audited financial statements, these accounts were part of the income statement. We have proposed an audit adjustment to reverse the opening balance.

No.	Account description	Unaudited trial balance €	Unaudited financial statements €	Difference €
4309	LCA Funds Income	(81,074.16)	-	(81,074.16)
4310	LCA Funds Expenditure	81,074.16	-	81,074.16
	Total	-	-	-

2.2 We recommend that committee carefully establishes whether the accounts in the books are of a balance sheet or income statement nature to avoid similar situations in the future.

3 Income

Reimbursement of expenses and salaries from LESA

3.1 On 18 October 2021, the committee and Local Enforcement System Agency (LESA) signed a memorandum of understanding regarding the reimbursement of expenses related to local tribunals. This is to establish the terms and conditions under which the LESA is to reimburse payments related to the operations of the Central Local Tribunal for the period of three years. The committee failed to accrue for this income for expenses related to prior years and also for current year. Thus, we proposed an audit adjustment.

3.2 We recommend that the committee to agree with LESA the amount to be reimbursed for each year to be able to record this amount as part of income.

Other government income

3.3 During our testing, we noted that the committee recorded income derived from CIES payroll reimbursement from DLG as part of other government income. Thus, we have proposed an adjustment for the reclassification to proper account.

3.4 We recommend that income derived from CIES payroll reimbursement should be separately disclosed in the financial statements to give clear and transparent picture of the sources of income to the users of the financial statements.

4 Expenditure

Expired contracts

4.1 During the audit we noted that the committee is making use of an expired contract for the rental of the office premises at "Mabruka" Triq ix-Xnien, San Gwann. The contract was signed by the Joint Committee for the period of four years, which could be extended for another two years. We were not provided with a new contract agreement. The total expenditure incurred for the rent of the office during 2021 was €19,026.36.

4.2 We recommend that the committee obtains an updated contract agreement for this property rented by the committee. This will ensure that the rights and obligations of each party are clear.

4.3 We also noted that the committee failed to provide a properly signed LES Service Contract Agreement with Datatrak IT Services Limited. During the year under review the contractor invoiced an amount of €3,139.62 to the committee.

4.4 We recommend that the committee obtains an updated or signed contract agreement. This will ensure that the rights and obligations of each party are clear.

IFRS 16 'Leases'

4.5 Whilst performing our audit procedures we noted that the committee recorded a rent expense amounting to €46,178.09 in the books of account in relation to three property leased by the committee. The committee failed to assess and account for the leases in accordance with IFRS 16. Moreover, the committee stated in the financial statements that it did not apply IFRS 16 as amounts are not material.

4.6 We recommend that the committee performs an IFRS 16 assessment to establish whether the committee should account for the rent expense in accordance with IFRS 16 accounting treatment. In accordance with the new standard, at lease commencement date, the committee should recognise a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the committee, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The committee should depreciate the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of, the end of the useful life of the right-of-use asset, or the end of the lease term. The committee should also assess the right-of-use asset for impairment when such indicators exist. At the commencement date, the committee should measure the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the committee's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. After initial measurement, the liability should be reduced for payments made and increased for interest.

4.7 In this regard we suggest that particular attention be given to the lease of the tribunal premises for which the committee is paying an annual rent of €20,138.30 and duration of rent is from 1 January 2019 for 3 years with the right of first refusal at the expiry date to extend for further 3 years under new terms and conditions.

5 Local Enforcement System

Collections

5.1 During the audit procedures we noted that the regional committee recorded a balance of €1,971,313.66 (fully provided for) due from the Local Enforcement System in the unaudited financial statements. This shows a decrease of 0.71% when compared to prior year figures.

5.2 We also obtained the 622 Loqus report which shows a balance of €1,967,973.96 which results in a difference of €3,339.70.

5.3 The committee should make every effort to continue collecting adjudicated contraventions. We recommend that the committee sets up a proper system to collect unpaid contraventions as soon as possible.

Loqus system

5.4 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 systems 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 €3,139.62 and receivables of €1,971,313.66, which was fully provided for.

5.5 We recommend that the Regional Council requests a copy of the independent auditor's report on the IT systems 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 for the year ended 31 December 2021.

6 Cash and cash equivalents

Undeposited cheque

6.1 We noted that the cheque from LESA under official receipt no. 0455 dated 20 December 2021 was recorded as collection in 2022.

6.2 Although the cheque remains undeposited as of year end, we proposed that this should be recorded as collection since the control of the cheque is already with the committee and this is not a post-dated cheque.

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 committee. 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 Jeanette Galea and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

Grant Thornton