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EASTERN
REGIONAL COUNCIL

The President
Eastern Regional Council
'Mabruka'
Triq il-Qasab, San Gwann, SCN1713

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Our ref MB/mf/86623

24 April 2023

Dear Sir,

Financial statements for the year ended 31 December 2022

During the course of our financial statements audit for the year ended 31 December 2022, 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 did not encounter any issues with regards to opening balance discrepancies.

1.2 Income

We noted a recurring issue with reference to recognition of reimbursement of salaries from DLG (refer to note 2).

1.3 Expenditures

We noted a recurring issue with reference to accounting for leases in accordance with IFRS 16 'Leases' (refer to note 3).

1.4 Local Enforcement System

We noted a recurring issue with reference to collections (refer to note 4.1).

1.5 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 4.4).

1.6 Cash and cash equivalents

We did not encounter any issues with regards to undeposited cheques.

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28 APR 2023

NATIONAL AUDIT OFFICE

2 Income

Other government income

- 2.1 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.
- 2.2 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.

3 Expenditure

Expired contracts

- 3.1 We 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 €1,972.41 to the committee.
- 3.2 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'

- 3.3 Whilst performing our audit procedures we noted that the committee recorded a rent expense amounting to €48,035.47 in the books of account in relation to three properties 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 prior year's reply to management letter that it did not apply IFRS 16 as the committee intended to terminate the leases.
- 3.4 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 Local Enforcement System

Collections

- 4.1 During the audit procedures we noted that the regional committee recorded a balance of €1,958,944.43 (fully provided for) due from the Local Enforcement System in the unaudited financial statements. This shows a decrease of 0.63% when compared to prior year figures.
- 4.2 We also obtained the 622 Loqus report which shows a balance of €1,897,241.18 which results in a difference of €61,703.25. As per the committee, this difference pertains to issued penalties on old unpaid contraventions which the Council have no control of.
- 4.3 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

- 4.4 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 €2,357.08 and receivables of € 1,958,944.43, which was fully provided for.
- 4.5 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 2022.

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,

Mark Bugeja
Partner