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22 March 2022

Dear Sir,

**Financial statements for the year ended 31 December 2021**

During the course of our audit for the year ended 31 December 2021, we have reviewed the accounting system and procedures operated by Local Councils' Association (the "Association"). We set out in this report the more important points that arose as a result of our review.

## 1 Previous management letter

### 1.1 Fixed assets

In prior year, it was noted that those items which had been fully depreciated do not feature in the fixed assets register.

It was clarified by the local Councils' Association that this issue relates to the Direttiva 1/2017 which the local government only require the local council with incomplete or no fixed asset register to maintain fixed asset register and present assets as at 1st January 2018 at Net Book Value.

### 1.2 Right of use assets

In prior year, it was noted discrepancy on depreciation of right of use assets.

We also noted in the current year an overstatement of depreciation of right of use assets (refer to note 5.5).

### 1.3 Lease liability

In prior year, it was noted an under estimation of lease interest and the lease liabilities.

We also identified overstatement of interest on lease liability and understatement of lease liability due to erroneous posting of reversal of lease payments during the year (refer to note 6.2).

1.4 **Income**

In prior year, it was noted understatement of management fees from contravention and understatement of rental income.

We are pleased to note that we did not identify discrepancy in the current year.

## 2 Income

**Reimbursement of travel expenses**

2.1 During the audit testing on income, we have noted that the reimbursement of travel expenses account was classified as payable in SAGE accounting software but shown as income in the income statement. This resulted to an overstatement of income by €18,798.27 as the balance showing is the accumulated amount. The overstatement was corrected during the audit.

2.2 We recommend that the Association maintains an income account for the reimbursement of travel expenses. In prior years and during the year, reimbursement of travel expenses was equal to the refundable airfares thus resulting in a 'nil' effect in the operating surplus and retained fund. However, this incorrect classification could result to misstatement if not corrected.

## 3 Expenditure

**Rent expense**

3.1 The Association recorded a property rent expense amounting to €4,362 in the books of account. We have noted a discrepancy when reversing the rent expense to account for the lease in accordance with IFRS 16 'Leases'. The Association paid a total rental amount of €23,448.40 but only reversed €19,086.40 at year-end leaving a difference of €4,362. We have proposed an audit adjustment to rectify such discrepancy. The Association has included this adjustment in the final set of financial statements.

3.2 The Association recorded a motor vehicle rent expense of €5,215 in the books of account. We noted that the Association' old lease agreement in relation to lease of motor vehicle has expired in the current year, but the Association failed to account for the new lease agreement in accordance with IFRS 16 'Leases'. We have proposed an adjustment to effect the IFRS 16 assessment on lease of motor vehicle. This has been reflected in the final set financial statements.

3.3 We recommend that the Association reviews all lease contracts in place and considers the impact of IFRS 16 'Leases' on the Association's financial statements and adjust if the need arises.

**Refundable airfares**

3.4 During the audit testing on expenditures, we have noted that the refundable airfares account is classified as receivable in SAGE accounting software but shown as expense in the income statement. This resulted to an overstatement of expense by €18,798.27 as the balance showing is the accumulated amount. The overstatement was corrected during the audit.

3.5 We recommend that the Association maintains an expense account for the refundable airfares. In prior year and during the year, refundable airfare was equal to the reimbursement of travel expenses thus resulting in a 'Nil' effect in the operating surplus and retained fund. However, this incorrect classification could result to misstatement if not corrected.

## 4 Fixed assets

4.1 We have noted discrepancies in the cost and accumulated depreciation recorded in the fixed assets register when compared to trial balance as shown below. Upon enquiry, we noted that the Association reflected the Net Book Value of assets purchased before 1 January 2018 as the opening balance in the fixed assets register as directed by the relevant directive

| | Cost | Accumulated depreciation | NBV |
|---|---|---|---|
| As per Register | 212,243 | 61,769 | 150,474 |
| As per Trial balance | 257,894 | 107,422 | 150,472 |
| Difference | (45,651) | (45,553) | 2 |

4.2 The Association should ensure that all fixed assets are included in the fixed assets register unless they were disposed/written off.

## 5 Right of use assets

### IFRS 16 assessment schedule

5.1 We have noted discrepancy in the cost of right of use assets (property) amount as per the IFRS 16 assessment schedule and trial balance. The amount of right of use assets as per the schedule is €99,884 whereas the amount as per trial balance is €99,714 with difference of €170. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.

5.2 The Association should ensure that the amount reflected in the trial balance should match with the supporting schedule.

### Accumulated depreciation

5.3 We compared the movement of accumulated depreciation and depreciation expense during the year, and noted an incorrect posting of depreciation as shown below. We have proposed a reclassification to rectify this issue

| Asset category | Movement of accumulated Depreciation € | Depreciation € | Difference € |
|---|---|---|---|
| ROU – Property | 19,977 | 22,697 | (2,720) |
| ROU – Motor Vehicle | 3,081 | 361 | 2,720 |

5.4 We recommend that the Association should ensure that depreciation charges are properly allocated to the correct accounts to reflect the correct balance at year end for each type of assets and to match the movement with the nominal account.

**Depreciation of right of use assets**

5. 5 During the audit testing of right of use assets, we noted an overstatement of €2,797.18 in the depreciation of right of use assets during the year. We have proposed an audit adjustment to rectify such discrepancy. The Association has included this adjustment in the final set of financial statements.

5.6 We recommend that the Association should ensure correct calculation of depreciation of right of use assets based on the IFRS 16 assessment schedule.

## 6 Lease liability

6.1 During the audit of lease liability, we noted that the Association credited account "2720000 Hire of Transport" by €7,940.16 of which €1,060.77 represents reversal of "Lease Liability - Motor Vehicle" while the difference of €6,879.39 was erroneously credited in this account instead of account "2400000 Rent" for the reversal of "Lease Liability – Property". We have proposed a reclassification adjustment to rectify this issue.

6.2 We have also noted an overstatement of interest on lease liability and understatement of lease liability due to erroneous posting of reversal of lease payments during the year to account in accordance with IFRS 16 'Leases'. We have proposed an audit adjustment to rectify such discrepancy. The Association has included this adjustment in the final set of financial statements.

| | |
|---|---|
| Payment | 23,448.40 |
| Less: | |
| Interest on lease liability | (4,474.00) |
| Deduction of lease liability | (21,491.79) |
| | (2,517.39) |

6.3 We recommend that the Association should reconcile the interest on lease liability and reduction of lease liability with the total payment made during the year in relation to lease and ensure that the reduction of lease liability and interest on lease liability are equal.

### 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 Association. 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 Mr Mario Fava and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

Mark Bugeja
Partner