

The Members
Zurrieq Local Council
Centru tal-Komunita' Joe Cassar,
Pietru Pawl Saydon Street,
Zurrieq
Malta

16 May 2023

Dear Members of the Zurrieq Local Council,

We have completed our audit of the financial statements of Zurrieq Local Council for the year ended 31 December 2022. Our audit is primarily based on verifying balances in the financial statements to ensure that they are free from material error and comply with relevant legislation.

Our aim is to offer guidance to the Council such that it would be in a better position to improve its internal controls, enhance its book-keeping function and consolidate its overall governance. We would like to point out that, in accordance with the Local Councils Act (CAP 63) 1993 and the Local Council (Financial Regulation) 1993, it is the responsibility of the Executive Secretary of the Local Council to ensure that a proper system of internal control is in operation to ensure that the proper accounting, recording and handling of financial operations are in place to safeguard the Local Council's assets at all times. For this reason, this document is of particular relevance to the Local Council's Executive Secretary.

The matters dealt with in this report, came to our notice during the conduct of our audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the Council. In consequence our work did not encompass a detailed review of all aspects of the systems of control but that of obtaining an understanding of the controls which are in place, on the basis of which, we design our audit procedures. For this reason, this report cannot be relied upon to necessarily disclose other defalcations or other irregularities which may exist, had a specific and more extensive assignment for this specific purpose been commissioned.

Our engagement obliges us to distribute copies of this report to the Council Members. Consequently, this report, in part or in full, may not be distributed, used or quoted except for the scope it is prepared, without our prior written consent, unless such disclosure is required by Law.

During the course of our audit for the year ended 31 December 2022, we examined the principal documents, systems and controls applied by the Council, to help it ensure, in so far as it is possible, far as possible, the accuracy and completeness of the accounting and to safeguard the assets of the Council.

In order to facilitate your responses to the deficiencies we noted in the course of our audit, have been presented these shortcomings in columnar form. On the left hand side of the document we specify the weaknesses and the recommended courses of action. On the left hand side you are required to insert the remedial action you intend to take and a time frame by which these will be remedied. We also attach for your perusal, a summary of the audit adjustments which we were put through the accounting records, once these were approved by yourselves. Should you require our assistance in bringing to fruition the suggested recommendations do not hesitate to contact us.

We would like to thank you for the courtesy and co-operation extended to us in the course of our audit.

Yours faithfully,



Arthur Douglas Turner
Partner - Parker Russell Turner

HEAD OFFICE:
13, Curate Fenech Street, Birzebbuga - BBG2032, Malta, EU
T +356 2165 4567 | M +356 7765 0000
E info@prturner.com.mt | W www.parkerrussellturner.com

VAT Reg. No.: MT19559319 | Reg. No.: AB 26/ 84/65

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PREVIOUS MANAGEMENT LETTER

During the course of our audit for the year ended 31 December 2022, we have also reviewed the points highlighted in the previous management letter along with their respective feedback:

i. Expenditure

We are pleased to note that no shortcoming arose in rental expenses.

ii. Cash at bank

We have identified a recurring issue in relation to bank account representatives, as per note 2 on page 5.

iii. Financial statements presentation


We have once again noted shortcomings in the presentation of the unaudited financial statements, as per note 10 as on page 17.



Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2022

A summary of the deficiencies noted in the course of our audit and our recommendations thereto is as follows:

1. *PROPERTY, PLANT AND EQUIPMENT*
2. *CASH AT BANK*
3. *DEBTORS*
4. *ACCRUED INCOME*
5. *CREDITORS*
6. *ACCRUALS AND PREPAYMENTS*
7. *REVENUE*
8. *DEBIT TRANSACTIONS*
9. *FUNDS HELD BY TRIBUNAL COUNCIL*
10. *PRESENTATION OF FINANCIAL STATEMENTS*
11. *CONCLUSIONS*



Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2022

FINDINGS ARISING FROM 2022 AUDIT

WEAKNESS NOTED / RECOMMENDED IMPROVEMENT	LOCAL COUNCIL REPLIES
<p>1. PROPERTY, PLANT AND EQUIPMENT</p> <p>1.1. Classification of Transactions</p> <p><i>Weakness</i></p> <p>1.1.1. During our audit procedures, we noted that there were capital expenses relating to new streetlights amounting to € 1,800 which were incorrectly accounted for within administrative expenses. These were capitalised at audit level. Furthermore, in view of this the depreciation charge was understated by € 1,800, which was also adjusted for at audit level.</p>	
<p><i>Recommendation</i></p> <p>1.1.2. We recommend that more attention is affected in the updating of accounting records to segregate property between revenue expenditure and capital expenditure. Further, we recommend that the classification of the assets being purchased is identified in terms of the following categories:</p> <p>(a) Assets purchased in terms of IAS 16 Property, Plant and Equipment;</p>	

Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2022



<p>(b) Assets leased, and consequently disclosed for the purpose of the leasing arrangements in compliance with IFRS 16 Finance Leases; and</p> <p>(c) Assets under development and not yet ready for use.</p>									
<p>1.2. Procurement of Fixed Assets Additions</p> <p><i>Weakness</i></p> <p>1.2.1. During our audit fieldwork on the fixed assets additions, the following irregularity was noted whereby the Council only obtained one quotation, as follows:</p> <table border="1" data-bbox="821 913 991 1895"> <thead> <tr> <th>Detail</th> <th>Supplier</th> <th>Date</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Equipment for Solar Street Lighting</td> <td>H3 Enterprise</td> <td>28/07/2022</td> <td>1,800</td> </tr> </tbody> </table>	Detail	Supplier	Date	Amount	Equipment for Solar Street Lighting	H3 Enterprise	28/07/2022	1,800	
Detail	Supplier	Date	Amount						
Equipment for Solar Street Lighting	H3 Enterprise	28/07/2022	1,800						
<p><i>Recommendation</i></p> <p>1.2.2. In accordance with the Procurement Guidelines 2017 issued by the Department for Local Government, the Council should obtain at least three signed quotations for purchases exceeding € 50 up to € 5,000</p>									

<p>unless, for purchases exceeding € 50 but not € 500, a direct order approved by the Executive Secretary is issued.</p>	
<p>2. CASH AT BANK</p> <p>2.1. Bank Account Representatives</p> <p><i>Weakness</i></p> <p>2.1.1. Based on the bank reply received directly from Bank of Valletta plc, it was noted that the Vice Mayor, Mr. Ignatius Farrugia is still being listed as an account representative for all BOV bank accounts.</p>	
<p><i>Recommendation</i></p> <p>2.1.2. We recommend the Local Council to notify the bank to update the account representatives in line with the Subsidiary Legislation 363.01 which states that the bank representatives of the Local Council should only be the current Mayor and the Executive Secretary.</p>	
<p>2.2. Treasury Management</p> <p><i>Weakness</i></p> <p>2.2.1. We have noted that while the Council, has bank balances of € 1,612,154 as disclosed under note 12 in the financial statements, these are not being</p>	

Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2022



<p>segregated between operational and capital accounts depending on their purpose.</p>									
<p><i>Recommendation</i></p> <p>2.2.2. We recommend that better treasury management procedures should be implemented by the Council to disclose the bank account depending on their nature, while also making optimum use of public funds, in line with the Budget Management of the Council.</p>									
<p>3. DEBTORS</p> <p>3.1. Long outstanding debtors</p> <p><i>Weakness</i></p> <p>3.1.1. During our audit testing, we noted that the Council's debtor list includes the following balances which have been outstanding for more than one year:</p> <table border="1" data-bbox="1053 896 1308 1881"> <thead> <tr> <th data-bbox="1053 896 1101 1881">Debtor</th> <th data-bbox="1101 896 1133 1881">€</th> </tr> </thead> <tbody> <tr> <td data-bbox="1133 896 1165 1881">Malta Tourism Authority</td> <td data-bbox="1165 896 1197 1881">2,590</td> </tr> <tr> <td data-bbox="1197 896 1228 1881">Water Services Corporation</td> <td data-bbox="1228 896 1260 1881">953</td> </tr> <tr> <td data-bbox="1260 896 1292 1881"></td> <td data-bbox="1292 896 1308 1881"><u>3,543</u></td> </tr> </tbody> </table>	Debtor	€	Malta Tourism Authority	2,590	Water Services Corporation	953		<u>3,543</u>	
Debtor	€								
Malta Tourism Authority	2,590								
Water Services Corporation	953								
	<u>3,543</u>								

Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2022



	<p><i>Recommendation</i></p> <p>3.1.2. We recommend that the Council regularly reviews overdue amounts for recoverability. If their recoverability is doubtful, the Council should consider making a provision for all amounts after obtaining the approval in a Council's meeting. Furthermore, the Council should send continuous reminders / statements to its debtors to ensure that the Council still has the right to collect the amounts due.</p>
	<p>3.2. LES Debtor</p> <p><i>Weakness</i></p> <p>3.2.1. We have noted that the Council has a debtor balance relating to LES Pre-Regional contraventions amounting to € 262,550 which is fully provided for in the accounts, and which was reconciled during the year according to the LES Report 622 generated from the Logus system, through an adjustment effected by the Local Council. This adjustment should have been confirmed by the Council during the monthly Council Meetings. In addition, we could not obtain clear understanding of the movements effected during the year, and every effort should be made to get the necessary directions from the Department of Local Government.</p>
	<p><i>Recommendation</i></p> <p>3.2.2. We recommend that regular reconciliations of the amounts due are carried out to reconcile any differences with the LES system. In addition,</p>

Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2022

<p>an exercise needs to be carried out on the LES Pre-Regional contraventions to understand whether such amounts are recoverable or otherwise. If these amounts are irrecoverable, we propose that the Council should consider reversing the provision and accounting for the amounts as 'bad debts write-offs'. A disclosure note is also required to bring this matter to the attention of the Council.</p>	
<p>4. ACCRUED INCOME</p> <p><i>Weakness</i></p> <p>4.1. During out audit fieldwork, we noted that the Council failed to record accrued income pertaining to the following:</p> <ul style="list-style-type: none"> • Financial assistance for the Distribution of flyers and Christmas Decorations received from the Regjun Punent amounting to € 2,500. <p>An adjustment was affected at audit level to account for the accrued income.</p>	
<p><i>Recommendation</i></p> <p>4.2 We recommend that the Council's books of accounts should be recognised on an accrual basis, whereby any income pertaining to the current year, irrespective of whether they were received or not, should be accounted for in order to ensure completeness of income.</p>	

<p>5. CREDITORS</p> <p>5.1. Long outstanding creditors</p> <p><i>Weakness</i></p> <p>5.1.1. During our audit testing, we noted that the Council's creditor list includes a balance to WM Environment Ltd amounting to € 2,248 which has been outstanding for more than one year.</p>	
<p><i>Recommendation</i></p> <p>5.1.2. We recommend that the Council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the Council. Furthermore, decisions and discussions regarding these balances should be minuted during the Council meetings.</p>	
<p>6. ACCRUALS AND PREPAYMENTS</p> <p><i>Weakness</i></p> <p>6.1. We have noted the following weaknesses in accounting for accruals and prepayments:</p>	

Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2022

<ul style="list-style-type: none"> • Accruals in relation to telephone charges for the month of December to the value of € 105 were not accounted for. An adjustment was affected at audit level to account for this; • Insurance prepayments were understated by € 284. An adjustment was affected at audit level to account for this; 	
<p><i>Recommendation</i></p> <p>6.2. We recommend that a procedure is in place to ensure that invoices relating to goods or services hovering around the year end, are properly verified to ensure that these are accounted for in the correct period. Failing to do so could result in the understatement of assets and liabilities at the year end.</p>	
<p>7. REVENUE</p> <p>7.1. General income</p> <p><i>Observation</i></p> <p>7.1.1. During our audit fieldwork, while performing a proof in total test between the total receipts issued from the Council's online permit system and the total income recorded in the accounting system, an overall difference of € 58 arose in over declaration in the accounting system. This clearly</p>	

<p>indicates that the Council is correctly capturing most of its receipts through the online system.</p>	<p><i>Recommendation</i></p> <p>7.1.2. We urge the Council to continue updating the permit's online system so that a complete trail will be available for all income issued, reconciling with receipts reflected in the accounting system. It is of utmost importance for the Council to regularly reconcile the receipts issued from the system with the income recorded in the accounting system.</p>	<p>7.2. LES Administration Fee</p> <p><i>Weakness</i></p> <p>7.2.1. While performing a proof in total test between the total LES administrative fee as per the LES Report 483 – LESA Tickets generated from the Logus system and the total income recorded in the financial statements, it was noted that the amount in the financial statements was understated by € 72. We did not propose an audit adjustment to correct this discrepancy</p>	<p><i>Recommendation</i></p> <p>7.2.2. We recommend that the Council regularly reconciles the income recorded in the accounting system with the LES Report 483 to ensure accuracy and completeness.</p>
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Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2022



8. DEBIT TRANSACTIONS

8.1. Procurement Guidelines

Weakness

8.1.1. During our audit fieldwork on the debit transactions, the following irregularity was noted whereby the Council did not obtain a quotation, as follows:

Detail	Supplier	Date	Amount
Supplying of 11 poles & covering 7 holes in Triq Wied Babu	Angelo Schembri	05/01/2022	1,569
Supply & lay of Hardstone - Gniien il-Gibjun	Agius Marble Works Ltd	01/12/2022	540
1 year hosting re mobile app	Appy Pie	16/06/2022	1,239
3 Wifi Connections in Various Areas in Zurrieq	Tech MT Foundation	01/06/2022	1,350
1 year hosting re mobile app	Appy Pie	16/06/2022	1,239
Christmas Tree & Decoration	Joseph Tedesco	22/12/2022	5,700

Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2022