

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

10 May 2024

Dear Sirs,

We have completed our audit of the financial statements of Zurrieq Local Council for the year ended 31 December 2023. The purpose of this report is to summarise our principal findings arising from this work.

Our audit was primarily based on verifying balances in the financial statements to ensure that they are free from material error and comply with relevant legislation. Consequently, the matters raised in this report cannot be regarded as comprehensive statement of all weaknesses that exist or all improvements that might be made. 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 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 Council. 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.

Our engagement obliges us to distribute copies of this report to the Council. 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.

During the course of our audit for the year ended 31 December 2023, we examined the principal documents, systems and controls used by the Council, to help it ensure, as far as possible, the accuracy of these documents and to assess how much one can rely on these documents' completeness and to safeguard the assets of the Council.

The objective of this letter is to bring to your attention those divergences in the system that were noticed during our audit work and suggest ways of how these can be rectified. Should you require our assistance in bringing to fruition the suggested recommendations do not hesitate to contact us.

We would like to take this opportunity to thank you and your staff at Zurrieq Local Council, particularly Ms. Josianne Cilia Mumford and Ms. Charmaine Anastasio, for their constant co-operation and assistance during the course of the audit.

Yours faithfully,

Arthur Douglas Turner
Partner - Parker Russell Turner

PREVIOUS MANAGEMENT LETTER

During the course of our audit for the year ended 31 December 2023, we have also reviewed the points highlighted in the previous management letter along with their respective feedback:

i. Property, plant and equipment

We are pleased to report that we did not encounter any issues on the classification of transactions.

However, we have once again noted issues on the procurement of fixed asset additions, as per note 1.1 as on page 4.

ii. Cash in bank

We have once again noted that funds are not being segregated between operational and capital accounts depending on the purpose, as per note 2 as on page 7.

iii. Debtors

We have once again noted that there are long outstanding debtors, as per note 3.1 as on page 7.

iv. Accrued income

We are pleased to report that we did not encounter any issues in the accrued income.

v. Creditors

We have once again noted that there are long outstanding creditors, as per note 4.1 as on page 9.

vi. Accruals

However, we have once again noted shortcoming in accruals as per note 5 as on page 11.

vii. Revenue

We have once again noted shortcoming in revenue as per note 6 as on page 12.

Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2023

viii. Debit transactions

We have once again noted shortcoming in procurement guidelines as per note 7.1 as on page 14.

ix. Funds held by tribunal council

We require the Council to seek further clarification on this matter.

x. Presentation of financial statements

We are pleased to report that we did not encounter any issues in the presentation of the financial statements.

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. *CREDITORS*
5. *ACCRUALS*
6. *REVENUE*
7. *DEBIT TRANSACTIONS*
8. *CONCLUSIONS*

FINDINGS ARISING FROM 2023 AUDIT

WEAKNESS NOTED / RECOMMENDED IMPROVEMENT	LOCAL COUNCIL REPLIES												
<p>1. PROPERTY, PLANT AND EQUIPMENT</p> <p>1.1. Fixed Asset Additions</p> <p><i>Weakness</i></p> <p>1.1.1. 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" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Detail</th> <th style="text-align: center;">Supplier</th> <th style="text-align: center;">Date</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td>Trio med - AED machines</td> <td style="text-align: center;">Trio Med</td> <td style="text-align: center;">13/04/2023</td> <td style="text-align: right;">3,431.61</td> </tr> <tr> <td>Mantis - Bike stand equipment</td> <td style="text-align: center;">Mantis</td> <td style="text-align: center;">15/05/2023</td> <td style="text-align: right;">1,848.98</td> </tr> </tbody> </table> <p><i>Recommendation</i></p> <p>1.1.2. 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 unless, for</p>	Detail	Supplier	Date	Amount	Trio med - AED machines	Trio Med	13/04/2023	3,431.61	Mantis - Bike stand equipment	Mantis	15/05/2023	1,848.98	<p>The Council will do its utmost to obtain necessary quotes where its possible.</p>
Detail	Supplier	Date	Amount										
Trio med - AED machines	Trio Med	13/04/2023	3,431.61										
Mantis - Bike stand equipment	Mantis	15/05/2023	1,848.98										

Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2023

<p>purchases exceeding € 50 but not € 500, a direct order approved by the Executive Secretary is issued.</p>	
<p>1.2. Fixed asset write offs</p> <p><i>Weakness</i></p> <p>1.2.1. Whilst testing the fixed asset disposals, it was noted that there is a € 30 difference on the cost and accumulated depreciation of the disposed office and furniture fittings as compared to the schedule of disposals and the in the nominal ledger.</p> <p>1.2.2. Upon reviewing the schedule of fixed asset disposals, a profit of € 318,948 is being indicated. This is inconsistent with the nominal ledger since no proceeds were received.</p> <p>1.2.3. We have noted that in relation to assets which are being disposed, no release for capital grants is being carried out. We have however, confirmed with the Local Council that no grants were associated to these disposals.</p>	<p><i>Fixed assets were disposed and not sold. There was a mistake while inputting movement in the fixed asset register. Council will make sure this will not happen again.</i></p>

	<p><i>Recommendation</i></p> <p>1.2.4. We recommend the Council to conduct a thorough reconciliation of disposal records, including the schedule of disposals and the nominal ledger, to identify and rectify any discrepancies. This process should involve verifying the accuracy of cost and accumulated depreciation figures for the disposed assets.</p> <p>1.2.5. We recommend the Council to evaluate the fixed asset system to ensure that it accurately reflects the disposal process and does not include proceeds from disposals where none were received. This may involve adjusting the system settings or updating procedures to prevent such discrepancies in the future. We note that this inconsistency relates only to the asset schedules and does not however affect the nominal ledger.</p> <p>1.2.6. We recommend the Council to ensure that the fixed asset register is comprehensive and includes all relevant information, including details regarding capital grants associated with the fixed assets. It is imperative that any grants are released when assets are impaired or disposed.</p>
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<p>2. CASH AT BANK</p> <p>2.1. Treasury management</p> <p><i>Weakness</i></p> <p>2.1.1. We have noted that while the Council holds € 1,888,995 in bank balances, as detailed in note 12 of the financial statements, these funds are not classified based on their intended use, whether for operational purposes, capital expenditure, or funds held on behalf of third parties.</p>	<p>The Council needs these funds for future capital expenditure.</p>
<p><i>Recommendation</i></p> <p>2.1.2. We recommend that the local council adopts an improved treasury management procedures to categorise bank accounts according to their nature. This approach would ensure transparency and efficient utilisation of public funds, aligning with the Council's Budget Management guidelines.</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 list of debtors contains balances that are considered doubtful in terms of recoverability. These balances have been fully provided for in the accounting system.</p>	<p>The Council will consider writing them off</p>

Deficiencies noted in the course of our audit of the financial statements of the Zurriég Local Council for the year ended 31 December 2023

<table border="1"> <thead> <tr> <th style="text-align: left;">Debtor</th> <th style="text-align: right;">€</th> </tr> </thead> <tbody> <tr> <td>Local Enforcement System Agency</td> <td style="text-align: right;">530</td> </tr> <tr> <td>Malta Tourism Authority</td> <td style="text-align: right;">2,981</td> </tr> <tr> <td>Water Services Corporation</td> <td style="text-align: right;">953</td> </tr> <tr> <td></td> <td style="text-align: right;">4,464</td> </tr> </tbody> </table>	Debtor	€	Local Enforcement System Agency	530	Malta Tourism Authority	2,981	Water Services Corporation	953		4,464	
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<p><i>Recommendation</i></p> <p>3.1.2. We recommend that the Council convenes to discuss the possibility of writing off these doubtful balances in view of the extended credit period. 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. Debtor – Regjun Punent</p> <p><i>Weakness</i></p> <p>3.2.1. We have noted that several reimbursements pertaining to Traffic Calming Measures and Road Markings from Regjun Punent amounting to € 7,550 were not included in the accounting records. This discrepancy has been accounted for at the audit level.</p>	<p>The Council will include these claims in accounting system</p>										

<p><i>Recommendation</i></p> <p>3.2.2. 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 avoid understatement of receivables and completeness of income.</p>							
<p>4. CREDITORS</p> <p>4.1. Long outstanding creditors</p> <p><i>Weakness</i></p> <p>4.1.1. During our audit testing, we noted that the Council's creditor list includes the following balances which is long overdue. Upon inquiry, we noted that this balance corresponds to deductions from invoices charged by the Council's contractor responsible for maintaining soft areas and public gardens. The reason for these deductions is that the contractor did not fulfil the expectations outlined in the contract.</p> <table data-bbox="1069 806 1260 2049"> <tr> <td>Creditor</td> <td style="text-align: right;">€</td> </tr> <tr> <td>Progressive Solutions</td> <td style="text-align: right;">9,028</td> </tr> <tr> <td></td> <td style="text-align: right;">_____</td> </tr> </table>	Creditor	€	Progressive Solutions	9,028		_____	<p>The Council will discuss this matter during Council meeting</p>
Creditor	€						
Progressive Solutions	9,028						

<p><i>Recommendation</i></p> <p>4.1.2. We recommend that the Council reviews its positions and determine if the amounts provided are payable or otherwise. Furthermore, decisions and discussions regarding these balances should be minuted during the Council meetings.</p>	
<p>4.2. Other creditors</p> <p><i>Weakness</i></p> <p>4.2.1. We have noted a balance of € 25,000 owed to the government, which represents funds received from the Scheme - Capital Projects in Localities (Memo 48/2009). However, these funds were not utilised as the estimated project cost exceeded the provided funds. As a result, the funds have not yet been refunded to the respective parties. No communication has been initiated regarding this matter.</p>	<p><i>As already stated, since Government never requested such funds we are keeping them in our accounts for further use</i></p>
<p><i>Recommendation</i></p> <p>4.2.2. We recommend the Council to initiate communication with the relevant parties to inform them about the situation regarding the unutilised funds. Provide an explanation for why the funds were not used and outline plans for refunding the funds to the respective parties.</p>	

<p>5. ACCRUALS</p> <p>5.1. We have noted the following weaknesses in accounting for accruals and prepayments:</p> <ul style="list-style-type: none"> • Accruals in relation to local enforcement expenses incurred in September 2023 to the value of € 2,121 were not accounted for. An adjustment was passed at audit level to account for this; • Street lighting repairs were understated by € 750. An adjustment was passed at audit level to account for this; • Accrued water and electricity expenses at two locations, Il Gnien Ta' L-Iskola and Outdoor Gym amounting to € 82 and € 142, respectively, were not accounted for. An adjustment was passed at audit level to account for this. 	<p><i>The Council will make sure that all the accruals are calculated correctly and accordingly.</i></p>
<p><i>Recommendation</i></p> <p>5.2. 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>	

	Comments Attached
<p>6. REVENUE</p> <p>6.1. General income</p> <p><i>Weakness</i></p> <p>6.1.1. During our audit fieldwork, while performing a reconciliation 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 € 714 arose in under declaration in the accounting system. This clearly indicates that the Council is not correctly reconciling the online system to the nominal ledger.</p> <p><i>Recommendation</i></p> <p>6.1.2. 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>6.2. LES Administration Fee</p> <p><i>Weakness</i></p> <p>6.2.1. While performing a proof in total test between the total LES administrative fee as per the LES Report 483 – LESA Tickets generated from the Loqus system and the total income recorded in the financial statements, it was noted that the amount in the financial statements was understated by € 415. We did not propose an audit adjustment to correct this discrepancy.</p>	<p><i>Unfortunately, the invoices issued for the 10% Administration fee are issued from the Loqus system and the Council has no control on the report and on the invoices issued.</i></p>

Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2023

<p><i>Recommendation</i></p> <p>6.2.2. 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>	
<p>6.3. Organic Waste Collection Reimbursement</p> <p><i>Weakness</i></p> <p>6.3.1. The agreement entered with WasteServ Malta Ltd for the reimbursement of Organic Waste Collection costs stipulates that the monthly invoice for the organic waste is to be issued and submitted to WasteServ Malta Ltd within 30 days from the receipt of WasteServ Malta Ltd tipping invoice. It transpired that the invoice for April and August 2022 totalling € 8,898 were sent by the Council after the stipulated period, and therefore no reimbursement was provided. During the current year, it was agreed that the April invoice would be adjusted accordingly, with payment of € 3,955 expected in 2024. However, the August invoice is deemed unrecoverable in its entirety, as it was received by the debtor after the stipulated period. An adjustment was passed at audit level against the debtors control account to reflect such reversal of income amounting to € 4,943.</p>	<p>NOTED</p>
<p>6.3.2. Although the agreement with Wasteserv Malta has been terminated, we recommend the Council, in line with similar situations, to conduct a thorough review of its invoicing process to identify bottlenecks or inefficiencies that may have contributed to the late submission of invoices. The Council should implement measures to streamline the process and ensure that invoices and</p>	

Deficiencies noted in the course of our audit of the financial statements of the Zurrieq Local Council for the year ended 31 December 2023

<p>other documentations are prepared and submitted in a timely manner, in accordance with the terms of the agreement.</p>	<p>NOTED Kindly note that with regards to Lapel badges , plants, and bowser service we do have quotes</p>																																													
<p>7. DEBIT TRANSACTIONS</p> <p>7.1. Procurement Guidelines</p> <p><i>Weakness</i></p> <p>7.1.1. During our audit fieldwork on the debit transactions, the following irregularities were noted:</p> <table border="1" data-bbox="710 835 1362 1928"> <thead> <tr> <th>Detail</th> <th>Supplier</th> <th>Date</th> <th>Amount</th> <th>Note</th> </tr> </thead> <tbody> <tr> <td>Various stationery</td> <td>Tonna</td> <td>19/12/2023</td> <td>981</td> <td>(a)</td> </tr> <tr> <td>Plants</td> <td>Green Supplier</td> <td>31/12/2023</td> <td>2,300</td> <td>(a)</td> </tr> <tr> <td>Pruning of trees</td> <td>Josef Grech</td> <td>14/04/2023</td> <td>1,180</td> <td>(b)</td> </tr> <tr> <td>Pruning of trees</td> <td>David Vella</td> <td>14/07/2023</td> <td>5,016</td> <td>(b)</td> </tr> <tr> <td>Bowser service</td> <td>Jason busuttill</td> <td>25/08/2023</td> <td>1,558</td> <td>(a)</td> </tr> <tr> <td>Risk assessments - public gardens</td> <td>AME Health and Safety</td> <td>30/11/2023</td> <td>906</td> <td>(a)</td> </tr> <tr> <td>Christmas decorations</td> <td>Victor Tedesco</td> <td>02/01/2024</td> <td>8,800</td> <td>(c)</td> </tr> <tr> <td>Hiring of tables, stage and setup poles</td> <td>Ghaqda karmelitani</td> <td>17/06/2023</td> <td>1,445</td> <td>(a)</td> </tr> </tbody> </table>		Detail	Supplier	Date	Amount	Note	Various stationery	Tonna	19/12/2023	981	(a)	Plants	Green Supplier	31/12/2023	2,300	(a)	Pruning of trees	Josef Grech	14/04/2023	1,180	(b)	Pruning of trees	David Vella	14/07/2023	5,016	(b)	Bowser service	Jason busuttill	25/08/2023	1,558	(a)	Risk assessments - public gardens	AME Health and Safety	30/11/2023	906	(a)	Christmas decorations	Victor Tedesco	02/01/2024	8,800	(c)	Hiring of tables, stage and setup poles	Ghaqda karmelitani	17/06/2023	1,445	(a)
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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 2023

Water games activity	Plan n fun	15/06/2023	1,198	(d)
Lapel badges	Godfrey Duca	11/12/2023	910	(a)
<p>(a) The Council did not obtain any quotations.</p> <p>(b) The Council did not obtain any quotations. The Council has directly communicated to suppliers in Zurrieq to prune trees and divided the work among them.</p> <p>(c) Despite the sum exceeding €5,000, no tender was issued. This decision stemmed from the fact that the supplier, based in Zurrieq, has been handling the Council's decorations for a long time.</p> <p>(d) The Council did not obtain any quotations. Furthermore, invoice provided is a pro-forma invoice and not a proper invoice.</p>				
<p><i>Recommendation</i></p> <p>7.1.2. 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 unless, for purchases exceeding € 50 but not € 500, a direct order approved by the Executive Secretary is issued. Furthermore, for any purchases exceeding € 5,000 but not exceeding € 10,000, a quotation through the EPPS should be issued.</p>				

The Council communicated with Lands Authority with regards to this matter

7.2. Leases

Weakness

7.2.1. Whilst reviewing the rent expense of the Council throughout the year, we have noted that the amounts charged by the Lands Authority as per the invoices were higher than the amounts stipulated in the lease contract. No revision to the agreement has been noted on this. This is summarised below:

Location	Annual rent as per invoice	Annual rent as per lease contract
Site at Triq San Andrija	€ 240	€ 50
Xarolla Windmill	€ 500	€ 232.94

7.2.2. Furthermore, during the year, the Council received invoices from the Lands Authority for the rental of Gibjun - Sites A and B. However, there is no lease agreement in place between the Council and the Lands Authority for these properties.

<p><i>Recommendation</i></p> <p>7.2.3. We recommend the Council to ensure that updated contracts are obtained whenever there are modifications to the terms and conditions of leases.</p> <p>7.2.4. Additionally, for any new leases, it is important for the Council to have formal lease agreements in place. This provides a solid foundation for the rental arrangement, outlining the rights and responsibilities of both the Council and the Lands Authority or the landlord. Lease agreements help establish clear expectations, such as rent amounts, payment schedules, lease duration, maintenance responsibilities, and any other relevant terms.</p>	
<p>7.3. Studies and consultation</p> <p><i>Weakness</i></p> <p>7.3.1. We have noted that included in the studies and consultation account is an architect fee pertaining to design, landscape plan, funding application, and BOQ for the embellishment of Misrah Santa Marija, totaling € 8,422. This was initially capitalised as asset, however, since the embellishment project will no longer be pursued, this has been written off as a sunk cost.</p>	<p><i>This was written off since the project is not going to be done, however as it was pointed out these plans can always be used should the Council receive the adequate funding.</i></p>

<p><i>Recommendation</i></p> <p>7.3.2. Although the above can still be used for another project., we still recommend the Council to implement a thorough review process to assess the feasibility and ongoing viability of projects in order to prevent the occurrence of sunk costs when projects are ultimately abandoned.</p>	
<p>8. CONCLUSIONS</p> <p>8.1. We have noted that good internal procedures are being instilled by the Council. The Council and its employees should continue to strive to achieve a good control environment by ensuring that optimum use of public funds.</p> <p>8.2. We would be pleased to assist the Council to come up with an action plan, with clearly set target dates and by which the Council will address the weaknesses reported in this report. We are at your disposal should you need our assistance in any of the specific areas referred to in this report.</p>	