

**The Members**  
**Qrendi Local Council**  
7, Triq il-Knisja  
Qrendi QRN 1103  
Malta

27 June 2023

Dear Members of the Qrendi Local Council,

We have completed our audit of the financial statements of Qrendi 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 right 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**



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AN INDEPENDENT MEMBER OF

 **Parker Russell**  
INTERNATIONAL

 **ACCA**  
Platinum Members

## **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. Wages and Salaries**

We have once again noted shortcoming in wages and salaries as per note 11 as on page 12, since at year end, performance bonus was again not fully determined correctly.

### **ii. Fixed Assets**

We have once again noted differences between Fixed assets costs, grants and their classifications as per note 1 on page 3.

### **iii. Trade and other receivables**

We have, once again noted differences between the amount due on accounts and the statement provided from Waste Serve Malta Ltd, which also relates to a long outstanding receivable, as per note 3 on page 5.

### **iv. Trade and other payables**

We have, once again noted, that the long outstanding payable mainly Water Services Corporation, is not supporting by proper documentation and which also relates to a long outstanding payable, as per note 5 on page 7.

Deficiencies noted in the course of our audit of the financial statements of the Qrendi 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. *FINANCE LEASES*
3. *TRADE RECEIVABLES*
4. *CASH IN HAND AND AT BANK*
5. *TRADE PAYABLES*
6. *DEFERRED INCOME*
7. *CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES*
8. *IMPAIRMENT AND OTHER PROVISIONING*
9. *REVENUE*
10. *DEBIT TRANSACTIONS*
11. *PAYROLL AND HUMAN RESOURCES*
12. *DIFFICULTIES ENCOUNTERED IN VERIFYING PRIOR YEAR BALANCES*
13. *PRIOR YEAR ADJUSTMENTS*
14. *PRESENTATION OF FINANCIAL STATEMENTS*
15. *BOOKKEEPING AND ACCOUNTING ISSUES*
16. *OTHER MATTERS*
17. *CONCLUSIONS*

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



WEAKNESS NOTED / RECOMMENDED IMPROVEMENT	QRENDI LOCAL COUNCIL REPLIES
<p><b>1 PROPERTY, PLANT AND EQUIPMENT</b></p> <p><b>1.1 Fixed Asset Register</b></p> <p><i>Weakness</i></p> <p>1.1.1 Despite the fact that the Council has taken the necessary measures to compile a fixed asset register, we noted that the system is manual and is not robust enough to incorporate all asset types, category and location, linked to a labelled physical asset. Furthermore, the manual system is not integrated with the Fixed asset Module and to the General Ledger of the accounting software. This not only leads to duplication of effort in keeping one's records in order, but can also result in incorrect postings to the General ledger, due to human error.</p> <p><i>Recommendation</i></p> <p>1.1.2 We strongly believe that the fixed asset register should be kept electronically, using the appropriate available software. This should be synchronized within the accounting system.</p> <p>1.1.3 We strongly recommend that the fixed asset register implementation process is discussed in details with your IT service provider and the accountant in charge in order to adapt the software necessary for the</p>	

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



	<p>needs of the Council and incorporate the integration of the plant registry within the general ledger.</p>		
	<p><b>1.2 Classification of transactions</b></p> <p><i>Weakness</i></p> <p>1.2.1 As noted in paragraph 1 above, the problem which exists in regard to the classification of transactions pertaining to Fixed Assets stems from incorrect postings at entry stage. This deficiency can have far reaching implications, amongst which, material misstatements between the various categories of fixed asset balance and resulting incorrect depreciation charges in any one year.</p>		
	<p><b>2 FINANCE LEASES</b></p> <p><i>Weakness</i></p> <p>2.1 During our review of other areas in the financial statements, we also noted that the Council correctly accounted for Right of Use assets under IFRS 16. However, we were not provided with how the internal rate of return of 3.4% was arrived at.</p>		

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



<p><i>Recommendation</i></p> <p>2.2 Since amounts for the Right of Use assets are minimal, no audit adjustments were deemed necessary to be passed at this stage. However, it is recommended that the Council should obtain understanding from the Bank lending rates to arrive at the correct internal rate if return to be used.</p>	
<p><b>3 RECEIVABLES</b></p> <p><i>Weakness</i></p> <p>3.1 We have obtained the purchase ledger from Waste Serve Malta Ltd which shows a balance with the Council of € 6,078. However, balance as per the Council's Trial balance show an amount of € 14,265, thus having a difference of € 8,187. Reconciliation for the current year was provided, and movements for the current year were correctly accounted for, however difference couldn't be traced to which year it relates. Prior year adjustment in relation to the above was proposed and the Local Council agreed to account for it.</p> <p>3.2 Furthermore, we have noted that the Council has a debtor balance relating to LESA Pre balance of € 80,602 which is fully provided for on accounts, however, it does not agree with the report obtained from LESA which shows a balance of € 70,484. We have proposed the adjustment of € 10,118 as adjustment to provision of bad debts and write off and the Local Council has agreed to account for it.</p>	

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



<p><i>Recommendation</i></p> <p>3.3 We recommend that regular reconciliations of the amounts due are carried out to reconcile any differences in the current year. In addition, an exercise needs to be carried out on the Lesa old balance to ensure whether these will be written off or are recoverable.</p>	
<p><b>4 BANK</b></p> <p><i>Weakness</i></p> <p>4.1 The Council is including the amounts held at the Central Bank of Malta for Measure funds to be released within Cash at bank and in hand.</p>	
<p><i>Recommendation</i></p> <p>4.2 The amounts held at the Central Bank of Malta are funds which are still to be released into the Council's bank and as such there should be segregation between the bank balances held by the Local Council and the Central Bank of Malta bank accounts held.</p>	

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



<p><b>5 PAYABLES</b></p> <p><i>Weakness</i></p> <p>5.1 We have noted that the Local Council has an amount long outstanding with Water Services Corporation of € 21,000 for which no documentation was provided.</p>	
<p><i>Recommendation</i></p> <p>5.2 The Local council should review any balances due and reconciles ongoingly. Any long outstanding amounts should be resolved and differences adjusted for.</p>	
<p><b>6 DEFERRED INCOME</b></p> <p><i>Weakness</i></p> <p>6.1 Opening deferred income amounting to € 102,270 which relate to the years 2017 to 2021 could not all be traced to previous year's documentation. However, these were correctly partly released into the current year against costs incurred during 2022.</p>	

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



<p><i>Recommendation</i></p> <p>6.2 We recommend that a detailed reconciliation is carried out by the Council and Grants are accounted in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.</p>	
<p><b>7 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES</b></p> <p><i>Weakness</i></p> <p>7.1 The very nature of Local Council business warrants a close look at Capital commitments at the year end, particularly in relation to those projects approved by local Government, but which have been fully or partially funded, and which project works the Local Council contracted for, at the year end. There is no consideration of these potential liabilities at year end.</p>	
<p><i>Recommendation</i></p> <p>7.2 Keeping tab of these potential liabilities not only ensures the correctness and completeness of the liabilities disclosed in the financial statements but also raises an awareness of other constraints which can adversely impinge on the Council's cash flows.</p>	

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



<p><b>8 IMPAIRMENT AND OTHER PROVISIONING</b></p> <p><i>Weakness</i></p> <p>8.1 The basis on which assets are impaired, as indeed the raising of provisions, is not always well documented. Nor is there evidence that these accounting entries have been discussed and approved by the Council members at the point of entry.</p>	
<p><i>Recommendation</i></p> <p>8.2 The basis on which assets are impaired or provisions raised for the diminution in values and the persons who authorized these provisions or write off should be obtained by the accountant before passing these transactions are put through the books.</p>	
<p><b>9 REVENUE</b></p> <p><b>9.1 Permit fees</b></p> <p><i>Weakness</i></p> <p>9.1.1 We obtained the report issued by the Council's system and a difference of € 345 arose. Whilst discussing this with the Council it transpired that the difference could have arisen due to the bank charges applied by the</p>	

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

<p>Online payments, especially in relation to online payments received from different bank accounts than the one the Council has.</p>	
<p><i>Recommendation</i></p> <p>9.1.2 We suggest that reconciliation of such balances is maintained an differences from the reports and accounts are explained.</p>	
<p><b>9.2 Income from LESA</b></p> <p><i>Weakness</i></p> <p>9.2.1 The Council collects receipts on behalf of third parties, mainly LESA, which then needs to pay back to these third parties. The amount of € 240 is still showing as income under the Council's financial statements</p>	
<p><i>Recommendation</i></p> <p>9.2.2 It is recommended that proper reconciliation and record of such amounts received on behalf of third parties is kept and reconciled monthly.</p>	
<p><b>9.3 Organic Waste Collection reimbursement</b></p> <p><i>Weakness</i></p>	

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

	<p>9.3.1 The agreement entered with Wasteserve Malta Ltd for the reimbursement of Organic Waste Collection cost incurred was not updated with the current rate for the last 3 months for October till December 2022. The rate for such cost went up from € 119.18 per collection to € 354 per collection following the expiration of the contract the Council had with the contractor and for which a Direct Order approval was obtained by the DLG. This lead to the Council not receiving the difference in the reimbursements resulting in a loss to the Local Council of € 7,749.</p> <p>9.3.2 In addition, adjustment in Debtors balance Waste Serve Malta Ltd amounting to € 8,186 was reversed since such amount could not be reconciled to the proper year in which is arose. This is also pointed out under Debtors point 3 above.</p>
	<p><i>Recommendation</i></p> <p>9.3.3 It is recommended that the Council submits the respective documentation relating to revised rates of waste collection on a timely basis to ensure that claims with Waste Serve Malta Ltd are at the updated collection rates.</p>
	<p><b>10 DEBIT TRANSACTIONS</b></p> <p><i>Weakness</i></p> <p>10.1 Whilst verifying Administrative costs it was noted that the Council was not adhering to the Procurement procedures and 3 quotes were not always</p>

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

	<p>being attained, either because these were not requested and/ or because no replies were being received. Such instances occurred when purchasing the Litter Bins Copperfield amounting to € 1,008, the booklet for Caring for Paws amounting to € 788 and Evaluation of Tender amounting to € 1,027.</p>
	<p><i>Recommendation</i></p> <p>10.2 The Council should adhere the carefully laid down procurement procedures as these procedures seek to foster public sector efficiency and increase transparency. Moreover, this can help the Council achieve better value for money.</p>
	<p><b>11 PAYROLL AND HUMAN RESOURCES</b></p> <p><b>11.1 Overall payroll procedures</b></p> <p><i>Weakness</i></p> <p>11.1.1 Performance bonuses were not correctly calculated on a pro rata basis for those employees who were employed in 2022. An adjustment of € 4,961 had to be accounted for against accruals.</p>

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

<p>11.1.2 During the current year, the post of the Executive Secretary of the Qrendi Local Council was vacant. This role was filled in by the Deputy Executive Secretary Ms Stephania Grixti for the first six months with the remaining latter six months being filled in by Ms Ritienne Giorgino. Although newsletter appointments were provided and it was approved in Council's meetings, no agreement has been provided in this respect. Moreover, the allowance of € 17,693 for the Deputy Executive Secretary Role of Ms Stephania Grixti was reallocated to the Executive Secretary account.</p>	
<p><i>Recommendation</i></p> <p>11.1.3 More detail must be given on the wage computation particularly in relation to performance bonus calculation.</p> <p>11.1.4 In addition, the Local Council should keep a copy of all agreements signed to have a clear understanding of the terms and conditions for each employment entered into.</p> <p>11.1.5 Implement segregation of duties and other procedures as suggested above.</p>	
<p><b>11.2 Overtime entitlement</b></p> <p><i>Weakness</i></p>	

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

<p>11.2.1 From review of overtime records, we have noted that overtime paid during the current year was not pre-approved or approved by the Council. We are aware that the Council had difficulty in engaging an Executive Secretary and an Executive officer on a full time basis leaving it with a huge work load on the only full time employee during 2022.</p>	
<p><i>Recommendation</i></p> <p>11.2.2 It is recommended that the Council performs an assessment to determine the staff complement needed and to address the roles specific to the needs of the Council. KPIs should be introduced to keep in check the efficiencies of each employee and to ensure that every employee is working in an effective and efficient manner, in line with the requirements and the procedures of the Council.</p> <p>11.2.3 Further we recommend that the Finance Section and HR Department carry out an exercise to confirm that the overtime hours do not exceed the amount budgeted and approved by the Council. Before overtime is approved, the Council should analyse primarily the work that needs to be carried out by ensuring that the approval of the overtime falls within parameters of the Budgeted wages for each month. If overtime is to be confirmed, this should only be carried out after ensuring that the work exigencies have increased, and after the approval and consent is given by the Council at board meetings.</p>	

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

<p><b>12 DIFFICULTIES ENCOUNTERED IN VERIFYING PRIOR YEAR BALANCES</b></p> <p><i>Weakness</i></p> <p>12.2 We had difficulties in verifying balances relating to prior years, mainly due to the inability to obtain appropriate audit evidence to support these balances. Amongst other things, these included certain categories of Fixed assets, Deferred income, debtor account balances due from LESA (€ 70,484). Similarly, there is a long outstanding balance (€ 21,000) being shown in the entity's books as due to Water Services Corporation relating to prior years which balance cannot be substantiated. This lack of information and documentation on these balances brought forward from previous years pose a limitation on the scope of our audit.</p>	
<p><i>Recommendation</i></p> <p>12.3 We strongly recommend that all these anomalies are investigated and an assessment made as to whether the asset or liability pertaining to these balances can be liquidated. On this basis a decision should be taken to clean the accounting records of these balances.</p>	
<p><b>13 PRIOR-YEAR ADJUSTMENTS</b></p> <p><i>Contractual costs</i></p>	

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





13.1 The contractor for Road cleaning and street sweeping, Mr. Chris Bezzina, failed to provide invoices for the months of June till December 2021 on time and no accrual was accounting for during 2021. These were received during June 2022 and since amounts relate to the previous year, a prior year adjustment amounting to € 9,342 was included.

*Tribunal income*

13.2 Opening retained funds have been restated to reflect adjustments in the balance with Waste Serve Malta Ltd in respect of Income from organic waste collection and bins cost. This net cost amounting to € 6,206 was omitted from the Local Council's financial statements in previous years. The adjustment of € 8,186 was reflected against Trade and other receivables, € 1,980 was reflected against Trade and other payables with the corresponding net decrease being reflected against retained funds.

*Depreciation*

13.3 Grant for Gnien Tal-Warda was not recorded during 2021 against the costs incurred. Such costs were included in full and depreciation charge accounted for during 2021. As such, adjustment of € 3,892 was passed as a prior year adjustment to partly reverse the depreciation charge accounted in 2021.

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

<p><b>14 PRESENTATION OF FINANCIAL STATEMENTS</b></p> <p><i>Weakness</i></p> <p>14.1 The Local Council is required to prepare financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the EU. During our audit, we identified that the Council's unaudited financial statements needed updated and further corrections in accordance with IFRS as adopted by the EU.</p>	
<p><i>Recommendation</i></p> <p>14.2 We recommend that the Local Council gives more attention to the preparation of the financial statements. The above shortcomings have been amended in the audited financial statements.</p>	
<p><b>15 BOOKKEEPING AND ACCOUNTING ISSUES</b></p> <p><i>Weakness</i></p> <p>15.1 During the course of our audit, we encountered a number of bookkeeping and accounting issues for which we had to pass various accounting adjustments. These are further listed on the Audit Adjustment Sheet which is attached as Appendix 1 to this Management letter.</p>	

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



	<p>15.2 The nature of the deficiencies noted in this area are various and included the following instances;</p> <ul style="list-style-type: none"> <li>a) Inability to distinguish between Revenue and Capital expenditure;</li> <li>b) Basic posting errors relating to the proper categorization of fixed assets under the appropriate classification resulting in the need to recalculating of the depreciation and amortization charge;</li> <li>c) Matching of projects related costs to the relevant income received to support the project;</li> <li>d) A number of adjustments to opening balances were difficult to follow through, both in terms of the appropriateness of the accounting treatment as well as the lack of documentation to support these transactions;</li> <li>e) Accounting treatment of Government Grants received in any one year requires more attention particularly when no works had been carried out on the project , for which the grants were received , by the end of that financial year;</li> <li>f) The inability to pick up an increase in the rate for refuse collection following the expiration of the contract resulted in the Local Council being unable to claim reimbursement for the difference in the new rates charged by the contractor. This resulted in a loss to the Local Council amounting to € 7,749 over a six month period;</li> </ul>
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Deficiencies noted in the course of our audit of the financial statements of the Qrendi Local Council for the year ended 31 December 2022



	<p>g) The financial statements prepared are based on a template being made available by the Central Government. These are not amended to ensure that the accounting policies and other disclosures therein are pertinent and applicable to the Local Council in question;</p> <p>15.3 The audit adjustments passed are listed in attached Audit Adjustment Sheet which is attached as Appendix 1 to this Management letter for your perusal</p> <p>15.4 The major risk emanating from poor record keeping and accounting is that of the inability to obtain comfort in the completeness and accuracy of the accounting records. This, in turn raises concerns on the correctness of the financial statements presented to the Council.</p>
	<p><i>Recommendation</i></p> <p>15.5 More attention to detail is necessary to ensure consistency and accuracy both at the transaction entry stage as well in the financial reporting of these transactions. The expertise and competence of the accountant in the keeping of the accounting records as well as the preparation of the financial statements is critical for the Local Council to obtain comfort in the reliability and accuracy of the financial statements and avoid similar inaccuracies as noted in para 1 points 15 (a) to (g).</p>

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



<p>15.6 It is strongly recommended that the accounting of the Council's affairs is discussed periodically at a meeting set up for this purpose. This will give council the opportunity to meet the accountant, to review and discuss the Council's financial affairs at an interim stage, and to enable it to address accounting issues on an ongoing basis.</p>	
<p><b>16 OTHER MATTERS</b></p> <p>16.1 We encourage deeper analysis of accounting figures presented to the Council, not only by looking and obtaining explanations for anomalies (particularly in regard to Administrative and Operating expenses) but also relating certain costs to related revenue streams (e.g. Cultural event and Community activities costs related to revenue generated from these activities). In other words, the Council should look at reasonableness of accounting figures presented to them.</p> <p>16.2 More robust internal control procedures should be encouraged on an ongoing basis. These tests should be ongoing, supported by regular reports to the Board Council on any weaknesses found in the systems. Only this and the timely reaction to these findings will ensure that robustness of the systems in place.</p> <p>16.6 Last but not least, the Council should ensure fully compliance with other Rules and Regulations (e.g. Health and Safety, Planning Authority, Personal Data Protection etc.) It should encourage regular reviews to ensure that the respective regulations are in place</p>	

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

	<p><b>17 CONCLUSIONS</b></p> <p>17.1 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>17.2 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>
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Deficiencies noted in the course of our audit of the financial statements of the Qrendi Local Council for the year ended 31 December 2022

