

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

30 May 2024

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 2023. 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 2023, 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

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 have once again noted shortcomings in property, plant and equipment as explained in note 1 below. Further issues were encountered during the year.

ii. Trade and other receivables

We have once again noted differences between the amounts included in the accounting system with the statement provided from Waste Serve Malta Ltd, which also relates to a long outstanding receivable, as per note 3 below.

iii. Trade and other payables

We have once again noted that the long outstanding payables, mainly Water Services Corporation, could not corroborated to third party evidence, as per note 5 below.

iv. Cash in hand and at bank

We have once again noted deficiencies in cash as explained in note 4 below.

v. Capital Commitments

No improvements were noted after our recommendation in the prior year. Kindly refer to note 6 below.

vi. Revenue

We have once again noted various deficiencies in the revenue cycle which were noted under note 7 below.

vii. Debit Transactions

We have once again noted various shortcomings in relation to debit transactions which were noted under note 8 below.

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

Furthermore, other limitations were noted in relation to payroll and human resources as explained in note 9 below.

viii. Presentation of the financial statements

Similarly to previous year, various mistakes were noted in the presentation of financial statements, as described in note 10 below.

ix. Bookkeeping and accounting issues

No improvements were noted from prior year in this area. Further explanation is provided in note 11 below.

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. *CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES*
7. *REVENUE*
8. *DEBIT TRANSACTIONS*
9. *PAYROLL AND HUMAN RESOURCES*
10. *PRESENTATION OF FINANCIAL STATEMENTS*
11. *BOOKKEEPING AND ACCOUNTING ISSUES*
12. *OTHER MATTERS*
13. *CONCLUSIONS*

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

WEAKNESS NOTED / RECOMMENDED IMPROVEMENT	QRENDI LOCAL COUNCIL REPLIES
<p>1. PROPERTY, PLANT AND EQUIPMENT</p> <p>1.1 Fixed Asset Register</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 labeled physical asset. Furthermore, the manual system is not integrated with the Fixed asset Module as in previous year 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>Qrendi Local Council's Fixed Asset Register has improved during the year under review.</p> <p>All the assets are located and labelled except for the street furniture and newly installed signs, the resurfaced roads and new pavements, the lables of which are impossible to maintain. Efforts are being made to integrate the excel sheet denoting all fixed assets of Qrendi Local Council into the Fixed Asset Module to avoid duplication of work, and to avoid incorrect postings due to human error within the General Ledger.</p>
<p><i>Recommendations</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 detail with your IT service</p>	<p>Qrendi Local Council is carrying on with the exercise of the compilation of the asset register in synch with the accounting system. Indeed we have started discussing this assignment with the IT service provider in charge of the software to integrate this data in the module referred above and localise all the assets</p>

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

<p>provider and the accountant in charge in order to adapt the software necessary for the needs of the Local Council and incorporate the integration of the plant registry within the General Ledger.</p>	<p>through a GPS system basically with coordinates details.</p>
<p>1.2 Classification of transactions & incorrect cut- offs</p> <p><i>Weakness</i></p> <p>1.2.1 We have noted during our testing incorrect classification of transactions pertaining to Fixed Assets stemming from incorrect postings at entry level. In fact, the following discrepancies were noted:</p> <ul style="list-style-type: none"> - Water Services Corporation works at Triq is-Salvatur were initially accounted for as an expense in the income statement amounting to €14,968. These had to be adjusted under <i>Urban Improvements</i> in the statement of financial position. In addition to the incorrect classification, we also noted that such works were completed in 2022 and consequently, accounted for in the wrong accounting period. Similarly other amounts of €20,219, pertaining to architectural services pertaining to capital projects, were incorrectly posted in the income statement and an adjustment had to be affected at audit level to capitalise with Property, plant and equipment. - Grants to the value of €38,269 pertaining to previous years were accounted for during the year under review, resulting in incorrect 	<p>The incorrect classifications of transactions is indeed pulling us back from good reporting with regards to the financial statements. However, it is understood that this is a weakness all across the board and it is very hard to eliminate it since the accountants cannot be on the ground 24x7 similarly to the Mayor, Deputy Executive Secretary and staff. Moreover, Qrendi Local Council does not have any objection for the Water Services Corporation works in Triq tas-Salvatur to be classified under the Urban Improvements rather than the income statement. Our only concern is, if these amounts of €14,968, affects the prior year adjustment since works have been completed in 2022. Similarly, Qrendi Local Council finds no objection for the amount of €20,219 to be re-directed into the capital projects rather than the Income Statement. After all, all architectural services, despite being intangible, all lead to a real project from which benefits all the community. Certainly, architects are the planners of capital projects and the one who certify the commissioning of same.</p>

<p>cut-offs in the financial statements. The resultant effect of these adjustments did not enable us to evaluate the correct calculation of the depreciation charge accounted in the financial statements, in view of the fact that we could not establish the financial year to which these grants pertain. Our auditors' report has been modified in this respect.</p>	
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<p><i>Recommendation</i></p> <p>1.2.2 Proper classification of Grants is crucial in line with the capital costs incurred as per the requirements of IAS 20, in order to ensure that the Matching Concept is being adhered to. Wrong classifications can lead to inaccurate depreciation costs and incorrect cut-offs.</p>	<p>Qrendi Local Council understands that the proper classification of Grants is imperative to account accurately for depreciation and cut-offs. As such we are going to invest more resources to account properly for Grants.</p>
<p>2. FINANCE LEASES</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>	<p>We are pleased to note that auditors acknowledged that the Right of Use assets under IFRS16 was correctly accounted for in the financial statements. The rate of return was discussed internally and 3.4% is quite fair.</p>
<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 being recommended that the Council should obtain understanding about the incremental borrowing rates in order to arrive at the correct internal rate of return to be used.</p>	<p>Qrendi Local Council is pleased to note that no audit adjustment was deemed necessary by auditors with regards to the Right of Use assets. The incremental borrowing rate was arrived at after internal discussions which took long.</p>
<p>3. TRADE & OTHER RECEIVABLES</p> <p><i>Weakness</i></p>	<p>Qrendi Local Council always reconciles suppliers. Waste Serv Malta Ltd unfortunately did not match for €6,078 from prior years. Indeed old balances are hard</p>

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

<p>3.1</p> <p>3.2</p>	<p>We have obtained the purchase ledger from Waste Serve Malta Ltd which shows a NIL balance with the Local Council. In the financial statements of the Local Council a balance of €6,078 remains outstanding from prior years. No reconciliation was carried out between the entities to reconcile the amounts and no explanation was forthcoming from the Local Council.</p> <p>Furthermore, we have noted that the Local Council has a debtor balance relating to LES Pre- regional amounts of € 70,484 which is fully provided for in the accounts. However, it does not agree with the report obtained from LES which shows a balance of € 69,155. We have affected an adjustment of € 1,328 to decrease the provision of doubtful debts with the corresponding adjustment being affected against bad debt write-off.</p>	<p>to match.</p> <p>However, Qrendi Local Council will be relieving itself from this outstanding debtor balance and thus reducing debtors for the P&L to look cleaner.</p> <p>The amount adjusted into the provision of doubtful debts is merely 1.8%. We agree with this adjustment pertaining debtor balances relating to LES.</p>
<p><i>Recommendation</i></p> <p>3.3</p>	<p>We recommend that regular reconciliations of the amounts due are carried out to reconcile any differences with the LES system. In addition, 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, and every effort should be made to get the necessary directions from the Department of Local Government.</p>	<p>There are no clear guidelines with regards to the LES Pre-Regional contraventions the recovery of same, bad-debts and write-offs. However, if we agree on a percentage with your goodself to transfer into bad debts, we are happy to do so on a yearly basis.</p>
<p>4. BANK</p> <p><i>Weakness</i></p>		<p>This all cropped up when BOV issued fresh instructions during the Covid 19 period.</p>

<p>4.1 We have noted that while the Council has bank balances of € 991,664 as disclosed under note 15 in the financial statements, these are not being segregated between operational and capital bank accounts depending on their purpose.</p> <p>4.2 Moreover, there is not a specific bank account which represents the balances received on behalf of LESA, Housing Authority, or the Lands Department which should be refunded back. In fact it was difficult to reconcile the amount of monies held on behalf of third parties to creditors outstanding at year end, as denoted in note below.</p> <p>4.3 Included with cash in hand and at bank, there is a negative petty cash balance of € 593, which could not be traced to a cash reconciliation effected at year end. We could not verify with accuracy the balance at year end.</p>	<p>The new procedure envisaged that Custodial Moneys collected from Local Council offices, were to be deposited first in Local Council Banks, and then a transfer had to be made into the relevant entity bank account, complicating and duplicating back-office work. This double procedure put extra pressures on our human resources, which unfortunately many times is overlooked by auditors. For years these moneys were being directly transferred the other entities accounts and this worked perfectly.</p>
<p><i>Recommendation</i></p> <p>4.4. We recommend that better treasury management procedures should be implemented by the Council to disclose the bank accounts depending on their nature, whilst also making optimum use of public funds, in line with the Budget Management of the Council. Most importantly there should be better segregation between the bank balances held by the Local Council and the capital funds held within Central Bank of Malta bank accounts.</p> <p>4.5. We also recommend that a cash count is carried out on a frequent basis prior to amounts are deposited in the Local Council's bank accounts, and a cash reconciliation is documented and kept by the officers. We suggest that more control is carried out to ensure that cash in hand agrees to cash amounts in the accounting records at all times</p>	<p>Also, opening an additional bank account entails additional reconciliation exercises to be carried out regularly. Qrendi Local Council also suggested that other entities Such as Trade Department, LESA and Housing Authority, should chase their dues by starting issuing monthly statements. With regards to the petty cash we do reconcile this frequently, however a discrepancy surfaced up amounting to €593.</p>

<p>5. PAYABLES</p> <p><i>Weakness</i></p> <p>5.1 We have noted that the Local Council has a long outstanding creditor with Water Services Corporation of € 21,000 for which no documentation was provided. No verification could be carried out at audit level to confirm the stated amounts. Consequently, we qualified our auditors' report to this effect.</p> <p>5.2 During the course of our audit we noted that the Council did not obtain statements as at or near year end from all supplies to confirm the year end balances and to ensure the completeness of the books of accounts.</p>	<p>We sincerely feel that there was no basis for our auditors to qualify the auditor's report on these basis. We asked WSC many times to give us details about this, and they failed to submit any reason.</p> <p>It is very insensitive for WSC to issue a yearly statement showing creditor amounts of €21,000 whilst failing to trace the origins of it.</p>
<p><i>Recommendation</i></p> <p>5.3 The Local council should review any balances due and reconcile this ongoingly. Any long outstanding amounts should be resolved and differences investigated. Furthermore, as a means of better controls, independent reconciliations should be carried out to third party supplier statements.</p>	<p>Qrendi Local Council reviews the balances from suppliers and customers regularly. We are still striving to identify this long outstanding creditor by investigating more into this.</p>
<p>6. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES</p> <p><i>Weakness</i></p> <p>6.1 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 have been contracted for by the Local Council at the year end. There was no consideration of these potential liabilities at year end in the unaudited financial statements.</p>	<p>Qrendi Local Council is indeed surprised by the comments made by our auditors with regards to the Capital Commitments. We not only consider a capital commitment the projects approved by Local</p>

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	Government but also the contracts signed with regards to newly awarded tenders, although works may not have been started.
<p>Recommendation</p> <p>6.2 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. During the year we have noted a total worth of € 535,577 capital commitments in relation to the Playing field Nicolo Communit and another Capital Project in relation to the Local Council premises.</p>	<p>As from our first meetings with Parker Russel Turner, Qrendi Local Council has disclosed the fact that in November 2023 two major construction tenders were issued in connection to a site located in Triq Nicolo Communit for the Local Council Offices, together with a playground. We had acknowledged the expenses not to be a P&L expense but rather a capital project that was initiated several years ago and we have to finish next year in 2024.</p>
<p>7 REVENUE</p> <p>7.1 Permit fees</p> <p><i>Observation</i></p> <p>7.1.1 Our reconciliation of total receipts issued from the Council's online permit system to the total income recorded in the accounting system, revealed a difference of only € 11. This clearly indicated that the Council is correctly capturing its receipts through the online system.</p>	<p>Qrendi Local Council is pleased to note that Parker Russell Turner have acknowledged the efforts from our end in recognizing all the income by matching the online permit system to the accounting system.</p>
7.2 Income from LESA	

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<p><i>Weakness</i></p> <p>7.2.1 The Council collects receipts on behalf of third parties, mainly LESA, which then needs to be paid back to these third parties. The amount of € 639 was accounted for as income within the Council's financial statements. No audit adjustments was effected in this respect in view of lack of information provided.</p> <p>7.2.2 We have endeavoured to carry out a reconciliation between the monthly LESA reports and the amounts included in the accounting system in relation to the 10% contribution fees received. However, we could not complete our test since we were not provided with the August 2023 report.</p>	<p>Everyone is aware and needs to recognize the toll of collecting custodial moneys and the management thereof since these need to be deposited first in our bank account and then transferred on-line to the respective third party bank account. This is a duplication of energy but we do it not as an obligation, but as a service to the general public.</p>
<p><i>Recommendation</i></p> <p>7.2.3 It is recommended that proper reconciliation and record of such amounts received on behalf of third parties is kept and reconciled monthly.</p> <p>7.2.4 It is recommended that all documents requested are given in a timely manner in order for us as auditors to conduct our testing as required.</p>	<p>The amount of €639, despite being deposited into our bank account is certainly not ours. However, all documentation is being attached. This income is being reconciled monthly and in a timely manner. (See Attachment 7.2.2)</p>
<p>7.3 Other income</p> <p><i>Incorrect classification of capital grants within income</i></p> <p><i>Weakness</i></p>	

<p>7.3.1 During the year, the council received € 10,000 grant from Sports Malta. This grant related to the purchase of Gym Equipment which was installed during the years 2020 and 2021. Such funds were recorded as income during the year 2023 due to the fact that accrued income was never accounted for in the past years. As a result, this deficiency has an affect on the cost values and the corresponding grants of the Property, Plant and Equipment balance in the financial statements as well as the consequent impact on the depreciation charge. Such income should have been recorded in the accounts as capital grants received against the fixed asset additions with a resultant decrease in the depreciation charge.</p>	<p>This accrued income generated from a donation / grant by Sports Malta, amounting to €10,000 was indeed for the installation of Gym Equipment in Gnien Dama Cecilia Pick at Tal-Warda, il-Qrendi. We recognise this 'deficiency' as described by Parker Russel Turner, despite the fact that should anything had gone wrong in such a scheme and authorities are not satisfied with the documentation needed, there are usually and unfortunately several financial corrections. These might impact badly on local councils. However, we are pleased to declare that the 2020/2021 project was successfully concluded during the year in review.</p>
<p>7.3.2 Reference is made to point 1.2.1 in relation to capital grants of € 38,269. Out of these amounts, there was a capital grant amounting to € 21,394 which was incorrectly accounted for as permits income. An audit adjustment was affected to reverse the said income against property, plant and equipment.</p>	
<p><i>Other general income</i></p>	
<p>7.3.3 Opening accrued income relating to the reimbursement of the distribution of flyers in 2022 was not correctly reversed, resulting in a discrepancy of € 229 which has been adjusted for at audit level.</p>	<p>Qrendi Local Council has recognised during the fieldwork that the €21,394 was capital grant.</p>
<p>7.3.4 During 2023 the council received € 20,239 from Wasteserv on claims pertaining to 2022. Since the claims were not done in a timely manner, these were accounted for in 2023 when the amounts were actually received. As a consequence, the surplus for the year has been distorted in view of the said cut-off issues.</p>	
<p>7.3.5 Whilst performing a reconciliation with Regjun Punent books of accounts, we noted that assistances given by Regjun Punent of € 1,638, in relation to the pop cultural events,</p>	<p>The distribution of flyers was related to the now household waste collection schedule imposed by the Central Government reducing the collection of black bags from 3 times to 2 times per week. We recognise that such reversal should have been</p>

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<p>were not accounted for the in the Council's books of accounts. This resulted in understatement of revenue and also difference in balances due with Regjun Punent which is considered to be a related party.</p>	<p>correctly made by our accountant.</p> <p>First and foremost, Waste Serv should have issued a statement showing the €20,239 as accrued income in 2022. There again, Qrendi Local Council cannot accept the untimely reimbursement from Wasteserv or other local entities being government owned.</p> <p>The pop-up event took place in a chapel located in Qrendi and this was absolutely a successful event. The event was invoiced on the 22/12/23 just before year end and was erroneously not recorded in the SAGE. (See Attachment 7.3.5)</p>
<p><i>Recommendation</i></p> <p>7.3.6 It Is recommended that the Council gives importance to the matching concept as per accounting principles. Revenue and other income should be recognized in the year in which the relevant expenditure of capital addition was incurred. Otherwise, the resulting profit and loss for the year will be distorted.</p> <p>7.3.7 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>We agree that since we are not accounting on a cash basis but rather on an accrual basis, the improper posting of revenue and income can distort the accounts.</p> <p>The pop-up cultural event was indeed one of the initiatives taken for the first time by the Regjun Punent to assist in cultural activities for the community. We sincerely thank them for their support.</p>

8. DEBIT TRANSACTIONS					
<i>Weakness</i>					
8.1	Whilst verifying Administrative costs it was noted that the Council was not adhering to the Procurement guidelines and three quotes were not always being attained, either because these were not requested and/ or because no replies were being received. Such instances occurred in the following transactions we have tested as part of our auditing procedures:				Qrendi Local Council is indeed adhering to the procurement regulations with regards to three quotations and where this threshold is being exceeded, with the issuing of tenders.
<u>Operating Materials and Supplies</u>					
24/07/2023	42	Manuel Magri	Maintenance work at Council Premises	749.19	There are instances where maintenance works are urgently needed since odd things might happen to public property overnight. Accidents in the roads, mishaps in public conveniences, public gardens or playing fields might have serious consequences that in turn might make the public institute legal proceedings against us. These illegal activities take place by vandals striking on street furniture where action is needed to safeguard the health of other pedestrians, residents and the general public.
Note : No quotations were obtained and in addition to this, the local council did not obtain a proper fiscal invoice.					The works concluded by Mr. Manuel Magri were exactly needed urgently because there was a car collision which damaged the pavement (Ref 7) and storm water was seeping into third party premises. Mr
<u>Public Property</u>					
20/03/2023	005535	Piscopo Gardens	Octagonal pots including planting	5,000.00	
20/03/2023	841	Angelo Schembri	Supply of 3 Poles for CCTV Cameras	885.00	
10/08/2023	36563,36816	Tower Ironmongery	Hardware	1,126.39	
27/12/2023	7	Manuel Magri	Concrete works on pavements	1,080.65	

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Note : No quotations were obtained in relation to the above transactions.					<p>Manuel Magri's assistance was paramount to avoid a tragedy in our local council premises at 7, Triq il-Knisja, il-Qrendi. Storm water was damaging our infrastructure and office equipment (Ref 42) With regards to the boring of flag poles' holes, Qrendi Local Council like every council has no choice but to make use of the services of the sole contractor Mr Angelo Schembri who has a specialized machinery to dig these flag holes. Mr Angelo Schembri is also registered with Transport Malta to do road works. The holes were urgently needed to put up CCTV warning signs next to i-bins who were being abused of by illegal dumping by unknown perpetrators. Qrendi Local Council is utilising (5) workmen who are specialised in their trade through the Community Works Scheme and RSS scheme. We are practically benefitting from their services for free. Much of the maintenance works is done by these skilled workmen and as such they Constantly need hardware which is bought from Tower Ironmongery Ref 36563 & 36816.</p>
09/03/2023	841	Angelo Schembri	Supply of 3 Poles for CCTV Cameras	885.00	
04/09/2023	1163	V.Demajo	Pump for Tal-Warda Fountain	680.00	
Note : No quotes were obtained and invoice from Angelo Schembri was inputted twice in the accounts.					
<u>Studies and Consultations</u>					
20/03/2023	RFP #2003-B23034	The Project Studio	Tal-Grazzja Chapel - PA 7017/20	3,363.00	
Note: No quotations were obtained.					
<u>Social Events</u>					
10/09/2023	7166	Edusell	Display Boards	2,642.40	
Note : No quotations were obtained.					

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	<p>With regards to the urgent fixing of a water pump in a garden before the turf was going to wither imminently, we had obtained three quotes which are being attached herewith. The decision was taken on the basis that the one bought matched the existing irrigation pipes dimensions; not to incur further expenses, that is the replacement of the existing irrigation network.</p>
<p><i>Recommendation</i></p> <p>8.2 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>With regards to The Project Studio (RFP #2003-B23034) kindly refer to the Tender issued by Qrendi Local Council Ref QLC-ARC 49/19, that is “Tender for the Professional Services of an architect to the Qrendi Local Council.”</p> <p>The boards were manufactured to fit in a chappel and made to measure. Edusell were the only suppliers offering such items. The display boards were financed by Regjun Punent and this deal was agreed by them. As such these boards are being utilised by the ten localities within the same region. At the time of this draft of reply to the management letter, the boards housed an exhibition in Saint Mary Band Club in Qrendi (20/6/24)</p>
<p><i>Weakness</i></p>	

8.3 In the water and electricity account, we noted that € 4,000 in relation to Christmas Decorations were inputted in this account. We have reclassified such costs as social Events expenses.	Qrendi Local Council has no objection for the reclassification of the €4,000 expenses in relation to the electricity consumption of the Christmas decorations.
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<p><i>Recommendation</i></p> <p>8.4 We recommend that costs are properly classified in order for the local council to have a clear picture of all costs that are being incurred during the financial year.</p>	<p>Qrendi Local Council is suggesting the opening up of another nominal account to separate the consumption of the water and electricity. The consumption of a street bulb lighting a metred public garden is by far different from the consumption of the office electricity bill.</p>
<p>9. PAYROLL AND HUMAN RESOURCES</p> <p>9.1 Overall payroll procedures</p> <p><i>Weakness</i></p> <p>9.1.1 Classification of salaries was not correctly reflected in the financial statements. We adjusted such amounts through an audit adjustment to correctly show the actual amounts spent on salaries, council members allowances, mayor’s honoraria allowance and executive secretary’s salary.</p> <p>9.1.2 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 Ritienne Giorgino for the first six months with the remaining latter six months being filled in by Mr Anthony Bonello. Although newsletter appointments were provided and it was approved in Council’s meetings, no agreement has been provided in this respect.</p>	<p>The re-classification of salaries, honoraria and council members allowances was indeed necessary to provide a full picture with regards to the administrative expenses. Nonetheless, these all fit into the salaries, Nominal Ledger chart of accounts 1100-1200.</p> <p>The change in the Deputy Executive Secretary of the Qrendi Local Council is recognised by the Director Local Council Government and recorded in the Local Council meeting minutes. The agreement would be signed with the new Executive Secretary who will be filling the role on a permanent basis.</p>

<p><i>Recommendation</i></p> <p>9.1.3 Proper classifications should be effecting in presented accurately figures in the financial statements.</p> <p>9.1.4 In addition, the Local Council should keep a copy of all agreements signed with respective employees to have a clear understanding of the terms and conditions for each employment entered into.</p>	<p>As explained, there is no much change in the salaries re-classifications.</p> <p>Agreements will be signed when the post of Executive Secretary is filled. Deputy Executive Secretary is a temporary role.</p>
<p>9.2 Overtime entitlement</p> <p><i>Weakness</i></p> <p>9.2.1 From review of overtime records, we have noted that overtime paid during the current year was not pre-approved or approved by the Council in writing. We are aware that the Council had difficulty in engaging an Executive Secretary and an Executive officer on a full-time basis resulting in shift of work load on existing employees..</p>	<p>Much of the overtime is envisaged by Local Council human resources procedures. It was decided by the Director Local Government. As an example, Local Councils had to open every Saturday morning to offer services to working parents. It was definately not our decision. Other occasions were overtime is taken by our office staff, is when an activity is decided by Council for example to commemorate Jum il-Qrendi, Potato Festival and other one off events. In such circumstances these are automatically approved by the council.</p>
<p><i>Recommendation</i></p>	

<p>9.2.2 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>9.2.3 Further we recommend that the Finance Section and Executive Secretary 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>	<p>It is a known fact that Qrendi Local Council is under-staffed. There is so much work involved that we do need at least two other full timers.</p> <p>Ongoing Saturdays overtime is not determined by Qrendi Local Council, but by Director Local Government as explained.</p>
<p>10. PRESENTATION OF FINANCIAL STATEMENTS</p> <p><i>Weakness</i></p> <p>10.1 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. The unaudited financial statements included various mistakes consisting of a missing disclosures and notes which were not reconciling to the balance sheet. Furthermore, the surplus disclosed in the unaudited financial statements, did not agree with the surplus which resulted from the trial balance provided by the Council's accountants. Various</p>	<p>Qrendi Local Council has warned the accountant that it cannot tolerate things such as the unmatched surplus on the unaudited financial statements compared to that listed in the trial balance. We understand that mistakes can happen to anyone but these figures had to be revised to give a full picture of the Profit and Loss Account which has a significant bearing on</p>

<p>amendments had to be effected at audit level, to present the financial statements in a correct manner.</p>	<p>the going-concern of the Qrendi Local Council.</p>
<p><i>Recommendation</i></p> <p>10.2 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>We thank Parker Russel Turner for the corrections to make good for these shortcomings.</p>

<p>11. BOOKKEEPING AND ACCOUNTING ISSUES</p> <p><i>Weakness</i></p> <p>11.1 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> <p>11.2 The nature of the deficiencies noted in this area are various and included the following instances;</p> <p>a) Inability to distinguish between Revenue and Capital expenditure;</p> <p>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;</p> <p>c) Matching of projects related costs to the relevant income received to support the project;</p> <p>d) 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;</p> <p>e) Lack of suppliers and debtors reconciliation;</p> <p>f) The financial statements prepared were full of misstatements, and incorrect compilation.</p>	<p>All our efforts are being invested to better reflect the book keeping and accounting, from our end. This is imperative to distinguish for example between the Revenue and the Capital Expenditure. Good practices in posting into the Sage Accounting Package will properly categorize the fixed assets without the need of revising the calculation of the depreciation and amortization charges. Matching project costs to the income received, is indeed a task in itself, but it determines any project extra over charges coming from extraordinary circumstances also related from Grants received from the Government.</p> <p>Also, we do chase our suppliers regularly to send us statements for timely reconciliation to ascertain correct compilations of the financial statements.</p>
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<p>11.3 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>11.4 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 above.</p> <p>11.5 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>Qrendi Local Council will be constantly liaising with the accountant to ensure the proper classification and accurate accounting of income and expenses.</p> <p>We normally discuss the Council's affairs on a quarterly basis but we do set up meetings in-house (administrative based meetings) involving the staff, the Executive Secretary and the Mayor.</p>
<p>12 OTHER MATTERS</p> <p>12.1 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>Qrendi Local Council intends to analyse the accounting figures deeper especially now that large infrastructural projects are being planned for 2024.</p>

<p>12.2 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>12.3 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>	<p>The exact allocation of the figures shall be detrimental to propel the activity of the council, that needs to be in line with the objectives. Up to now, there were no reports of health and safety issues, Planning Authority enforcements and breaches of personal data protection.</p>
<p>13. CONCLUSIONS</p> <p>13.1 We have noted that good internal procedures are being instilled by the Council in the operations of 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. On the other hand, control procedures in the Finance Section were found to be weak. We urge the Council to address these matters at the earliest.</p> <p>13.2 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>	<p>In conclusion, we should be looking more into good governance and efficiency of spending public money in a transparent manner. Checks and balances will ensure good controls and we are committed to provide the public with the best services to better the people's lives. Qrendi Local Council is embarking on an action plan to address the weaknesses addressed in this management letter and achieve the targets manifested in the budget and three year Plan.</p>