



Grant Thornton

The Mayor
Attard Local Council
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Our ref ABC/scl/

[Date]

Dear Sir

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DRAFT

Financial statements for the year ended 31 December 2011

During the course of our audit for the year ended 31 December 2011 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform with the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and with the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

Debtors

- 1.1 The debtors' ledger still includes a number of long outstanding debtors (refer to note 2.1).

LES receivables

- 1.2 The council obtained an unaudited set of financial statements of Birkirkara Joint Committee for the current year (refer to note 3.1).

Expenditure

- 1.3 During the current year's audit no petty cash payments exceeding the allowed limit stipulated by law were noted.

Procurement procedures

- 1.4 The council has not made a call for quotations for purchases exceeding € 1,164.69 as required by the law and memo 1/2010 (refer to note 4.1).
- 1.5 The council failed to issue a public call for tender's for a purchase exceeding € 4,658.75 as required by law (refer to note 4.3).

Partners and Directors

Martin Bonello-Cole
Margaret Bonello-Cole
Mark Bugeja
Austin Demajo
Wayne Pisani
Joseph Pullicino
George Vella
Mario Vella

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- 1.6 The council's global expenditure on a staff meal and locality day did not exceed the maximum stipulated memo 8/2011. However the council did not fully abide by memo 122/2010 (refer to note 4.5).

Donations

- 1.7 During the current year's audit we found that the financial statements disclosed donations made to the Community Chest Fund and Attard Athletics Club. Further investigation revealed that these funds were received from third parties to be redistributed to the above organisations. We have however found other disclosures made by the council (refer to note 14.1).

Contingent liabilities

- 1.8 The council has not resolved the disputes with certain suppliers and these are still disclosed as contingent liabilities in the financial statements (refer to note 5.1).

Presentation of financial statements

- 1.9 The financial statements are still not prepared in accordance with International Financial Reporting Standards as instructed by NAO (refer to note 6.1).

Fixed assets

- 1.10 The depreciation charge for the year did not agree to the depreciation charge calculated manually from the accounting records (refer to note 7.1).

Councillors' allowance

- 1.11 Councillors were paid a full year's allowance even though there were absences from meetings and no written letters of excuse were received by the council and kept with the minutes (refer to note 8.1).

Mayor's honorarium

- 1.12 The mayor's honorarium paid in excess by the amount of € 3,839.75 was not refunded (refer to note 10.1).

2 Debtors

- 2.1 The council's receivables still include amounts which have been pending for several years as shown below:

Debtor	€
Andre Borg	875.84
A to Z Electronics	130.45
Belle Image	186.35
Billboards Express Limited	130.45
George Farrugia and Sons	1,260.00
Wilfred Mifsud	116.47
Water Services Corporation	67.55

- 2.2 We reiterate that the council reviews the collectability of these long overdue amounts and write them off if no longer recoverable. The council should document its decision to write off or otherwise in the council minutes.

3 Revenue

LES income (pre-regional committee)

- 3.1 At the time of our audit, no audited financial statements of the joint (pre-regional) committee were available. Payments received were traced to the bank statement but we were unable to determine the share of profits or accrued income in the absence of audited accounts. Our audit opinion is qualified due to a limitation of scope with respect to LES income.
- 3.2 We urge the council to put more pressure on the joint committee to supply timely audited financial statements in order to ascertain that all amounts due are included in the council's financial statements.

Accrued income

- 3.3 During the current year the council recognised an amount of € 10,800 for income receivable from Water Services Corporation (WSC) for trenching works carried out in 2011 by WSC.
- 3.4 The council was given the option as to whether it carries the reinstatement of trenching works and is reimbursed by WSC or opts for reinstatement to be carried out by WSC from 1 August 2010. The council has decided that WSC is to carry out all trenching works and no refund will be payable to the council. As a result of these developments, the council determined that the accrued income was no longer receivable and therefore agreed that the amount should be removed from the book of account.

4 Procurement procedures

Quotations

- 4.1 When testing council expenditure we again found payments for which no call for quotations was made:

Description	Supplier	€
Music – Ceramics Festival	Walter Vella	1,650.00
Sound – Ceramics Festival	Wave Enterprises	2,242.00
Personal computers	Compleet IS Services Ltd	1,638.00
CCTV for Misrah Kola	Telecom	4,291.17

- 4.2 We again draw your attention to the Local Councils (Financial) Procedures, 1996 and memo 1/2010 which stipulate that for purchases exceeding € 1,164.69 calls for quotations must be published on the Government Gazette and on one local newspaper. This will also ensure that the most advantageous prices will be obtained by the council

Tenders

- 4.3 During the current year the council purchased services for construction works from Messrs Joseph Tabone which in aggregate amounted to € 9,289. The council has not followed the selection process as dictated by the Local Councils (Tendering) Procedures.
- 4.4 We again refer to the provisions of the Local Councils (Financial) Regulations which state that purchases exceeding € 4,658 require the issue of a public call for tenders according to the Local Councils (Tendering) Regulations.

Staff meal

- 4.5 When verifying the cost incurred for the council's staff meal, we found that the council has paid for persons other than the mayor, councillors the executive secretary, the staff and employees of the council. This is in contravention of memo 122/2010, which states that only these aforementioned persons can take part in this activity at the expense of the council contractors and suppliers are excluded.

5 Contingent liabilities

- 5.1 We again found that the council disclosed contingent liabilities for amount of € 525.93 payable to The Lighthouse Keepers and €10,359 payable to Bitmac Limited. These amounts have been in dispute for several years and the council informed us that no legal action has been taken by the suppliers.
- 5.2 We recommend that the council follows up and settles these matters in order to determine whether they are payable and accounts for them, or removes the contingent liability note after due consideration, if there is no possibility of payment.
- 5.3 In its confirmation, the bank confirmed a guarantee given by the council to MEPA for € 16,400. In accordance with accounting standards, the amount should be disclosed as a contingent liability.
- 5.4 We therefore recommend that the council makes full disclosure in its financial statements of all possible liabilities not provided for in the financial statements.

6 Financial statements

Classification

- 6.1 It was noted that items of expenditure were classified under different line items for each of the reporting periods presented.
- 6.2 Account classifications must be applied consistently from year to year to enhance the comparability of figures presented in the financial statements. We recommend that nominal ledger accounts are grouped as composite figures and should be consistently applied every year. Consistency of presentation is a fundamental concept underlying the preparation of accounts.

Presentation

- 6.3 We would like to point out that in accordance with the DLG's communications and instructions, all local councils' financial statements have to be prepared in conformity with International Financial Reporting Standards (IFRS). The council's financial statements are not IFRS compliant in the following instances:
- i. The financial statements do not correctly give all quantitative disclosures required by IFRS 7, Financial Instruments: Disclosures;
 - ii. The financial statements should only include accounting policies for those IFRS that are relevant to the council;
 - iii. The classification of construction works and urban improvements is not consistent with that of the previous year.
 - iv. The unaudited financial statements did not disclose details of capital commitments.
- 6.4 Our audit opinion has been qualified in respect of those shortcomings mentioned in paragraphs i to ii above.

Prior year adjustment

- 6.5 The unaudited financial statements included a prior year adjustment in respect of an incorrect amount released from deferred income to the statement of comprehensive income. The net effect on the results for 2010 was € 2,621 and a reclassification of € 5,390 from grants receivable as shown in note 23 of the unaudited financial statements.
- 6.6 IAS 8, Accounting Policies, Changes in accounting Estimates and Errors lays down the principles for passing a prior year adjustment. In the case of errors, such errors must be material and must be assessed as to whether the misstatement could influence economic decisions of the user, i.e. the council. An immaterial adjustment should be made in the current year.
- 6.7 We rechecked the workings of the prior year adjustment which related to grants received prior to 2009 but could not agree the figures as stated in the unaudited financial statements. Therefore we have agreed with the accountant and executive secretary to reverse the prior year adjustment and reflect all necessary adjustments (including the grant reversed in note 11.1) in the current year.

7 Fixed assets**Depreciation**

- 7.1 When testing depreciation charge for the year we found that the accounting records did not agree to the depreciation charge calculated by the plant register by € 9,916. The council informed us that the books of account were not updated to reflect the depreciation charge for the year calculated by the plant register. We proposed and the council approved to increase the depreciation charge by this amount in the final financial report.
- 7.2 Once the plant register and the books were brought into agreement as in 7.1 our audit procedures identified a difference of approximately € 3,000 between the depreciation charge as disclosed in the final financial statements and that individually computed by us.

- 7.3 Furthermore we noted that depreciation is calculated by the fixed asset register on a yearly basis rather than a monthly basis as disclosed in the notes to the financial statements.

Capitalisation policy

- 7.4 When testing fixed asset additions we found that assets under construction, costing € 66,311, were capitalised and included in the fixed asset register for calculating depreciation charge for the year. We recommended, and the council approved, that these assets are disclosed as assets under construction and the depreciation charge on these assets be reversed accordingly, as noted in point 7.1.

Assets classification

- 7.5 Assets not yet capitalised costing € 357 was erroneously posted in the accounts for Urban Improvements. Therefore the books of account categories did not agree to the financial statements. We proposed an adjustment, and the council approved, to transfer the cost of this 'Assets under construction' from Urban Improvements to 'Assets under construction' so that the accounting records agree to the financial statements.

Tagging of assets

- 7.6 Fixed assets are not tagged in order to physically identify individual assets listed in the plant register. We recommend that the council tags all assets (where applicable) in order to verify physical existence on a regular basis.

Fixed asset additions

- 7.7 The additions to urban improvements include litter bins costing € 1,604. This is contrary to memo 121/2011 which requires litter bins to be accounted for on a replacement basis. No adjustment was proposed since there is no effect on the results since the additions were 100% depreciated.
- 7.8 We draw your attention to memo 121/2011 which states that expenditure on street traffic signs and litter bins should not be capitalised but should be expensed immediately i.e. the replacement method. This is particularly appropriate where there are a large number of individually low value items which have a very short life and are continuously being replaced. To this end, we recommend that the council adheres to these instructions.

8 Councillors' allowance

- 8.1 We again noted that the councillors were paid a full year's allowance even though they did not attend all council meetings held in the current year and failed to issue a letter of excuse for their absence from the meetings.
- 8.2 We again refer to memo 89/2009 which requires that valid reasons must be made in writing to be considered by the council and a copy of the letter kept within the minutes. Furthermore, the Local Councils Act stipulates that allowances must be paid in proportion to the number of meetings held in a calendar year.

- 8.3 When testing the mayor's allowance we noted that the newly appointed mayor was paid a full year's allowance even though he was only appointed for the last six months of the year. This resulted in an excess payment of € 800.
- 8.4 Based on the above findings we proposed, and the council approved, to recognise this overpayment as either refundable or offset against future allowances

9 Payroll

Reconciliation of nominal ledger to statutory forms

- 9.1 When testing wages we noted that the council does not reconcile the books of account with FSS forms on a regular basis. Furthermore, when comparing the total of the wages cost in the accounting records (adjusted for accruals and prepayments) with the FSS forms we noted a discrepancy of € 519. The council was not able to provide us with an explanation for this variance.
- 9.2 We recommend that the accounting records are reconciled to the FSS returns on a monthly basis and any discrepancies that arise must be investigated immediately and resolved before submission.

10 Mayor's honorarium

- 10.1 In the previous year the council has correctly recognised an overpayment of € 3,839.75 for the mayor's honorarium as refundable in accordance with memo 7/2011. This excess payment could have been either offset against future honoraria or refunded back, at the option of the mayor.
- 10.2 During the current year the previous mayor passed away and the council did not recover the over payment of € 3,839.75 made in 2010. The council should consider whether this is recoverable and if not, expense the amount.

11 Deferred income on grants receivable

- 11.1 When testing deferred income we found that grants receivable and approved for a project not yet commenced were accounted for in full as deferred income. The council informed us that it will delay this project until sufficient funds are available and until all other projects will be completed. We recommended and the council approved to remove this deferred income amounting to €43,867 from the council's records.
- 11.2 The council passed a prior year adjustment to increase the opening balance of deferred income by € 4,055. We recommended and the council approved to reflect this correction together with the € 43,867 mentioned above in the current year's financial statements (refer to note 6.5).
- 11.3 When testing deferred income we found that the release for the year included grants receivable for assets that were still under construction. We recommended and the council agreed to decrease the amount of deferred income released to income by the amount of € 3,203.47.

12 Other matters

- 12.1 When testing accrued income we found that the amount receivable from Water Services Corporation was erroneously transferred to LES income. We recommended and the council approved to increase the accrued income and LES revenue by the amount of €7,349 in the final financial statements.
- 12.2 When testing income receivable from the Regional Committees for contraventions collected by the council we found a difference of € 461.16. This difference was identified when comparing the relevant Loqus reports and the revenue in the accounting records. We recommended and the council agreed to decrease the revenue receivable by this amount in the financial statements.

13 Donations

- 13.1 When testing expenditure we found that hampers were purchased for the councillors during Christmas season.
- 13.2 The council should assess whether gifts are a form of donation. If there is any doubt we recommend that the council seeks advice from the Department. Donations are contrary to section 63A of the Local Councils Act which prohibits the payment by local councils of any form of donation whether in cash or in kind.

14 Reply to management letter

- 14.1 The council sent its reply to our management letter dated 27 May 2011 on 12 September 2011. This contravenes section 2 of the Local Councils' (Audit) Regulations and instructions issued by the Department.
- 14.2 We look forward to receiving the council's response to this management letter, confirming that the council has discussed the letter and outlining specifically what action is to be taken to remedy the above mentioned weaknesses and errors. We would like to remind the council that in accordance with memo 121/2011, the reply must be received by 13 June 2012 or six weeks after receipt of the letter from the Auditor General.

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the 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.

We would like to take this opportunity to thank Ms Marica Mifsud and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,