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Attard Local Council
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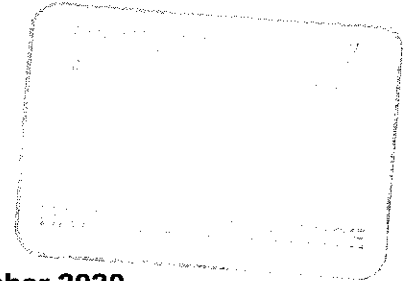
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26 July 2021

Dear Sir,



Financial statements for the year ended 31 December 2020

During the course of our audit for the year ended 31 December 2020 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 to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and 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

1.1 Income

We are pleased to note that we did not identify any discrepancies for tipping fees.

We did not identify any revenue netted off with expenses.

The council once again failed to obtain audited financial statements of the Joint Committee (refer to note 2.13).

1.2 Expenditure

We are pleased to note that the council did not exceed the budgeted expenditure.

We again identified irregularities in the procurement testing (refer to note 3.1).

We again identified irregularities in the council's insurance policy (refer to notes 3.5 and 3.7).

We are pleased to note that we did not identify any irregularities with the expenses incurred for the locality day.

During our testing we did not identify any irregularities in petty cash expenditure.

We did not identify any donations by the council during the year.

We did not identify any discrepancies in payroll.

1.3 Inventory

We again identified slow moving inventory of books in the books of account (refer to note 6.1).

1.4 Bank and cash

We did not identify any irregularities in the bank reconciliations.

1.5 Trade payables

Once again we identified irregularities in deferred income (refer to note 8.8).

1.6 Liquidity Position

We are pleased to note that the council's Financial Situation Indicator is more than the minimum positive balance of 10% of the annual Government allocation.

1.7 Financial statements

We are pleased to note that the financial statements are in line with accounting standards.

1.8 Electronic site

We again identified instances of documents not uploaded within the required timeframe on the Local Government website (refer to note 9.1).

2 Income**Annual Government income**

2.1 During our testing of Government income, it was noted that the council included the money received in relation to the adjustment fund for decrease in allocation from 2019 amounting to €1,824 with the annual Government income. An audit adjustment was proposed in this regard to reclassify such amount to other Government Income. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

2.2 We recommend that the council allocates income receivable to the appropriate accounts so that the income of the council is properly reported.

Other Government income

2.3 During our testing of other Government income, we noted that the council received an amount of €3,200 in relation to animal welfare which will be used in 2021. An audit adjustment was proposed to transfer this amount to deferred income since the funds have not yet been utilised. The audit adjustment was approved by the council and was properly presented in the audited financial statements.

2.4 We recommend that the council records a deferred income once the money has been approved and received with the deferred income then released to income as required by Directive 1/2017.

LES administration fees

- 2.5 During our audit fieldwork we tested income from LES administration fees by comparing report 483 generated from the Loqus system and the amounts in the books of account. We found that the amount in the books of account is overstated by €21.79. We did not propose an audit adjustment to correct this discrepancy since the difference was not deemed to be material.
- 2.6 We recommend that the council regularly reconciles invoices with the 483 report to ensure accuracy and completeness.
- 2.7 During our review of pre-regional LES debtors, we noted that the decrease in tribunal pending payments in report 622 was €547.48 which contrasts with the amount of €512.54 shown in report 483 for pre-regional contraventions paid during the year. We did not propose an audit adjustment in this respect since no explanation was forthcoming.
- 2.8 The above findings cast doubts on the integrity of the data being generated from the Loqus system. Therefore, we recommend that the council takes the matter up with Loqus to determine what this difference pertains to.

LES Invoices

- 2.9 The following invoices were not sent to LES in the first week of the following month:

Invoice month	Invoice date
January 2020	14.02.2020
March 2020	17.04.2020
April 2020	01.06.2020
July 2020	12.08.2020
August 2020	18.09.2020
September 2020	02.11.2020
November 2020	08.01.2021

- 2.10 In accordance with memo 91/2011 councils are required to issue LESA invoices in the first week of the following month.

Permits and custodial receipts

- 2.11 During our audit fieldwork we noted that in certain instances the council failed to fulfil its obligation to deposit money received on a timely basis, namely:

Details	Receipt no.	Receipt date	Deposit date	€
Lands receipt	966022/jo	04.12.2020	09.12.2020	103.47
Lands receipt	935337	30.07.2020	05.08.2020	514.74
LESA	019162020	14.05.2020	19.05.2020	216.00
Permit	11611	19.06.2020	24.06.2020	10.50
Permit	11398	15.05.2020	19.05.2020	17.00

- 2.12 We remind the council that the Financial Procedures and LN 28/2000 require the council to deposit its cash collected from custodial receipts at least twice weekly. We advise the council not to leave cash and cheques on the premises for a prolonged period since, apart from contravening the procedures, it can give rise to security concerns.

Joint Committee

- 2.13 We also noted that Attard Local Council formed part of the Birkirkara Joint Committee up to 31 August 2011.
- 2.14 We have obtained the last audited financial statements of the Birkirkara Joint Committee and noted that reserves of the committee only amount to €5,229. To this end our audit report was not qualified as the amount to be divided between all committee members would not be material.
- 2.15 Nevertheless, we recommend that the council raises this issue with the Director for ensures that the joint committee is liquidated and that the council receives any further income that may be due to it.

3 Expenses

Procurement

- 3.1 During our audit fieldwork, we noted that the council did not obtain three quotations in the following cases:

	Details	€
	Pjanci & Material for maintenance	679.96
	Stationery, stamps, cartridges, rubber stamps and photocopy papers	1,072.33
	Design of posters, flyer and council magazine	870.00
	Delivery of soil, service of high-up and other works	749.30
	Tnehhija ta' terrapin min Ta' Qassati	979.40
	Cleaning of Aquadot, vegetation, culverts and illegal dumping	2,625.50

- 3.2 In accordance with the Procurement guidelines issued by the Department for Local Government the council should obtain at least three signed quotations for purchases exceeding €50 and up to €5,000, unless, for purchases exceeding €50 but not €500, a direct order approved by the Executive Secretary is issued and the NAO has to be notified of such direct order.

Expired contract

- 3.3 During the year under review we noted that the council kept on using the services provided by for street sweeping in the locality of H'Attard even though the contract had expired. We were notified by the council a tender was issued, however due to the fact that the first preference did not accept to provide the service, the council took longer than anticipated to finalise the tender adjudication and the new person to start the service. The council continued using the expired contract for the period July to October.

- 3.4 We would like to bring to the attention of the council memo 10/2013 which states that the council should not make use of expired contracts. Furthermore, we would like to remind the council that Directive 8/2019 states that a call for offers should be prepared at least six months prior to the expiration of the contract in force to allow plenty of time for the tender to be adjudicated before expiry of the old one.

Asset insurance

- 3.5 During our audit we identified the below discrepancies between the asset insurance cover and net book value of assets as stated in the prior year audited financial statements:

Asset	Sum insured €	NBV in books of account €
Buildings	26,788	-
Furniture, fixtures and fittings	25,822	7,850
Computer and electronic equipment	25,774	5,742
Books	5,824	2,146
Total	84,208	15,738

- 3.6 It is evident that some of the fixed assets are over insured. May we advise the council to perform at least an annual review of its insurance policy to ensure that the council's insurance coverage is in line with current legislation.
- 3.7 Whilst reviewing the insurance policy we also noted that the council is insuring property in the open, for the sum of €855,796. This is in breach of Directive 3/2017 which states that community assets should not be insured.
- 3.8 Directive 3/2017 and Legal Notice 269 of 2017 state that the council must ensure that administrative offices, including all the furniture and office machinery are insured by a 'buildings and content' insurance. The insurance shall cover fire, theft, and damage due to natural events. Circular 33/2016 also states that the insurance policy should be based on the net book value of assets included in the last audited financial statements. However, since a significant number of assets have a nil net book value, we recommend that the insurance at least covers the replacement value for assets.

4 Fixed assets

Details of fixed asset register

- 4.1 When reviewing the fixed asset register, we noted that certain details like invoice numbers, location, appropriate asset descriptions and suppliers' details are missing. For example:



Asset category	Asset code	Description	Net book value €
Furniture and fittings	KLA00375	3 Unit Shelving	274.37
Urban improvements	KLA00413	Pavements	895.92
Urban improvements	KLA00664	Crash Barriers	426.08

4.2 We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)
- Cost
- Depreciation rate
- Location of the asset
- Grants received

5 Trade receivables

Overdue trade receivables

5.1 The books of account includes the following overdue receivables for which no provision was made in the books of account:

Debtor	€
...	349.41
...	420.00
...	46.59
...	116.47
...	350.00
...	4.66
...	140.00
...	465.88
	1,893.01

5.2 The council should regularly review overdue receivables for recoverability and if so, chase these debtors by sending reminders for the long overdue amounts. If recoverability of these debtors remains doubtful, the council should also consider making a provision for doubtful debts in the books of account after obtaining council approval in a meeting.



Confirmation of debtor

- 5.3 We have obtained a statement from [redacted] showing a balance of €89,739 due to the council. However, the council's books of account indicate a balance of €118,885. The discrepancy of €29,146 is arising from the fact that [redacted] did not account for the October to December invoices sent by the council. Furthermore, the council informed us that they have been in contact with [redacted] since the rates being charged by the council are not agreeing to the ones in the agreement signed between [redacted] and the council. The council mentioned that they are currently being charged by the supplier less than the amount included in the agreement and therefore are looking to sign a new agreement which reflects the rates the council is paying.
- 5.4 We recommend that the council puts pressure on [redacted] so that they find a solution for how the invoicing and payments are being done to arrive at an amount which should be received by the council. Following any agreements, the books of account should be adjusted to reflect this amount. If there is the need for any write offs, it is important that this is discussed, agreed and minuted in the council meetings.

Accrued income

- 5.5 During our testing we noted that the council recorded the amount of €10,399.74 from the Development Planning Fund in relation to the 'Restoration of the Embankment Structure' as accrued income. Upon obtaining supporting documentation for amounts received in 2021, it was noted that the amount which should have been included as accrued income amounted to €18,972.28. Therefore an audit adjustment was proposed in this regard to increase the accrued income and the grant allocated to this project by €8,572.54. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 5.6 We remind the council that the books of account should reflect the actual amounts received or still to be received. This would ensure that the books of account show a true view of the situation.

6 Inventory

Net realisable value of inventory

- 6.1 During the audit fieldwork it was noted that in its books of account the council has an amount of €2,143.59 worth of stock. The council's inventory comprises of books. It was noted that the books are old stock, with some of them being published in 2003 with the council still having a number of copies of these publications.
- 6.2 We recommend that the council assesses whether such assets are being carried out at the lower of cost and net realisable value in the financial statements as required by generally accepted accounting principles. Provision or write-off of this inventory might be considered if the council sees that such inventory is slow-moving.

7 Cash at bank

LC Other Entities Account

- 7.1 During the audit fieldwork it was noted that the council did not open a new bank account which is to be used for the deposits of funds and subsequent transfers of the amounts due to entities such as FÁS and the National Employment Fund, the council continued to adopt the old system of depositing funds directly to the entities' bank accounts.
- 7.2 We appreciate that the council did not adopt the new system since it would have been inefficient, given that the council only receives few amounts during the year which are due to such entities. However, we still recommend the council to adopt the new system to be in line with Directive 05/2020.

8 Trade payables

Trade creditors

- 8.1 We noted that the council did not obtain statements at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account.
- 8.2 This is contrary to the relevant procedures, which require the council to request monthly statements from all suppliers. Memos/circulars issued by the Council for 2020 specifically state that the council should reconcile the creditors to supplier statements monthly.

Unrecorded liabilities

- 8.3 Whilst reviewing subsequent year end payments, it came to our attention that the council failed to record two invoices in relation to street sweeping and cleaning of aqueduct dated 31 December 2020 amounting to €2,485 and €2,830 respectively. We have proposed an audit adjustment to rectify the issue. The audit adjustment was approved by the council and was properly presented in the audited financial statements.
- 8.4 We recommend that the council records expenditure when it is incurred such that expenses and liabilities are recorded in the correct financial year.

Debit balances in creditors' list

- 8.5 The council's creditors' list at the end of the year includes debit balances amounting to €1,991.24. Details of the debit balances are presented below:

Debtor	€
.....	9.37
.....	10.10
.....	105.00
.....	148.86
.....	170.16
.....	112.20
.....	1,435.55
	<u>1,991.24</u>



- 8.6 The council informed us that the balance with [REDACTED] is in debit due to the fact that [REDACTED] allocated a payment the council made for various bills on just one particular account rather than on the various accounts the council has. This resulted in the council having over paid this specific account which is now being deducted from any electricity which is owed to [REDACTED] from this meter.
- 8.7 We recommend that the council investigates all debit balances in the creditors' list since they may arise from overpayments or omitted invoices. In addition, these balances should also be disclosed separately with other receivables rather than set off against trade creditors. This was properly reflected in the financial statements but not reflected in the books of account. In this regard an audit reclassification was passed to agree the books of account with the audited financial statements.

Deferred Income

- 8.8 During our testing on deferred income, we noted that the council had an amount of €161,111 in relation to funds received from the [REDACTED] to be utilised for projects approved by the [REDACTED]. Upon querying with the council, we noted that the amount of €10,741.36 has been approved and used by the council during the year. The council purchased various small furniture and fittings amounting to €2,891.65, a new permit system amounting to €5,634.50 and some minor expenses to replace internet cabling at the council premises amounting to €2,215.21. An audit adjustment was proposed to remove these balances from deferred income and allocating them to the respective expense. Another audit adjustment was proposed to reverse the depreciation and amortisation which was charged during the year amounting to €216.88 and €1,409 respectively. The audit adjustments were approved by the council and were properly presented in the audited financial statements.
- 8.9 We recommend that the council records a deferred income once the money has been approved and received and then released either to income or fixed assets as required under the capital approach as specified by Directive 1/2017. This would also ensure that a proper depreciation calculation is being calculated.

9 Electronic site

- 9.1 During our audit fieldwork, we noted the following shortcomings in relation to the electronic site:
- i. The council failed to upload the quarterly financial reports for period January to December 2020 within the stipulated time frame.
 - ii. The council failed to upload the management letter and reply to management letter for 2019 within the stipulated timeframe.
 - iii. The council failed to upload the financial statements for the year 2019 within the stipulated timeframe.
 - iv. The council failed to upload the annual budget for the year 2020 within the stipulated timeframe
 - v. The council failed to upload the business plan for the period 2020 till 2022.
 - vi. The council failed to upload the quarterly financial report for the period October – December 2020.

- 9.2 This contravenes the Local Councils (Financial) Procedures which mandate specific timelines for these reports and minutes. We recommend the council uploads all documents in pdf within the required timeframe. Furthermore, the council should indicate as signed all documents uploaded as confirmation that the uploaded documents have been approved and are the correct ones.

Uploading of management letter and other documents

- 9.3 During our audit fieldwork, we noted that the council has uploaded the 2019 Management Letter in full in accordance with Circular 21 of 2019.
- 9.4 We would like to remind the council of the recent General Data Protection Regulations as indicated to councils in SPI 7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that they do not contravene GDPR prior to uploading on the website. This is also highlighted in Circular 7 of 2019 which states that names of third parties not directly connected with the operations of the council should not be published.
- 9.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

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,

