



## KUNSILL LOKALI SAN PAWL IL-BAĦAR LOCAL COUNCIL

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Ref: 55/0255/23MS

5<sup>th</sup> July 2023

Director, (Finance and Procurement Compliance)  
Department for Local Government  
26, Archbishop Street  
Valletta VLT 2000

Dear Sir,

### **Management Letter – Financial Year 2022**

Reference is made to the Management Letter dated 23<sup>rd</sup> May 2023 (attached), received by this office on the 9<sup>th</sup> June 2023 concerning the accounting system and procedures operated by the San Pawl il-Baħar Local Council to safeguard the Council's assets in line with prevailing legislation dealing with local councils. The contents of the Management Letter were read and discussed in Council during the meeting held on 4<sup>th</sup> July 2023, where it was deemed appropriate to forward the following comments:

#### **1.2 General Income**

2.1 Point noted. In view that this is a long outstanding unsigned agreement, the Local Council will be doing all the efforts within its control to formalise the agreement with MTA.

2.2 The amount due by Sirens Sports Facility (SSFL) was not due to services provided by the Local Council to SSFL hence no agreement could be presented. This is an amount due by SSFL in compensation to expenses borne by the Local Council in relation to the Sirens Public Convenience while this was not being used due to the Construction project carried out by SSFL within the area. Discussions are ongoing with SSFL

2.4 Proposed audit adjustment effected.

2.5 Point noted.

#### **1.3 Income from the Joint Committee**

2.6 – 2.7 On the 20<sup>th</sup> December 2022, a meeting was held with the Tramuntana Regional Committee at the DLG boardroom in order to agree on a way forward to close the bank accounts pertaining to the North Joint Committee. A Council Resolution has been signed by all members to close the bank accounts and transfer

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Sindku - Mayor : Alfred Grima  
Viċi Sindku - Vice Mayor : Carlos Zarb  
Kunsilliera - Councillors : Anne Marie Fenech, Daryl Connor, Mario Joseph Salerno, Anthony Delia, Alfred Bray, Paul Bugeja, Stephen Cremona, Anthony Angelo Attard, Christopher Vella Petroni, Antoinette Bezzina, Mary Borg  
Segretarju Ezekuttiv – Executive Secretary : Marico Sammut



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the funds to the Tramunatana Regional Council who then distributed the funds with the members who formed part of the Joint Committee. The Council has received €9,496.77 in full and final settlement. A copy of the Financial Statements 2010 of the Joint Committee will be provided to the auditors.

### **1.4 Expired Contracts**

3.1 As stated in last year's reply the owners have always accepted rent payment. However the Council is in contact with the owners to regularise its position.

### **1.5 Upkeep of fixed assets register**

5.1 – 5.3 Points noted. For all new assets, the details as suggested by the auditors are being included in the Fixed Assets Register. The Fixed Assets Register also includes assets which have been capitalized since the inception of the Local Council. The missing details are of these old assets. An exercise will be carried out to write off any assets which are no longer in use.

### **1.6 Reconciliation of financial statements to fixed asset register**

5.4 - 5.6 Since 2018, when the depreciation method was changed from Reducing Balance to Straight line method, the cost and depreciation amounts in the Fixed Assets Register cannot agree with the books of account, as the instruction from DLG was to change and input the NBV as at 31/12/2018 as the cost and depreciation rates are to be adjusted according to the remaining years of useful life.

### **1.7 Assets under construction**

5.7 - 5.9 In the Management Letter reply for FY 2019 the Council had replied that there was a memorandum of understanding (MOU) with Infrastructure Malta (IM) and that the Council was awaiting the rates from IM for the architect's certification to be done. It seems that no Council approval could be traced for this MOU and thus this issue has remained pending since 2019. Besides, it also transpires that the €500,000 were paid prior to commencement of works. In the circumstances the Council cannot leave such works without any depreciation since the works carried out are being estimated to last approximately 10 years, therefore a 10% depreciation is being applied per annum. If the Council had to wait for the Architect's Certificate to capitalize such amount, the Council would have to leave the item under Asset not yet Capitalized and therefore delay the time to take depreciation on such works.

### **1.8 Net realisable value of inventory**

6.1 and 6.2 – The Council decided that books which are slow moving stock will be written-off since these are mostly handed out on a complimentary basis.

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Sindku - Mayor : Alfred Grima

Vici Sindku - Vice Mayor : Carlos Zarb

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### 1.9 Pre-regional LES debtors

7.1 and 7.2 – Point taken. However Loqus is not within the Council’s control. Matter will be raised with the DLG.

7.3 and 7.4 Proposed audit adjustment effected as suggested by auditors. No further action needed.

### 1.10 Overdue balances

7.5 Following last year’s Management Letter the Council started tackling overdue balances. The following amounts were approved for write-off:

Ministry for Education & Employment – €3,676.46  
Bobby’s Tattoo Studio - €465.88  
Sunsorce & Co - €360.00  
Watercolours Bar & Restaurant - €343.57  
Empire Cinema Complex - €172.02  
Quattro Fratelli - €171.55  
Sperandeo Jonathan - €112.10

### 1.11 Amounts receivable from WSC

7.9 The Council approved the write-off during Local Council meeting 58 held on 24/1/2023 item 58.11. Amount has been duly written-off.

### 1.13 Accrued income

7.11 - 7.14 – Points noted.

### 1.15 Supplier Statements

8.1 The Council will continue chasing suppliers to provide monthly and end of year statements as recommended.

### 1.16 Long Outstanding Creditors

8.3 – 8.6 During Local Council Meeting 63 of 25/04/2023 the following was decided:

Bonnici Brothers - €774.98 – Write-off (lapsed claim period)  
Design & Technical Resources Limited - €3755.62 – Payment effected



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B. Grima & Sons Limited - €3326.00 – Effected payment of €1540.41  
NextBike Limited – €2895 - Write-off (lapsed claim period)  
Sijon Ironmongery - €813.03 – Payment effected

### **1.17 Debit balances in creditor's list**

8.5 - 8.9 – Point noted. 8.8 However there is an ongoing dispute with the mentioned contractor.

### **1.18 Deferred income**

8.10 – Point noted. There are already ongoing discussions with Managing Authority.

### **1.19 Refundable deposits**

8.12 – Point noted.

### **1.20 Books of Account**

9.1 and 9.2 – Point noted.

Yours sincerely

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Alfred Grima  
Mayor

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Marico Sammut  
Executive Secretary

Cc: National Audit Office

The Mayor  
St. Paul's Bay Local Council  
St. Paul's Street  
St. Paul's Bay  
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9 JUN 2023



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Our ref: MB/mf/94723

DATE: 23 May 2023



Dear Sir,

### **Financial statements for the year ended 31 December 2022**

During the course of our audit for the year ended 31 December 2022, we have reviewed the accounting system and procedures operated by St. Paul's Bay Local Council (the "Council"). We set out in this report the more important points that arose as a result of our review.

#### **1 Previous management letter**

##### **1.1 Annual Government income**

Annual Government income was properly recorded in the books of account.

##### **1.2 General income**

We again noted shortcomings in general income (refer to notes 2.1, 2.2 and 2.4).

##### **1.3 Income from the joint committee**

We again noted that the council failed to obtain the Joint Committee financial statements (refer to note 2.6).

##### **1.4 Expired contracts**

We again noted that the council kept on using an expired contract during the year under review (refer to note 3.1).

##### **1.5 Upkeep of fixed asset register**

The fixed asset register does not include all the necessary details (refer to note 5.1).

##### **1.6 Reconciliation of financial statements to fixed asset register**

We again noted differences between the fixed asset register and amounts included in the unaudited financial statements (refer to note 5.4).

##### **1.7 Assets under construction**

The council failed to obtain the architect certificates from Infrastructure Malta for capitalised assets (refer to note 5.7).

- 1.8 **Net realisable value of inventory**  
No movement took place during the year under review. The council has to reassess the value of stock (refer to note 6.1).
- 1.9 **Pre-regional LES debtors**  
We still encountered differences between the Loqus report (622) and the books of account (refer to note 7.1).
- 1.10 **Overdue balances**  
The council did not address the issue of long-outstanding debtors (refer to note 7.5).
- 1.11 **Amounts receivable from WSC**  
During the year, the council wrote off the amount due from WSC (refer to note 7.9).
- 1.12 **Other debtors**  
We are pleased to note that the council rectified the issue during the year under review.
- 1.13 **Accrued income**  
We again noted shortcomings in accrued income (refer to notes 7.11 and 7.13).
- 1.14 **Prepayments**  
No shortcomings were identified in prepayments during the current year.
- 1.15 **Supplier statements**  
The council is still not obtaining supplier statements from all its suppliers as at year-end (refer to note 8.1).
- 1.16 **Long outstanding creditors**  
The council did not investigate all long outstanding creditors as recommended in the prior year's management letter (refer to note 8.3).
- 1.17 **Debit balances in creditors list**  
We again noted debit balances in creditors list during the current year (refer to note 8.5).
- 1.18 **Deferred income**  
Included with deferred income are grants received for Measure 4.3 which were still not utilised in 2022 (refer to note 8.10).
- 1.19 **Refundable deposits**  
The council failed to investigate all long outstanding refundable deposits as recommended in the prior year's management letter (refer to note 8.12).
- 1.20 **Books of account**  
We again noted grouped transactions passed in the books of account (refer to note 9.1).

## **2 Income**

### **General income**

- 2.1 During the year the council recorded an amount of €294 as reimbursement of expenses from MTA for the electricity bills of the sub-office. The council provided us with an agreement dated 2016, which was not signed by either party.
- 2.2 The council's books of account include income generated from Sirens Sports Facility Limited (SSFL) amounting to €10,620. The council was not able to provide us with the agreement pertaining to the services provided to the SSFL.
- 2.3 We advise the council that obtaining and retaining signed copies of all the contracts is of vital importance.
- 2.4 The council received an amount of €566 in relation to the reimbursement of water bowser service from MTA. This was incorrectly recorded with 'contraventions – administrative fees on LES'. We have proposed an audit adjustment to rectify the issue. This has been reflected in the final set of financial statements.
- 2.5 We recommend the council to allocate income receivable to the appropriate accounts so that income is adequately recorded. Furthermore, we recommend that the council accurately establishes accrued income and therefore ensures that income is not misstated.

### **Income from Joint Committee**

- 2.6 We noted that the North Joint Committee, of which San Pawl il-Bahar local council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2009. The reserves of the committee at that date amount to €1.6 million. In the absence of audited financial statements for 2011 we were unable to determine whether the council is entitled to receive any further income from the Joint Committee. As a result, our audit report has been qualified.
- 2.7 Nevertheless, we recommend that the council raises this issue with the Department for Local Government and ensures that the joint committee is liquidated and that the council receives any further income that may be due to it.

## **3 Expenses**

### **Expired contracts**

- 3.1 During the audit we again noted that the council is still making use of an expired contract for the rental of 'Leli Garage' in Patri Wistin Magro Street, Burmarrad, San Pawl il-Bahar. This expired on 12 August 2012. We were not provided with an extension agreement for the above.
- 3.2 We recommend that the council should obtain a contract for all properties being rented out to the council. This will ensure that the rights and obligations of each party are clear, and that the rate charged is in accordance with the agreement.

## **4 Payroll**

### **Payment of FSS and NI**

- 4.1 During the audit we noted that the council did not submit payments for January to December 2022 for FSS tax and NI on time. Issued receipts are dated past the last working day of the following month.

- 4.2 The Final Settlement System Rules, 1998 state that the council is required to remit FSS tax and NI to the Commissioner for Revenue by the last working day of the month following that during which the council has paid the emoluments. It is highly recommended that FS5 forms are submitted on time to avoid any unnecessary penalties.

## 5 Fixed assets

### Upkeep of fixed asset register

- 5.1 During the audit fieldwork we noted that assets in the fixed asset register had generic names.
- 5.2 The fixed asset register should at least include the following details:
- Description of asset
  - Date of purchase
  - Supplier details
  - Invoice number
  - Asset tag code (where applicable)
  - Cost
  - Depreciation method and rate
  - Location of the asset
  - Grants received
- 5.3 We suggest that the council updates its fixed asset register and categorises assets appropriately. This will ensure the appropriate treatment of depreciation and hence the correct net book value.

### Reconciliation of financial statements with fixed asset register

- 5.4 We identified the following discrepancies between the net book value of assets in the unaudited financial statements and the net book value in the fixed asset register.

Asset category	NBV in unaudited financial statements €	NBV in fixed asset register €	Difference €
Office furniture & fittings	6,269	7,195	(926)
Computer and office equipment	6,812	5,887	(925)
Special programmes	348,548	398,168	(49,620)
	<b>361,629</b>	<b>411,250</b>	<b>(49,621)</b>

- 5.5 The council failed to provide an explanation for the above-mentioned differences. Whilst reviewing the 2018 management letter we noted that the predecessor auditor noted that the differences were a result from the application of Directive 1/2017 whereby the NBV was adjusted for including deferred income and depreciation was recalculated based on the remaining useful life of the asset.
- 5.6 The council should ensure that the fixed asset register agrees to the nominal ledger. Any variances between the assets disclosed in the financial statements and the plant register need to be investigated and addressed accordingly. We recommend that the council reviews the financial statements and compares the figures for fixed assets to the fixed asset register to ensure proper preparation of the financial statements.



### **Assets under construction**

- 5.7 In our 2020 management letter we noted that the council has capitalised €500,000 for resurfacing and patching works of various roads. We were only provided with the memorandum of understanding and respective invoice for the above works. The council failed to obtain an architect certification prior to issuing payment to the supplier and capitalising works in the financial statements. We also noted that the council failed to distinguish between patching and resurfacing works. In 2020, this amount was included with assets under construction until architect certificate is provided. During 2021, the council reclassified the amount to special programmes. To date the council failed to obtain an architect certificate. Our audit report has been qualified as the council did not investigate whether such works should be expensed or capitalised.
- 5.8 Furthermore, in 2019 the council received €22,200 from Regjun Tramuntana for the tarmac scheme. The grant received was utilised against works carried out by Infrastructure Malta as noted in note 5.7. The grant was classified in the special programmes account. We have proposed a reclassification to separately disclose grants received for the above project.
- 5.9 We recommend that prior to issuing payments the council obtains all necessary documentation and invoices to establish the correct treatment in the council's books of account. May we remind the council to obtain and review architect's certificates to establish whether the above costs should be expensed as patching works or capitalised as resurfacing costs.

## **6 Inventory**

### **Net realisable value of inventory**

- 6.1 We noted that the council's inventory is slow moving. We have also noted that the majority of the books are given as complimentary and not sold.
- 6.2 The council should assess whether the books are being carried at the lower of cost and net realisable value in the financial statements in accordance with generally accepted accounting principles. Write-offs or provisions of inventories might be necessary if the books remain slow-moving or have no realisable value.

## **7 Trade and other receivables**

### **Pre-regional LES debtors**

- 7.1 When testing the pre-regional receivables, we noted a balance of €88,551.44 in the unaudited council's books whilst the 622 Loqus report shows a balance of €853,347.48. The council did not provide us with an explanation for the above noted difference. We did not propose an audit adjustment because it has no effect on the financial statements since LES debtors are carried at nil value following a provision for doubtful debts for the same amount.
- 7.2 We would like to remind the council that it is the council's responsibility to investigate these differences and refer them to Loqus.
- 7.3 We also noted that during the year under review the council accounted for the income received from pre-regional contraventions. The income amounted to €5,766.30. The council failed to adjust pre-regional debtors and the corresponding provision for doubtful debts in its books of account. We have proposed an audit

adjustment to rectify the issue. The council has amended the financial statements to include our audit adjustment.

- 7.4 We recommend that in the event of overdue pre-regional receivables are settled, the council should reflect the debtors and corresponding provisions.

#### **Overdue receivables**

- 7.5 We noted that the council has the following long overdue receivables:

<b>Debtor</b>	<b>€</b>
Blues Limited	24,000.00
Sirens Sports Facilities Limited	11,210.00
Malta Tourism Authority	10,576.96
WasteServ Malta Limited	6,031.08
Local Enforcement System Agency	5,473.48
Green MT Ltd	3,904.32
Ministry for Education & Employment	3,676.46
Dimbros Limited	1,249.57
Pepe Nero	1,029.77
Bobby's Tadoo Studio	465.88
Malta Classic Car Collection Ltd.	465.88
Sunsource & Co.	360.00
Watercolours Bar & Restaurant	343.57
Empire Cinema Complex	172.02
Quattro Fratelli	171.55
Sperandeo Jonathan	112.10
Mecca Enterprises Limited	90.00
Gillieru Restaurant	23.29
Sunsource & Co Limited	23.29
<b>Total</b>	<b><u>69,379.22</u></b>

- 7.6 We also noted that a total provision of €24,759.13 was recorded as at 31 December 2022 in the books of account for the trade receivables:

<b>Debtor</b>	<b>€</b>
Bobby's Tattoo Studio	465.88
Blues Limited	6,500.00
Dimbros Limited	1,249.57
Green MT	3,904.32
Malta Tourism Authority	8,675.47
Malta Classic Car Collection	465.88
Mecca Enterprises Limited	90.00
Ministry for Education & Employment	2,533.36
Pepe Nero	514.65
Sunsource & Co Limited	360.00
	<b><u>24,759.13</u></b>

- 7.7 We recommend that, although in most of the cases a provision has been made, the council should continue trying to obtain a settlement from these debtors reminding them that the amounts have been long overdue. We also recommend that the council regularly reviews overdue receivables for recoverability. If their recoverability is doubtful, the council should consider making a provision for all amounts after obtaining the approval of the council in meetings.

- 7.8 Furthermore, the council should send continuous reminders/statements to its debtors to ensure that the council still has the right to collect the amounts due. We

also advise the council to review the amount due from Blues Limited after the final judgment has been received and reflect the decision in the books of account.

#### **Amounts receivable from WSC Malta Limited**

- 7.9 The Council has written off an amount of €78,462 comprising of debtor balances which were not considered to be any longer payable. The amount was previously provided for. The above write-off was not approved during council meetings.
- 7.10 We therefore recommend that the council obtains the necessary approvals for amounts written off and minutes prepared accordingly.

#### **Accrued income**

- 7.11 In our previous management letter we noted that the council has accrued income amounting to €132,269.76 with respect to Thallassalejn playing field. The council provided to us an agreement with MEPA dated 20.10.2011. The project was finalised in 2018 and the respective accrued income was accounted for in the same year. Up to date no amounts were received by the council for this Project.
- 7.12 We recommend the council to contact Planning Authority and to chase the latter for payment and if any issues arise to ask assistance from the Department for Local Government.
- 7.13 In our previous management letter we also noted that in June 2017 the council entered into agreement with the Planning Authority for €154,694.24 in terms of the 'Resurfacing of roads' project. As stated by the predecessor auditors, the council recorded the amount of €210,381.71 as accrued income as at 31 December 2018, thus overstating the agreed amount by €55,687.47. During 2019 the council received an amount of €102,053.80. No further payments were made by the Planning Authority during 2020, 2021 and 2022. The balance of accrued income in accordance with the books of account as at 31 December 2022 is €108,327.91 which is overstated by €55,687.47 compared to the signed agreement. Our audit report is qualified to this respect.
- 7.14 We recommend that the council accrues for the income in accordance with the signed agreement thus avoiding overstating of the income and receivables.

#### **Confirmation of debtors**

- 7.15 We have obtained a statement from WasteServ Malta Limited confirming an amount due of €41,188. The council's books of account show a receivable balance of €60,948. The difference arose from invoices issued by the council for December 2022 which were not recorded by WasteServ Malta Limited.
- 7.16 We recommend that the council continues to liaise with Wasteserv Malta Limited and ensures that all invoices are approved and recorded correctly in the books.

### **8 Trade and other payables**

#### **Supplier statements**

- 8.1 Despite the council's efforts, we again noted that there were various suppliers for which the council did not obtain statements as at or near year-end to confirm the year-end balances and to ensure the completeness of the books of account. Circulars issued from time to time by the Department for Local Government specifically emphasise that the council should acquire monthly statements from all its suppliers.

- 8.2 We understand that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However, we recommend the council keeps on chasing its suppliers for regular statements. This will ensure that the council's creditors are properly recorded in the accounts and that any differences or disputes are highlighted promptly.

**Long-outstanding creditors**

- 8.3 The council's creditors' list includes the following balances which have been outstanding for more than one year:

Creditor	€
Bonnici Brothers	774.98
Design & Technical Resources Limited	3,755.62
Dimbros Limited	2,802.09
Green MT	10,574.96
B. Grima & Sons Limited	3,326.00
Perit William Lewis	559.70
NextBike Limited	2,895.00
Rock Cut Limited	18,984.23
Sijon Ironmongery	813.03
Voomquest Limited	523.92
	<u>45,009.53</u>

- 8.4 We recommend that the council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the council. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

**Debit balances in creditors' list**

- 8.5 The council's creditors' list included immaterial debit balances amounting to €1,138.67. Details of the debit balances are presented below:

Creditor	€
ARMS Limited	566.34
Bezzina Refuse Collection	371.70
Central Insurance	53.14
Gauci Borda Ltd	126.00
Go PLC	21.49
	<u>1,138.67</u>

- 8.6 We recommend that the council investigates all debit balances in the creditors' list and writes them off if not applicable. In addition, these balances should also be disclosed separately with receivables rather than set off against trade creditors.

**Confirmation of trade creditor**

- 8.7 We were provided with supplier statement of the following creditor and noted the following discrepancy:

Supplier	Amount in council's books of account €	Amount in supplier statement €	Difference €
Rock Cut	18,984.23	36,945.54	17,961.31

8.8 The council informed us that the difference pertains to invoice 10911 dated 18.11.2019. The amount was not recorded since works carried out by the supplier were not as agreed with the council.

8.9 We recommend that the council does its utmost to protect its interests and reflects the outcome of any negotiations or agreements in the books of account. It is not prudent to pay for invoices in advance unless there is a contract in writing. Also the council should not have posted the invoice prior to the receipt of services.

#### **Deferred income**

8.10 In previous years the council had applied for the Measure 4.3 grant. In 2021, the council received an additional amount from the contracting authority which was not utilised in full. To this end the deferred income carried forward from previous year amounts to €123,132.88. The council did not carry out any works in 2022.

8.11 We advise the council to liaise with the contracting authority to establish whether the amount should be refundable. Furthermore, we recommend that the council maintains a copy of all correspondence and approves any decision during council meetings.

#### **Refundable deposits**

8.12 During our audit fieldwork we noted that the council collects deposits for permits of construction works carried out in the locality of San Pawl il-Baħar. The deposits are refunded back only if the council obtains assurance that the sites were left in a good condition after all works have been carried out. The books of account include an amount of €3,819 in relation to refundable deposits.

8.13 We recommend that the council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the council. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

### **9 Books of account**

9.1 During audit fieldwork we identified several transactions passed in the books of account which consisted of grouped transactions. The nominal ledger did not include details identifying the items which are reclassified and thus it was difficult to trace all movement. This was noted in deposits for permits and general income.

9.2 Transactions in the books of account should be posted individually. All journal entries should be substantiated by a detailed narrative explaining the purpose of the journal entry.

**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 the council's staff for their cooperation and assistance during the course of the audit.

Yours faithfully,

