NAO
National Audit Office
MALTA

Report by the Auditor General on the Workings of Local Government

2016









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Public Accounts 2016

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List of Abbreviations

DLG	Department for Local Government
ES	Executive Secretary
EU	European Union
FAR	Fixed Assets Register
FSI	Financial Situation Indicator
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IT	Information Technology
LCA	Local Councils Association
LES	Local Enforcement System
LESA	Local Enforcement System Agency
LGA	Local Government Auditor
NAO	National Audit Office
PPE	Property, Plant and Equipment

Glossary of Technical Terms

Disclaimer	Auditor was not in a position to express an opinion, due to absence of substantiating financial records and documentation.
Emphasis of Matter	An area that, although appropriately presented in the accounts, still merited disclosure in the audit report so as to aid users to better understand the financial statements.
‘Except For’ audit opinion	Reflects the fact that the Auditor was unable to audit certain areas because of restrictions imposed which were beyond his control.
Financial Situation Indicator	Difference between the total of all current assets and the total of all current and long-term liabilities for the current and subsequent financial years, excluding any long-term commitments approved by the Minister in terms of the Act, taken as a percentage of the annual allocation.
Working Capital	Current assets less current liabilities.

Foreword

In view of its legal obligation to audit all Local Councils in Malta and Gozo, together with all Regional Committees as well as the Local Councils Association, the National Audit Office appoints duly qualified entities to audit the respective financial statements. Following a competitive call for tenders by the National Audit Office, private audit firms are appointed to act as Local Government Auditors for a period of one year, which appointment may be renewed annually, subject to satisfactory performance, for a total period of not more than five consecutive years.

In continuous liaison with these Local Government Auditors, and especially on the basis of the management letters sent to each audited entity as well as the relative reply thereto, in this Annual Report, the National Audit Office highlights once again the major issues arising from the respective audits. During the year under review, Government allocated an aggregate of €33 million to the 68 Local Councils. Furthermore, the four Regional Committees that submitted the audited financial statements by time of publication generated income of €1,022,060.

Once again, following its analysis of the individual audits, the National Audit Office has satisfactorily noted the continued efforts on the part of the Administration, particularly following the recent restructuring of the Local Government Department, to focus on the two key areas, namely offering direction and support to, as well as monitoring the performance of, all Local Councils. Moreover, the ongoing collaboration of this sector's main stakeholders, forming part of the Local Government Good Governance Working Group, led to the implementation of measures which were deemed necessary to address some of the issues prevailing in previous years and which were also reported upon in last year's Annual Report.

Whilst acknowledging the progress that has been registered, the National Audit Office is fully aware that much is still required to ensure that certain shortcomings, which have now been mentioned in its Annual Reports for a number of years, are duly addressed once and for all. This Office feels confident that this would be critical to ensure that the Local Councils of Malta and Gozo eventually regain the trust of the citizens that they are meant to serve.

Charles Deguara
Auditor General

6th December 2017

Executive Summary

By end October 2017, being the ultimate deadline prior to publication set by the National Audit Office to analyse the financial statements of all Local Councils and Regional Committees, the audited accounts of three Local Councils, namely Għaxaq, Kalkara and Valletta, as well as the Gozo Regional Committee were still not submitted despite that these should have been officially received by 28 April 2017. Forty-eight Local Councils and two Regional Committees, managed to deliver by the foregoing deadline. Another ten audited financial statements of Local Councils, one in respect of a Regional Committee and that of the Local Councils Association reached the National Audit Office by end of May 2017, while the remaining seven Councils and the Northern Regional Committee kept delaying their submission.

Notwithstanding that the nine Joint Committees were expected to be wound up after one year following the setting up of the Regional Committees, which took place on 1 September 2011, to-date the National Audit Office still has no indication that such process officially commenced.

Following a review of the financial statements, as well as the relative management letters prepared by Local Government Auditors for Local Councils, Regional Committees and the Local Councils Association, it was noted that a number of concerns and weaknesses prevailed from previous years and have been reported upon in this Report. The following are the major concerns:

a. Due to the various shortcomings encountered, Local Government Auditors could not express an opinion on the financial statements as presented by two Local Councils, namely Birgu and Mosta, as well as the Northern Regional Committee.

b. The audit reports of another 45 Local Councils, two Regional Committees and that of the Local Councils Association, were qualified with an 'Except For' audit opinion.

c. Seventeen Local Councils (2015: 23) recorded a negative working capital in the Statement of Financial Position.

d. Nineteen Local Councils (2015: 28) registered a Financial Situation Indicator below the established benchmark of 10%.

e. Eleven Local Councils and three Regional Committees (2015: 24 Local Councils and one Regional Committee), registered a deficit in the Statement of Comprehensive Income.

f. Only 48 Local Councils, one Regional Committee as well as the Local Councils Association (2015: 46 Local Councils and two Regional Committees) sent their response to the management letter within the stipulated deadline as set by Article 8(2) of the Local Councils (Audit) Regulations, 1993.

The major weaknesses encountered during the audits included:

a. Poor accounting records, resulting in the financial statements not giving a true and fair view of the actual financial situation.

b. Income and expenditure not always accounted for on accruals basis.

c. Payments made not substantiated by a proper fiscal receipt addressed to the Council.

d. Petty cash expenditure supported solely by unitemised cash register chits.

e. Fixed Assets Register was either not maintained, or was not in line with best practice, thus hindering the monitoring and control expected to be exerted by Local Councils over their assets.

f. Procurement not carried out in line with pertinent regulations.

g. Budgeted amount for certain categories of expenditure exceeded.

Local Councils

Background

The ultimate responsibility to draw up the Local Councils' financial statements as at year-end rests with the respective Executive Secretaries. Once duly approved by the Council and co-signed by the Mayor and the Executive Secretary (ES), a copy of the accounts is submitted to the Auditor General, to be audited in line with the Local Councils (Audit) Procedures and Regulations. Such audits, together with those of the financial statements of the Regional Committees and the Local Councils Association (LCA), are performed by five private audit firms, on behalf of the Auditor General.

The financial statements being reported upon cover calendar year 2016, during which, funds allocated by the Government to Local Councils aggregated to €33 million (2015: €32 million). **Appendix A** – **Table 1** refers. Additionally, in line with the previous year, the amount of €102,772 was allocated to the LCA.

Following the delegation of the administration and management of Local Enforcement System (LES) to the Local Enforcement System Agency (LESA) as from 1 October 2015, Regional Committees lost their main revenue stream, being the income receivable from contraventions. To partially offset this financial loss, in line with Directive No. 3/2016, Regional Committees may request LESA to reimburse the fee paid to the President of the Region, as well as the salary of its ES and the employees.

Contraventions can still be paid at the Local Councils and Regional Committees, which in return are granted a 10% administration fee for all contraventions settled at their premises.

Audit Scope and Methodology

The scope of the extensive reviews carried out by National Audit Office (NAO) following the audit by the contracted private Local Government Auditor (LGA) was to analyse the audit opinion given on the financial statements by the latter, as well as to examine the weaknesses and inefficiencies highlighted in the management letters drawn up thereon. To this effect, response to the management letter submitted by each Local Council, Regional Committee and the LCA was also duly scrutinised.

Key Issues

Local Enforcement System not subject to Systems Audit

It is a concern to NAO that for another year no evidence was provided, indicating that the Information Technology (IT) system is complete and accurate, and that the reports generated thereto are free from material misstatements. This system, which is operated by an external service provider, generates the major data on which the financial statements of the Regional Committee are primarily based. Given the lack of such certification, LGAs could only verify that figures disclosed in the books of account tally with the reports generated.

LESA, which as already indicated above is now vested with the responsibility of LES, in co-ordination with the Department for Local Government (DLG), is urged to, as soon as possible, commission a fully-fledged audit on the IT system. This will ensure that the data extracted from the respective system provides a reliable basis for the respective amounts disclosed in the financial statements.

Joint Committees

Notwithstanding that the nine Joint Committees were to be liquidated a year following the inception of the Regional Committees[1], five years later, this issue is unfortunately still pending. During a meeting held at NAO in February 2017, Director (DLG) acknowledged the importance of such liquidation. Accordingly, with the intention of finalising such process, the Department met with the ESs of Regional Committees and requested them to collect the financial statements as well as minutes of meetings of all Joint Committees, which data could be made available by Local Councils forming part of the respective Joint Committees. However, documentation traced so far pertained only to five out of the nine Joint Committees. Moreover, such data was incomplete.

Minutes' extracts brought to the attention of NAO indicated that any surplus funds, reported by Joint Committees following the settlement of all expenditure, were distributed amongst the respective Councils. Both DLG and NAO have their reservations as to the manner through which such distribution was effected.

Legal advice sought by the Department states that, unless the relevant legislation is amended, DLG itself cannot commence the dissolution process. Thus, the latter was advised to propose the necessary changes to the Act so as to place Local Councils in a legal position to hold meetings in order to decide on the dissolution of the Joint Committees, prepare the financial statements up till the respective date and appoint an auditor to audit them.

Furthermore, none of the nine Joint Committees submitted to the Auditor General the respective audited financial statements, covering the last five years, including the year under review. Moreover, two of the Joint Committees, namely the Central and the North failed to file the financial statements for the last six years, with the latter not even submitting those covering the preceding year. Despite that this concern was already voiced by NAO in previous years, followed by various meetings held with the pertinent authorities responsible for Local Councils, this situation, which is unacceptable, still prevails.

Once again, this scenario has contributed to the qualification of the audit report of 26 Local Councils which, unless the respective Joint Committees were dissolved, were to be provided with the respective audited financial statements as per pooling agreement. In the circumstances, no alternative acceptable audit procedures could be performed to obtain reasonable assurance on the completeness of the share of income or expenses recorded in the financial statements of the respective Local Councils. **Appendix B** refers.

The audits of the Joint Committees' financial statements were being carried out by private audit firms, which were directly appointed by the respective Joint Committees. In preceding years, Fgura Joint Committee declared that it did not operate a pooling system but a hybrid one, whereby income from fines was paid directly to the respective Council. It was also declared that the expenditure involved was apportioned according to a pre-established formula, based on the number of processed fines. As stated by the Chairman of the foregoing Joint Committee, such costs were paid directly by the individual Councils. Furthermore, it was stated that since the respective Committee never held or owned funds relating to its operations, it was not considered necessary to audit the accounts.

Meanwhile, Żurrieq and Valletta Joint Committees have, in previous years, declared that they do not prepare any financial statements at all.

[1] Regional Committees were officially set up on 1 September 2011.

Disclaimer of Opinion

LGA could not express an opinion on the financial statements presented by Birgu and Mosta Local Councils, as well as the Northern Regional Committee, for the reasons highlighted hereafter.

Birgu Local Council

Similar to the two preceding years, due to the significant matters referred to in the following paragraphs, LGA was unable to obtain sufficient audit evidence to provide a basis for an audit opinion.

Fixed Assets

The Council's Property, Plant and Equipment (PPE) included an amount of €87,097, classified as assets under construction for which no details were provided. Moreover, according to the ES, there were no assets in the course of construction at year-end. Thus, it could not be confirmed whether the projects were actually completed and depreciated accordingly. The existence and valuation of these assets could also not be verified.

Receivables

Included with trade and other receivables were accrued income of €36,806, recoverable expenses of €14,994, other receivables of €3,188 and long outstanding trade receivables of €4,410, which amounts were brought forward from prior years. LGA was not provided with any supporting documentation or explanations in respect of such balances, thus no procedures could be performed to verify their validity, completeness and recoverability.

Deferred Income

The Council did not provide satisfactory evidence in relation to deferred income of €175,963 as disclosed in the Statement of Financial Position, and the related release of €16,085 in the Statement of Comprehensive Income. Consequently, correctness of the said figures could not be ascertained. Moreover, due to these limitations, LGA was unable to verify whether grants received during the year, amounting to €30,499, were already included as deferred income brought forward from previous years.

Other matters

The following issues also contributed to the disclaimer of audit opinion:

a. Accrued income of €10,124, based on an agreement signed during the year under review with the Primary Health Centre, was not recognised in the Council's books of account.

b. The list of unpresented cheques included a number of payments, amounting to €14,770, which were dated and approved in January 2017, whilst another €2,245 worth of cancelled cheques were not reversed in the Council's accounting system. Consequently, the bank balance and amounts due to creditors were understated by €17,015.

c. A grant of €65,000 for the procurement of PPE was accounted for under the capital approach, and not in line with the instructions issued by DLG, which require Local Councils to account for grants using the income approach.

Going Concern

As at 31 December 2016, the Council's current liabilities exceeded current assets by €70,868. The significance of this deficiency casts doubt as to whether the Council will be able to meet its liabilities as they fall due. This was also disclosed in the audit report under an 'Emphasis of Matter' paragraph.

Mosta

Due to the shortcomings highlighted hereafter, for the second consecutive year, LGA was not in a position to express an opinion on the financial statements provided by the Mosta Local Council.

Local Enforcement System

Since proper audited financial statements were not prepared by the respective Joint Committee, LGA could not obtain reasonable assurance on the completeness of the share of income or expenditure that should have been recorded in the financial statements, as well as on any accrued income or liabilities present as at year-end.

Fixed Assets

The Council did not maintain a proper Fixed Assets Register (FAR) to record its acquisitions of PPE. As a result, satisfactory audit procedures could not be performed to ensure the existence and completeness of the fixed assets as recorded in the financial statements, as well as on the accuracy of the depreciation thereon. Furthermore, the Council did not provide for depreciation in line with its accounting policy.

Inventories

Due to the lack of substantiating documentation with respect to purchase cost, testing on the valuation of inventories was limited. Furthermore, there was evidence that the net realisable value was lower than the value as recognised in the financial statements; thus, the method of valuation was not in accordance to International Accounting Standard (IAS) 2.

Trade Payables

The Council's Statement of Financial Position shows the amount of €362,737 as trade payables as at year-end. Evidence provided by the Council, with respect to part of these payables amounting to €192,394, as well as with other creditors amounting to €13,370, was not sufficient for LGA to determine whether the recognition of such amounts was correctly accounted for and duly included in the financial statements.

Deferred Income

Adequate documentation was not provided to substantiate total deferred income of €352,106 relating to a number of EU projects. In 2016, the amount of €301,786 was reclassified from grants disclosed under PPE to deferred income. However the Council did not provide LGA with proper justifications necessitating such reclassification, as well as with a detailed analysis of how this reclassified balance is split between different projects. In addition, the Council had not rectified the incorrect release to income, which occurred during previous years, through the public-private partnership scheme. In view of these limitations, no practical audit procedures could be performed to obtain reasonable assurance of the related amounts.

Reporting Standards

Proper disclosures in accordance with the relevant IASs and International Financial Reporting Standards (IFRSs) were lacking.

Going Concern

As at 31 December 2016, the Council's current liabilities exceeded its current assets, casting significant doubt as to whether the Council will be able to maintain its current operations and commitments.

Northern Regional Committee

Local Enforcement System

Practicable alternative audit procedures could not be performed to obtain reasonable assurance on the completeness and existence of LES income (€314,834), expenditure (€121,606), receivables (€1,237,805) as well as payables (€68,385) as reported in the respective financial statements. It also transpired that the Committee did not undertake adequate LES reconciliations, involving the verification of contraventions collected against third party evidence.

Fixed Assets

The Regional Committee did not maintain a proper FAR to record its acquisitions of PPE. Moreover, depreciation was accounted for through a manual journal entry at the end of the year, rather than through the FAR on a monthly basis. Thus, LGA was hindered from performing practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of fixed assets as recorded in the financial statements, as well as on the accuracy of depreciation charged thereon.

Receivables

Included with the receivables of the Regional Committee is a balance of €1,136,668 pertaining to adjudicated contraventions that were not yet settled by year-end. Out of the aforementioned balance, the amount of €1,042,933 has been outstanding for more than one year. Despite that IAS 36 requires that a provision for doubtful debts is to be recognised where the collection of any receivables is uncertain, the Committee has not established a proper policy and methodology to evaluate and provide for impairment in relation to such contraventions which would probably remain unrecovered.

Further to the above, an amount of €101,137 was recognised as due from LESA during the year under review. The information and evidence provided by the Committee in respect to this receivable, as well as alternative audit procedures performed by LGA, were not sufficient to provide reasonable assurance as to the correctness of the respective balance.

Payables

As already indicated above, the Regional Committee recognised the amount of €1,136,668 as receivable in respect of contraventions issued and adjudicated but not yet settled. However, the corresponding obligation arising from the settlement of these receivables in the form of service charges, due to the system operator as per contracted terms, was not accounted for. LGA is of the opinion that the non-recognition of this obligation constitutes a material misstatement of liabilities; however, there were no practicable procedures to arrive at the accrued amount that should have been recognised in view of this obligation.

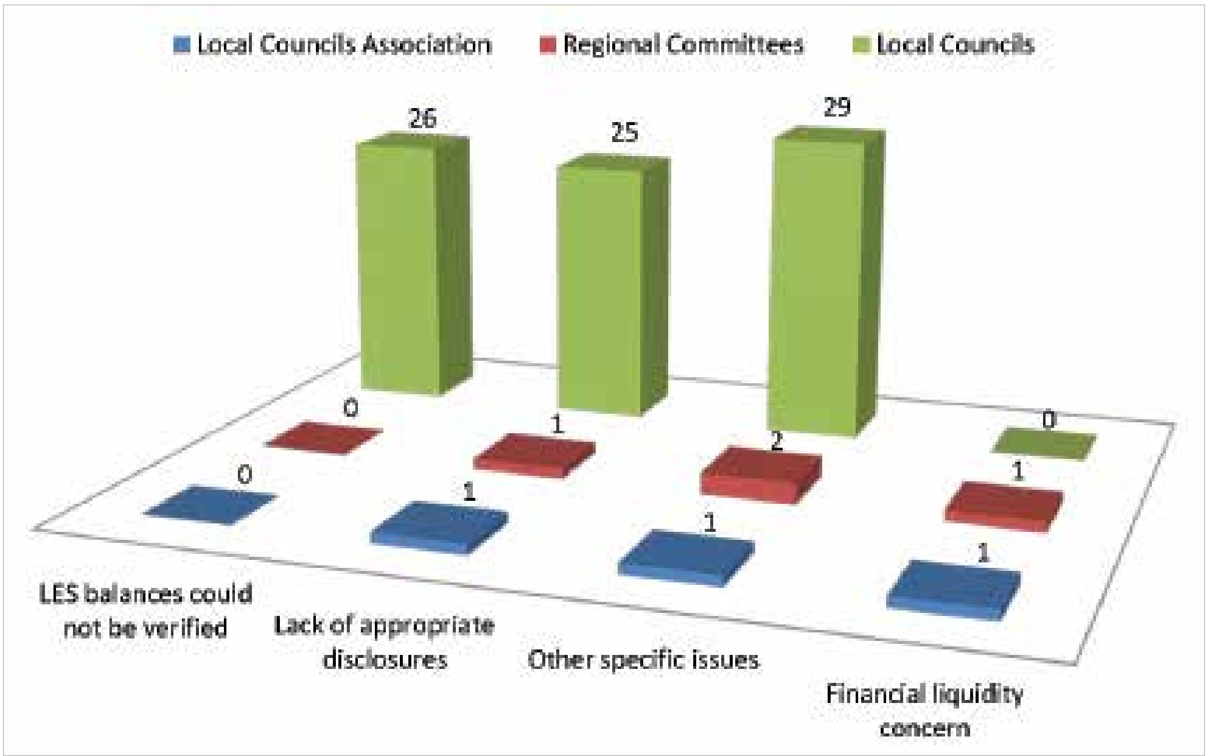
Non-compliance with International Financial Reporting Standards

The Committee's financial statements were not prepared in their entirety in accordance with the requirements of IFRSs. These lacked proper disclosures emanating from IAS 1, IAS 24, IAS 36, as well as IFRS 7.

'Except For' Audit Opinion

Apart from Birgu and Mosta Local Councils, as well as the Northern Regional Committee, another 48 audit reports, out of the 70 received, were qualified with an 'Except For' audit opinion, for one or more of the shortcomings indicated in **Figure 1**.

Figure 1 - 'Except For' Audit Opinion



In addition, the going concern assumption used in the preparation of the financial statements presented by nine Local Councils, out of the 48 mentioned above, is dependent on further sources of funds other than the annual financial allocation received from Central Government, namely collection of debts and the continued deferment of payments. Any adverse change in either of these assumptions would not enable the respective Council to meet its financial obligations as they fall due without curtailing its future commitments. This matter was emphasised by means of a 'Material Uncertainty relating to Going Concern' paragraph in the audit report.

On the other hand, the Southern Regional Committee, as well as 18 Local Councils, of which six had a material uncertainty comment relating to events or conditions that may still cast doubt on their ability to continue as a going concern, were issued with a clean audit opinion.

The qualifications and the related Local Councils and Regional Committees are listed in **Appendix B**.

Negative Working Capital

NAO is informed that meetings conducted by the Director (DLG) during 2016 with those Councils that had registered a negative working capital in the preceding year, with the aim of outlining a detailed strategy to control and improve their financial position, was fruitful. In fact, the number of Local Councils that registered a negative working capital during the period under review decreased from 23 (as registered in 2015) to 17. Furthermore, though still in the negative, a number of Councils registered an improvement in their financial situation. Yet, others have registered a sharp increase, in which case, meetings were also held by the Department whereby relevant directions were given to the respective Councils in order to ensure sound financial management.

As in prior years, in the majority of cases, this adverse liquidity position was a result of various capital projects undertaken by certain Local Councils, which expense was in excess of the available funds.

Table 1 lists the Councils registering a negative working capital at end of year, and the corresponding figures for the previous two years.

As evidenced in **Table 3**, further on in this Report (page 20 refers), a number of these Councils also experienced a deficit in the Statement of Comprehensive Income for 2016.

Table 1: Negative Working Capital[2]

Local Council	31 December 2016	31 December 2015	31 December 2014
	€	€	€
Birgu	(70,868)	(16,723)	(136,025)
Birkirkara	(557,022)	(406,537)	(724,979)
Birżebbuġa	(111,372)	(233,163)	(357,200)
Dingli	(53,557)	(225,641)	22,742
Kerċem	(96,491)	(109,452)	96,469
Mdina	(144,951)	(178,175)	(174,315)
Mosta	(286,970)	(482,503)	(461,450)
Mqabba	(47,785)	(112,304)	(149,886)
Msida	(55,282)	(83,051)	(132,154)
Nadur	(311,243)	(351,108)	(364,966)
Rabat (Gozo)	(722,379)	(510,734)	(85,345)
San Lawrenz	(132,137)	(63,532)	(108,746)
Sannat	(126,446)	(118,269)[3]	(18,533)
Siġġiewi	(87,899)	9,330[3]	(116,275)
Xagħra	(125,204)	(121,708)	(92,939)
Żebbuġ (Gozo)	(1,429)	11,454	7,193
Żebbuġ (Malta)	(411,129)	(551,568)	(657,958)

[2] Negative Working Capital figures disclosed in the table were computed on amounts as reported on the face of the Statement of Financial Position even though instances were encountered whereby these were either not correctly classified, did not tally to the balances recorded in the respective notes or were not properly casted.

[3] Comparative figure has been restated due to a prior year adjustment.

Birgu

In 2016, the Council's liquidity position continued to deteriorate with current liabilities exceeding current assets by €70,868. This situation was triggered by a decrease of €21,533 in overall current assets, mainly due to a decrease in cash and cash equivalents by €17,697 over the preceding period. This was coupled with an upward movement of €32,612 in total current liabilities resulting from an increase in the overdrawn bank balance of €32,539.

Birkirkara

The gap between the Council's current assets and current liabilities widened further during the year under review, resulting in a significant negative working capital balance. Although current liabilities decreased by €263,417, such movement was not sufficient to offset the even higher decrease of €413,902 in overall current assets which was mainly brought about by downward movements of €186,797, €169,974 and €56,598 in accrued income, cash and cash equivalents, as well as receivables respectively.

Birżebbuġa

Despite the improvement in working capital of €121,791 over the preceding year, the Council still ended the current financial year with a negative liquidity position of €111,372. The overall growth in current assets (€142,303), mainly attributable to an increase in cash and cash equivalents (€135,697), was partly hampered by a net increase of €20,512 in current liabilities.

Dingli

Although still in the negative, there was a substantial improvement in the working capital when compared to that registered at the end of the previous financial period. During the year under review, the Council managed to decrease current payables, as well as deferred income, by an aggregate amount of €272,827. Meanwhile, reductions of €66,501 and €34,242 in cash and cash equivalents and receivables respectively, were also recorded.

Kerċem

The negative working capital of the Council is still significant, with current liabilities exceeding current assets by €96,491 at year end. The slight improvement is a result of a decrease in overall current liabilities (€52,080), which was marginally higher than the drop registered in current assets (€39,119).

Mdina

Whilst payables decreased by €51,613, the Council's liquidity position still remained substantially in the negative. The decrease of €13,426 in current assets, mainly due to the unfavourable movement noted in cash and cash equivalents (€8,546) also contributed to this adverse situation.

Mosta

Notwithstanding that in 2016, the gap between the Council's current assets and current liabilities was narrowed by €195,533, the Council is still in an unstable financial situation, ending the year under review with a negative working capital of €286,970. Although there was a significant decrease in total current liabilities of €360,992, this was partly offset by a downward movement of €165,459 in current assets.

Mqabba

During 2016, the Council managed to increase total current assets by €59,775 whilst reducing current liabilities by €4,744. The movement in current assets was triggered by an increase of €61,382 in cash and cash equivalents, coupled with a slight reduction in receivables. On the other hand, the deduction in current liabilities resulted from decreases of €21,166 and €5,039 in trade payables and current deferred income respectively, together with an increase of €21,461 in accrued expenses. However, irrespective of these improvements, the Council did not manage to offset the negative working capital, which for the year under review amounted to €47,785.

Msida

During the year under review, the Council managed to increase current assets by €28,635, mainly due to an upward movement of €30,299 in cash and cash equivalents. Current liabilities remained stable, with marginal increases reported for short-term borrowings (€702), as well as trade and other payables (€2,304). Meanwhile deferred income decreased by €2,140. However, working capital at year-end was still in the negative.

Nadur

Although the Council reduced its current liabilities by €79,748, its total current assets also decreased by €39,883. The latter was attributable to a substantial decrease in total receivables (€34,371) as well as a decline in cash and cash equivalents (€5,512). On the other hand, the downward movement in current liabilities was brought about by declines of €98,925, €17,550 and €6,485 in accrued expenditure, overdrawn balances and deferred income respectively, which was partly outweighed by an increase of €43,212 in accounts payable.

Rabat (Gozo)

The Council's financial situation continued to deteriorate when compared to the preceding years, with the working capital in 2016 standing at a negative of €722,379. This situation was caused by a significant decrease of €253,494 in overall current assets.

San Lawrenz

During the year under review, the Council maintained a negative position which adversely increased over the preceding year. This was the result of a significant decrease of €69,565 in current assets, which was mainly brought by a fall in cash and cash equivalents of €60,236. The current liabilities underwent a slight decline but had no effect on the Council's overall financial position.

Sannat

The negative cash liquidity position of the Council has been on the increase these last couple of years. Although payables decreased by €16,337 from the preceding year, an even higher downward movement of €32,401 was registered in receivables.

Siġġiewi

Notwithstanding the increase of €27,219 in receivables, the Council's working capital was still driven to a net liability position as a result of the increase in payables (€95,392) as well as overdrawn bank balances (€5,763). Moreover, cash and cash equivalents also decreased by €23,293 when compared to the preceding year.

Xagħra

The Council's financial situation continued to deteriorate over the years, ending the year under review with a negative working capital of €125,204. Although the Council managed to curtail its current liabilities by €112,858, a substantial decrease was noted with respect to overall receivables, which dropped from €257,217 in 2015 to €36,741, notwithstanding the fact that cash and cash equivalents improved by €104,122.

Żebbuġ (Gozo)

The overall reduction of €115,642 in current liabilities was not sufficient to sustain the substantial decrease of €74,696 in receivables, coupled by a decline in cash and cash equivalents of €53,829. Consequently, during the year under review, the Council was driven to a net liability position of €1,429.

Żebbuġ (Malta)

Despite the improvement of €140,439 registered over the preceding year, the Council is still in a precarious financial situation, ending the year under review with a negative working capital of €411,129. The improvement was mainly the result of a downward movement of €218,936 in overall current liabilities, which was partly offset by a decrease of €78,497 in total current assets. The negative balance indicates that the Council has accumulated significant amounts of debt during the past years, which will take several years to be repaid, considering that the Council has to meet annual fixed operating costs to maintain a minimum level of service.

Improvement in Working Capital

As indicated in **Table 2**, eight Local Councils have managed to improve their financial position, from a negative to a positive working capital by the end of the year under review.

Table 2: Improvement in Working Capital

Local Council	31 December 2016	31 December 2015	31 December 2014
	€	€	€
Gudja	60,704	(37,100)	73,894
Għarb	49,726	(76,765)	68,964
Lija	18,074	(44,015)	(62,105)
Marsaxlokk	16,541	(13,836)	98,570
Munxar	38,839	(21,556)	134,459
San Pawl il-Baħar	328,408	(20,494)	(153,699)
Swieqi	6,862	(97,020)	(38,678)
Xgħajra	35,979	(40,805)	(34,334)

Financial Situation Indicator

Article 4(1) of the Local Councils (Financial) Regulations, 1993 compels the ES to maintain a positive balance between income and expenditure, and accrued income and accrued expenditure, of not less than 10% of the allocation approved in terms of Article 55 of the Act. In the event that the Financial Situation Indicator (FSI) is less than 10%, the Council is obliged to inform the Director about the situation, and explain the actions that are intended to be taken to remedy the situation. Such onus was once again communicated to all Local Councils through Circular No. 16/2017, whereby the latter were not only reminded on the importance of maintaining the stipulated FSI, but also outlined the standard operating procedure to be adopted in the event that the respective target is not reached.

The cited legislation defines FSI as the difference between the total of all current assets and the total of all current and long-term liabilities for the current and subsequent financial years, excluding any long-term commitments approved by the Minister in terms of the Act, taken as a percentage of the annual allocation.

However, in certain instances, major changes in the Councils' operating scenario renders the current computation rather meaningless. In such cases, Councils were reporting substantial bank balances despite the fact that this money could not actually be used to settle outstanding debts, since these were committed for specific projects or schemes. Thus, these funds, as well as amounts representing deferred income, together with long-term balances payable under the public-private partnership scheme, are not expected to be included in the FSI calculation. Upon unanimous agreement with relevant stakeholders, the formula for the computation of FSI was unofficially modified on such basis.

It is pertinent to note that way back in 2002, a total of 37 Local Councils were exempted from maintaining a positive FSI of 10%. No evidence was traced that throughout the years this decision, which was taken by DLG, was revised. In line with preceding years' recommendations, DLG is currently conducting an exercise to determine on a case-by-case basis whether such exemption is still applicable. Upon concluding such task, a recommendation as to the way forward will be drafted.

By the end of the year under review, 19 Local Councils (2015: 28) registered a FSI below the 10% benchmark required by law.

Statement of Comprehensive Income

Whilst a significant improvement was noted in the number of Local Councils that had registered a deficit in the Statement of Comprehensive Income in the preceding year, this was not the case with respect to Regional Committees. The number of Councils that reported a negative financial situation went down from 24 in 2015 to 11 in 2016. On the other hand, three Regional Committees, namely Central, South Eastern and Southern ended financial year 2016 with a deficit.

With the aim of enhancing the funding formula for the Local Councils, DLG was in the process of conducting an analysis of the recurrent expenditure against the respective allocation. To this effect, an adjustment fund mechanism was introduced in 2017 to address particular needs of certain localities.

Table 3 presents the localities, the deficit for the year under review, the corresponding figures for the previous financial periods, as well as the accumulated retained earnings for the last three financial years. It is pertinent to note that management letters of most Councils disclosed in the table below also highlighted the fact that, for certain categories, budgeted expenditure was exceeded. Though it might be argued that savings were made in other categories, the importance of an accurate and transparent budget is not to be undermined.

Table 3: Statement of Comprehensive Income[4]

Local Council/ Regional Committee	Surplus/(Deficit)			Retained Earnings as at		
	1 January – 31 December 2016	1 January – 31 December 2015	1 January – 31 December 2014	31 December 2016	31 December 2015	31 December 2014
	€	€	€	€	€	€
Attard	(5,132)	(8,538)	13,636	484,306	489,438	497,976
Birgu	(7,129)	61,489	34,619	76,381	83,510	22,021
Birkirkara	(26,993)	(8,575)	(25,986)	1,340,900	1,367,893	1,376,468
Għarb	(19,250)	(13,322)	9,585	388,557	407,807	421,129
Kerċem	(23,047)	(38,371)	(4,424)	381,158	404,205	442,576
Marsaxlokk	(9,824)	5,574	(908)	383,428	393,252	387,678
Nadur	(19,543)	(29,471)	(89,977)	633,689	653,232	682,703
San Ġiljan	(65,619)	77,095	47,868	566,285	631,904	554,809
San Lawrenz	(12,024)	(4,209)	(15,686)	179,404	191,428	195,637
Sannat	(20,527)	(11,557)[5]	(9,647)	138,171	158,698[6]	158,713
Xagħra	(5,489)	8,197	48,718	844,824	850,313	842,116
Central Regional Committee	(315,720)	(75,932)	1,627,752	1,737,649	2,353,369	3,546,518
South Eastern Regional Committee	(294,233)	678,168	(286,002)	1,061,836	1,356,069	692,901
Southern Regional Committee	(479,915)	241,385[6]	132,978	1,074,897	1,554,812[6]	1,453,343

Attard

The Council managed to increase its overall revenue by €58,314; however, a deficit of €5,132 was still recorded during the year under review. This was mainly brought about by net increases of €54,297 and €5,580 in operations and maintenance expenses, as well as personal emoluments respectively.

Birgu

The Council's deficit of €7,129 was triggered by a significant reduction in overall income of €112,313. The main negative movements reported in the Council's revenue related to decreases in funds received under other Government income (€48,612)[7], income from EU funds (€33,698) and general income (€36,092). This was partly set-off by an increase of €8,340 in the financial allocation provided by central Government. Moreover, whilst the Council managed to cut back administration and other expenditure by €49,945, an increase of €9,710 was registered in operations and maintenance expenditure.

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[4] Figures disclosed in the table represent amounts as reported on the face of the Statement of Comprehensive Income and Financial Position even though instances were encountered whereby these were either not correctly classified, did not tally to the balances recorded in the respective notes, or were not properly casted.

[5] Loss is overstated by €4,800 due to a misstatement detected following the conclusion of the audit.

[6] Comparative figures restated to reflect a prior year adjustment.

[7] The Council recorded the additional financial allocation provided by Central Government as 'Other Government Income'.

Birkirkara

Notwithstanding that the Council managed to increase its overall revenue by €67,357, a deficit of €26,993 was still recorded for the year under review. This was mainly brought about by net increases of €68,801 and €30,052 in operations and maintenance expenditure, as well as personal emoluments respectively. Increases were also noted for depreciation and amortisation (€69,181), social events (€17,622), lease equipment (€16,543) and impairment of assets (€11,750), while overall administration and other expenditure was curtailed by €11,632, mainly due to a decrease of €98,875 in the provision for doubtful debts.

Għarb

The overall increase of €53,638 in revenue, mainly related to EU programmes (€45,966), childcare services (€34,149) and community income and donations (€22,621), was not sufficient to offset the upward movement in total expenditure (€59,566). Expenses in relation to EU projects (€72,198) and childcare centre (€21,552) were the main contributors to the increase in costs. As a result, the Council ended the current financial year with a deficit of €19,250, an increase of €5,928 over that registered in the preceding year.

Kerċem

This year, the Council still ended with a surplus of expenditure over income of €23,047. The slight improvement registered over the preceding year was mainly attributable to an increase in funds received from central Government (€11,692) and in the general income (€5,807). The overall expenditure has remained stable with only a marginal increase of €949 over last year.

Marsaxlokk

By the end of 2016, the Council reverted to a deficit position of €9,824. This situation was brought about by the fact that the overall increase of €37,837 in income received by the Council was not enough to sustain the upward movement of €53,235 in expenditure incurred. This was mainly the result of an increase of expenditure related to the cleaning of public conveniences (€25,511), hiring of skips (€18,301), refuse collection (€12,531), amortisation and depreciation charge (€7,827), social events (€7,500), utilities (€7,223) as well as road markings (€5,661). On the other hand, no expenditure for waste disposal was reported in 2016, compared to the €22,390 incurred during the preceding year.

Nadur

Although the financial position improved marginally when compared to the preceding year, the Council still reported a loss of €19,543. Despite the increase of €45,502 in overall income, which for the period under review amounted to €540,087, it was not enough to sustain the overall expenditure incurred, totalling €559,630. The main line items contributing to an upward movement in the Council's expenditure were depreciation (€27,412), personal emoluments (€22,022), other contractual services (€17,853), bulky refuse collection (€8,081) and street lighting (€5,414). On the other hand, decreases of €17,664, €9,358, €9,334 and €8,190 were registered for repairs and upkeep, information services, professional services as well as community and hospitality respectively.

San Ġiljan

As a result of the reduction of €89,720 in overall income and the increase of €52,994 in expenditure incurred, the Council has shifted from a surplus of €77,095 in 2015 to a loss of €65,619 in the current year. The most significant fluctuations were noted in income raised under LES which decreased by €126,858. This was partially offset by the upward movement registered in income raised under bye-laws (€22,788), general income

(€10,676), as well as funds received from central Government (€4,130). Meanwhile, increases in expenditure were reported for repairs and upkeep of road and street pavements (€20,481), personal emoluments (€6,596), road and street cleaning (€6,524), transport (€6,333), bulky refuse collection (€5,190), as well as utilities (€4,585). On the other hand, street lighting expenditure decreased by €19,286 over the preceding year.

San Lawrenz

Following the improved financial results obtained by the Council during 2015, a deficit of €12,024 was registered for the end of 2016. While the Council registered a decrease of €41,267 in overall expenditure, overall revenue earned during the year under review also declined from the preceding year. The decrease in revenue was mainly due to a significant decline of €43,994 in general income.

Sannat

For the third consecutive year, the Council ended the financial year in a deficit position of €20,527. The negative impact was mainly triggered by an increase of €37,377 in overall expenditure, which was partially outweighed by a positive movement in total revenue of €28,407.

Xagħra

Following positive financial results reported in the previous two years, the Council ended the year under review in a deficit position of €5,489. The overall increase of €13,854 in revenue, mainly resulting from an increase of €19,235 in other Government income, was not enough to sustain the upward movement in expenditure. One of the key contributors to the increase in expenditure related to plants and trees (€25,013), coupled with increases in depreciation (€12,129) and expenses related to refuse collection (€6,396). On the other hand, a decrease of €10,699 and €9,104 was noted in respect of professional services and expenditure on travel respectively.

Central Regional Committee

The Central Regional Committee again closed the year with a substantial deficit of €315,720. The negative impact was primarily triggered by a drastic net decrease of €3,999,001 in total income, mainly from contraventions, which was partially outweighed by the curtailment of €1,940,475 in direct costs.

South Eastern Regional Committee

After managing to achieve positive financial results in 2015, during the year under review, the South Eastern Regional Committee reverted to a deficit position of €294,233. The decrease of €1,394,196 in overall expenditure was not enough to sustain the substantial negative movement of €2,366,597 in overall income. This situation was brought about by the decline of €2,389,919 in income derived from LES, which was partly offset by a downward movement of €1,354,014 in expenditure incurred for the operation of such system, coupled with a decline in the emoluments paid to tribunal personnel, bank charges, as well as office services of €9,147, €13,606 and €11,612 respectively.

Southern Regional Committee

From a restated surplus of €241,385 recorded in the prior year, the Southern Regional Committee ended the current financial year with a deficit of €479,915. The reduction of €1,387,369 in overall expenditure was not sufficient to outweigh the substantial decrease of €2,108,669 in total generated income.

Local Councils registering a Surplus over the preceding Year's Deficit

The 16 Local Councils listed in **Table 4** rectified their position to a surplus by the end of the year under review. During the preceding year, 13 Local Councils and the South Eastern Regional Committee had rectified their position to a surplus by the end of the respective year.

Table 4: Local Councils registering a Surplus over the preceding Year's Deficit

Local Council	1 January – 31 December 2016 €	1 January – 31 December 2015 €	1 January – 31 December 2014 €
Floriana	4,368	(33,010)	(85,429)
Fontana	13,169	(1,321)	14,953
Għasri	3,079	(265)	12,994
Marsa	6,543	(86,390)	9,787
Mdina	24,286	(12,297)	(54,202)
Mellieħa	31,951	(26,828)	(3,963)
Mqabba	5,941	(11,135)	(6,792)
Msida	51,346	(49,570)	2,114
Munxar	26,801	(10,405)	22,478
Rabat (Gozo)	40,941	(67,129)	(19,464)
Safi	13,478	(4,413)	(19,677)
Siġġiewi	86,863	(31,519)[8]	58,771
Sliema	36,390	(139,162)	(142,074)
Swieqi	77,737	(32,915)	(95,801)
Ta' Xbiex	9,727	(22,169)	3,777
Xgħajra	2,382	(14,980)	(27,592)

[8] Comparative figure was restated following a prior year adjustment.

Control Issues

Similar to previous years, a number of internal control issues, indicating that little monitoring, if any, is in place to ensure efficient financial management, were identified in a number of Councils. The shortcomings encountered are highlighted hereafter.

Fixed Assets

Fixed assets owned by Local Councils, defined as objects purchased for long-term use, include buildings, furniture and fittings, plant and machinery, office and computer equipment, as well as street signs. Proper fixed asset management is essential to keep track of such items for financial reporting purposes, as well as to prevent theft. However, it transpired that a number of Local Councils are still overlooking the importance of such function. The following shortcomings were noted.

a. FAR was either not maintained, or not provided to LGA for audit purposes due to the fact that this was not updated and hence did not reconcile to accounting records.

b. When made available, FAR was not always in line with best practice and in terms of the Local Councils (Financial) Regulations, thus limiting LGAs in the audit procedures that could be carried out, at times also resulting in a qualification of the audit report. The following relate:

Assets assigned a general description and at times not tagged with a fixed asset code, hindering physical verification

Assets included in FAR not physically traced

Assets no longer in use still listed in FAR

Variance in asset cost and/or depreciation charge between figures listed in FAR and those disclosed in the nominal ledger and financial statements

Items procured during 2016 not recorded in FAR, as well as variances between the value of additions as disclosed in FAR and the Fixed Assets Schedule

c. Depreciation charge for the year not computed through FAR, as required by standing regulations, but calculated manually and posted in the accounting system by means of a journal entry. This gave rise to discrepancies between depreciation as reported in the books of account and that recalculated by LGA, mainly due to one or more of the following inconsistencies:

- Depreciation calculated annually instead of monthly;
- Use of straight line method rather than the reducing balance method;
- Assets classified under the wrong category, resulting in an incorrect depreciation rate being charged;
- Purchase of fixed assets erroneously treated as revenue expenditure; and

- Procurement costs of street signs and/or litter bins capitalised rather than accounted for on a replacement basis.

d. Disposals not recorded in the books of account and at times not approved during a Council meeting.

e. Anomalies in the way Councils insured their assets notwithstanding that specific guidance was issued by DLG through Circular No. 33/2016 on the nature of insurance cover that is expected to be in place.

f. A particular Council also insured works of art belonging to third parties, which paintings are being exhibited at the respective Council.

Accounting

The concern, that in certain instances the financial statements presented for audit purposes are not fully compliant with the requirements of IFRSs, besides containing a number of errors and at times also necessitating an 'Except For' qualified opinion, still prevailed. The most common weaknesses encountered by LGAs are indicated below.

a. Discrepancies between the trial balance and unaudited financial statements.

b. Incorrect application of cut-off procedures, resulting in omitted, overstated or understated income and expenditure.

c. At times, prepayments and/or accrued expenses brought forward from the preceding year were either not reversed or reversed against the wrong nominal account.

d. System used to record income did not entail a proper audit trail.

e. Receipts and/or payments omitted from the books of account and/or recognised twice.

f. Income received and/or invoices not recorded in the financial year to which they pertain.

g. Expenses incurred netted off against income received.

h. Income and/or expenditure accounted for in the wrong nominal account.

i. Adequate documentation was not always provided to support amounts disclosed in the accounting records.

j. Audit adjustments approved during the preceding year's financial audit not reflected in the books of account, resulting in discrepancies between opening balances as disclosed in the accounting system and closing balances as reported in the audited financial statements of the prior period.

k. Incorrect classification of liabilities into their short-term and long-term portions.

l. Inventory held by the Council also comprised items not held for sale, such as books to be distributed for free. Moreover, at times, stock lists were either not available or the stock value included therein differed from that recorded in the books of account.

Repetitive Weaknesses reported in the Management Letter

A number of irregularities continue to feature every year in the management letters. NAO reiterates that remedial action needs to be taken without any further delay. It is evident that whilst certain management letter points are simply ignored, others are just answered in a simple statement, specifying that the particular point was noted, without indicating any concrete actions to be taken, or intended to be taken, to implement the proposed recommendations. This demonstrates a total lack of accountability on the part of the respective Councils, an attitude which is simply unacceptable.

Ultimately, it is the responsibility of the Council and the ES to implement the Auditor's recommendations, as well as to correct, in a timely manner, any weaknesses in the Council's accounting and financial operations.

Tipping Fees charged by WasteServ Malta Ltd beyond Budgeted Allocation

Following discussions with the Ministry for Finance, in 2013 a decisive action was taken to resolve the anomaly in existence since the end of 2009, between Councils and WasteServ Malta Ltd, in view that the amounts invoiced by the latter were in excess of the specific Government allocation provided. For each of the last five years (2013-2017) DLG, through line item 5665 under Programmes and Initiatives, was assigned a specific budget of €1.3 million. Such allocation is intended to settle outstanding arrears with WasteServ Malta Ltd, some of which have been pending for a number of years. According to Director (DLG), it is envisaged that within two years the issue will be resolved.

In addition, as in previous years, a number of Councils either omitted or did not account in full for funds transferred by DLG to WasteServ Malta Ltd on their behalf, thus resulting in the overstatement of payables and understatement of income. Inconsistencies were also noted in the recognition of such income. Whilst certain Councils accrued for additional income receivable from the Department in respect of tipping fees on the assumption that DLG will continue to settle such differences on a yearly basis, others opted to recognise any such additional income upon actual confirmation and remittance.

Local Enforcement System

Given that outstanding fines are expected to be paid upon the renewal of the respective motor vehicle license, it follows that these should not take longer than one year to be settled. However, substantial amounts in this respect remain outstanding impacting negatively the cash flow of all Local Councils. Guided by the principle of the prudence concept, a full provision should be taken, at least for receivables older than two years.

Common issues relating to LES encountered during the audits included the following:

a. As indicated earlier on, the annual audited financial statements of the Joint Committees for year ended December 2016 were not submitted to the respective Local Councils. Consequently, LGAs could not rely on independent audited information to provide reasonable assurance on the related income being recorded by Local Councils in their accounts.

b. Amounts receivable from contraventions as reported in the financial statements differed from those recorded in LES reports made available for audit purposes. The amount taken as provision for doubtful debts is also likely to be inaccurate.

c. The inconsistencies between reports generated from the LES computerised system renders such data unreliable.

d. Amounts receivable as administration fees, from contraventions collected on behalf of LES, differed between the Councils' and/or Regional Committees accounting records and the respective reports generated by the system.

e. Regional Committees are experiencing certain difficulties with the collection of fines adjudicated in their favour. This is resulting in substantial balances still recorded as receivables in their books of account.

f. Invoices with respect to administration fee not raised on time by the respective Councils.

g. LES income was reported under the wrong nominal account.

h. Receivable amounts brought forward from preceding years were only recorded as income upon receipt rather than on accrual basis.

Procurement

Departures from applicable Regulations

The majority of Local Councils did not always adhere to the applicable procurement rules and regulations when acquiring goods and services. Main areas of non-compliance included the following:

a. Items procured by direct order although the established thresholds were exceeded.

b. At times, with the aim of bypassing the requirement of a public call for tender or quotations, procurement of items of the same nature was split over a number of months.

c. Certain payments were still issued prior to them being approved at a Council meeting, thereby increasing the risk of settling unapproved purchases or uncertified work. In addition, at times, schedules of payment also lacked specific details.

d. Procurement of services continued to be executed under an expired contract notwithstanding that such course of action goes against Memo 10/2013, which instructs Councils to prepare a new call for tenders ahead of the expiry date of the existing contracts. This issue is of concern also amongst certain Regional Committees. These have taken over a number of contracts, which were initially entered into by the then Joint Committees and were expected to become null upon the cessation of the latter. **Appendix C** refers.

e. Items of expenditure not always substantiated by source documentation, such as agreements, tender documents, bills of quantity, architect's certificate and invoices.

f. Contracts still executed despite that the awarding bidder did not provide a copy of the bank guarantee. This bears the risk that the respective Councils will not be covered in case of default by the contractor.

g. Various items of expenditure, which value was at times material, were not covered by a formal purchase order officially confirming the Council's approval for the related procurement.

h. Valid fiscal receipts were not always available to support substantial expenditure incurred for the Council's operations.

i. At times, procurement was either substantiated by invoices that lacked necessary details or merely supported by an unofficial document, hindering LGA from confirming that the respective expenditure was actually incurred for the running of the Council.

j. Very often, the maximum threshold for petty cash expenditure was exceeded or two or more separate chits from the same supplier were issued in sequence to avoid exceeding the applicable threshold.

k. Petty cash expenditure was very often merely supported by cash register chits. In such instances, Councils did not raise an itemised petty cash voucher showing all the procured items. Unendorsed petty cash vouchers were also encountered, implying that the respective purchases were not approved.

l. Other deficiencies concerning procurement procedures included:

- Procurement of services not covered by a formal agreement or agreement was not signed;
- Purchase orders and/or payment vouchers not endorsed and at times also lacking necessary details as well as numerical sequence;
- Uncertified invoices indicating lack of verifications.

Street Lighting

Notwithstanding that upon the cessation of the Joint Committees, the street lighting function was to be delegated to the five Regional Committees, to-date this function has not been passed on to the respective Regional Committees in Malta. On the other hand, in Gozo, management of street lighting was devolved to the Regional Committee, by means of a pilot project undertaken by the Sustainable Energy and Water Conservation Unit within the Ministry responsible for energy and co-financed through the European Regional Development Fund. This Office was informed that such project was not successfully carried out and consequently additional funding from Central Government had to be requested in this regard.

Through Circular No. 50/2016, Local Councils were instructed to issue a new call for tenders covering a period of one year, which agreement may then be renewed on an annual basis for a maximum of three years. However, it transpired that certain Local Councils disregarded such guidelines and continued to procure the respective service through direct orders, from the same service providers and under the same conditions outlined in the agreement entered into by the then Joint Committees.

Anomalies between Thresholds set in Pertinent Regulations

With regards to calls for quotations, certain anomalies still prevail between the thresholds set in the Local Councils (Financial) Regulations, 1993 and those as per Local Councils (Financial) Procedures, 1996. Whilst the former specify that three official signed quotations are to be obtained prior to procuring items exceeding €1,165 (Lm500) but not exceeding €4,659 (Lm2,000), the latter stipulate that at least three official signed quotations are required for purchases of value above €233 (Lm100) but not greater than €2,333 (Lm1,000). This anomaly will hopefully be addressed with the upcoming revision of the procurement regulations.

Government Grants

IAS 20 – 'Accounting for Government Grants and Disclosure of Government Assistance' outlines two broad approaches – the Income and the Capital Approach, for the accounting of Government Grants. However, following a consultation exercise held in 2008 by NAO with LGAs in office at that time, it was decided that for consistency purposes, the Income Approach as outlined in IAS 20 was to be applied by all Local Councils when accounting for such funds. Hence, grants received to acquire items of PPE should be treated as deferred income. Such income is to be subsequently recognised on a systematic and rational basis in accordance with the useful life of the asset, i.e. a portion of the income should be transferred every year to account for the depreciation charge.

Yet, from concerns raised in the management letters prepared by LGAs, it transpired that a number of Local Councils are still adopting an incorrect treatment for the recording of such grants as highlighted hereafter.

a. Certain Councils are still adopting the Capital Approach for the treatment of Government grants.

b. Funds received were at times accounted for on a cash basis.

c. Amortisation was sometimes not accounted for in line with the depreciation policy, or was only applied to deferred income brought forward, without taking in consideration additional funds received during the year under review. As a result, the amount of deferred income released to the Statement of Comprehensive Income was at times inaccurate.

d. Such amortisation did not always commence on the date when the related capital project was completed. Furthermore, at times it was worked out on the cost of the asset rather than on the amount of the grant.

e. Deferred income was not apportioned properly between short-term and long-term components by a number of Councils.

f. In a number of instances, the necessary workings, substantiating accrued and/or deferred income balances as recognised in the books of account or the schedules presented, were not drawn up in line with IAS 20. Consequently, no audit procedures could be carried out to ascertain that amortisation, as well as the apportionment of deferred income into its short-term and long-term components, were correct and complete.

Through Directive No. 1/2017, DLG pronounced a change in the accounting treatment of non-current assets. As from 1 January 2018, Local Councils are instructed to adopt the Capital Approach for the recording of grants. Under this procedure, funds received are dealt with in the Statement of Financial Position rather than recognised in the Statement of Comprehensive Income to offset the items of expense that the same funds intend to finance. In order to prepare for this change, Local Councils are expected to prepare two Statements of Financial Position as at 31 December 2017. One according to the Income Approach, which statement is to be included in the audited financial statements for 2017, whilst the other, which is to be drafted using the Capital Approach, is intended for internal use, mainly to provide the opening balances as at 1 January 2018.

In view that the audit report of a number of Local Councils includes a qualification due to an incomplete FAR, a one-time opportunity is being given to the latter to regularise their position; as opening balance as at 1 January 2018, they are allowed to show the net book value for each category of non-current assets in their FAR. From there on, such Councils are to ensure that FAR is maintained up to date; thus, all acquisitions of non-current assets recorded in the nominal ledger are also to be disclosed in the assets register.

Furthermore, as from January 2018, depreciation of non-current assets is to be computed on a monthly basis using the straight-line method applying the depreciation rates specified in the Local Councils (Financial) Procedures.

Distributions from Reserves of Regional Committees

Regional Committees were officially set up on 20 April 2011, by means of Legal Notice 207 of 2011 and actually became operational on 1 September of that year, when they were also entrusted with the management of LES. Serving as its only source of income, money collected from contraventions was to be used for the running of the respective Regional Committee, as well as to fund new projects and initiatives.

In line with the practice adopted in preceding years, certain Regional Committees distributed part of their retained funds amongst the Local Councils that fall under their remit. Whilst no reference to the distribution of surplus funds is made in the Regional Committee Regulations, according to DLG, since Regional Committees generate their own funds, they are free to decide how to dispose of them, as long as this is done in a legal way.

Verifications carried out on the accounting treatment adopted by Local Councils for the recording of such funds revealed the following:

a. Funds received were not always allocated to a specific project, but were utilised to finance day-to-day operations.

b. Local Councils recognised such amounts as income received rather than deferred income and amortised accordingly. Thus, audit adjustments were passed to rectify this error.

Receivables

Accounts receivable, also known as debtors, refer to the total dues that the Council is owed from third parties, mainly being pending balances from LES, as well as reimbursement of expenses incurred under a specific scheme and/or project issued by DLG or other Governmental institutions. Being the major current asset of the Council, effective management of accounts receivable is of great importance as this increases the Council's cash flow, hence leading to sound financial flexibility. A periodic review of accounts receivable and a proper follow up is mandatory; however, the following shortcomings were still noted during the audit process:

a. Included with receivables were amounts that have been pending for several years, some of which are no longer recoverable.

b. The receivable amount as recorded in the books of account differed from that confirmed by the respective debtor.

c. Documentation to substantiate the provision for certain doubtful debts, accrued income, as well as prepaid expenditure, was not provided for audit purposes, thereby limiting the audit testing that could be carried out in this respect.

d. Incorrect calculation of the provision for doubtful debts leading to over or understatement of the respective balance. Instances were also encountered whereby upon the settlement of debtors, the provision previously recognised thereon was not reversed.

e. At times, the provision for doubtful debts recorded in the books of account was of a generic nature rather than directly linked to specific outstanding payments.

f. The receivables control account included negative balances.

g. Certain Councils are still owed amounts in respect of trenching works carried out between years 2009 and 2011 on behalf of Water Services Corporation.

Payables

Maintaining strong control over accounts payable can contribute to effective working capital management. Hereafter are the main internal control failures identified in this area during audit testing.

a. Regular reconciliations with suppliers' statements were not carried out, with the consequence that amounts included in the financial statements were not accurate. This also implies that discrepancies were not investigated.

b. Payables included overdue balances, as well as accrued costs, which were brought forward from previous years and were never followed up.

c. Invoices and payments relating to the year under review were either not posted in the books of account, thus resulting in incorrect liabilities being recorded, or posted twice.

d. Debit balances were included in the list of creditors, which amounts at times were brought forward from previous years. These represented either overpaid amounts to suppliers or payments against which an invoice was not accounted for.

e. Certain Councils were still unable to distinguish between creditors and accrued expenditure.

f. Incorrect disclosures of short-term and long-term portions of liabilities were noted.

g. Disputes with a number of suppliers have been ongoing for years and still not resolved.

Personal Emoluments and Allowances

Audit verifications carried out on personal emoluments revealed that internal controls are still lacking, indicating that little or no monitoring is in place to ensure efficient financial management in the respective areas. Below is a list of the common shortcomings identified during the audit process.

a. Reconciliation of the books of account with the statutory returns submitted to the Inland Revenue Department was either not being performed or not given due importance by the Councils. Differences encountered are illustrated in **Appendix D**.

b. Income tax collected on behalf of the employees, as well as national insurance contributions, were in certain cases remitted to the Inland Revenue Department months after the statutory due date. In line with Article 15(1) of Legal Notice 88 of 1998, such payments are to be effected by the last working day of the month following that during which the emoluments were paid.

c. Not all employees have a signed contract of employment in line with their present conditions of work.

d. Accumulated leave carried forward from 2016 to 2017 by a number of employees, exceeded the stipulated threshold of 48 hours; in one case, the respective employee accumulated an aggregate of 520 hours.

e. Payment of overtime by two Local Councils was not formally approved.

f. Some Councils were not in possession of the Payee Status Declaration forms (FS4) of all their Councillors. Consequently, it could not be ascertained that the applicable tax deduction rates were correct.

g. Cases were noted whereby allowances and/or emoluments paid to the Council's employees were considered as income falling under part-time regulations and thus incorrectly taxed at the rate of 15%.

h. Computations of personal emoluments, including performance bonuses, honoraria and allowances, were at times inaccurate.

i. Statutory tax returns were either incomplete, or not filled in properly.

j. Two ex-Mayors are still prolonging the refund, representing the overpayment in honoraria effected in their favour in 2010, following the revocation of the upward revision, the year after.

Cash and Cash Equivalents

Audit testing carried out on cash and cash equivalents revealed little or no internal controls in this area. The following relate:

a. A number of Local Councils were either not preparing bank reconciliations or these were not being carried out on a monthly basis.

b. Where reconciliations were performed, there was not always evidence that they were being reviewed and approved by the ES.

c. At times, attempts were made to reconcile the bank balance manually with the books of accounts rather than through the accounting software; however, the resulting discrepancies remained unreconciled. Such discrepancies emerged from one or more of the following shortcomings:

Stale and/or cancelled cheques not written off and reversed from the accounting system

Bank statements not covering up to year-end

Transactions recorded more than once in the nominal ledger

Encashed cheques still included in the bank reconciliation as unpresented

Cheques issued and receipts deposited in 2017 recorded in the 2016 nominal ledger

Cheque values in the bank reconciliation not equal to respective amount on cheque images

Investment income received, as well as bank charges, not recorded or accrued for

d. Delays were noted in the bank deposit of cash and cheques received by the Local Councils; thus, not in line with the Local Councils (Financial) Procedures.

e. This year it was once again noted that in some cases, Mayors and/or ESs, who were no longer in office, were still included as representatives of the bank accounts held by the Councils.

f. Despite that Local Councils are non-taxable entities, instances were again encountered whereby tax was withheld on interest received on the savings deposit accounts.

g. Pre-signed cheques, carrying either one or two signatures, were also identified. This is a serious control deficiency, where an unauthorised payment can be issued by any employee having access to the respective cheque book.

Shortcomings in petty cash included:

- negative balance at year-end;
- discrepancies between physical cash in hand and respective balance in the books of account;
- expenditure lacking necessary details or not brought to the Council's attention for approval; and
- cash held by certain Councils exceeded the maximum threshold.

Compliance Issues

Finalisation of Annual Financial Statements

The Local Councils (Audit) Procedures 2006 (P2.05) and instructions issued by DLG through Circulars require local authorities to draw up and submit to the Auditor General:

a. the financial statements signed by the Mayor and ES by not later than 17 February following the end of the financial year;

b. the audited financial statements and management letters by the stipulated deadline of 28 April 2017.

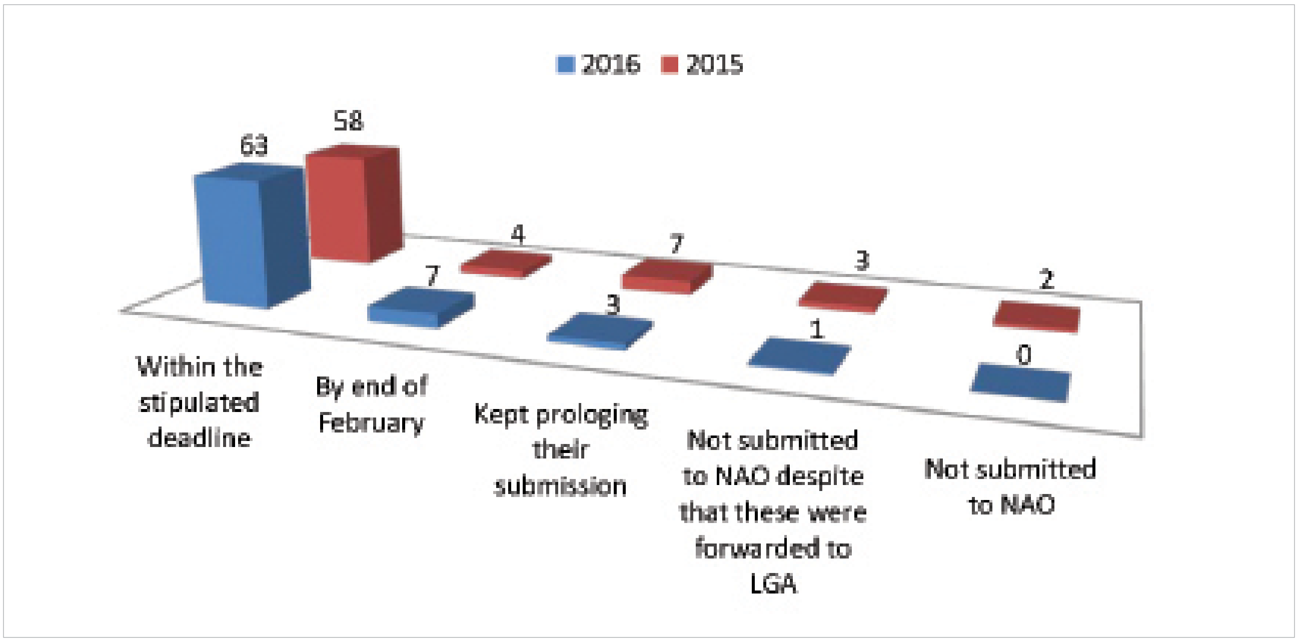
Financial Statements are to consist of the:

a. Statement of the Local Council Members' and ES's responsibilities;
b. Statement of Comprehensive Income;
c. Statement of Financial Position;
d. Statement of Changes in Equity;
e. Statement of Cash Flows; and
f. Notes to the Financial Statements.

The stricter stance adopted by DLG during the preceding year, in respect of those Local Councils that did not adhere to the respective deadlines, was fruitful. An improvement was noted in the number of Local Councils[9] that strived to deliver the unaudited financial statements by the established timeframe. On the other hand, in the case of Regional Committees, only two (2015: 3), namely the Central and the Northern Regions, have filed the unaudited financial statements on time. Moreover, the unaudited financial statements of LCA were not submitted to NAO. These were only forwarded to LGA on 16 March 2017. **Figure 2** refers.

[9] During 2016, 61 Local Councils (2015: 54) abided by the stipulated deadline.

Figure 2 - Submission of Unaudited Financial Statements



NAO acknowledges this positive development; however, once again it was noted that in certain instances, the financial statements presented for audit purposes were not of the expected standard, besides containing a number of errors. This is evident from the significant audit adjustments passed to correct the material misstatements encountered by LGAs and the various shortcomings highlighted in the respective management letters.

Notwithstanding the substantial amounts of money that certain Councils are spending on the procurement of accountancy services, this Office has to emphasise once again that such services are not yielding the desired results. To this effect, NAO reiterates that DLG is to consider the recruitment of a number of qualified accountants by the Department rather than outsourcing this function, thus rendering the process more cost-effective and manageable. This would bring about harmonisation in the preparation of accounts, as well as enhancing communication with the same accountants.

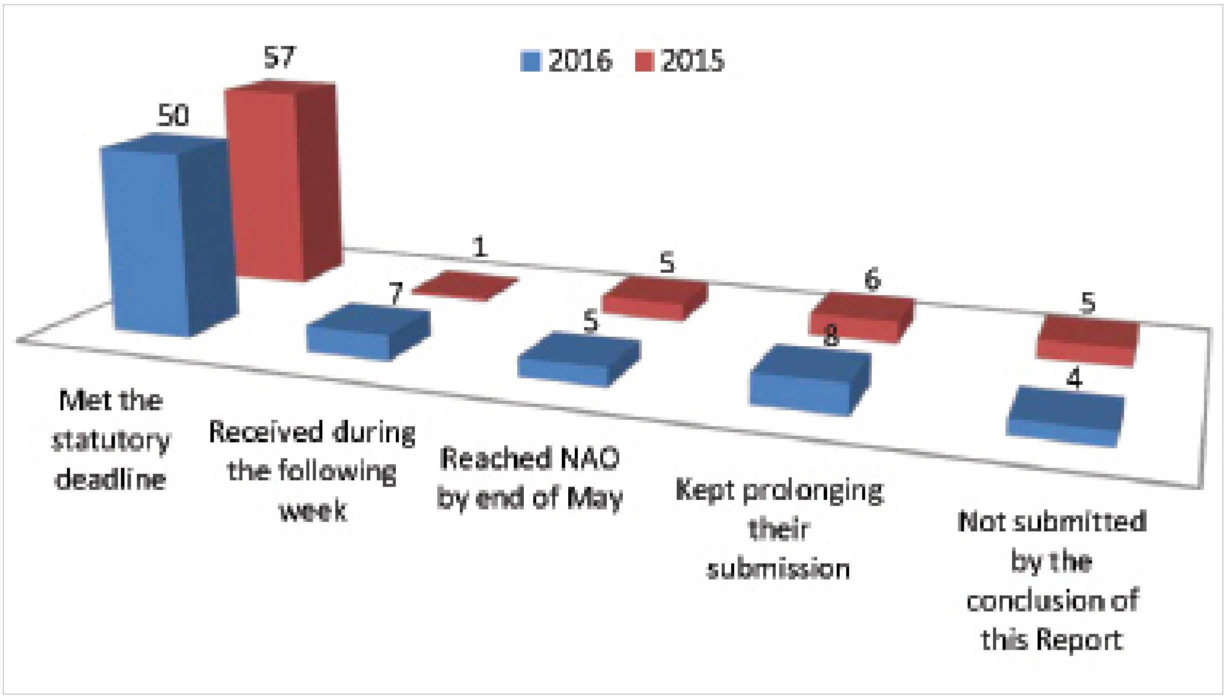
It is also imperative that the Councils understand that the preparation of reliable and timely accounting information is crucial to the efficient operation of the Council. The effort exerted to submit the required documentation by the stipulated deadline is rendered futile, if the data included therein is not properly compiled and reflects a true and fair view of the financial situation.

Greater attention is expected to be given to the bookkeeping function and Councils should not rely on the year-end audit to reveal errors in the preparation of their accounts. In line with Circular No. 4/2017, Councils are to ensure that the person in charge of the preparation of the accounts, apart from being in possession of the warrant of a Certified Public Accountant, should also be abreast with the applicable Accounting Standards and pertinent regulations. DLG is also to take a stricter stance against those Councils whose financial statements are not properly prepared.

Audit Report and Financial Statements

Unfortunately a decline was noted in the number of Local Councils and Regional Committees that managed to submit the respective audited financial statements on time, by the established deadline, i.e. 28 April 2017. **Figure 3** refers. Such deterioration is unacceptable to this Office and thus, Local Councils and Regional Committees are expected to take all necessary action to ensure the timely submissions of proper and accurate financial statements.

Figure 3 - Presentation of Audited Financial Statements and Management Letters



Lack of Response to the Management Letter

Ten Local Councils and the South Eastern Regional Committee exceeded the stipulated deadlines set out in Article 8 (2) of the Local Councils (Audit) Regulations, 1993 to submit their response to the management letter. The Northern Regional Committee did not provide a reply; this denotes a sense of irresponsibility. A copy of the reply of another seven[10] Local Councils as well as that of the Southern Regional Committee was only forwarded to NAO by either DLG or LGA, as the respective Councils and Committee did not submit their response to the Auditor General.

At times, the respective replies were only signed by either the ES or the Mayor. This is against the relevant regulations, whereby both officials are obliged to sign.

[10] One of these replies, sent by the respective Council, reached NAO on 1 November 2017.

Donations in Money or in Kind

The prohibition of any donation, whether in money or in kind, provided for in Article 63A of the Local Councils Act, imposed certain difficulties in view that Local Councils were not even allowed to present a memento of gratitude to local and foreign dignitaries. Similar concerns were encountered when, from time to time, Councils are invited by the local school administration for the Prize Day, whereby the former will be requested to donate educational material, namely books, as a reward to those students who during the year excelled in particular areas.

Acknowledging that Local Councils have to fulfil their social and cultural obligations, for exceptional circumstances mentioned above, following consultations with the main stakeholders, DLG conceded the awarding of a small memento not exceeding the threshold of €200[11], as well as financial assistance, of up to €200 per year, to schools for the procurement of educational material.

Councils are obliged to safeguard the locality's traditions; however, public funds are not meant to finance initiatives organised by third parties. This was reiterated in Circular No. 38/2016 issued by DLG. However, during 2016, at least six Local Councils, as well as the Southern Regional Committee still incurred expenditure on items which constitute a donation. **Appendix E** refers.

Expenditure incurred with respect to the organisation of Jum il-Lokal

Expenditure paid by five Local Councils in respect of Jum il-Lokal, exceeded the threshold of €3,500 or 0.5% of the annual Government allocation, whichever is the highest, as stipulated in Memos 122/2010 and 8/2011. **Table 7** refers.

Table 7: Expenditure incurred on Jum il-Lokal in excess of the stipulated Threshold

Local Council	Actual expenditure incurred €	Maximum stipulated threshold €	Amount overspent €	Council's reply to the Management Letter
Gżira	6,127	3,500	2,627	The €3,500 limit is to be respected. Events Organiser was informed that this is the maximum that can be spent for Locality Day. The Council shall not be paying more than the stipulated amount.
Mellieħa	6,585	5,344	1,241	Point not properly addressed.
Rabat (Gozo)	8,914	3,500	5,414	Efforts are being done by the Council in order to keep all expenditure within budget.
Swieqi	10,053[12]	3,500	6,553	The activities organised were not all related to Jum il-Lokal but consisted of different functions, such as sports day and youth day. Moreover, most of these expenses were recovered from sponsorships.
Żebbuġ (Gozo)	7,965	3,500	4,465	Point not addressed.

[11] This concession was communicated through Directive No. 5/2016 issued on 24 November 2016. This was followed by slight amendments through Directive No. 5A/2016 dated 22 December 2016, however the substance of the directive remained the same.

[12] Expenditure of €10,053 was incurred to organise a three-day festival in Swieqi, which is being equated to the celebration of Jum il-Lokal.

Amounts expensed on Christmas Lunch or Reception above the stipulated Threshold

The maximum threshold, set in respect of expenditure incurred for Christmas lunch or reception, was once again surpassed . **Table 8** refers.

Table 8 – Amount expensed exceeding the stipulated Threshold

<table>
<tr><th>Local Council</th><th>Authorised cost per person</th><th>Number of individuals as per LGA</th><th>Amount that should have been incurred by the Council</th><th>Amount actually incurred by the Council</th><th>Threshold stipulated in Memo 8/11 exceeded by</th><th>Council’s Reply</th></tr>
<tr><td>Gżira</td><td rowspan="4">Dinner/ Lunch €30 per head</td><td>16</td><td>€480</td><td>€521</td><td>€41</td><td>The Council noted that the capping was surpassed, upon the payment for the meal. The Council was considering an option for a buffet meal in Mellieħa with a cost within the threshold, but it decided to choose a closer place instead.</td></tr>
<tr><td>Ħamrun</td><td>17</td><td>€510</td><td>€692</td><td>€182</td><td>The Council accepts auditor’s recommendations.</td></tr>
<tr><td>San Ġwann</td><td>13[13]</td><td>€390</td><td>€423</td><td>€33</td><td>The venue had a fixed price of €32.50 for a buffet meal, which could not be changed. As a solution, the receipt was issued for 13 people instead of 14, while other non staff or Council members paid separately.</td></tr>
<tr><td>LCA</td><td>10</td><td>€300</td><td>€447</td><td>€147</td><td>Point not addressed.</td></tr>
</table>

Further to the above, Gudja Local Council held two Christmas related events comprising a dinner and Christmas drinks, incurring an expenditure of €533, out of which, around €100 worth of drinks are still stored at the Local Council premises to be used for future events. This is in breach of Circular No. 46/2016 which clearly specifies that Local Councils are sanctioned to organise only one Christmas event, either a dinner or a reception.

It also transpired that for the reception held by Pietà Local Council, 40 to 50 persons were invited, incurring a total expenditure of €790. This implies that the respective Council invited individuals, such as service providers and partners of employees and/or members, who were not entitled to attend for such activity.

[13] The Council indicated that the number of people at the meal was 14.

Lack of Compliance with regards to Statutory Documentation

The passive attitude exerted by certain ESs was once again highlighted in the lack of compliance noted in the publication of official records[14], which are required to be uploaded on the Councils' websites, in line with pertinent regulations. In view that this non-adherence was becoming the norm, on 3 October 2016, through Circular No. 28/2016, Director (DLG) warned that action will be taken against those ESs who fail to take the necessary measures to upload any missing statutory documentation by 7 October 2016. Continuous monitoring is being carried out by DLG.

However, cases were still encountered whereby, the respective documentation, such as Council minutes, quarterly reports and business plans was not even compiled by the conclusion of the audit, i.e. half way through 2017.

Travel Report not drawn up

Official duties abroad were not substantiated by a travel report, giving a brief description on the purpose of the visit, the benefits achieved there from, the delegate's personal remarks, as well as the issues to be followed up in Malta even though, in certain cases, a material amount was spent on the respective travel.

Upkeep of Council's Minutes

The upkeep of proper Council's minutes is one of the critical responsibilities vested with the ES, especially when considering that this is the main source of documentation giving a detailed account of what was discussed and approved during Local Council and Committee meetings. However, minutes were not always properly maintained. The following relate:

a. At times minutes lacked the time when meetings were adjourned. Due to such omission, it could not be ensured that the respective duration complies with Memo 68/2009 and Section 43(3) of the Local Councils Act.

b. Date of subsequent meeting was not set at the end of every meeting.

c. Council's minutes were not bound on an annual basis, as guided through memos issued by the Department.

d. Minutes uploaded on the Council's website did not indicate that they were signed.

e. In a number of instances, meetings were held at intervals exceeding the five-week timeframe set out in Article 43(2) of the Local Councils Act. At times, this was due to the fact that no quorum was reached.

Discrepancy between Budgeted and Actual Expenditure

A number of Local Councils again exceeded their budget in various categories of expenditure. This implies that in certain instances the annual budget is not being compiled with due diligence but is simply prepared as a way of formality.

The Council is to perceive the annual budget as a tool to control and curtail its expenditure. In the event that any expenditure category requires additional funds than budgeted, an adjustment, which is to be duly authorised by the Council in line with the Local Councils (Financial) Procedures[15], will be necessary.

[14] These include but not limited to quarterly returns, annual budget, three-year business plan, meetings' minutes, audited financial statements, as well as reply to the management letter.

[15] Article P1.07(b.05).

Full Allowance paid to Councillors despite their absence during Council Meetings

With effect from 1 January 2010, following amendments to Article 32 of the Local Councils Act, all Councillors were entitled to an annual allowance of €1,200. Such allowance, which was introduced with the aim of compensating for any expenditure incurred by Councillors whilst undertaking Council's duties, is to be paid proportionate to the number of meetings a Councillor has attended in any calendar year. However, instances have again been encountered, whereby Councillors were still paid the full yearly allowance, even though a letter of excuse justifying the reasons for their absenteeism was not provided.

By means of Circular No. 6/2017 issued on 6 February 2017, DLG clarified that no deductions are to be effected from the respective allowances in cases where absenteeism is due to duties abroad, sickness attested by medical certificate and any other circumstances in respect of which the ES was previously informed and has been justified by the Council.

Article 18 of the Local Councils Act, also requires the respective Councils to notify the Minister, of those Councillors who were absent for four meetings, or in aggregate more than one-third of the meetings, organised within a period of six-months. However, various instances were noted whereby the Minister was not notified accordingly.

Membership Fees paid to Local Action Groups

Set up in 2009, upon the implementation of the LEADER programme, the aim of the Local Action Groups, namely GAL Xlokk, Majjistral Action Group and Gozo Action Group, is to improve the development potential of rural areas, by bringing together the different public and private local actors. The main responsibilities of such groups is to co-ordinate the design of the local development strategy, as well as its implementation. To take part in such schemes, Local Councils have to become a member of one of these Local Action Groups and are obliged to pay a membership fee, which fee is specifically determined by the latter and may vary from one Action Group to another. However formal authorisation from DLG was not always sought prior to effecting payments for such membership fee.

With the aim of enhancing transparency, through Circular No. 19/2016 dated 1 September 2016, DLG issued specific guidelines that are to be followed by every Council interested in joining any of the Local Action Groups. However, Local Councils were still not provided with a copy of the annual audited financial statements of the respective Local Action Group, in line with the cited Circular. Moreover, in their financial statements, Local Councils did not include a note, giving a brief cost-benefit analysis of the initiatives undertaken as part of the LEADER programme, as required by the pertinent Circular.

Worldwide Personal Accident Insurance Cover

Despite previous years' recommendations, a number of Local Councils still extended the group personal accident insurance policy to a worldwide basis instead of limiting it to the Maltese territories. Although such coverage may not give rise to additional premium cost, should a claim occur, this will lead to a higher insurance premium cost.

Other Particular Concerns

Mid-term Audits

In line with the Local Councils (Audit) Regulations, whenever there is a change in the position of the ES within a particular Local Council or Regional Committee, a mid-term audit is required. This should serve as an independent handover exercise to the new incumbent. The responsibility of informing the Auditor General for conducting a mid-term audit is entrusted in the Mayor.

A number of Councils that during the year were obliged to carry out a mid-term audit due to a change in the ES, refrained from requesting such an exercise. On the other hand, those who adhered to the cited legislation, delayed the preparation of the financial statements and the submission of the related documentation. Consequently the audit process was prolonged unnecessarily to the extent that by the time the mid-term audit was concluded, the year-end financial audit for 2016 was also almost finalised. This resulted in an additional financial burden on the respective Councils, who still have to pay for the exercise carried out, without any value added.

This non-compliance is unfortunately becoming the norm and unless the current regulations are amended, Councils are expected to abide by the pronounced guidelines. By the time this report went for publication, NAO is informed that DLG was in the process of publishing a standard operating procedure relating to the handover exercise that is to be adopted upon the appointment of a new ES. The Department is further encouraged to assess whether the conduct of a mid-term audit is adding any value to the Councils’ financial transparency and accountability. The necessary action, by initiating discussions at Ministerial level, is to be considered if such full-blown exercise is resulting to be futile.

Performance Indicators

As part of the Local Government Reform consultation process carried out in 2009, performance indicators covering eight critical areas were identified. However, although substantial work was carried out, this project is still not finalised.

Acknowledging that such indicators are of particular importance in assisting Local Councils to monitor the actual level of performance, and determine how they might become more efficient, effective and deliver more value for money, during 2014, DLG embarked on a new project titled ‘A Partnership for Creative Governance’. Financed under the Norway grants programme, this project includes, as key stakeholders LCA, the Norwegian Association of Local and Regional Authorities and the Centre of Expertise for Local Government Reform within the Council of Europe. The main objective of the assignment was to enhance the Local Government system in Malta, through the implementation of tools already adopted by the Council of Europe, with the key focus being on the relation of the performance indicators within the legal requirements, in terms of both Local Councils’ direct responsibilities, as well as the financial regulations.

Under this project, three reports titled ‘Partnership for Creative Governance’, ‘Training Needs Analysis’ and ‘National Training Strategy’ were compiled and published. Furthermore, key performance indicators have been established and are currently under discussion within the respective Ministry. Eventually these would also enable NAO to carry out value for money audits as requested by standing regulations. Moreover, under the Leadership Academy Programme, forming part of the Creative Governance Project, funded by the European Economic Area Norway Grants, Mayors and Executive Secretaries received training in various disciplines to enhance their leadership skills at local level. NAO commends such training initiatives.

Funding Initiative to Regional Committees

Through a funding initiative, Regional Committees are empowered to carry out and develop an integrated approach for the localities within the five regions by identifying strategies that need to be carried out for the cultural, social and economic development in the localities within the region by means of a Cultural, Social and Economic Plan for each respective region. To this effect, a fund amounting to €100,000, which was equally allocated to the five Regional Committees was established. The main aim of this fund was to collate the five regional plans and publish a national strategic plan within the context of the National Policy for Local Government of the Maltese Islands. Regional Committees were to submit their plans by 24 March 2017. The Central, Northern and the South Eastern Regional Committees have presented a report and were awarded €200,000 each to commence with the implementation plan. On the other hand, the Southern Regional Committee had to cancel the tender and re-issue it, whilst the Gozo Regional Committee has so far submitted a preliminary report.

Appendix A – Financial Allocation

Table 1: Income received by Local Councils

Local Council	Government Allocation 1 January – 31 December 2016	Other Supplementary Income received from Central Government	Other Income generated by the Council	Total
	€	€	€	€
Attard	613,914	89,295	51,172	754,381
Balzan	265,839	22,631	49,024	337,494
Birgu	276,460[19]	21,473	94,670	392,603
Birkirkara	1,186,248	251,434	300,268	1,737,950
Bormla	442,770	49,753	30,385	522,908
Birżebbuġa	670,388	72,691	45,414	788,493
Dingli	319,780	94,213	29,722	443,715
Fgura	546,450	81,549	35,851	663,850
Floriana	344,871	21,679	54,691	421,241
Fontana	140,072	8,511	4,125	152,708
Gudja	269,045	20,718	13,147	302,910
Gżira	504,543	30,752	61,672	596,967
Għajnsielem	317,170	40,094	17,785	375,049
Għarb	219,061[16]	73,651	127,995	420,707
Għargħur	231,006[17]	45,345	16,439	292,790
Għasri	169,357[17]	6,502	2,060	177,919
Għaxaq[18]	321,138	-	-	321,138
Ħamrun	620,800	39,432	128,118	788,350
Iklin	234,704	50,597	19,185	304,486
Isla	278,299	21,538	129,768	429,605
Kalkara[18]	248,228	-	-	248,228
Kerċem	253,463	58,138	16,892	328,493
Kirkop	196,848[17]	20,040	132,280	349,168
Lija	246,732	26,078	31,897	304,707
Luqa	380,306[17]	105,929	43,103	529,338
Marsa	469,346	85,525	22,780	577,651
Marsaskala	737,138	162,929	61,265	961,332
Marsaxlokk	346,943	55,444	21,524	423,911

[16] The allocation disclosed in the financial statements amounts to €218,592. This does not include the additional allocation of €467 which amount could not be traced in the accounts.

Appendix A – Financial Allocation *cont./*

Table 1: Income received by Local Councils *cont./*

Local Council	Government Allocation 1 January – 31 December 2016 €	Other Supplementary Income received from Central Government €	Other Income generated by the Council €	Total €
Mdina	195,489[17]	19,707	44,643	259,839
Mellieħa	1,074,638	338,884	70,422	1,483,944
Mġarr	418,167	77,058	20,200	515,425
Mosta	1,099,687	181,875	129,065	1,410,627
Mqabba	258,206	81,267	11,962	351,435
Msida	512,139	95,979	71,793	679,911
Mtarfa	250,479	57,229	19,122	326,830
Munxar	223,885	93,444	11,192	328,521
Nadur	434,414	80,070	25,603	540,087
Naxxar	878,622	169,144	76,303	1,124,069
Paola	663,576	27,132	96,453	787,161
Pembroke	378,462	32,889	16,839	428,190
Pietà	287,574	85,348	134,431	507,353
Qala	269,956	45,640	11,072	326,668
Qormi	1,066,259	130,647	151,055	1,347,961
Qrendi	335,651[17]	22,512	26,495	384,658
Rabat (Gozo)	519,565	129,920	27,701	677,186
Rabat (Malta)	1,023,045	81,557	42,919	1,147,521
Safi	234,335	22,022	22,799	279,156
San Ġiljan	656,378	26,412	127,269	810,059
San Ġwann	700,899	39,883	57,199	797,981
San Lawrenz	152,967	91,721	15,848	260,536
San Pawl Il-Baħar	1,314,346	242,205	117,485	1,674,036
Sannat	217,883	56,242	16,245	290,370
Santa Luċija	316,185	29,758	25,105	371,048
Santa Venera	397,034[17]	69,995	41,766	508,795
Siġġiewi	749,219	16,420	126,432	892,071
Sliema	1,013,362	68,691	257,641	1,339,694
Swieqi	573,156	186,489	79,252	838,897
Ta' Xbiex	208,170	47,530	24,969	280,669
Tarxien	477,084	54,182	28,825	560,091

[17] Amount does not tally with the figures disclosed in the financial statements as certain deductions imposed by DLG were set off against the annual allocation.

Appendix A – Financial Allocation *cont./*

Table 1: Income received by Local Councils *cont./*

Local Council	Government Allocation 1 January – 31 December 2016	Other Supplementary Income received from Central Government	Other Income generated by the Council	Total
	€	€	€	€
Valletta[18]	722,932	-	-	722,932
Xagħra	483,138	126,780	12,530	622,448
Xewkija	335,210[19]	69,597	11,833	416,640
Xgħajra	175,183	32,806	3,510	211,499
Żabbar	821,047	33,437	39,729	894,213
Żebbuġ (Gozo)	433,074	73,059	11,199	517,332
Żebbuġ (Malta)	764,995	137,689	59,004	961,688
Żejtun	789,234	83,802	144,911	1,017,947
Żurrieq	723,439	90,540	73,356	887,335
Totals	**33,000,000**	**4,724,342**	**4,006,570**	**41,730,912**

Source: 'Government Allocation' – as per reports provided by DLG.
'Other Supplementary Income received from Central Government' and 'Other Income generated by the Local Council' – as disclosed on the face of the Statement of Comprehensive Income, even though at times these did not tally to the balances recorded in the respective note.

Note: 'Other Income generated by Local Councils' also includes finance income, such as interest earned on bank balances.

[18] In case of Għaxaq, Kalkara and Valletta, only the Government allocation was included since the audited financial statements were not submitted to the Auditor General by the date this Report was published.

[19] Additional allocation was included with other Government income.

Appendix A – Financial Allocation *cont./*

Table 2: Income generated by Regional Committees

Regional Committee	Income generated	Reimbursement of payroll	Total
	€	€	€
Central Regional Committee	2,300	181,582	183,882
Northern Regional Committee	259,508	55,447	314,955
South Eastern Regional Committee	170,562	201,003[20]	371,565
Southern Regional Committee	40,998	110,660	151,658
Totals	**473,368**	**548,692**	**1,022,060**

[20] Of this balance, the amount of €111,580 relates to LESA operational costs recharging.

Appendix B – Reports that were either Qualified with an 'Except For' Audit opinion or highlighting an 'Emphasis of Matter'

Column 1 depicts those localities which during the year under review received LES income from the respective Joint Committee. LGAs were unable to determine the amount of additional income that the Council is entitled to receive, since the audited financial statements of the Joint Committee for the financial year 2016 were not yet available. Furthermore, there were no alternative acceptable audit procedures that LGAs could perform to obtain reasonable assurance on the completeness of the share of income or expenses recorded in the financial statements.

Column 2 shows the Councils where the financial statements for the year under review were not prepared in their entirety in accordance with IFRSs, mostly since disclosure requirements were not complied with. Very often such disclosures related to the requirements of IAS 1 – Presentation of Financial Statements, IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, IAS 16 – Property, Plant and Equipment, IAS 17 – Leases, IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, IAS 24 – Related Party Disclosures, IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, IAS 38 – Intangible Assets, IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosures.

Column 3 highlights the Councils where other specific issues on an individual basis were encountered.

Column 4 illustrates the localities where the going concern assumption, used in the preparation of the financial statements, is dependent on further sources of funds other than the annual financial allocation by central Government, on the collection of debts due to the Councils, and on the continued support of the latter's creditors. Any adverse change in either of these assumptions would hinder the Council in meeting its financial obligations as they fall due, without curtailing its future commitments.

Local Council	Column 1	Column 2	Column 3	Column 4	
				'Except For' Audit Opinion	'Material Uncertainty related to Going Concern'
Attard	x				
Balzan	x				
Birkirkara	x	x			x
Birżebbuġa	x				x
Bormla		x			
Dingli	x	x	x		x
Fgura		x	x		
Floriana			x		
Gżira	x	x	x		
Għajnsielem			x		
Għarb			x		

Appendix B – Reports that were either Qualified with an 'Except For' Audit opinion or highlighting an 'Emphasis of Matter' *cont./*

Local Council	Column 1	Column 2	Column 3	Column 4	
				'Except For' Audit Opinion	'Material Uncertainty related to Going Concern'
Għargħur	x	x	x		
Iklin	x	x			
Isla			x		
Kerċem					x
Kirkop		x	x		
Lija	x	x			
Luqa			x		
Marsa		x	x		
Mdina	x	x	x		x
Mellieħa	x	x	x		
Mġarr	x	x	x		
Mqabba			x		x
Msida		x			x
Mtarfa	x	x	x		
Nadur					x
Naxxar	x	x	x		
Paola		x	x		
Pembroke	x	x	x		
Pietà		x			
Qrendi			x		
Rabat (Gozo)			x		x
Rabat (Malta)	x	x	x		
San Ġiljan	x	x			
San Ġwann	x				
San Lawrenz					x
Sannat					x
San Pawl il-Baħar	x	x	x		
Santa Venera	x	x			
Siġġiewi					x
Sliema	x				
Swieqi	x				
Ta' Xbiex	x				
Tarxien	x		x		
Xagħra			x		x
Xewkija			x		
Xgħajra		x	x		

Appendix B – Reports that were either Qualified with an 'Except For' Audit opinion or highlighting an 'Emphasis of Matter' *cont./*

Local Council/ Regional Committee/ LCA	Column 1	Column 2	Column 3	Column 4	
				'Except For'Audit Opinion	'Material Uncertainty related to Going Concern'
Żabbar	x		x		
Żebbuġ (Gozo)					x
Żebbuġ (Malta)			x		x
Żejtun	x	x			
Central Regional Committee		x	x	x	
South Eastern Regional Committee			x		
LCA		x	x	x	

Note: Since no audit opinion was provided for Birgu, Mosta and the Northern Regional Committee, these have been excluded from the above table.

Appendix C – Contracts entered into by the then Joint Committees still in use by Regional Committees

Regional Committees[21]	Contract	Amount expended during 2016 €	Details	Reply to the Management Letter
Central	Prosecution services	40,517	The Committee expects that this contract is to be taken over by LESA.	The contracts initially entered into by the then Joint Committee had to be absorbed by LESA. DLG had been informed about the Committee's position and is waiting for feedback in order to proceed accordingly.
	Rental of administration office and tribunal premises in San Ġwann	32,414	Agreement for tribunal rent expired in November 2016 and was extended for a further year. The Region is drafting an agreement for a three-year lease.	
Northern	Warden services	36,251	The last signed agreement was dated December 2012. This agreement was only valid for one year starting from 1 September 2011 and no new offers were issued or extensions made.	The Committee did not provide a reply to the management letter.
	Authorised Officer services	23,042	The contract had lapsed three years ago and the original tender was entered into by the previous Joint Committee.	

[21] The audited financial statements and management letter of the Gozo Regional Committee were not submitted to the Auditor General by end October 2017, being the ultimate deadline set by NAO for analysing such documents.

Appendix D – Inconsistency in Payroll Reconciliation

Local Council/Regional Committee	Gross Personal Emoluments including Employer's Share of NI as per		
	Accounting Records	FS7	FS5s
	€	€	€
Balzan	64,586	63,440	63,440
Birgu	92,163	92,162	92,321
Bormla	123,710	123,710	123,658
Dingli	70,602	70,582	70,468
Fontana	43,564	45,101	43,982
Għajnsielem	85,917	83,551	83,863
Għarb	69,619	71,961	71,961
Kerċem	72,275	72,161	72,093
Lija	87,460	87,454	85,858
Marsaxlokk	99,886	99,332	99,331
Mellieħa	130,788	130,792	130,737
Mġarr	81,119	81,117	80,916
Mtarfa	74,844	74,492	74,495
Nadur	79,035	79,281	79,282
Naxxar	162,844	162,902	162,896
Paola	137,369	137,421	137,420
Qrendi	78,145	78,145	78,008
San Lawrenz	50,724	50,442	50,442
Siġġiewi	118,969	118,902	118,902
Xagħra	88,653	88,501	86,101
Xewkija	71,727	71,148	71,089
Żabbar	148,482	148,382	148,382
Żebbuġ (Malta)	134,206	136,035	136,035
Northern Regional Committee	87,854	87,809	77,839

Note: The figures as included in the table above were extracted from the accounting records after taking into consideration any audit adjustments passed during the course of the audit, as well as after adjusting for any opening and/or closing accruals and prepayments.

Appendix E – Donations paid in breach of Pertinent Regulations

Local Council/ Regional Committee	Donation provided		Council's Reply
	Amount €	Description	
Mellieħa	400	Contribution towards Festa tal-Qargħa Aħmar	The Council considers these modest contributions as a step in fulfilling its social and cultural obligations within the locality.
Pietà	190	Confectionery goods for a children's institute	Every year, the Council organises a small Christmas Party for the children who are residents at the institute. This is reckoned as a social issue and hence it is not considered as a donation by the Council.
	178	Gifts to a children's institute	
Rabat (Gozo)[22]	125	Books	The Council uses the books it published in 2012 as gifts to local and foreign delegations instead of purchasing other gifts.
Rabat (Malta)	571	Printing of Christmas cards and postage thereof	The Council does not agree that printing of Christmas cards constitutes a social and cultural event. Regarding the other points, the Council agrees in being more considerate in spending its funds.
	460	Services of mobile toilets and emptying of litter bins in an activity held by a voluntary organisation	
	25	Basket of flowers, fruits and vegetables for an annual flower show	
San Pawl il-Baħar[22]	94	Hire of mobile toilets for a charity event	Auditors recommendation noted for future activities.
	342	Hire of chairs and table in aid of the locality's band club	
	300	Rental of sound for a feast activity	

[22] The Council also collaborated in an activity held for charitable organisations, however, the amount incurred was not provided to LGA.

Appendix E – Donations paid in breach of Pertinent Regulations *cont./*

Local Council/ Regional Committee	Donation provided		Council's Reply
	Amount €	Description	
San Lawrenz	100	Donation to procure new lamps for school corridor.	The Council has noted the auditor's recommendations in respect of minor gifts and donations and will make the utmost to avoid such instances in the future.
	100	Concert held in the locality	
Żejtun	300	Medal for Ġieħ iż-Żejtun	The Council strictly adheres to the policy that no donations can be made. In fact, the medal for Ġieħ iż-Żejtun certainly does not constitute a donation since this is a token of appreciation given to one personality a year from the locality to acknowledge his/her voluntary work done within the Community. This medal has been given once yearly since 1994 and it would be unfair and unjust to classify this token as a donation.
	300	Complimentary drinks at a political club	These also do not constitute as donations but are part of an expense of the Żejt iż-Żejtun activity which without the numerous volunteers such an activity would not be possible.
Southern Regional Committee	433	AED machine to Dar tal-Providenza	The AED which was donated was approved during a Region meeting and minuted accordingly and the physical donation was done during the annual general meeting.

Note: The list is not exhaustive as it includes only those instances noted by LGA during testing of an audit sample.

The following is a list of Directives, Circulars and Memos issued by DLG during the years, which were referred to throughout the Report:

List of Directives	
Directive No. 1/2017	Accounting Treatments
Directive No. 5/2016	Donazzjonijiet – Irtirata u mibdula b'Direttiva 5A/2016
Directive No. 5A/2016	Irtirar ta' Direttiva Numru 5/2016 u sostituzzjoni tagħha
Directive No. 3/2016	Arranġamenti Finanzjarji bejn il-LESA, il-Kumitati Reġjonali u l-Kunsilli Lokali
List of Circulars	
Circular No. 16/2017	L-Indikatur tal-Qagħda Finanzjarja (l-FSI)
Circular No. 6/2017	Allowance lill-Kunsillieri
Circular No. 4/2017	Għeluq tas-Sena Finanzjarja
Circular No. 50/2016	Sejħiet għall-Offerti/Kuntratti dwar Manutenzjoni tad-Dawl fit-Toroq
Circular No. 46/2016	Struzzjonijiet għal matul il-festi tal-Milied
Circular No. 38/2016	Fondi Pubbliċi minfuqa għal Finanzjament ta' Għaqdiet
Circular No. 33/2016	Assigurazzjoni tal-Assi
Circular No. 28/2016	Applowdjar ta' Dokumenti fuq is-Sit www.lc.gov.mt
Circular No. 19/2016	Sħubija fil-LOCAL ACTION GROUPS
List of Memos	
Memo 10/2013	Kuntratti tal-Kunsilli Lokali
Memo 8/2011	Emenda għal Memo 122/2010: Ikliet/Riċevimenti organizzati mill-Kunsilli Lokali
Memo 122/2010	Ikliet/Riċevimenti Organizzati mill-Kunsilli Lokali
Memo 68/2009	Ħinijiet tal-Laqgħat

Included in the table hereunder, is a list of IASs and IFRSs that were referred to throughout the Report:

International Accounting Standard	
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 24	Related Parties
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
International Financial Reporting Standard	
IFRS 7	Financial Instruments: Disclosures

2016-2017 (to date) Reports issued by NAO

NAO Work and Activities Report

March 2017	Work and Activities of the National Audit Office 2016

NAO Audit Reports

December 2016	Annual Audit Report of the Auditor General - Public Accounts 2015
December 2016	Annual Audit Report of the Auditor General - Local Government 2015
December 2016	An Investigation of Property Transfers between 2006 and 2013: The Transfer of Land at Ta' L-Istabal, Qormi
December 2016	An Investigation of Property Transfers between 2006 and 2013: The Acquisition of 233, 236, and 237 Republic Street, Valletta
January 2017	Contribution of the Structural Funds to the Europe 2020 Strategy in the Areas of Employment and Education
February 2017	Information Technology Audit: Cyber Security across Government Entities
May 2017	Performance Audit: Protecting Consumers through the Market Surveillance Directorate's Monitoring Role
June 2017	Performance Audit: Procuring the State Schools' Transport Service
July 2017	An Investigation of Property Transfers between 2006 and 2013: The Transfer of the Property at 83 Spinola Road, St Julian's
July 2017	An Investigation of Property Transfers between 2006 and 2013: The Expropriation of the Property at Fekruna Bay, St Paul's Bay
September 2017	Performance Audit: Landscaping Maintenance through a Public-Private Partnership
October 2017	Performance Audit: Maintaining and Repairing the Arterial and Distributor Road Network in Gozo
November 2017	Follow-up Reports by the National Audit Office 2017
November 2017	Performance Audit: Outpatient waiting at Mater Dei Hospital
November 2017	Annual Audit Report of the Auditor General - Public Accounts 2016