

Report by the Auditor General on the Workings of Local Government

2017





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on the Workings of
Local Government

Public Accounts 2017

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List of Abbreviations

DLG	Department for Local Government
ES	Executive Secretary
FAR	Fixed Assets Register
FSI	Financial Situation Indicator
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IRD	Inland Revenue Department
IT	Information Technology
LCA	Local Councils Association
LES	Local Enforcement System
LESA	Local Enforcement System Agency
LGA	Local Government Auditor
NAO	National Audit Office
NBV	Net Book Value
PPE	Property, Plant and Equipment
PPP	Public-Private Partnership

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 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.
Working Capital	Current assets less current liabilities.

Foreword

Once again, in line with its legal requirement to conduct audits of all Local Councils in Malta and Gozo, all Regional Committees as well as the Local Councils Association, the National Audit Office is issuing its annual report on the Workings of Local Government during 2017. Indeed, in continuous collaboration with the private Local Government Auditors appointed by the National Audit Office and on the basis of the management letters sent to each audited entity as well as the relative reply thereto, the major concerns arising from the respective audits are highlighted in this publication. Indeed, our Report provides an opportunity to Local Councils to duly address such concerns and shortcomings in the best interest of their locality's citizens.

During the year under review, direct funds allocated by the Government to Local Councils, to be utilised mainly for landscaping and maintenance of parks and gardens, maintenance of roads and infrastructure, waste management as well as administration, aggregated to €35,000,000. Furthermore, the four Regional Committees that submitted the audited financial statements by time of publication generated income of €822,179. It is this Office's duty to provide ample assurance to Parliament and to our citizens that these funds have been utilised in line with prevailing financial rules and regulations.

The National Audit Office satisfactorily notes the continued efforts on the part of the Administration to ensure that Local Councils are given the necessary support thus enabling them to meet their various objectives and obligations. Moreover, the Office positively notes that the Local Government Good Governance Working Group, comprising the local government sector's main stakeholders, continued with its ongoing efforts to enhance good governance across all Local Councils. At the same time, the NAO reiterates that it is extremely important that certain shortcomings, which have been repeatedly highlighted in Reports over a number of years, are addressed without further delay. Only thus can Local Councils in their entirety regain the trust of our citizens.



Charles Deguara
Auditor General

26th November 2018

Executive Summary

By 4 September 2018, 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 Qrendi, San Pawl il-Baħar and Valletta, as well as the Gozo Regional Committee were still not submitted, despite that these should have been officially received by 30 April 2018. In actual fact, fifty-three Local Councils and three Regional Committees, managed to deliver by this latter deadline. Another eleven audited financial statements of Local Councils and one in respect of a Regional Committee were submitted by end of May 2018, while one Local Council and the Local Councils Association delayed their submission even further.

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 has been officially initiated.

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 three Local Councils, namely Birgu, Kalkara and Mosta, as well as the Northern Regional Committee.
- b. The audit reports of another 39 Local Councils, two Regional Committees and that of the Local Councils Association, were qualified with an 'Except For' audit opinion.
- c. Ten Local Councils (2016: 17) recorded a negative working capital in the Statement of Financial Position.
- d. Thirteen Local Councils (2016: 19) registered a Financial Situation Indicator below the established benchmark of 10%.
- e. Seven Local Councils and three Regional Committees (2016: 11 Local Councils and 3 Regional Committees), registered a deficit in the Statement of Comprehensive Income.
- f. Only 45 Local Councils and one Regional Committee (2016: 48 Local Councils, 1 Regional Committee and the Local Councils Association) sent their response to the management letter within the stipulated deadline as set by Article 8(2) of the Local Councils (Audit) Regulations, 1993; i.e. six weeks after the receipt of the management letter.

The main weaknesses encountered during the audits included:

- a. Accounting records not properly updated, resulting in the financial statements not giving a true and fair view of the actual financial situation.
- b. Procurement not carried out in line with pertinent regulations.
- c. Anomalies in the way Councils insured their assets notwithstanding specific guidelines issued by the Department on the nature of insurance cover.
- d. Council's obligation to upload on their websites certain statutory documentation, including minutes, schedules of payment, quarterly returns, annual budget as well as the three-year business plan, was not always complied with.

Local Councils

Background

The responsibility to draw up a set of financial statements, which fairly present the respective Council's financial situation as at year-end, rests with the Executive Secretary (ES). Once approved by the Council, and co-signed by the Mayor and the 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.

In accordance with pertinent legislation, the audits of the Local Councils' financial statements, Regional Committees, as well as the Local Councils Association (LCA), are carried out by five private audit firms, on behalf of the Auditor General. These audit firms were appointed following a public call for tender.

The financial statements being reported upon cover calendar year 2017, during which, direct funds allocated by the Government to Local Councils to be utilised mainly for landscaping and maintenance of parks and gardens, maintenance of roads and infrastructure, waste management as well as administration, aggregated to €35,000,000. **Appendix A – Table 1** refers. An additional adjustment fund with a total value of €504,782, aimed to render a fairer distribution of funds was also introduced. In 2017, such disbursements were effected in favour of 25 Councils, which were either faced with specific exigencies¹ and/or had experienced a decrease in the allocation forwarded to them during 2017, when compared to the preceding year. Meanwhile, in line with the prior years, a further €102,772 was allocated to LCA.

As from 1 October 2015, the responsibility for the administration and management of the Local Enforcement System (LES) was delegated to the Local Enforcement System Agency (LESA). Consequently, as from the aforementioned date, Regional Committees lost their main revenue stream, being the income receivable from such contraventions, which is no longer due to them. However, 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 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 the 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 prepared 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 of concern to NAO that, for the seventh consecutive year, no evidence was provided to confirm that the Information Technology (IT) system in place to record the process of contraventions is complete and accurate,

¹ These include the capital city and other cities with particular needs, as well as localities that are considered as tourist areas.

and that the reports generated thereto are free from material misstatements. This system, which is operated by an external service provider, produces major accounting balances which are reflected in the financial statements of Regional Committees and Local Councils. Given the lack of such certification, LGAs could only verify that figures disclosed in the books of account tally with the reports generated.

As already reiterated in preceding years, in coordination with the Department for Local Government (DLG), LESA 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 system in question provides a reliable basis for the respective amounts disclosed in the financial statements.

Joint Committees

As far as NAO is informed, although more than seven years have elapsed since the responsibility for the administration of LES was shifted from the then nine Joint Committees², on 1 September 2011, the liquidation process of the latter has still not yet initiated. These were expected to be wound up one year following the set up of the Regional Committees.

In the preceding year's report it was highlighted that following meetings held by the Department with the ESs of Regional Committees, requesting them to collect the financial statements as well as minutes of meetings of all Joint Committees, in order to kick off the liquidation process, the only documentation traced pertained to five out of the nine Joint Committees. Moreover, it was noted that such data was incomplete. During the year under review, no further progress was registered in this area as no additional records were forthcoming, thus leaving the situation at status quo.

Meanwhile, NAO was notified that in line with the legal advice sought, the Department prepared a list of amendments to the Local Councils Act, which proposal will be forwarded to the Local Councils Reform Committee for its consideration. Such changes are aimed at placing 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, in order to be audited, and appoint a liquidator to commence the winding-up process.

In addition, similar to the five preceding periods, none of the nine Joint Committees submitted to the Auditor General the respective audited financial statements. Moreover, two of the Joint Committees, namely the Central and the North failed to file the financial statements for the last seven 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 pertinent authorities responsible for Local Councils, this unacceptable situation still prevails.

In the circumstances, no practical alternative 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 Council. Thus, for another year, this matter has contributed to the qualification of the audit report of 24 Local Councils who are to be provided with the respective audited financial statements as per pooling agreement. **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.

² These include Birkirkara, Central, Fgura, Gozo, East, North, Valletta, Żejtun and Żurrieq Joint Committees.

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

Disclaimer of Opinion

For another year, LGA could not express an opinion on the financial statements presented by Birgu, Kalkara and Mosta Local Councils, as well as the Northern Regional Committee, for the reasons highlighted hereafter. In such circumstances, no audit adjustments have been proposed by LGA.

Birgu Local Council

For the fourth consecutive year, 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 on the financial statements of Birgu Local Council.

Opening Balances

In view that no opinion was expressed on the financial statements of the preceding year, LGA was unable to ascertain if the opening balances as at 1 January 2017 were materially misstated, and consequently, whether it necessitated any adjustment which would also effect the end-of year result.

Fixed Assets

The net book value (NBV) of assets under construction as disclosed in the nominal ledger (€2,623) differed from that reported in the financial statements (€89,724). Moreover, the Council did not provide a supporting list and details of such assets. Thus, verifications relating to the completeness, existence and valuation of these assets were hindered.

Receivables

Included with trade and other receivables were accrued income of €41,585, other receivables of €22,429 and long outstanding trade receivables of €4,299, which amounts were brought forward from prior years. In the absence of documentation or explanation substantiating such balances, no audit procedures could be performed to verify their validity, completeness and recoverability.

Payables

Disclosed with payables was a long-outstanding balance of €4,217 due to a third party, which is not supported by documentary evidence. It was also noted that credit notes issued by a supplier to cancel out the entire payable balance of €2,330 were not accounted for in the books of account. Likewise, verifications carried out revealed certain expenses relating to the year under review that were left unrecorded. Due to the lack of satisfactory explanations, LGA was unable to ascertain the existence and completeness of payables as reported by the Council.

Deferred Income

The Council did not provide satisfactory evidence in relation to deferred income of €176,503 as disclosed in the Statement of Financial Position, and the related release of €19,611 in the Statement of Comprehensive Income. Consequently, correctness of the said figures could not be ascertained.

Other matters

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

- a. In line with the documents traced, accrued income receivable from the Community Inclusive Employment Scheme amounted to €732. However, the balance of €5,744 was recognised by the Council.
- b. A discrepancy of €2,219 was noted between figures disclosed in the wages and salaries account and the figures submitted to the Inland Revenue Department (IRD). This net difference mainly relates to an under accrual in the preceding year coupled up with an error in an unrelated account which was passed against the wages account.
- c. Grants were accounted for under the capital approach, and not in line with the instructions issued by DLG, which up to 31 December 2017 required Local Councils to account for grants using the income approach.

Kalkara Local Council

In line with the preceding year, an audit opinion could not be expressed on the financial statements of Kalkara Local Council due to the issues mentioned hereunder.

Prior Year Adjustments

The Council failed to provide supporting documentation to justify the adjustments passed to correct prior period errors, which comprised an amount of €63,323 representing assets under construction, classified as property, plant and equipment (PPE), which was written off and an amount of €4,478 credited to deferred income. Consequently, LGA was not satisfied as to the completeness of PPE and reserves, as well as of the existence of deferred income.

Accrued Income

Adequate documentation was not provided to support the reversal of €32,329 from accrued income to several other accounts including salaries, general income, deferred income, street lighting, community services and urban improvements. As a result, LGA had no assurance on the completeness and existence of the amounts affected by these adjustments.

Deferred Income

Due to the lack of substantiating workings and documentation with respect to two adjustments passed affecting deferred income, general income and grants received, LGA was unable to ascertain whether the resultant deferred income of €30,943, as recognised in the financial statements, is accurate.

Trade Payables

Work carried out on trade payables revealed that the creditors' list is overstated by €14,176 when compared to the trade payables' control account. Confirmation procedures also revealed that the amount recognised as due to third parties is overstated by at least €29,060. Such differences were not substantiated with satisfactory explanations and documentation.

Other Matters

Further matters that would have otherwise required a modification of opinion include:

- a. Lack of disclosures relating to the reconciliation of the provision of doubtful LES receivables as required by International Financial Reporting Standard (IFRS) 7.
- b. Failure to include disclosures relating to prior period errors required by International Accounting Standard (IAS) 8.

Going Concern

As at 31 December 2017, the Council's current liabilities exceeded its current assets, casting significant doubt as to whether the Council will be able to meet its liabilities as they fall due.

Mosta Local Council

Due to the shortcomings highlighted below, for the third consecutive year, LGA was unable to express an opinion on the financial statements of Mosta Local Council.

Local Enforcement System

In view that no proper audited financial statements have been prepared by the Joint Committee, LGA could not obtain reasonable assurance on the completeness of the share of income or expenditure that have been recorded in the financial statements, as well as on any accrued income or liabilities present as at end of the current financial year.

Fixed Assets

The Council did not maintain a proper fixed assets register (FAR) to record its acquisitions of fixed assets. Consequently, LGA could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the fixed assets as recorded in the financial statements, as well as on the completeness of the depreciation charged thereon. Moreover, the Council did not provide for depreciation in line with its accounting policy.

Inventories

In breach of the requirements of IAS 2, the Council has written off stock of books and maps held for re-sale amounting to €14,883 in view that these were not being sold.

Trade Payables

The information and documentation provided by the Council with respect to other creditors, totalling €13,370, was not appropriate to provide reasonable assurance on its correctness. Moreover, alternative audit procedures performed by LGA did not provide the necessary evidence to determine whether such balance is materially misstated.

Deferred Income

Adequate supporting documentation was not provided to substantiate deferred income of €318,467, pertaining to a number of projects undertaken through funds obtained from the European Union. Moreover, no proper justifications and workings were provided with respect to a reclassification of €301,786, from grants disclosed in the prior year under PPE to deferred income. The Council has also not rectified the incorrect release to income in previous years, of grants obtained through the Public-Private Partnership (PPP) scheme. LGA is of the opinion that these issues constitute a material misstatement of deferred income as at year-end; however, no practicable audit procedures could be carried out to arrive at the amount of such misstatement.

Reporting Standards

The Council's financial statements also lacked proper disclosures emanating from IAS 24 and IAS 39.

Northern Regional Committee

Due to the significance of the matters referred to in the following paragraphs, LGA was unable to obtain sufficient audit evidence to provide a basis for an audit opinion on the financial statements of the Northern Regional Committee.

Local Enforcement System

Practicable alternative audit procedures could not be performed to obtain reasonable assurance on the completeness and existence of the information generated from the IT system, mainly LES income (€86,465), expenditure (€46,116), receivables (€1,302,495) as well as payables (€44,104) as reported in the respective financial statements.

Fixed Assets

The Regional Committee did not maintain a proper FAR to record its acquisitions of PPE. Moreover, depreciation was not accounted for in line with the required accounting policy. Consequently, LGA could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the fixed assets, both tangible and intangible, recorded in the financial statements, as well as on the completeness of the depreciation charged thereon.

Receivables

The receivables balance of the Regional Committee includes the amount of €1,049,654 relating to adjudicated contraventions that were not yet settled by year-end. However, in breach of IAS 36, the Committee did not establish a proper policy and methodology to evaluate and provide for impairment in relation to such contraventions, most of which shall probably remain unrecoverable.

In addition, in the absence of adequate substantiating information, no reasonable assurance could be obtained on the completeness of €250,371 disclosed as receivable from LESA.

Payables

As highlighted above, the Regional Committee recognised the amount of €1,049,654 as receivable in respect of contraventions issued and adjudicated but not settled. Yet, the corresponding obligation arising from the settlement of these receivables, in the form of service charges payable 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.

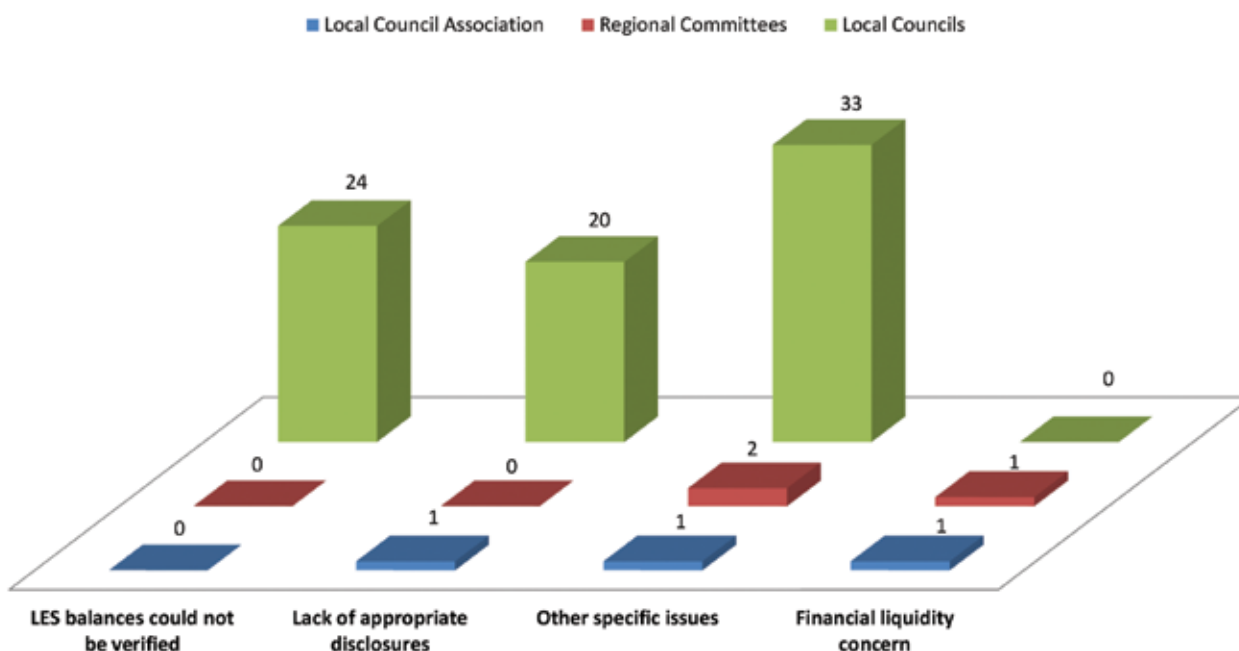
Non-compliance with International Financial Reporting Standards

The Committee’s financial statements were not prepared in their entirety in accordance with the requirements of the applicable accounting standards. These lacked proper disclosures emanating from IAS 1, IAS 24, IAS 36, IAS 38 as well as IFRS 7.

‘Except For’ Audit Opinion

Apart from Birgu, Kalkara and Mosta Local Councils, as well as the Northern Regional Committee, another 42 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 four Local Councils, out of the 42 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.

Concern over the fact that current liabilities exceeded current assets was also expressed in the audit reports of another three Local Councils, by means of the above-mentioned paragraph. However, in such instances the audit opinion was not modified.

The qualifications and/or emphasis of matter of the respective Local Councils and Regional Committees are listed in **Appendix B**.

Negative Working Capital

A notable improvement was registered in the number of Local Councils that reported a negative working capital during the period under review, which decreased from 17 (as registered in 2016) to 10. Furthermore, though still in the negative, all of the respective Local Councils, with one exception, managed to strengthen their financial liquidity position. This positive achievement was the result of the implementation of a detailed strategy, which was outlined following meetings conducted by DLG during 2016 with all those Councils that had registered a negative working capital in the preceding year, with the aim of ameliorating their position.

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

Table 1: Negative Working Capital³

Local Council	31 December 2017 €	31 December 2016 €	31 December 2015 €
Birgu*	(22,423)	(70,868)	(16,723)
Birkirkara	(375,508)	(557,022)	(406,537)
Kalkara*	(167,797)	(130,516)	(155,725)
Kerċem	(73,867)	(96,491)	(109,452)
Mdina	(41,241)	(134,951) ⁴	(178,175)
Nadur	(76,257)	(311,243)	(351,108)
Rabat (Gozo)	(579,556)	(722,379)	(510,734)
San Lawrenz	(46,041)	(132,137)	(63,532)
Sannat	(115,889)	(126,446)	(118,269) ⁴
Xagħra	(84,752)	(125,204)	(121,708)

*In view that a Disclaimer of Opinion was issued, no audit adjustments were proposed by LGA.

Local Councils registering a positive Working Capital over the preceding year

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.

³ 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.

⁴ As re-stated.

Table 2: Local Councils registering a Positive Working Capital⁵ over the preceding year

Local Council	31 December 2017	31 December 2016	31 December 2015
	€	€	€
Birżebbuġa	68,504	(111,372)	(233,163)
Dingli	43,553	(53,557)	(225,641)
Mosta*	88,716	(286,970)	(482,503)
Mqabba	52,149	(47,785)	(112,304)
Msida	93,990	(55,282)	(83,051)
Sigġiewi	82,622	(87,899)	9,330 ⁶
Żebbuġ (Gozo)	35,009	(1,429)	11,454
Żebbuġ (Malta)	42,737	(411,129)	(551,568)

*In view that a Disclaimer of Opinion was issued, no audit adjustments were proposed by LGA.

Financial Situation Indicator

The Local Councils (Financial) Regulations, 1993 Article 4(1) compel 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 percentage, but also outlined the standard operating procedure to be adopted in the event that the respective target is not reached.

In line with Circular No. 35/2017, Councils were also expected to present a report to DLG by the end of 2017 on the financial situation as at 30 September of that same year. In those instances, whereby the FSI was below the threshold stipulated by law, corrective action was to be outlined in such report. According to DLG, any unsatisfied conditions will render the approval exemptions given in preceding years as automatically revoked.

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. As an example, Councils are reporting substantial bank balances despite the fact that this money cannot 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 PPP 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.

By the end of the year under review, 13 Local Councils (2016:19), 10 of which also reported a negative working capital, registered a FSI below the 10% benchmark required by law.

⁵ Figures disclosed in the table represent 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.

⁶ As re-stated.

Statement of Comprehensive Income

The number of Local Councils that registered a deficit in the Statement of Comprehensive Income continued to decrease. During the year under review only seven Local Councils reported a negative financial situation (2016: 11). However, in the case of Regional Committees, similar to the preceding period, the Central, South Eastern and Southern ended the financial year with an even higher deficit.

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 compiling the budget figures with due diligence is not to be undermined.

Table 3: Statement of Comprehensive Income⁷

Local Council/ Regional Committee	Surplus/Deficit			Retained Earnings as at		
	1 January – 31 December 2017	1 January – 31 December 2016	1 January – 31 December 2015	31 December 2017	31 December 2016	31 December 2015
	€	€	€	€	€	€
Għajnsielem	(5,207)	6,493	33,933	722,749	727,956	721,463
Kalkara*	(27,982)	26,337	(10,509)	(85,509)	(57,526)*	(16,063)
Kerċem	(16,566)	(23,047)	(38,371)	364,592	381,158	404,205
Marsa	(31,905)	6,543	(86,390)	831,640	863,545	857,002
Rabat (Gozo)	(108,918)	40,941	(67,129)	248,812	357,730	316,789
San Lawrenz	(20,670)	(12,024)	(4,209)	158,734	179,404	191,428
Ta' Xbiex	(61,965)	9,727	(22,169)	361,439	423,404	413,677
Central Regional Committee*	(632,195)	(315,720)	(75,932)	690,573	1,737,649	2,353,369
South Eastern Regional Committee	(454,764)	(294,233)	678,168	607,072	1,061,836	1,356,069
Southern Regional Committee	(544,487)	(479,915)	241,385	530,410	1,074,897	1,554,812 ⁸

* In view that a Disclaimer of Opinion was issued, no audit adjustments were proposed by LGA.

* Reflecting prior year adjustment.

* Retained earnings stated after distributions made to Local Councils from the Committee's reserves.

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

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

⁷ Figures disclosed in the table represent amounts as reported on the face of the Statements 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.

⁸ As restated.

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

Local Council	1 January – 31 December 2017 €	1 January – 31 December 2016 €	1 January – 31 December 2015 €
Attard	33,877	(5,132)	(8,538)
Birgu*	55,910	(7,129)	61,489
Birkirkara	25,972	(26,993)	(8,575)
Għarb	4,860	(19,250)	(13,322)
Marsaxlokk	14,049	(9,824)	5,574
Nadur	30,842	(19,543)	(29,471)
San Ġiljan	135,498	(65,619)	77,095
Sannat	21,998	(20,527)	(11,557)
Xagħra	72,676	(5,489)	8,197

* In view that a Disclaimer of Opinion was issued, no audit adjustments were proposed by LGA.

Control Issues

Similar to previous years, a number of internal control issues, indicating that little monitoring, if any, was in place to ensure efficient financial management, were identified in a number of Councils. Even though the concern that the same irregularities continue to feature year on year in the management letters has been voiced a number of times, no apparent remedial action has yet been taken. It is evident that whilst certain management letter points are just being addressed by means of a simple statement, indicating that the particular point was noted without specifying the concrete actions taken or intended to be taken to implement the proposed recommendations, others are outrightly ignored. This demonstrates a lack of accountability on the part of the respective Councils, which is unacceptable.

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

The following were the major areas of concern which were commonly encountered during the audit process.

Fixed Assets

Verifications carried out revealed that a number of Local Councils are still overlooking the importance of fixed asset management, resulting in a number of shortcomings, the most prevalent of which are summarised in Figure 2 below.

Figure 2



Proper control over assets in the Councils' custody is essential for financial reporting purposes, as well as to prevent theft or other abuse. Such control, which can be primarily achieved by maintaining an up-to-date FAR, will also aid Local Councils in carrying out physical inspections of fixed assets and to assess the adequacy of their insurance coverage. In view that the audit report of a number of Local Councils includes a qualification due to an incomplete FAR, a one-time opportunity was given by DLG to the former to regularise their position. To this effect, as opening balance as at 1 January 2018, they will be allowed to show the NBV 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 FAR.

Further to the above, tagging of fixed assets in line with the requirements of the Local Councils (Financial) Procedures is also fundamental to enable physical verification and existence. Moreover, the allocation of assets under their proper categories is important not only for disclosure purposes but also to compute depreciation correctly in accordance with the Councils' depreciation policies, which, as from January 2018, is to be computed on a monthly basis using the straight-line method.

Accounting

As was the case in preceding years, besides containing a number of errors, the financial statements presented for audit purposes by various Local Councils were not fully compliant with the requirements of IFRSs, resulting in an 'Except For' qualified opinion. Figure 3 depicts the most common weaknesses encountered by LGAs in this area.

Figure 3



This indicates that there are serious shortcomings in the updating of the accounting records in a number of Local Councils. It also implies that the unaudited financial statements approved by certain Councils did not present an accurate picture of the financial position as at year-end. If management accounts are prepared in the same way, the Council may be relying on inaccurate information for decision-making purposes and during the budgeting planning process.

Local Enforcement System

In line with Article 56 of the Traffic Regulation Ordinance (Cap.65), circulation licences cannot be renewed unless any fines due are first settled. Yet, somehow this is not materialising, with the consequence that substantial amounts in this respect are still being recorded as outstanding, negatively impacting the cash flow of all Local Councils. Guided by the principle of the prudence concept, Councils have already adequately reduced, by way of a provision, those amounts which have been pending for more than two years. Figure 4 exhibits the major concerns relating to LES encountered during the course of the audit.

Figure 4

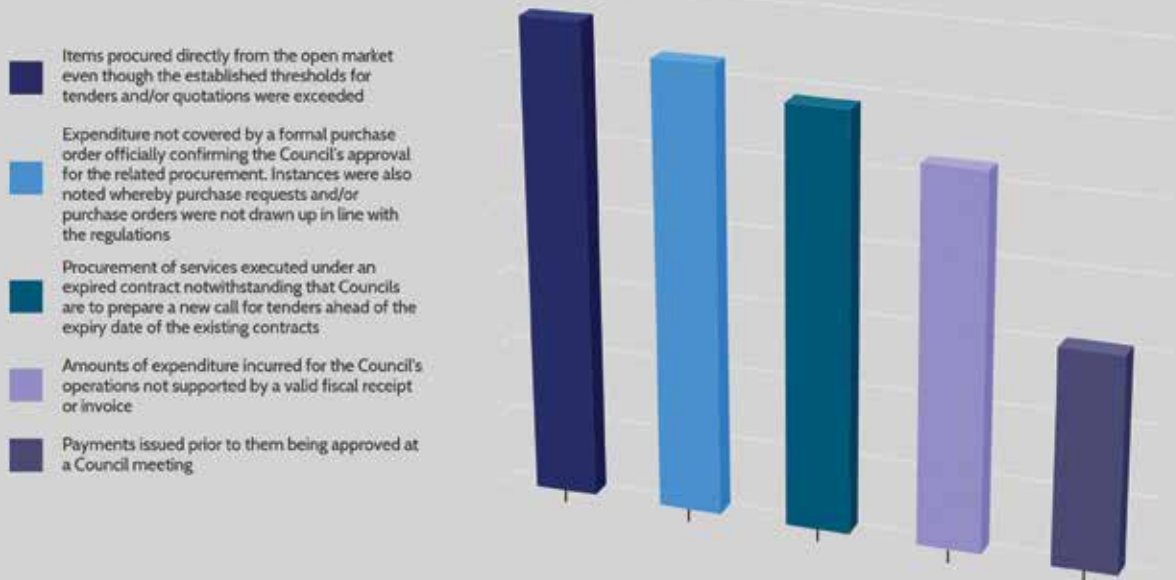


- The annual financial statements of the Joint Committees for year ended December 2017 were not submitted to the respective Local Councils. This hindered LGAs from providing reasonable assurance on the related income being recorded in the Councils' books
- Discrepancies were noted between receivables as recorded in the Councils' books of account and those disclosed in the reports generated from the LES computerised system
- Income received in the form of administration fees, from contraventions collected on behalf of LESA, differed between the Councils' accounting records and the respective reports generated from the system
- Invoices with respect to administration fees were not raised on time by the respective Councils

Procurement

Notwithstanding the guidance provided in the applicable rules and regulations⁹, as well as in Circulars issued by DLG from time to time with respect to purchasing of works, goods and services, a number of weaknesses, the most common of which are highlighted in Figure 5, were still identified in the area of procurement.

Figure 5



Other deficiencies concerning the procurement process were also noted, as listed hereafter:

- At times, the maximum threshold for petty cash expenditure was exceeded. On occasions, two or more separate chits from the same supplier were issued in sequence with the intention to by-pass the applicable threshold.
- Procurement of services was not always covered by a formal agreement.
- Contracts were still executed despite that the awarding bidder did not provide evidence of the performance guarantee.
- Purchase orders and/or payment vouchers were not endorsed by the respective Mayor and ES. At times they also lacked necessary details, such as the cost of the purchase being made.

Street Lighting

Upon the cessation of the Joint Committees, the street lighting function was to be delegated to the five Regional Committees; however, to-date this function in Malta has not yet been passed on accordingly. In Gozo, the 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; however, it transpired that such project was not successfully carried out. To this effect, NAO was informed that Government has allocated an additional amount of money to the Gozo Regional Committee, for the latter to address some of the failures in the pilot project.

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, certain Councils disregarded such guidelines and in certain instances, such service continued to be procured through direct orders, from the same service providers and under the same conditions outlined in the agreement entered into by the then Joint Committees.

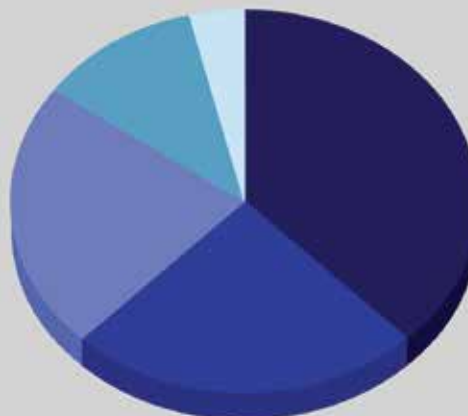
⁹ With effect from 1 January 2018, a new set of regulations, namely the Local Councils (Procurement) Regulations together with the Procurement Guidelines, have come into force and are to be followed by all Local Councils in the acquisition of their goods and services.

Government Grants

Up to 31 December 2017, Local Councils were expected to account for Government Grants under the Income Approach as outlined in IAS 20. Hence, grants received to acquire items of PPE were to be treated as deferred income, and 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 have been transferred every year to account for the depreciation charge. Yet, a number of Local Councils were still adopting an incorrect treatment for the recording of such grants as highlighted in Figure 6.

Figure 6

- Deferred income released to the Statement of Comprehensive Income was at times inaccurate
- Recording of grants was not in line with IAS 20 thus leading to incomplete balances as well as discrepancies between workings as provided for audit testing and the final figures disclosed in the books of account
- Apportionment between short-term and long-term components of deferred income was not properly computed
- Necessary workings substantiating accrued and/or deferred income balances as recognised in the books of account were lacking
- Included in the Councils' books was deferred income brought forward from preceding years in relation to projects that have not yet been implemented

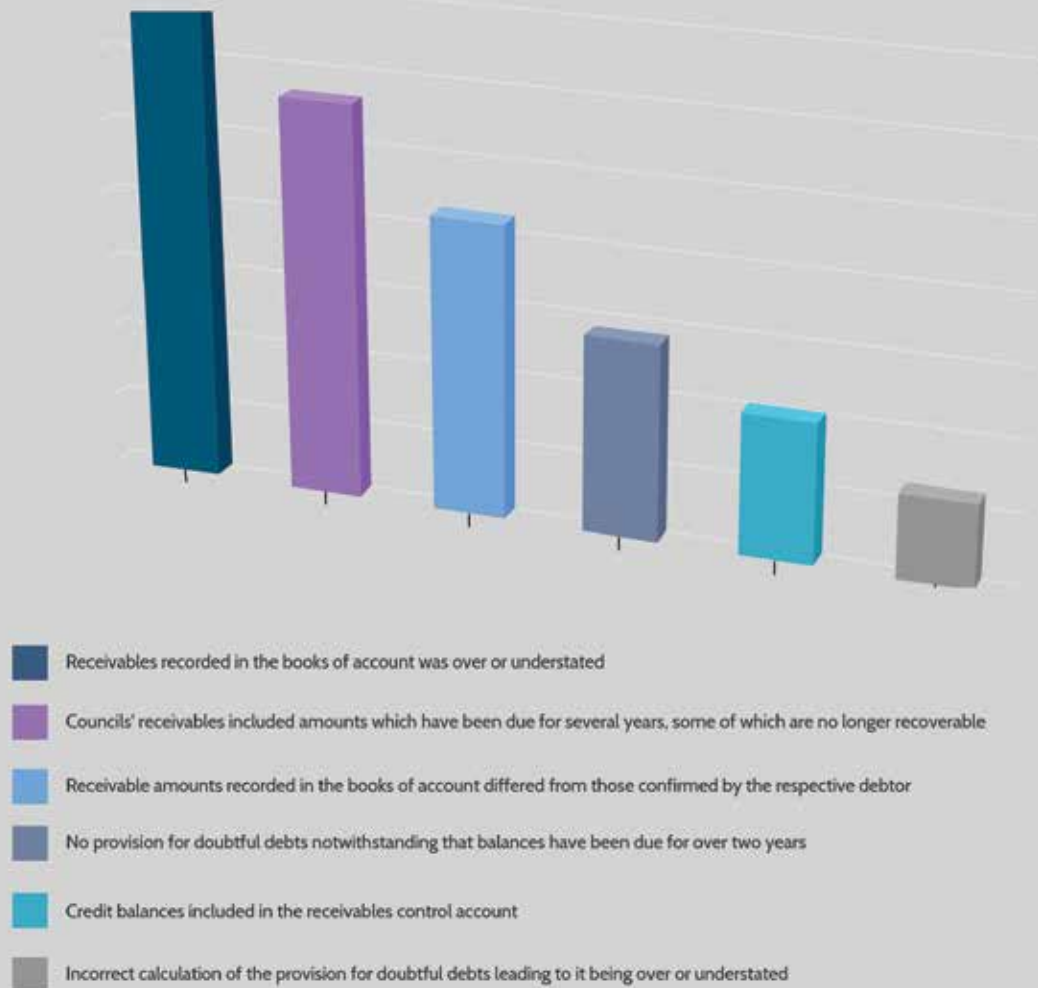


As from 1 January 2018, Local Councils were instructed to adopt the Capital Approach for the recording of grants. Under this procedure, funds received are dealt with in the Statement of Financial Position, rather than recognised in the Statement of Comprehensive Income to offset the items of expense that the same funds intend to finance. In order to prepare for this change, Local Councils were expected to prepare two Statements of Financial Position as at 31 December 2017. One according to the Income Approach, which statement was to be included in the audited financial statements for 2017, whilst the other, which was to be drafted using the Capital Approach, was intended for internal use, mainly to provide the opening balances as at 1 January 2018.

Receivables

Accounts receivable, also known as debtors, usually consist of an aggregation of many smaller accounts that the Council is owed from third parties. The related major risk is their existence, thus adequate controls ensuring that outstanding balances are accurately recorded and thereafter properly followed up, are mandatory. However, the shortcomings outlined in Figure 7 were still noted during the audit process.

Figure 7



Local Councils are encouraged to perform regular reconciliations of receivable balances, promptly investigating any differences identified. Moreover, in cases where the collection of any amounts due is uncertain, an appropriate provision for doubtful debts is to be recorded in accordance with the provisions of IAS 36. Long outstanding balances are also to be reviewed so as to assess the likelihood of their settlement and obtain approval for their write-off during a Council meeting in the eventuality that these are no longer recoverable.

Payables

Proper administration of trade payables, defined as amounts owed to suppliers for goods or services, can contribute towards the effective management of working capital. Figure 8 highlights the most prevalent internal control failures identified in this area during audit testing.

Figure 8

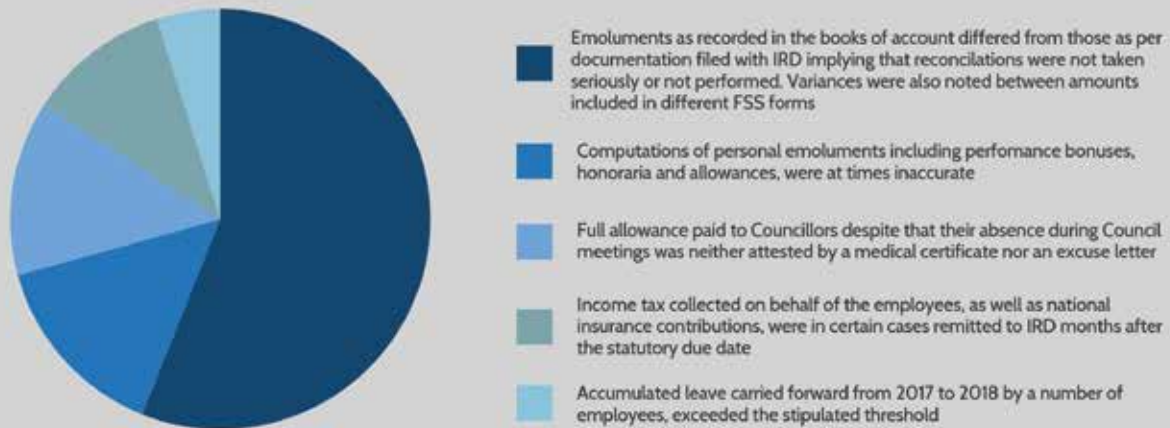


Reconciliations serve as a means of identifying and adjusting errors. Accordingly, Local Councils are to obtain regular supplier statements and carry out the necessary reconciliations to verify the completeness and accuracy of the balances as recorded in their books of account. Any long outstanding balances are also to be reviewed so as to establish whether these are to be settled or reversed, after obtaining the necessary approval during a Council meeting. Proper distinction between payables and accruals is also recommended for the Councils' books to reflect an accurate picture.

Personal Emoluments and Allowances

Human resource cost forms a significant portion of the Councils' expenditure. However, effective controls in certain Councils were still not in place to ensure that payroll calculations are accurate and that deductions in the form of taxes are remitted to IRD in a timely manner. Occurrences whereby regulations governing human resources were not strictly adhered to were also noted. Figure 9 summarises the common shortcomings identified during the audit process.

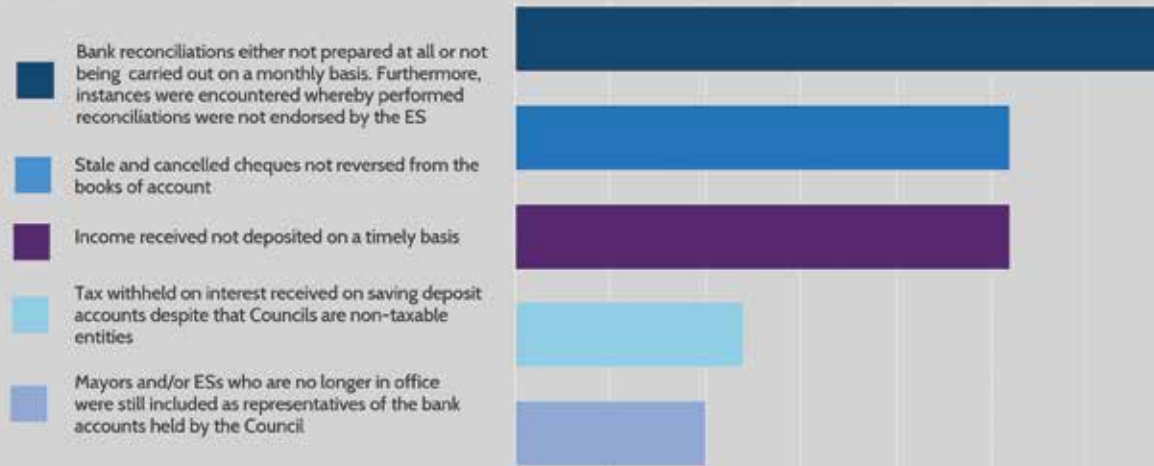
Figure 9



Cash and Cash Equivalents

Internal controls over cash and cash equivalents were lacking in a number of Councils, and little monitoring, if any, was in place to ensure efficient financial management. Major areas of concern evidenced in this area are summarised in Figure 10.

Figure 10



Being the most liquid asset, cash also entails the highest risk of theft and fraudulent activity. Thus, the safeguarding of such asset through adequate internal controls is of utmost importance. One of the most effective control procedures is the carrying out of bank reconciliations. Through such process, the Council ensures that any discrepancies between balance as per bank statement and that as per books of account are purely due to the timing of payments. Thus, as laid down in Article 22 of the Local Councils (Financial) Regulations, reconciliations are to be carried out on a monthly basis and not later than the tenth working day of each month. Furthermore, Councils are to deposit money in hand on a timely basis as specified by standing regulations. Apart from the security implications of leaving cash and cheques unnecessarily at the premises, Councils are to be reminded that undeposited cash is idle money and does not contribute to the best utilisation of the latter's financial resources. In addition, for the sake of good governance, Mayors and/or ESs who are no longer in office, are not to be held accountable for executing any banking transactions. Consequently, for security reasons, in such instances, the respective Councils are to instantaneously instruct the bank to update the signatories of the related accounts accordingly.

Tipping Fees charged by WasteServ Malta Ltd beyond Budgeted Allocation

In 2013, following discussions with the Ministry for Finance, 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, representing waste tonnage fees, were in excess of the specific Government allocation provided. For the last six years, (2013-2018) DLG, through line item 5665 under Programmes and Initiatives, was assigned specific funds, amounting to €1.3 million annually, intended to be used by Local Councils 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.

Distribution from Reserves of the Central Regional Committee

During a meeting held in 2014 by the Central Regional Committee representatives, it was agreed that the foregoing Committee will disburse part of its retained funds amongst the Local Councils falling under its remit. Such funds were to be allocated to specific projects. To this effect, for the fourth consecutive year, the Central Regional Committee distributed part of its reserves; however, in certain cases, the respective funds were utilised to finance Councils' day-to-day operations. Furthermore, the amounts distributed were not always accounted for as deferred income and amortised accordingly, but recognised as income in their entirety in the year they were received. Thus, audit adjustments were passed to rectify this error.

Compliance Issues

Finalisation of Annual Financial Statements

In accordance with the Local Councils (Audit) Procedures 2006 (P2.05) and instructions issued by DLG through Circulars, local authorities are to draw up and submit to the Auditor General:

- a. the financial statements signed by the Mayor and ES by not later than 19 February following the end of the financial year; and
- b. the audited financial statements and management letters by the stipulated deadline of 30 April 2018.

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 number of Local Councils who managed to deliver the unaudited financial statements by the established deadline was lower than that of the preceding year¹⁰. On the other hand, as in the preceding year, only two Regional Committees, namely the Central and the South Eastern Regions (2016: Central and Northern Regions), filed the unaudited financial statements on time. Moreover, the unaudited financial statements of the Valletta Local Council as well as the North Region were not submitted to NAO. **Figure 11** refers.

¹⁰ For the financial year under review, 53 Local Councils (2016: 61) abided by the stipulated deadline for the submission of the unaudited accounts. It is to be noted that the ex-Mayor of St. Paul's Bay Local Council resigned on 10 January 2018, with the new mayor appointed on 15 March 2018.



The concern that in certain instances the financial statements presented for audit purposes were not up to the expected standard, besides containing a number of errors, still prevails. This is evident from the audit adjustments passed, some of which were significant, to correct the material misstatements noted by LGA and the other several control and non-compliance issues highlighted in the respective management letters. At times, prior year adjustments and/or journal entries passed by the respective Council were not supported by the necessary documentation or were not substantiated by explanations, making it impossible for LGA to understand the matter, as well as implying serious shortcomings in the updating of the Council's accounting records and preparation of financial statements.

Greater attention is to be given to the bookkeeping function. 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 responsible for the preparation of the accounts, apart from being in possession of the warrant of a Certified Public Accountant, should also be up-to-date with the applicable Accounting Standards and Regulations. It is futile to submit the required documentation within the set timeframes, if the data included therein is not properly compiled and does not reflect a true and fair view of the financial situation. It is therefore of utmost importance for Councils to understand that the preparation of reliable and timely accounting information is crucial to the effective and efficient functioning of the Council.

Furthermore, Councils are expending substantial amounts of money on the procurement of accountancy services without yielding the expected results. As has been repeatedly recommended in past years, DLG should seriously consider the recruitment of a number of qualified accountants and provide such service in-house instead of outsourcing it. This would not only be more cost-effective, but it will also bring about more harmonisation in the preparation of accounts, make it easier to monitor progress, and will improve the communication with the same accountants. While the above-mentioned scenario is ideal, as already reiterated in previous years, until such time, DLG is to adopt a stricter position against those Councils whose financial statements are not adequately prepared.

Audit Report and Financial Statements

In 2017, a slight improvement was registered in the number of Local Councils and Regional Committees that submitted the respective audited financial statements on time, that is, by the established deadline of 30 April 2018. **Figure 12** refers.



Response to the Management Letter

Twelve Local Councils, the LCA and the Southern Regional Committee exceeded the deadline set out in Article 8 (2) of the Local Councils (Audit) Regulations, 1993 to submit the response to the management letter. A copy of the reply of another six¹¹ Local Councils was only forwarded to NAO by either DLG or LGA, as the respective Councils did not submit their response to the Auditor General. On the other hand, two Local Councils and two Regional Committees did not provide a reply. Not replying to the management letter is completely unacceptable.

Similar to last year, some of the replies were only signed by either the ES or the Mayor. This is not in line with the relevant regulations, which requires both officials to sign. It is also of utmost importance that replies to the management letter are prepared with due care, ensuring that all the points mentioned therein are covered in sufficient detail.

¹¹ Two of the replies received were unsigned.

Other Non-Compliance Issues

Several other non-compliance but nonetheless important issues, which have been highlighted by LGAs in the management letters and merited disclosure in this report, are summarised below:

- a. Statutory documentation was either not uploaded on the Local Councils website or not uploaded within the stipulated timeframe. At times, these were not compiled by the respective Council, incomplete or not approved within the established deadline.
- b. Minutes of Councils' meetings were not always adequately maintained, with the main shortcomings being the omission of the time when meetings were adjourned, non-indication of the next meeting date, failure to bind minutes, as well as missing signatures.
- c. Schedule of Payments lacked important details, including a complete list of cheque numbers, the account number, invoice, reference number, the amount that will be paid, as well as the cheque number. Cancelled cheques were at times not recorded in this schedule.
- d. Expenditure incurred with respect to the organisation of Jum il-Lokal exceeded the threshold of €3,500 or 0.5% of the annual Government allocation, whichever is the higher.
- e. Notwithstanding guidance issued by DLG throughout the years, through Directives, Circulars and Memos¹² on what is regarded as permitted donations, during 2017, a number of Councils were still in default. This is also in breach of Article 63A of the Local Councils Act, which strictly prohibits Local Councils from giving donations whether in money or in kind.
- f. As required by Article 43 (3) of the Local Councils Act, there needs to be a unanimous decision when meetings commence before 5.30pm, finish later than 7.30pm or last more than three hours. However, in most cases, an agreed consent to this effect was not found. In addition, in a number of instances, meetings were held at intervals exceeding the five-week timeframe laid out in Article 43 (2) of the Local Councils Act, at times due to lack of quorum.
- g. As members of local action groups, namely GAL XLOKK and Majjistral Action Group, Local Councils are required to pay a membership fee, which is determined by such group and may vary year on year. However, participating Councils were still not provided with a copy of the annual audited financial statements in line with Circular No. 19/2016. In addition, the respective Local Councils did not disclose the benefits derived from such membership in the financial statements as required by the foregoing circular.
- h. In terms of Article 18 of the Local Councils Act, when Councillors fail to attend four meetings, or in aggregate more than one-third of the meetings within a six-month period, the Council is to discuss such absenteeism during a Council meeting and inform the respective Minister accordingly. However, in some instances, the Minister was not notified.

¹² Directive No. 5/2016 followed by Directive No. 5A/2016, Circular No. 38/2016 and Memo No. 16/2013.

Other Particular Concerns

Mid-term Audits

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

None of the four Local Councils, referred to in **Table 5**, that during the year were obliged to carry out a mid-term audit due to a change in the ES, adhered to the legislation cited above and requested such an exercise. This non-compliance is unfortunately becoming the norm and unless the current regulations are amended, Councils are expected to abide accordingly. In fact through the publishing of Standard Operating Procedure 3/2017 dated 26 October 2017, DLG once again stressed the importance of a mid-term audit.

Table 5 – Change in Executive Secretary

Local Council	Office term of the outgoing Secretary		Position	Remarks
	From	To		
Marsaxlokk	05 Oct 2011	28 Aug 2017	ES/Deputy ES	Acting as Deputy from 18 January 2017
San Pawl il-Baħar	14 Sep 2016	26 May 2017	ES	Resigned
	27 May 2017	14 Jul 2017	Deputy ES	Resigned
Xewkija	9 Mar 2016	3 Mar 2017	Acting ES	Resigned
	27 Mar 2017	30 May 2017	Acting ES	Termination upon the appointment of an ES
Żabbar	12 Nov 2012	1 Mar 2017	ES	Reverted back to his post at DLG Head Office

The Department is again encouraged to assess whether the conduct of a mid-term audit is adding any value to the Council's 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

During 2018, DLG officially published the Performance Management and Risk Management Manuals, which were both financed under the Norway Grants Programme. Included as key stakeholders were 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 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.

The main performance indicators included in the aforementioned manual, namely, residual household waste and recycling, improved street and environmental cleanliness, as well as road maintenance, are of particular importance in assisting Local Councils to monitor the actual level of accomplishment and determine how they could become more efficient, effective and deliver more value for money. Such indicators would enable NAO to carry out value for money audits as requested by standing regulations.

According to DLG, a tender for performance reports to be carried out on an annual basis was launched and is currently at evaluation stage. It is expected that the first Performance Reports would be issued in 2019.

Funding Initiative to Regional Committees

With the aim of addressing the requirements and needs of the community in a concrete and holistic manner, the five Regional Committees were bound to develop an integrated plan by identifying strategies that need to be carried out on the economic, social and cultural aspects, for the localities within their precincts. To this effect, a fund amounting to €100,000 was equally allocated to the five Regional Committees, for the latter to collate 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.

On 23 May 2017, upon the signing of a Memorandum of Understanding for the implementation of the Economic, Social and Cultural Communities Plan, the Central and South Eastern Regional Committees were subsequently each awarded another €200,000. The same procedure was ensued with the Northern Regional Committee on 23 October 2017.

On the other hand, the Gozo Regional Committee drew up the final report; however, the respective projects had not yet been identified. Thus, in view that the Department was still awaiting project selection, no additional funds were yet allocated to the respective region. Meanwhile, the Southern Regional Committee had to cancel the tender to develop the integrated plan due to technical fault from its end. By the time this report was concluded, this tender had not yet been re-issued.

Appendix A – Financial Allocation

Table 1: Income received by Local Councils

Local Council	Government Allocation 1 January – 31 December 2017	Other Supplementary Income received from Central Government	Other Income generated by the Council	Total
	€	€	€	€
Attard	672,935	72,960	82,645	828,540
Balzan	277,092	28,539	46,997	352,628
Birgu	284,457 ¹³	65,977	86,277	436,711
Birkirkara	1,283,056	244,628	339,981	1,867,665
Bormla	452,562	53,037	14,247	519,846
Birżebbuġa	698,091	107,107	40,030	845,228
Dingli	335,755	102,245	27,917	465,917
Fgura	594,484	43,488	43,984	681,956
Floriana	344,902 ¹⁴	39,132	75,630	459,664
Fontana	144,326	6,346	13,637	164,309
Gżira	530,376	35,580	144,767	710,723
Għajnsielem	332,971	46,178	28,492	407,641
Għarb	235,104	144,556	250,640	630,300
Għargħur	250,102	33,081	22,189	305,372
Għasri	170,477	5,963	4,250	180,690
Għaxaq	339,867	70,310	20,548	430,725
Gudja	275,270	68,702	10,907	354,879
Ħamrun	644,487	24,499	133,963	802,949
Iklin	251,928	54,955	26,364	333,247
Isla	269,630	24,777	30,905	325,312
Kalkara	248,829	18,200	6,693	273,722
Kerċem	254,710	63,957	11,771	330,438
Kirkop	207,631 ¹⁵	28,772	114,329	350,732
Lija	257,802 ¹⁶	26,280	27,204	311,286
Luqa	409,699	77,893	50,130	537,722
Marsa	472,734	75,174	39,991	587,899
Marsaskala	859,668	158,054	64,586	1,082,308

¹³ The amount of €35,000 relating to special initiatives was recognised as annual Government income rather than other Government income in the financial statements.

¹⁴ Amount disclosed in financial statements totalled €354,902, which includes €10,000 relating to special initiatives. In the table above, this amount was recorded as Other Government Income.

¹⁵ Amount does not tally to the figure disclosed in the financial statements since certain deductions imposed by DLG were set off against the annual allocation.

¹⁶ The amount disclosed in the financial statements totalled €267,802, which included €10,000 in respect of special initiatives. In the table above, this amount was recorded as Other Government Income.

Appendix A – Financial Allocation *cont./*Table 1: Income received by Local Councils *cont./*

Local Council	Government Allocation 1 January – 31 December 2017	Other Supplementary Income received from Central Government	Other Income generated by the Council	Total
	€	€	€	€
Marsaxlokk	325,280	80,174	18,478	423,932
Mdina	183,130 ¹⁷	70,698	40,505	294,333
Mellieħa	1,053,865 ¹⁸	258,431	78,786	1,391,082
Mġarr	426,845	54,614	24,886	506,345
Mosta	1,185,524	182,694	145,210	1,513,428
Mqabba	270,039	91,110	16,676	377,825
Msida	569,269	91,536	109,184	769,989
Mtarfa	254,075	65,281	10,947	330,303
Nadur	442,946 ¹⁹	90,189	44,337	577,472
Munxar	242,861	90,481	15,989	349,331
Naxxar	958,003	253,061	84,007	1,295,071
Paola	654,759	55,295	67,896	777,950
Pembroke	415,842	31,788	15,240	462,870
Pieta'	289,655	61,310	130,125	481,090
Qala	298,557	47,673	11,584	357,814
Qormi	1,084,715	198,652	134,463	1,417,830
Qrendi	345,823	10,000	-	355,823
Rabat (Gozo)	526,666 ²⁰	158,964	43,010	728,640
Rabat (Malta)	1,041,473	90,133	53,462	1,185,068
Safi	245,461	22,969	35,696	304,126
San Ġiljan	767,739	22,681	162,456	952,876
San Ġwann	770,809	42,194	72,269	885,272
San Lawrenz	148,617 ²¹	111,025	12,577	272,219
San Pawl il-Baħar	1,684,906	-	-	1,684,906
Sannat	223,442	57,116	12,789	293,347
Santa Luċija	321,038	30,938	16,211	368,187
Santa Venera	447,323	54,574	66,419	568,316

¹⁷ Amount disclosed in financial statements totalled €230,489, which included special initiatives amounting to €47,359. In the table above, this was recorded as Other Government Income.

¹⁸ In the financial statements, the amount of €30,773 concerning special initiatives was recognised with the annual Government income rather than as Other Government income.

¹⁹ Amount disclosed in financial statements totalled €452,496, which included €10,000 concerning special initiatives. In the table above, this amount was recorded as Other Government Income.

²⁰ Amount disclosed in financial statements totalled €536,666, which included special initiatives of €10,000. In the table above, this amount was recorded as Other Government Income.

²¹ Amount disclosed in financial statements totalled €162,967, which included €14,350 representing special initiatives. In the table above, this amount was recorded as Other Government Income.

Appendix A – Financial Allocation *cont./*

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

Local Council	Government Allocation 1 January – 31 December 2017	Other Supplementary Income received from Central Government	Other Income generated by the Council	Total
	€	€	€	€
Siggiewi	741,419	96,563	120,113	958,095
Sliema	1,110,593	129,359	279,081	1,519,033
Swieqi	655,932	159,776	57,660	873,368
Ta' Xbiex	210,852 ²²	55,523	32,427	298,802
Tarxien	516,246	54,466	33,630	604,342
Valletta	692,580	130,351	-	822,931
Xagħra	496,434	91,191	24,444	612,069
Xewkija	341,731	67,808	15,155	424,694
Xgħajra	203,675	17,159	4,845	225,679
Żabbar	889,961	83,851	37,981	1,011,793
Żebbuġ (Gozo)	498,755	80,821	20,187	599,763
Żebbuġ (Malta)	793,288	147,853	72,422	1,013,563
Żejtun	809,000	112,724	171,381	1,093,105
Żurrieq	761,927	106,922	57,862	926,711
Totals	35,000,000	5,378,338	4,109,464	44,487,802

Source: 'Government Allocation' – as per reports provided by DLG.

'Other Supplementary Income received from Central Government' and 'Other income generated by the 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.

Notes: 'Other Income generated by the Council' also includes finance income, such as interest earned on bank balances.

Total income generated by Local Councils during 2017 includes surplus funds from enforcement operations, totalling €1 million, which were distributed by LESA.

Table 2: Income generated by Regional Committees

Regional Committee	Total
	€
Central Regional Committee	191,625
Northern Regional Committee	227,561
South Eastern Regional Committee	172,054
Southern Regional Committee	230,939
Totals	822,179

²² Amount disclosed in the financial statements totalled €220,852, which included special initiatives of €10,000. In the table above this amount is disclosed with other supplementary income.

Appendix B – Reports that were either Qualified with an ‘Except For’ Audit opinion and/or highlighting an ‘Emphasis of Matter’

Column 1 indicates the localities wherein, included in the financial statements, is LES income received during the year under review, 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 2017 were not available. As a result, 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’ disclosure requirements were not entirely in accordance with IFRSs. 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 No audited Financial Statements of Joint Committee	Column 2 Insufficient Disclosures	Column 3 Specific Issues	Column 4	
				Audit Report qualified with an ‘Except For’ opinion in relation to Going Concern assumption	Emphasis of matter paragraph highlighting a ‘Material Uncertainty related to Going Concern’
Attard	x				
Balzan	x				
Birkirkara	x	x	x		x
Birżebbuġa			x		
Dingli	x	x	x		
Fgura		x	x		
Floriana			x		
Gżira	x	x	x		
Għajnsielem			x		
Għarb			x		
Għarghur	x	x	x		
Iklin	x	x	x		
Isla			x		
Kerċem					x

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

Local Council	Column 1 No audited Financial Statements of Joint Committee	Column 2 Insufficient Disclosures	Column 3 Specific Issues	Column 4	
				Audit Report qualified with an ‘Except For’ opinion in relation to Going Concern assumption	Emphasis of matter paragraph highlighting a ‘Material Uncertainty related to Going Concern’
Lija	x		x		
Luqa			x		
Mdina	x	x	x		x
Mellieħa	x	x	x		
Mġarr	x	x	x		
Mqabba			x		
Msida		x	x		
Mtarfa	x	x	x		
Nadur					x
Naxxar	x	x	x		
Pembroke	x	x	x		
Pieta`		x	x		
Rabat (Gozo)			x		x
Rabat (Malta)	x	x	x		
San Ġiljan	x	x	x		
San Ġwann	x	x			
Sannat					x
Santa Venera	x	x	x		
Sliema	x	x			
Swieqi	x				
Ta’ Xbiex	x	x			
Tarxien	x		x		
Xagħra			x		x
Xewkija			x		
Xgħajra			x		
Żabbar	x		x		
Żebbuġ (Malta)			x		
Żejtun	x		x		

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

Regional Committee	Column 1 No audited Financial Statements of Joint Committee	Column 2 Insufficient Disclosures	Column 3 Specific Issues	Column 4	
				Audit Report qualified with an ‘Except For’ opinion in relation to Going Concern assumption	Emphasis of matter paragraph highlighting a ‘Material Uncertainty related to Going Concern’
Central Regional Committee			x	x	
South Eastern Regional Committee			x		
LCA		x	x	x	

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

Appendix C – List of Directives, Circulars and Memos

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	Arrangamenti Finanzjarji bejn il-LESA, il-Kumitati Reġjonali u l-Kunsilli Lokali
List of Circulars	
Circular No. 35/2017	Addenda għal Ċirkulari Numru 16/2017 [L-Indikatur tal-Qagħda Finanzjarja (I-FSI)]
Circular No. 16/2017	L-Indikatur tal-Qagħda Finanzjarja (I-FSI)
Circular No. 4/2017	Għeluq tas-Sena Finanzjarja
Circular No. 50/2016	Sejthiet għall-Offerti/Kuntratti dwar Manutenzjoni tad-Dawl fit-Toroq
Circular No. 38/2016	Fondi Pubblici minfuqa għal Finanzjament ta’ Għaqdiet
Circular No. 19/2016	Šhubija fil-LOCAL ACTION GROUPS
List of Memos	
Memo 16/2013	Kontribut Finanzjarju Ta’ Kunsill Lokali għal Xiri ta’ Materjal Edukattiv għall-Iskejjel

Appendix D – List of International Accounting and Financial Reporting Standards

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 Party Disclosures
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

2017-2018 (to date) Reports issued by NAO

NAO Work and Activities Report

April 2018 Work and Activities of the National Audit Office 2017

NAO Audit Reports

November 2017 Follow-up Reports by the National Audit Office 2017

November 2017 Performance Audit: Outpatient Waiting at Mater Dei Hospital

November 2017 Report by the Auditor General Public Accounts 2016

December 2017 Annual Audit Report of the Auditor General - Local Government 2016

December 2017 An Analysis on Revenue Collection

January 2018 The use of IT systems to identify skills and professional development needs within the Public Service

February 2018 Performance Audit: The designation and effective management of protected areas with Maltese waters

March 2018 Performance Audit: Evaluation of Feed-In Tariff Schemes for Photovoltaics

May 2018 An Investigation of anonymous allegation on a Home Ownership Scheme property in Santa Lucija

May 2018 An Investigation of the Mater Dei Hospital Project

June 2018 An Investigation of allegations on Dingli Interpretation Centre

June 2018 An Investigation into the Findings of the Local Governance Board

June 2018 A Review of the Pension due to a former Member of Parliament

July 2018 Performance Audit: A Strategic Overview of Mount Carmel Hospital

September 2018 Performance Audit: An evaluation of Government's deal to design, build and operate the Malta National Aquarium

November 2018 Follow-up Reports by the National Audit Office 2018

November 2018 Performance Audit: A Strategic Overview on the Department of Fisheries and Aquaculture's Inspectorate Function