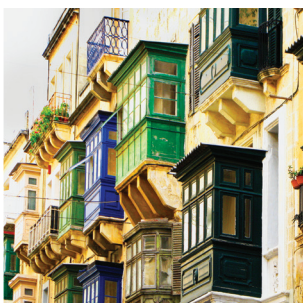
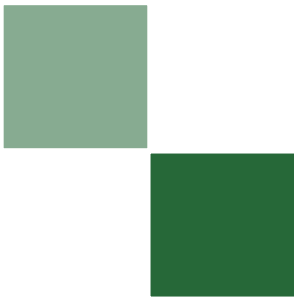


# Report by the Auditor General on the Workings of Local Government

# 2018





Report by the Auditor General  
on the Workings of  
Local Government

Public Accounts 2018



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# List of Abbreviations

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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
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

# Foreword

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For the sixth consecutive year, a separate annual Report dedicated solely to the workings of all Local Councils and Regional Committees in Malta and Gozo, as well as the Local Councils Association, is being published by the National Audit Office. In a nutshell, our small but highly efficient Unit covering the area of Local Government works in very close collaboration with the private Local Government Auditors, focusing especially on the Management Letters sent to each Local Council and Regional Committee, as well as the relative reply thereto.

The principal objective of the National Audit Office throughout this challenging assignment is to continuously promote and strengthen good governance within all Local Government entities, particularly through ensuring the highest levels of compliance with prevailing rules and regulations. Ultimately, this provides assurance to Parliament and to our citizens that public resources are being utilised by our Local Councils in the best manner possible.

This Office acknowledges the excellent collaboration maintained throughout the year with the main stakeholders involved, that form part of the Local Government Good Governance working group; indeed, we believe that such cooperation could lead to action being taken to address a number of issues identified in our previous Reports. At the same time, the National Audit Office strongly feels that the attitude of certain Councils who choose to simply ignore the Management Letters sent to them following the respective audit is totally unacceptable. Suffice it to state that by mid-October 2019 no reply was provided by eleven Local Councils, i.e. a significant 16% of local councils did not even bother to reply to our concerns. Such irresponsible attitude renders the considerable public funds being incurred on the auditing of Local Councils, as stipulated by law, a sheer waste of taxpayers' monies. Thus, this Office strongly believes that action should be taken to duly sanction those Councils who totally ignore this Office's findings and recommendations, as communicated to them in the Management Letter.



Charles Deguara  
Auditor General

4<sup>th</sup> November 2019

## 2018 Performance at a Glance

Submission of audited financial statements by the stipulated deadline of 30 April 2019



### Main Weaknesses

Main weaknesses encountered during the audits included:

- Accounting records not properly updated, resulting in the financial statements not giving a true and fair view of the actual financial situation.
- Procurement not carried out in line with pertinent regulations.
- Adequate fixed asset registers not being maintained. The respective insurance cover was not in line with the specific guidelines issued by the Department.
- Councils' obligation to upload statutory documentation on their websites, including minutes, schedules of payment, quarterly returns, annual budget and the three-year business plan, was not always complied with.

### Audit Opinion

Clean



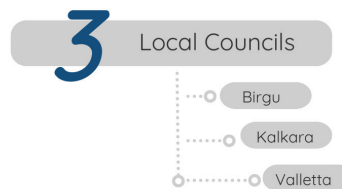
Emphasis of Matter



Qualified



Disclaimer



# Local Councils

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## 1. Local Government Sector

### Overview

The five Regional Committees, together with the 68 Local Councils form the second and third tier of Government in Malta. Whilst the surface area covered by Local Councils varies from one another, all Councils have a common set of objectives associated with the provision of services to local communities. Indeed, Local Government was established specifically to deliver directly to the local community services ranging from the upkeep and maintenance of roads, waste management, the establishment of safe public spaces and recreational areas, to accessible libraries.

Being responsible for aspects of everyday life, coupled with the fact that over 80%<sup>1</sup> of their revenue is attributed to public funding by means of a Government allocation, renders Local Councils' financial management subject to high-level community interest and accountability. During the financial year 2018 (reference year), direct funds allocated by Government to Local Councils aggregated to €36,500,000. **Appendix A – Table 1** refers. An additional adjustment fund totalling €504,782, aimed at rendering a fairer distribution of funds, was also disbursed in favour of 25 Local Councils, which either faced specific exigencies and/or experienced a decrease in the allocation forwarded to them when compared to preceding years. Meanwhile, in line with the prior years, a further €102,772 was allocated to the Local Councils Association (LCA).

As from October 2015, Regional Committees lost their main revenue stream due to the shift of the responsibility for the administration and management of the Local Enforcement System (LES) to the Local Enforcement System Agency (LESA). Notwithstanding this, up to the end of financial year 2018, the five Committees had still not been allocated any public funds. However, by virtue of Directive No. 3/2016, the four Regional Committees audited had requested LESA to reimburse the fee paid to the President of the Region, as well as the salary of its Executive Secretary (ES) and the respective employees.

As from 2019, the Regional Committees were allocated a fund of over €3 million. They have now been relieved from all the expenses relating to local tribunals as the related costs have become the responsibility of LESA.

### Financial Accountability

For the sake of accountability, one of the main pillars of good governance, the ES is required to draw up a set of financial statements that account for all operations and that fairly presents the financial situation. 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.

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<sup>1</sup> Other sources of revenue include grants, 10% administration fee for all contraventions settled at their premises, income from permits as well as bank interest.



The compilation, submission and auditing of the accounts is legally required for all Local Councils, Regional Committees and the LCA. The financial statements are independently audited on behalf of the Auditor General by private audit firms, duly appointed following a public call for tender.

It is important to note that the financial reporting function is an ongoing activity, whereby Councils are required to prepare quarterly reports and annual budgets together with a business plan, with the aim of assisting them in the timely management of available resources, as well as to address in an effective manner any emerging issues.

### **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 essentially 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 duly scrutinised.


## 2. Audit Results

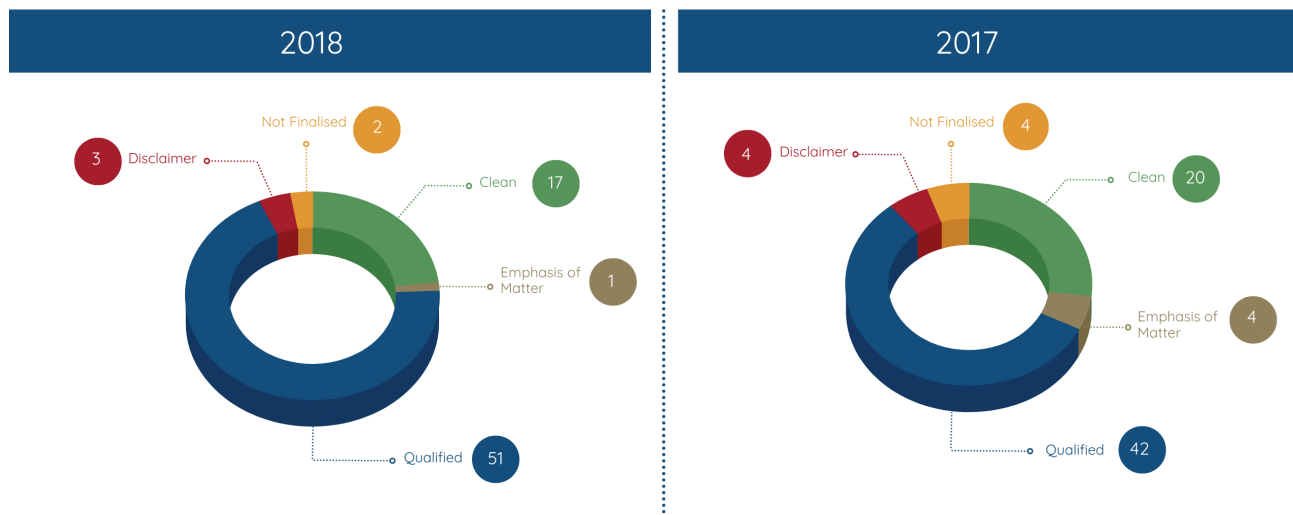
### Introduction





Whilst Local Councils are expected to meet the deadline of 18 February 2019 for the submission of the unaudited financial statements, it is important to acknowledge that the usefulness of such reports depends on their quality. Timely and accurate financial reporting is essential for decision-making, the management of public funds and public accountability.

#### Audit Opinion

 **93%** Local Government Authorities were provided with either a clean or qualified opinion

 **7%** representing **3** Local Councils whereby LGAs could not express an opinion on the financial statements as well as **1** Local Council and **1** Regional Committee whose audit was still in progress by mid-October 2019



-  Clean - Financial records fairly represent financial position and have been maintained in accordance with International Financial Reporting Standards (IFRSs)
-  Emphasis of Matter - An area that, although appropriately presented in the accounts, still merited disclosure in the audit report
-  Qualified - Reflects the fact that LGA was unable to audit certain areas due to restrictions imposed which were beyond control
-  Disclaimer - LGA was not in a position to express an opinion, due to absence of substantial financial records and documentation

## Disclaimer of Opinion

For the reasons highlighted hereunder, LGA was not in a position to issue an opinion on the financial statements as presented by three Local Councils, namely Birgu, Kalkara and Valletta.

### Birgu Local Council

For the fifth consecutive year, due to the significant matters referred to hereafter, LGA was unable to obtain sufficient audit evidence to form an audit opinion on the financial statements presented by the Council.

- **Opening Balances** – since 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 2018 were materially misstated, and whether these necessitated any adjustments, which would also effect the end-of year result.
- **Lack of Documentation** – the absence of documentary evidence or explanations to audit queries, hindered LGA from performing the necessary audit procedures to verify the completeness and accuracy of certain assets, liabilities and transactions.

### Kalkara Local Council

In line with the preceding two years, an audit opinion could not be expressed on the financial statements of Kalkara Local Council in view of the significance of the matters highlighted hereunder.

- **Prior Year Adjustments** – due to the lack of supporting documentation to justify the adjustments passed during the years ended 31 December 2016 and 2017 to correct prior period errors, LGA was not satisfied as to the completeness of Property, Plant and Equipment (PPE), the reserves, as well as of the existence of deferred income and creditors.
- **Accrued Income** – adequate documentation substantiating the reversal of €32,329 effected during the year ended 31 December 2017 from accrued income to several other accounts was not available. Consequently, LGA had no assurance on the completeness and existence of the amounts effected by these adjustments.
- **Deferred Income** – the absence of workings and documentation validating two adjustments posted during 2017, which effected deferred income, general income and grants received, hindered LGA from ascertaining whether the resultant deferred income figure as recognised in the financial statements was accurate.
- **Trade Payables** – the difference of €14,176, encountered between the list of trade payables and the respective control account during the preceding year, was charged to the Statement of Comprehensive Income during 2018. Satisfactory explanations to support this adjustment were not provided.
- **Going Concern** – besides that current liabilities exceeded current assets by €158,904, the Council closed the year with only €1,252 in its bank account, casting significant doubt on the Council's ability to meet its liabilities as they fall due.

## Valletta Local Council

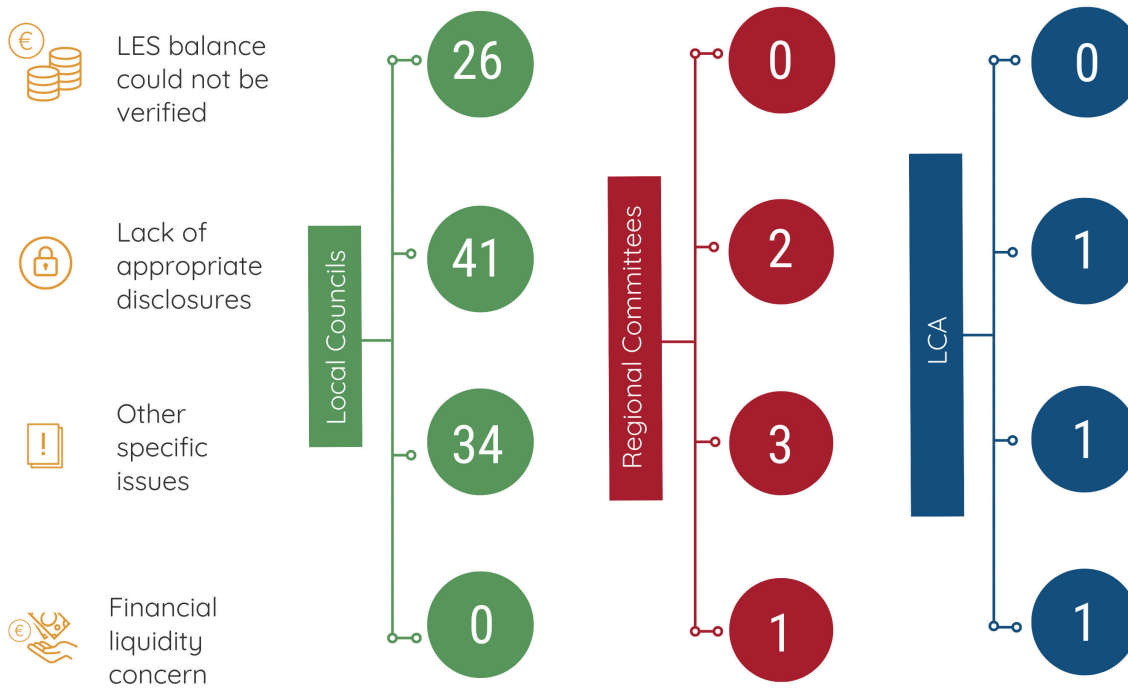
For another year, since 2013, Valletta Local Council was not issued with an audit opinion mainly because figures as reported in the financial statements were not adequately substantiated.

- **Going Concern** – as at 31 December 2018, the Council had a net liability position of €521,402. This implies that the going concern assumption used in the preparation of the financial statements is dependent on further cash injections, other than the annual financial allocation, substantial savings in the subsequent years, the collection of debts due to the Council and on the continued support of the Council's creditors. Any adverse changes in either of these assumptions would not allow the Council to be able to meet its financial obligations as these fall due without curtailing its future commitments.
- **Grants** – LGA was not provided with supporting documentation to ascertain that the recognition of grants in the Statement of Comprehensive Income was in line with International Accounting Standard (IAS) 20 – Accounting for Government Grants and Disclosure of Government Assistance.
- **Fixed Assets** – the absence of a Fixed Assets Register (FAR) hindered LGA from obtaining reasonable assurance on the existence and completeness of the balance of tangible fixed assets as recorded in the financial statements, as well as on the completeness of the depreciation charged thereon. In addition, it was noted that the recognition of tangible fixed assets and calculation of depreciation were not undertaken in line with the accounting policy as disclosed in the financial statements.
- **Receivables** – testing on receivables revealed that the respective balance was materially misstated due to lack of proper accounting and reconciliations thereof. However, no practicable audit procedures could be carried out to determine the exact amount of misstatement within the trade receivables balance as recognised by the Council.
- **Cash and Cash Equivalents** – variances were identified between the balances as per bank statements and those as per reconciliations prepared by the Council. In addition, a list of the unrepresented cheques was not provided for most bank accounts. Since the information and evidence made available by the Council with respect to bank balances as at end of financial year was not sufficient, LGA could not obtain reasonable assurance on the amount being recorded.
- **Payables** – trade payables and accruals as reported by the Council were incomplete and inaccurate due to the lack of proper accounting and recording of the pertinent transactions. Due to such errors the Council's liabilities as at year-end were materially misstated.
- **IFRSs** – the financial statements presented by the Council lacked appropriate disclosures in respect of new and revised standards, mainly IAS 1 – Presentation of Financial Statements and IAS 24 – Related Party Disclosures. Moreover, the recognition, measurement and disclosures, in relation to the amounts due under the Public Private Partnership scheme were not in accordance with the requirements of IAS 39 – Financial Instruments: Recognition and Measurement.

## Qualified Audit Opinion

Fifty-one audit reports were qualified with an ‘Except For’ audit opinion. This means that most transactions were adequately accounted for, with the exception of certain issues, whereby either there was a limitation of scope in the auditor’s work or there was a disagreement regarding the application, acceptability or adequacy of accounting policies. Shortcomings for which an ‘Except For’ audit opinion was issued are indicated in **Figure 1**.

Figure 1: ‘Except For’ Audit Opinion

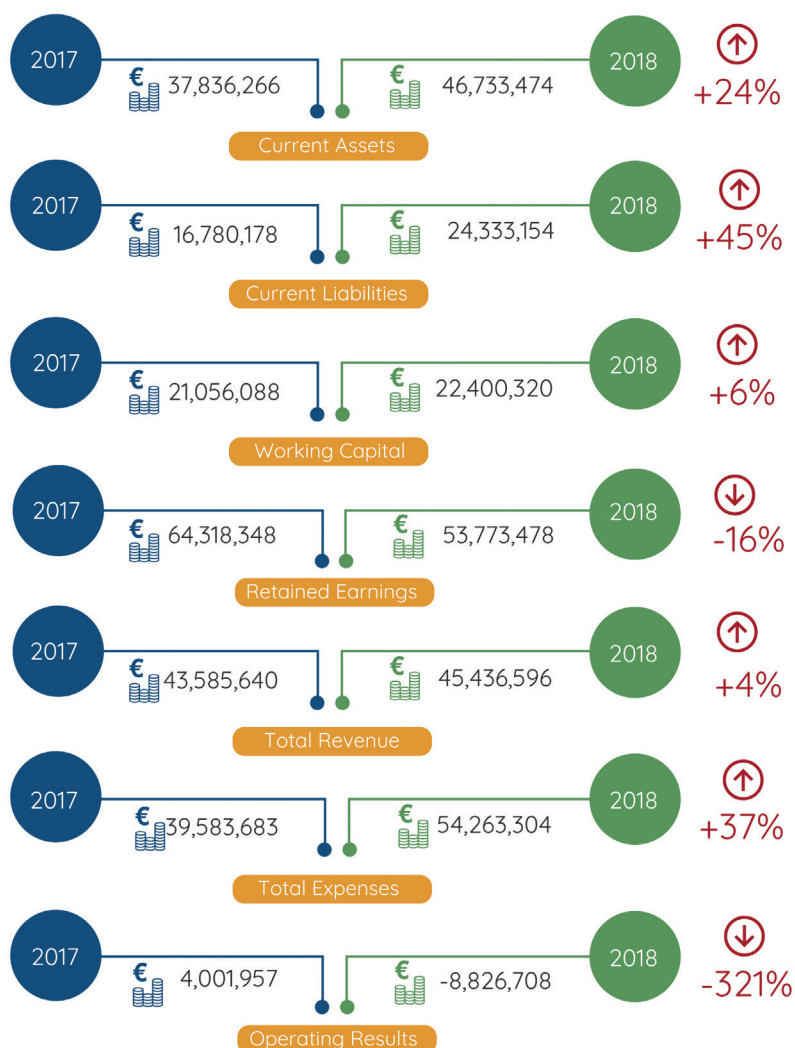


In addition, the going concern assumption used in the preparation of the financial statements presented by nine Local Councils, one of which was issued with a clean audit opinion, is dependent on further sources of funds, namely the collection of debts and the continued deferral of payments, besides the annual financial allocation received from Central Government. 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 specific paragraph titled ‘Material Uncertainty relating to Going Concern’ in the audit report.

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

## Financial Position and Performance

Figure 2: Financial Snapshot 2017-2018<sup>2</sup>



## Working Capital

As illustrated in **Figure 2**, the overall working capital of the local government sector has strengthened over the preceding year, with a rise of over €1.3 million (6%) being registered in total working capital, resulting from the net difference of an increase both in current assets<sup>3</sup> (€8.9 million) and current liabilities<sup>4</sup> (€7.6 million).

<sup>2</sup> Figures disclosed in the diagram represent the totals of the amounts as reported on each individual Statement of Financial Position and Statement of Comprehensive Income 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. Moreover, the figures quoted in the diagram exclude Qrendi Local Council and the Gozo Regional Committee in view that the respective financial statements were not received by mid-October 2019.

<sup>3</sup> Consisting of cash and cash equivalents and trade and other receivables.

<sup>4</sup> Entailing trade and other payables, short-term deferred income as well as any short-term bank loan portions.

Notwithstanding this, the number of Local Councils ending the year under review with a negative net current asset position remained steady when compared to the preceding year. In fact, 11 Councils (2017: 11), registered a negative working capital at the close of financial year 2018. Moreover, although still in the negative, only a few of the Councils managed to improve their financial liquidity position, with others registering sharp adverse movements.

**Table 1** hereafter shows the Councils that ended the financial year under review with a negative financial position as well as comparative figures for the previous two years. **Table 2** highlights those Councils which managed to improve their working capital from a negative figure in 2017 to a positive one in 2018.

**Table 1: Local Councils recording a Negative Working Capital as at end of 2018<sup>5</sup>**

Local Council	31 December 2018 €	31 December 2017 €	31 December 2016 €
Birkirkara	(358,266)	(241,886)	(557,022)
Għasri	(115,166)	304,798 ▪	30,652
Kalkara	(158,904)	(164,586) ▪	(130,516)
Kerċem	(3,846)	(32,628) ▪	(96,491)
Pietà	(20,488)	67,430 ▪	90,337
Rabat (Gozo)	(322,148)	(470,548) ▪	(722,379)
San Lawrenz	(24,351)	(23,862) ▪	(132,137)
Sannat	(33,940)	(64,474) ▪	(126,446)
Valletta	(521,402)	(713,165) ▪	(526,749)
Żebbuġ (Gozo)	(135,165)	82,074 ▪	(1,429)
Żebbuġ (Malta)	(549,197)	(118,554) ▪	(411,129)

▪As re-stated

**Table 2: Local Councils registering a Positive Working Capital over the Preceding Year<sup>5</sup>**

Local Council	31 December 2018 €	31 December 2017 €	31 December 2016 €
Mdina	103,929	(36,796) ▪	(134,951)
Nadur	91,156	(13,873) ▪	(311,243)
Xagħra	231,313	(14,728) ▪	(125,204)

▪As re-stated

## Operating Results

Whilst a rise of 4% in total revenue generated by Local Councils was recognised over the preceding year, mainly resulting from an increase in funds allocated by Central Government, such positive movement was overly outweighed by a considerable increase in expenditure incurred across all local government, which soared by 37%; from a total of €39.6 million in 2017 to €54.3 million in 2018. This has drastically impacted the sector's overall operating result which changed from a profit of €4 million recorded in the previous year to a loss of €8.8 million for the current year.

<sup>5</sup> Figures disclosed in **Table 1** and **Table 2**, 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.

This negative result was mainly attributable to a change in the depreciation method applied by Local Councils as from the financial year under review. By means of Directive No. 1/2017<sup>6</sup>, Local Councils were instructed to depreciate non-current assets using the straight-line method of depreciation instead of the previously applied reducing balance method. This adversely impacted the sector's overall operating result by over €11.2 million. Despite the minimal growth of 6% over the preceding year in PPE owned across all local government, an increase of 230% was registered in the depreciation expense charged to the Statement of Comprehensive Income; from €4.8 million in 2017, to €16 million in 2018. Accordingly, excessive losses were reported by a total of 52 authorities constituting 70% of the local government sector, 43 of which had recorded a profit in the preceding year.

**Table 3** shows the localities and Regional Committees that incurred a deficit during the year under review, the corresponding figures for the previous two years, as well as the accumulated retained earnings or losses for the past three financial years.

With the exception of two Councils, namely Kalkara and Valletta Local Councils, all had sufficient reserves to make up for the reported deficit. The negative financial situation in the two Councils in question is definitely not acceptable.

**Table 4** illustrates those Councils which turned their position from a deficit in 2017 to a surplus in the year under review.

**Table 3: Local Councils and Regional Committees incurring a Loss during 2018<sup>7</sup>**

Local Councils and Regional Committees	Surplus or Deficit			Retained Earnings or Accumulated Losses as at		
	1 January – 31 December 2018	1 January – 31 December 2017	1 January – 31 December 2016	31 December 2018	31 December 2017	31 December 2016
	€	€	€	€	€	€
Attard	(260,408)	33,877	(5,132)	257,775	518,183	484,306
Balzan	(125,123)	12,015	14,095	477,692	602,815	590,800
Birgu	(23,314)	55,910	(7,129)	108,977	132,291	76,381
Birkirkara	(913,574)	39,358	(26,993)	466,684	1,380,258	1,340,900
Birżebbuġa	(396,302)	148,848	66,546	1,129,137	1,525,439	1,376,591
Bormla	(115,554)	87,674	49,698	346,269	461,823	373,771
Fgura	(23,326)	41,414	111,348	1,933,311	1,956,637	1,915,223
Floriana	(228,045)	19,412	4,368	517,502	745,547	726,135
Fontana	(68,503)	6,750	13,169	307,194	375,697	368,947
Gżira	(78,491)	76,700	2,520	614,437	692,928	616,228
Għarb	(14,908)	4,860	(19,250)	295,084	309,992	388,557
Għargħur	(40,626)	24,286	43,663	545,805	586,431	562,145
Għasri	(99,626)	8,332	3,079	242,875	342,501	334,169
Iklin	(105,328)	26,401	9,218	360,275	465,603	439,202
Isla	(26,986)	17,775	1,655	224,295	251,281	233,506
<b>Kalkara</b>	<b>(34,331)</b>	<b>(27,982)</b>	<b>26,337</b>	<b>(119,839)</b>	<b>(85,508)</b>	<b>(57,526)</b>
Kirkop	(43,275)	91,907	61,782	414,518	457,793	365,886
Luqa	(12,106)	78,182	46,622	1,331,328	1,344,074	1,294,697
Marsa	(338,811)	(31,905)	6,543	492,829	831,640	863,545

<sup>6</sup> Issued by the Department on 20 January 2017 and effective as from 1 January 2018.



Table 3: Local Councils and Regional Committees incurring a Loss during 2018<sup>7</sup> cont./

Local Councils and Regional Committees	Surplus or Deficit			Retained Earnings or Accumulated Losses as at		
	1 January – 31 December 2018	1 January – 31 December 2017	1 January – 31 December 2016	31 December 2018	31 December 2017	31 December 2016
	€	€	€	€	€	€
Marsascula	(174,977)	171,502*	19,894	1,223,107	1,398,084*	1,226,582
Marsaxlokk	(40,600)	14,049	(9,824)	356,877	397,477	383,428
Mellieħa	(720,276)	9,656	31,951	3,269,357	3,989,633	3,979,977
Mosta	(599,997)	216,882	203,445	1,276,640	1,876,637	1,659,755
Msida	(29,925)	108,464	51,346	583,721	613,646	505,182
Nadur	(104,200)	30,842	(19,543)	560,331	664,531	633,689
Naxxar	(291,535)	370,322	197,963	1,839,289	2,130,824	1,760,503
Pembroke	(30,916)	51,196	39,281	680,248	711,164	659,968
Pietà	(159,491)	15,673	32,589	205,096	364,587	348,914
Qormi	(575,626)	100,947	143,704	1,782,088	2,357,714	2,256,767
Rabat (Gozo)	(97,024)	(108,918)	40,941	151,788	248,812	357,730
Rabat (Malta)	(401,907)	407,641	381,097	2,208,485	2,610,392	2,202,751
Safi	(16,730)	23,915	13,478	495,711	512,441	488,526
San Ġiljan	(4,194)	135,498	(65,619)	697,598	701,783	566,285
San Lawrenz	(13,380)	(20,670)	(12,024)	145,354	158,734	179,404
San Pawl il-Baħar	(103,284)	597,182	263,217	2,219,403	2,322,687*	1,725,505
Santa Luċija	(12,979)	23,910	18,686	381,893	394,872	370,962
Santa Venera	(11,283)	103,360	71,067	975,733	987,016	883,656
Sliema	(237,702)	75,293*	36,390	1,388,323	1,626,025*	1,550,732
Ta' Xbiex	(22,599)	(61,965)	9,727	338,840	361,439	423,404
Tarxien	(42,991)	113,463	95,611	982,761	1,025,752	912,289
<b>Valletta</b>	<b>(344,272)</b>	<b>(105,508)*</b>	<b>(72,624)</b>	<b>(83,439)</b>	<b>260,833*</b>	<b>366,341</b>
Xagħra	(319,663)	72,676	(5,489)	597,837	917,500	844,824
Xewkija	(137,226)	74,928	76,854	622,835	760,061	685,133
Xgħajra	(9,915)	7,592	2,382	93,915	103,830	96,238
Żabbar	(86,250)	269,421*	90,434	1,645,586	1,731,836*	1,462,416
Żebbuġ (Gozo)	(177,117)	36,348	5,130	665,138	842,255	805,907
Żebbuġ (Malta)	(470,061)	194,898*	170,984	115,701	585,762*	331,977
Żurrieq	(138,230)	192,890	179,650	1,682,885	1,821,115	1,628,225
Central Regional Committee	(113,500)	(632,195)	(315,720)	541,796	690,573	1,737,649
Northern Regional Committee	(1,142,416)	2,925	12,748	146,034	1,288,450*	1,486,168
South Eastern Regional Committee	(120,809)	(454,764)	(294,233)	486,263	607,072	1,061,836
Southern Regional Committee	(111,774)	(544,487)	(479,915)	418,636	530,410	1,074,897

\*As restated

<sup>7</sup> Figures disclosed in Table 3 represent amounts as reported on the face of the Statement of Comprehensive Income and 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.

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

Local Councils	1 January – 31 December 2018 €	1 January – 31 December 2017 €	1 January – 31 December 2016 €
Għajnsielem	58,652	(5,207)	6,493
Kerċem	9,790	(16,566)	(23,047)

## Financial Situation Indicator

Through Article 4(1) of the Local Councils (Financial) Regulations, 1993, local authorities are compelled to maintain a positive balance between income and expenditure, including any accrued amounts, of not less than 10% of the allocation approved in terms of Article 55 of the Local Government Act. If the aforementioned threshold is not maintained, the respective Council is responsible for flagging such situation with the Director for the Department of Local Government (DLG), also outlining the actions that are intended to be taken to remedy the situation.

The cited legislation defines the Financial Situation Indicator (FSI) as the difference between the total of current assets and the total of current and long-term liabilities excluding any long-term commitments approved by the Minister in terms of the Act, taken as a percentage of the annual allocation.

However, in view that the Councils' operating scenario has evolved throughout the years, the current computation is at present considered rather meaningless. By way of example, Councils are reporting substantial bank balances despite the fact that this money is committed for specific projects and thus cannot be used to finance day-to-day operations. Hence, such funds, as well as amounts representing deferred income, together with any long-term balances payable under specific schemes, are not expected to be included in the FSI calculation. Upon unanimous agreement with relevant stakeholders, the formula for the computation of the FSI was unofficially modified on such basis.

DLG is committed to discuss this issue in the Local Government Good Governance working group and put forward proposals that have already been agreed upon in order to effect the necessary amendments.

By the end of the year under review, 14 Local Councils<sup>8</sup> (2017: 13), 10 of which also reported a negative working capital, registered a FSI below the 10% benchmark required by law.

## Financial Statements Preparation



### Timeliness

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 18 February following the end of the financial year; and
- b. the audited financial statements and management letters by the stipulated deadline of 30 April.

<sup>8</sup> According to LGAs workings.

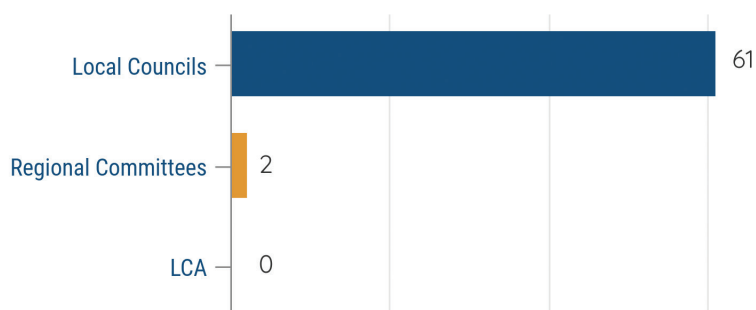
Financial Statements are to consist of the:

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

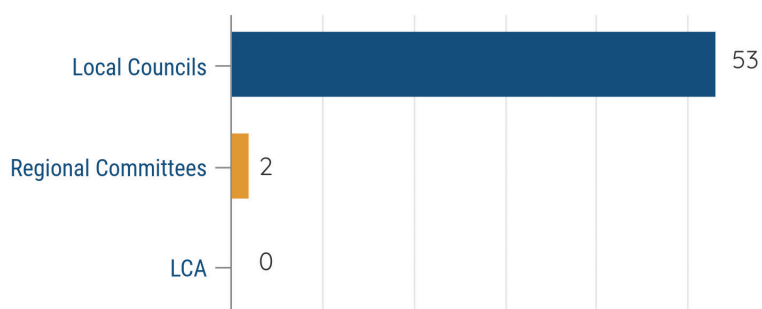
Forty-nine Local Councils, four Regional Committees and the LCA completed the year-end close processes on time and met the February deadline for the submission of the 2018 unaudited financial statements to the Auditor General. As shown in **Figure 3** there was an improvement for Regional Committees and the LCA; however, deterioration was noted in the number of Local Councils that managed to meet the deadline.

Figure 3: Submission of Unaudited Financial Statements by the Deadline

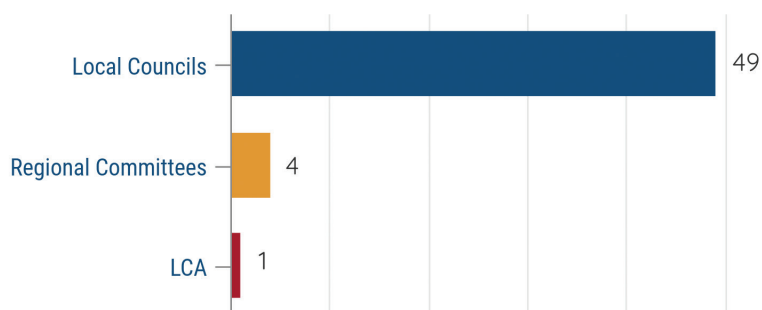
## 2016



## 2017

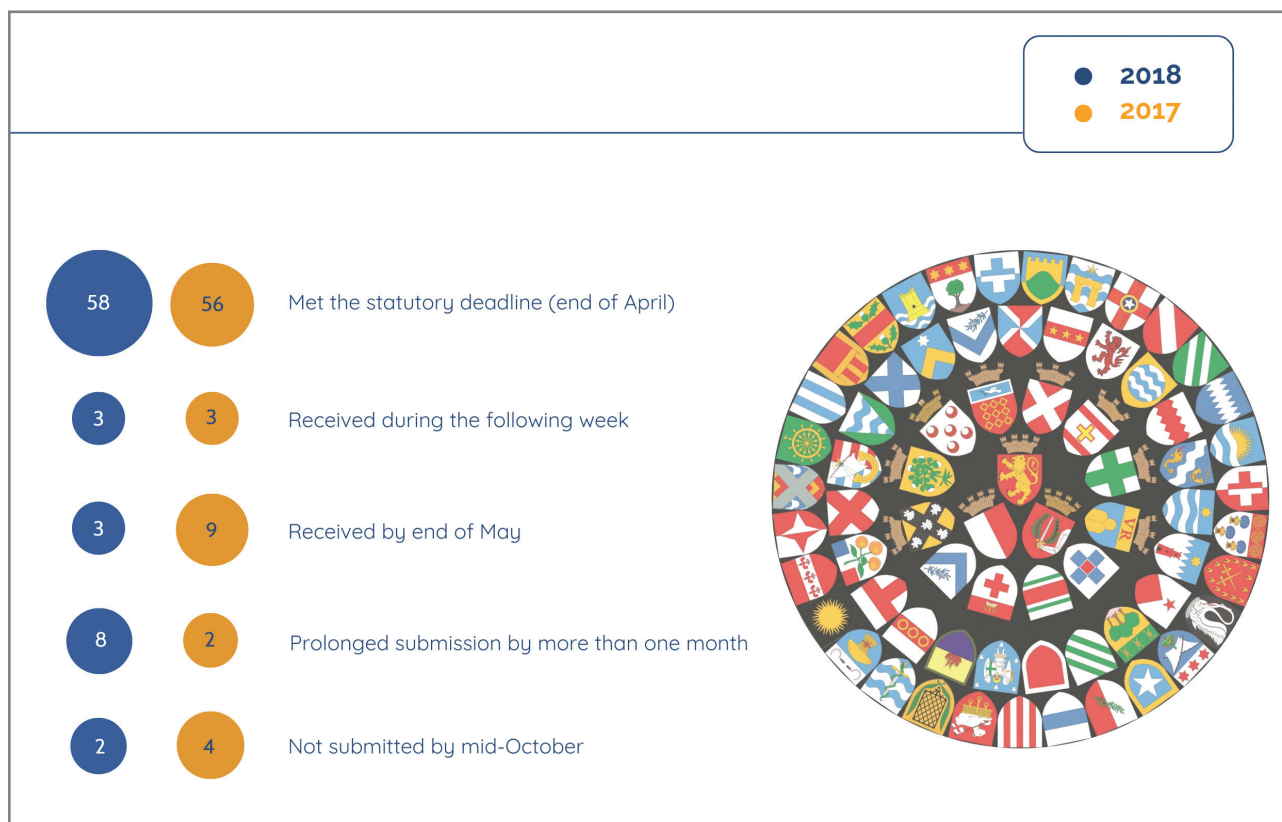


## 2018



A slight improvement was noted in the number of Local Councils and Regional Committees that submitted their respective audited financial statements on time, by end April. **Figure 4** refers. Meanwhile, the financial statements of Qrendi Local Council and the Gozo Regional Committee were not yet submitted by mid-October 2019, being the ultimate deadline set by NAO before publication of this report. Unfortunately, this marks the fifth consecutive year that the Gozo Regional Committee failed to meet the respective deadlines. Such situation is unacceptable to the NAO and necessary action is to be taken accordingly by the pertinent authorities.

Figure 4: Submission of Audited Financial Statements



### Quality of Financial Statements

The extent of proposed audit adjustments very often indicates that Councils lack internal review prior to the submission of the financial statements for audit, since they rely on the year-end audit to identify any potential errors in the preparation of their accounts.

Furthermore, the NAO is concerned that the financial statements presented for audit were not always up to the expected standard; discrepancies were noted between balances as disclosed on the face of the Statement of Comprehensive Income and Statement of Financial Position and the respective notes. At times these also contained casting errors. Moreover, instances were encountered whereby prior year adjustments and/or journal entries posted by the respective Council were not supported by the necessary documentation or were not substantiated by explanations. This hindered the LGA from performing the necessary audit procedures.

Councils are to acknowledge that timely financial statements, accurately reflecting the underlying economic substance of their operations, is of utmost importance. This will not only assist in making accurate informed

decisions, but also enables the Council to tackle any potential weaknesses in a timely manner. Thus, 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.

In view that Councils spend substantial amounts on the procurement of accountancy services often not yielding the expected results, NAO reiterates its recommendation to DLG, to actively consider recruiting a number of qualified accountants, thus eliminating the need for Local Councils to outsource such service. This would not only be more cost-effective, but also easier to monitor progress, makes communication with accountants better and brings about more harmonisation and standardisation in the preparation of the accounts. Until this is implemented, DLG is to adopt a stricter position with those Councils whose financial statements are not prepared to the desired professional standard.

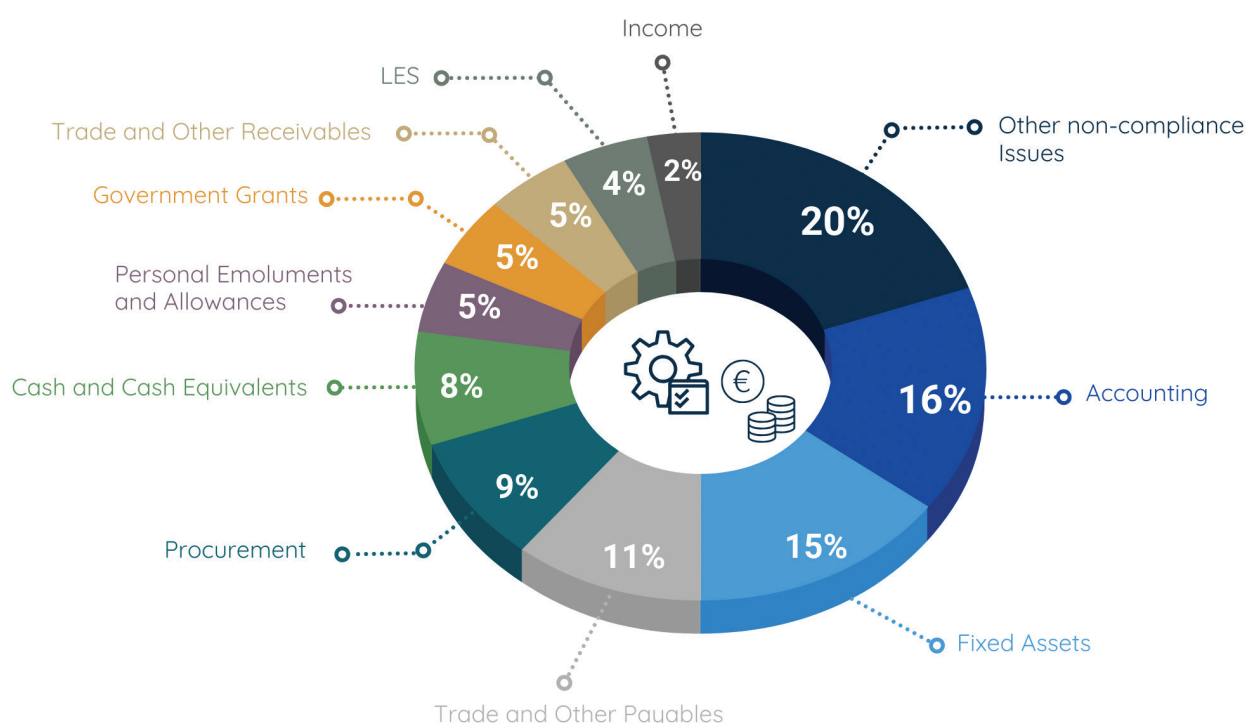
### 3. Control Issues

A review of the follow-up actions undertaken by Local Councils following the previous year’s audits revealed that, from an aggregate of over 1,500 recommendations put forward by LGAs, only 26% were implemented, a significant 71% of recommendations remained completely unaddressed, and 3% were only partly implemented. This could only be construed as lack of accountability on the part of the respective Councils.

As was the case in previous years, most of the issues highlighted in the 2017 management letters had to be reported upon again in the year under review. The significant internal control weaknesses leave the Councils exposed to several risks and errors.

**Figure 5** below illustrates the areas where deficiencies were identified and the respective occurrences.

Figure 5: Control Issues



The most common weaknesses identified were the following.

- Departures from the applicable rules and regulations, the most prevalent of which include:
  - a. Statutory documentation not uploaded on the Councils’ websites within the stipulated timeframe, if at all.
  - b. Issues concerning the Councils’ meetings, such as meetings lasting over three hours, time lapse between meetings held exceeding the five-week interval, and meetings not held due to lack of quorum.

- c. Schedules of Payments lacking important details, including a complete list of cheque numbers, amounts paid and invoice details. Cancelled cheques were at times also not recorded on this schedule.
  - d. Expenditure incurred to organise the Councils' Locality Day exceeding the stipulated threshold of €3,500, or 0.5% of the annual Government allocation, whichever is the higher.
  - e. Payments effected prior to being approved during a Council's meeting.
- Accounting errors, including but not limited to cut-off procedures incorrectly applied. This resulted in omitted or inaccurate figures of income and expenditure as well as transactions recorded in the wrong accounting period, posted in the wrong nominal account or completely omitted from the books of account.
  - FAR not being maintained in line with best practice and in terms of the Local Councils (Financial) Regulations, or not maintained at all. Variances in asset cost and/or depreciation between figures as per FAR and the nominal ledger and/or financial statements as well as incorrect depreciation calculations were also noted. Certain anomalies in the manner that fixed assets were insured were also encountered.
  - A number of payable balances were long outstanding. Creditors' balances as per Councils' books did not always reconcile to the respective amount as per confirmation reply from suppliers. No regular reconciliations of creditors' balances to supplier statements were being performed.
  - Goods and/or services were at times either purchased directly from the open market despite exceeding the established threshold or procured under an expired agreement. Moreover, amounts of expenditure incurred for Councils' operations were not all supported by an invoice and/or valid fiscal receipt. A number of tender documents could not be traced while purchase orders and/or purchase requests were not drawn up in line with the applicable regulations.
  - Bank reconciliations were either not prepared on a monthly basis or else were not performed within 10 working days from the end of the previous month. Petty cash summaries were not drawn up in line with the stipulated requirements since these either lacked the necessary details or were not endorsed. A number of stale cheques were not reversed from the books of account. Deposits were not effected in a timely manner while physical cash in hand did not always tally to the respective balance as per books of account.
  - Personal emoluments as recorded in the books of account did not match with the respective figures as disclosed in the documentation filed with the Inland Revenue Department (IRD). At times, Councillors were still paid a full allowance notwithstanding that their absence from a Council's meeting was not attested by a medical certificate or letter of excuse. Cases of final settlement system payments not being remitted to IRD on time were also encountered.
  - Once again the annual financial statements of the Joint Committees for the year ended 31 December 2018 were not submitted to the respective Local Councils, thereby hindering LGAs from providing reasonable assurance on the LES income recorded in the Councils' books of account. In addition, LES receivable balances, as well as income received in the form of administration fees from contraventions collected on behalf of LESA, differed from the respective amounts as disclosed in the reports generated from the LES computerised system.

- Certain receivable balances have been due for a number of years. Some of these amounts are no longer considered recoverable; however, provision for bad debts was not always created. Cases of credit balances also featured in the receivables list. Moreover, debtors' balances as included in the books of account did not always tally with the amounts as confirmed by the respective debtors.
- By means of Directive No. 1/2017, DLG instructed Local Councils to account for Government grants using the capital approach under IAS 20 as from financial year 2018, instead of the previously applied income approach. This change was brought about with the intention of eliminating deferred income balances from the Statement of Financial Position, which amounts could be misinterpreted as liabilities. However, various errors in the application of the new accounting treatment, resulting in departures from the requirements of IAS 20, were noted. These included, amongst others, errors in the reversal of deferred income, such as grants allocated to the incorrect fixed asset category or not reclassified to PPE, resulting in unallocated deferred income. In certain instances, Councils also capitalised grants relating to projects which were not yet completed by the end of the financial year under review.
- Income earned by the Council was not always covered by an agreement, hindering auditors from ascertaining the correctness of the amounts as recorded in the books of account. Income figures did not always tally to the respective supporting documentation provided for audit purposes and when manual records were maintained, there was no proper audit trail.

## Response to the Management Letter

Although a number of concerns were brought to the Councils' attention every year by LGAs, in many cases no corrective measures were taken to address the shortcomings. In fact, management letter points were often addressed by means of a simple statement, indicating that the particular issue was noted. Comments did not specify any concrete actions taken or to be taken to implement the proposed recommendations. Other points were completely ignored.

During the year under review, only 37 Local Councils, one Regional Committee and the LCA replied to the management letter by the timeframe stipulated in Article 8(2) of the Local Councils (Audit) Regulations, 1993; i.e. within six weeks after the receipt of the management letter from the Auditor General. A further 19 Local Councils and two Regional Committees replied after the lapse of the respective deadline. The reply of another Local Council was forwarded to NAO by LGA, as the response by the respective Council was not submitted to this Office. No reply was provided by the remaining 11 Local Councils by mid-October 2019, thus denoting a sense of irresponsibility on the side of the respective Council, which is totally unacceptable. Such irresponsible attitude renders the considerable public funds being incurred on the auditing of Local Councils, as established by law, an utter waste of taxpayers' monies.

Further to the above, although the relevant regulations require replies to be signed both by the ES and the Mayor, some were either endorsed only by one of the said individuals or not endorsed at all.

## Recommendations

Good internal controls provide reasonable assurance that Local Councils are achieving their objectives. Thus, local authorities are encouraged to take prompt action to address the recommendations put forward by the respective LGA, with primary focus on those addressing internal control deficiencies and which have been outstanding for a number of years.



Local Councils are also expected to:

- Perform the required reconciliations for both receivable as well as payable balances, thereby verifying the accuracy and completeness of such balances as recorded in the books of account and show an accurate picture of the financial position as at year-end. Applying appropriate cut-off procedures is also extremely important.
- Ascertain that a complete FAR is maintained and continuously updated, thereby reflecting the actual physical assets owned by the Council.
- Attest the adequacy of internal controls to safeguard cash and bank balances, depositing any money in hand on a timely basis, thereby minimising the risk of theft and fraudulent activity and by carrying out effective bank reconciliations.
- Perform effective payroll reconciliations to ascertain that figures being reported upon are accurate and that timely and complete payments in the form of tax and social security contributions are remitted to IRD.
- Ensure that goods and services are acquired in line with the applicable procurement rules and regulations. Directive No. 3/2019 also binds all Local Councils to engage a contracts manager who is not only expected to supervise contracts entered into by the respective Council, monitor the related works and ascertain that services rendered by the contractors meet the required standards, but also to advise the Council on any technical issues. Moreover, no payments are to be effected by the Council for any works carried out, before these are certified by the respective contracts manager.

## 4. Other Particular Concerns



### Local Enforcement System not subject to Systems Audit

Once again, no evidence ascertaining the robustness of the Information Technology system in place to record the process of contraventions was provided, nor that the reports generated were free from material misstatements. This is of concern to NAO particularly when considering that this system, which is operated by an external service provider, is the key source of the receivable balances reflected in the financial statements of Regional Committees and the administration fee due to the respective Local Councils.

The NAO reiterates that in coordination with DLG, LESA should commission a fully-fledged audit on the system without any further delays. 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

Although the then nine Joint Committees were expected to be wound up one year following the set-up of the Regional Committees on 1 September 2011, to-date NAO has no indication that such process has officially commenced.

It would be highly appropriate that the Department acknowledges the importance of such an issue, especially in view of the fact that for the last six consecutive periods, none of the nine Joint Committees submitted the respective audited financial statements to the Auditor General. Moreover, two of the Joint Committees, namely the Central and Northern failed to file the financial statements for the last eight and nine years respectively. This situation is unacceptable to the NAO.

Despite the aforementioned shortcoming was beyond the control of Local Councils, it also had a negative impact on the latter as it contributed to the qualification of the audit report of 26 Local Councils, on the basis that no practical alternative audit procedures could be performed on this area.

The audits of the Joint Committees' financial statements were carried out by private audit firms 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 also declared that the expenditure involved was apportioned according to a pre-established formula based on the number of processed fines. As was stated by the Chairman of the foregoing Joint Committee, such costs were paid directly by the individual Councils. Furthermore, it was claimed 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 had, in previous years, declared that they did not prepare any financial statements at all.

The NAO encourages the DLG to give priority to this issue and devise a concrete plan to liquidate these nine authorities without prolonging the matter any further.



## Street Lighting

Notwithstanding that over eight years elapsed since the cessation of the respective Joint Committees, discussions for the delegation of the street lighting function to the four Regional Committees in Malta are still underway. To-date only the street lighting function in Gozo was devolved to the respective 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.

In the circumstances, Local Councils are expected to abide by Circular No. 50/2016, which renders them responsible to procure this service individually through a 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. Notwithstanding this a number of Councils have disregarded such guidance since this 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 years back.



## Chargeable WasteServ Malta Ltd Tipping Fees beyond Local Councils' Budgeted Allocation

For the seventh year (2013-2019), DLG transferred, on behalf of Local Councils, the amount of €1.3 million to WasteServ Malta Ltd (provided for under Programmes and Initiatives – Line Item 5665). These were meant to settle outstanding arrears, since the amounts invoiced by the company, by way of waste tonnage fees, were in excess of the Government budgetary allocation provided. Whilst acknowledging that this is in line with the decision taken by the Ministry for Finance in 2013 to resolve an existent anomaly, the fact that the same amount was transferred year after year, irrespective that invoiced amounts are based on the tonnage of waste disposed by the Councils, raises concerns regarding the accuracy of the related payments. According to DLG, discussions are now underway with WasteServ Malta Ltd to assess the current status and propose a simple, clear and sustainable solution.



## Distributions from the Reserves of Regional Committees

Revenue generated by Regional Committees, through money collected from contraventions between 1 September 2011 and 30 September 2015, was intended to be used for the running of the respective Committees, as well as to fund new projects and initiatives in the communities falling under their remit. Eventually during the years, the Committees started disbursing funds from their respective reserves. Verifications carried out on the accounting treatment adopted by Local Councils for the recording of such funds revealed that funds received were not always allocated to a specific project as intended but were utilised to finance day-to-day operations. Furthermore, Local Councils recognised such amounts as income received rather than deferred income and amortised accordingly.

## 5. Way Forward

### Local Government Reform

The 25<sup>th</sup> anniversary from the inception of Local Councils was marked by a Local Government Reform which came into effect on 26 April 2019. This presented authorities with an opportunity to undertake an in-depth assessment of the sector whilst consolidating its functions and autonomy.

The reform aimed to address existing shortcomings and provide a more efficient service to the citizens. Major changes included the following.

- **Regions** – to be allocated adequate resources to be able to accomplish the specific tasks assigned to them. Furthermore, these will be referred to as Regional Councils instead of Regional Committees.
- **Administrative Committees** – despite being dissolved, their functions will be reinvested in the respective Local Councils. One of the Councillors will be entrusted with the responsibility for these communities. For this purpose, a subcommittee is to be set up to ensure that related exigencies are discussed during a Council's meeting.
- **Local Councillor's responsibilities** – effectiveness is a priority, thus every Councillor will be assigned specific responsibilities for matters falling within the ambit of his community. Such onus which is outlined in the Fourteenth Schedule of the Local Government Act (Cap 363), includes cleanliness, the environment, youth, sport and physical activities, innovation, infrastructure, projects, the elderly, education, culture, communities, social aspects and the protection of animals.
- **The Social, Educational and Community Sector** – with the aim of strengthening the local community, Councils are expected to ameliorate their services when providing assistance and support to citizens.
- **Increased youth participation** – by means of this reform, youths aged 16 can contest in Local Councils' elections.
- **Increased local citizen participation** – to strengthen and enhance effective citizens' participation in local government operations, residents will be invited to contribute to the work plan during the first three months of the new local council legislature.
- **Strengthening of human resources** – Regional and Local Councils will have greater autonomy with regard to the number of employees they recruit. Furthermore, employees will have opportunities for promotion; an incentive to perform better.
- **A name change for the Act** – the Local Councils Act is now renamed as the Local Government Act in recognition of the importance given to the concept of Local Government.
- **Amendment to the Maltese Constitution** – the clause recognising Local Councils as a form of local government will be amended accordingly to reflect the concept of Local Government which will be composed of two levels, the regional and the local.

## Regional Committees

Following the divestment of their responsibility from the administration and management of the LES in 2015, Regional Committees assumed a rather passive role in the local government sector. Meanwhile, the five Regional Committees were entrusted with the development of an integrated plan by identifying strategies that needed 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 each Committee to collate plans and publish a national strategic plan within the context of the National Policy for Local Government of the Maltese Islands.

Three Regional Committees, namely the Central, the Northern and the South Eastern, submitted the respective plan and subsequently signed a Memorandum of Understanding granting them a further €200,000 each, for the implementation. According to DLG, to-date a number of initiatives have been taken and remarkable progress has been registered in respect of other specific projects.

On the other hand, no such funds were allocated to the Gozo and Southern Regional Committees. Although the former drew up the final report, it did not manage to identify the respective projects. In the case of the Southern<sup>9</sup> Regional Committee, the tender was cancelled due to a technical fault and was not re-issued. In both cases, the respective funds were lost as the scheme had expired.

The Local Government Reform is expected to revive Regional Committees by giving them a new breath of life. Being the back bone of the Local Councils falling within their remit, Regional Councils are to be committed towards a more active role, by supporting the former in achieving their goals, whilst assisting them to benefit and successfully manage programmes funded by the European Union. Regional Councils are also expected to co-ordinate with Local Councils in the organisation of sports activities, use of public facilities including school premises, as well as the issue of tenders for waste management on a regional level. In addition, the provision of subsidy to students for research regarding aspects relating to the region, research and report on social impact which is to be compiled within the first year of each legislature, the issue of an opinion regarding the local plan and the preparation on an annual basis of a work plan, which includes the Region's financial needs and human resources, entail new responsibilities that are to be assumed by the Regional Councils.

## Mid-Term Audits

Until 15 July 2019, the Local Councils (Audit) Regulations required that a mid-term audit was to be carried out whenever there was a change in the position of the ES within a particular Council or Regional Committee. This was intended to serve as a handover to the new incumbent. The responsibility to inform the Auditor General to conduct a mid-term audit was vested in the Mayor.

During the period under review, eight Local Councils changed their ES within the period obliging them to carry out a mid-term audit. However, only two Councils adhered to the legislation cited above and requested such an exercise. Yet, the delay in the preparation of the financial statements and the submission of the related documentation did not yield any benefit since this was finalised concurrently with the year-end financial audit for 2018, i.e. more than eight months later. This resulted in an additional financial burden on the respective Councils as they nevertheless had to finance this assignment despite that it no longer served its purpose.

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<sup>9</sup> During 2019 the Regional Committee launched the fifth edition of the activity Festa Nar. It also announced a scheme under which the Councils falling under its remit can benefit from a sum of up to €18,000 to implement projects in the locality.

NAO positively acknowledged that following the recommendations made in previous years, DLG agreed that the mid-term audit was often adding no real value to the Councils. Thus, through Legal Notice 166 of 2019 published on 16 July this legal obligation was no longer mandatory, but a mid-term audit is to be carried out if requested by the ES.

## Performance Indicators

Through the project titled 'A Partnership for Creative Governance', financed under the Norway grants programme, including as key stakeholders LCA, the Norwegian Association of Local and Regional Authorities as well as the Centre of Expertise for Local Government Reform within the Council of Europe, performance indicators covering three critical areas namely, residual household waste and recycling, improved street and environmental cleanliness, as well as road maintenance, were established. This should now enable NAO to conduct Performance Audits as cited in Local Councils legislation.

To this effect, following a call for tender in 2018, a contractor was appointed to analyse the level of implementation of such performance indicators and accordingly compile annual reports. However, at time of publication, no reports were yet available.

## Other Initiatives

Local communities have an important role to play in ensuring that they work towards the common good of their citizens and improve their standard of living. Committed towards strengthening Local Councils' and assisting them in honouring their objectives, the respective Parliamentary Secretary for Local Government, through DLG, issued a considerable number of initiatives. The main initiatives are outlined hereunder.

- **Launch of publication for Local Councils to facilitate the absorption of European funds** – this provides Local Councils with all the necessary information about all European Union funding programmes and will be able to identify projects which specific communities could benefit from the most.
- **Memorandum of understanding between the Department of Primary Health Care and LCA** – through such agreement, Local Councils are delegated with the responsibility of the local clinics (known as bereg).
- **A total of 30 Local Councils benefit from the capital projects fund** – Councils were granted financial assistance to carry out 32 different projects in the Maltese Islands.
- **More than €3 million towards projects in 16 different localities** – funds were allocated from the Planning Authority's Development Planning Fund towards several projects in the localities.
- **Development Planning Fund** – the amount of €29 million, derived from the development that takes place within the localities, is available for the improvement and embellishment works in urban areas that are considered beneficial to the communities. Although government agencies, non-government organisations, as well as private individuals, could also apply for such funds, the proposals are to be submitted through the respective Local Councils where the initiatives are intended to be implemented.
- **Implementation of cultural strategies** – in a partnership with the Malta Arts Council, for the coming two years DLG will embark on the project *Żvilupp u Implimentazzjoni ta' Strategiji Kulturali għall-Kunsilli Lokali u Reġjonali*, which is financed by the European Union funds. The aim of the project is to identify cultural priorities on local and regional levels for the period 2020-2025.

## Local Councils

- **Financial scheme for the community: a better life through physical exercise and sports** – a scheme to promote physical exercise and sports as well as to encourage citizens to participate in such activities.
- **An improved cleansing strategy for mechanical sweeping in arterial and distributor roads** – following an investment in more sweeping machinery, a cleansing strategy has been set up so that all arterial and distributor roads are mechanically swept at least twice a week.
- **Liaison officers serving as a contact point between Local Councils and Government authorities and entities** – this initiative will enhance the cooperation between the Local Councils, Government authorities and entities, and thus will lead to a stronger coordination and a more effective service for citizens.
- **Restructuring in the local government division** – the strengthening of this division will in return result in a better service to the citizen.

## Appendix A – Financial Allocation

Table 1: Income received by Local Councils

Local Councils	Government	Other	Other Income	Total
	Allocation 1 January – 31 December 2018	Supplementary Income received from Central Government	generated by the Council	
	€	€	€	€
Attard	701,775	66,557	49,565	817,897
Balzan	288,968	22,060	30,417	341,445
Birgu	296,648 <sup>11</sup>	48,831	101,405	446,884
Birkirkara	1,338,044	103,542	382,305	1,823,891
Birżebbuġa	728,009	59,222	50,640	837,871
Bormla	471,957	58,126	23,485	553,568
Dingli	350,144	25,866	26,989	402,999
Fgura	619,962	56,094	69,997	746,053
Floriana	359,683	43,931	40,057	443,671
Fontana	150,511	11,215	12,027	173,753
Gudja	287,067	18,775	14,889	320,731
Gżira	553,106	38,426	93,604	685,136
Għajnsielem	347,241	21,800	44,329	413,370
Għarb	245,180	81,730	206,865	533,775
Għargħur	260,821	21,563	37,674	320,058
Għasri	177,784	18,836	4,651	201,271
Għaxaq	354,433	49,932	12,260	416,625
Ħamrun	672,107	31,727	112,975 <sup>12</sup>	816,809
Iklin	262,725	23,923	27,443	314,091
Isla	281,185	45,842	38,091	365,118
Kalkara	259,494 <sup>12</sup>	21,805	7,440	288,739
Kerċem	265,626	14,691	26,263	306,580
Kirkop	216,530 <sup>10</sup>	22,979	26,660	266,169
Lija	268,851 <sup>12</sup>	20,769	22,056	311,676
Luqa	427,258	45,910	30,969	504,137
Marsa	492,995	79,010	47,243	619,248
Marsaskala	896,511	87,603	80,926	1,065,040
Marsaxlokk	339,221	75,078	20,314	434,613
Mdina	190,979 <sup>12</sup>	73,361	47,769	312,109
Mellieħa	1,099,031 <sup>12</sup>	150,369	93,723	1,343,123
Mġarr	445,138	39,346	28,702	513,186
Mosta	1,236,332	72,464	121,493	1,430,289
Mqabba	281,612	9,383	18,398	309,393

<sup>10</sup> Amount does not reconcile to that recorded in the financial statements which balance has been recorded net of deductions in relation to services provided by the Malta Information Technology Agency and wireless services.



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

Local Councils	Government	Other	Other Income	Total
	Allocation 1 January – 31 December 2018	Supplementary Income received from Central Government	generated by the Council	
	€	€	€	€
Msida	593,666	41,543	127,072	762,281
Mtarfa	264,963	47,583	14,566	327,112
Munxar	253,270	14,339	19,217	286,826
Nadur	461,929 <sup>12</sup>	42,668	54,780	559,377
Naxxar	999,061	44,272	144,497	1,187,830
Paola	682,820	52,728	40,137	775,685
Pembroke	433,663	24,197	18,042	475,902
Pietà	302,068	51,254	143,193	496,515
Qala	311,352	27,794	19,626	358,772
Qormi	1,131,203	137,724	123,498	1,392,425
Qrendi	360,643	10,000	-	370,643
Rabat (Gozo)	549,237 <sup>12</sup>	19,615	91,432	660,284
Rabat (Malta)	1,086,107	38,304	49,411	1,173,822
Safi	255,981	16,249	31,593	303,823
San Ġiljan	800,642	45,703	162,990	1,009,335
San Ġwann	803,844	44,953	59,900	908,697
San Lawrenz	154,987 <sup>12</sup>	20,448	19,022	194,457
San Pawl il-Baħar	1,757,116	111,116	205,080	2,073,312
Sannat	233,018	14,777	19,312	267,107
Santa Luċija	334,797	8,289	40,051	383,137
Santa Venera	466,494	36,226	40,027	542,747
Siġġiewi	773,194 <sup>11</sup>	64,933	45,825	883,952
Sliema	1,158,190	53,021	315,827	1,527,038
Swieqi	684,043	142,808	105,913	932,764
Ta' Xbiex	219,889 <sup>12</sup>	36,026	23,447	279,362
Tarxien	538,370	28,628	33,869	600,867
Valletta	722,262 <sup>12</sup>	440,360	167,427	1,330,049
Xagħra	517,710	11,688	49,112	578,510
Xewkija	356,377	16,064	53,254	425,695
Xgħajra	212,404	16,002	6,153	234,559
Żabbar	928,102	64,141	63,492	1,055,735
Żebbuġ (Gozo)	520,130	5,403	30,703	556,236

<sup>11</sup> Amount does not reconcile to that recorded in the financial statements which balance includes additional funds allocated to the Council. In the table above, such funds were recorded as Other Supplementary Income received from Central Government. The remaining difference is attributed to an incorrectly recorded annual deduction.

<sup>12</sup> Amount does not reconcile to that recorded in the financial statements which balance includes additional funds allocated to the Council. In the table above, such funds were recorded as Other Supplementary Income received from Central Government.

## Appendix A – Financial Allocation *cont./*

Table 1: Income received by Local Councils

Local Councils	Government	Other	Other Income	Total
	Allocation 1 January – 31 December 2018	Supplementary Income received from Central Government	generated by the Council	
	€	€	€	€
Żebbuġ (Malta)	827,286	41,604 <sup>13</sup>	75,613	944,503
Żejtun	843,674	90,551	161,085	1,095,310
Żurrieq	794,580	35,207	83,081	912,868
<b>Totals</b>	<b>36,500,000</b>	<b>3,456,984</b>	<b>4,589,871</b>	<b>44,546,855</b>

Source: Government Allocation – as per report provided by DLG.

Table 2: Income generated by Regional Committees

Regional Committees	Amount €
Central Regional Committee	199,768
Northern Regional Committee	162,559
South Eastern Regional Committee	136,537
Southern Regional Committee	162,897
Total	661,761

<sup>13</sup> Figure does not tally to the amount disclosed in the financial statements in view that revenue was incorrectly classified.

## 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, LGAs were unable to determine whether the Council is entitled to receive any further income from the Joint Committees, since the audited financial statements of the latter for the financial year 2018 were not available.

**Column 2** shows that the Councils’ disclosure requirements were not entirely in accordance with IFRSs and IASs. Very often such disclosures related to the requirements of IFRS 9 – Financial Instruments, 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 Councils, Regional Committees and LCA	Column 1 No Audited Financial Statements of Joint Committee	Column 2 Insufficient Disclosures	Column 3 Specific Issues	Column 4	
				‘Except For’ Audit Opinion relating to Going Concern Assumption	Emphasis of Matter highlighting a ‘Material Uncertainty related to Going Concern’
Attard	x	x			
Balzan	x				
Birkirkara	x	x			x
Birżebbuġa			x		
Dingli	x	x	x		
Fgura		x	x		
Fontana		x			
Gżira	x	x	x		
Għajnsielem		x	x		
Għarb		x	x		
Għargħur	x	x	x		
Għasri					x
Għaxaq		x	x		
Iklin	x	x			
Isla			x		
Kerċem		x	x		x

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

Local Councils, Regional Committees and LCA	Column 1 No Audited Financial Statements of Joint Committee	Column 2 Insufficient Disclosures	Column 3 Specific Issues	Column 4	
				‘Except For’ Audit Opinion relating to Going Concern Assumption	Emphasis of Matter highlighting a ‘Material Uncertainty related to Going Concern’
Kirkop			x		
Lija	x	x			
Mdina	x	x	x		
Mellieħa	x	x	x		
Mgarr	x	x	x		
Mosta	x	x	x		
Msida		x			
Mtarfa	x	x	x		
Munxar		x	x		
Nadur		x	x		x <sup>14</sup>
Naxxar	x	x	x		
Pembroke	x	x			
Pietà		x	x		x
Qala			x		
Rabat (Gozo)		x	x		x
Rabat (Malta)	x	x	x		
San Ġiljan	x	x			
San Ġwann	x	x	x		
San Lawrenz		x	x		x
San Pawl il-Baħar	x	x	x		
Sannat		x	x		x
Santa Venera	x	x			
Sliema	x	x			
Swieqi	x	x	x		
Ta’ Xbiex	x	x			
Tarxien	x		x		
Xagħra		x	x		
Xewkija		x	x		
Xgħajra		x			
Żabbar	x	x	x		
Żebbuġ (Gozo)		x	x		x
Żejtun	x	x	x		

<sup>14</sup> Although the Council has registered a positive working capital as at year-end, if one had to remove the restricted cash and cash equivalents of €218,854, the current liabilities of the Council would exceed its current assets by €127,698.

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

Local Councils, Regional Committees and LCA	Column 1 No Audited Financial Statements of Joint Committee	Column 2 Insufficient Disclosures	Column 3 Specific Issues	Column 4	
				‘Except For’ Audit Opinion relating to Going Concern Assumption	Emphasis of Matter highlighting a ‘Material Uncertainty related to Going Concern’
Central Regional Committee		x	x	x	
Northern Regional Committee		x	x		
South Eastern Regional Committee			x		
LCA		x	x	x	

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

## Appendix C – List of Directives and Circulars

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

### List of Directives

Directive No. 3/2019	Contracts Managers
Directive No. 1/2017	Accounting Treatments
Directive No. 3/2016	Arrangamenti Finanzjarji bejn il-LESA, il-Kumitati Reġjonali u l-Kunsilli Lokali

### List of Circulars

Circular No. 4/2017	Għeluq tas-Sena Finanzjarja
Circular No. 50/2016	Sejthiet għall-Offerti/Kuntratti dwar Manutenzjoni tad-Dawl fit-Toroq

## **Appendix D – List of International Accounting and Financial Reporting Standards**

The following is a list of IASs and IFRSs that were referred to throughout the Report:

### **International Accounting Standards**

- 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

### **International Financial Reporting Standards**

- IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments

## 2018 - 2019 (to date) Reports issued by NAO

### NAO Work and Activities Report

April 2019 Annual Report & Financial Statements 2018 - Works and Activities

### NAO Audit Reports

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

December 2018 Report by the Auditor General on the Workings of Local Government for year 2017

November 2018 An investigation of matters relating to the contracts awarded to ElectroGas Malta Ltd by Enemalta Corporation

November 2018 An investigation of matters relating to the contracts awarded to ElectroGas Malta Ltd by Enemalta Corporation (Abridged)

December 2018 Report by the Auditor General on the Public Account 2017

December 2018 Performance Audit: An evaluation of the regulatory function of the Office of the Commissioner for Voluntary Organisations

January 2019 An Investigation of Visas issued by the Maltese Consulate in Algiers

March 2019 Performance Audit: A Review on the Contract for Mount Carmel Hospital's Outsourced Clerical Services

June 2019 Joint Audit: An Evaluation of the Community Work Scheme

July 2019 Cooperative Audit: Are adequate mechanisms in place for the designation and effective management of Marine Protected Areas (MPAs) within the Mediterranean Sea?

October 2019 Information Technology Audit: The Effective use of Tablets in State, Church and Independent Primary Schools

October 2019 Follow-Up Reports by the National Audit Office 2019