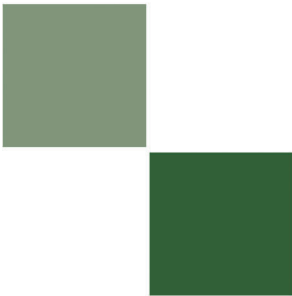


Report by the Auditor General on the Workings of Local Government

2019





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on the Workings of
Local Government

Public Accounts 2019

Report by the Auditor General
November 2020

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List of Abbreviations

ES	Executive Secretary
FAR	Fixed Asset 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
LGD	Local Government Division
NAO	National Audit Office

Foreword

Considering the substantial budgetary allocation to Local and Regional Councils in Malta and Gozo, totalling approximately €42.2 million during 2019, as well as these entities' direct impact on the lives of our citizens, this Report on the workings of Local Government is considered as one of the most important assignments undertaken by the National Audit Office every year. Thus, I would like to convey our heartfelt appreciation to our small but extremely competent team covering this particular area, to all private auditors with whom we work in close collaboration and to the staff of the respective Local Councils, Regional Councils and Local Councils Association who, generally speaking, provided the necessary data and information. Thanks to their collective resilience and dedication, all work related to this Report was finalised in a timely manner notwithstanding the various challenges and difficulties due to the COVID-19 pandemic.

As stated in previous Reports, I would like to reiterate that our main objective is that through our work, we provide an opportunity to all audited Local Authorities to duly address those issues and concerns which are identified during our assignments. This would eventually lead to enhanced good governance across all Councils, particularly through compliance with prevailing rules and regulations.

In all fairness, we note with satisfaction the considerable efforts being undertaken by the Local Government Division, to continuously extend its support and assistance to all Local Councils, as well as the determination of a number of Councils to address in a timely manner any shortcomings identified in our management letters. At the same time, notwithstanding our previous years' appeals, once again we have to highlight certain issues which this Office considers as unacceptable. Practically like last year, 10 Local Councils, i.e. nearly 15%, did not even bother to submit a reply to the management letter! It therefore comes as no surprise that a significant amount of recommendations have not been implemented. In these circumstances, it is my duty to reiterate that such irresponsible behaviour in the use of public funds by certain Local Councils needs to be duly addressed. Ignoring the audit findings and related recommendations means that the respective Councils are doing a disservice towards those citizens whom they aspire to serve.



Charles Deguara
Auditor General

30 November 2020

2019 Performance at a Glance

Submission of audited financial statements by the stipulated deadline of 12 June 2020



By the Deadline



Local Councils Regional Councils Local Councils Association



Delayed Submission



Local Councils



No Submission



Local Councils

Main Weaknesses

Main weaknesses encountered during the audits included:

- Accounting errors including but not limited to incorrect classifications of various transactions in the books of account.
- Pertinent regulations governing the statutory reporting procedures and publication thereof were not complied with.
- The importance of fixed asset management is still being overlooked resulting in anomalies in the application of the depreciation policy and the manner assets are insured. Instances whereby a register was not maintained were also encountered.
- Procurement not carried out in line with the underlying regulations.

Audit Opinion

Clean



Qualified



Disclaimer



Local Government

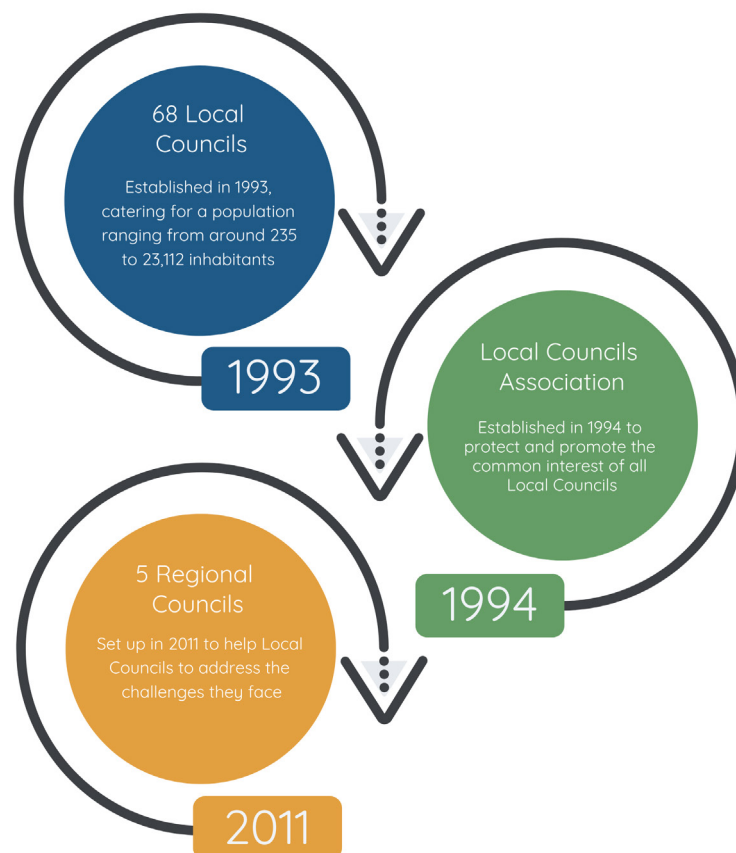
1. Local Government Sector

Overview

Following the introduction of the Local Government concept in 1993, eventually entrenched in the Constitution of Malta, Malta has adopted a three-tier system whereby various functions, previously undertaken by the Central Government, were decentralised and delegated to Regional and Local Councils. Local Government was established specifically to deliver certain prescribed services directly to the local community, as well as to set the direction for the development of the respective localities. Article 33 of the Local Government Act, together with supplementary legislation, clearly set out a division of competences between the different levels of Government guaranteeing an autonomous system of Local Government.

The composition of the Local Government sector is outlined in **Figure 1**.

Figure 1: Composition of Local Government Sector



As regards funding, the three aforementioned stakeholders are practically fully dependant on the annual budgetary allocation made by the Parliament to finance their operations. Direct funds allocated by Government during financial year 2019 (reference year) are as disclosed in **Table 1**.

Table 1: Annual Allocation to the Local Government Sector

Local Councils	€38,500,000
Regional Councils	€3,150,000
Local Councils Association	€102,772

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, according to the Local Government Division (LGD), either faced specific exigencies and/or experienced a decrease in the allocation forwarded to them when compared to preceding years. **Appendix A** illustrates income received by the respective Local Authorities during 2019.

Governance

The ultimate goal of each Local Authority is to achieve its objectives whilst acting in the common interest of the community at all times and consistently adhering to the requirements of pertinent legislation and Government’s policies. For this reason, governance at the local level is split between centrally appointed officers, mainly the Executive Secretary (ES) who holds executive authority and performs the day-to-day administration of the Council assisted by other staff, and locally elected Councillors, who represent the views of their electorates and who are essentially responsible for policy direction. Ultimately, as the name implies, ES is responsible for the executive management of a Local Authority.

Undoubtedly, financial reporting is one of the most important tools to not only demonstrate good governance but also to establish whether available resources were utilised in the most efficient and effective manner. Within the Local Government context, financial reporting 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 timely management of available resources, as well as to address, in an effective manner, any emerging issues. Furthermore, at the end of each financial period, the ES is required to draw up a set of financial statements that fairly present the Council’s financial position and performance. Once approved by the Council and co-signed by the Mayor and the ES, a copy of the financial statements is submitted to the Auditor General, to be audited in line with the Local Councils (Audit) Regulations, 1993 and applicable procedures.

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

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 Auditors (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 Regional and Local Council, as well as the LCA, was duly scrutinised by the NAO team working on this particular area.

2. Audit Results


This Office recognises the efforts on the part of a good number of Local Authorities in meeting the deadline of 28 February 2020 for the submission of the unaudited financial statements. However, it is important to acknowledge that timeliness and quality are not mutually exclusive, as the usefulness of such reports depends on their respective quality. Timely and accurate financial reporting is essential for decision-making, the management of public funds and public accountability.

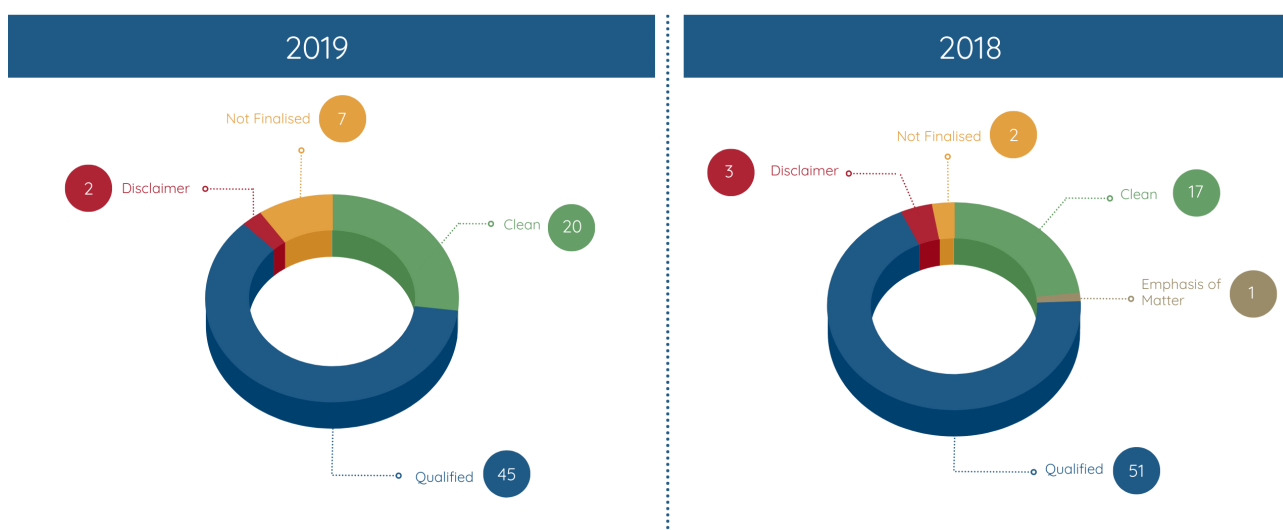
The illustration below summarises the audit opinions issued by LGAs on the 2019 financial statements and comparative figures for the preceding year.





Audit Opinion

 **27%** of Local Authorities were presented with a clean audit opinion

 **61%** were issued with a qualified audit opinion

 **12%** representing **2** Local Councils whereby LGAs could not express an opinion on the financial statements presented and another **7** Local Councils whose audits were still in progress by end September 2020



-  Clean - Financial records fairly represent financial position and have been maintained in accordance with International Financial Reporting Standards
-  Emphasis of Matter - An area that, although appropriately presented in the accounts, still merited disclosure in the audit report
-  Qualified - Reflects the fact that LGAs were unable to audit certain areas due to restrictions imposed which were beyond control
-  Disclaimer - LGAs were 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, LGAs were not in a position to issue an opinion on the financial statements as presented by two Local Councils, namely Kalkara and Valletta Local Councils.

Kalkara Local Council

In line with the preceding three years, an audit opinion could not be expressed on the financial statements of Kalkara Local Council in view of the significance of the following matters:

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, the reserves, as well as of the existence of deferred income and creditors in the financial statements.

Accrued Income – Adequate documentation was not available to substantiate a reversing entry of €32,329 effected during the year ended 31 December 2017 from accrued income to several other accounts. Consequently, LGA had no assurance on the completeness and existence of the balances effected by this adjustment.

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 recognised in the financial statements was accurate.

Trade Payables – Satisfactory explanations to support the difference of €14,176, encountered between the list of trade payables and the respective control account was not provided.

Going Concern – Current liabilities exceeded current assets by €170,429, thus 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. The following refer:

Fixed Assets – The absence of a Fixed Asset 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 carried out in line with the accounting policy disclosed in the financial statements.

Receivables – Testing on trade receivables and accrued income revealed that the respective balances were 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 receivables' balance as recognised by the Council.

Administrative Fees – No supporting documentation was provided to substantiate income from administrative fees on Local Enforcement System (LES) fines as recognised in the books of account (€8,896), which was overstated by €8,349 when compared to the LES report generated from the Information Technology (IT) system.

Payables – Trade payables and accrued expenditure as reported by the Council were incomplete and inaccurate due to the lack of proper accounting of the pertinent transactions. Due to such errors, the Council's liabilities as at year-end were materially misstated.

International Financial Reporting Standards – The financial statements presented by the Council lacked appropriate disclosures in respect of revised standards, mainly International Accounting Standard (IAS) 1 – Presentation of Financial Statements. 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 International Financial Reporting Standard (IFRS) 9 – Financial Instruments.

Going Concern – As at 31 December 2019, the Council had a net liability position of €542,133. 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 if any, 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.

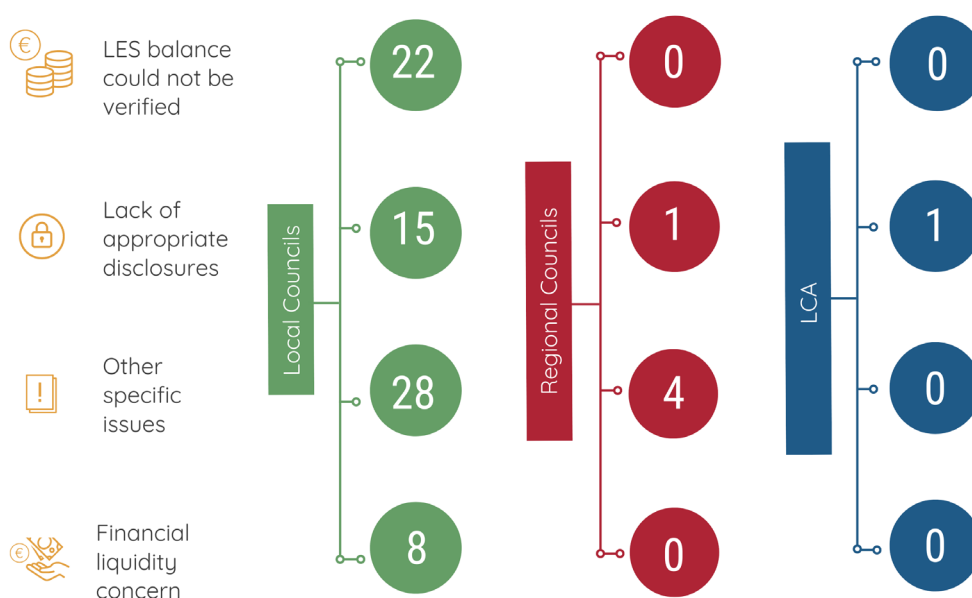
Financial Situation Indicator – In line with pertinent regulations, the Council should have a net current asset value of not less than 10% of the annual financial allocation. However, the actual financial indicator at 31 December 2019 stood at a negative figure of 44%.

Modified Audit Opinion

Forty-five audit reports were modified 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 disagreement regarding the application, acceptability or adequacy of accounting policies used. Shortcomings for which an 'Except For' audit opinion was issued are indicated in **Figure 2**.

In addition, the going concern assumption used in the preparation of the financial statements presented by eight Local Councils, 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. Adverse changes 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.

Figure 2: 'Except For' Audit Opinion



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

Financial Position and Performance

The financial sustainability of certain Local Authorities has always been of concern, especially when considering that a number of Local Councils are financially stressed and heavily reliant on Government grants to continue their operations, mainly due to the following reasons:

- a. The financial allocation provided to each respective Council was not sufficient to meet the community's current needs since the applicable formula still has to be attuned to the situation pertaining to each individual Local Council. NAO is informed that a committee was set up to address this issue through the revision of the underlying funding mechanism.
- b. Mismanagement in the operational structure resulting in funds not being utilised in an efficient and economic manner. Examples include expenditure budget overrun, payment for uncertified work prior to local elections date and undertaking of large-scale projects which the Council could not handle through its financial resources.


As reiterated in preceding years, in such cases Local Authorities are to critically review their operating procedures and devise an adequate long-term cost reduction plan to ensure that the negative financial situation is addressed without further delays.

Three financial sustainability indicators, portraying working capital, operating result and financial situation were calculated. While the working capital ratio indicates the solvency of the local authority and its ability to meet short-term debts, the operating result ratio demonstrates the extent to which revenue generated sustains

the related expenditure. Moreover, the Financial Situation Indicator (FSI) highlights whether the respective Authority managed to maintain a healthy positive balance against 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. Results of the calculation of these three indicators are reported upon further down in the Report.

Figure 3 illustrates the overall financial results of the Local Government sector for the year under review, as well as comparative information for the preceding two periods.

Figure 3: Overall Financial Results 2019 – 2017¹

	 2019 €	 2018 €	 2017 €	% Change between 2018 and 2019	% Change between 2017 and 2019
Current Assets	49,718,169	42,403,623	34,893,929	17%	42%
Current Liabilities	25,773,995	21,899,099	15,044,957	18%	71%
Working Capital	23,944,174	20,504,524	19,848,972	17%	21%
Retained Earnings	54,329,364	51,269,617	59,050,514	6%	(8%)
Total Revenue	46,507,492	39,380,787	37,774,696	18%	23%
Total Expenses	43,039,151	47,116,044	34,673,797	(9%)	24%
Operating Results	3,468,341	(7,735,257)	3,100,899	(145%)	12%

Working Capital

Maintaining a healthy working capital is an important element for sound financial management since it allows for the efficient running of routine operations, ensuring the availability of sufficient cash flows to meet imminent operational expenses as well as maturing debts as they fall due. It is thus imperative for Local Authorities to ensure proper management of working capital, enabling smooth operation of their day-to-day business.

As evidenced in **Figure 3** above, steady growth has been noted in the Local Government sector’s overall working capital, increasing by €3.4 million (17%) over the preceding year and by €4 million (21%) when compared to 2017. Such growth is the result of a net increase in total current assets² and total current liabilities³, with these rising by over €14.8 million and €10.7 million respectively during the three-year period 2017-2019.

¹ The amounts quoted in **Figure 3** for all the three financial years represent 67 Local Authorities and exclude the financial results of the 7 Local Councils namely, Birgu, Birkirkara, Gżira, Qrendi, San Pawl il-Baħar, Swieqi and Xgħajra, which did not submit the 2019 audited financial statements by end September 2020. Moreover, amounts disclosed in **Figure 3** 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 or did not tally to the balances recorded in the respective notes to the financial statements.

² Consisting of cash and cash equivalents and trade and other receivables.

³ Entailing trade and other payables, short-term deferred income and any short-term bank loans.

Despite the positive overall result, no improvements were noted in the individual number of Local Councils registering a negative working capital over the preceding year. In fact, at the close of financial year 2019, the financial statements of 11 Councils (same number as reported in previous year) showed a negative net current asset position. Moreover, although still in the negative, only four Local Councils managed to improve their financial liquidity position, with the remaining seven registering substantial adverse increases over the preceding year.

NAO acknowledges the efforts undertaken by LGD following publication of the Annual Report on the workings of Local Government (2018), including the series of meetings held with the defaulting Local Councils as a step in ensuring better governance of public funds. However, opportunities for improvement still exist, both at LGD level through the enhancement of its monitoring function, as well as at Council level, to ensure sound financial management across the board.

Table 2 lists the 11 Local Councils ending the financial year under review with a negative financial position and the comparative figures for the previous two years. On the other hand, **Table 3** highlights those Local Authorities which managed to recover their working capital balance, recording a positive figure in 2019 when compared to the 2018 negative balance.

Table 2: Local Councils recording a Negative Working Capital as at end of 2019⁴

Local Councils	31 December 2019	31 December 2018	31 December 2017
	€	€	€
Dingli	(17,098)	67,197	113,620
Kalkara	(170,429)	(158,904)	(164,586) ^b
Kerċem	(18,645)	(3,846)	(32,628) ^b
Marsa	(715)	101,932	136,584
Rabat (Gozo)	(285,053)	(332,148)	(470,548) ^b
San Lawrenz	(14,248)	(24,351)	(23,862) ^b
Sannat	(105,221)	(33,940)	(64,474) ^b
Tarxien	(206,667)	251,683	600,093
Valletta	(542,133)	(456,281) ^a	(713,165) ^b
Żebbuġ (Gozo)	(104,586)	(135,165)	82,074 ^b
Żebbuġ (Malta)	(226,341)	(549,197)	(118,554) ^b

^a As re-stated in 2019.

^b As re-stated in 2018.

Table 3: Local and Regional Councils registering a Positive Working Capital over the preceding year⁴

Local and Regional Councils	31 December 2019	31 December 2018	31 December 2017
	€	€	€
Għasri	166,993	(115,166)	304,798 ^b
Pietà	15,646	(20,488)	67,430 ^b
Gozo Regional Council	657,605	(9,475)	(10,467)

^b As re-stated in 2018.

⁴ Figures disclosed in **Table 2** and **Table 3** were computed on amounts as reported in the Statement of Financial Position, even though instances were encountered whereby these were either not correctly classified or did not tally to the balances recorded in the respective notes to the financial statements.

Operating Result

Operating ratios assess an Authority's ability to fund operations from surpluses. While it is understood that the primary focus of a Local Authority is not to generate a surplus, but to serve the locality and its citizens, positive results of income over expenditure ensure the continued operation of services without financial difficulties and fulfilment of community needs.

As illustrated in **Figure 3**, in 2019, the Local Government sector as a whole managed to generate a surplus from operations of €3.5 million, registering a positive movement of €11.2 million when compared to the aggregate deficit of €7.7 million recorded in the preceding financial year. This positive movement confirms that the negative impact on the prior year's operating result was mainly triggered by the change in the depreciation method⁵ which was caused following a onetime substantial increase in the depreciation expense for the prevailing year. In fact, a reduction in the total recurrent expenditure incurred by the sector during 2019 was noted, decreasing to €43 million when compared to the amount of €47.1 million incurred in 2018. On the other hand, revenue figures ameliorated by €8.7 million over the three-year period 2017-2019, of which €6.6 million represented the year-on-year increases in the Government allocation provided to Regional and Local Councils.

The positive progress registered in the global surplus was due to the reduction in the number of Local Authorities recording a loss in the 2019 financial statements, which was decreased by almost half when compared to the preceding period; from 52 Local Authorities in 2018 to a total of 25 in 2019.

Table 4 shows the localities 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.

Despite having incurred a loss, all Local Councils listed in **Table 4**, with the exception of two, namely Kalkara and Valletta Local Councils, had sufficient reserves to make up for the reported deficit. This Office considers the negative financial situation of the two Councils in question, which has been deteriorating for the last years, as unacceptable and for which prompt remedial action is required to improve the respective Councils' accountability.

Table 5 illustrates those Authorities that have managed to rectify their position from a deficit in 2018 to a surplus in the year under review.

⁵ By means of Directive No. 1/2017, as from financial year 2018, Local Authorities were instructed to depreciate non-current assets using the straight-line method of depreciation instead of the previously applied reducing balance method.

Table 4: Local Councils ending Financial Year 2019 with a Deficit⁶

Local Councils	Surplus or Deficit			Retained Earnings or Accumulated Losses as at		
	1 January – 31 December 2019 €	1 January – 31 December 2018 €	1 January – 31 December 2017 €	31 December 2019 €	31 December 2018 €	31 December 2017 €
Fgura	(23,058)	(23,326)	41,414	1,910,253	1,933,311	1,956,637
Fontana	(2,738)	(68,503)	6,750	304,456	307,194	375,697
Għajnsielem	(3,436)	58,652	(5,207)	777,965	781,401	722,749
Għarb	(68,918)	(14,908)	4,860	226,166	295,084	309,992 ^b
Għargħur	(79,850)	(40,626)	24,286	465,955	545,805	586,431
Għaxaq	(20,802)	53,944	65,017	726,031	746,833	692,889
Iklin	(5,815)	(105,328)	26,401	354,460	360,275	465,603
Kalkara	(20,548)	(34,331)	(27,982)	(140,387)	(119,839)	(85,508)
Kirkop	(4,289)	(43,275)	91,907	410,229	414,518	457,793
Lija	(8,774)	1,295	58,442	282,682	291,456	290,161
Marsa	(72,882)	(338,811)	(31,905)	419,947	492,829	831,640
Mellieħa	(167,617)	(762,659)	9,656	2,983,873	3,151,490 ^a	3,989,633 ^b
Mtarfa	(32,246)	2,430	15,238	224,174	256,420	253,990
Munxar	(20,099)	31,720	46,910	449,814	469,913	438,193
Nadur	(75,846)	(104,200)	30,842	484,485	560,331	664,531
Naxxar	(164,358)	(291,535)	370,322	1,674,931	1,839,289	2,130,824
Pembroke	(33,501)	(30,916)	51,196	646,747	680,248	711,164
Rabat (Gozo)	(132,984)	(97,024)	(108,918)	18,804	151,788	248,812
Rabat (Malta)	(124,978)	(401,907)	407,641	2,083,507	2,208,485	2,610,392
San Ġiljan	(178,173)	(4,194)	135,498	519,416	697,598	701,783
Sannat	(12,924)	18,586	21,998	165,832	178,755	160,169
Santa Luċija	(21,990)	(12,979)	23,910	359,903	381,893	394,872
Ta' Xbiex	(743)	(22,599)	(61,965)	338,097	338,840	361,439
Valletta	(16,369)	(344,272)	(105,508)^b	(34,687)	(18,318)^a	260,833^b
Żebbuġ (Gozo)	(29,672)	(177,117)	36,348	635,466	665,138	842,255

^a As re-stated in 2019.

^b As re-stated in 2018.

⁶ Figures disclosed in Table 4 were computed on amounts as reported in the Statement of Comprehensive Income and Statement of Financial Position, even though instances were encountered whereby these were either not correctly classified or did not tally to the balances recorded in the respective notes to the financial statements.

Table 5: Local and Regional Councils registering a Surplus over the preceding year's Deficit⁷

Local and Regional Councils	1 January – 31 December 2019 €	1 January – 31 December 2018 €	1 January – 31 December 2017 €
Attard	23,409	(260,408)	33,877
Balzan	21,238	(125,123)	12,015 ^b
Birżebbuġa	35,560	(396,302)	148,848
Bormla	59,879	(115,554)	87,674 ^b
Floriana	59,310	(228,045)	19,412
Għasri	26,461	(99,626)	8,332
Isla	50,948	(26,986)	17,775
Luqa	42,113	(12,106)	78,182
Marsaskala	174,416	(174,977)	171,502 ^b
Marsaxlokk	28,335	(40,600)	14,049
Mosta	36,026	(599,997)	216,882
Msida	102,322	(29,925)	108,464
Pietà	21,020	(159,491)	15,673
Qormi	172,748	(575,626)	100,947
Safi	33,438	(16,730)	23,915
San Lawrenz	3,133	(13,380)	(20,670)
Santa Venera	2,896	(11,283)	103,360
Sliema	121,120	(237,702)	75,293 ^b
Tarxien	92,381	(42,991)	113,463
Xagħra	42,784	(319,663)	72,676
Xewkija	13,321	(186,390) ^a	74,928
Żabbar	239,926	(86,250)	269,421 ^b
Żebbuġ (Malta)	125,265	(321,973) ^a	194,898 ^b
Żurrieq	56,336	(138,230)	192,890
Central Regional Council	509,231	(113,500)	(632,195)
Northern Regional Council	494,512	(1,142,416)	2,925
South Eastern Regional Council	1,004,561	(120,809)	(454,764)
Southern Regional Council	81,585	(111,774)	(544,487)

^a As re-stated in 2019.

^b As re-stated in 2018.

Financial Situation Indicator

Through Article 4(1) of the Local Councils (Financial) Regulations, 1993, Local Councils 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 (LGD), also outlining the actions that are intended to be taken to remedy the situation.

⁷ Figures disclosed in Table 5 were computed on amounts as reported in the Statement of Comprehensive Income, even though instances were encountered whereby these were either not correctly classified or did not tally to the balances recorded in the respective notes to the financial statements.

However, in view that the Councils' operating scenario has evolved throughout the years, the current computation is 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. By the end of the year under review, 16 Local Councils⁸ (2018: 14), 10 of which also reported a negative working capital, registered a FSI below the 10% benchmark required by law.

NAO commends the fact that LGD has maintained its commitment and submitted proposals to address this issue that was discussed during the Local Government Good Governance working group meeting held in October 2020.

Financial Statements Preparation

Timeliness

In accordance with the Local Councils (Audit) Procedures 2006 (P2.05) and instructions issued by LGD 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 28 February following the end of the financial year; and
- b. the audited financial statements and management letters by the stipulated deadline of 15 May 2020. However, due to the exceptional challenges that were brought by the COVID-19 pandemic crisis at the time the audit process was underway, a four-week extension was approved, with the new submission deadline set at 12 June 2020.

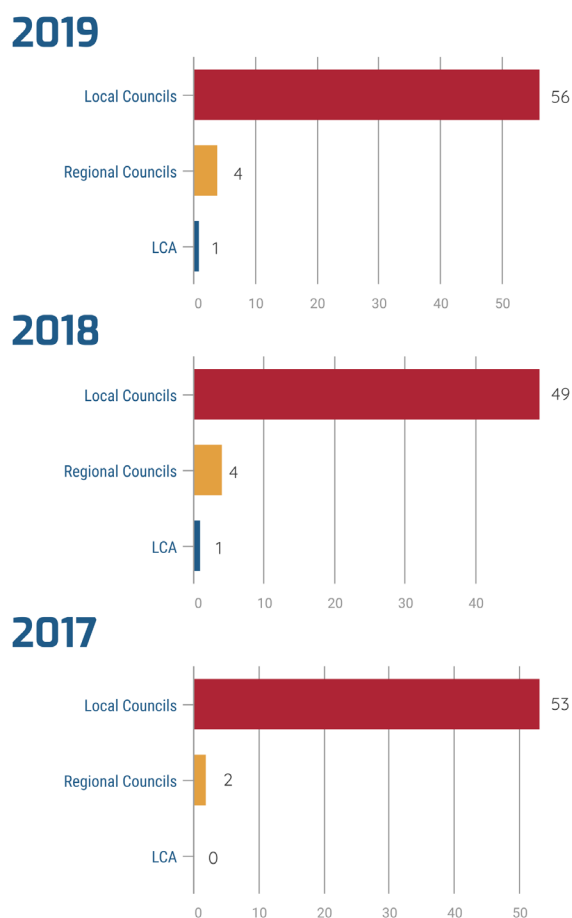
Financial statements are to consist of the:

- Statement of the Council Members' and Executive Secretary's Responsibilities
- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flows
- Notes to the Financial Statements

Fifty-six Local Councils, four Regional Councils and LCA managed to complete the year-end close processes on time and met the February deadline for the submission of the unaudited financial statements to the Auditor General.

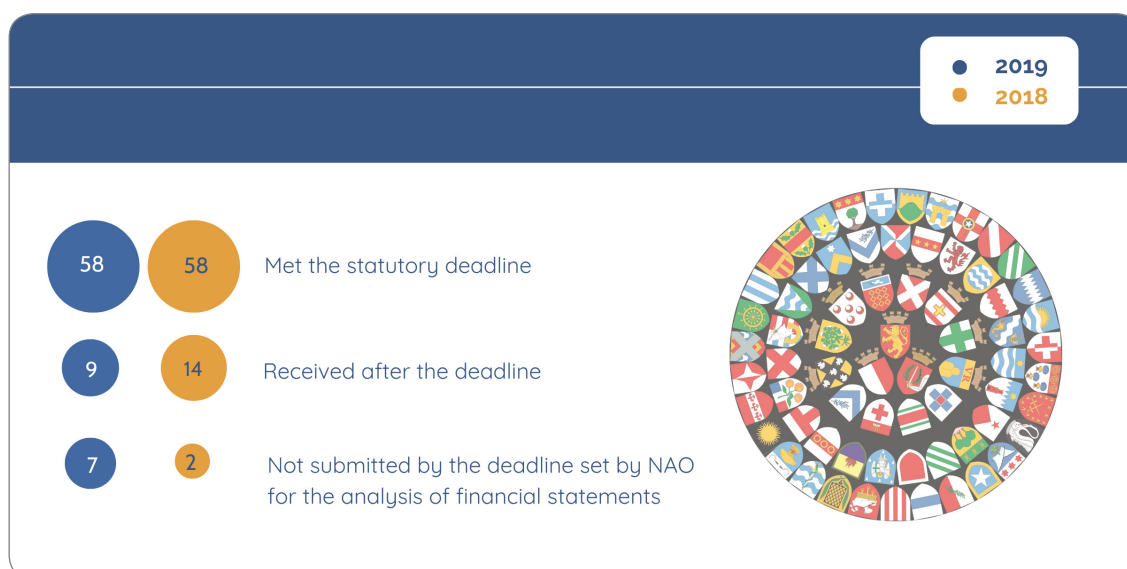
⁸ According to workings of LGAs.

Figure 4: Submission of unaudited Financial Statements by the Deadline



The number of Authorities that maintained the deadline for the filing of audited financial statements was equivalent to that of the preceding year. Yet, seven Local Councils still did not manage to submit their audited financial statements by end-September 2020, being the ultimate deadline set by NAO before publication of this Report. **Figure 5** refers. This Office deems such deterioration as unacceptable and remedial action is to be taken accordingly by pertinent Authorities.

Figure 5: Submission of audited Financial Statements



Quality of Financial Statements

The expectation of public financial accountability poses a greater responsibility on the Local Government sector to prepare timely, reliable and comprehensible financial reporting. Accordingly, accounting information in the financial statements presented by Local Authorities should be complete, precise and truthful, capable of supporting decisions taken by the Authorities and assisting them in addressing potential weaknesses in a timely manner.

Whilst it is acknowledged that the audit process enhances the accuracy and quality of financial statements, this Office considers the number of audit adjustments proposed by LGA on a yearly basis as significant, representing a heavy reliance by Councils on the year-end audit to identify errors in the accounts. Such scenario portrays a poor accounting function and also depicts a lack of internal review prior to the submission of the financial statements for audit. If properly analysed, audit adjustments can yield insights into the more commonly occurring misstatements and their root causes, allowing responsible officers to identify ways to rectify or minimise them, whilst improving the overall quality of financial reporting.

Several errors were also noted in the presentation of financial statements, with discrepancies arising between balances as disclosed on the Statements of Comprehensive Income and Financial Position and the related notes. At times, these also contained casting errors. Instances whereby prior year adjustments and/or journal entries posted by the respective Authority were not supported by the necessary documentation, or were not substantiated by explanations, were also encountered, hindering LGAs from performing the required audit procedures.

The above illustrates that, although substantial funds are used on the procurement of accountancy services, these are not yielding the required results. In this regard, Authorities are to ensure that, in line with the yearly instructions issued by LGD, the person responsible for maintaining the books of account, apart from being in possession of a Certified Public Accountant warrant, keeps abreast with the updates of the applicable accounting standards and regulations. Moreover, LGD is once again encouraged to consider the recruitment of a pool of qualified accountants to have the financial statements prepared in-house, instead of being outsourced by each individual Authority. Not only would this prove to be more cost-effective, but it would also facilitate monitoring, improve communication with the accountants and would result in the harmonisation of accounting across the board. Until such time, LGD is expected to adopt a stricter position against those Authorities whose financial statements are not prepared with due diligence.

3. Control Issues

NAO cannot emphasise enough that internal controls are key tools aimed at assisting Local Authorities in delivering their priorities in an effective, efficient and economical manner, whilst producing good quality financial statements and complying with pertinent legislations. Thus, the administrative arm of Local Government is expected to take proportionate and timely action by addressing the shortcomings highlighted in the management letters to mitigate related risks, thereby enhancing internal controls. Otherwise auditing thereof would be rendered a futile exercise.

Notwithstanding that such message is reiterated by NAO year after year, once again the rate at which recommendations put forward by LGAs were taken on board was rather low. From an analysis of the follow-up actions undertaken by the Local Government sector, it was noted that only around 31% of the recommendations put forward by LGAs in the previous year’s management letters were implemented. While a slight improvement was registered over the preceding year, where 26% of the recommendations were addressed, this Office considers the figure of 69% unaddressed recommendations as substantial and unacceptable. This could only be construed as lack of commitment and, possibly, accountability on the part of the respective Local Authority. Such attitude cannot be tolerated any further.

Figure 6: Analysis of Preceding Years’ Recommendations

	2018	2017
Total Recommendations	1,600+	1,500+
Implemented %	31%	26%
Not Implemented %	69%	71%
Partly Implemented %	0%	3%

As evidenced in **Figure 6**, a substantial number of recommendations was put forward by LGAs in both 2017 and 2018, counting over 1,500 and 1,600 recommendations respectively. The lack of action on the part of the Authorities concerned in implementing the recommendations resulted in the majority of matters that had been reported upon in 2018 to be flagged again in the 2019 management letters. This situation is possibly the result of one or more of the following reasons:

- a. action taken solely addressed the audit finding without delving into the associated root cause;
- b. Local Authorities continued to rely on LGAs’ support to assist them in addressing issues relating to the year-end financial statements. As a result, there was little motivation to improve the Local Council’s capacity in this regard; and

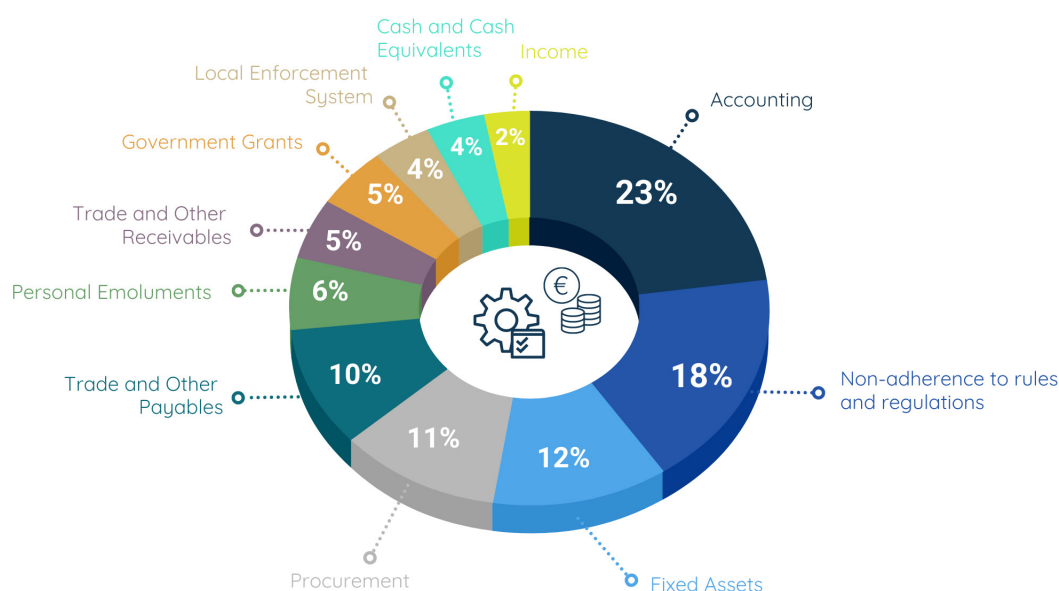
- c. certain Authorities lacked the required commitment to address the issue of poor reporting and non-compliance and were simply content with a qualified audit opinion without aspiring for a clean one.

Local Authorities are to make best use of the audit procedure and its outcome for improving governance and internal controls.

Weak Internal Controls

To achieve sustainable governance, Local Authorities are to understand the fundamental causes giving rise to the shortcomings highlighted by LGAs during the audit process and ensure that the corrective actions adopted address the actual issues. **Figure 7** identifies the significant internal control weaknesses which are leaving the Authorities exposed to several risks and errors.

Figure 7: 2019 Control Issues



The following paragraphs highlight the most prevalent weaknesses identified by NAO when analysing the 2019 management letters as prepared by the respective LGAs.

1. Accounting errors, including but not limited to incorrect classification of various transactions in the books of account, as well as transactions not being recorded in line with the requirements of the applicable financial reporting standard. Instances of incorrect cut-off procedures, erroneous recording of transactions and double postings that triggered inaccurate account balances, and transactions being completely omitted from the books of account were also of common concern.
2. Non-adherence to the applicable rules and regulations including, but not limited to:
 - a. Schedules of payments lacking necessary details, such as cheque numbers, amounts paid and invoice details. Cancelled cheques were at times also not recorded on this schedule.

- b. Shortcomings in relation to meetings and the preparation of the respective minutes, including meetings not held due to lack of quorum, time lapse between meetings exceeding the five-week interval, meetings lasting more than the allowable limit of three hours and minutes of meetings at times not bound at the end of the financial period as required by standing procedures.
 - c. Council's website not updated with the required statutory documentation or instances whereby these were not uploaded within the stipulated timeframe.
 - d. Payments effected prior to being approved during a Council's meeting.
 - e. Funds collected from general and/or custodial receipts not deposited on a twice-weekly basis as required by the pertinent procedures.
 - f. Budgeted amounts for certain categories of expenditure exceeded.
3. Concerns with respect to fixed assets included depreciation charge for the year not calculated on the asset's remaining useful life or computed on an annual rather than monthly basis, as well as anomalies in the manner assets were insured. Figures pertaining to assets as disclosed in FAR, the nominal ledger and the financial statements were not always consistent. FAR was at times not maintained in line with the requirements of the Local Councils (Financial) Regulations, 1993, or not maintained at all.
4. Goods and services were not always acquired in line with the procurement regulations; 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 daily operations were in certain instances not supported by an invoice and/or valid fiscal receipt. Various tender documents could also not be traced while purchase orders and/or purchase requests were not drawn up in line with the applicable regulations. A number of awarded tenders exceeded the set budgets, thereby resulting in cash constraints for other services.
5. Suppliers' statements were not obtained by a number of Local Authorities, implying that regular reconciliations of creditors' balances were not performed. Alternative procedures carried out by LGAs resulted in various discrepancies between payables' balances as recorded in the books of account and those as per the respective supplier's balance confirmation letter. Audit verifications also revealed that the Authorities' creditors' lists included long outstanding payables' balances, disputed amounts as well as debit balances.
6. Figures as disclosed in the documentation filed with the Inland Revenue Department (IRD) did not always tally to the personal emoluments figure recorded in the books of account. Moreover, instances of incorrect honoraria and allowances paid were noted since these were not updated to reflect the revisions which came into effect as from 26 April and 1 July 2019⁹ respectively. Tax collected through the final settlement system was not remitted to IRD on time. Cases whereby leave carried forward to the following year was in excess of the set threshold were also encountered.
7. Certain receivables' balances have been due for a number of years without an adequate provision for bad debts despite that some of these balances were no longer considered as recoverable. A number of credit balances also featured in the Authorities' receivables' lists.

⁹ In line with LGD Circular No. 22/2019.

8. In a number of instances, grants were capitalised upon receipt rather than upon completion of the respective project, amounts received in relation to capital projects recorded as income for the year rather than deferred or capitalised and amounts receivable not fully accounted for resulting in understated deferred income.
9. LES receivables' balances, as well as income received in the form of administration fees from contraventions collected on behalf of the Local Enforcement System Agency (LESA) as recorded in the Councils' books differed from the related amounts as disclosed in the reports generated from LES. As was the case in preceding years, once again, the annual financial statements of the Joint Committees for the year ended 31 December 2019 were not submitted to the respective Local Councils. This hindered LGAs from providing reasonable assurance on LES income recorded in the Councils' books of account. Instances of late invoicing for LES administration fee by Local Councils' to LESA or Regional Councils were also noted.
10. Bank reconciliations were not always prepared on a monthly basis or else these were not performed within 10 working days from the end of the previous month. Moreover, when prepared, bank reconciliations contained certain errors, including stale and cancelled cheques. Final withholding tax was at times being charged on the bank accounts. Cash held at the Councils' premises on occasions also exceeded the stipulated threshold.
11. Income from tipping fees recorded in the Councils' books of account did not always tally to the actual amount received, in which cases recorded balances were inaccurate. In addition, income earned by the Councils was not always covered by an agreement, hindering auditors from ascertaining the correctness of the respective amount in the financial statements.

Response to the Management Letter

Although a number of concerns requiring urgent attention to improve audit outcomes are brought to the Authorities' attention every year by LGAs, minimal corrective measures are taken to address the shortcomings. In fact, while certain management letter points were addressed by means of a simple statement, essentially indicating that the particular issue was noted (without specifying any concrete actions taken or intended to be taken to implement the proposed recommendations), others were outrightly ignored.

During the year under review, only 36 Local Councils, 2 Regional Councils and 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 10 Local Councils and 3 Regional Councils replied after the lapse of the respective deadline, whilst the feedback of another five Local Councils was not submitted to the Auditor General but was only forwarded either to LGD or the respective LGA. No reply was provided by the remaining 10 Local Councils by end-September 2020, demonstrating poor sense of commitment from the side of the respective Council, which is totally unacceptable.

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

Unless responsible officers are held accountable for the lack of action and inadequate performance, the audits will yield no value added. LGD is thus expected to take a stricter stance with respect to those Councils that fail to comply.

Recommendations

In achieving their strategic objectives, Local Authorities must invariably maintain a proper system of internal control, assisting in identifying risks and providing reasonable assurance that prompt action is taken when required.

The considerable number of shortcomings highlighted by LGAs year on year and the lack of action thereon raise serious doubt on the effectiveness of the internal control systems operated by Local Authorities. In this regard, Local Authorities are to strive towards addressing their internal control deficiencies, taking the necessary actions to implement the recommendations put forward by LGAs, with a focus on those shortcomings that have been outstanding for a number of years.

Local Authorities are encouraged to:

- Ascertain that their books of account are appropriately maintained and, as already recommended further up in this Report, ensure that the person or entity responsible for preparing the accounts is qualified, works with due diligence and keeps abreast with the relevant accounting standards and regulations, thereby reducing the number of accounting errors. Authorities should not rely on the year-end audit to reveal mistakes. If interim reports are based on the wrong information, Authorities can be misguided as to their performance and financial position. They may also rely on inaccurate figures for decision-making purposes and the budgeting process.
- Ensure full compliance with the applicable laws and regulations including, amongst others, maintaining accurate and up-to-date documentation and making it publicly available on the Council's website, where required, depositing funds in a timely manner, thereby minimising the risk of theft and fraudulent activity, and effecting payments subsequent to their approval. Moreover, budget figures are to be prepared with due diligence, thereby serving as a proper benchmark to maintain actual expenses within the limits of the approved budget.
- Maintain appropriate control over their fixed assets, ensuring that a complete FAR is compiled and updated with the necessary movements, thus reflecting the actual assets physically owned by the Council.
- Acquire goods and services in line with the applicable procurement rules and regulations, thereby ensuring transparency over the procurement process.
- Perform adequate reconciliations of receivables' and payables' balances to verify their accuracy and completeness as recorded in the books of account and eventually correctly reflected at the end of the financial year.

- Perform effective payroll reconciliations, ascertaining that reported figures are accurate and that timely payments in the form of tax and social security contributions are completely remitted to IRD.
- Carry out monthly bank reconciliations, thereby safeguarding cash and bank balances.

Proper internal controls will facilitate effective and efficient operations and ensure compliance to prevailing rules and regulations, as well as reduce the likelihood of control processes being deliberately circumvented.

Effective monitoring arrangements are also an important aspect of a sound internal control system. Thus, it is also recommended that LGD continually oversees, directs and controls the Local Government sector, to ensure the implementation and maintenance of robust internal controls at Authorities' level, thereby appropriately responds to risks and prevents serious control failures.

4. Other Particular Concerns

Local Enforcement System not subject to Systems Audit

On 1 September 2015, the administration and management of LES was delegated to LESA. Accordingly, income receivable from contraventions booked thereafter pertained to the respective Agency, with Local and Regional Councils¹⁰ only being entitled to the pending payments in respect of contraventions issued prior to the aforementioned date. As a compensation for the loss of income, Local and Regional Councils are also granted an administration fee of 10% (flat rate) of all contraventions settled at their premises, in line with reports extracted from the IT system, namely LES.

The issue that no evidence was provided, to ascertain that the IT system in place to record the process of contraventions is flawless and that the reports generated therefrom were free from material misstatements, was of major concern from the start, especially when considering that the software application was devised and therefrom operated and hosted by an external service provider.

However, this Office positively acknowledges that, following the recommendations made in previous years, on 8 April 2020, LESA formally requested an IT audit of LES, which would focus on reviewing data, processes and controls embedded in the system. This will eventually provide comfort that the data extracted from the system in question, which amounts are disclosed in the financial statements, is reliable. This audit, which commenced during September 2020, was still underway by the time this Report went for publication.

Joint Committees

Notwithstanding that more than nine years have elapsed since the then nine Joint Committees were divested from their operations¹¹, up to end September 2020, the liquidation process had not yet officially commenced. This Office was informed by LGD that, following a public call for quotations, a liquidator will be appointed. However, the timeframe indicating when the respective call will be published was not pronounced.

Moreover, for the last seven consecutive periods, none of the nine Joint Committees submitted the respective audited financial statements to the Auditor General. Two of the Joint Committees, namely the Central and Northern, even failed to file the financial statements for the last nine and ten years respectively. NAO reiterates that this situation is unacceptable.

Despite that this shortcoming was beyond the control of Local Councils, it had a negative impact on the latter as this contributed to the qualification of the audit report of 22 Local Councils, on the basis that no practical alternative audit procedures could be performed on this area.

¹⁰ Income receivable from contraventions issued between 1 September 2011 and 31 August 2015 is due to Regional Councils, whilst that pertaining to contraventions booked prior to this period is owed to Local Councils.

¹¹ Joint Committees ceased their operation on 31 August 2011 and were expected to be wound up one year following the set-up of the Regional Committees on 1 September 2011.

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 was stated by the Chairman of the foregoing Joint Committee, the 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 have, in previous years, declared that they do not prepare any financial statements at all.

Street Lighting

To-date, the devolution of the street lighting function to the Regional Councils has only materialised in Gozo, with Local Councils in Malta still being 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. Yet, a number of Local Councils have again disregarded such guidance and continued to procure this service through direct orders, from the same service providers and under the same conditions outlined in the agreement entered into by the then Joint Committees years back.

NAO was informed that discussions are currently underway for a system overhaul, managed by the Ministry for Energy and Water Management.

Tipping Fees beyond Local Councils' Budgeted Allocation

Since the end of 2009, tipping fees invoiced by WasteServ Malta Ltd were in excess of the specific Government allocation provided to the Local Councils. This anomaly was finally resolved. During the last seven years, between 2013 and 2019, LGD forwarded to WasteServ Malta Ltd the amount of more than €9 million, to settle the outstanding arrears. This was allocated to Programmes and Initiatives – Line Item 5665.

As from 1 January 2020, Local Councils were expected to administer the waste management contract and pay all related charges, including tipping fees, in full. To this effect, the amount of €1.3 million, previously allocated to LGD to wipe off the outstanding dues, was passed on to Local Councils for financial year 2020, in the form of increased Government allocation.

Distributions from the Reserves of Regional Councils

With the aim of funding new projects and initiatives in the communities falling under their remit, since 2014, Regional Councils started disbursing funds from their respective reserves. Despite that such funds were expected to be allocated to a specific project as intended, instances were encountered whereby certain Councils utilised the money to finance day-to-day operations. Furthermore, it was noted that the accounting treatment for the recording of these funds was not correct since these were disclosed as income upon receipt rather than recognised as deferred income and amortised accordingly.

Allowances and Honoraria Payments

As a result of the Local Government reform, with effect from 1 July 2019, the legislation governing the payment of allowances to Mayors and Local Councillors was repealed and replaced by a new set of regulations titled 'Presidents of the Regions, Mayors, Deputy Mayors, Local Councillors and Presidents of the Associations' Allowances Regulations, 2019'¹².

In accordance with Article 32(2) of the Local Councils Act and as noted in Circular No. 22/2019, the scope of these revisions, entailing an increase in allowances, was to eliminate claims made by Mayors and Councillors for refunds of expenses incurred in the performance of their duties, such as, telephone and transport costs. Moreover, by virtue of the new amendments, allowances paid are no longer proportionate to the Councillors' attendance to Council's meetings but shall be paid in full. Nevertheless, Councillors not attending Council's meetings are still obliged to prepare a letter of excuse or send an email to the ES, ahead of the meeting, providing a reason for absence, which reason should be agreed upon as valid or otherwise by the Local Council during the pertinent meeting.

Revisions, having the same effective date as that of the Local Government reform; i.e. 26 April 2019, were also made to the Mayors' honoraria, with this being calculated as a percentage of the honorarium payable to a member of parliament, depending on the number of Councillors within the respective locality, as stipulated in the revised Article 32(1) of the Local Councils Act.

Yet, despite the explanatory circulars issued by LGD, audit verifications on the subject matter revealed that a number of Councils did not take into consideration the aforementioned revisions when calculating the respective payments, resulting in a number of understated payments. This raises doubt on whether Local Councils are keeping abreast with the regulations.

Service of a Contract Manager

Directive No. 3/2019 requires that contracts entered into by Local Councils are continually supervised by a contract manager; monitoring the related works, ascertaining that services rendered by the contractors meet the required standards, in line with contracted terms and advising 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 said contract manager.

However, it was noted that during the year under review, a number of Local Councils did not appoint a contract manager notwithstanding that, by virtue of the said directive, this requirement was to be fulfilled by the end of December 2019.

¹² Governed by Legal Notices 165 and 277 of 2019.

5. Way Forward

Regional Councils

By virtue of the amendments made to the Local Government Act, as part of the Local Government reform, Regional Councils, previously designated as Regional Committees, had their legal basis strengthened and have been given more importance through, amongst others, the inclusion of a set of defined functions¹³, which mainly include:

- assisting Local Councils within their respective region in the provision of services concerning the environmental sector, social, cultural, touristic and IT, as well as clerical services;
- assisting Local Councils to benefit and successfully manage programmes which are funded by the European Union;
- coordinating with Local Councils' sports and physical activities and initiatives;
- coordinating with Ministries, departments and Government entities to facilitate the work of Local Councils;
- the social aspect, which include researches and the preparation of a report concerning social impact evaluations;
- preparing an annual work plan, which includes the region's financial needs and human resources; and
- issuing a call for tenders for waste management services on a regional level which shall come into effect as from 2022.

To carry out the above functions, for the first time in 2019, Regional Councils were allocated a fund of €3.15 million. Moreover, all expenses related to local tribunals, which formed a substantial part of the Regional Councils' expenditure, started being borne by LESA.

This Office was informed that during the first financial year following the assignment of these new functions, Regional Councils invested most of their time and energy in discussing with the relevant stakeholders the waste management tender which, as already highlighted above, is planned to be operated on a regional level as from 2022.

Further to the above, as highlighted in preceding years' Reports, the five Regional Councils were entrusted with the development of 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. In this regard, in recent years a fund of €100,000 was equally allocated to each Council to collate plans and publish a national strategic plan within the context of the National Policy for Local Government of the Maltese Islands.

During 2018, the Central, Northern and South Eastern Regional Councils, submitted the required plan and signed a memorandum of understanding with LGD, granting them a further €200,000 each, for the implementation. On the other hand, by the end of the said year, no funds were allocated to the Gozo and Southern Regional Councils, as both of them failed to comply with the entire requisites, by the time the scheme expired.

¹³ As defined in Article 37(B) of the Local Government Act.

Whilst the Central Regional Council is expecting to conclude its planned projects by the end of 2020, due to COVID-19 specific restrictions, the Northern Regional Council was constrained to withhold certain initiatives. Projects will pursue once restrictions are lifted. Meanwhile, the approval for the expropriation of land on which the South Eastern Regional Council planned to build the reach out centre and co-working hub, was only approved in August 2020.

Performance Indicators

The issue of efficiency and effectiveness in the level of performance demonstrated by Local Councils has always been an interesting discussion point. This is mainly due to the fact that, besides being fully financed from public funds, Local Councils are responsible for the management of certain services, including cleanliness, waste and roads, that affect the quality of life of its citizens.

During the past years LGD committed itself to identify a basket of five national performance indicators covering critical areas as outlined in **Table 6**. The respective performance indicators 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. Moreover, such indicators would eventually enable NAO to carry out value for money audits as requested by standing regulations.

Table 6: Performance Indicators

Performance Indicator	Objective
1. Residual household waste per household	To measure the performance of the Local Council in assisting their residents in waste recycling.
2. Percentage of household waste sent for recycling	To measure the percentage of household waste that is recycled.
3. Improved street and environmental cleanliness litter, detritus, flyposting and graffiti	To provide a score indicating the cleanliness status condition of the surveyed roads and surrounding environment of the principal urban and non-urban roads within the Local Council's responsibility.
4. Improved street and environmental cleanliness fly-tipping	To reduce the incidents of illegally dumped waste or fly-tipping on surveyed streets and surrounding environment within the Local Council's responsibility.
5. Principal roads where maintenance is required	To provide a score indicating the condition of the surveyed road network within the Local Council's responsibility.

Following a call for tenders, a contractor was appointed in 2018 to assess the level of performance of each and every Local Council vis-à-vis the established indicators. The result for the period October 2018 to September 2019 was presented in an annual report which provided a snapshot of the goals reached for each performance indicator. Whilst acknowledging the best performing Local Councils, this exercise is intended to assist the others in aiming for better performance and devising ways for improvement to finally achieve their strategic goals.

Other Initiatives

Created to deliver a service directly to their locality and citizens, Local Authorities are deemed to be the direct link between Government and their community. Hence, Authorities' activities have a significant impact on the communities that they serve; promoting the interest of citizens, including social, economic, environmental and cultural interests.

Notwithstanding the exceptional circumstances that were triggered by the COVID-19 pandemic, a number of initiatives, the prevalent of which are outlined hereunder were still issued by the pertinent Ministry, through LGD as well as other Ministries. These aimed at ascertaining the continuation of the Councils' business as well as improving the quality of life within local communities.

Improved Urban Areas – This scheme, with an aggregate budget of around €1.2 million and co-financed by the Norwegian Funding Mechanism, is intended to address the socio-economic challenges faced by localities considered to be urban area. This will be achieved through various pilot initiatives, each of which will be provided with a grant ranging between €25,000 and €100,000.

Increased cleanliness in Localities – The 28 Local Councils participating in this initiative were allocated with a total fund of €21,858 to raise awareness about the benefits of public cleanliness, as well as to bring together local communities to carry out clean-ups within localities.

Financial Scheme – 'Development of Local/Regional Libraries in Community Centres' – Thirty-nine Local Councils and the Gozo Regional Council were in aggregate awarded the sum of €94,579 to develop local and regional libraries into inclusive community centres in which citizens will have the opportunity to participate in innovative activities, thereby enhancing their knowledge through a social environment. This scheme finances 85% of the costs involved, up to a maximum of €3,000.

European Union Funding Opportunities – 'Europe for Citizens Programme 2014 - 2020' – Eleven Local Councils, a Ministry and a non-Governmental organisation were selected to participate in the different strands of this programme through which a better sense of awareness about the Maltese history and common values was created.

Introduction of a Digital Platform – With the purpose of safeguarding the health of workers, Councillors and the general public, whilst at the same time ascertaining business continuity, following a coordinated task by LGD and Malta Information Technology Agency, a digital platform was introduced for Local Government to carry out meetings without the need for direct contact between Councillors.

Launch of Environmental Projects – In an initiative by the Ministry for the Environment, Climate Change and Planning, a number of Local Councils will be allocated funds to implement a number of projects aimed at creating greener localities. In addition to embellishing the Maltese and Gozitan localities, trees and shrubs will benefit the community by purifying the surrounding air.

More Open Spaces in the Community – This project is geared towards the creation of open spaces in the centre of towns and villages so that these can be physically appreciated and better enjoyed by the respective residents whilst giving a positive impetus to the local environment resulting from improved air quality due to reduced air pollution.

'Slow Streets' Action Plan – Organised by LCA, the 'Slow Streets' is an action plan aimed at ensuring safe, sustainable, strong and efficient mobility within local communities by providing more open spaces. In collaboration with Transport Malta, LCA will work with a number of Local Councils on this action plan, thereby promoting walking, cycling and public transport. Resultantly, Local Councils, in coordination with Transport Malta, will temporarily suspend a number of traffic lanes, leading to open public space and giving priority to bicyclists and pedestrians.

A Digital Strategy for Local Government – Through this strategy, Local Councils will be equipped with the required infrastructure and digital solutions to be able to operate in today's digital society. These digital tools are necessary to bring the Local Government closer to the community, thereby enhancing communication, taking informed decisions within the community and achieving better transparency and accountability.

Launch of Two Schemes for Local Councils with a €600,000 Investment – An investment of €600,000, intended to offer a better quality of life in communities, will serve to fund both the aforementioned project pertaining to the creation of open spaces in the core of towns and villages, as well the maintenance and support of major infrastructural projects carried out by the Government within communities.

Appendices

Appendix A - Financial Allocation

Table 1: Income received by Local Councils

Local Councils	Government Allocation 1 January – 31 December 2019	Other Supplementary Income received from Central Government	Other Income generated by the Council	Totals
	€	€	€	€
Attard	740,229	139,828	49,728	929,785
Balzan	304,802	29,201	30,180	364,183
Birgu	312,902	-	-	312,902
Birkirkara	1,411,361	-	-	1,411,361
Birżebbuġa	767,900	71,085	44,396	883,381
Bormla	497,818	73,684	30,258	601,760
Dingli	369,330	56,500	44,234	470,064
Fgura	653,932	78,532	50,844	783,308
Floriana	379,392	32,231	118,790	530,413
Fontana	158,759	4,974	15,442	179,175
Gudja	302,797	7,855	36,390	347,042
Gżira	583,414	-	-	583,414
Għajnsielem	366,268	32,772	54,821	453,861
Għarb	258,615	142,225	191,581	592,421
Għargħur	275,113	22,602	39,172	336,887
Għasri	187,525	17,328	4,874	209,727
Għaxaq	373,854	51,922	11,375	437,151
Ħamrun	708,935 ¹⁶	148,418	116,312	973,665
Iklin	277,121	16,149	25,175	318,445
Isla	296,593	51,914	49,038	397,545
Kalkara	273,712 ¹⁶	47,448	29,826	350,986
Kerċem	280,181	22,959	35,347	338,487
Kirkop	228,394	59,311	56,113	343,818
Lija	283,582 ¹⁶	14,640	40,814	339,036
Luqa	450,669	79,572	24,222	554,463
Marsa	520,008	137,893	22,270	680,171
Marsaskala	945,635	122,387	77,930	1,145,952
Marsaxlokk	357,808	67,772	20,518	446,098
Mdina	201,443 ¹⁶	60,062	43,467	304,972
Mellieħa	1,159,252 ¹⁶	98,702	78,968	1,336,922
Mgarr	469,529	18,887	20,755	509,171

Appendix A - Financial Allocation *cont./*

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

Local Councils	Government Allocation 1 January – 31 December 2019	Other Supplementary Income received from Central Government	Other Income generated by the Council	Totals
	€	€	€	€
Mosta	1,304,076 ¹⁴	125,287	138,058	1,567,421
Mqabba	297,043	18,845	33,306	349,194
Msida	626,196	7,208	154,579	787,983
Mtarfa	279,482	22,866	26,301	328,649
Munxar	267,147	12,287	31,794	311,228
Nadur	487,241 ¹⁶	54,896	62,727	604,864
Naxxar	1,053,804	113,619	91,516	1,258,939
Paola	720,234	90,588	37,716	848,538
Pembroke	457,426	27,608	20,817	505,851
Pietà	318,620	92,284	167,185	578,089
Qala	328,412	19,067	28,895	376,374
Qormi	1,193,187	94,081	245,317	1,532,585
Qrendi	380,405	-	-	380,405
Rabat (Gozo)	579,332	19,908	25,717	624,957
Rabat (Malta)	1,145,620	93,429	48,864	1,287,913
Safi	270,007	10,424	29,189	309,620
San Ġiljan	844,512	90,269	193,892	1,128,673
San Ġwann	847,890	118,581	71,755	1,038,226
San Lawrenz	163,479 ¹⁶	55,965	17,942	237,386
San Pawl il-Baħar	1,853,396	-	-	1,853,396
Sannat	245,786	27,493	26,588	299,867
Santa Luċija	353,142	16,736	50,455	420,333
Santa Venera	492,055	36,736	31,822	560,613
Siggiewi	815,560 ¹⁵	174,290	52,725	1,042,575

¹⁴ Amount does not reconcile to that recorded in the financial statements (€1,301,832) which balance has been recorded net of deductions of €1,122 in relation to services provided by the Malta Information Technology Agency and wireless services. No explanation to the remaining difference was provided.

¹⁵ Amount does not reconcile to that recorded in the financial statements which balance includes additional funds allocated to the Local 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.

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

Local Councils	Government Allocation 1 January – 31 December 2019	Other Supplementary Income received from Central Government	Other Income generated by the Council	Totals
	€	€	€	€
Sliema	1,221,652	52,657	488,637	1,762,946
Swieqi	721,525	-	-	721,525
Ta' Xbiex	231,938 ¹⁶	41,586	24,776	298,300
Tarxien	567,870	76,904	41,292	686,066
Valletta	761,838 ¹⁶	203,341	433,910	1,399,089
Xagħra	546,077	-	51,713	597,790
Xewkija	375,904	35,974	20,976	432,854
Xgħajra	224,044	-	-	224,044
Żabbar	978,957	100,607	49,757	1,129,321
Żebbuġ (Gozo)	548,630	8,699	40,413	597,742
Żebbuġ (Malta)	872,617 ¹⁶	37,448	151,946	1,062,011
Żejtun	889,903	91,656	151,026	1,132,585
Żurrieq	838,120	82,284	59,777	980,181
Totals	38,500,000	3,760,476	4,464,223	46,724,699

¹⁶ Amount does not reconcile to that recorded in the financial statements which balance includes additional funds allocated to the Local Council. In the table above, such funds were recorded as Other Supplementary Income received from Central Government.

Appendix A - Financial Allocation *cont./*

Table 2: Income received by Regional Councils

Regional Councils	Government Allocation 1 January – 31 December 2019	Other Supplementary Income received from Central Government	Other Income generated by the Council	Totals
	€	€	€	€
Central Regional Council	630,000	-	284,767	914,767
Gozo Regional Council	630,000	50,000	112,678	792,678
Northern Regional Council	630,000	-	152,374	782,374
South Eastern Regional Council	630,000	-	708,740	1,338,740
Southern Regional Council	630,000	-	151,965	781,965
Totals	3,150,000	50,000	1,410,524	4,610,524

Source: 'Government Allocation' – as per report provided by LGD.

'Other Supplementary Income received from Central Government' and 'Other Income generated by the Council' – as disclosed and categorised on the face of the Statement of Comprehensive Income, even though at times these did not tally to the balances recorded in the respective notes to the financial statements.

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

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 2019 were not available.

Column 2 shows that the Authorities' 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, IFRS 7 – Financial Instruments: Disclosures and IFRS 9 – Financial Instruments.

Column 3 highlights the Authorities where issues of poor internal controls and inadequate or lack of substantiating documentation were encountered.

Column 4 illustrates the Authorities 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 Authorities, and on the continued support of the latter's creditors. Any adverse change in either of these assumptions would hinder the Authority in meeting its financial obligations as they fall due, without curtailing its future commitments.

Local and Regional Councils and LCA	Column 1 No audited Financial Statements of Joint Committee	Column 2 Insufficient Disclosures	Column 3 Specific Issues	Column 4 Emphasis of Matter highlighting a 'Material uncertainty related to Going Concern'
Attard	x	x		
Balzan	x			
Birżebbuġa			x	
Dingli	x	x	x	x
Fgura		x	x	
Floriana			x	
Għajnsielem			x	
Għarb			x	
Għargħur	x		x	

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

Local and Regional Councils and LCA	Column 1 No audited Financial Statements of Joint Committee	Column 2 Insufficient Disclosures	Column 3 Specific Issues	Column 4 Emphasis of Matter highlighting a ‘Material uncertainty related to Going Concern’
Għaxaq			x	
Iklin	x	x		
Kerċem			x	x
Lija	x	x		
Mdina	x			
Mellieħa	x		x	
Mġarr	x			
Mosta	x	x	x	
Msida		x		
Mtarfa	x		x	
Munxar			x	
Nadur			x	x
Naxxar	x		x	
Pembroke	x			
Pietà		x	x	
Qala			x	
Rabat (Gozo)		x	x	x
Rabat (Malta)	x		x	
San Ġiljan	x	x		
San Ġwann	x	x	x	
San Lawrenz			x	x
Sannat			x	x
Santa Venera	x	x		
Sliema	x	x	x	
Ta’ Xbiex	x			
Tarxien	x		x	x
Xagħra		x	x	
Xewkija			x	
Żabbar	x		x	
Żebbuġ (Gozo)			x	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./*

Local and Regional Councils and LCA	Column 1 No audited Financial Statements of Joint Committee	Column 2 Insufficient Disclosures	Column 3 Specific Issues	Column 4 Emphasis of Matter highlighting a ‘Material uncertainty related to Going Concern’
Central Regional Council		x	x	
Gozo Regional Council			x	
Northern Regional Council			x	
South Eastern Regional Council			x	
LCA		x		

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

Appendix C - Lists of Directives and Circulars

The following is a list of directives and circulars issued by LGD 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

List of Circulars

Circular No. 22/2019	Onorarju u Allowances, Attendenza għal-Laqgħat tal-Kunsilli, Ħinijiet tal-Laqgħat tal-Kunsill
Circular No. 50/2016	Sejħiet għall-Offerti/Kuntratti dwar Manutenzjoni tad-Dawl fit-Toroq

2019-2020 (to date) Reports issued by NAO

NAO Annual Report and Financial Statements

May 2020 Annual Report and Financial Statements 2019

NAO Audit Reports

November 2019	Report by the Auditor General on the Workings of Local Government 2018
November 2019	Performance Audit: An analysis of issues concerning the Cooperative Movement in Malta
December 2019	Report by the Auditor General on the Public Accounts 2018
December 2019	An investigation of contracts awarded by the Ministry for Home Affairs and National Security to Infinite Fusion Technologies Ltd
January 2020	Performance Audit: Community Care for Older Persons
February 2020	Performance Audit: Assessing the Public Transport Contract and Transport Malta's visibility on the service
March 2020	Information Technology Audit: ICT across Local Councils
March 2020	The disposal of the site formerly occupied by the Institute of Tourism Studies
April 2020	A review of the ethical framework guiding public employees
April 2020	Addendum Investigation: The Mater Dei Hospital Project
May 2020	Performance Audit: Tackling Child Abuse
June 2020	Follow-up Reports 2020 Volume I
June 2020	Performance Audit: A Follow-Up on the 2016 Analysis on OHSA's Operations - A Case Study on the Construction Industry
July 2020	An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 1 - A review of the tender process.
October 2020	Follow-up Reports 2020 Volume II
October 2020	Information Technology Audit: Planning Authority
November 2020	Performance Audit: An analysis of Malta Medicines Authority recruitment process
November 2020	Information Technology Audit: Malta Industrial Parks Ltd