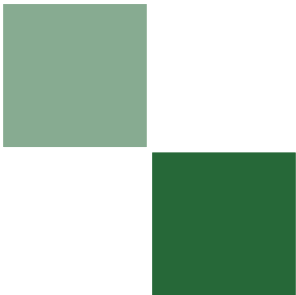


# Report by the Auditor General on the Workings of Local Government

# 2015





Report by the Auditor General  
on the Workings of  
Local Government

**Public Accounts 2015**

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## List of Abbreviations

DLG	Department for Local Government
EU	European Union
FAR	Fixed Asset Register
FS4	Payee Status Declaration
FS5	Payer's Monthly Payment Advice
FS7	Payer's Annual Reconciliation Statement
FSI	Financial Situation Indicator
FSS	Final Settlement System
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
LN	Legal Notice
NAO	National Audit Office
NI	National Insurance
PPE	Property, Plant and Equipment
PPP	Public-Private Partnership
WSC	Water Services Corporation
VAT	Value Added Tax

## Foreword

The National Audit Office is obliged by law to audit all Local Councils in Malta and Gozo, together with all Regional Committees as well as the Local Councils Association. For this purpose, by virtue of Article 65(1) of the Local Councils Act (Chapter 363 of the Laws of Malta), the Auditor General appoints duly qualified persons to audit the respective financial statements. Following a competitive call for tenders by the National Audit Office, these Local Government Auditors are appointed for a period of one year, which appointment may be renewed annually for a total period of not more than five consecutive years.

In liaison with these Local Government Auditors, and on the basis of the Management Letters sent to each Local Council as well as the relative reply thereto, the National Audit Office highlights the major issues arising from the respective audits, in an annual Report by the Auditor General. During the year under review, Government allocated an aggregate of €32 million amongst 68 Local Councils. The four Regional Committees that submitted the audited financial statements by time of publication generated income to the tune of €11 million.

The National Audit Office satisfactorily notes the recent enhanced efforts on the part of the authorities, under whose responsibility this important area of local government falls, to ensure that, as much as possible, the issues raised in our Report are addressed in a timely manner. Of particular significance is the active role played by this Office in the setting up of the Local Government Good Governance Working Group. This includes the Department for Local Government that ultimately is responsible for the implementation of any legislative or administrative changes deemed necessary, the Local Councils Association, as well as the National Association for Local Council and Regional Executive Secretaries.

Since most of the recommendations made in our report require a concerted effort on the part of the key stakeholders involved, we sincerely hope that this Working Group, in which this Office participates in observation capacity, will manage to spur the implementation of the required changes successfully. Thus, Local Councils will be in a position to use the public resources at their disposal in the most effective and efficient manner possible and in line with financial rules and regulations presently in force. Ultimately, this will be in the best interest of the citizens of Malta and Gozo.



Charles Deguara  
Auditor General

5 December 2016

## Executive Summary

By mid-October 2016, being the ultimate deadline set by the National Audit Office, the audited financial statements of Għaxaq, San Lawrenz and Valletta Local Councils, as well as the Gozo and Northern Regional Committees were still not submitted despite that these should have been received by 29 April 2016. By this latter date, 53 Local Councils, three Regional Committees, as well as the Local Councils Association managed to deliver by the foregoing deadline. Another six audited financial statements reached the National Audit Office by end of May 2016, while the remaining six Councils kept delaying their submission up to the ultimate deadline.

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

- a. Due to the various shortcomings encountered, Local Government Auditors could not express an opinion on the financial statements as presented by four Local Councils, namely Birgu, Kirkop, Mosta and Qrendi.
- b. The audit reports of another 43 Local Councils, three Regional Committees, as well as that of the Local Councils Association, were qualified with an 'Except For' audit opinion.
- c. Twenty-three Local Councils (2014: 22 Local Councils and one Regional Committee) recorded a negative working capital in the Statement of Financial Position.
- d. Twenty-eight Local Councils (2014: 31) registered a Financial Situation Indicator below the established benchmark of 10%.
- e. Twenty-four Local Councils (2014: 27), as well as the Central Regional Committee (2014: 2), registered a deficit in the Statement of Comprehensive Income.
- f. Only 46 Local Councils (2014: 32) and two Regional Committees (2014: 2) sent their response to the management letter within the stipulated deadline as set by Article 8(2) of the Local Councils (Audit) Regulations, 1993.

The major weaknesses that were encountered during the audits included:

- a. Accounting records not properly updated, with the result that the financial statements drawn up do not reflect a true and fair view of the actual financial situation.
- b. Income and expenditure accounted for on cash rather than accruals basis.
- c. Payments made not substantiated by a proper fiscal receipt addressed to the Council.
- d. Petty cash expenditure supported solely by unitemised cash register chits.

- e. Fixed Asset Register was either not maintained at all, or was not in line with best practice, thus hindering the monitoring and control expected to be exerted by Local Councils over fixed assets.
- f. Procurement not carried out in line with pertinent regulations.
- g. Budgeted amount for certain categories of expenditure exceeded.

Notwithstanding that more than five years have elapsed since the responsibility for the administration of the Local Enforcement System was shifted on to the five Regional Committees on 1 September 2011, the liquidation process of the nine Joint Committees has still not yet initiated. Although these were expected to be wound up after one year following the set up of the Regional Committees, to-date the National Audit Office still has no indication that such process officially commenced.

Moreover, for the fourth consecutive year, the National Audit Office did not receive the audited financial statements from any of the nine Joint Committees. Furthermore, the Central and the Northern Joint Committees also failed to file the financial statements for the year ended 31 December 2011, with the latter not even submitting those covering the preceding year. This Office reiterates that such situation is unacceptable.

# Local Councils

## Background

Designated as the executive, administrative and financial head of the Local Council, the Executive Secretary is vested with the responsibility to draw up the financial statements of the respective Local Council as at year-end. Once approved by the Council, and co-signed by the Mayor and the Executive Secretary, a copy of the accounts is then submitted to the Auditor General, in order to be audited in line with the Local Councils (Audit) Procedures and Regulations.

The audits of the financial statements of Local Councils, Regional Committees, as well as the Local Councils Association (LCA), are carried out by five private audit firms, on behalf of the Auditor General.

The financial statements being reported upon cover calendar year 2015, during which, the Government allocated €32 million (2014: €31 million) to Local Councils. **Appendix A – Table 1** refers. Additionally, in line with the previous year, the amount of €102,772 was allocated to LCA.

Regional Committees are not provided with a Government allocation, as their main source of income is the revenue generated from contraventions through the Local Enforcement System (LES). **Appendix A – Table 2** refers.

As from 1 October 2015, amongst other responsibilities, the administration and management of LES was delegated to the Local Enforcement System Agency (LESA), which was set up by means of Legal Notice (LN) 153 of 2015. The latter is entrusted to collect penalties and expenses due to Regional Committees or Local Councils, administer and apportion any net surpluses resulting from enforcement operation, between Local Councils constituting the Regional Committees in accordance with a pre-established formula, as well as reviewing the working and ensuring co-ordination of local enforcement activities. The provision for the enforcement of any law, regulation or bye-law which was previously delegated to Regional Committees, Local Councils or to such other authorities as are designated by the Local Councils Act, now falls also under LESA's remit.

Thus, as from the aforementioned date, income receivable from contraventions is no longer due to Regional Committees. However, contraventions can still be paid at the Local Councils, which, in return, are granted with an administration fee of 10% (flat rate) of all contraventions settled at their premises.

## Audit Scope and Methodology

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

## Key Issues

### **Local Enforcement System not subject to Systems Audit**

For the fifth consecutive year, no evidence was provided, indicating that an Information Technology (IT) systems audit was carried out to provide comfort that the data generated from LES, which is operated by an external service provider, and on which the financial statements of Regional Committees are primarily based, is complete, accurate and free from material misstatement.

Notwithstanding that during a meeting held with the service provider in 2014, NAO was verbally informed that an audit on the financial aspect of the system is carried out annually by the Auditors of the respective company, such report was never provided. Thus, for another year it was not possible to ensure that the reports generated to account for the income receivable from contraventions are accurate and reliable.

The lack of such certification implies that through the audit procedures carried out, LGAs could only verify that figures disclosed in the books of account tally with the reports generated. This led to the qualification of the Regional Committees' audit reports.

Once again, the inconsistencies noted in the reports extracted from the LES brought into doubt the integrity of the system and the reliability of the data generated there from, especially when such occurrences were not substantiated by plausible explanations. The following instances were encountered:

- a. Increases were registered in the amount of outstanding fines reported by certain Local Councils, with respect to the pre-regional period (*i.e.* pre-September 2011), when compared to the balance reported in the preceding year.
- b. Incongruities were identified between the movement in tribunal pending payments and the amount of pre-regional contraventions settled during the year as illustrated in the reports extracted from the system.

In view of the above concerns, LESA, which as already indicated is now vested with the responsibility of LES, in co-ordination with the Department for Local Government (DLG), is urged to request a copy of the independent Auditor's report on the respective IT system. This will ensure that the data extracted there from provides a reliable basis for the amounts featuring in the financial statements.

### *Joint Committees*

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

It is pertinent that the Department immediately acknowledges the importance of such issue, especially when considering that, while the Joint Committees were in operation, there was no monitoring whatsoever on the responsibilities falling under the latter's remit. Moreover, the longer this issue is dragged on, the less money will be recoverable, as after two years amounts receivable can become statute-barred.

In addition, similar to the three preceding periods, none of the nine Joint Committees submitted to the Auditor General the respective audited financial statements covering the year under review<sup>2</sup>. Moreover, two of the Joint Committees, namely the Central and the North also failed to file the financial statements for the year ended 31 December 2011, with the latter not even submitting those covering the preceding year. Despite that this concern has already been voiced by NAO in previous years, followed by various meetings held with the pertinent authorities responsible for Local Councils, this situation, which is unacceptable, still prevails.

This year again, this scenario has contributed to the qualification of the audit report of 17 Local Councils who are to be provided with the respective audited financial statements as per pooling agreement. In the circumstances, no alternative acceptable audit procedures could be performed to obtain reasonable assurance on the completeness of the share of income or expenses recorded in the financial statements of the respective Local Councils. **Appendix B** refers.

The audits of the Joint Committees' financial statements are carried out by private audit firms, which were directly appointed by the respective Joint Committees. During the preceding years, Fgura Joint Committee declared that it did not operate a pooling system but a hybrid one, whereby income from fines was paid directly to the respective Council. It was also declared that the expenditure involved was apportioned according to a pre-established formula, based on the number of processed fines. As stated by the then Chairman of the foregoing Joint Committee, such costs are paid directly by the individual Councils. Furthermore, it was stated that since the respective Committee has 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.

### *No audit opinion expressed*

LGA could not express an opinion on the financial statements presented by four Local Councils, namely Birgu, Kirkop, Mosta and Qrendi, for the reasons highlighted hereafter.

<sup>1</sup> These include Birkirkara, Central, Fgura, Gozo, Lvant, Tramuntana, Valletta, Żejtun and Żurrieq Joint Committees

<sup>2</sup> It transpired that Local Councils who previously formed part of Birkirkara Joint Committee were in receipt of the latter's audited financial statements for the year ended 31 December 2015. However, the respective audit report was qualified on the basis that the Joint Committee's Auditor was unable to reconcile receivables recorded in the books of account.

## Birgu Local Council

The Council's accounting function is of concern and needs to be addressed promptly and improved significantly since, due to the poor bookkeeping and lack of proper supporting documentation, LGA was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. This led to a disclaimer on the Council's financial statements as explained further down in the Report.

Transactions were initially recorded by the Council in its accounting system. At year-end, the trial balance was migrated to a different accounting system used by the accountant through various journal entries. However, transactions were grouped, thus hindering verification of both the opening balances as well as comparatives. A fresh trial balance was provided for audit purposes from the previous accounting system, but this lacked the necessary audit trail, as journal entries were still passed as grouped amounts. As a result, the nature of the recorded transactions, as well as their accuracy, could not be determined.

It also transpired that the Council's financial statements were not prepared in their entirety with International Accounting Standards (IASs).

### Income

The Council's general income included the amount of €62,448 described as 'liabilities written back'. Recorded with supplementary Government income was also a journal entry of €54,708, having the word 'adjustment' as its description. No supporting documentation or explanations were provided in respect of such transactions. Thus, it could not be verified whether the said amounts were misstated and whether they were properly allocated.

### Payables

Included with trade and other payables was the amount of €30,186, representing arrears relating to the Final Settlement System (FSS) and National Insurance (NI) contributions for the period 2011 to 2013. Since LGA was not provided with any documentary evidence or explanations in support of such balance, no procedures could be performed to verify the correctness of the amount in question.

The total of trade payables as reported in the financial statements (€158,503) did not agree to that as per the Council's supporting creditors' list (€204,173). LGA was informed that the difference relates to a journal entry posted by the Council with respect to debit balances included in the creditors list, as well as discrepancies identified between creditors' balances as recorded in the books of account and those as per suppliers' statements. However, a reconciliation was not provided to verify this journal entry. Consequently, appropriate tests could not be performed to obtain sufficient audit evidence and to determine whether the balance of trade payables is materially misstated.

The amount due to WasteServ Malta Ltd, as included in the Council's books of account, was overstated by €16,219 when compared to a statement issued by the former for audit purposes. The Council did not perform any reconciliation and failed to provide LGA with any information or explanation to justify this discrepancy.

The Council's list of creditors also includes a balance of €18,175 due to a particular supplier. However, according to the Mayor, no such amount was outstanding, as the supplier verbally confirmed this. On the other hand, an invoice of €18,175 was in hand. As a result, LGA was unable to corroborate such statements.

### Fixed Assets

The Council's Property, Plant and Equipment (PPE) included an amount of €87,097, classified as Assets under Construction; however, no details were provided in this respect. Moreover, the Executive Secretary informed LGA that there were no assets in the course of construction at year-end. Thus, it could not be confirmed whether the projects were actually completed and depreciated accordingly. The existence and valuation of these assets could also not be verified.

Testing carried out on the depreciation charge for the year ended 31 December 2015 revealed an overstatement of €17,925. Since the Council neither provided LGA with its workings on depreciation, nor with satisfactory explanations for such variance, the necessary audit adjustment could not be determined.

### Receivables

Included with trade and other receivables were accrued income of €37,792, recoverable expenses of €14,994, other receivables of €3,187 and long outstanding trade receivables of €3,027 which were brought forward from prior years. LGA was not provided with any supporting documentation or explanations in respect of such balances, thus no procedures could be performed to verify their validity, completeness and recoverability.

### Deferred Income

The Council did not provide satisfactory evidence in relation to deferred income of €193,524, as disclosed in the Statement of Financial Position, and the related release of €17,139 in the Statement of Comprehensive Income. Consequently, correctness of the said figures could not be ascertained.

## Kirkop Local Council

Due to the significance of the matters referred to in the following paragraphs LGA was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Fixed Assets

Since the Council did not provide LGA with its workings on depreciation, no testing could be carried out to ensure the accuracy, existence, valuation and completeness of the charge for the year, amounting to €88,785.

### Accrued Income

The Council's accrued income included a balance of €15,231 which was brought forward from the preceding year. However, due to the lack of supporting documentation provided, LGA could not verify the correctness of the respective balance.

### Deferred Income

Given that no documentation substantiating opening balance of €1,080,316 was provided for audit purposes, the testing that could be performed on deferred income was limited. Furthermore, the amount in question was not apportioned into its long and short-term portions as required by the applicable accounting standard.

### Non-compliance with International Financial Reporting Standards

Financial instruments as presented in the financial statements lacked both the quantitative and qualitative disclosures required by the International Financial Reporting Standard (IFRS) 7.

## Mosta Local Council

As a result of the deficiencies highlighted hereafter, LGA was not in a position to express an opinion on the financial statements provided by Mosta Local Council.

### Local Enforcement System

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

### Fixed Assets

The Council does not maintain a Fixed Asset Register (FAR) to record its acquisitions of PPE. As a result, satisfactory audit procedures could not be performed to ensure the existence and completeness of the opening balances of fixed assets recorded in the financial statements, as well as on the accuracy of the depreciation thereon.

### Inventories

The valuation method of inventories held by the Council is not in line with IAS 2 since the stock of books and maps as recognised in the financial statements, amounting to €14,931, was valued at selling price rather than the lower of cost or net realisable value.

### Payables

The Council's Statement of Financial Position shows the amount of €554,012 as supplier payables as at year-end. However, evidence provided by the Council with respect to several amounts forming part of this balance shows that the amounts included therein are misstated.

In addition, the amount of €13,370 disclosed under other creditors in respect of rents due to the Land Department was not substantiated.

Deferred income of €247,781 with respect to European Union (EU) projects was not adequately supported by evidence. A variance of €219,528 was also noted between closing deferred income as disclosed in the Council's workings for 2014, and the amount reported in the audited financial statements of the same year. In addition, whilst the Council's workings indicate that a grant of €50,851 was received during 2015, supporting documentation provided depicted that a new grant of €99,889 was obtained during the year under review for the embellishment of playing ground *Santa Margerita*. Other grant income with respect to the Public-Private Partnership (PPP) scheme relating to road works was incorrectly released. Due to these shortcomings, LGA was not in a position to establish by how much other creditors and deferred income were misstated in the financial statements.

### Non-compliance with International Financial Reporting Standards

The financial statements were not drawn up in line with the applicable IFRSs and the related disclosures.

## Qrendi Local Council

In line with the prior year, LGA could not express an opinion on the financial statements presented by Qrendi Local Council for the reasons highlighted hereafter.

### Assets and Liabilities

For another year, LGA was not provided with satisfactory workings and supporting documentation, confirming the value of deferred income (€316,677), accrued income (€72,116), special needs funds yet unspent (€22,781), as well as prepayments (€2,980). Consequently, the existence, accuracy and completeness of these figures could not be ascertained.

The net receivable balance from WasteServ Malta Ltd as recorded in the books of account, is also overstated by €8,952. Neither a reconciliation to this effect, nor any information was provided by the Council in respect of such discrepancies.

### Non-compliance with International Financial Reporting Standards

In breach of IAS 16, the Council did not disclose in the financial statements, any capital commitments that it anticipates to undertake in the near future.

### 'Except For' Audit Opinion

Apart from Birgu, Kirkop, Mosta and Qrendi Local Councils, another 43 audit reports, out of the 65 received, were qualified with an 'Except For' audit opinion, for one or more of the shortcomings mentioned hereafter. The same qualified audit opinion was also given to the three Regional Committees and LCA.

The financial statements for the year under review of 31 Local Councils, one Regional Committee and LCA, were not prepared in their entirety in accordance with IFRSs, since they lacked appropriate disclosures.

The going concern assumption used in the preparation of Dingli and Swieqi financial statements is dependent on further sources of funds other than the annual financial allocation received from Central Government, namely, the collection of debts due to the Local Council, and the continued reliance on the Councils' payables. 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.

Other specific issues pertaining to Local Councils and Regional Committees on an individual basis were also present. In the case of the latter, this also included the fact that no satisfactory evidence was obtained that the IT system for LES has been properly audited.

The financial liquidity concern was also evident in another 19 Local Councils. However, in such instances, the respective issue was highlighted through an 'Emphasis of Matter'.

In addition, as already referred to under 'Key Issues', a number of audit reports were also qualified on the basis that amounts due from LES could not be determined.

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

A number of audit reports have also been qualified because, apart from the shortcomings mentioned above, the financial statements did not include the budgeted figures. However, since Local Councils are now accounting on an accrual basis, such a requirement is no longer applicable. Consequently, these Councils and Regional Committees were not included in the list of qualified audit reports depicted in **Appendix B**, as it was deemed unfair to report them merely because an amendment to the Local Councils (Financial) Procedures has not yet been effected by DLG.

### **Negative Working Capital**

Twenty-three Local Councils (2014: 22 Local Councils and one Regional Committee) registered a negative working capital<sup>3</sup> during the period under review. This implies that they may encounter difficulties in meeting their obligations as they eventually fall due.

The negative working capital reported by a number of Local Councils year after year is increasing because the latter are undertaking various capital projects which are in excess of the available funds, with the consequence that creditors' balances are increasing substantially. This Office is informed that, with the aim of encouraging Councils to strengthen their financial liquidity position, the Director (DLG) in office conducted meetings with all those Councils that have registered a negative working capital, whereby a detailed strategy was outlined, describing the immediate action intended to be taken to control and improve the financial position. Moreover, until the situation is regularised, the respective Councils were instructed to limit their commitments, except for those required by law. A formal communication to this effect was issued on 3 June 2016.

On 28 October 2016, Director (DLG) presented the Auditor General with a report, titled 'Addressing the Negative Financial Position of Local Councils', which summarises the major factors that are driving Local Councils to a negative financial situation, together with the long and short-term actions that are to be taken on board by the Councils to ameliorate their position.

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<sup>3</sup> Working capital is defined as current assets less current liabilities

NAO conceives such actions as a step in the right direction. However, it still reiterates that to be fully effective, this initiative is to be supplemented with efficient monitoring to ensure that the proposed actions are actually delivered.

**Table 1** lists these Councils, the working capital for the year, and the corresponding figures for the previous two years.

As evidenced in **Table 3**, further on in this Report (page 27 refers), a number of these Councils also experienced a deficit in the Statement of Comprehensive Income for 2015.

**Table 1: Negative Working Capital<sup>4</sup>**

Local Council	31 December 2015	31 December 2014	31 December 2013
	€	€	€
Birgu	(16,723)	(136,025)	(189,812)
Birkirkara	(406,537)	(724,979)	(985,032)
Birżebbuġa	(233,163)	(357,200)	(176,421)
Dingli	(225,641)	22,742	(145,712)
Gudja	(37,100)	73,894	38,187
Għarb	(76,765)	68,964	6,521
Kalkara	(161,978)	(149,523)	(45,290)
Kerċem	(109,452)	96,469	7,912
Lija	(44,015)	(62,105)	2,541
Marsaxlokk	(13,836)	98,570	72,243
Mdina	(178,175)	(174,315)	(125,805)
Mosta	(482,503)	(461,450) <sup>5</sup>	161,430
Mqabba	(112,304)	(149,886)	(134,232)
Msida	(83,051)	(132,154)	(157,376)
Munxar	(21,556)	134,459	146,446
Nadur	(351,108)	(364,966)	(107,081)
Rabat (Gozo)	(510,734)	(85,345)	(82,231)
Sannat <sup>6</sup>	(118,269)	(18,533)	(67,687)
San Pawl il-Baħar	(20,494)	(153,699)	(92,876)
Swieqi	(97,020)	(38,678)	159,486
Xagħra	(121,708)	(92,939)	(66,296)
Xgħajra	(40,806)	(34,334)	(11,934)
Żebbuġ (Malta)	(551,568)	(657,958)	(1,362,696)

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

<sup>5</sup> Comparative figure has been restated to conform to the current year's presentation.

<sup>6</sup> Negative working capital is overstated by €4,800 due to a misstatement detected following the conclusion of the audit.

## Birgu

Despite that current liabilities exceeded current assets by €16,723, the Council's working capital improved significantly when compared to the preceding year. In fact, current assets increased by €74,406, whilst a reduction of €44,896 was recorded in current liabilities. These movements mainly resulted from an increase of €74,322 in cash and cash equivalents and a decline of €54,421 in trade and other payables, although the latter was partly offset by an increase of €9,525 in the overdrawn bank balance.

## Birkirkara

Whilst current liabilities decreased by €73,294 and current assets increased by €245,148, the Council still ended the year under review with a net current liability position of €406,537. The main contributors for the decline in current liabilities were payables, accruals and deferred Government income which decreased by €57,796, €7,582 and €6,258 respectively. On the other hand, the Council's current assets increased due to a substantial positive movement of €214,523 in cash and cash equivalents. Increases of €17,702 and €12,102 were also recorded in accrued income and receivables respectively.

## Birżebbuġa

Although the working capital improved by €124,037 when compared to the prior year, the Council still registered a negative financial position of €233,163. A comparison of the amounts recorded during 2015 with those of the previous year showed that the Council managed to decrease its current liabilities by €134,542. This was partly mitigated by a downward movement of €10,505 in overall current assets, resulting from a reduction of €73,402 in trade receivables and an increase of €62,897 in cash at bank and in hand. Meanwhile, the downward movement in current liabilities was mainly brought about by decreases of €101,758 and €30,873 in third party borrowings and trade payables respectively.

## Dingli

From a positive financial position of €22,742 recorded in 2014, the Council ended the year under review with a substantial negative working capital of €225,641. Despite that overall current assets increased by €24,282, such increase was not sufficient to cover the high upward movement of €272,665 in current liabilities. The increase in current assets was mainly brought about by a rise of €105,755 in cash and cash equivalents which was partly outweighed by a decrease of €81,473 in receivables. On the other hand, the main attribute to the upward movement in current liabilities was the increase of €214,918 in payables.

## Gudja

From a positive working capital of €73,894 recorded at the end of the previous year, the Council ended the year under review with a negative financial situation of €37,100. This was brought about by a downward movement of €59,109 in overall current assets, which primarily resulted from a significant decrease in cash and cash equivalents. On the other hand, total current liabilities increased by €51,885 when compared to the preceding period, with the main attributes to such

upward movement being trade payables which increased by €56,062, and accruals which were reduced by €5,417.

### Għarb

Despite the increase of €86,761 recorded in current assets, during the year under review the Council was still driven to a negative liquidity position of €76,765. This situation was the result of a significant rise of €232,490 in total current liabilities, which was mainly brought about by upward movements in accounts payable (€128,115) and other payables related to a PPP scheme (€99,179). The increase in current assets was mainly derived from an upward movement of €201,271 in prepayments and accrued income, which was offset by an aggregate decrease of €114,301 in the bank accounts.

### Kalkara

Notwithstanding the increase of €13,365 in cash and cash equivalents, the Council's liquidity position still remained negative especially in respect of the increase in payables, which at year-end amounted to €19,660. Moreover, overall receivables also decreased by €6,160 when compared to the preceding year.

### Kerċem

From a positive working capital of €96,469 registered at the end of the preceding year, the Council ended the year under review in a precarious financial situation of €109,452. This was the result of a decrease of €61,880 in current assets, coupled with an upward movement of €144,041 in total current liabilities. Whilst receivables and inventories increased by €34,722 and €1,425 respectively over last year, a drop of €98,027 was noted in cash and cash equivalents. Moreover, the significant accretions in payables (€105,041) and current deferred income (€39,000) were the contributors to the rise in current liabilities.

### Lija

Despite the improvement in working capital of €18,090 over the preceding year, the Council still ended the current financial year with a negative liquidity position of €44,015. The overall growth in current assets (€24,428), mainly attributable to an increase in cash and cash equivalents, was partly hampered by a net increase of €6,338 in trade and other payables.

### Marsaxlokk

During the year under review, the financial position of the Council was driven to a net liability position of €13,836. This was brought about by a substantial increase of €78,765 in overall current liabilities, coupled by a decline of €33,641 in overall current assets. Payables as well as deferred income increased by €29,438 and €12,836 respectively. Moreover, at year-end the Council had a liability of €10,088, relating to FSS and social security contributions of its employees. Meanwhile, the upward move of €33,193 in accrued income was not sufficient to outweigh the significant fall of €61,232 in cash at bank and in hand, as well as other marginal declines in receivables (€2,629) and prepayments (€2,973). Furthermore, short-term borrowings as at year-end increased by €26,926

when compared to the preceding year. It is also worth noting that during the financial year under review, budgeted capital expenditure was exceeded by €233,908.

### **Mdina**

In 2015, the Council's liquidity position continued to deteriorate further, resulting in current liabilities exceeding current assets by €178,175. Although favourable movements were registered in cash and cash equivalents (€19,859), as well as in receivables (€17,954), these were not enough to sustain the overall increase of €41,673 in current liabilities. Moreover, the decreases registered in accrued expenditure (€6,711) and other creditors (€5,999), were totally offset by rises in accounts payable (€40,668), other taxes and social security costs (€11,517), as well as deferred income (€2,198); all contributing to the rise in current liabilities.

### **Mosta**

During 2015, the gap between the Council's current assets and current liabilities widened further, resulting in a significant negative working capital balance. Although current liabilities decreased by €136,209, such movement was not sufficient to offset the even higher decrease of €157,262 recorded in overall current assets. This was mainly brought about by downward movements of €79,705 and €73,435 in cash and cash equivalents, as well as prepayments and accrued income respectively.

### **Mqabba**

During the year under review, the Council managed to increase current assets by €7,319 while, at the same time, reducing current liabilities by €30,263. These movements were mainly due to an increase of €11,508 in cash and cash equivalents, coupled by a reduction of €4,189 in receivables, as well as decreases of €18,002 and €5,045 in payables and accrued expenditure respectively. However, irrespective of these improvements the Council still ended the current financial year in a negative liquidity position.

### **Msida**

Although an improvement of €49,103 was registered by the Council during the year under review, the negative position is still significant, with current liabilities exceeding current assets by €83,051. The overall increase of €68,551 in total current assets, arising from favourable movements of €51,440 and €17,111 in trade and other receivables, as well as cash and cash equivalents respectively, was partly hampered by a rise of €19,448 in current liabilities. The main contributors to the latter variance were the increase in trade payables of €54,847, against a reduction of €39,225 in deferred income.

### **Munxar**

From a positive working capital (€134,459) recorded at the end of the previous year, the Council ended the current financial year in a negative financial situation of €21,556. Despite that overall current liabilities decreased by €58,695 when compared to the preceding period, such movement was not sufficient to offset the even higher reduction of €214,710 registered in overall current assets.

This was brought about by unfavourable movements of €102,052 and €112,658 in total receivables and cash at bank respectively. The decline in total current liabilities was also triggered by a decrease in payables (€121,817), coupled with increases in deferred income (€40,394), accruals (€15,586) and other payables (€7,142).

## Nadur

Notwithstanding that during 2015, the Council's financial situation improved, due to a decrease of €9,062 in current liabilities and an increase of €4,796 in current assets, the Council still ended the year in a precarious negative position of €351,108. The decrease in the Council's current liabilities was the result of an aggregate adverse movement of €93,008 in accruals and accounts payable which was partly offset by a total increase of €83,946 in current deferred income and the overdrawn bank balance. The increase in total current assets was mainly brought about by an upward movement of €14,886 in cash at bank and in hand, coupled by decreases of €5,441 and €4,823 in accounts receivable and accrued income respectively.

## Rabat (Gozo)

During the year under review, the Council's financial situation deteriorated drastically when compared to the preceding year, with the negative working capital reaching €510,734 from a negative of €85,345 registered in 2014. This situation was triggered by a decrease of €106,331 in overall current assets, coupled with an upward movement of €319,058 in total current liabilities. Whilst cash and cash equivalents decreased by €92,511 over the preceding period, the overdrawn bank balance increased by €22,857. Moreover, a significant increase of €296,201 was recorded in payables and accruals, while both receivables and inventories decreased by a total of €13,820.

## Sannat

During the year under review, the Council registered a significant negative working capital of €118,269, being approximately six times as much that reported in the preceding year (€18,533). A decrease of €118,251 in the overall current assets, primarily arising from an unfavourable movement of €133,169 in cash and cash equivalents, coupled with an increase of €14,918 in receivables, contributed to this negative situation. On the other hand, overall current liabilities decreased by €18,515, mainly due to a downward movement of €14,911 in accruals.

## San Pawl il-Baħar

Although still in the negative, there was substantial improvement in the working capital when compared to that registered at the end of the previous financial year. During the year under review, the Council managed to increase current assets by €103,182 while at the same time reducing current liabilities by €30,023. These movements were mainly due to increases of €80,571 and €22,891 in receivables and cash and cash equivalents respectively, coupled with a decrease of €67,402 in the overdrawn bank balance. Meanwhile, an aggregate upward movement of €25,233 was registered in trade creditors, as well as accruals and deferred income.

## Swieqi

The reduction of €42,631 in current assets, together with the increase of €15,711 in current liabilities, resulted in a significant deterioration of the Council's financial position, ending with a negative working capital of €97,020. Declines were noted in cash and cash equivalents of €29,593, and other receivables and accrued income of €13,198. On the other hand, a rise of €17,553 was recorded in overall payables, which was mainly triggered by an increase of €64,921 in trade payables and a reduction of €49,897 in accruals.

## Xagħra

The negative trend was again registered during the year under review, whereby the Council registered a negative working capital of €121,708. The overall increase of €220,645 in current assets, coupled with a decrease of €74,872 in the overdrawn bank balances, were not enough to sustain the upward shift of €324,286 in the remaining current liabilities, namely accounts payables, accruals, as well as deferred income.

## Xgħajra

During the year under review, the Council maintained a negative position which increased over the preceding year. The decrease of €4,433 in total payables, as well as the increase of €3,955 in cash and cash equivalents, were not enough to sustain the downfall of €14,860 in receivables, which primarily resulted from an adverse movement of €15,177 in accrued income.

## Żebbuġ (Malta)

Despite the improvement of €106,390 registered over the preceding year, the Council is still in a precarious financial situation, ending the year under review with a negative working capital of €551,568. This mainly resulted from an upward movement of €142,464 in total current assets, which was partly offset by an increase of €36,074 in overall current liabilities. The negative balance indicates that the Council has accumulated significant amounts of debt during the past years, which will take several years to be repaid, considering that the Council has to meet annual fixed operating costs to maintain a minimum level of service.

### *Improvement in Working Capital*

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

**Table 2: Improvement in Working Capital<sup>7</sup>**

Local Council	31 December 2015	31 December 2014	31 December 2013
	€	€	€
Attard	3,879	(39,640)	(208,397)
Bormla	47,258	(703)	(33,507)
Kirkop	153,794	(12,803)	193,433
Pietà	11,745	(47,824)	(71,042)
Tarxien	113,669	(15,485)	(102,622) <sup>8</sup>

### **Financial Situation Indicator**

The Local Councils (Financial) Regulations, 1993 Article 4(1) compel the Executive Secretary to maintain a positive balance between income and expenditure, and accrued income and accrued expenditure, of not less than 10% of the allocation approved in terms of Article 55 of the Act. In the event that the Financial Situation Indicator (FSI) is less than 10%, the Council is obliged to inform the Director about the situation, and explain the actions that are intended to be taken to remedy the situation. Such onus was once again communicated to all Local Councils through Memo 4/2015, whereby the latter were not only reminded on the importance of maintaining the stipulated FSI, but also of appointing a Finance Committee, in the event that the respective target is not reached. This Committee, which is to be composed of the Mayor, a Councillor, the Executive Secretary, as well as a qualified accountant, is to assess the Council's expenditure *vis-à-vis* its financial situation. The Finance Committee will be responsible to prepare a financial plan to rectify the situation during that same year. DLG is to be provided with all the relevant documentation, including copies of the minutes of the Committee's meetings.

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

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

<sup>7</sup> Figures disclosed in the table represent amounts as reported on the face of the Statement of Financial Position even though instances were encountered whereby these were either not correctly classified, did not tally to the balances recorded in the respective notes or were not properly casted.

<sup>8</sup> Comparative figure has been restated to conform to current year's presentation.

It is pertinent to note that way back in 2002, 37 Local Councils were exempted from maintaining a positive FSI of 10%. No evidence was traced that throughout the years, this decision, which was taken by DLG, was revised. As reiterated in the preceding years, considering that now the Councils are operating in a financial environment which is quite different from that of 2002, the Department is expected to identify if such exemption is still applicable or not, on a case-by-case basis.

By the end of the year under review, 28 Local Councils (2014: 31) registered a FSI below the 10% benchmark required by law.

### ***Statement of Comprehensive Income***

Twenty-four Local Councils (2014: 27), as well as the Central Regional Committee (2014: 2) registered a deficit<sup>9</sup> in the Statement of Comprehensive Income for the year.

For a number of Councils, this also triggered a liquidity problem, as indicated under 'Negative Working Capital' earlier on. **Table 3** presents the localities, the deficit for the period under review, the corresponding figures for the previous financial periods, as well as the accumulated retained earnings for the last three financial years.

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<sup>9</sup> A deficit in the Statement of Comprehensive Income results when the cost of expenditure is greater than revenue.

**Table 3: Statement of Comprehensive Income<sup>10</sup>**

Local Council/ Regional Committee	Surplus/(Deficit)			Retained Earnings as at		
	1 January – 31 December 2015	1 January – 31 December 2014	1 January – 31 December 2013	31 December 2015	31 December 2014	31 December 2013
	€	€	€	€	€	€
Attard	(8,538)	13,636	(24,714)	489,438	497,976	484,340
Birkirkara	(8,575)	(25,986)	(46,601)	1,367,893	1,376,468	1,402,454
Floriana	(33,010)	(85,429)	(65,894)	721,768	754,778	840,207
Fontana	(1,321)	14,953	1,303	355,778	357,099	342,146
Għarb	(13,322)	9,585	(2,981)	407,807	421,129	411,544
Għasri	(265)	12,994	(44,227)	331,090	331,355	318,361
Kalkara	(10,509)	(114,425)	(18,724)	(49,627)	(39,058)	75,353
Kerċem	(38,371)	(4,424)	9,233	404,205	442,576	447,000
Kirkop	(43,061)	64,019	(57,972)	339,765	382,826	318,807
Marsa	(86,390)	9,787	(21,657)	857,002	943,392	933,605
Mdina	(12,297)	(54,202)	(40,864)	(81,223)	(68,926)	(14,724)
Mellieħa	(26,828)	(3,963)	(15,850)	3,948,026	3,974,854	3,978,817
Mqabba	(11,135)	(6,792)	(12,041)	402,211	413,346	420,138
Msida	(49,570)	2,114	(89,500)	453,836	503,406	501,292
Munxar	(10,405)	22,478	12,481	364,482	374,887	352,409
Nadur	(29,471)	(89,977)	(35,912)	653,232	682,703	772,680
Rabat (Gozo)	(67,129)	(19,464)	(120,896)	316,789	383,918	403,382
Safi	(4,413)	(19,677)	(68)	475,048	479,461	499,138
Sannat	(11,557) <sup>11</sup>	(9,647)	(34,762)	147,156	158,713	168,360
Sigġiewi	(12,855)	58,771	77,739	1,439,678	1,452,533 <sup>12</sup>	1,303,576
Sliema	(139,162)	(142,074)	(214,180)	1,514,342	1,653,504	1,795,578
Swieqi	(32,915)	(95,801)	5,285	270,716	303,631	399,432
Ta' Xbiex	(22,169)	3,777	24,862	413,677	435,846	432,069
Xgħajra	(14,980)	(27,592)	(32,237)	93,856	108,836	136,428
Central Regional Committee	(75,932) <sup>13</sup>	1,627,752 <sup>14</sup>	764,851	2,353,369	3,546,518	2,618,767

<sup>10</sup> Figures disclosed in the table represent amounts as reported on the faces of the Statements of Comprehensive Income and Financial Position even though instances were encountered whereby these were either not correctly classified, did not tally to the balances recorded in the respective notes or were not properly casted.

<sup>11</sup> Loss is overstated by €4,800, due to a misstatement detected following the conclusion of the audit.

<sup>12</sup> As revised following a prior-year adjustment.

<sup>13</sup> Loss is understated by €16,120, due to a misstatement detected following the conclusion of the audit.

<sup>14</sup> Comparative figure has been restated to conform to the current year's presentation.

## Attard

The Council's deficit of €8,538 was triggered by a significant reduction in overall income of €26,022. The main negative movements reported in the Council's revenue related to decreases in funds received from Central Government (€22,623) and general income (€5,021). Moreover, whilst the Council managed to cut back operations and maintenance expenditure by €21,948, increases of €14,699 and €6,766 were registered in administration and other expenditure as well as personal emoluments respectively.

## Birkirkara

Notwithstanding that the Council managed to increase its overall revenue by €29,527, a deficit of €8,575 was still recorded for the year under review. This was mainly brought about by net increases of €12,832 and €10,715 in administration and other expenditure, as well as operations and maintenance expenses respectively.

## Floriana

Once again the Council ended the current financial year with an excess of expenditure over income of €33,010, partly due to the reduction of €13,725 in funds received from Central Government. On the other hand, an overall cut back of €63,341 in expenditure was registered. The provision for doubtful debts decreased by €1,348; however, bad debts of €3,975 were recognised during 2015. Further reductions were reported for refuse collection (€17,084) and professional services (€5,148). Meanwhile expenditure with respect to waste disposal, community and hospitality, depreciation charge, as well as asset disposal, increased by an aggregate amount of €27,988.

## Fontana

The overall increase of €5,050 in income received by the Council was not enough to sustain the upward movement of €21,324 in expenditure, incurred during the year under review. This was mainly the result of an increase in the salary and allowances of the Executive Secretary (€6,607), cleaning and maintenance of parks and gardens (€19,492), as well as community and hospitality (€3,874). Meanwhile, a decrease of €8,803 was noted in the depreciation estimate calculated for the year under review.

## Għarb

Despite that overall revenue increased by €50,624, this was not sufficient to offset the even higher increase of €73,531 in total expenditure. The movement in revenue mainly resulted from a rise of €63,203 in funds received from Central Government, coupled with a decrease of €12,703 in general income. On the other hand, significant upward movements were registered in all categories of expenditure, namely operations and maintenance (€51,566), personal emoluments (€13,400) and administration and other expenditure (€8,608).

## Għasri

The marginal deficit registered by the Council this year is considered trivial.

## Kalkara

Notwithstanding the Council's effort to curtail expenditure and increase its revenue, the latter still ended 2015 with a deficit of €10,509. This also triggered an increase in the negative figure of retained earnings, to that already recorded in the preceding year (€39,058), now reaching €49,627.

## Kerċem

The Council's deficit of €38,371 for this year was even greater than that of the prior period. The improvement of €25,359 in overall revenue was not sufficient to make up for the even higher increase of €59,306 registered in overall expenditure. The main contributors to the upward movement in expenditure were depreciation, repairs and upkeep of walkways, street lighting, as well as utilities which increased by an aggregate amount of €66,005.

## Kirkop

As a result of the reduction of €86,738 in funds received from Central Government, and the increase of €35,564 in overall expenditure, the Council has shifted from a surplus of €64,019 in 2014 to a loss of €43,061 in the current year. While decreases were registered in community services and events (€8,265), as well as bad debts (€7,602), various items of expenditure have increased when compared to the preceding year. The most significant fluctuations were noted in depreciation (€18,735), hospitality costs (€7,526), waste disposal (€5,035), information services (€4,387) and materials and supplies (€3,203).

## Marsa

After managing to achieve better financial results in 2014, during the year under review, the Council has reverted to a deficit position of €86,390. This situation was brought about by a substantial decrease of €56,188 in total income, coupled with an increase of €39,989 in overall expenditure. The main negative movements reported in the Council's revenue related to other Government income (€73,515), as well as the financial allocation provided in terms of Article 55 of the Local Councils Act (€8,556). On the other hand, supplementary Government income, income from permits, as well as income generated from LES administration fees, increased by an aggregate amount of €15,710 when compared to the preceding year. Meanwhile substantial increases in expenditure were reported for repair and upkeep of road and street pavements (€58,761), as well as refuse collection (€8,488). On the other hand, a decrease of €14,777 was noted in community and hospitality expense.

## Mdina

The deficit of €12,297 registered this year continued to increase the negative figure recorded as retained earnings brought forward from the prior year. Increases in expenditure were noted with respect to cleaning and maintenance of parks and gardens (€9,125), hospitality costs (€6,423), cleaning services (€5,333), social events (€5,170), travelling (€3,244) and professional services (€3,114). This was coupled by adverse movements in other supplementary Government income (€7,977), as well as LES income (€4,880).

## Mellieħa

The Council's overall income increased by €194,511 (15%), however, a deficit of €26,828 was still recorded in the year under review. This was mainly brought about by a considerable increase of €267,747 in administration and other expenditure, which was partly offset by a reduction of €58,582 in operations and maintenance expenditure. The increase of €333,395 in the depreciation charge for the year was the major contributor to the Council's deficit. There was also an overall increase of €8,211 in employees' salaries. On the other hand the upward movement in revenue was the result of increases in grants released (€174,817), supplementary Government income (€65,411), annual Government allocation (€34,300) and income from permits (€14,661). The amount of €3,948,026 recorded as retained earnings at the end of the year is still very high.

## Mqabba

Although operations and maintenance expenditure was curtailed by €20,921, the deficit continued to persist even during the year under review. This was mainly due to the overall decrease of €14,322 in income earned by the Council, coupled with an upward movement of €13,640 in the provision for doubtful debts.

## Msida

Notwithstanding that the Council increased its overall revenue by €45,377, a deficit of €49,570 was recorded in the year under review. This was mainly brought about by increases of €73,665 and €18,728 in operations and maintenance expenses, as well as administration and other expenditure respectively. The main upward movements were noted in refuse collection (€28,019), street lighting and security (€24,997), engineering services (€17,723), street pavements (€6,566), other repairs and upkeep (€5,933), tipping fees (€5,077), road signs and markings (€4,723) and transport expenses (€4,290).

## Munxar

From a surplus of €22,478 registered at the end of the previous year, the Council ended the current financial year with a deficit of €10,405. The increase of €4,583 registered in overall income was completely outweighed by a substantial increase of €37,466 in total expenditure incurred during the year. The most significant upward movements recorded in the Council's expenses related to depreciation, other repairs and upkeep, Xlendi maintenance and upkeep, patching works, as well as street lighting, which in aggregate increased by €49,774.

## Nadur

Though the Council managed to increase its revenue by €4,728 and cut back its expenditure by €55,778, it still maintained a deficit position of €29,471 for the year under review which also decreased the Council's retained funds.

## Rabat (Gozo)

Despite the increase of €136,830 in total revenue, mainly received from Central Government in 2015, a surplus of expenditure over income of €67,129 was still recorded for the year under review. This resulted from an increase of €184,495 in the Council's expenditure, which was mainly triggered by a loss of €131,592 on disposal of assets. Other considerable increases were noted in the depreciation charge for the year (€53,262), expenditure on repairs and upkeep (€38,737), refuse collection (€6,161) and other contractual services (€5,445).

## Safi

Income of €265,026 generated during 2015 was not sufficient to outweigh recurrent expenditure totalling €269,439. Whilst, the Council ended the current financial year with an excess of expenditure over income of €4,413, it still maintained positive retained earnings of €475,048.

## Sannat

The loss of €11,557 registered by the Council during the year under review, was higher than that reported in the preceding year (€9,647). The negative impact was mainly triggered by an increase of €9,062 in overall expenditure, which was partially outweighed by a positive movement in total income of €7,152.

## Siggiewi

The increase of €25,111 in total income generated by the Council was not enough to sustain the overall upward movement of €96,737 in expenditure incurred during the year under review, with the result that the Council reported a deficit for the year of €12,855 as compared to a surplus recorded for the prior period. Major increases were noted in the expenditure categories of cultural events (€32,157), bulky refuse collection (€31,378), office services (€22,982), professional services (€17,087), road and street cleaning (€13,838), employees' wages and salaries (€11,988), as well as LES expenses (€7,505).

## Sliema

The Council again closed the year with a substantial deficit of €139,162 (2014: €142,074). The increase of €123,677 in revenue, which resulted mainly from permits (€50,314), discounts and waiver of amounts payable (€24,282), sponsorships (€10,346) and media advertising (€6,736), was not enough to sustain the rise of €120,765 in overall expenditure. The main contributors to the increase in expenses included additional depreciation (€61,897), professional services (€46,503), social events (€24,050), employees' salaries (€18,299), other repairs and upkeep (€10,296) and waste disposal (€7,641).

## Swieqi

Although the Council managed to curtail its expenditure and increase its revenue, it still ended with a deficit of €32,915. However, the Council still has positive retained earnings of €270,716.

## Ta` Xbiex

This year the Council registered a deficit of €22,169. This was mainly triggered by an increase of €70,280 in overall expenditure, with the main contributor being the significant upward movement of €67,217 in administration and other expenditure. A minimal increase was also noted in the Council's personal emoluments (€4,494). On the other hand, positive fluctuations were observed in almost all streams of income, namely funds received from Central Government (€35,222), income raised from bye-laws (€3,810), LES income (€3,439) and general income (€2,032).

## Xgħajra

The Council again ended the year in a deficit position of €14,980. This resulted from the fact that income generated, totalling €179,691, was not sufficient to outweigh the recurrent expenditure aggregating to €194,671. The Council still has positive retained funds as at year-end of €93,856.

## Central Regional Committee

From a restated surplus of €1,627,752 recorded in the prior year, the Central Regional Committee ended the current financial year with a deficit of €75,932. This was brought about by an increase in overall expenditure of €1,416,146, coupled with a reduction of €287,538 in income from LES. Such situation was mainly the result of an upward movement of €1,627,356 in the provision for doubtful debts.

### *Rectified Positive Balance between Income and Expenditure*

The 13 Local Councils and the South Eastern Regional Committee listed in **Table 4** rectified their position to a surplus by the end of the year under review. During the preceding year, 18 Local Councils had rectified their position to a surplus by year-end.

**Table 4: Rectified Positive Balance between Income and Expenditure<sup>15</sup>**

Local Council/ Regional Committee	1 January – 31 December 2015	1 January – 31 December 2014	1 January – 31 December 2013
	€	€	€
Gżira	57,727	(17,705)	2,252
Isla	1,887	(5,370)	6,151
Lija	7,212	(57,145)	(14,056)
Luqa	16,025	(13,411)	13,383
Marsascala	1,878	(107,656)	(60,437)
Marsaxlokk	5,574	(908)	13,294
Paola	162,599	(86,101)	114,506
Pietà	36,878	(20,921)	(44,219)
Qala	14,404	(12,961)	41,034
Qrendi	47,709	(18,865)	(84,280)
San Pawl il-Baħar	76,666	(134,810)	(439,969)
Żebbuġ (Gozo)	30,413	(48,592)	(20,935)
Żebbuġ (Malta)	32,206	(84,283)	(265,191)
South Eastern Regional Committee	678,168	(286,002)	414,746

<sup>15</sup> Figures disclosed in the table represent amounts as reported on the face of the 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.

## Control Issues

Similar to previous years, a number of control issues necessitating improvement were identified in a number of Councils. These included:

- a. Actual expenditure for certain expenses exceeded that budgeted.
- b. FAR either not maintained or not provided for audit purposes, as it was not updated and reconciled to the accounting records.
- c. Contractual agreements were either not drawn up at all or procurement was carried out on expired tenders.
- d. The Council still proceeded with the implementation of the contract even though tender documents, such as performance bond, were either not provided within the stipulated timeframe or not provided at all.
- e. Discrepancies were identified between amounts receivable as reported in the financial statements and those recorded in the reports extracted from LES. In such instances, provision for doubtful debts was also likely to be inaccurate.
- f. Councils' receivables still included amounts, which have been pending for several years and which at times are no longer recoverable.
- g. Regular reconciliations with suppliers' statements were not being carried out with the consequence that amounts included in the financial statements were not accurate and discrepancies were not investigated.
- h. Established limit for petty cash expenditure exceeded.
- i. Cash receipts not deposited on a twice-weekly basis, as required by the regulations.
- j. Official documentation, including quarterly reports, the approved financial statements, the budget, reports on travel abroad and twinning arrangements, as well as the reply to the management letter, not prepared and approved on time, and sometimes not filed at all.

## Compliance Issues

### *Finalisation of Annual Financial Statements*

In accordance with the Local Councils (Audit) Procedures 2006 (P2.05) and instructions issued to Local Councils through Memos by DLG, the Executive Secretary is to draw up and submit to the Auditor General, the financial statements signed by the Mayor and the Secretary himself, by not later than 19 February following the end of the financial year.

Financial statements are to consist of the:

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

The abolishment of penalties imposed on those Local Councils that did not adhere to the respective deadlines, a decision which is questioned by NAO, resulted in a decline in the number of Councils that strived to deliver the unaudited financial statements on time. In fact, only 54<sup>16</sup> Local Councils, three Regional Committees and LCA managed to submit the respective unaudited financial statements by the aforementioned deadline. Submissions by four other Local Councils was effected by the end of the same month, while the financial statements of another six Local Councils were provided by end of March 2016. San Lawrenz Local Council kept prolonging until 8 June 2016. On the other hand, due to the problems encountered with its accountant, Mtarfa Local Council submitted its annual financial statements to the respective LGA on 22 June 2016. Għaxaq Local Council, as well as the Gozo Regional Committee, did not furnish the Auditor General with a complete set of unaudited financial statements by the time this Report went for publication. Furthermore, a copy of the unaudited financial statements of Swieqi Local Council and Northern Regional Committee were only made available to this Office by the respective LGA, as both Council and Committee did not submit a copy to NAO.

### *Audit Report and Financial Statements*

Only 53<sup>17</sup> Local Councils (2014: 50), three Regional Committees (2014: 2) and LCA delivered the audited financial statements and management letters by the stipulated deadline of 29 April 2016 in accordance with the instructions issued by DLG. Another six audited financial statements reached NAO by end of May, while the others kept delaying the submission. The financial statements of three Local Councils<sup>18</sup>, namely Għaxaq, San Lawrenz and Valletta, as well as Gozo and Northern Regional Committees were not submitted at all by mid-October 2016<sup>19</sup> being the ultimate deadline set by NAO for analysing the audited financial statements. **Appendix C** refers. Local Councils and Regional Committees are expected to take all necessary actions to ensure the timely submission of proper and accurate financial statements.

## Concerns encountered in a Large Number of Local Councils

### *Liquidity Position*

As already indicated, a significant number of Local Councils once again have ended the financial year in a deficit position, whilst others are on the verge of facing liquidity problems, if immediate

<sup>16</sup> This includes Kirkop and Qrendi Local Councils which, due to the problems encountered with their accountant, submitted the respective financial statements on 1 March 2016.

<sup>17</sup> This includes two Councils whose delay was justified and approved by NAO due to exceptional circumstances.

<sup>18</sup> This is the second consecutive year that these three Councils did not submit the respective audited financial statements.

<sup>19</sup> Both San Lawrenz Local Council and the Northern Regional Committee submitted the audited financial statements by the last week of October 2016. The former has also submitted a reply to the management letter. However, these could not be analysed due to time constraints.

corrective measures to curtail discretionary expenditure are not implemented. This was mainly triggered by the significant capital projects that the Councils entered into during the preceding years, especially with the introduction of PPP scheme<sup>20</sup>, which costs add up to millions of Euro.

In addition, certain Councils are experiencing difficulties and, to a certain extent, have limited control over the collection process of their receivables. In certain instances, amounts receivable have been carried forward from one year to another, with the risk that these can become statute-barred; thus a provision against some of these debtors has also been accounted for.

Notwithstanding their precarious financial position, certain Councils still approved and contracted for additional capital commitments.

### **Fixed Assets**

#### **Fixed Asset Register not in place**

The Local Councils (Financial) Procedures vest the Executive Secretary with the responsibility of creating, maintaining and controlling an accurate and up-to-date inventory of the Council's fixed assets. However, various instances were still encountered whereby a FAR was either not maintained or not provided to LGA for audit purposes, due to the fact that it was not updated and thus failed to be reconciled to the accounting records.

Variances, which at times aggregated to substantial amounts, were noted between figures listed in FAR and those disclosed in the nominal ledger and financial statements. By way of example, the total cost of assets, as well as the related grants and accumulated depreciation as recorded in the unaudited financial statements presented by one of the Local Councils were overstated by €791,003 and €264,214 respectively, when compared to the figures disclosed in FAR. Furthermore, as was the case in previous years, none of the additions procured during 2015, amounting to €360,775 were included in FAR of this Council, thus implying that the register is not being updated. The lack of adequate and complete records hinders the monitoring and control expected to be exerted by Local Councils over fixed assets.

Furthermore, in view of the aforementioned shortcomings, the depreciation charge for the year is not computed through FAR, as required by standing regulations, but is calculated manually and posted in the accounting system by means of a journal entry. This is giving rise to discrepancies between the depreciation reported in the books of account and that recalculated by LGA, mainly due to one or more of the inconsistencies indicated hereafter.

- a. Depreciation was calculated annually instead of on a monthly basis.
- b. The Council adopted the straight line method, rather than the reducing balance method for such computation.
- c. Assets were not classified in their proper category with the consequence that the wrong depreciation rate has been charged.

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<sup>20</sup> Under this scheme, Councils are to resurface those roads falling under their responsibility. A fixed percentage (30% in the case of Maltese Councils and 50% in respect of Gozitan Councils, however this might differ depending on the individual circumstances) of the cost as per tender is financed by Government, with the balance being paid by the Council over a period of eight years, in varying percentages.

- d. Exceptional cases were noted whereby projects that were finalised during the year were not capitalised and hence not depreciated.
- e. Procurement costs of street signs and/or waste bins, which are to be accounted for on replacement basis, were capitalised rather than treated as revenue expenditure.

#### Fixed Asset Register not in line with Pertinent Regulations

FAR provided for audit purposes by certain Councils was not in line with best practice and in terms of the Local Councils (Financial) Regulations, as explained hereafter.

- a. There was no common reference between the description of the asset in FAR and the related transaction in the nominal ledger.
- b. Besides being assigned a general description, a number of assets in FAR were not tagged with a fixed asset code, making it difficult to identify and correctly account for the existence, impairment or disposal of the respective assets.
- c. At times, although the cost of assets as disclosed in FAR tallied to that reported in the nominal ledger, discrepancies between individual categories were still noted.
- d. Assets, which were no longer in use by the Council, were not written off from FAR; thus, the respective cost was still disclosed in the books of account.
- e. Discrepancies were noted between the value of fixed assets additions as disclosed in FAR and that reported in the Fixed Assets Schedule.

Due to the above shortcomings, LGAs were limited in the audit procedures that they could carry out to verify the physical existence and completeness of the items of PPE and, at times, this merited the qualification of the audit report.

#### Assets falling under the Councils' responsibility not properly insured

According to the Local Councils (Financial) Procedures, the Executive Secretary is responsible to safeguard the Council's assets, property, interests and activities, against any loss or damage, by having a proper insurance cover in place. However, due to the lack of proper guidelines, in preceding years, anomalies were noted in the way Councils insured their assets.

In addition, during the year under review, a particular Local Council also insured works of art that are hung at its premises but which belong to an artist who resides in the locality. In such case, the Council is simply serving as a museum to exhibit the respective works, but which however are being insured for the sum of €250,000 at the Council's expense. LGA was informed that a contract was being drawn up, whereby these paintings will eventually be transferred to the Council in the future. However, such agreement was not yet finalised by the conclusion of the audit fieldwork.

NAO's continuous recommendation for DLG, to issue clear and specific guidance on the nature of insurance cover that every Council is expected to have in place, was addressed through Circular No. 33/2016 released on 19 October 2016. Local Councils were informed by Director (DLG) that upon the expiration of the current policy, they are expected to maintain a fully comprehensive cover for motor vehicles<sup>21</sup>. Buildings and contents<sup>22</sup> shall at least be insured against fire, theft and damage due to natural events, in line with the net book value of the respective assets as denoted in the last audited financial statements. Whereas no insurance cover is required with respect to community assets, including urban improvements, trees, infrastructure *etc*; it is to be ascertained that works in progress are adequately insured by the contractor carrying out the respective project.

## **Accounting**

### **No access to Accounting Software**

In breach of standing regulations, instances were encountered whereby the respective Council did not have access to its accounting records as these were prepared on the software owned by the accountant. Furthermore, a copy or back up of the accounting software was not available at the Local Council.

Councils are to acknowledge the importance of maintaining a copy of the accounting dataset at their premises, with no exceptions.

### **Incorrect Bookkeeping**

The concern that in certain instances the financial statements presented for audit purposes are not up to standard, besides containing a number of errors, still prevails. The preparation of reliable and timely accounting information is essential to the efficient operation of a Council. The latter is to ensure that the accountant properly updates the books of account, particularly ensuring that all approved audit adjustments are included before closing off the year-end. This is part of the day-to-day accounting procedures and is not to be considered as part of the audit tasks.

The relevant points highlighted in various management letters indicate that there are serious shortcomings in the updating of the accounting records of a number of Councils. In fact, at times LGAs had to carry out accounting tasks themselves in order to be able to conclude the audits. Fundamental reconciliations were also not properly undertaken. Moreover, the trial balance provided for audit purposes was not always in agreement with the approved unaudited financial statements. In addition, certain balances in the financial statements were not substantiated. Another cause of concern was the significant number of audit adjustments proposed by LGAs to correct the material misstatements noted during the audit; in certain cases turning a surplus into a deficit following the approval of the proposed audit adjustments.

This implies that the unaudited financial statements approved by the Council did not present an accurate picture of the financial position as at year-end. If management accounts are prepared in the same way, the Council may be misguided and may consequently rely upon inaccurate information for decision-making purposes and the budgeting process. Thus, it is pertinent that both the Department and the Councils realise that it is useless to submit the required documentation by

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<sup>21</sup> Insurance value of motor vehicles is to be assigned by the insurance company in line with established insurance regulations.

<sup>22</sup> These shall include administrative building including furniture and fittings as well as any equipment.

the stipulated deadlines, if the data included therein is not properly compiled and reflects a true and fair view of the actual financial situation.

It is also worth mentioning that Councils are expending substantial amounts of money on the procurement of accountancy services. However, in many cases such services are not yielding the desired results. NAO had previously suggested to DLG the recruitment of a number of qualified accountants by the Department, rather than outsourcing this function, thus rendering the process more cost-effective and manageable. This would bring about harmonisation in the preparation of accounts and it would be easier to monitor and control the work, as well as enhancing communication with the same accountants.

In the meantime, in line with Memo 59/2012, Councils are to ensure that the person in charge of preparing 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. On the other hand, as already reiterated in previous years, DLG is to take a stricter stance against those Councils which do not prepare adequate financial statements.

### Financial Statements not compliant with International Financial Reporting Standards

The issue that Councils' financial statements are not fully compliant with the requirements of IFRSs, thus necessitating an 'Except For' qualified audit opinion, still prevails. Moreover, the respective specimen included in the Local Councils (Audit) Procedures is considered outdated *vis-à-vis* the applicable accounting standards.

In view of the fact that Local Councils are required to prepare their financial statements in accordance with IFRSs, NAO again recommends DLG to embark on an exercise to update the current template, which will then need to be revised on a yearly basis, so as to ensure that the latest amendments in the accounting standards are incorporated.

### Non-adherence to Accruals Concept

The concept of accrual accounting was not complied with at all times. Various instances were encountered whereby income receivable under specific schemes was not accrued for, despite that the necessary approvals were in place. Likewise, cut-off procedures at year-end were not properly applied with the consequence that accrued expenditure was either completely omitted from the books of account, or the respective provision was not accurate. The same issues were also encountered with respect to prepaid expenditure.

### Tipping Fees charged by WasteServ Malta Ltd beyond Budgeted Allocation

Following discussions with the Ministry for Finance, in 2013 a decisive action was taken to resolve the anomaly in existence since the end of 2009, between Councils and WasteServ Malta Ltd, in view that the amounts invoiced by the latter were in excess of the specific Government allocation provided. In fact, during the last four years (2013-2016) in the annual national budget, through line item 5665 under Programmes and Initiatives, DLG was assigned specific funds for payments by Local Councils to WasteServ Malta Ltd. Such disbursement effected during the year under review totalled €1.3 million, of which €976,640 related to invoices issued during 2014, whilst the resulting balance of €323,360 had been accruing from June 2010 up to end of financial year 2013.

The same amount of €1.3 million, covering amounts invoiced in 2015 in excess of the allocated balance, was paid to WasteServ Malta Ltd in 2016. Given that this is exactly the same amount as that of the previous year, despite that invoiced amounts are based on the tonnage of waste disposed by the Councils, its accuracy is questionable. NAO urges the Department to delve into the matter, so as to ensure that only justified payments are actually effected.

Furthermore, a number of Councils again either omitted or did not account in full for funds transferred by DLG to WasteServ Malta Ltd on their behalf, thus resulting in the overstatement of payables and understatement of income. At times, the respective income was also recorded in the wrong nominal account. A number of audit adjustments were required to rectify these errors.

Inconsistencies were also noted in the recognition of such income. On the assumption that DLG will continue to settle such differences on a yearly basis, certain Councils accrued for additional income receivable from the Department in respect of tipping fees, whilst others opted to recognise any such additional income upon actual confirmation and remittance.

### Major Shortcomings in the Bookkeeping Function

Various shortcomings were encountered with respect to the Councils' bookkeeping function, namely:

- a. The system used in respect of income recording does not entail a proper audit trail.
- b. Receipts and payments were either omitted from the books of account or recognised twice, thus leading to the incorrect recognition of assets and liabilities.
- c. Income received and invoices not recorded in the financial year to which they pertain.
- d. Income and expenditure not recorded in the correct nominal account. In addition, adequate documentation was not always provided to support amounts disclosed in the accounting records.
- e. Expenses incurred were netted off against the income received.
- f. Prepaid and accrued expenditure brought forward from the preceding year was either not reversed or was reversed against the wrong nominal account.
- g. Audit adjustments approved during the preceding year's financial audit were not reflected in the books of account, with the consequence that opening balances disclosed in the accounting system differed from the closing balances as reported in the audited financial statements for the previous year.
- h. Inventory held by the Council comprised items which were not held for sale, such as books held for free distribution. Furthermore, in breach of IAS 2, the value assigned to stock items was not the cost but was equivalent to the selling price. Instances were also encountered whereby a stock list, confirming the inventory items held at year-end, was either not provided or included discrepancies when compared to the stock value recognised in the books of account.
- i. Amounts disclosed in the financial statements were either classified incorrectly or under a different line item for each of the reporting period presented. In addition, adequate documentation was not always provided to support amounts disclosed in the books of account.

- j. Expenditure of a capital nature recorded as recurrent expenditure or vice versa.
- k. Incorrect classification of liabilities into their long-term and short-term portions.

### *Local Enforcement System*

Outstanding fines should not take longer than one year to be settled, as these are usually payable upon the renewal of the respective motor vehicle license. However, for an unknown reason, this is not materialising, with the consequence that it has a negative impact on all Local Councils, since substantial amounts are still being recorded as outstanding. Guided by the principle of the prudence concept, Councils have already adequately reduced, by way of a provision, those amounts where recoverability is deemed remote.

Relevant audit procedures carried out revealed the shortcomings indicated hereafter.

### *Reports generated from the System not Reliable*

Reports generated from the computerised system, with respect to tribunal pending payments in relation to the pre-regional period, again illustrated substantial movements when compared to the amounts reported in the preceding year. Instances were further noted whereby a particular LES report indicated that during the year under review, the Council received more cash than that shown by other reports generated from the same LES computerised system. LES receivables as recognised in the books of account and respective balances recorded in the reports extracted from the Local Enforcement IT system also differed. Such inconsistencies question the integrity of the system and the reliability of the data generated there from, especially when these were not substantiated by plausible explanations.

### *Discrepancies in Administrative Fees Receivables*

Variances were noted between income receivable from Regional Committees, for contraventions collected by the Councils, as disclosed in the latter's accounting records, and that illustrated in reports generated from the system. This could either be because invoices issued by the Council to the respective Regional Committee were not accurate, or because at times Councils accounted for the respective income on a cash basis, thus only invoices covering actual payments were recognised in the books of account.

### *Invoices with respect to Administration Fee not raised on Time*

Local Councils were not raising invoices with respect to the administration fees receivable from Regional Committees and/or LESA in the first week of the month, following that when the contravention was paid at the latter's premises in line with Memo 91/2011.

### *Difficulties with the Collection of adjudicated Fines*

Regional Committees are experiencing certain difficulties with the collection of fines. As at 31 December 2015, total receivables by the three Regional Committees which had submitted the audited financial statements, aggregated to €7,921,848, of which €3,772,359 were provided for. **Table 5** refers.

In line with Memo 91/2011, Local Councils, LCA and Licensing and Testing Department are to forward remittances of paid contraventions to Regional Committees by the first week of the following month. On the other hand, the latter are to set up a proper system to collect unpaid contraventions without undue delays.

**Table 5: LES outstanding balances as at 31 December 2015**

Regional Committee	Balances as recorded in the Financial Statements <sup>23</sup>		
	LES Receivables	Provision for Doubtful Debts	Net Receivable Balance
	€	€	€
Central	3,173,045	(1,718,367)	1,454,678
South Eastern	2,567,594	(1,013,709)	1,553,885
Southern	2,181,209	(1,040,283)	1,140,926
Totals	7,921,848	(3,772,359)	4,149,489

### Cancellation and Waiver of Contraventions

Similar to the preceding year, besides an aggregate of €189,101 in fines which were waived<sup>24</sup>, contraventions amounting to €39,405 were cancelled by the South Eastern Regional Committee during the year under review. Due to the risks inherent in the current procedure for the cancellation of contraventions, stricter controls are to be adopted in order to avoid potential abuse. The petition process is also to be monitored to ensure that appealed contraventions are only waived for valid reasons and/or humanitarian grounds.

### Procurement

#### Anomalies between Thresholds set in Pertinent Regulations

Certain anomalies still prevail between the thresholds laid down in the Local Councils (Financial) Regulations, 1993 and the Local Councils (Financial) Procedures, 1996 whereby procurement is to be covered by a call for quotations. Through Article 4, the Local Councils (Financial) Regulations specify that three official signed quotations are to be obtained prior to procuring items exceeding €1,165 (Lm500) but not exceeding €4,659 (Lm2,000), in which case a call for tenders is then required. On the other hand, Article P1.09 of the Local Councils (Financial) Procedures, 1996 stipulates that at least three official signed quotations are required for purchases of value above €233 (Lm100) but not greater than €2,333 (Lm1,000).

<sup>23</sup> Balances might differ from the amounts illustrated in reports extracted from computerised system.

<sup>24</sup> Waived tickets represent contraventions which were either reversed following a petition, or the offender was adjudged not guilty after a tribunal hearing.

### Non-abidance with the Tendering Procedures

The Local Councils (Tendering) Regulations, 1993 and the Local Councils (Tendering) Procedures, 1996, provide guidance on how purchasing of works, goods and services is to be conducted. However, LGAs again highlighted a number of weaknesses, indicating that the majority of Local Councils did not always adhere to the respective rules.

- a. Procurement exceeding €1,165 not covered by a public call for quotations, thus procured through a direct order. **Appendix D – Table 1** refers.
- b. A number of payments were forwarded to the same service provider, for the provision of similar services within a period of four months, so as to bypass the requirement of a public call for tenders or quotations. **Appendix D – Table 2** refers.
- c. Purchases exceeding the cost of €4,659 not substantiated by a public call for tenders.

### Procurement carried out under Expired Contract

Audit verifications revealed that upon the expiration of the contract agreement, a new call for quotations or tenders was not always issued but the respective service continued to be procured from the same service provider under an expired contract. Such course of action goes against Memo 10/2013, which instructed Councils to start preparing for a new call for tenders ahead of the expiry date of existing contracts.

This issue is of concern also amongst certain Regional Committees, as the latter have taken over a number of contracts, including prosecutor services, authorised officer services, as well as warden services, which were initially entered into by the then Joint Committees and were expected to become null upon the cessation of the latter. Additional details, including the total expenditure incurred during 2015, for the provision of such services are illustrated in **Table 6**.

**Table 6: Contracts entered into by the then Joint Committees but which are still used by Regional Committees**

Regional Committee <sup>25</sup>	Contract Details	Amount expended during 2015	Further Comments	Reply to the Management Letter
		€		
Central	Authorised officer services	62,520	Contract stopped by DLG on 30 September 2015.	Issues are to be discussed with DLG.
	Prosecution services	40,463	The committee expects that this contract is taken over by LESA.	
	Rental of administration office and tribunal premises in San Ġwann	33,451	Agreement for tribunal rent expired in November 2014 was extended for a further two years.	
South Eastern	Warden services	200,411	n/a	In view of the impending LES reform, DLG has instructed the Committee not to award new tenders and to keep on contracting services relating to LES operations in line with the previous contracts.
	Authorised officer services	44,234	n/a	

### Street Lighting

The street lighting function was one of the main responsibilities of the Joint Committees. Thus, upon the cessation of such Committees, these operations were to be delegated to the five Regional Committees. However, 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.

Councils were expected to follow Memo 34/2013 dated 30 December 2013, whereby they were instructed to issue a new call for tenders for such services, covering an introductory period of one year, which agreement could then be renewed on an annual basis for a maximum of three years. However, once again certain Local Councils disregarded such guidelines and continued to procure the respective service through direct orders, from the same service providers, under the conditions as outlined in the agreement entered into by the then Joint Committees, without issuing a new call for tenders.

Recently, the Department has embarked on an exercise to gather the necessary information from Local Councils with respect to the street lighting function, with the aim of establishing those Councils which have failed to renew their contracts. This Office is informed that a new directive in this regard will be issued by the Department in due course.

<sup>25</sup> The audited financial statements and management letter of Gozo and Northern Regional Committees were not submitted to the Auditor General by mid-October 2016, being the ultimate deadline set by NAO for analysing audited financial statements and management letters.

### Expenses not covered by Source Documentation

Amounts expensed were not always substantiated by source documentation, such as agreements, tender documents, bills of quantity, architect's certificate, invoices *etc.* In such instances, testing carried out was limited to the extent that it was not possible to ascertain that standing regulations were fully adhered to and that expenditure incurred in the respective areas was in line with the agreed terms.

### Councils not adequately covered by a Bank Guarantee

In breach of standing regulations, Councils proceeded with the execution of certain contracts, despite that the awarding bidder did not provide a copy of the performance bond within seven days from the issuance of the letter of acceptance. In certain instances this was never submitted. Consequently, the Council will not be covered in case of default by the contractor.

### Procurement not covered by a Formal Purchase Order

With the exception of petty cash expenses and utility services, Article P1.09(b) of the Local Councils (Financial) Procedures stipulates that all procurement is to be initiated through formal purchase orders, contracts or purchase agreements. Yet, not all Local Councils adhered to this requirement. Various items of expenditure, which at times were material, were not covered by a formal purchase order, officially confirming the Council's approval for the related procurement.

### Non-submission of Fiscal Receipts

Activities carried out by Local Councils fall outside the scope of the Value Added Tax (VAT) Regulations, thus implying that such bodies are not registered for VAT purposes. In view of this, supplies and services provided to the former by VAT registered suppliers are to be covered by a fiscal receipt in line with the Thirteenth Schedule of the VAT Act.

However, instances were still noted whereby substantial amount of expenditure incurred for the Council's operations was not supported by a valid fiscal receipt, even though the respective service provider did not qualify for the exemption under the pertinent legislation.

At times, even the invoice submitted by the supplier lacked necessary details, such as details of the latter, and identification of the client. Moreover, in certain cases, procurement was only supported by an unofficial piece of paper. In such instances, it could not be ascertained that the respective expenditure was actually incurred for the running of the Council.

Local Councils are to ensure that an invoice, as well as a fiscal receipt, as required by the pertinent regulations, are obtained for all the expenditure incurred by the Council. In cases where the supplier lacks adherence to VAT regulations, the Council is to discontinue procuring from such defaulter until the situation is rectified.

### Threshold for Petty Cash Expenditure exceeded

Very often, the maximum threshold (€23.29) for petty cash, established by the Local Councils (Financial) Procedures, was exceeded. Furthermore, at times, two or more separate receipts from the same supplier, were issued in sequence, intended to bypass the applicable threshold.

Moreover, such expenditure was not always supported with details of the goods or services purchased. Whilst acknowledging that very often petty cash expenditure is merely supported by cash register chits, Councils are encouraged to prepare an itemised petty cash voucher showing all the procured items. This is to be duly endorsed by the Executive Secretary and attached to the cash chit, thereby enhancing transparency.

#### Other Deficiencies noted in Procurement Procedures

Other issues concerning procurement were also identified as listed hereafter.

- a. Contracts entered into by the Council were at times either not signed by the Mayor, and/or the Executive Secretary, or not signed by the contractor.
- b. Schedule of offers not always dated, thus making it impossible to determine when the call for offers ended. Moreover at times, this schedule was not signed by the Executive Secretary and at least two Councillors as required by pertinent regulations.
- c. The Mayor did not endorse the payment vouchers in a number of instances. At times these also lacked necessary details, such as the respective invoice number or details of goods and services procured. Occasionally, purchase orders were signed only by the Executive Secretary.
- d. The invoices were not always certified by the Executive Secretary as required by pertinent regulations.
- e. Variations of more than 10% in contracted works were not always approved in a Council meeting. According to the Local Councils (Tendering) Procedures, in such instances, Local Councils have the right to terminate the respective contract and issue a fresh call for tenders.
- f. Lack of thorough verifications with the tender rates of certain amounts invoiced resulted in additional charges.

#### Government Grants

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

Local Councils have, year after year, been reminded of such accounting treatment in the year-end Memo issued by DLG, whereby the latter provides guidelines to be followed by Local Councils in the preparation of financial statements for the upcoming year-end audit. The related shortcomings are highlighted hereafter.

- a. Certain Councils are still adopting the Capital Approach for the treatment of Government grants.
- b. Funds received were at times accounted for on a cash basis, implying that, at year-end, no provision is made in respect of amounts which have not yet been received.
- c. On the other hand, instances were noted whereby amounts receivable were recorded as accrued income, despite that formal agreements were not yet in hand. For prudence sake, such income is to be recognised only following the signing of the contract.
- d. In certain cases, funds were fully recognised as income in the year received, rather than matched with the related costs which they were intended to compensate on a systematic basis. In such cases, very often no consideration was given as to whether the respective funds were already accrued for in the preceding year, thus resulting in double accounting of the same grants.
- e. Deferred income released to the Statement of Comprehensive Income was over or understated. This was mainly either because amortisation was not accounted for in line with the depreciation policy, or it was only applied to deferred income brought forward, without taking in consideration additional funds received during the year under review.
- f. A number of Councils did not apportion deferred income appropriately into its short-term and long-term components.
- g. In certain cases, the necessary workings, substantiating accrued and/or deferred income balances as recognised in the books of account or the schedules presented, were not drawn up in line with IAS 20. Consequently, no audit procedures could be carried out to ascertain that amortisation, as well as the apportionment of deferred income, into its short and long-term components, were correct and complete.
- h. The grant schedule provided for audit purposes did not always tally with the amortised income as recorded in the books of account.
- i. Disclosed with deferred income are funds which have not yet been allocated to any specific project, as the Council is unaware of the source of such income, as well as the intended use of these funds.
- j. Included with deferred income are grants which were obtained in preceding years with respect to specific projects that by the time of audit were still in their initial phase.

### **Disbursements from Reserves of Central Regional Committee**

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

However, for the second consecutive year, the Central Regional Committee disbursed the total amount of €800,000 (2014: €700,000) from its retained funds, amongst the 13 Local Councils that fall under its remit.

According to DLG, since Regional Committees generate their own funds, they are free to decide how to dispose of them, as long as this is done in a legal way.

However, no reference to the disbursement of surplus funds is made in the Regional Committees' Regulations. Moreover, documentation was not traced in support of the substantial amounts transferred to the Local Councils.

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

- a. Contrary to that agreed to during a meeting held in 2014 by the Central Regional Committee representatives, *i.e.* the Mayors of the Councils falling within the aforementioned Region, funds received were not always allocated to a specific project, but were utilised to finance day-to-day operations.
- b. Local Councils recognised such disbursements as income received rather than deferred income and amortised accordingly. Thus, audit adjustments were passed to rectify this error.

### **Receivables**

#### **Long outstanding Receivable Balances**

Once again, it was noted that included within the receivables of certain Local Councils, were amounts which have been pending for several years, some of which are no longer recoverable. Due to the prolonged delays in the collection of such debts, a number of Councils are facing serious cash flow problems, as they have substantial amounts of money tied up unnecessarily. Thus, each Council is to do its utmost to chase the respective debtors and recoup the pending amounts without undue delay. However, if it remains unlikely that payment will be settled, a provision is to be created, following approval during a Council meeting, until such debt is written off. Decisions taken are to be properly documented in the Council's minutes.

#### **Shortcomings in the recording of Receivables**

Internal controls highlighted hereafter were lacking in certain Councils, indicating that little or no monitoring was in place to ensure efficient financial management.

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

- b. The receivables control account included negative balances.
- c. Balances as disclosed in the debtors' list and/or accrued income list and/or prepayments' list, did not tally to the amounts recognised in the nominal ledger and/or trial balance.
- d. Amounts which have been outstanding for more than two years were either not provided for or the recognised provision was inadequate, as this was either under or overstated. Instances were also encountered whereby the provision was offset against the respective debtor rather than disclosed separately.
- e. No proper approval was sought from the Councils' members prior to recording a provision for doubtful debts and/or writing off bad debts.
- f. Substantiating documentation concerning recognised provision for certain doubtful debts, accrued income, as well as prepaid expenditure, was not provided for audit purposes, thereby limiting the audit testing that could be carried out in this respect.
- g. Amounts accrued for in the preceding year were once again recognised as income upon receipt.
- h. Whilst garnishee orders were still disclosed in the books of account despite being released, contingent assets were not accounted for.

#### Amounts due from Water Services Corporation

Another issue affecting a number of Local Councils was that concerning amounts recognised in previous years, as dues from Water Services Corporation (WSC) for trenching works carried out by Local Councils. Such balances had not yet been settled. In the circumstances, Councils were encouraged to follow up the outstanding amounts with WSC for payment and, if necessary, refer the matter to LCA for collection in line with the agreement negotiated between the latter and the Corporation way back in March 2010.

#### **Payables**

##### Payables Reconciliations not carried out

In view that suppliers' statements were not always obtained, in such cases, regular reconciliations were not carried out, with the consequence that amounts as disclosed in the books of account could not be verified. Through creditors' circularisation letters, discrepancies were encountered between the payable balances recorded in the nominal ledger and those confirmed by the respective suppliers.

##### Suppliers' Reconciliations not performed diligently

Notwithstanding that certain Councils adhered to standing regulations and executed payables' reconciliations on a monthly basis, these were still not performed diligently, as evidenced by the shortcomings highlighted in the management letters. These mainly related to invoices and/or payments either accounted for twice or not recorded at all, thus resulting in unrecorded liabilities. Such errors were rectified through the audit adjustments incorporated in the accounting records, as recommended by LGAs.

Yet, instances were encountered whereby an adequate explanation of the respective variances was not provided, as the resulting discrepancies were not investigated by the Council. In such cases, LGA had no option other than to issue a qualified audit opinion.

### Long overdue Payable Balances

Disclosed with payables were overdue balances, which at times were substantial, that were brought forward from previous years and were never followed up. In one particular case, this amounted to €1,276,077 which includes the amounts of €529,463 and €504,555 due to two particular suppliers.

Local Councils are encouraged to investigate such payables and either settle the amount due or, if considered as non-payable, reverse the respective balance, after obtaining approval in a Council meeting.

### Shortcomings noted in the Creditors' Lists

Verifications carried out on the creditors' lists presented for audit purposes revealed the following shortcomings:

- a. Balances as illustrated in the creditors' list as at 31 December 2015 differed to those disclosed in the creditors control account, as well as the respective amounts recognised in the financial statements. Similar variances were also encountered in the case of accrued expenditure.
- b. Disclosed within the creditors' list were debit balances, which in certain instances were brought forward from previous years. These represented either overpaid amounts to suppliers or payments on account against which an invoice was not provided.
- c. A number of invoices, dated in 2015, were recorded as accrued expenditure rather than amounts payable. This implies that certain Councils were still unable to distinguish between creditors and accrued expenditure.

### *Personal Emoluments and Allowances*

#### Unreconciled Payroll

As highlighted in preceding years, reconciliation of the books of account with FSS forms submitted to the Inland Revenue Department (IRD) was either not performed or not given the attention it deserves by the Councils. This was evident from the differences encountered upon reconciling emoluments as disclosed in the financial statements, with the monthly and annual returns filed with IRD, as illustrated in **Appendix E**.

At times, variances were also noted between the figures disclosed in the Payer's Monthly Payment Advice, commonly known as FS5s, and those reported in the Payer's Annual Reconciliation Statement, namely FS7.

### Incorrect Personal Tax Deductions

Memo 11/2013 specifies that, on an individual basis, Mayors as well as Councillors are to consult with IRD on the tax deduction rates applicable under the laws of Malta. However, since the Payee Status Declaration (FS4) forms were not always available, it could not be ascertained that the applicable rates were correct. Furthermore, cases were noted whereby allowances paid to Councillors were considered as part-time emoluments and thus incorrectly taxed at the rate of 15%.

### Delaying of Payments to the Inland Revenue Department

As specified in Article 15(1) of LN 88 of 1998, payments of income tax, as well as NI contributions are to be remitted to IRD by the last working day of the month following that during which the emoluments were paid. However, the audit revealed that in certain cases, such submission was effected months after the statutory due date. Thus, there is the risk that, in line with Article 24(1) of the cited LN, the Local Councils in question will incur monthly penalties on the pending amounts.

### Incomplete Documentation

From verifications carried out on the Council's payroll documentation, it was noted that this was not up to the required standards. The following matters transpired:

- a. Not all employees have a signed contract of employment in line with their present conditions of work.
- b. In breach of pertinent regulations, certain Councils did not furnish their employees with a payslip.
- c. Some Councils were not in possession of the FS4 forms of all their Councillors, especially those elected during 2015.

### Leave carried forward exceeded the Maximum Threshold

In breach of Article 20(1) of the Local Councils (Human Resources) Regulations, a number of employees accumulated leave to carry forward from 2015 to 2016 exceeding the stipulated threshold of 48 hours; in one case such accumulation reached 646 hours.

### Maternity Fund Contribution

To address concerns related to discrimination based on gender at hiring stage, in 2015, Government introduced the Maternity Leave Fund, whereby employers are obliged to pay a contribution on the basic wage of every male and female employee. Although the Trusts and Trustees (Maternity Leave Trust) Regulations, 2015, exonerates the General Government Sector, Authorities, Agencies and Public Corporations from such obligation, certain Councils still paid contributions to this fund.

### Refund of Mayor's Honoraria

Four years have passed since the Department pronounced clear guidelines on the procedure to be adopted to recoup the overpayments paid to Mayors following the revocation of the upward revision in the honoraria paid to the latter. However, to-date, two ex-Mayors disregarded such directives with the consequence that they are still to refund the aggregate amount of €4,426.

### Cash and Cash Equivalents

#### Bank Reconciliations not carried out

Audit verifications carried out revealed that in certain Local Councils, internal controls over cash and cash equivalents, were lacking, and little or no monitoring was in place to ensure efficient financial management. Bank reconciliations were not always carried out, and when these were performed, they were not prepared on a monthly basis as laid down in the Local Councils (Financial) Regulations. Furthermore, rather than carried out through the accounting software, bank reconciliations were either done manually or on a spreadsheet. Consequently, a number of unreconciled discrepancies, which were not investigated by the respective Councils, were noted between the bank balance as reported in the books of account and that disclosed in the respective bank statements. Additional testing carried out by LGAs revealed that such variances resulted due to one or more of the following shortcomings:

- a. Opening balances as recorded in the nominal ledger differed from that featuring on the respective bank statement.
- b. Cheques issued prior to year-end but encashed during the subsequent financial year were not disclosed in the list of unpresented cheques. On the contrary, a number of encashed cheques were still included in the bank reconciliation as pending payments.
- c. Transactions were accounted for more than once in the nominal ledger.
- d. Stale and/or cancelled cheques, which at times were material, were not written off and reversed accordingly in the accounting system.
- e. Investment income received was neither accounted nor accrued for.
- f. Cheque values as disclosed in the accounting system did not tally to the respective amount as recorded on the cheque image.
- g. Bank statements provided for audit purposes were incomplete and did not cover up to year-end.

#### Untimely Bank Deposits

In breach of Article P1.14(c.09) of the Local Councils (Financial) Procedures, a number of Councils delayed the deposit of cash and cheques received at their premises.

Apart from the security implications of leaving cash and cheques unnecessarily at the premises, Councils are also to be reminded that undeposited cash is idle money and does not contribute to the best utilisation of the latter's financial resources. Thus, in line with standing regulations, monies in hand are to be deposited on a timely basis.

### Payments issued prior to Approval in Council's Meeting

Except for petty payments up to €23.29, the Local Councils (Financial) Procedures vest the Executive Secretary with the responsibility of preparing complete and accurate schedules of payment, and presenting them during Council meetings on a timely manner. However, certain payments were still settled despite that the necessary approvals were not in place. In such cases there is the risk that the Council will effect payments for unapproved purchases or uncertified work. In addition, the schedules of payment at times lacked specific details.

### List of Representatives of the Council's Bank Accounts not updated

In some cases, Mayors and/or Executive Secretaries who were no longer in office, were still included as representatives of the Council's bank accounts. As already recommended in the preceding years, for security reasons, the respective Councils are to instruct the bank to update the signatories of the related accounts accordingly.

### Unnecessary Tax paid on Investment Income

In view that Local Councils are non-taxable entities, investment income earned is not subject to final withholding tax. However, this year instances were again encountered whereby tax was withheld on interest received on the savings deposit accounts. Councils are urged to instruct their banks not to withhold any tax on investment income earned from these bank accounts.

### Shortcomings relating to Petty Cash

- a. In breach of Article 38(3) of the Local Councils (Financial) Regulations, cash held by certain Councils exceeded the maximum threshold of €233.
- b. The lack of regular reconciliations between the petty cash balance in the nominal ledger and the physical cash in hand led to discrepancies between the two sources at year-end. Cases were also encountered whereby the Council ended the financial year with a negative cash balance.
- c. Schedules for itemised petty cash expenditure were at times either not being compiled, or not brought to the Council's attention for approval.

### ***Non-compliance with Pertinent Legislation***

#### Lack of Response to the Management Letter

Fifteen Local Councils exceeded the stipulated deadlines set out in Article 8(2) of the Local Councils (Audit) Regulations, 1993 to submit their response to the management letter, whilst another Local Council and the Southern Regional Committee did not even bother to provide a reply which denotes a sense of irresponsibility on the auditee involved. A copy of the reply of another three Local Councils was only forwarded to NAO by DLG, as the respective Councils did not to submit their response to the Auditor General.

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

### Repetitive Weaknesses reported in the Management Letter

It is of considerable concern that certain weaknesses are being highlighted year on year in the management letters.

Whilst certain management letter points are out rightly ignored, others are just answered with a simple statement indicating that the particular point was noted. This implies lack of accountability on the part of the respective Councils.

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

### Provision of Donations in Money or in Kind

In breach of Article 63A of the Local Councils Act, prohibiting the provision of any donations whether in money or in kind, a number of Local Councils continued to effect payments in the form of donations. This also implies that recommendations reiterated by LGAs year after year, for Councils to circumvent this course of action, whilst being more considerate in the manner of how they distribute their resources within their localities, have not yet been taken on board.

Local Councils refute these concerns, claiming that they have to fulfil their social and cultural obligations. In this regard, DLG, through Memo 16/2013, allowed Local Councils to provide financial assistance of up to €200 per year, to schools, for the procurement of educational material.

However, as highlighted in **Appendix F**, during 2015, at least four Local Councils still incurred expenditure on items which constitute a donation.

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

Notwithstanding that Memo 122/2010 stipulates that expenses incurred in respect of *Jum il-Lokal* should not exceed €3,500 or 0.5% of the annual Government allocation, whichever is the highest, expenditure paid by five Local Councils on such event surpassed the aforementioned threshold. **Table 7** refers.

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

Local Council	Actual expenditure incurred	Maximum stipulated threshold	Amount overspent	Council's reply to the Management Letter
	€	€	€	
Birgu	7,540	3,500	4,040	The Council will ensure that in future years, expenditure on this activity will not exceed DLG guidelines.
Kalkara	4,761	3,500	1,261	Observation noted.
Mellieħa	5,779	5,221	558	Point not properly addressed.
Mġarr	4,836	3,500	1,336	Point noted.
Swieqi	13,211	5,500 <sup>26</sup>	7,711	The activities organised were not all related to <i>Jum il-Lokal</i> but had different functions, such as sports day and youth day.

### Personal Insurance Policy

A number of individuals who were no longer employed with the Council were still included in the personal insurance policy maintained by the latter. This implies that in breach of pertinent regulations, these insurance policies were not updated on a regular basis. Besides seeking the necessary approvals where applicable, Councils are also to ensure that the respective policies are within the parameters laid down for such schemes.

### Membership Fees paid to Local Action Groups

Upon the implementation of the LEADER programme, the Local Action Groups were set up in 2009, with the aim of improving the development potential of rural areas, by bringing together the different public and local private actors. The main responsibility of such groups is to co-ordinate the design of the local development strategy, as well as its implementation.

However, to take part in such schemes, Local Councils have to become a member of these Local Action Groups and are obliged to pay a membership fee, which is specifically determined by the latter and may vary from one Action Group to another. This fee is used to cover costs, such as bank interest and charges, insurance, as well as legal and other professional fees, which are not refunded under the said programme.

<sup>26</sup> Expenditure of €13,211 was incurred to organise a three-day Swieqi fest, which is being taken as equivalent to the celebration of *Jum il-Lokal*. In respect of such activity, the Council received a specific grant of €2,000 from DLG.

A concern that has been voiced year after year relates to the fact that, although Local Councils had no proper authorisation to pay membership fees to any of the three Local Action Groups, namely *Gal Xlokk*, *Majjistral* and *Gozo*, over the years a number of Councils still effected payments in this respect. Furthermore, no detailed information has ever been provided in respect of any benefits derived by each particular Council from such initiatives. In addition, whilst it is understood that these Local Action Groups are preparing a set of financial statements, it is still unclear whether these are being audited on an annual basis.

Thus, in an attempt to address these issues, through Circular No. 19/2016, DLG issued specific guidelines that are to be followed by every Council that is interested in joining any of the Local Action Groups. These guidelines ensure that:

- a. formal authorisation from DLG is sought prior to effecting payments for membership fee;
- b. Councils experiencing liquidity problems do not engage in additional commitments that will compromise further their financial situation;
- c. fee paid is fair and reasonable;
- d. Local Councils are provided with a copy of the annual audited financial statements of the respective Local Action Group; and
- e. in the financial statements, Local Councils include a note, giving a brief cost-benefit analysis of the initiatives undertaken as part of the LEADER programme.

#### Amounts expensed on Christmas Lunch or Reception above the stipulated Threshold

NAO satisfactorily notes that in the majority of Local Councils, no shortcomings were highlighted with respect to expenditure incurred for the Christmas lunch or reception. This implies that recommendations set out in previous management letters, reiterating compliance with the stipulated threshold *per capita*, as well as that only individuals entitled to attend such activities are to be invited, were taken on board by Councils. The exceptions were Mġarr and Mtarfa.

Furthermore, although Isla Local Council approved in meeting minute 008/15 that the Christmas lunch would be held at a restaurant in Marsaxlokk, it did not provide the respective invoice for audit purposes. Thus, LGA could not ensure that standing regulations were fully adhered to.

#### Reimbursement of Expenditure incurred by Council's Employees

The following cases, relating to Councils' employees or third parties, were noted:

- a. Reimbursements were forwarded to the Executive Secretary with respect to the latter's mobile bills and/or use of personal car.
- b. Monthly fuel allowance was paid to an individual who is not an employee of the Council, for using her car for health centre requirements.

- c. Parking permit fees were paid on behalf of two Council's employees without being treated as a fringe benefit for income tax purposes.
- d. Fixed monthly reimbursement was granted to an employee of Industrial Projects and Services Ltd, for using his personal vehicle to carry out work on behalf of the Council. The amount was established by the Council and is neither covered by an agreement nor by the actual mileage being reimbursed.

#### Allowance not reflecting Absence at Councils' Meetings

As part of the reform on Local Councils, all Councillors were entitled to an annual allowance of €1,200 with effect from 1 January 2010. In accordance with Article 32(2) of the Local Councils Act, such allowance is to be paid in proportion to the number of meetings a Councillor has attended in any calendar year. However, instances were encountered, whereby Councillors who did not attend Council meetings were still paid the full yearly allowance, even though a letter of excuse, justifying the reasons for absenteeism, was not provided.

#### Meetings not held within the stipulated Timeframes

Article 43(2) of the Local Councils Act states that Council meetings are to be held at least once a month or at any other shorter intervals as the Council may decide, as long as such period does not exceed five weeks.

However, in breach of the cited legislation, instances were encountered whereby no meetings were held within a five-week timeframe. At times, this was due to the fact that no quorum was reached.

#### Statutory Documents not uploaded on the Website

Councils are required to upload on their websites, certain statutory documentation including minutes, schedules of payment, quarterly returns, annual budget, as well as the three-year business plan, as indicated hereafter. However, such requirements were not always complied with.

- a. In line with Article 52(2b) of the Local Councils Act, the Executive Secretary is vested with the responsibility of properly recording the minutes, giving a detailed account of what was discussed and passed in Local Council's and Committee's meetings. Upon approval in the successive Council's meeting, these are then to be endorsed by both the Mayor and the Executive Secretary.

With the aim of increasing transparency within the same Councils, through Memo 35/2009, DLG instructed that, as from 8 June 2009, Council minutes were to be uploaded on the Council's website within two working days following their approval. Various reminders to this effect were given by DLG, with the latest Memo issued in 2014. However, a number of Councils still did not publish the related minutes on their website within the specified timeframe, if at all.

In addition, at times, minutes were not formally endorsed by the Mayor, or the Executive Secretary, or by both. Instances were also identified whereby the minutes were not sufficiently detailed, for example lacking the time when these meetings were adjourned.

- b. The aforementioned shortcomings were also noted *vis-à-vis* the schedules of payment, in respect of which the same procedure is to be followed, once these schedules are endorsed by the Mayor, the Executive Secretary and at least two Councillors. In addition, certain approved payments were

not disclosed in the related schedule of payments. At times, these also lacked detailed information, to the extent that not even the amount approved for payment, the purchase order number and cheque number were disclosed therein.

- c. Lack of compliance was also noted in the publication of the quarterly reports, annual budget and three-year business plan, besides that certain Executive Secretaries did not even bother to compile the latter documents and/or present them for Council's approval.

In view that this non-adherence was becoming the norm, on 3 October 2016, through Circular No. 28/2016, Director (DLG) warned that action will be taken against those Executive Secretaries who fail to take the necessary measures to upload any missing statutory documentation by 7 October 2016.

### Travel Reports not drawn up

MFEI Circular No. 5/2012 – Travel on Official Duty, compels delegates who proceed abroad on official duty, to provide the Director responsible for corporate services with a report by not later than one month after the visit. Such report should include a short explanation about the purpose of the visit, the benefits achieved there from, the delegate's personal remarks, the officials to be alerted about the outcome of the visit, as well as the issues to be followed up in Malta.

However, from the verifications carried out, it transpired that the cited circular was not adhered to at all times notwithstanding that, in certain cases, a material amount was spent on the respective travel.

### Discrepancy between Budgeted and Actual Expenditure

Article P1.07(b.05) of the Local Councils (Financial) Procedures stipulates that budgeted expenditure is not to be exceeded unless authorised by the Council. However, once again, a number of Local Councils exceeded their budget in various categories of expenditure. **Appendix G** refers.

In certain cases, this implies that the annual budget is not compiled with due diligence but is simply prepared as a way of formality. The Council is to perceive the annual budget as a tool to control and curtail its expenditure. In the event that any expenditure category requires additional funds than budgeted, an adjustment, which is to be duly approved by the Council, will be necessary.

## Other Particular Concerns

### *Mid-term Audits*

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

Following NAO's continuous recommendations, in an attempt to address certain issues that are not covered by the aforementioned regulations, in 2014, DLG issued Memo 14/2014 which contains more specific guidelines that are to be followed in the case of a change in the position of the Executive Secretary. In line with the new instructions, a mid-term audit is to be conducted if the change in their term of office is effected two months following the beginning of a new financial year and if it is

not later than two months prior to the end of a financial year. In addition, it was specified that the set of financial statements drawn up in such cases, once approved and signed by both the Mayor and the Executive Secretary, these are to be submitted to the Auditor General and the respective LGA, within a period of five weeks from the date of termination of the outgoing Executive Secretary. The importance of a mid-term audit was once again stressed.

During the period under review, 11 Local Councils, the Gozo Regional Committee, as well as LCA, changed their Executive Secretaries within the period obliging them to carry out a mid-term audit. **Appendix H** refers. However, only three Local Councils, namely Birkirkara, Birżebbuġa and San Ġiljan, 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, prolonged the audit process unnecessarily to the extent that by the time the mid-term audit was concluded, the year-end financial audit for 2015 was also finalised. This resulted in an additional financial burden on the respective Councils who still have to pay for the exercise carried out without any value added. Even worse is the case of San Ġiljan Local Council, whereby the mid-term audit which ought to cover the period 1 January to 30 June 2015 was still not yet finalised by 7 October 2016, as the Council was lagging to approve the necessary audit adjustments and amendments.

Through Circular No. 15/2016, issued on 20 August 2016, DLG once again stressed the importance of a mid-term audit. NAO is of the opinion that a stand *vis-à-vis* those Councils who are not abiding by the pronounced guidelines needs to be taken by the Department.

### Performance Indicators

As part of the Local Government Reform consultation process carried out in 2009, performance indicators covering eight critical areas, namely environment, the road sector, education and culture, human resources management, equal opportunities, citizen participation, customer care, as well as finance, were identified. During the same year, the proposed performance indicators were discussed with key stakeholders during a workshop organised by DLG, in collaboration with the Centre of Expertise for Local Government Reform within the Council of Europe. This was followed by planned task force meetings held by DLG, to discuss the areas to be measured, the criteria to be adopted, as well as the interpretation of key definitions and terminology to be used in respect of these indicators. However, although substantial work was carried out, this project was halted.

During 2014, DLG embarked on a new 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 and the Centre of Expertise for Local Government Reform within the Council of Europe. The main objective of the assignment was to enhance the Local Government system in Malta, through the implementation of tools already adopted by the Council of Europe, with the key focus being on the relation of the performance indicators within the legal requirements, in terms of both Local Councils' direct responsibilities, as well as the financial regulations.

Under this project, three reports titled Partnership for Creative Governance, Training Needs Analysis and National Training Strategy were compiled and published. These were complimented by a pilot project conducted with 17 Local Councils to establish the way forward, by introducing performance management on two to three issues. In view that no systematic approach was ever introduced amongst Local Councils, a manual for the implementation of a Performance Management and Risk Management system and respective indicators was published on 1 August 2016. This ensures that

the common procedure adopted will yield the same results. The Department envisages that these performance indicators will be implemented as from 2017. Furthermore, a Leadership Academy Programme is underway, where Mayors and Executive Secretaries are receiving training in various disciplines to enhance their leadership skills. NAO commends such training initiatives.

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

The last two components of the project are a National Strategy for Innovation and Good Governance, as well as the award of the European Label for Governance Excellence. The latter shall only be awarded if the participating Local Councils achieve the pre-defined targets set by the Council of Europe.

### **The National Reform Programme**

The National Reform Programme, launched by Government in April 2015, highlights the national targets that are to be met by 2020. This binds Regional Committees to develop an integrated plan approach for the localities within the five Regions, by identifying strategies that need to be carried out on the economic, social and cultural aspects of the local communities within their precincts. To this effect, a fund amounting to €100,000, which is to be equally allocated to the five Regional Committees, was established. The main aim of this fund is to collate the five regional plans and publish a national strategic plan within the context of the National Policy for Local Government of the Maltese Islands. Regional Committees are to submit their plans by 24 March 2017.

## Appendix A – Financial Allocation

**Table 1: Income received by Local Councils**

Local Council	Government Allocation 1 January – 31 December 2015	Other Supplementary Income received from Central Government	Other Income generated by the Council	Total
	€	€	€	€
Attard	594,869	59,875	41,323	696,067
Balzan	257,557	25,363	45,938	328,858
Birgu	267,532 <sup>27</sup>	71,847	165,742	505,121
Birkirkara	1,150,687	263,001	256,905	1,670,593
Birżebbuġa	650,387	70,412	30,150	750,949
Bormla	429,028	19,742	19,566	468,336
Dingli	309,638	37,347	28,586	375,571
Fgura	530,109	58,354	44,145	632,608
Floriana	333,669	20,540	53,724	407,933
Fontana	135,434	15,245	11,538	162,217
Gudja	260,460	25,257	16,795	302,512
Gżira	489,157	55,991	28,896	574,044
Għajnsielem	306,826	59,943	20,721	387,490
Għarb	211,802	133,124	21,676	366,602
Għargħur	223,685	36,532	16,326	276,543
Għasri	163,698	6,223	2,418	172,339
Għaxaq <sup>31</sup>	311,170	-	-	311,170
Ħamrun	601,858	11,882	85,282	699,022
Iklin	227,377	51,779	18,695	297,851
Isla	269,296	21,499	39,190	329,985
Kalkara	240,465	31,546	12,008	284,019
Kerċem	245,347	54,562	12,311	312,220
Kirkop	190,638	24,340	23,996	238,974
Lija	238,939	44,979	16,954	300,872
Luqa	368,386	215,149	25,609	609,144
Marsa	462,822	79,400	20,747	562,969
Marsasċala	714,961	199,026	61,063	975,050
Marsaxlokk	336,697	28,825	20,552	386,074
Mdina	188,652	14,029	39,275	241,956

<sup>27</sup> Government allocation as disclosed in the financial statements amounted to €267,412. This is stated net of deductions of €120 imposed by DLG with respect to wireless connections.

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

**Table 1: Income received by Local Councils**

Local Council	Government Allocation 1 January – 31 December 2015	Other Supplementary Income received from Central Government	Other Income generated by the Council	Total
	€	€	€	€
Mellieħa	1,044,287	392,728	59,097	1,496,112
Mġarr	405,307	29,499	23,800	458,606
Mosta	1,058,234	255,130	112,686	1,426,050
Mqabba	249,990	74,359	28,641	352,990
Msida	496,540	94,462	51,056	642,058
Mtarfa	242,374	53,690	10,156	306,220
Munxar	216,826	87,451	18,583	322,860
Nadur	420,845	42,501	31,239	494,585
Naxxar	852,796	67,642	61,735	982,173
Paola	643,202	28,280	215,830	887,312
Pembroke	366,390	57,390	22,761	446,541
Pietà	278,534	77,402	97,556	453,492
Qala	261,211 <sup>28</sup>	54,593	7,403	323,207
Qormi	1,033,651	140,161	122,543	1,296,355
Qrendi	324,887	94,800	6,156	425,843
Rabat (Gozo)	503,128	171,112	27,084	701,324
Rabat (Malta)	991,266	56,218	35,931	1,083,415
Safi	226,814	11,467	26,745	265,026
San Ġiljan	636,947	41,713	221,119	899,779
San Ġwann	679,643	50,695	47,716	778,054
San Lawrenz <sup>29</sup>	148,218	101,528	59,872	309,618
Sannat	210,933	43,059	7,971	261,963
San Pawl il-Baħar	1,274,738 <sup>30</sup>	355,349	106,193	1,736,280
Santa Luċija	306,131	29,644	16,311	352,086
Santa Venera	384,804	70,845	37,507	493,156
Sigġiewi	725,932	52,760	40,599	819,291
Sliema	983,317	79,751	188,926	1,251,994
Swieqi	555,620	120,704	48,463	724,787

<sup>28</sup> This amount does not tally to the amount of €261,199 disclosed in the financial statements.

<sup>29</sup> Due to very late submission and time constraints, the financial statements of San Lawrenz Local Council could not be analysed, however the respective figures were disclosed in the above table for information purpose.

<sup>30</sup> The financial statements disclosed an amount of €1,303,432 as Government allocation, which was not adjusted by the Council. An amount of €28,694 should have been reallocated to other Government income. The table above was adjusted accordingly.

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

**Table 1: Income received by Local Councils**

Local Council	Government Allocation 1 January – 31 December 2015	Other Supplementary Income received from Central Government	Other Income generated by the Council	Total
	€	€	€	€
Ta' Xbiex	201,628	50,566	23,632	275,826
Tarxien	462,498	64,642	29,450	556,590
Valletta <sup>31</sup>	700,223	-	-	700,223
Xagħra	476,661	113,036	18,897	608,594
Xewkija	324,412	58,415	11,776	394,603
Xgħajra	169,663	5,779	4,249	179,691
Żabbar	796,199	31,833	33,819	861,851
Żebbuġ (Gozo)	419,382	48,112	22,989	490,483
Żebbuġ (Malta)	741,581	198,167	92,481	1,032,229
Żejtun	764,797	66,111	157,883	988,791
Żurrieq	709,245	108,639	52,860	870,744
<b>Totals</b>	<b>32,000,000</b>	<b>5,216,045</b>	<b>3,361,846</b>	<b>40,577,891</b>

**Note:** The Government allocation disclosed in the table above was provided by DLG.

<sup>31</sup> In the case of Għaxaq and Valletta, only the Government allocation was included since for the second consecutive year, the audited financial statements were not submitted to the Auditor General by the date this Report was published.

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

**Table 2: Income generated by Regional Committees**

Regional Committee <sup>32</sup>	Income generated
	€
Central Regional Committee	4,182,883
Northern Regional Committee	1,776,829 <sup>33</sup>
South Eastern Regional Committee	2,738,162
Southern Regional Committee	2,220,323
<b>Total</b>	<b>10,918,197</b>

**Note:** Regional Committees were provided with a Government allocation only during their first year of operation. From thereon, their main source of income is the money generated from LES.

<sup>32</sup> The income generated by the Gozo Regional Committee is excluded from the above table, as the respective Committee did not submit the audited financial statements to the Auditor General by the date this Report was published.

<sup>33</sup> Due to very late submission and time constraints, the financial statements submitted by the Northern Regional Committee could not be analysed, however the figure in the table above was disclosed for information purposes.

## Appendix B – Reports that were either Qualified with an ‘Except For’<sup>34</sup> Audit Opinion or highlighting an ‘Emphasis of Matter’<sup>35</sup>

**Column 1** indicates the localities wherein, included in the financial statements is LES income received during the year under review from the respective Joint Committee. LGAs were unable to determine the amount of additional income that the Council is entitled to receive, since the audited financial statements of the Joint Committee for financial year 2015 were not yet available. Furthermore, there were no alternative acceptable audit procedures that LGAs could perform to obtain reasonable assurance on the completeness of the share of income or expenses that was recorded in the financial statements.

**Column 2** shows the Council where the financial statements for the year under review were not prepared in their entirety in accordance with IFRSs, mostly since disclosure requirements were not complied with. Very often such disclosures related to the requirements of IAS 1 – Presentation of Financial Statements, IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, IAS 24 – Related Party Disclosures 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.

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<sup>34</sup> An ‘Except For’ opinion reflects the fact that the Auditor was unable to audit certain areas because of restrictions imposed which were beyond his control.

<sup>35</sup> An ‘Emphasis of Matter’ refers to an area that, although appropriately presented in the accounts, still merited disclosure in the audit report so as to aid users to better understand the financial statements.

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

Local Council/ Regional Committee/ LCA <sup>36</sup>	Column 1	Column 2	Column 3	Column 4	
				‘Except For’ Audit Opinion	‘Emphasis of Matter’
Attard			x		x
Balzan		x	x		
Birkirkara		x	x		x
Birżebbuġa			x		x
Bormla		x	x		
Dingli	x	x	x	x	
Fgura		x	x		
Floriana		x	x		
Gżira	x	x			
Għajnsielem			x		
Għarb					x
Għarghur	x	x	x		
Ħamrun			x		
Iklin		x	x		
Kalkara		x	x		x
Kerċem					x
Lija		x	x		x
Luqa			x		
Marsa		x			
Mdina	x	x	x		x
Mellieħa	x	x	x		
Mgarr	x	x	x		
Mqabba		x	x		x
Msida		x	x		x
Mtarfa	x	x	x		
Munxar					x
Nadur					x
Naxxar	x	x	x		
Pietà		x	x		x
Paola		x	x		
Pembroke	x	x	x		
Rabat (Gozo)			x		x
Rabat (Malta)	x	x	x		
San Ġiljan	x	x			
San Ġwann	x	x			

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

Local Council/ Regional Committee/ LCA <sup>36</sup>	Column 1	Column 2	Column 3	Column 4	
				‘Except For’ Audit Opinion	‘Emphasis of Matter’
Sannat			X		X
San Pawl il-Baħar	X	X	X		X
Santa Venera		X	X		
Sliema	X	X	X		
Swieqi	X			X	
Tarxien	X		X		
Ta’ Xbiex	X				
Xagħra					X
Xgħajra		X	X		X
Żabbar		X	X		
Żebbuġ (Malta)			X		X
Żejtun		X			
Żurrieq			X		
Central Regional Committee		X	X		
South Eastern Regional Committee			X		
Southern Regional Committee			X		
LCA		X			

<sup>36</sup> Since no audit opinion was provided for Birgu, Kirkop, Mosta and Qrendi Local Councils, these have been excluded from the above table.

## Appendix C – Delayed Submission of Audited Financial Statements

Date when the Audited Financial Statements were submitted to the Auditor General	
<b>May 2016</b>	
13 May 2016	Fontana
	Għajnsielem
	Żejtun
20 May 2016	Birgu
26 May 2016	Mdina
30 May 2016	Birkirkara
<b>June 2016</b>	
3 June 2016	Għarb
	San Pawl il-Baħar
24 June 2016	Naxxar
<b>July 2016</b>	
1 July 2016	Għargħur
15 July 2016	Mellieħa
<b>August 2016</b>	
26 August 2016	Mtarfa <sup>37</sup>
<b>October 2016</b>	
26 October 2016	Northern Regional Committee
28 October 2016	San Lawrenz

<sup>37</sup> The Council experienced problems with its accountant as the latter did not provide the respective Council with the annual financial statements.

## Appendix D – Procurement not carried out in line with Pertinent Regulations

**Table 1: No Public Call for Quotations was issued prior to procurement**

Local Council	Amount	Details	Number of Quotations provided for Audit Purposes	Council's Reply
	€			
Birgu	1,458	Trunking	-	The Council shall obtain quotations as required by the Local Councils (Financial) Procedures. At times, due to the urgency of the situation, the Council would have no other option but to order from well-known suppliers. However, it is understandable that quotations are important for better control.
Għajnsielem	1,447	Organisation of a reception	-	The Council will ensure that quotations are received as requested by Local Councils (Financial) Procedures.
	1,352	Closed circuit television system	-	
Kalkara	1,273	Cleaning services	-	LGA's comments have been noted.
Mtarfa	1,328	Closed circuit television and security equipment	-	This forms part of a public quote and thus the amount in question does not exceed the stipulated amount <sup>38</sup> .

<sup>38</sup> Notwithstanding this statement, LGA was not provided with the respective information.

## Appendix D – Procurement not carried out in line with Pertinent Regulations *cont./*

**Table 1: No Public Call for Quotations was issued prior to procurement**

Local Council	Amount	Details	Number of Quotations provided for Audit Purposes	Council's Reply
	€			
Naxxar	1,200	Books	-	The Council confirms that this purchase was done without having issued a call for quotations. However, it is to be pointed out that this was part of a scheme for libraries where the Council is asked to purchase books from selected book sellers. Furthermore, the Council was pressed for time since it had to submit the invoice to DLG for a reimbursement of 50%. Hence it would have been irresponsible to hold on the order and lose €600 reimbursement for a mere €35.
Paola	2,643	Accountancy services	-	The Council will be issuing a call for quotations during the current year.
Safi	3,689	Expenses incurred in relocating an automated teller machine which was of inconvenience to the residents	-	Point not properly addressed.
	2,324	Garage rent	-	
San Ġwann	1,600	Hire of hall as a Day Care Centre	-	Though the Council utilises the hall as a Day Care Centre, it does not have any rental agreement with the San Ġwann parish church. There is no commitment by either party and the amounts fall below the threshold of €1,165 for a four month period.

## Appendix D – Procurement not carried out in line with Pertinent Regulations *cont./*

**Table 1: No Public Call for Quotations was issued prior to procurement**

Local Council	Amount	Details	Number of Quotations provided for Audit Purposes	Council's Reply
	€			
San Pawl il-Baħar <sup>39</sup>	4,485	Landscaping	-	Point taken for the future and the Council is committed to comply accordingly. In fact, these will be given priority by the new Executive Secretary.
	3,290	Advocate retainer fees	-	
	2,807	Irrigation expenses	-	
	2,005	Street lighting	-	
	1,323	Cleaning of manholes	-	
Swieqi	1,534	Entertainment	-	Point noted. The Council will take the necessary action.
Tarxien	2,300	Permit and customer care system	-	Comments noted and the Council will seek to abide accordingly.
	1,860	Legal services	-	
Xewkija	3,023	Tickets to Sicily	-	The Council shall commence to obtain quotations from various suppliers when the threshold is exceeded.
	1,856	Lunch outing for the elderly	-	
Xgħajra	1,440	Supply of concrete	-	This was an emergency service in <i>Sqaq Dungur</i> which had to be fixed in a few hours.
Żejtun	3,048	Supply of glass panels for bus shelters	-	It is unequivocal that the Council adheres to the procurement procedures in the majority of acquisitions. It is however understandable that certain issues do arise to which the Council's administration would be required to act without delay.
	2,150	Audio rentals for <i>Żejt iż-Żejtun</i>	-	
	1,239	Three notice boards	2	

**Note:** The table above includes only those instances where procurement exceeding €1,165 was not covered by a call for quotations. The list is also not exhaustive as this includes only instances that were noted by LGAs whilst carrying out sample testing.

<sup>39</sup> Besides the purchases listed in this table, the Council did not provide any supporting documentation with respect to expenditure incurred for road markings amounting to €2,175 and water expense for Buġibba public convenience, totalling €9,343. In such cases, LGA could not ensure that the relevant procurement regulations were fully adhered to.

## Appendix D– Procurement not carried out in line with Pertinent Regulations *cont./*

**Table 2: Goods and/or Services of the same nature procured within a Period of Four Consecutive Months without issuing a Public Call for Quotations**

Local Council/ Regional Committee	Amount	Details	Number of Quotations provided for Audit Purposes	Council's Reply
	€			
Attard	1,918	Two computers and a projector	-	The Council is clearly seeing that all procurement regulations are observed.
	1,745	Closed circuit television system	-	
Dingli	2,143 <sup>40</sup>	Transport services	-	LGA's comment has been noted. In fact, during 2015 a number of quotations were issued to rectify the Council's position.
Għargħur	1,260 <sup>41</sup>	Ironmongery goods	-	The Council acknowledges the purchase of €1,260 worth of ironmongery goods, however, it is important to point out that the amount in question was procured over a period of 12 months during which there was never a period of four months whereby the amount of €1,165 was exceeded.
Mellieħa	3,599	Provision of filming and related activities	-	Notwithstanding that payments with respect to such expenditure were effected within a four month period, the provision of the respective services was spread over a longer period. The musical services provided by the local band clubs related to cultural events organised by the Council.
	2,300	Computer courses	-	
	2,300	Provision of musical services	-	
	2,300		-	

<sup>40</sup> Additional expenditure, whereby the respective threshold was exceeded, was also noted. However, such procurement was not supported by any documentation. As a result, LGA was not in a position to ensure that the relevant procurement procedures were fully adhered to. Thus, such amounts were excluded from the above table.

<sup>41</sup> According to LGA, the orders of supplies by the Council are being batched together and invoiced every four months to bypass the requirements of the Local Councils (Financial) Procedures.

## Appendix D– Procurement not carried out in line with Pertinent Regulations *cont./*

**Table 2: Goods and/or Services of the same nature procured within a Period of Four Consecutive Months without issuing a Public Call for Quotations**

Local Council/ Regional Committee	Amount	Details	Number of Quotations provided for Audit Purposes	Council's Reply
	€			
Mosta	1,362 <sup>42</sup>	Printing materials	-	This related to a case where the Council needed an urgent delivery. However the latter is doing its utmost to comply with regulations.
Mtarfa	1,260	Garage doors and shutters	-	These services were required very urgently in line with the submission of an application for EU funds.
Naxxar	4,300	Cultural and social activities	-	Expenditure of €4,300 was effected in periods exceeding four months and hence the Council believes that it is in accordance with the regulations. Thus, although the Council paid for the whole amount on the same date with one cheque it still believes that it is in order. As for the computer courses, unfortunately this was an oversight from the Council's end. The Council shall do its utmost to avoid similar instances. The amount of €1,600 related to two distinct and unrelated services, one of €1,000 and one of €600. Moreover, the Council confirms that transport of €1,465 was covered by a call for quotations.
	2,401	Leaflet distribution and computer courses	-	
	1,600	Cultural and social activities	-	
	1,465	Transport	-	

<sup>42</sup> In addition to this, various instances were noted whereby upon the expiration of the contract agreement, the Council continued to procure the respective service from the same service provider without issuing a new call for tender or quotations.

## Appendix D– Procurement not carried out in line with Pertinent Regulations *cont./*

**Table 2: Goods and/or Services of the same nature procured within a Period of Four Consecutive Months without issuing a Public Call for Quotations**

Local Council/ Regional Committee	Amount	Details	Number of Quotations provided for Audit Purposes	Council's Reply
	€			
Swieqi	2,000	Marketing and branding	1 <sup>43</sup>	LGA's comments have been noted and the Council will take the necessary actions.
	1,507	Paint and other hardware supplies	-	
South Eastern Regional Committee	2,095 <sup>44</sup>	Building and fixing of shelves	-	Quotations were obtained for all purchases above the amount of €1,165 in line with procurement procedures. These are attached to the payment vouchers and invoice. All documents requested were provided for audit purposes.
	1,751	Furniture and fittings	-	
	1,639	Computer equipment	-	

<sup>43</sup> LGA was provided with a quotation which was not through a public call.

<sup>44</sup> €1,735 of this amount was disclosed with accruals. No supporting documentation was provided in this respect.

## Appendix E – Inconsistency in Payroll Reconciliation

Local Council/Regional Committee/LCA	Gross Personal Emoluments including Employer's Share of NI as per		
	Accounting Records <sup>^</sup>	FS7	FS5s
	€	€	€
Balzan	73,440	73,401	72,616
Birgu	98,319	97,131	96,951
Bormla	119,610	119,207	119,958
Floriana	111,830	112,326	112,327
Fontana	50,909	50,905	50,480
Gżira	89,532	88,796	88,239
Għarb	69,000	68,266	68,266
Għarghur	61,248	60,160	60,161
Ħamrun	125,108	124,060	124,060
Kalkara	89,674	91,329	91,333
Luqa	106,882	107,154	107,154
Marsaxlokk	100,773	98,974	100,470
Mdina <sup>45</sup>	53,774	53,250	53,250
Mgarr	85,460	85,460	85,377
Msida	134,882	134,313	134,667
Mtarfa	71,584	71,513	69,116
Nadur	62,086	60,794	60,038
Naxxar	154,261	154,175	154,175
Paola	133,382	131,535	130,293
Pietà	97,509	96,742	96,471
Qormi	181,742	181,660	181,660
Qrendi	77,586	76,581	76,581
Safi	80,285	80,538	80,538
San Ġiljan	141,044	141,044	140,767
San Ġwann	154,948	154,268	154,268
San Pawl il-Baħar	192,857	192,681	192,679
Santa Luċija	93,135	93,182	93,182
Xewkija	70,248	71,323	71,323
Żabbar	125,605	125,925	125,633
Central Regional Committee	165,545	165,683	165,677
LCA	183,369 <sup>46</sup>	182,904	182,905

<sup>^</sup>These figures were stated after taking into consideration any audit adjustments passed during the course of the audit, as well as after adjusting for any opening and/or closing accruals and prepayments.

<sup>45</sup> Discrepancy of €524 relates to overtime paid to an officer during the months of March and April which was neither disclosed in the FS5s nor in the FS7.

<sup>46</sup> The discrepancy of €465 noted between personal emoluments recorded in the books of account and the FS7 represents overtime payments made to staff seconded from other Government Department to the Association.

## Appendix F – Donations paid by Local Councils in breach of Pertinent Regulations

Local Council	Donation provided		Council's Reply
	Amount	Description	
	€		
Attard	251	Books for prize days	The Council is limiting its donation of books to €200 as instructed. However, this is not always possible as requests by schools within the Region are increasing as time goes by and since children attend different schools, the Council tries to accommodate all.
	30	Twelve books to local band club	
Marsaxlokk	500	Musical instrument and commemorative plaque	The Council does not agree with the claim made by LGA that the purchase of a musical instrument was a donation to the local musical band. In fact, during Council's meeting held on 7 April 2015, it was agreed that the instrument be given to the local musical band as a recognition for its work within the locality. The said musical instrument was given together with other recognitions during <i>Jum Marsaxlokk</i> .
Mellieħa	1,150	Loudspeakers for local primary school hall	The school hall is Government property, and therefore in the Council's view, any improvements thereat should in no way be considered as a donation. Furthermore, the hall is frequently used by the Council for important gatherings and cultural activities. The improvements carried out in this hall over the years were the result of resource pooling between the Education Division and the Local Council, as otherwise these would not have materialised. Thus, in the Council's view, LGA's interpretation is not acceptable since improvements carried out by the Local Council in a Government-owned asset are certainly not to be considered as a donation. A modest expenditure of €1,150 is considered as a concrete step by the Council in fulfilling part of its social and cultural obligations within the locality.
Mosta	3,061	Donation to local band club in the form of a payment to the Civil Protection Department for service of fire engine during the locality feast	LGA's comment has been noted and the Council will take action accordingly.

**Note:** Gżira Local Council made a payment of €8,000 to Gżira football club to make use of the facility that the same football club uses. Since LGA was not provided with a copy of the respective agreement, it could not be determined whether the payment in question is justifiable. However, from testing carried out, it transpired that the nature of this payment seems to be that of a sponsorship. In its reply, the Council pointed out that the agreement entails an obligation on the Gżira united nursery to upgrade the facilities and exempt families in financial difficulties so that their children can also play football without being charged any fees. The Council also has the right to use the facilities on weekends.

## Appendix G – Discrepancy between Budgeted and Actual Income and Expenditure

Local Council/ Regional Committee	Details	Budgeted Income/ Expenditure	Actual Income/ Expenditure	Variance
		€	€	€
Attard	Urban improvements	25,500	96,504	(71,004)
	Plant and machinery	-	5,182	(5,182)
Balzan	Urban improvements	-	107,354	(107,354)
	Office equipment	1,200	14,065	(12,865)
	Furniture and fittings	-	1,150	(1,150)
Dingli	Capital expenditure	37,500	351,769	(314,269)
	Penalties	-	11,738	(11,738)
	Insurance	-	2,261	(2,261)
	Materials and supplies	5,000	5,692	(692)
Floriana	Operations, maintenance and administration expenditure	243,209	323,744	(80,535)
Fontana	Contractual expenses	21,000	50,209	(29,209)
	Hospitality and services to the community	3,000	10,371	(7,371)
	Office expenses	1,000	3,136	(2,136)
	Miscellaneous expenses	-	1,070	(1,070)
	Professional services	8,000	8,528	(528)
Gudja <sup>48</sup>	Income raised under Council bye-laws	7,800	2,544	5,256
	Income from LES	7,200	3,209	3,991
	Personnel emoluments	58,952	66,595	(7,643)
	Road and street cleaning	11,000	15,381	(4,381)
	Travelling expenses	3,000	7,233	(4,233)
	Office services	3,800	7,047	(3,247)
	Professional services	4,000	7,124	(3,124)
	Bring in sites	2,400	4,278	(1,878)
	Transport expenses	1,500	3,339	(1,839)
	Wide area connectivity	-	1,807	(1,807)
	Community, cultural and social events	17,800	19,094	(1,294)
	Street lighting	8,900	9,788	(888)
	Sports activity	-	756	(756)

## Appendix G – Discrepancy between Budgeted and Actual Income and Expenditure *cont./*

Local Council/ Regional Committee	Details	Budgeted Income/ Expenditure	Actual Income/ Expenditure	Variance
		€	€	€
Ghajnsielem	Community and hospitality	30,000	60,050	(30,050)
	Repair and upkeep	4,900	13,185	(8,285)
	Professional services	11,345	17,050	(5,705)
	Travelling	2,000	5,868	(3,868)
	Office services	2,900	4,790	(1,890)
	Training	-	1,459	(1,459)
	International membership	262	836	(574)
	Rent	750	1,156	(406)
Gharb	Contractual services	32,185	46,558	(14,373)
	Community and hospitality	20,680	29,714	(9,034)
	Professional fees	5,829	14,508	(8,679)
	Materials and supplies	3,000	7,048	(4,048)
	Repairs and upkeep	16,500	17,693	(1,193)
Gharghur <sup>48</sup>	Funds received from Central Government	275,435	260,217	15,218
	Bring in sites and tipping fees	12,700	18,244	(5,544)
	Community and hospitality	12,000	15,641	(3,641)
	Other contractual services	-	2,141	(2,141)
	Street lighting	5,000	6,045	(1,045)
Hamrun <sup>48</sup>	Income raised under Local Council bye-laws	25,000	-	25,000
	Waste disposal	55,000	79,125	(24,125)
	Other repairs and upkeep	1,000	10,682	(9,682)
	Street lighting	15,000	20,415	(5,415)
	Utilities	10,000	14,866	(4,866)
	Cleaning and maintenance of public conveniences	14,000	17,708	(3,708)
	Information services	2,500	5,224	(2,724)
	Road markings	4,000	6,100	(2,100)
	Street signs	2,500	4,313	(1,813)
	Cleaning and maintenance of parks and gardens	16,000	16,781	(781)
	Office services	5,500	6,238	(738)

## Appendix G – Discrepancy between Budgeted and Actual Income and Expenditure *cont./*

Local Council/ Regional Committee	Details	Budgeted Income/ Expenditure	Actual Income/ Expenditure	Variance
		€	€	€
Iklin	Special programmes	25,000	56,081	(31,081)
	Construction	-	21,291	(21,291)
Isla	Operations, maintenance and administration expenditure	203,591	228,864	(25,273)
Kerċem	Contractual services	85,000	89,288	(4,288)
	Materials and supplies	3,500	7,768	(4,268)
	Utilities	3,200	6,561	(3,361)
	Professional services	6,500	8,806	(2,306)
	Community and hospitality	18,000	18,961	(961)
	Transport	1,300	2,013	(713)
	Office services	4,500	4,917	(417)
Marsa	Operations, maintenance and administration expenditure	420,153	561,317	(141,164)
Marsaxlokk	Capital expenditure	41,000	274,908	(233,908)
Mdina	Cleaning and maintenance of parks and gardens	25,000	39,279	(14,279)
	Professional services	15,000	27,419	(12,419)
	Cleaning services	-	11,777	(11,777)
	Office utilities	1,625	6,997	(5,372)
	Travel	-	3,244	(3,244)
	Waste disposal	2,000	4,209	(2,209)
	Warden services	-	1,859	(1,859)
	Community	6,000	7,785	(1,785)
	Office services	3,500	4,750	(1,250)
	Insurance	2,250	3,237	(987)
	Bulky refuse collection	950	1,659	(709)
	Other sundry minor expenses	-	701	(701)
	Cleaning of Council's premises	550	790	(240)
	Transport	900	1,087	(187)
Mellieħa	Refuse collection	120,000	161,933	(41,933)
	Street lighting	9,000	19,292	(10,292)

## Appendix G – Discrepancy between Budgeted and Actual Income and Expenditure *cont./*

Local Council/ Regional Committee	Details	Budgeted Income/ Expenditure	Actual Income/ Expenditure	Variance
		€	€	€
Mgarr	Special programmes	200,000	295,228	(95,228)
	Motor vehicles	-	10,700	(10,700)
	Materials and supplies	18,000	23,246	(5,246)
	Training	400	2,141	(1,741)
	Transport	3,500	5,001	(1,501)
Mosta	Income from bye-laws	15,500	3,903	11,597
	Administration expenses	301,000	448,434	(147,434)
Mqabba	Other income <sup>48</sup>	11,760	8,352	3,408
	Refuse collection	-	31,535	(31,535)
	Waste disposal	-	22,361	(22,361)
	Road and street cleaning	-	19,531	(19,531)
	Road and street pavements	-	9,006	(9,006)
	Street lighting	-	6,213	(6,213)
	Cleaning and maintenance of public convenience	-	4,668	(4,668)
	Cleaning and maintenance of parks and gardens	-	3,641	(3,641)
	Office services	-	3,414	(3,414)
	Other interest	-	3,311	(3,311)
	Sundry expenses	-	3,036	(3,036)
	Bulky refuse collection	-	2,653	(2,653)
	Information services	3,500	5,630	(2,130)
	Street signs	-	1,489	(1,489)
	Insurance	-	1,386	(1,386)
	LES expenses	900	1,759	(859)
	Road markings	-	711	(711)
Munxar	Maintenance	28,900	42,570	(13,670)
	Community services	16,150	20,200	(4,050)
	International memberships	-	510	(510)
	Public information	900	1,225	(325)
	Office expenses	4,300	4,538	(238)

## Appendix G – Discrepancy between Budgeted and Actual Income and Expenditure *cont./*

Local Council/ Regional Committee	Details	Budgeted Income/ Expenditure	Actual Income/ Expenditure	Variance
		€	€	€
Nadur	Professional fees	15,000	39,277	(24,277)
	Contractual services	150,000	173,434	(23,434)
	Community and hospitality	20,000	35,771	(15,771)
	Transport	3,000	5,632	(2,632)
	Travel	2,000	3,838	(1,838)
	Sundry minor expenses	300	748	(448)
	Rent	2,500	2,904	(404)
Naxxar	Contractual services	324,310	405,970	(81,660)
	Travel	3,000	22,715	(19,715)
Paola <sup>48</sup>	Fines and penalties from LES	12,000	11,509	491
	Studies and consultations	500	25,021	(24,521)
	Refuse collection	81,580	93,792	(12,212)
	Community and hospitality	20,000	29,094	(9,094)
	Road and street cleaning	42,000	47,437	(5,437)
	Public relations	2,100	6,861	(4,761)
	Waste disposal	54,000	57,825	(3,825)
	Other contractual services	-	3,081	(3,081)
	Travel	-	2,839	(2,839)
	Cleaning of public convenience	17,500	19,798	(2,298)
	Street lighting maintenance	8,850	11,034	(2,184)
	Cleaning and maintenance of parks and gardens	26,500	28,682	(2,182)
	Conferences and training	360	2,357	(1,997)
	Operating materials and general supplies	13,500	15,182	(1,682)
	Sundry repairs	300	1,922	(1,622)
	Bulky refuse collection	6,650	7,800	(1,150)
	Repair and upkeep of public property	250	1,323	(1,073)
	Insurance and charges	2,500	3,490	(990)
	Personal emoluments	133,000	133,826	(826)
Cleaning and maintenance of soft areas	15,600	16,111	(511)	

## Appendix G – Discrepancy between Budgeted and Actual Income and Expenditure *cont./*

Local Council/ Regional Committee	Details	Budgeted Income/ Expenditure	Actual Income/ Expenditure	Variance
		€	€	€
Pembroke	Capital expenditure	-	87,665	(87,665)
	Professional services	20,561	23,925	(3,364)
	Library expenses	-	2,384	(2,384)
	Insurance	-	1,787	(1,787)
	Sundry minor expenses	-	547	(547)
	Advertising and public relations	-	538	(538)
	Bank charges	-	296	(296)
Qala	Community and hospitality	40,000	45,944	(5,944)
	Professional services	6,000	7,845	(1,845)
	Transport	2,040	3,361	(1,321)
	Information services	4,200	4,624	(424)
	Incidental expenses	100	250	(150)
Qrendi	Penalties and fines	-	18,855	(18,855)
Rabat (Gozo)	Repairs and upkeep	18,000	98,605	(80,605)
	Community and hospitality	19,000	39,881	(20,881)
	Professional services	12,600	23,708	(11,108)
	Contractual services	200,237	208,643	(8,406)
	Office services	4,600	8,933	(4,333)
	Travel	2,000	4,509	(2,509)
Sannat	Contractual services	60,000	71,164	(11,164)
	Other incidental costs	-	6,824	(6,824)
	Social events	19,200	21,650	(2,450)
	Repairs and maintenance	5,200	6,787	(1,587)
	Utilities	3,600	4,937	(1,337)
	Office costs	8,000	8,478	(478)
	Rent	1,028	1,278	(250)
	Transport	400	609	(209)

## Appendix G – Discrepancy between Budgeted and Actual Income and Expenditure *cont./*

Local Council/ Regional Committee	Details	Budgeted Income/ Expenditure	Actual Income/ Expenditure	Variance
		€	€	€
San Pawl il-Baħar	Repair and upkeep	47,000	191,436	(144,436)
	Contractual services	682,196	748,712	(66,516)
	Professional services	25,343	36,499	(11,156)
	Insurance	-	9,447	(9,447)
	Transport	4,750	11,452	(6,702)
	Community and hospitality	47,040	52,316	(5,276)
	Advertising and public relations	-	3,606	(3,606)
	Library expenses	-	2,154	(2,154)
	Rent	28,885	29,482	(597)
	Training	100	560	(460)
	Documentation	-	254	(254)
San Ġiljan <sup>47</sup>	Assets not yet capitalised	-	41,086	(41,086)
	Computer equipment	-	3,078	(3,078)
	Trees	-	1,500	(1,500)
Santa Luċija <sup>48</sup>	Funds received from Central Government	360,314	335,775	24,539
	Income from LES	4,800	3,386	1,414
	Income raised under Council bye-laws	1,100	-	1,100
	Investment income	700	168	532
	Capital expenditure	83,362	136,070	(52,708)
	Community	2,500	10,166	(7,666)
	Street lighting	-	6,565	(6,565)
	Repairs and upkeep	27,700	31,167	(3,467)
	Information services	3,500	5,852	(2,352)
	Conference and participation expenses	-	1,855	(1,855)
	Librarian expenses	-	1,445	(1,445)
	Waste disposal	15,788	17,106	(1,318)
	Bulky refuse collection	3,000	3,847	(847)
Professional services	8,700	9,527	(827)	

<sup>47</sup> The Council's total budgeted expenditure amounted to €95,323 split between improvements (€1,500), equipment (€400) and special programmes (€93,423).

## Appendix G – Discrepancy between Budgeted and Actual Income and Expenditure *cont./*

Local Council/ Regional Committee	Details	Budgeted Income/ Expenditure	Actual Income/ Expenditure	Variance
		€	€	€
Santa Luċija <sup>48</sup>	Rent	6,482	7,191	(709)
	Personal emoluments	92,488	93,196	(708)
	Utilities	6,700	7,285	(585)
	Cleaning of Council premises	3,500	4,078	(578)
Sigġiewi	Contractual services	210,030	280,744	(70,714)
Swieqi	Waste disposal	9,388	82,103	(72,715)
	Refuse collection	115,172	139,991	(24,819)
	Community and hospitality	9,623	24,908	(15,285)
	Printing and stationery	-	12,196	(12,196)
	Street signs	-	9,174	(9,174)
	Water and electricity	9,498	18,306	(8,808)
	Upkeep of soft areas	3,900	12,686	(8,786)
	Telecommunications	-	8,745	(8,745)
	Patching	18,027	26,151	(8,124)
	Travel	5,025	11,884	(6,859)
	Adverts and newsletter	-	4,944	(4,944)
	Wages and salaries	76,357	80,235	(3,878)
	Court settlement expenses	-	2,697	(2,697)
	Information services	1,437	2,818	(1,381)
	Other repairs and upkeep	-	1,167	(1,167)
	Insurance coverage	2,885	3,890	(1,005)
	Allowances	10,600	11,200	(600)
Xagħra	Professional services	9,000	29,056	(20,056)
	Contractual services	100,000	110,285	(10,285)
	Travel	5,000	13,710	(8,710)
	Office services	4,000	7,369	(3,369)
	Incidental expenses	100	1,796	(1,696)
	Transport	6,000	6,545	(545)

<sup>48</sup> These variances were not highlighted in the respective Councils' management letters but were noted in the budget to actual comparison as presented in the audited financial statements.

## Appendix G – Discrepancy between Budgeted and Actual Income and Expenditure *cont./*

Local Council/ Regional Committee	Details	Budgeted Income/ Expenditure	Actual Income/ Expenditure	Variance
		€	€	€
Xewkija	Hospitality and community services	30,000	46,486	(16,486)
	Travelling	-	3,777	(3,777)
	Transport	3,500	6,244	(2,744)
	Materials and supplies	2,000	3,789	(1,789)
Żebbuġ (Gozo)	Hospitality and community services	35,000	37,821	(2,821)
	Other incidental expenses	1,000	1,407	(407)
Southern Regional Committee	Warden services	282,453	366,071	(83,618)
	LES services	260,000	323,698	(63,698)

## Appendix H – Change in Executive Secretary

Local Council/ LCA	Office Term of the outgoing Secretary <sup>49</sup>		Position	Date when mid-term audited financial statements were submitted to the Auditor General	
	From	To			
Birkirkara	25 Mar 2014	27 Aug 2015	Executive Secretary	30 May 2016	
Birżebbuġa	20 Nov 2014	17 Aug 2015	Acting Executive Secretary	2 May 2016	
Dingli	17 Feb 2015	13 Jul 2015	Executive Secretary	Mid-term audit not carried out.	
Gżira	22 Jan 2015	25 Jun 2015	Executive Secretary		
	26 Jun 2015	13 Jul 2015	Acting Executive Secretary		
Isla	10 Mar 2008	3 Sep 2015	Executive Secretary		
Mdina	1 Jan 2010	29 Oct 2015	Executive Secretary and Acting Executive Secretary <sup>50</sup>		
Mosta	14 May 2012	29 Mar 2015	Acting Executive Secretary		
Msida	1 Mar 2013	26 May 2015	Executive Secretary		
	27 May 2015	3 Sep 2015	Acting Executive Secretary		
San Ġiljan	8 Nov 1995	25 Jun 2015	Executive Secretary		The audited financial statements were not received by end November 2016, <i>i.e.</i> the date this Report was published.
San Lawrenz	20 Nov 2014	4 May 2015	Executive Secretary		Mid-term audit not carried out.
San Pawl il-Baħar	30 Dec 2014	7 May 2015	Acting Executive Secretary		
Gozo Regional Committee	20 Nov 2014	7 May 2015	Acting Executive Secretary	Mid-term audit not carried out.	
LCA	29 Oct 2014	12 May 2015	Acting Executive Secretary	Mid-term audit not carried out.	

**Note:** Instances were also encountered whereby upon termination from the position of Executive Secretary, the respective individual still served as an Acting Executive Secretary in the same Council.

<sup>49</sup> The data disclosed in the table above was provided by DLG.

<sup>50</sup> The respective individual was appointed as an Executive Secretary between 1 January 2010 and 23 July 2015 and then acted as an Acting Executive Secretary between 24 July 2015 and 29 October 2015.

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

<b>List of Memos</b>	
Memo 4/2015	<i>Kumitat tal-Finanzi</i>
Memo 14/2014	Mid-Term Audit
Memo 34/2013	<i>Sejñiet għall-Offerti/Kuntratti dwar Manutenzjoni tad-Dawl fit-Toroq</i>
Memo 16/2013	<i>Kontribut Finanzjarju ta' Kunsilli Lokali għal Xiri ta' Materjal; Edukattiv għall-Iskejjel</i>
Memo 11/2013	<i>Ħlas ta' Taxxa u tal-Bolla tas-Sigurta' Soċjali</i>
Memo 10/2013	<i>Kuntratti tal-Kunsilli Lokali</i>
Memo 59/2012	<i>Għeluq tas-Sena Finanzjarja</i>
Memo 91/2011	Administration fee għal ħlas ta' multi fl-Uffiċċji Amministrattivi
Memo 122/2010	<i>Ikliet/Riċevimenti Organizzati mill-Kunsilli Lokali</i>
Memo 68/2009	<i>Ħinijiet tal-Laqqgħat</i>
Memo 35/2009	www.lc.gov.mt

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

<b>International Accounting Standards</b>	
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 16	Property, Plant and Equipment
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 24	Related Party Disclosures
IAS 39	Financial Instruments: Recognition and Measurement
<b>International Financial Reporting Standard</b>	
IFRS 7	Financial Instruments: Disclosures

## RECENT AUDIT REPORTS ISSUED BY THE NAO

### NAO Audit Reports

December 2015	Annual Audit Report of the Auditor General - Public Accounts 2014
December 2015	Annual Audit Report of the Auditor General - Local Government 2014
January 2016	An Investigation of Government's Expropriation of Two One - Fourth Undivided Shares of the Property at 36 Old Mint Street, Valletta
February 2016	Performance Audit: Agreements between Government and Conservatorio Vincenzo Bugeja on Jeanne Antide and Fejda Homes
February 2016	Performance Audit: Service Agreements between Government and INSPIRE Foundation
April 2016	Performance Audit: An Analysis on OHSA's Operations - A Case Study on the Construction Industry
May 2016	Information Technology Audit: Mater Dei Hospital
June 2016	The General Practitioner function - The core of primary health care
July 2016	An Investigation of the 2015 Local Councils' Capital Projects Fund
July 2016	An Investigation of Local Councils Funding Schemes launched between 2008 and 2013
September 2016	Performance Audit: Service Agreements between Government and Richmond Foundation Malta
October 2016	Performance Audit: Agreements between Government and YMCA Valletta
November 2016	Performance Audit: Managing and Monitoring the State Schools' Transport Services
November 2016	Annual Audit Report 2015

### NAO Work and Activities Report

March 2016	Work and Activities of the National Audit Office 2015
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