N A O
National Audit Office
MALTA

Report by the Auditor General on the Workings of Local Government

2021

This Report has been prepared under sub-section 108(5) of the Constitution of Malta and sub-para. 5(ii) and para. 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997 for presentation to the House of Representatives.

Charles Deguara
Auditor General

National Audit Office
November 2022

OUR VISION

To provide a multidisciplinary professional service to Parliament, to Government and the taxpayer and to be an agent of change conducive to achieving excellence in the public sector.

OUR MISSION

To help promote accountability, propriety and best practices in Government operations.

ACTIVITIES

The Auditor General is head of the National Audit Office, Malta. He and the National Audit Office are totally independent of Government. He examines the accounts of all Government Ministries and Departments and may also examine other public sector bodies. He also has statutory authority to report to the House of Representatives on the economy, efficiency and effectiveness with which Departments and other bodies have used the resources voted annually to them in the Estimates.

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Report by the Auditor General on the Workings of Local Government

Public Accounts 2021

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List of Abbreviations

ES	Executive Secretary
FAR	Fixed Asset Register
IFRS	International Financial Reporting Standard
IT	Information Technology
LCA	Local Councils Association
LES	Local Enforcement System
LESA	Local Enforcement System Agency
LGA	Local Government Auditor
LGD	Local Government Division
NAO	National Audit Office

Foreword

Once again, this year it is my duty to highlight the fact that unfortunately the audited financial statements of 15 Local Councils and 1 Regional Council did not reach this Office by the date of publication of this Report. Constituting the highest number ever of such defaulters, this state of affairs is surely unacceptable. Thus, this Office recommends that the Authorities address this deteriorating situation as urgently as possible, even through the application of reasonable sanctions, as deemed necessary. Suffice it to state that besides the Local Councils Association, only around 30% of the Councils submitted their audited accounts by the original established deadline of end June 2022. Undoubtedly, this serious lack of accountability tends to undermine the citizens' trust in Local Government, effectively hijacking the hard efforts of all those working in this extremely important area, including the Local Councils Association itself, to enhance such trust.

In this scenario, I surely cannot over-emphasise the fundamental importance that **all** Local and Regional Councils do their very utmost to ensure that their respective financial statements are invariably submitted in a timely manner, in line with the established timeframes. This would enable our Office, especially through our appointed Local Government Auditors, to perform this statutory audit and thus provide the necessary assurance to our Parliament, and ultimately to our citizens, that the substantial amount of public funds provided in the area of Local Government is being duly utilised and accounted for. I thank the small but highly competent Local Government audit team within our Office for managing to compile this extensive Report notwithstanding the challenges and constraints faced.

Once again, we would like to extend our appreciation to all our major partners in the area of Local Government, namely the Local Government Division, the Local Councils Association and the Association of Executive Secretaries for their ongoing collaboration which is deemed necessary so that the recommendations included in this Report will be implemented. Only thus can our Office's main objective, essentially that of continuously promoting the highest levels of good governance across Local Government entities, be duly achieved.

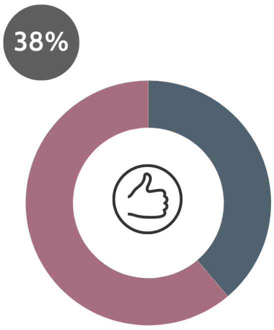
Charles Deguara
Auditor General

November 2022

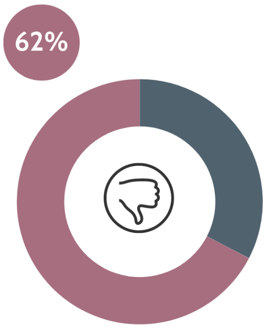
2021 Audit Snapshot

Only 58 Audited Financial Statements submitted to the National Audit Office

Notwithstanding the hard endeavours of the National Audit Office in chasing defaulting Councils, from a total of **74** Local Authorities, only **53** Local Councils, **4** Regional Councils and the Local Councils Association submitted their audited financial statements. Those of **15** Local Councils and **1** Regional Council did not reach the National Audit Office by the time this Report went for publication; a situation which is deemed as totally unacceptable.



21 Councils and the Local Councils Association had a clean audit opinion



32 Local Councils and **4** Regional Councils had a qualified audit opinion

Salient Audit Findings

Considerable number of audit adjustments: portraying a poor accounting function and a lack of internal review prior to the submission of the financial statements for audit.

Financial instability remains a cause for concern: while the liquidity position of various Councils improved, with only three registering a negative working capital, eleven Authorities ended the financial year with a deficit.

Inadequate systems of internal controls: being the norm rather than the exception, resulting in several repetitive weaknesses being encountered.

9 Councils did not submit a Reply to the Management Letter

9 Councils did not submit their feedback to the observations raised in the management letter. The National Audit Office regrettably notes that not submitting a reply to the management letter denotes a sense of irresponsibility to act upon the weaknesses identified through the audit process.

Main Weaknesses

Errors of an Accounting Nature:
Including but not limited to incorrect classification of transactions, double-postings or omissions, cut-off errors and departures from the applicable financial reporting framework.

Inappropriate Fixed Asset Management:
With the fixed asset register being either not maintained in line with best practice or not maintained at all. Several variances were also noted between the assets' costs and/or depreciation as per fixed asset register and the nominal ledger or financial statements.

Improper administration of Accounts Payable and Accounts Receivable Balances:
Entailing lack of regular reconciliation of balances and various amounts which have been outstanding for a number of years.

Local Government

1. Sector Context

The Local Government Sector comprises 68 Local Councils, 6 Regional Councils and the Local Councils Association

Malta's system of Local Government was founded in 1993 and eventually entrenched in the Constitution of Malta (1964), through a constitutional amendment, in 2001; *"the State shall adopt a system of Local Government whereby the territory of Malta shall be divided into such number of localities as may by law be from time to time determined, each locality to be administered by a Local Council elected by the residents of the locality and established and operating in term of such law as may from time to time be in force"*.[1]

To this effect, each of the 68 localities within the Maltese Islands is represented by a Local Council. In turn, these Local Councils are assisted by Regional Councils. As a result of the 2019 Local Government reform, with effect from January 2022, the number of Regional Councils was extended from five to six, to ensure a more efficient distribution of Councils within each region, hence resulting in a more evenly distributed workload.

The common interest of Local Councils is protected and promoted by the Local Councils Association (LCA), which was incorporated in 1994, forthwith the introduction of the Local Government system. **Figure 1** outlines the composition of the Local Government sector.

Figure 1: Local Government Sector Composition

Established in **1993**. Populations within their remit range from around 193 to 32,042 inhabitants.

Set up in **1994**. Protects and promotes the common interest of all Local Councils.

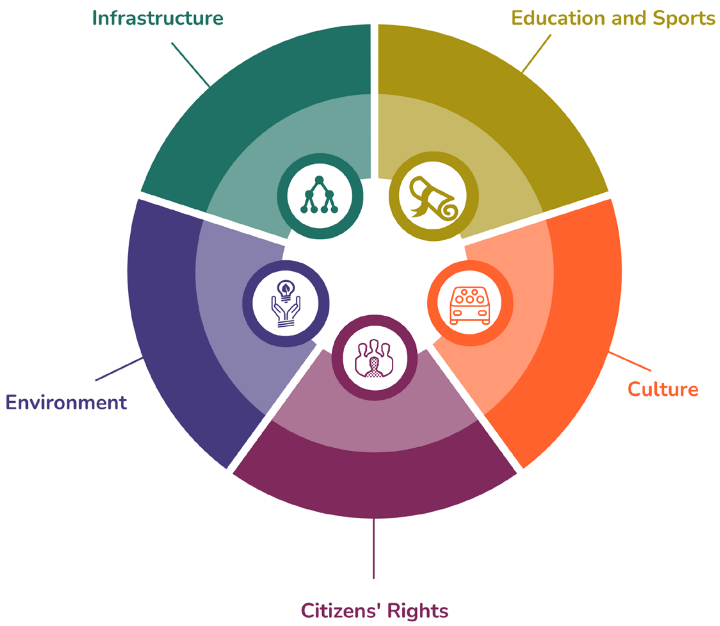
Established in **2011**. Assist Local Councils in addressing the challenges that they face.

[1] Constitution of Malta (1964), Article 115A.

The Local Government Act (Cap. 363), defines the functions and legal powers of Local Councils, guaranteeing an autonomous system of Local Government. Primarily established with the intention of facilitating service delivery, the local community services entrusted within Local Councils are set out in Article 33 of the Local Government Act, together with supplementary legislation.

Figure 2 illustrates the main local community services delivered by the Local Councils.

Figure 2: Local Councils' Principal Community Services



Education and Sports

- Ensuring the effective concept of lifelong learning with all residents by providing such service within the same locality.
- Provision and maintenance of local libraries.
- Organisation of sports and physical activities, whilst providing support to sports persons.

Culture

- Cultural activities for residents of all ages.
- Assistance to artists and musicians from the locality.

Citizens' Rights

- Assistance to citizens by providing information relating to the rights of citizens in general.

Environment

- Protection of the natural and urban environment of the locality.

Infrastructure

- Upkeep and maintenance of public conveniences and roads, including road sweeping and cleaning of road signs and lights.
- Establishment, upkeep and maintenance of educational buildings, health and rehabilitation centres, Government dispensaries, day care centres for senior citizens, children's playgrounds, public gardens and other leisure centres.

In terms of Article 55 of the Local Government Act, the Local Government bodies' direct finance provider is Central Government which, through the Minister responsible for Finance, distributes an annual budgetary allocation, serving for the accomplishment of the Authorities' functions. Direct funds allocated for financial year 2021 are disclosed in **Table 1** while income received by each individual Council during the same year is illustrated in **Appendix A**.

Table 1: Annual Allocation to the Local Government Sector

Local Councils	€41,800,000
Regional Councils	€3,250,000
Local Councils Association	€240,000 [2]

[2] For financial year 2021, LCA was allocated €200,000 under Line Item 5242 – Allocation to Local Councils Association. However, following representations by LCA with the Local Government Division for additional funding to assist in various activities, a further sum of €40,000 was provided through Line Item 5561 – Local Council's Special Initiatives.

To render a fairer distribution of funds, an additional amount, aggregating to €507,415 was available for disbursement among those Local Councils that faced specific exigencies and/or experienced a decrease in their allocation when compared to preceding periods. However, in contrast to previous years and in line with Circular No. 8/2020, as from 2021 Local Councils had to apply for such funds through a specified template issued by the Local Government Division (LGD), also submitting a plan illustrating the intended use of the additional funds. Monies were only disbursed after the Monitoring Directorate within LGD certified that the respective plan was concrete and justified. Local Councils were also expected to provide a brief overview of how funds allocated for the previous year were managed and utilised. As per information provided by LGD, applications to this effect were forthcoming from 39 Local Councils, with a total of €416,445 being disbursed out of the €507,415 allocated to this effect. **Appendix B** relates.

Dual System of Governance, comprising Executive Authority and Locally elected Appointees

Good governance is exhibited through the existence of suitable arrangements, essentially based on the values of transparency and accountability, aimed at ensuring that Local Authorities achieve their objectives and remain financially sustainable. Local Authorities with strong governance arrangements instil public confidence and satisfaction in the Councils' operations. Thus, key to good governance is the establishment of sound accountability mechanisms, ensuring that the importance of effective internal controls is not undermined and that oversight roles are appropriately fulfilled facilitating timely remedial action, if deemed necessary.

With the intent to achieve good governance, the Local Government sector adopts a dual system of authority, consisting of democratically elected appointees, namely Mayors and Councillors, and executive authority, comprising the Office of the Executive Secretary (ES). While the former provides policy direction, the latter assumes all administrative responsibilities. In addition to providing a clear distinction between the roles and responsibilities of Councillors and the Executive Management, this system also aims at ensuring that funds entrusted to Councils are appropriately utilised and accounted for, pertinent legislation and Government's policies are adhered to, and that Councils are acting in the common interest of the community.

Those charged with Governance, the Department's Monitoring Unit and the National Audit Office form the Sector's Tiers of Oversight

Figure 3 illustrates the three tiers of the Local Government sector's oversight and their respective functions.

Figure 3: The Local Government Oversight Framework

Those charged with Governance

Adequate and effective internal governance arrangements are crucial for the proper functioning of the financial system and a prerequisite to sound financial management. Accordingly, as the first tier of oversight, those charged with Governance have ultimate responsibility for:

a. setting and communicating the Council's core values;
b. implementing and managing operational mechanisms and controls aimed at identifying and minimising risks;
c. ensuring the integrity of the accounting and financial reporting system; and
d. ascertaining compliance with pertinent rules and regulations.

They should also engage actively in the Council's business, taking decisions on a solid and well-informed basis, in the best interest of the Council and its society, whilst simultaneously safeguarding public funds.

Within this level of oversight, prudent financial reporting is key since it provides assurance on financial sustainability and on whether the Councils' reported figures are true and fair. Being the primary financial reporting requirements, quarterly reports, the annual budget, the business plan, as well as financial statements, if properly prepared, aid Councils in the appropriate management of their resources and assist in addressing any emerging issues in a timely and efficient manner.

Local Government Division

Forming the second line of oversight, the three Directorates[3] within LGD play a vital role in providing guidance and support to Councils, mainly through the issue of directives and circulars. The Directorates are also responsible for monitoring the functions and operations of Councils, in particular, determining compliance with pertinent legal and regulatory requirements and carrying out investigations into alleged finance and procurement irregularities.

One of the Directorates, namely, the Finance and Procurement Compliance Directorate, is also responsible for issuing reports on compliance-related matters. In fact, following extensive discussions undertaken between the National Audit Office (NAO), LGD and LCA, it was decided that, as from financial year 2021, the annual audit carried out by NAO was to focus solely on the financial aspect of the Local Government's operations, with monitoring and reporting on compliance to pertinent rules and regulations being henceforth undertaken by the Directorate in question. NAO retained the possibility of undertaking certain compliance audits of local councils selected on a sample basis. Further details as to the operations and functions of this Directorate are reported upon in Chapter 8 of this Report.

National Audit Office

Having an autonomous oversight function, the NAO is responsible for the conduct of the financial audits of Local and Regional Councils, including LCA, thus providing assurance on the management of finances and providing means through which those entrusted with public money are held accountable for its utilisation.

A financial audit results in the publication of an independent auditor's opinion, illustrating whether the financial statements give a true and fair view of each Council's finances and whether these have been prepared, in all material respects, in line with the requirements of the relevant financial reporting framework, i.e., International Financial Reporting Standards (IFRSs). This in turn puts a legal obligation, required to be fulfilled by each Council, for the preparation and approval of a set of financial statements, submitted to the Auditor General in a timely manner.

[3] These are the Monitoring and Support Directorate, the Strategy and Policy Implementation Directorate, as well as the Finance and Procurement Compliance Directorate.

As a third level of oversight, these financial statements are independently audited by private audit firms, on behalf of the Auditor General, in line with the Local Councils (Audit) Regulations, 1993 and applicable procedures. Private audit firms, referred to as Local Government Auditors (LGAs) are appointed following a public call for tender[4], and are primarily responsible for planning and conducting the audits in line with the requirements of International Standards on Auditing. As part of the audit process, LGAs are required to:

a. identify and assess the risks of material misstatement due to fraud or error, design and perform audit procedures responsive to those risks and obtain related sufficient and appropriate audit evidence to provide a basis for an opinion;
b. obtain an understanding of the internal controls relevant to the audit, to design audit procedures that are appropriate in the circumstances;
c. evaluate the appropriateness of accounting policies used by Councils in the preparation of their financial statements and assess the reasonableness of any accounting estimates and related disclosures;
d. conclude on the appropriateness of the Councils' ability to continue as a going concern; and
e. evaluate the overall presentation of the financial statements, including the disclosures, to conclude on whether these represent the underlying transactions and events, in a manner that achieves fair presentation, in line with the requirements of IFRSs.

In carrying out their duties, LGAs are to recognise the importance of the interdependencies between themselves, NAO and the Local Authorities. These relationships are vital for LGAs to deliver their remit in an efficient and effective manner. Accordingly, when discharging their responsibilities, as a minimum, LGAs are expected to appropriately plan the audits and allocate sufficient resources to ensure their timely completion, in line with the requirements of the tender document. They are also expected to develop measures aimed at ensuring a standard audit approach, as well as take into account matters arising from previous audit reports and management letters and provide feedback as to whether these have been acted upon or otherwise.

Financial audits carried out by LGAs are vital in providing the public with timely independent reports on the financial management of Local Authorities. Hence, LGAs', and ultimately, NAO's credibility and reputation as an autonomous and respected voice, is sustained through the timely publication of such reports, without in any manner compromising their quality. Invariably, the success in delivering reports on time depends on the collective effort of both the Local Authority and LGAs. Thus, operating in an environment of increased public scrutiny, LGAs are required to continually adapt and respond to the challenges faced in auditing the Local Government sector, seeking out best practice in delivering their service, thereby safeguarding the quality and integrity of their work without exception or fail.

The results of the financial audits undertaken by LGAs are then extensively reviewed by the Local Government audit team within NAO, through an analysis of the audit opinions and scrutiny of the weaknesses and inefficiencies highlighted in the management letters prepared thereon. As part of the process, the response to the management letter as submitted by the Local Authorities is also examined. The main results of these financial audits, together with recommendations, aimed at reducing risks and improving the sector's internal controls, are presented in this Report.

[4] The two audit firms, one in respect of all the Regional and Local Councils in Malta, as well as LCA, and the other for the Regional and Local Councils in Gozo, were appointed in February 2022, following an adjudication of tender, for a period of one year, which may be renewed every year for a total period of not more than three consecutive years.

2. Financial Statements Preparation

The Number of Local and Regional Councils that managed to produce their Unaudited Financial Statements on Time continued to decrease

Each Local Authority should strive at maintaining proper accounting records throughout the financial year, thereby easing the financial reporting process and ensuring timely and accurate preparation of financial statements. This can be achieved through the application of suitable internal controls, including appropriate oversight of the systems and processes, thus enhancing the quality of financial reporting and accountability.

In line with Circular No. 2/2022, issued by LGD, Local Authorities were required to submit their unaudited financial statements, to the Auditor General, signed by the respective Mayor, or President as applicable, and ES by 25 February 2022. Every ES is to ensure that financial statements are prepared in line with the requirements of IFRS and these are to consist of the following:

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

The number of Local Councils that managed to deliver the unaudited financial statements to the Auditor General by the established deadline was lower than that of the preceding year. In fact, only 46 Local Councils (2021: 51), 3 Regional Councils (2021: 4) and LCA (also in 2021) managed a timely submission of their unaudited affairs. Those of a further two Local Councils and one Regional Council, reached this Office by the end of February 2022, while another 15 were received at later dates.

Yet, five Local Councils, namely Gżira, Ħamrun, Kerċem, Qala and Sliema did not submit their unaudited accounts by the time this Report went for publication. In this regard, it is pertinent to point out that, except for Gżira Local Council, the non-submission was primarily triggered due to a delay in the conclusion of the 2020 financial audit. Moreover, in the case of Birgu Local Council, while the unaudited financial statements for the three years 2019 to 2021 were submitted to LGA[5], the respective audits had also not yet started by the time that this Report was finalised due to supporting documentation not submitted by the Council. NAO deems such deterioration as grossly unacceptable and reiterates that timely financial reporting is one of the core requirements of good governance. Hence, remedial action is expected to be taken by pertinent Councils, to rectify this situation, without undue delay.

[5] The 2021 signed unaudited financial statements were submitted towards the end of October 2022.

Failure to provide good quality financial statements in a timely manner undoubtedly causes delays in the start and, consequently, the finalisation of the audit process will definitely not meet the deadline. The NAO notes that, unfortunately, problems with insufficient evidence to support the financial statements and numerous errors requiring correction are becoming the norm rather than the exception. To ensure timely and accurate financial reports it is important that proper accounting records and substantiating documentation are maintained. As the head of the day-to-day operations, ES is expected to undertake appropriate oversight reviews of systems and processes throughout the financial year and after the year-end to continuously improve the quality of the Council's financial reporting.

The Number of Audit Adjustments proposed by Local Government Auditors illustrates reliance on the Year-end Audit to identify Errors in the Accounts

In a democratic system, high-quality public audit, not least in the area of Local Government, is pivotal for the trust in public finance and expenditure. The audit provides reassurance about the competence of Management and those charged with governance in maintaining complete, accurate and reliable financial information, capable of supporting decisions taken by the Authorities and assisting them in addressing potential weaknesses in a timely manner. Timely reporting is also key to audit. Taxpayers and other stakeholders expect the auditor to be able to provide reasonable assurance that the financial statements, as prepared by the Councils, are free from material error.

Yet, on a yearly basis, LGAs propose a considerable number of audit adjustments intended to correct figures presented by the Councils for audit purposes. Such scenario portrays a poor accounting function and also depicts a lack of internal review prior to the submission of the financial statements for audit. It also represents a heavy reliance by Local Authorities on the year-end audit to identify errors in the accounts.

Discrepancies were also noted in the presentation of the unaudited financial statements between balances as disclosed on the Statements of Comprehensive Income and Financial Position and the related notes. At times, financial statements also contained casting errors. Instances whereby adjustments and/or journal entries posted by the respective Councils were not supported by the necessary documentation, or were not substantiated by explanations, were also encountered, hindering LGAs from performing the required audit procedures. Thus, such information is not considered as reliable for decision making.

The above also implies that, at times, accountancy services procured by Councils are not yielding the intended result; an issue of concern which has been repeatedly raised by this Office. Local Authorities should not view the audit process as an error correcting tool, but rather as a means of providing assurance on the preparation of accurate financial information. If properly analysed, audit adjustments can yield insights into the more commonly occurring errors and their root causes, allowing responsible officers to identify ways to minimise them, whilst improving the overall quality of financial reporting.

Moreover, while timely reporting is fundamental, this should never be achieved to the detriment of quality as the usefulness of financial reports ultimately depends on the latter. Together, timeliness and quality illustrate transparency and accountability in the management of public funds. Hence, Local Authorities should strive to present complete, precise and truthful accounting information in the financial statements, capable of duly supporting decisions taken and assisting in addressing potential weaknesses in a timely manner.

3. Audit Results

Sixteen Councils failed to submit their Audited Financial Statements by the Time of Publication of this Report

Notwithstanding NAO's hard endeavours in chasing Councils to submit their audited financial statements, only those of 53 Local Councils, 4 Regional Councils and LCA reached this Office by mid-October 2022, being the final deadline set by NAO, for the analysis of the audited financial statements and management letters thereto, for the purpose of this publication. While certain Councils managed to submit these in a timely manner, others kept prolonging their submission. In fact, the number of audited financial statements reaching NAO ahead of publication of this Report has been deteriorating year after year[6].

Indeed, from a total of 74 Local Authorities, 15 Local Councils and 1 Regional Council, did not submit their audited financial statements for the year ended 2021 by the time this Report went for publication; an alarming situation which raises serious cause for concern. Hence necessitating urgent remedial action by the Authorities.

Some of these delays were primarily tiggered as a result of the previous year's audit being either concluded very late or not concluded at all. This, in turn, had a ripple effect on the audit for financial year 2021 as the time available for audit fieldwork was not sufficient. This was in fact the case for half of the 16 defaulting Councils, namely, Birgu, Floriana, Ħamrun, Luqa, Kerċem, Qala, Sliema[7] and Swieqi. In the case of the first four Councils, the audits for both financial years 2020 and 2021 were still pending by publication of this Report[8]. Moreover, in the case of Birgu, the audit for financial year 2019 was also not concluded; a situation which is deemed unacceptable by this Office, demonstrating an absence of accountability on the part of the respective Council.

The remaining eight Councils not submitting the audited accounts to the Auditor General for financial year 2021 were Birkirkara, Fgura, Gżira, Mosta, Qormi, San Ġiljan, Valletta and the Gozo Regional Council.

Whilst acknowledging that 9 out of the 16 defaulting Councils did not have a full-time ES during the course of the audit, a situation which NAO feels should be urgently addressed by the Authorities, this Office does not consider such situation as a valid justification for not concluding the financial audit. In fact, there were instances where Councils with a Deputy Acting ES still managed to submit their audited financial statements ahead of publication of this Report[9]. These were Birżebbuġa, Marsaxlokk, Mqabba, Qrendi, Santa Venera and Port Regional Council (formerly known as South Eastern Regional Council).

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[6] In the preceding year, the number of defaulting Local Councils totalled nine.

[7] In the case of Sliema Local Council, the audit for financial year 2020 was not scheduled due to an oversight on the part of LGA. This situation has unfortunately also resulted in the audit for the financial year under review not being concluded in a timely manner.

[8] Luqa Local Council still managed to submit a set of unaudited financial statements even though the 2020 audit was not yet concluded by the time this Report went for publication.

[9] As per Directive 1/2022 issued by LGD, a call for appointment of a full-time ES was issued in October 2022 for the following Councils: Birkirkara, Birżebbuġa, Fgura, Gżira, Ħamrun, Luqa, Marsaxlokk, Mqabba, Qala, Qrendi, San Ġiljan, Santa Venera, Swieqi, Port Regional Council (formerly known as South Eastern Regional Council), West Regional Council and Gozo Regional Council.

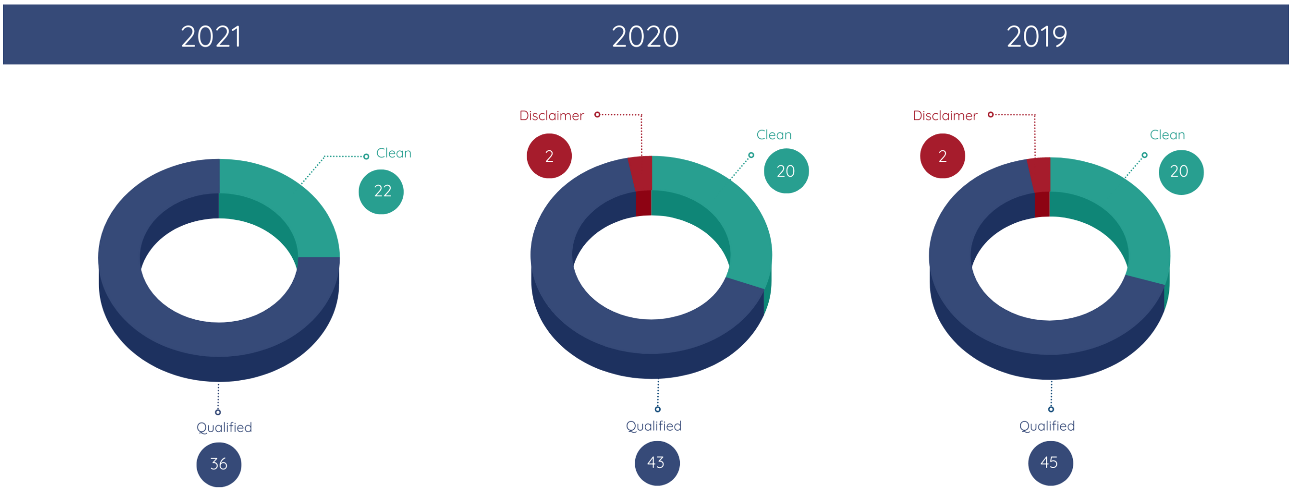
This Office also noted that, in the majority of cases, the delays were the result of lack of cooperation on the part of each respective defaulting Council with LGA, leading to poor audit progress being registered, and at times also bringing the audit process practically to a standstill as related information was not provided to LGA on time. In light of this, Councils must appreciate that unless the established timelines are adhered to from the start and audit queries are answered within a reasonable timeframe, it will not be easy for LGAs to reschedule the respective audits, thereby resulting in further delays to meet the final deadline for completion of the audit. This Office **strongly recommends** that urgent action is taken to address this problem since such situation is undoubtedly untenable.

Over 60% of the Local Authorities received Qualified Audit Opinions for the Past Three Years

An analysis of the 58 audit opinions submitted by mid-October 2022 revealed that only 22 of the Local Authorities were presented with a clean audit opinion. The remaining 36 were issued with a qualified audit opinion. A slight increase was noted in the number of Councils being issued with a clean audit opinion over the preceding two years. However, ample room for improvement still remains.

Figure 4 shows the comparative figures for the preceding two years.

Figure 4: Audit Opinions[10]



Clean - Financial records fairly represent financial position and have been maintained in accordance with IFRSs

Qualified - Reflects the fact that LGAs were unable to audit certain areas due to restrictions imposed which were beyond control

Disclaimer - LGAs were not in a position to express an opinion, due to absence of substantial financial records and documentation

[10] Details in the figure only portray the audit results of those Councils that submitted their audited financial statements before publication of this Report, for each respective year being illustrated.

This Office satisfactorily noted that, following a lapse of five consecutive years, LGA of Kalkara Local Council was able to obtain sufficient appropriate audit evidence on which to base an opinion on the financial statements. Accordingly, the disclaimer of opinion was withdrawn, and the Council was issued with a clean audit opinion. On the other hand, this Office could not comment as to whether the situation was rectified or otherwise for Valletta Local Council, as the audited financial statements of the latter were not yet submitted by the time this Report went for publication. Up till financial year 2020, Valletta Local Council was issued with a disclaimer of opinion for eight consecutive years.

The Audit Report of 36 Councils was modified with an 'Except For' Audit Opinion, implying that Specific Instances of Material Misstatements were encountered

A modified audit report is one whereby the audit opinion states that the financial statements have been presented fairly, in accordance with the applicable accounting standards, except for the effect of a specific matter or matters. Generally, these matters are described in a separate paragraph within the audit report. A qualified opinion is issued when one of the line items in the financial statements contains a material misstatement, or adequate evidence could not be obtained on a particular material area, or a disagreement on the application, acceptability or adequacy of accounting policies used is identified. During the year under review, 36 audit reports were modified with an 'Except For' audit opinion. Areas on which such opinions were issued are illustrated in **Figure 5**.

The Audit Report of Three Local Councils included an 'Emphasis of Matter' paragraph highlighting a Material Uncertainty about their ability to continue as a Going Concern

In certain circumstances, the auditor will also include an additional paragraph in the audit report, titled, 'Emphasis of Matter' or 'Other Matter'. This paragraph provides users of financial statements with information which, in the auditor's opinion, is fundamental to the understanding of the financial statements. It is important to note that an emphasis of matter is not a qualification, limitation or adverse conclusion. As evidenced in **Figure 5**, a material uncertainty about the ability to continue as a going concern was also indicated by means of a specific paragraph in the audit report of three Local Councils. This implies that, besides the annual allocation received from Central Government, these Councils are also dependent on further sources of funds, namely, the collection of debts and through the deferral of payments. Negative changes in any of these assumptions would not enable the respective Local Council to meet its financial obligations when they are due for payment, without restraining the Local Councils' future commitments.

Appendix C lists the qualifications and/or emphasis of matter for each respective Council.

Figure 5: 'Except for' Audit Opinion and/or 'Emphasis of Matter'

	Local Councils	Regional Councils
LGAs unable to determine whether the Council is entitled to receive any further income from the Joint Committee	18	–
Poor internal controls and lack of substantiating documentation	21	4
Financial liquidity concern	3	–

4. Financial Results

Concerns regarding the Councils' Financial Management

At Local Government level, sound financial management is key in ascertaining the effective and efficient use of financial resources, in line with set objectives and citizens' expectations. Rather than to increase cash flow, Local Authorities hold liquid assets, primarily in the form of cash, for them to be able to deliver services within their community. To achieve financial stability, Councils are to ensure that funds are utilised with due care, used in an efficient and cost-effective manner and disbursed in accordance with applicable rules and regulations. This will assist in attaining a healthy cash position; an important safety net in supporting a Council to achieve its objectives while attaining financial stability. However, regrettably, the sustainability of particular Local Councils has been of concern for a number of years.

Table 2 depicts the cash and cash equivalent balances, as at end 2021 and 2020, of those Local Councils that managed to submit their audited financial statements by the deadline set by this Office, namely mid-October 2022, for the purpose of its publication. As clearly evidenced in the table, while certain Councils had relatively high cash balances, at times also exceeding the annual financial allocation for the financial year under review, others were considered to be on the lower end of the spectrum. Such scenarios could mainly be attributed to one or more of the following:

a. The financial allocation provided to each respective Council at times does not reflect the community's prevailing scenario posing a negative impact on a Council's cash balance and on its ability to deliver services efficiently and effectively, against a backdrop of other financial pressures. To this effect, alternative measures are being explored by LGD to correct these imbalances, thereby ensuring that funds issued to Local Authorities reflect, as much as possible, the needs of each individual locality.

b. Mismanagement of funds, resulting in monies not being utilised in an efficient and economic manner. Examples include:

   - payments for uncertified works;
   - unplanned works just before local elections; and
   - commissioning of large-scale capital projects for which funds are either not available or are tied up, resulting in a substantial amount of restricted cash.

   On the other hand, certain Councils can act conservatively, saving up on funds rather than utilising them to improve their locality and in turn the well-being of citizens. While a healthy cash balance is beneficial, as it assists a Council in responding to any challenges requiring cash outflows, high levels of idle cash could also signal mismanagement of funds.

c. Inappropriate financial planning resulting in budget overruns and, in turn, delayed creditors' payments due to insufficient resources. Attached to this is the fact that certain Local Authorities lack proactivity in their financial plans, with budgets being based solely on the annual financial allocation even though, at times, this is not sufficient to fund the day-to-day operations. While acknowledging that a Council's sources of funds are limited, these are encouraged to liaise with LGD and identify ways and means to improve their revenue streams.

Table 2: Cash and Cash Equivalents as at 31 December 2020 and 2021[11]

Local Councils	31 December 2020	31 December 2021	Government Allocation 2021	2021 Cash and Cash Equivalents as a Percentage of Government Allocation
	€	€	€	%
Attard	168,559	293,249	799,347	37
Balzan	429,432	508,888	332,709	153
Birżebbuġa	1,092,198	1,348,459	871,711	155
Bormla	608,138	974,408	541,489	180
Dingli	326,950	367,480	393,438	93
Fontana	336,008	460,271	173,520	265
Gudja	474,229	645,377	328,470	196
Għajnsielem	367,221	616,064	396,470	155
Għarb	323,903	787,104	278,849	282
Għargħur	92,014	81,277	297,093	27
Għasri	437,329	567,490	201,058	282
Għaxaq	342,005	327,530	402,265	81
Iklin	269,233	193,551	298,687	65
Isla	280,866	355,023	324,952	109
Kalkara	25,027	50,841	295,783	17
Kirkop	67,298	79,926	251,364	32
Lija	294,711	378,638	306,525	124
Marsa	76,021	429,414	601,334	71
Marsaskala	1,004,910	1,125,238	1,028,169	109
Marsaxlokk	300,732	311,946	385,501	81
Mdina	227,164	287,821	215,650	133
Mellieħa	1,259,172	1,783,263	1,241,638	144
Mġarr	301,615	332,829	497,876	67
Mqabba	398,618	347,234	320,656	108
Msida	322,926	493,111	682,826	72
Mtarfa	184,089	122,621	298,390	41
Munxar	537,590	927,821	290,395	320
Nadur	403,078	406,168	524,286	77
Naxxar	593,108	504,153	1,133,417	44
Paola	1,474,581	1,590,525	772,775	206
Pembroke	465,916	650,155	479,872	135

Table 2: Cash and Cash Equivalents as at 31 December 2020 and 2021[11] *cont./*

Local Councils	31 December 2020	31 December 2021	Government Allocation 2021	2021 Cash and Cash Equivalents as a Percentage of Government Allocation
	€	€	€	%
Pietà	84,717	159,402	347,766	46
Qrendi	779,084	773,703	405,038	191
Rabat (Gozo)	186,834	275,526	633,308	44
Rabat (Malta)	1,910,467	1,348,807	1,216,330	111
Safi	275,740	216,994	289,494	75
San Ġwann	715,974	851,855	915,703	93
San Lawrenz	105,375	165,519	177,535	93
San Pawl il-Baħar	1,657,856	2,161,466	2,023,691	107
Sannat	189,450	347,445	266,027	131
Santa Luċija	231,919	218,358	373,960	58
Santa Venera	773,600	810,261	534,816	152
Siġġiewi	966,745	1,279,847	864,445	148
Ta' Xbiex	134,369	283,187	251,440	113
Tarxien	133,554	337,437	616,789	55
Xagħra	1,047,060	1,345,834	587,360	229
Xewkija	784,530	455,972	405,670	112
Xgħajra	130,733	129,286	243,632	53
Żabbar	1,330,451	1,769,549	1,061,186	167
Żebbug (Gozo)	99,665	199,603	595,329	34
Żebbug (Malta)	808,808	1,033,087	940,672	110
Żejtun	1,462,536	1,644,714	959,657	171
Żurrieq	1,112,488	1,367,495	900,416	152

This situation calls for robust financial budgeting and accounting, clearly illustrating the Council's financial situation over the medium and long term, including well-sustained projections. In the case of Councils with high cash balances, budgets are expected to indicate how these funds are intended to be utilised.

The following two indicators were also calculated as a means of further assessing the Local Authorities' financial viability. Results of the calculation of these two indicators are shown further down in the Report.

a. Working Capital: indicates the solvency of an entity and its ability to meet short-term debts.
b. Operating Result: demonstrates the extent to which revenue generated sustains the related expenditure.

[11] Balances included in **Table 2** depict the Councils' cash and cash equivalents balances; thus, also including cash at bank and any term deposits. In the table, these are illustrated net of any over-drawn bank balances, as well as short and long-term borrowings.

It is worth noting that, with the active assistance of the Finance and Procurement Compliance Directorate within LGD, certain Councils have managed to address the negative financial situation and ended the year with a surplus; however, others closed the financial year 2021 again in the red. While it is acknowledged that, in their majority, such Local Authorities had a healthy reserves balance, these are still encouraged to review their operating procedures to avoid any potential negative financial impacts in the future.

Three Local Councils reported a Negative Working Capital at the Close of Financial Year 2021

Working capital is a measure of operational liquidity and enables to assess whether a Council has adequate resources to sustain its day-to-day operations and cover its existing short-term obligations. Insufficient working capital balances, if not adequately addressed, could lead to going concern issues. Accordingly, Councils should strive towards attaining an optimal working capital ratio which can only be achieved through strong working capital management, ensuring sufficient resources for daily operations without hindering growth initiatives. Literature suggests that a ratio of 2:1 between current assets and current liabilities is satisfactory.

Table 3 shows the Local Councils that ended the financial year under review with a negative financial position, as well as comparative figures for the previous two years[12].

Table 3: Local Councils recording a Negative Working Capital as at End of 2021[13]

Local Councils	31 December 2021	31 December 2020	31 December 2019
	€	€	€
Għarb	(8,818)	(127,134)	76,783
Kalkara	(126,285)	(149,329)	(170,429)
Sannat	(16,380)	(64,000)	(105,221)

Table 4: Local Councils registering a Positive Working Capital over the Preceding Year[13]

Local Councils	31 December 2021	31 December 2020	31 December 2019
	€	€	€
Nadur	292,158	(125,632)	(102,508)
Pietà	30,684	(62,760)	15,646
Rabat (Gozo)	14,353 [14]	(172,971) [a]	(285,053)
San Lawrenz	12,730	(794)	(14,248)
Żebbuġ (Gozo)	16,015	(72,040)	(104,586)

[a] As re-stated in 2021.

[12] In the preceding year, a total of 10 Local Councils had a negative working capital. This included two Local Councils which were not reported upon in the current year's Report, namely Birkirkara and Valletta, due to the non-submission of the audited financial statements by the deadline of mid-October 2022, set by this Office for the analysis of such financial statements.

[13] Negative working capital figures disclosed in **Table 3** and **Table 4** have been calculated following the adjustments to deferred income and other funds restricted to particular projects, indicated in the respective audit reports and/or management letters.

[14] The auditor's opinion highlighted that €141,246 worth of accrued expenditure in relation to road resurfacing works carried out in prior years was classified as a non-current liability. However, appropriate evidence substantiating the agreed payment terms with the supplier was not provided for audit purposes. Accordingly, LGA could not reasonably conclude on the correctness of the classification of this amount.

As evidenced in **Table 4**, five Local Councils have successfully managed to fully wipe off the negative working capital reported in the preceding years, registering positive figures for the year ended 31 December 2021. Moreover, as illustrated in **Table 3**, though still in the negative, all three Local Councils registering a negative working capital, ended the year with a better liquidity position. Such positive outcomes are mainly the result of the efforts undertaken by LGD in assisting defaulting Local Councils to identify ways and means through which to improve their situation and the determination mastered by the respective Local Councils in conducting their operations in a more efficient manner in order to address the problem.

Eleven Local Councils ended 2021 with a Deficit

The primary focus of a Local Council is to support its service recipients in the best manner possible, hence guaranteeing the fulfilment of community needs. However, to be able to sustain this in the long-term, it is essential for Councils to generate a positive result of income over expenses. While it is acknowledged that Councils' revenue generation activities are restricted and that they are highly reliant on the Government allocation and other Government grants, positive results ensure that reserves are not depleted to levels that put the Authority in danger of insolvency.

Table 5 shows the 11 localities that incurred a deficit during the year under review together with the respective retained earnings balance and the corresponding figures for the previous two years[15]. However, it is also important to note that the Councils in question all had sufficient retained earnings brought forward from previous years to make up for the respective deficits.

Whilst negative retained earnings signal weaknesses resulting from a lack of profitability for a number of years, substantial positive reserves could be an indicator that Management is not utilising its resources efficiently. Hence, it is important for Local Authorities to wisely strike a balance between maintaining adequate positive reserves and promoting growth through capital investment. On the other hand, registering a deficit for a year or two is not of significant concern as long as the Council had previously maintained an appropriate cushion of reserves sufficient for absorbing one-off losses brought about by exceptional circumstances.

Table 6 illustrates the 14 Local Councils that have managed to rectify their position from a deficit in 2020 to a surplus in the year under review.

Furthermore, Kalkara Local Council succeeded in curtailing its expenses in 2021 and registered a profit for the second consecutive year; however, it still ended the financial year under review with negative reserves of €99,816.

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[15] A total of 24 Local Councils incurred a deficit and/or had negative retained earnings in the preceding year. Three Councils, namely Fgura, Gżira and Valletta, were not reported upon in the current year's Report, due to the non-submission of the audited financial statements by mid-October 2022 being the ultimate deadline set by this Office for the analysis of such financial statements. In financial year 2020, besides ending the year with a loss, Valletta Local Council also ended the year with negative retained earnings.

Table 5: Local Councils ending Financial Year 2021 with a Deficit[16]

Local Councils	Surplus or Deficit			Retained Earnings as at		
	1 January – 31 December 2021	1 January – 31 December 2020	1 January – 31 December 2019	31 December 2021	31 December 2020	31 December 2019
	€	€	€	€	€	€
Għajnsielem	(36,794)	1,506	(3,436)	742,677	779,471	777,965
Għargħur	(84,927)	(117,391)	(79,850)	263,637	348,564	465,955
Iklin	(12,860)	5,187	(5,815)	346,787	359,647	354,460
Marsaxlokk	(26,544)	21,344	28,335	380,012	406,556	385,212
Mġarr	(72,370)	(110,121)	8,917	1,036,100	1,108,470	1,218,591
Nadur	(4,599)	(10,711)	(75,846)	469,175	473,774	484,485
Rabat (Malta)	(421,102)	(343,191)	(124,978)	1,319,214	1,740,316	2,083,507
San Ġwann	(899)	73,310	6,930	923,557	924,456	851,146
Santa Luċija	(10,652)	(46,245)	(21,990)	303,006	313,658	359,903
Santa Venera	(2,175)	59,756	2,896	1,035,690	1,037,865	978,109
Xgħajra	(43,873)	(51,479)	4,321	2,884	46,757	98,236

Table 6: Local Councils registering a Surplus over the Preceding Year's Deficit[16]

Local Councils	1 January – 31 December 2021	1 January – 31 December 2020	1 January – 31 December 2019
	€	€	€
Għarb	93,239	(38,834)	(68,918)
Għaxaq	38,260	(213,339)	(20,802)
Kirkop	15,907	(62,621)	(4,289)
Lija	25,494	(23,248)	(8,774)
Mqabba	1,348	(22,724)	6,240
Mtarfa	37,170	(23,861)	(32,246)
Naxxar	145,579	(157,073)	(164,358)
Pembroke	109,082	(30,904)	(33,501)
Pietà	33,189	(66,772)	21,020
Qrendi	159,689	(90,413)	97,730
Rabat (Gozo)	86,883	(32,327) [a]	(132,984)
Safi	27,778	(21,313)	33,438
Ta' Xbiex	68,401	(4,512)	(743)
Żebbuġ (Gozo)	7,731	(6,547)	(29,672)

[a] As re-stated in 2021.

[16] Figures disclosed in **Table 5** and **Table 6** were computed on amounts as reported in the Statement of Comprehensive Income and Statement of Financial Position, even though instances were encountered whereby such figures were either not correctly classified or did not tally to the balances recorded in the respective Notes to the Financial Statements.

5. Internal Controls

Significant Scope for Improvement in Internal Controls prevails

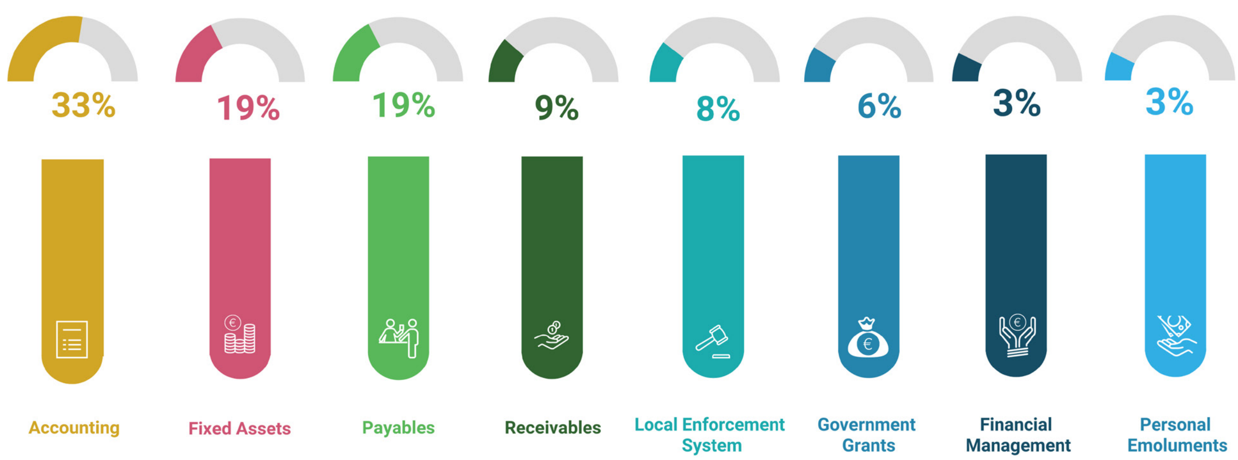
Local Councils are faced with a number of challenges, amongst which is the provision of specific services to citizens with approved financial resources to be acquired in line with established laws and regulations. To this effect, while proving vital in assisting local officials in accomplishing all of their objectives and responsibilities, a sound internal control system is also essential for the preparation of reliable financial information. Moreover, good internal controls also assist in ensuring compliance with underlying laws and regulations.

Despite that this message has been conveyed year on year, poor systems of internal controls in a number of Councils are regrettably still being encountered, resulting in several weaknesses being repetitively highlighted in the management letters. This is possibly the result of:

a. heavy reliance on the year-end audit to identify shortcomings and address the related issues;
b. Councils implementing stopgap measures to reduce audit findings, rather than tackling underlying causes; and
c. little or no interest by certain Councils to act upon the weaknesses identified during the audit process and thus simply accepting a qualified audit opinion without any remedial action being taken.

Figure 6 outlines the major deficiencies which were once again noted across multiple elements of the Council's internal control systems.

Figure 6: Control Issues



Accounting

Accounting data as presented for audit purposes is the primary component of a Council's business profile, illustrating the financial information on which internal decisions are based while determining the reliability of a Council's finance function and accounting processes. For yet another year, in certain instances, the financial statements presented for audit purposes were not fully compliant with the requirements of IFRSs, besides containing a number of errors and at times also necessitating an 'Except For' qualified opinion. The most common weaknesses encountered by LGAs are indicated below.

a. Transactions were either recorded in the wrong accounting period, categorised under the incorrect nominal account, completely omitted from the books of account, or at times recorded twice.

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

c. Departures from the applicable financial reporting framework, i.e., IFRS, in the preparation of financial statements, for example, the assessment for rent expense not carried out as required by IFRS 16 – Leases.

Financial reporting forms the basis of economic, social and policy decisions, whilst assessing accountability, primarily by comparing actual results with the annual budget. To this effect, proper record keeping plays a key role in controlling expenditure, thereby improving efficiency, whilst ensuring regulatory compliance.

Fixed Assets

In the Local Government context, inventory of capital assets very often represents the most significant investment of municipal resources. Capital assets are generally acquired to help provide essential services (directly or indirectly) to the respective citizens. The active management of a Fixed Asset Register (FAR) assists Councils in keeping track of their physical resources, thereby ensuring that the considerable capital investment made by the Councils can be adequately monitored. However, it transpired that a number of Local Councils are still overlooking the importance of such function, as outlined hereunder.

a. FAR was either not maintained, or not updated and hence did not reconcile to accounting records.

b. FAR was not always in line with best practice, thus limiting LGAs in the audit procedures that could be carried out, at times also resulting in a qualification of the audit report.

c. Depreciation calculated manually rather than through the accounting software, leading to inaccuracies of the related provisions.

d. Through Directive 01/2017, LGD gave Local Councils a one-time opportunity to regularise recurring concerns on incomplete FAR. To this effect, for the opening balance as at 1 January 2018, Local Councils were allowed to show the net book value for each category of non-current assets in their FAR. Thereafter, Local Councils were to ensure that FAR was maintained up to date; thus, all acquisitions of non-current assets from the said date onwards, as recorded in the nominal ledger, were also to be disclosed in the asset register. However, for the year under review, LGAs still encountered instances whereby guidance specified in the cited directive was not followed, thereby hindering audit testing in this area, resulting in a qualified audit opinion.

Unless responsible parties are cognisant of the risks brought about by the internal control failures on asset management, they cannot effectively manage the resources with which they are entrusted. Quality record keeping also helps to establish accountability by identifying ownership, value, condition, location and custodian of all Council's property. Thus, accurate, detailed and complete FAR is a key element. Physical spot-checks of the respective assets are also to be carried out periodically with any discrepancies between actual and recorded assets discovered during such exercise to be investigated.

Payables

Proper administration of accounts payable, defined as amounts due to vendors or suppliers for goods and services received that have not yet been paid for, can contribute towards the effective management of working capital. The most prevalent weaknesses identified in this area were the following:

a. Regular reconciliations against suppliers' statements were not carried out. Consequently, amounts as recorded in the books of account could not be verified.

b. Long outstanding balances which were never delved into and adequately followed up by the respective Councils.

c. Discrepancy between payables as recorded in the books of account and the respective suppliers' balances mainly due to invoices and/or payments either accounted for twice or not recorded at all.

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

Managing accounts payable is one of the most important financial responsibilities as it ensures that only accurate and legitimate duly certified invoices are paid up in a timely manner. Risk in this area could be substantially mitigated through the implementation of accounts payable controls, which can be divided into three sequential categories as explained hereafter.

Obligation to Pay Controls – through this process the accuracy of invoices is verified whilst ensuring that only items actually received are paid for. This entails the following steps:

a. Purchase order approval – the issue of a purchase order to be duly approved before the actual spending occurs.
b. Invoice approval – upon receipt, the officer in charge endorses the respective invoice, signifying its validity and verifying correctness before payment is processed.

c. Two-way matching – the invoice is matched to the purchase order and goods received note before payment is effected, thus ascertaining the receipt of the respective goods and services.
d. Auditing for duplicates – manual checking of the ledgers and files to make sure that duplicate payments are not made.

Data Entry Controls – manual processes are prone to human error, hence it is important to implement controls that help in identifying and flagging mistakes. This can be done through either of the below approaches:

a. Recording an invoice before approval – every invoice is recorded in the books of account, immediately upon receipt and subsequently checked for accuracy by the officer approving it. Such procedure is recommended to be adopted where a system of purchase orders is already in place.
b. Recording an invoice after approval – such control assumes that an invoice could be a duplicate or contains an error, thus it needs to undergo a verification process whereby its accuracy is verified. This will prevent errors, such as inputting of an incorrect account number or negative amounts which will need to be rectified later on.

Payment Entry Controls – such processes will minimise the risk of fraud and financial losses.

a. Segregation of duties – where possible a procedure is fragmented into a number of tasks, whereby each element is assigned to a different person. This will mitigate the risk of fraud, theft and the possibility of having one person taking too much control over the process.
b. Approval strategy – the payment approval strategy is to be reviewed from time to time to ensure that there are no loopholes in the current approach that could allow unscrupulous parties to commit fraud. By way of example, assigning more than one person to endorse payments, especially those exceeding certain established thresholds, is highly commendable as it enhances accountability. Moreover, signature plates and stamps are to be stored in a secure location to eliminate the risk of unauthorised usage.
c. Vendor payment information updates – any changes in sensitive vendor information, such as bank account numbers, in cases of payments effected electronically, are to be reconfirmed with the respective supplier.

Since the settlement of accounts payable involves the outflow of funds, inadequate controls in this area will undoubtedly negatively impact the Councils' financial assets.

Receivables

Accounts receivable, also known as debtors, refer to the total dues that the Council is owed from third parties, mainly being pending balances from the Local Enforcement System (LES), as well as reimbursement of expenses incurred under a specific scheme and/or project issued by LGD or other Governmental institutions. Though a periodic review of accounts receivable and a proper follow-up is mandatory; once again it was noted that the Councils' receivables included amounts that had been pending for several years, some of which were no longer recoverable. Moreover, an adequate provision for doubtful debts was either not recognised in the first place or the amount recorded was of a generic nature rather than directly linked to the specific outstanding payments. In addition, the discrepancies which were at times encountered between receivables' balances as disclosed in the books of account and third-party confirmations, raised concerns on the appropriateness of the financial records maintained.

The prompt and full collection of monies owed is vital to ensure that Local Authorities have the necessary cash flow to operate effectively and to remain a going concern. Pro-active management of accounts receivable is of critical importance and includes the following:

a. A regular reconciliation of the debtors' ledger to ensure that all payments are accounted for and are properly posted. This involves matching the detailed amounts of unpaid customers' balances to the accounts receivable total reported in the general ledger, thus ascertaining that that the general ledger figure for receivables is accurate. Such procedure could be further enhanced through the issue of statements to customers whereby the foregoing are asked to confirm the outstanding debt balance, enabling any errors or anomalies to be identified and corrected at the earliest opportunity.

b. Establishing follow-up procedures which usually involves the chasing of debtors through phone calls, emails and letters, with different levels of escalation.

c. Periodical review of outstanding debts to determine whether balances which are nearing or have surpassed their collection date are fully recoverable. If balances are unlikely to be recovered, then these amounts will need to be provided for as doubtful debts. No balances are to be written off from the books prior to being approved in a Council's meeting.

Local Enforcement System

In line with Article 56 of the Traffic Regulation Ordinance (Cap. 65), circulation licences cannot be renewed unless any fines are paid up. Yet, somehow, this is not materialising, with the consequence that substantial amounts in this respect remain outstanding, negatively impacting the cash flow of practically all Local Councils. Guided by the principle of the prudence concept, a full provision should be taken, at least for receivables older than two years since these are likely to have become statute barred. Weaknesses still encountered during the audit in relation to LES included the following:

a. For another year, the annual audited financial statements of the Joint Committees were not submitted to the respective Local Councils. Consequently, LGAs could not rely on independent audited information to provide reasonable assurance as to whether the respective Council is entitled to receive any further income from the related Committee.

b. Amounts receivable from contraventions, as reported in the financial statements differed from those recorded in LES reports made available for audit purposes.

c. Receivable balances in the form of administration fees, from contraventions collected on behalf of the Local Enforcement System Agency (LESA), differed between the Councils' accounting records and the respective reports generated by the system.

d. Between 1 October 2011 and end of August 2015, LES fell under the responsibility of the Regional Councils. It is evident that the latter are still experiencing certain difficulties with the collection of contested fines adjudicated in their favour. This has resulted in substantial balances still recorded as receivables in their books of account.

Whilst acknowledging that such issues are beyond the Council's control, the foregoing are expected to escalate these matters with higher authority so that the situation can be addressed. It is also recommended that any figures extracted from LES are supported by reports which are to be filed for future reference, especially when considering that this is a live system.

Government Grants

As from 1 January 2018, Councils were instructed to adopt the Capital Approach for the recording of grants. Under this procedure, funds received are dealt with in the Statement of Financial Position, rather than recognised in the Statement of Comprehensive Income to offset the items of expense that the same funds intend to finance. However, a number of Local Councils were still adopting an incorrect treatment for the recording of such grants as highlighted hereunder.

a. Funds received in respect of capital projects were disclosed as income rather than recorded against capital cost, or deferred income in cases whereby the respective works have not yet commenced.

b. Unutilised funds, intended to be refunded to the Government, were still disclosed as deferred income rather than recognised as payables. Instances were also noted whereby such amounts were not reversed from the books of account when the refund was actually effected.

c. Receipt of grants in relation to recurrent schemes was immediately recognised as income, despite that the related expense was not incurred or vice versa, thus impinging on the matching concept.

d. Long outstanding deferred income brought forward from previous years not investigated.

Considering that Local Councils have very limited opportunities for the generation of their own income, Government grants are economically important for the continuance of their operations. Hence, it is crucial that these are accounted for in the appropriate manner in the financial statements, since ratios derived therefrom, such as working capital, can be significantly affected by the related figures.

Financial Management

The responsibility for managing public funds, whilst delivering services that affect people's everyday lives, augment Local Authorities' obligation for effective and reliable financial management. To this effect, the latter have a duty not only to ensure that funds are available to implement the Council's policies, but also that these monies are managed transparently. Major concerns noted in this area included:

a. Bank reconciliations were either not prepared on a monthly basis or when prepared, these contained unaddressed discrepancies. Consequently, amounts disclosed in the books of account differed from the balances reported as per bank statement.

b. Stale cheques were not reversed from the accounting system.

c. Bank accounts not in the Council's name were recorded in the books of account and vice versa.

Bank reconciliation is a key control that if not performed regularly and independently reviewed, increases the risk of erroneous or unusual reconciling items not being detected and investigated in a timely manner.

Personal Emoluments

Whilst payroll and human resource management are essential elements for the smooth running of the Councils' operations, audit verifications carried out revealed that internal controls are still lacking, indicating that, in certain cases, little or no monitoring is in place to ensure efficient financial management in the respective areas. Below are the common shortcomings identified during the audit process.

a. Emoluments as recorded in the books of accounts differed from those as per documentation filed with the Commissioner for Revenue, implying that reconciliations were not taken seriously or not performed. Variances were also noted between amounts disclosed in the different returns, namely, the Payer's Monthly Payment Advice (FS5s) and the Payer's Annual Reconciliation Statement (FS7) submitted to the Commissioner for Revenue.

b. Payroll costs recorded under the incorrect nominal account.

Being one of the Councils' major expenses, it is important that accurate and consistent records are maintained with respect to personal emoluments. Disclosing incorrect amounts in statutory returns could also trigger penalties. Hence, reconciliation of payroll costs and tax information is expected to be carried out periodically.

The Importance of a Sound Internal Control System

Having the potential to mitigate risk and reduce errors, internal controls are an important component of the daily operations of Local Government. Although controls are to be designed according to the needs of each individual Local Authority, it is important that the following five optimal objectives are achieved:

a. Maintaining reliable systems.
b. Ensuring timely preparation of reliable information.
c. Safeguarding of assets against theft, misuse and fraud.
d. Optimising the use of resources.
e. Preventing and detecting errors in a timely manner.

Once established, internal controls need to be reviewed and reassessed from time to time, thereby ensuring their effective functioning in managing the risks that a Council may face in its day-to-day operations.

Poor Commitment in addressing Shortcomings

In terms of Article 8(2) of the Local Councils (Audit) Regulations, 1993, Local Authorities are to establish adequate and concrete remedial actions intended to address the audit recommendations proposed by LGAs. Such remedial actions are to be presented in the form of a reply to the management letter which is expected to be submitted to the Auditor General within six weeks after the receipt of the management letter.

During the year under review, 32 Local Councils, 4 Regional Councils and LCA managed to submit a reply to the management letter on time. Another seven Local Councils filed their response after the stipulated deadline whilst the feedback of four Councils was not submitted to the Auditor General but was only forwarded to the respective LGA or LGD. Moreover, a total of nine Councils[17] did not even bother to submit their feedback, by the end of the second week of November 2022[18], to the observations raised by LGA[19]. This situation is deemed as **totally unacceptable** to the NAO and thus urgent remedial action should be taken to address this problem since it defeats the very purpose of such audits.

Every Local Authority is to invariably give the highest priority to the timely submission of its reply to the management letter, presenting tangible actions intended to be taken to improve the Council's situation. Accordingly, once again, this Office emphasises that the irresponsible action on the part of the defaulting Councils needs to be **urgently sanctioned**. The absence of feedback on the observations presented in the management letter demonstrates poor accountability and a lack of transparency, thus impinging on good governance.

[17] Għaxaq, Isla, Mqabba, Pietà, San Pawl il-Baħar, Santa Luċija, Xgħajra, Xewkija and Żurrieq.

[18] When the Report was finalised for publication.

[19] This analysis only covers those Councils which were furnished with the management letter by the beginning of September 2022, i.e., six weeks ahead of the deadline set by this Office for the analysis of the financial statements, namely, mid-October 2022. Councils to which the management letter was submitted after the beginning of September 2022, but which still managed to submit a reply, have also been included.

6. Recommendations

Effective Financial Management and Governance are Important as Local Authorities are Responsible for Aspects of Everyday Life which are financed through Public Funds

Their proximity to the local citizen, through the provision of a wide range of important services, render Local Councils' financial management and governance subject to high-level community interest. Hence, to maintain public confidence and safeguard local democracy, it is important that these bodies invariably put into practice the three fundamental principles of transparency, accountability and integrity. In addition to the recommendations put forward throughout this Report, the below are further recommendations for Local Councils, aimed at enhancing the said three principles.

Recommendations for Local Councils

Timeliness and Quality of Financial Reporting

Reliable financial information assists local public bodies in planning and managing their services and finances effectively and efficiently. Financial statements are the primary source of information illustrating how local public bodies have utilised their finances. The implications of the late delivery of financial information are significant and also result in a delayed audit process. Hence, Local Authorities are expected to prepare timely financial statements, providing a complete and accurate picture of their financial performance for the period. To be able to achieve this, Councils need to maintain proper accounting systems, recording financial information as it occurs, while ensuring effective systems of internal control.

The Importance of the Audit Process

The audit process provides an element of assurance for future planning and budgeting. Delays to conclude the audit and the issue of recommendations to Local Councils imply that actions to improve financial efficiency and resilience are also delayed. As noted further up in this Report, the audit opinions of several Councils were submitted beyond the established timeframes, while others did not reach NAO by the time this Report went for publication; a situation which is deemed as totally unacceptable by this Office. Persistence in these delays will not only tarnish the Local Government's accountability and reputation but will also raise the risk of undermining the added value of an audit. Local Councils are expected to put their governance and financial stewardship responsibilities high on their agenda and are obliged to ensure full compliance with the requirements of the external year-end audit, providing continuous support to and collaborating with LGAs, thereby avoiding delays in the audit process and do not undermine its importance.

Commitment to address the Identified Shortcomings

The year-end audit process should not be seen as a burdensome exercise aimed at identifying and correcting analogous errors year on year. Instead, it should be considered as an invaluable management tool, providing insight to enhance the financial reporting function and the degree of confidence in the Council's operations. The recommendations put forth by LGAs in their management letters call for timely action to address prevailing shortcomings. Hence, to achieve the audit's desired results, as well as enhance their performance, Local Councils are to identify suitable means intended at fixing the root cause of the identified conditions, thereby minimising the possibility of reoccurrence. Needless to say, this cannot be achieved without an adequate level of commitment from the part of each respective Council. However, as illustrated in this Report, the level of commitment to address the identified shortcomings is regrettably weakening year on year. This Office continues its efforts intended at regularising the Local Councils' position and hence calls for this critical situation to be resolved without undue delay. In this regard, Councils are to implement robust processes to address audit recommendations, thereby minimising the likelihood that the same errors prevail.

Adequate Reply to the Management Letter

Corresponding to the previous recommendation is that concerning the preparation of an adequate reply to the management letter. The required feedback is considered as a formal mechanism illustrating a Council's commitment in evaluating and addressing the recommendations put forward by LGAs. In replying to the management letter, Councils are to ensure that their responses are clear and concise, directly linked to the finding and its recommendation, whilst outlining the specific actions intended to be taken on board to rectify the highlighted issues. The provision of a specific and realistic timetable for implementation will enhance the reply's credibility. Priority is to be given to those issues that pose the highest risk vulnerabilities.

Recommendations to the Local Government Division

In addition to the actions taken by each individual Council, centralised professional support is key in assisting Local Councils in adequately fulfilling their financial reporting requirements. LGD also plays a critical role in ensuring that Local Authorities are accountable for their actions, striving to ameliorate the situation amongst Local Councils and taking punitive measures in the case of those Authorities which are continuously in default.

Stricter Stance against Defaulting Councils

Lack of preparation of financial information for audit purposes, as well as poor cooperation with LGAs, results in delayed presentation of audited financial information which in turn jeopardises a Council's credibility and decreases public confidence. Likewise, poor commitment to address shortcomings and act on audit recommendations signifies a sense of irresponsibility and weak governance within Local Councils. This calls for LGD's urgent action in outrightly discouraging such behaviour through the adoption of a stricter stance, as well as sanctions against those Councils which repeatedly fail to comply with financial statutory requirements.

An Internal Accounting Function

Whilst this Office acknowledges LGD's efforts in improving the financial reporting function across Local Councils, NAO reiterates that opportunities for improvement still exist for the enhancement of such function. Exploitation of economies of scale can play an important part in this regard. Instead of being outsourced by Councils individually, accounting services can be administered internally by the Division through the recruitment of a pool of qualified accountants. Not only would this prove to be more cost-effective, but it would also facilitate monitoring, improve communication with accountants and result in the harmonisation of accounting across all Councils.

Application of more Meaningful Ratios

An analysis into the financial statements of a Council can provide insights as to their financial sustainability. In this regard, LGD is urged to delve deeper in the Councils' financial statements, formulating ratios which effectively measure and provide a more comprehensive assessment of the Councils' financial sustainability. Targets can also be set for Councils on the basis of such ratios, thereby assisting them to improve their financial situation in the long run.

Revision of the Funding Mechanism

As emphasised further up in this Report, funds distributed to Local Councils need to reflect the communities' present realities; a fact which has been reiterated for quite a long period of time. Accordingly, LGD is recommended to guide Local Councils in maximising their potential which could lead to alternative revenue streams while also assisting them to develop and implement more sustainable medium and long-term plans.

7. Other Particular Concerns

A Systems Audit on the Local Enforcement System

Whilst, as from October 2015, the administration and management of LES was shifted to LESA, the Information Technology (IT) system in place to record the process of contravention continued to be operated by the external service provider who initially designed the system. In response to previous years' recommendations, in March 2021, LESA concluded a review of the IT practices on LES, based on elements of control objectives for information and related technologies.

In last year's publication on the workings of Local Government, NAO acknowledged this as a step in the right direction and it also advised LESA to follow up on the implementation of the recommendations listed in the related IT audit report. The processing cycle of a representative sample of tickets, from the date of issuance to final settlement of the ticket, as well as the related audit trail was also to be verified. However, till publication of this Report, NAO was not informed whether such recommendation was taken on board or not. Hence, NAO reiterates that LESA is to seriously consider acting on this recommendation as it will provide comfort that the date extracted from the system in question, on which amounts disclosed in the financial statements are based, is reliable.

Income receivable from contraventions booked after 1 October 2015 pertains to the respective Agency, with Local and Regional Councils only being entitled to any pending payments in respect of contraventions issued prior to the aforementioned date[20]. As a compensation for the loss of income, Local and Regional Councils are also granted an administration fee of 10% (flat rate) based on the amount of all contraventions settled at their premises, in line with reports extracted from the IT system, namely LES.

Joint Committees not yet liquidated despite a Lapse of Eleven Years from the ceasing of their Operations

Notwithstanding that the nine Joint Committees were to be liquidated a year following the inception of the Regional Committees on 1 September 2011, eleven years later, this issue is unfortunately still pending. Acknowledging the importance of such issue, the Finance and Procurement Compliance Directorate within LGD invested considerable time and effort to start addressing this matter, trying to avoid further delays. The following actions were taken:

a. A list of individuals serving as authorised officers, at the time the Joint Committees ceased operations, was compiled and four officers were contacted with the intention of holding an informal meeting. The objective of such meetings was two-fold; to establish a starting point by determining the actions taken by the aforementioned officers in closing off the respective Joint Committee's affairs, as well as to identify locations whereby pertinent financial documentation is maintained whilst establishing current custodians of the respective data.

[20] Funds received from contraventions issued prior to 1 September 2011 are due to Joint Committees and/or Local Councils, whilst those issued between 1 September 2011 and 30 September 2015 are payable to Regional Councils.

b. By the time this Report was concluded, the foregoing Directorate already held meetings with three authorised officers, who were keen on assisting in providing verbal information about the structure, management and the administration of the related Joint Committees. Unfortunately, the fourth officer was not willing to meet with LGD personnel.

c. Initiated communication with one of the local commercial banks to try to retrieve any relevant financial data pertaining to the respective Joint Committees, mainly whether bank accounts held were still in operation or if these were closed off. Attempt was also made to obtain a copy of the related bank statements, where necessary.

d. Receivables as reported in the accounts of the Joint Committees were largely composed of pending payments in respect of contraventions issued when the administration of LES fell within their remit. In view that the software application of LES was devised and therefrom operated by an external service provider, a formal request for specific data[21] on the subject matter was sent to the foregoing.

For several consecutive years, none of the nine Joint Committees submitted the respective audited financial statements to the Auditor General. This situation is unacceptable to the NAO. Despite that this shortcoming was beyond the control of Local Councils, it did have a negative impact on the foregoing as it contributed to the qualification of the audit report of 18 Local Councils. The basis of such qualifications evolved around the materiality of the balance of reserves as reported in the last audited financial statements of the respective Joint Committee. As previously mentioned, given that a number of years have elapsed since the submission of the audited financial statements of the Joint Committees, LGAs were unable to determine whether each individual Council is entitled to receive any further income from the Joint Committee.

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

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

NAO positively acknowledges that, following recommendations put forward in previous years, this issue is being given the importance that it merits. As a way forward, the Finance and Procurement Compliance Directorate has committed itself to provide LGAs with sufficient audit evidence in respect of any pending balances pertaining to the Sliema and Żejtun Joint Committees. There is the intention that, by end of December 2023, the qualification in this regard, affecting an average of 14 Local Councils, will be eliminated. In the meantime, the respective

[21] This included a copy of any agreements between the external service provider and the Joint Committees, if available, Joint Committees' bank account numbers linked to LES, list of outstanding debtors as at end of August 2011 and list of bank accounts in which the said amounts were expected to be deposited once paid.

Directorate will also be tackling issues emanating from the limited records maintained by Fgura, Valletta and Żurrieq Joint Committees, as well as those evolving around fixed assets and payables' balances reported by the remaining four Joint Committees. In the case of amounts payable, the respective closing balances will be investigated. Moreover, it will also be ascertained whether physical assets were transferred to Regional Councils.

Implementation of Key Performance Indicators during Financial Year 2021 not analysed

Key performance indicators are a significant tool in providing a focus for strategic and operational improvement, creating a critical basis for decision making whilst helping Management to invest its resources in areas that matter most. The introduction of the five national performance indicators in 2019 gave Local Councils the opportunity to monitor their actual level of accomplishment and determine how they could become more efficient, effective and deliver more value for money. Moreover, these indicators would eventually enable NAO to carry out value for money audits as required by standing regulations.

For the first two years, the level of implementation of these indicators by Local Councils was independently analysed by a contractor appointed by LGD, whereby data gathered, as well as outcomes from inspections carried out within the respective localities, were published in a report. This enabled Councils to monitor any improvements registered while working harder to attain their goals. However, unfortunately NAO was informed that such exercise was not undertaken for the year 2021.

This Office recommends LGD to identify a sustainable manner of ensuring that Local Authorities keep constant track of their performance, compared with the established indicators.

8. Way Forward – New Developments

Regional Councils

As already stated, with effect from January 2022, the sixth Regional Council was introduced. Being one of their main priorities, the Management of the six Regional Councils discussed the draft tender on Solid Waste Management, which, as in terms of the Act, will be the direct function of the Regional Councils. To ensure that the respective document is in line with the National Waste Management Plan, all the preparatory work for the publication of this tender was conducted by LGD in collaboration with foreign experts in waste management. However, in terms of the Act, the tender was published by each of the six Regional Councils individually, which, thereafter, were to be responsible to manage the service for the benefit of the localities falling within their respective remit. In fact, six public calls for tender, one for each region, was published by the Department of Contracts on 19 May 2022, with the tender opening session held on 23 August 2022. An appeal, which is still awaiting court decision, was filed by one of the bidders with respect to the tender covering the Gozo Region. Meanwhile the other five were still at the evaluation stage by the time this Report was concluded.

Strengthening of the Local Government Division

As already indicated, as from financial year 2021, it was decided that the annual audit carried out by NAO would focus solely on the financial aspects of the Local Government's operation. To this effect, LGD undertook the necessary measures to strengthen its capacity, through the setup of a new unit during 2021, namely the Finance and Procurement Compliance Directorate. The goals of this Directorate are to:

a. **Supervise Local Councils' Financial Performance and Related Controls** – This is primarily achieved by analysing the financial statements and schedule of payments, carrying out risk assessment tasks to identify major risk areas, assist in the implementation of action and recovery plans devised by the Councils and providing the necessary training and guidance.

b. **Carry out Compliance Reviews** – These mainly entail desk reviews which are limited to the assessment of Local Authorities' compliance with applicable financial and procurement laws and regulations. Such task is evidence based and is carried out in liaison with the Council's ES.

c. **Execute Internal Audit Reviews** – Following a public call for tenders, an auditor was appointed to carry such reviews, in line with International Standards for the Professional Practice of Internal Auditing. It is intended that 12 audits are carried out annually, whereby selection of Councils to be audited is based on risk assessment. The review will be carried out on 10 pre-established criteria, including accounting and bookkeeping, budgetary control, procurement cycle, as well as issues highlighted by LGAs following the statutory annual audit.

d. **Manage Action Plan for the Implementation of NAO's Recommendations** – Up till publication of this Report, action was limited to the analysis of highlighted shortcomings, through the maintenance of a database for common issues. However, given that the lack of implementation of recommendations put forward by LGAs has been an area of concern for a number of years, LGD felt the need to take concrete action in this regard and this issue was escalated to Ministerial level. As a way forward, it was proposed that each Regional Council's Manager responsible for European Union and local funds be appointed as an NAO Liaison Officer and in co-ordination with the Finance and Procurement Compliance Directorate within LGD, design an action plan to address all the issues highlighted in the management letters of the Local Councils falling within its remit. Yet, by the time this Report was concluded, this proposal was still pending the pertinent Ministry's approval.

e. **Issue Direction for Common Financial Practices** – The focus here is on aligning the Local Councils to standard work practices, primarily through the issue of directives and circulars, ensuring harmonisation between all Councils. The Directorate will also be responsible to put forward proposals for changes in legislation and punitive measures, as necessary.

This strategic plan is quite an ambitious and challenging one, yet if all the stakeholders involved extend their cooperation, it will surely be a successful one yielding the desired results towards enhanced good governance in the area of Local Government.

Better Working Conditions for Executive Secretaries within the Local Government

During 2021, discussions aimed at improving the working conditions for ESs within the Local Government were initiated between a local trade union representing the former and Permanent Secretary (Ministry for the National Heritage, the Arts and Local Government), Director General (LGD) and President (LCA). An agreement was eventually endorsed by the aforementioned parties on 18 February 2022 and points relating to financial aspects were to be applied retrospectively as from 1 January 2020. The salient points agreed upon were as follows:

a. Pegging of basic salary to public service salary scales 5, 6 and 7 as determined by the Local Government Act (Cap. 363).

b. An increase from 10% to 15% in the performance bonus, 5% of which is to be appraised by Director (LGD).

c. The introduction of disturbance, communication and travel allowances as a means of compensation for being available outside the normal working schedule to cater for emergency duties within their responsibilities, and for the usage of own communication channels and transport facilities for Council's related business.

d. With effect from the date of signing of the agreement, ESs who have proven relevant work experience will be awarded an Officer in Grade status within the Public Service.

Introduction of New Initiatives to Strengthen the Councils' Business and Improve the Quality of Life within Local Communities

Created to deliver a service directly to their locality and citizens, Local Councils are the direct link between Government and the community at large. Their activities significantly impact the communities they serve and should promote the interest of citizens, including social, economic, environmental and cultural development. The below are the main initiatives issued by the pertinent Ministry, through LGD as well as other Ministries, aimed at strengthening the Councils' business and at improving the quality of life of the residents.

Funding of approximately €670,000 for the Development, Improvement and Management of Playing Fields – Twenty-seven localities[22] around Malta and Gozo benefitted from a scheme, totalling approximately €670,000, aimed at assisting them in creating and maintaining open spaces for recreation, thereby having environments in which families within the pertinent local communities will be able to socialise safely.

Further funding of €355,000 to Local Councils to create Open Spaces – A complimentary scheme to that previously mentioned, through which three localities[23] benefitted from funds, totalling €355,000, for the creation of open spaces in the centre of the respective town or village. This scheme is intended at exploring the possibility of creating open spaces in pedestrian areas, thereby encouraging residents to go out of their homes, be active, while at the same time socialise in an urban, safe and accessible environment.

More Councils benefit from LESA Funds – A number of new projects will benefit from a LESA fund of €1 million. This was being done as part of an agreement made in January 2021, between LESA and LCA, wherein it was agreed that the former will allocate €3 million from the enforcement funds for community projects, over a span of three years. The projects were placed under five main categories, namely, a better environment in the localities; alternative and cleaner transport; modern infrastructure; safer localities; and local heritage. Through this fund, the Councils that have been selected[24] by an independent selection board will receive up to 80% of the total cost of the project, to a maximum of €80,000 each.

Small Grant Schemes Agreement with an Investment of around €690,000 – Agreements were signed between the Division for Local Government as Small Grant Schemes Operators (financed by Norwegian Funds) and seven Local Councils[25], considered as urban localities, in order to carry out projects in their respective localities. Between them, these seven Local Councils will be given the amount of €690,000. The projects include a skill development centre that will help citizens develop their abilities and thus have more job opportunities; the regeneration of a garden and playground to be used for socio-cultural and educational purposes; a mobility and accessibility service provided to vulnerable people; the development of an active ageing day centre, a project that promotes social inclusion where facilities will be developed to provide a safe environment for the elderly; organisation of outdoor activities for the elderly in the community, as well as various activities that promote social inclusion and the reduction of poverty.

22 Attard, Balzan, Bormla, Fontana, Gudja, Għajnsielem, Għarb, Ħamrun, Iklin, Isla, Kalkara, Lija, Mellieħa, Msida, Munxar, Nadur, Qormi, San Ġiljan, San Lawrenz, Santa Venera, Siġġiewi, Sliema, Valletta, Xagħra, Xewkija, Żabbar and Żejtun.

23 Ħamrun, Mellieħa and Sliema.

24 The Councils which had their projects approved were: Birkirkara, Fontana, Għajnsielem, Għarb, Għasri, Kerċem, Marsaskala, Marsaxlokk, Mqabba, Qrendi, Qormi, Rabat (Malta), Sannat, San Ġiljan, Xagħra, Xewkija, Żebbuġ (Gozo), Żejtun, Żurrieq, Port Regional Council (formerly known as South Eastern Regional Council) and LCA.

25 Birgu, Isla, Marsa, Paola, Santa Venera, Sliema and Tarxien.

A Training Programme for Local Councils Project Leaders through Norwegian Funds – This programme is intended to help urban Local Councils carry out projects and initiatives in the framework of the Strategic Plan for the Environment and Development, by improving the quality of life of residents, as well as to implement sustainable initiatives to help the most vulnerable within the community. Total Norwegian Funds budget for this scheme was €1.2 million and each project could benefit from a minimum of €25,000 to a maximum of €100,000. Ten projects[26] were selected for this programme.

€700,000 for Greening Projects in Various Localities – The Ministry for the Environment, Energy and Enterprise presented €700,000 to various Local Councils to carry out greening projects in their respective localities. Thanks to the Urban Greening Scheme, operated by Ambjent Malta, 11 environmental projects will be carried out, aimed at embellishing different areas within the community.

Consultation Process for the development of the National Local Government Strategy – LGD has launched a consultation process with Local and Regional Councils in preparation for the development of the National Strategy of Local Government. The four consultation themes included good and effective governance, the strengthening of Regional Councils, localities with a cleaner environment and Local Councils close to the people. These themes will serve as a framework for consultation between all Local Government partners.

Scheme for the Maintenance and Support of Infrastructural Projects – For the third consecutive year, funds were allocated to sustain major infrastructure projects that had been carried out by Central Government within local communities. Three Local Councils[27] were provided with a sum of around €123,000 as part of this scheme. Since the maintenance of these projects involved large expenses, this scheme was issued to financially assist the respective Councils in the upkeep of these projects.

A Total of 21 Local Councils benefit from the Scheme for Annual Cultural Activities 2022 – Twenty-one Local Councils[28] benefited from the scheme for Annual Cultural Activities 2022. Between them, they were granted approximately €250,000 in funds from LGD. The main objective of this scheme is to help Councils in organising cultural activities around Malta and Gozo, thereby promoting the local culture and the specific unique heritage of localities. This initiative also helps to increase the local touristic element, strengthen innovation and creativity and sustain the quality and sustainability of local cultural activities.

Launch of a New Scheme for Local Councils to implement Sustainable Projects – The Minister for the Environment, Energy and Enterprise announced a scheme of €800,000, aimed at the implementation of sustainable projects within local communities. The main objective of this fund was to assist communities in the development of projects that promote sustainability in various domains. In this way, Malta's progress in the implementation of the 2030 Agenda for Sustainable Development will be strengthened.

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[26] The projects selected pertain to the following Local Councils: Birgu, Floriana, Isla, Marsa, Paola, Santa Venera, Sliema, Tarxien (two projects) and Ta' Xbiex.

[27] Għajnsielem, Ħamrun and Mellieħa.

[28] Birgu, Birkirkara, Bormla, Fgura, Għajnsielem, Għarb, Għargħur, Ħamrun, Iklin, Isla, Kirkop, Munxar, Nadur, Qala, San Ġiljan, San Ġwann, Santa Venera, Sliema, Swieqi, Ta' Xbiex and Xgħajra.

Appendices

Appendix A - Financial Allocation

Table 1: Income received by Local Councils

Local Councils	Government Allocation 1 January – 31 December 2021 €	Other Supplementary Income received from Central Government €	Other Income generated by the Council €	Totals €
Attard	799,347 [29]	172,265	48,718	1,020,330
Balzan	332,709 [29]	88,771	24,670	446,150
Birgu	340,549	-	-	340,549
Birkirkara	1,538,785	-	-	1,538,785
Birżebbuġa	871,711	84,044	35,469	991,224
Bormla	541,489	116,740	51,360	709,589
Dingli	393,438	72,503	19,227	485,168
Fgura	713,572	-	-	713,572
Floriana	407,648	-	-	407,648
Fontana	173,520	12,087	17,664	203,271
Gudja	328,470	51,262	35,544	415,276
Gżira	679,181	-	-	679,181
Għajnsielem	396,470 [29]	39,575	80,492	516,537
Għarb	278,849	20,557	400,466	699,872
Għargħur	297,093 [29]	43,829	22,127	363,049
Għasri	201,058 [29]	4,993	16,950	223,001
Għaxaq	402,265	51,671	37,018	490,954
Ħamrun	775,854	-	-	775,854
Iklin	298,687	57,295	28,243	384,225
Isla	324,952	45,733	37,171	407,856
Kalkara	295,783	43,998	13,099	352,880
Kerċem	299,597	-	-	299,597
Kirkop	251,364 [29]	53,825	71,627	376,816
Lija	306,525 [29]	72,509	12,933	391,967
Luqa	487,106	-	-	487,106
Marsa	601,334	193,032	27,744	822,110
Marsaskala	1,028,169	149,004	85,885	1,263,058
Marsaxlokk	385,501	39,272	15,691	440,464
Mdina	215,650 [29]	70,851	32,028	318,529
Mellieħa	1,241,638	101,800	82,523	1,425,961
Mġarr	497,876 [29]	32,954	37,376	568,206
Mosta	1,408,533	-	-	1,408,533
Mqabba	320,656	33,571	13,072	367,299
Msida	682,826	92,286	80,464	855,576
Mtarfa	298,390	35,341	8,757	342,488
Munxar	290,395 [29]	41,438	42,438	374,271

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

Local Councils	Government Allocation 1 January – 31 December 2021 €	Other Supplementary Income received from Central Government €	Other Income generated by the Council €	Totals €
Nadur	524,286 [29]	26,289	64,430	615,005
Naxxar	1,133,417	178,326	100,358	1,412,101
Paola	772,775	100,757	34,120	907,652
Pembroke	479,872 [29]	51,968	43,288	575,128
Pietà	347,766	35,760	180,412	563,938
Qala	354,074	-	-	354,074
Qormi	1,292,062	-	-	1,292,062
Qrendi	405,038 [29]	102,207	33,812	541,057
Rabat (Gozo)	633,308	13,540	150,220	797,068
Rabat (Malta)	1,216,330 [29]	173,734	62,317	1,452,381
Safi	289,494	24,862	26,784	341,140
San Ġiljan	924,661	-	-	924,661
San Ġwann	915,703 [29]	106,227	78,613	1,100,543
San Lawrenz	177,535	30,793	24,428	232,756
San Pawl il-Baħar	2,023,691	239,882	190,770	2,454,343
Sannat	266,027 [29]	4,500	55,784	326,311
Santa Luċija	373,960	43,372	37,670	455,002
Santa Venera	534,816	104,774	33,108	672,698
Siġġiewi	864,445	104,243	36,303	1,004,991
Sliema	1,385,994	-	-	1,385,994
Swieqi	782,866	-	-	782,866
Ta' Xbiex	251,440	83,315	68,063	402,818
Tarxien	616,789 [29]	41,327	57,017	715,133
Valletta	832,739	-	-	832,739
Xagħra	587,360	3,000	101,378	691,738
Xewkija	405,670 [29]	82,879	16,305	504,854
Xgħajra	243,632 [29]	15,554	15,772	274,958
Żabbar	1,061,186	108,161	55,924	1,225,271
Żebbuġ (Gozo)	595,329 [29]	33,905	59,000	688,234
Żebbuġ (Malta)	940,672	99,894	114,742	1,155,308
Żejtun	959,657	98,148	135,372	1,193,177
Żurrieq	900,416	93,523	51,692	1,045,631
Totals	**41,800,000**	**3,822,146**	**3,206,438**	**48,828,584**

[29] Amount does not reconcile to that recorded in the financial statements. The difference was netted off against Other Supplementary Income received from Central Government, so as to illustrate the actual allocation forwarded by LGD to the respective Council.

Appendix A – Financial Allocation *cont./*

Table 2: Income received by Regional Councils

Regional Councils	Government Allocation 1 January – 31 December 2021 €	Local Enforcement System Agency Reimbursement €	Other Income generated by the Council €	Totals €
Central Regional Council	650,000	273,776	33,568	957,344
Gozo Regional Council	650,000	-	-	650,000
Northern Regional Council	650,000	92,742	24,943	767,685
Port Regional Council (formerly known as South Eastern Regional Council)	650,000	36,281	12,622	698,903
Southern Regional Council	650,000	165,863	58,439	874,302
Totals	**3,250,000**	**568,662**	**129,572**	**3,298,234**

Source: 'Government Allocation' – as per report provided by LGD.
Figures of 'Other Supplementary Income received from Central Government', 'Other Income generated by the Council' and 'Local Enforcement System Agency Reimbursement' are as disclosed and categorised on the face of the Statement of Comprehensive Income, unless otherwise stated.

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

Appendix B – Additional Funds distributed to Specific Local Councils

Local Councils	Tourism Zones Fund €	Capital, ex-Capital and Cities Fund €	Adjustment in Allocation €	Total Additional Funds €
Balzan	-	-	3,000	3,000
Birgu	7,000	35,000	1,000	43,000
Bormla	7,000	10,000	-	17,000
Dingli	-	-	3,000	3,000
Floriana	-	-	1,000	1,000
Fontana	-	-	3,000	3,000
Għargħur	-	-	3,000	3,000
Għasri	-	-	3,000	3,000
Għaxaq	-	-	3,000	3,000
Isla	7,000	10,000	1,000	18,000
Kalkara	-	-	3,000	3,000
Kerċem	-	-	3,000	3,000
Kirkop	-	-	3,000	3,000
Lija	-	-	3,000	3,000
Marsaskala	7,000	-	-	7,000
Mdina	3,000	35,000	9,152	47,152
Mellieħa	7,000	-	-	7,000
Mġarr	-	-	3,000	3,000
Mtarfa	-	-	3,000	3,000
Munxar	3,000	-	3,000	6,000
Nadur	-	-	3,000	3,000
Pembroke	-	-	4,000	4,000
Pietà	-	-	3,000	3,000
Qrendi	3,000	-	1,000	4,000
Rabat (Gozo)	-	10,000	-	10,000
Rabat (Malta)	3,000	-	-	3,000
Safi	-	-	3,000	3,000
San Ġiljan	20,000	-	-	20,000
San Lawrenz	7,000	-	15,293	22,293
San Pawl il-Baħar	20,000	-	-	20,000
Santa Luċija	-	-	3,000	3,000
Siġġiewi	-	10,000	-	10,000
Ta' Xbiex	3,000	-	3,000	6,000

Appendix B - Additional Funds distributed to Specific Local Councils *cont./*

Local Councils	Tourism Zones Fund €	Capital, ex-Capital and Cities Fund €	Adjustment in Allocation €	Total Additional Funds €
Valletta	-	100,000	-	100,000
Xagħra	3,000	-	-	3,000
Xewkija	-	-	3,000	3,000
Xgħajra	-	-	3,000	3,000
Żebbuġ (Gozo)	3,000	-	1,000	4,000
Żejtun	-	10,000	-	10,000
Totals	**103,000**	**220,000**	**93,445**	**416,445**

Appendix C – Reports that were either qualified with an 'Except For' Audit Opinion and/or highlighting an 'Emphasis of Matter'

Column 1 indicates the localities wherein, LGAs were unable to determine whether the Council was entitled to receive any further income from the Joint Committees, since the audited financial statements of the latter for financial year 2021 were not available.

Column 2 highlights those Councils where issues of poor internal controls and lack of substantiating documentation were encountered.

Column 3 shows the Councils 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, the collection of debts due to the Councils, and the continued support of their creditors. 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.

Local and Regional Councils	Column 1 LGAs were unable to determine whether the Council is entitled to receive any further Income from the Joint Committee	Column 2 Poor Internal Controls and Lack of Substantiating Documentation	Column 3 'Emphasis of Matter' highlighting a Material uncertainty related to Going Concern
Birżebbuġa		x	
Għajnsielem		x	
Għarb		x	x
Għargħur	x	x	
Għaxaq	x	x	
Gudja	x		
Kalkara			x
Marsaxlokk	x		
Mellieħa	x		
Mġarr	x		
Msida	x		
Munxar		x	
Nadur		x	
Naxxar	x	x	
Pembroke	x		
Pietà	x		
Qrendi		x	
Rabat (Gozo)		x	
San Ġwann	x	x	

Appendix C – Reports that were either qualified with an 'Except For' Audit Opinion and/or highlighting an 'Emphasis of Matter' *cont./*

Local and Regional Councils	Column 1 LGAs were unable to determine whether the Council is entitled to receive any further Income from the Joint Committee	Column 2 Poor Internal Controls and Lack of Substantiating Documentation	Column 3 'Emphasis of Matter' highlighting a Material uncertainty related to Going Concern
San Lawrenz		x	
Sannat		x	x
San Pawl il-Baħar	x	x	
Santa Luċija	x		
Santa Venera		x	
Siġġiewi	x	x	
Ta' Xbiex	x		
Tarxien	x	x	
Xagħra		x	
Xewkija		x	
Żabbar		x	
Żebbuġ (Gozo)		x	
Żebbuġ (Malta)	x		
Żejtun	x		
Central Regional Council		x	
Northern Regional Council		x	
Port Regional Council (formerly known as South Eastern Regional Council)		x	
Southern Regional Council		x	

Appendix D – Lists of Directives and Circulars

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

List of Directives

Directive No. 01/2022	Proċedura ġdida dwar l-għażla ta’ Segretarju Eżekuttiv ta’ Kunsill Lokali u Reġjonali
Directive No. 01/2017	Accounting Treatments

List of Circulars

Circular No. 2/2022	Għeluq tas-Sena Finanzjarja 2021
Circular No. 8/2020	Allokazzjoni Finanzjarja għall-2021

2021-2022 (to date) Reports issued by NAO

NAO Annual Report and Financial Statements

July 2022	National Audit Office Annual Report and Financial Statements 2021

NAO Audit Reports

November 2021	Performance Audit: Smart and RF meters' contribution to more accurate and timely utilities billings
November 2021	Information Technology Audit: IT Asset Management across Government Ministries and Departments
December 2021	Performance Audit: A Strategic Overview on the Correctional Services Agency's Operations at the Corradino Correctional Facility
December 2021	Report by the Auditor General on the Public Accounts 2020
December 2021	Report by the Auditor General on the workings of Local Government for the year 2020
December 2021	An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 2 | A review of the contractual framework
May 2022	Performance Audit: Assisting Individuals with Dementia and their Caregivers within the Community
May 2022	Joint Report on Management of Plastic Waste in Europe
May 2022	Ministry for Finance and Employment: An Analysis on Revenue Collection Financial Year 2020
June 2022	An evaluation of performance audits in the public sector: Common audit findings (2017 – 2020)
June 2022	Follow-up Audits Report by the National Audit Office Volume I 2022
July 2022	Performance Audit: Procuring the Public Transportation Service
October 2022	The COVID-19 pandemic- Business continuity within the public administration
October 2022	Performance Audit: A Follow-up on the 2018 Strategic Overview of Mount Carmel Hospital
November 2022	Follow-up Audits Report by the National Audit Office Volume II 2022