

Xghajra Local Council

Annual Report and Financial Statements  
31 December 2019

*Prepared by Paul Bugeja CPA*



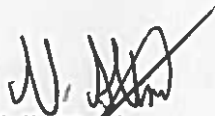
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### Statement of Local Council Members' and Executive Secretary's Responsibilities

The Local Councils (Financial) Regulations 1993 require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's income and expenditure for the year and of the Council's retained funds at the end of the year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with the accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local Council (Financial) Regulations, 1993 and the Local Council (Financial) Procedures, 1996.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, Local Council (Financial) Regulations 1993, and the Local Council (Financial) Procedures 1996. The Executive Secretary is also responsible for safeguarding the assets of the Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement has approved by the Council on 14 October 2020 and signed on its behalf by:



Neil Attard  
Mayor



Ranier Busuttill  
Executive Secretary

**Statement of Comprehensive Income**

	Notes	2019 €	2018 €
<b>Income</b>			
Funds received from central government	3	244,860	228,406
Income raised under Local Enforcement System	4	729	837
General Income	6	3,449	5,314
		<u>249,038</u>	<u>234,557</u>
<b>Expenditure</b>			
Personal emoluments	7	104,419	96,182
Operations and Maintenance	8	82,042	70,240
Administrative and other Expenditure	9	58,293	78,052
		<u>244,754</u>	<u>244,474</u>
<b>Operating profit/(loss)</b>		<u>4,284</u>	<u>(9,917)</u>
<b>Investment income</b>	5	<u>37</u>	<u>2</u>
<b>Profit/(loss) for the year</b>		<u>4,321</u>	<u>(9,915)</u>

*The notes on pages 6 to 27 form an integral part of these financial statements*

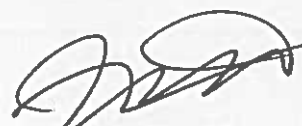
## Statement of Financial Position

	Notes	2019 €	2018 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible asset	11	1,433	-
Property, plant and equipment	12	36,677	27,617
		<u>38,110</u>	<u>27,617</u>
<b>Current assets</b>			
Receivables	13	16,727	19,344
Cash and cash equivalents	14	230,230	320,576
		<u>246,957</u>	<u>339,920</u>
<b>Total Assets</b>		<u>285,067</u>	<u>367,537</u>
<b>Reserves</b>			
Retained Fund		<u>98,236</u>	<u>93,915</u>
<b>Current Liabilities</b>			
Payables	15	<u>186,831</u>	<u>273,622</u>
<b>Total Reserves and Liabilities</b>		<u>285,067</u>	<u>367,537</u>

These financial statements were approved by the Local Council on 14 October 2020 and are signed on its behalf by:



Neil Attard  
Mayor



Ranier Busuttill  
Executive Secretary

*The notes on pages 6 to 27 form an integral part of these financial statements*

**Statement of Changes in Equity**

	Retained Funds €	Total €
Balance at 1 January 2018	103,830	103,830
Loss for the year	(9,915)	(9,915)
<b>Restated balance at 31 December 2018</b>	<b>93,915</b>	<b>93,915</b>
Balance at 1 January 2019	93,915	93,915
Profit for the year	4,321	4,321
<b>Balance at 31 December 2019</b>	<b>98,236</b>	<b>98,236</b>

*The notes on pages 6 to 27 form an integral part of these financial statements*

**Statement of Cash Flows**

	Notes*	2019 €	2018 €
<b>Cash flows from operating activities</b>			
Profit/(Loss) for the year		4,321	(9,915)
Adjustments for:			
Decrease in provision for doubtful LES debtors/other debtors		(210)	(13,172)
Depreciation		11,684	37,186
Amortisation charge		30	-
Investment income receivable		(37)	(2)
		<u>15,788</u>	<u>14,097</u>
Surplus for the period before working capital movements		15,788	14,097
Movement in receivables		2,827	14,221
Movement in payables		(95,019)	200,812
		<u>(76,404)</u>	<u>229,130</u>
<b>Net cash (used in)/generated from operating activities</b>			
		<u>(76,404)</u>	<u>229,130</u>
<b>Cash flows used in investing activities</b>			
Investment income received		37	2
Payment to acquire property, plant and equipment	12a	(169,937)	(10,467)
Payment to acquire intangible asset	11	(1,463)	-
		<u>(171,363)</u>	<u>(10,465)</u>
<b>Net cash used in investing activities</b>			
		<u>(171,363)</u>	<u>(10,465)</u>
<b>Cash flows generated from/(used in) financing activities</b>			
Government grants		149,193	(4,010)
		<u>149,193</u>	<u>(4,010)</u>
<b>Net cash generated from/(used in) investing activities</b>			
		<u>149,193</u>	<u>(4,010)</u>
<b>Movement in cash and cash equivalents</b>			
		<u>(98,574)</u>	<u>214,655</u>
<b>Cash and cash equivalents at the beginning of the year</b>			
		<u>303,613</u>	<u>88,958</u>
<b>Cash and cash equivalents at the end of the year</b>			
	14	<u>205,039</u>	<u>303,613</u>
<b>Net debt reconciliation</b>			

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	2019 €	2018 €
Cash and cash equivalents	230,230	320,576
Borrowings – repayable within one year (including overdraft)	(25,191)	(16,963)
Net debt	<u>205,039</u>	<u>303,613</u>

## Notes to the Financial Statements For the year ended 31 December 2019

### 1. Statutory Information

Xghajra Local Council is the local authority of Xghajra setup in accordance with the Local Councils Act (1993). The Office of the Local Council is situated at Delle Grazie Battery, Xghajra.

### 2. Accounting policies and reporting procedures

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. In 2018, a change in the depreciation from reducing balance method to straight line method and accounting for grants from income approach to capital approach has been effected according to the instructions included on the DLG directive 1/2017.

#### a. Basis of preparation

These financial statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act (Cap 363). The financial statements are prepared under the historical cost convention, in accordance to the requirements of International Financial Reporting Standards (IFRSs) as adopted by the European Union and comply with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996.

#### b. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In the opinion of the Executive Secretary, the accounting estimates and judgements made in the preparation of the Financial Statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirements of IAS 1 (revised) – 'Presentation of Financial Statements'.



**2. Accounting policies and reporting procedures - continued****c. Adoption of new and revised Standards*****New and amended IFRS Standards that are effective for the current year*****Impact of initial application of IFRS 16 Leases**

In the current year, the Council has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The date of initial application of IFRS 16 for the Council is 1 January 2019.

Instead of applying the recognition requirements of IFRS 16, the Council elects to account for lease payments as an expense as the lease of office equipment has a low value when new.

Under IFRS 16, lessees must present:

- Short-term lease payments, payment for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Council has opted to include interest paid as part of financing activities); and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

The adoption of IFRS 16 did not have an impact on net cash flows.

In the current year, the Council has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**2. Accounting policies and reporting procedures - continued****d. New and revised IFRSs in issue but not yet effective**

At the date of authorization of these financial statements, the Council has not applied the following new and revised IFRS Standards that have been issued but are not yet effective (and in (some cases) had not yet been adopted by the EU):

- Amendments to IAS 1 and IAS 8 *Definition of material*
- Conceptual Framework *Amendments to References to the Conceptual Framework in IFRS Standards*

The Executive Secretary does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Council in future periods, except as noted below:

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

**Amendments to IAS 1 and IAS 8 *Definition of material***

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold of materiality influencing users has been changed from 'could influence' to 'could reasonably expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IAS 8 amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

**Amendments to References to the Conceptual Framework in IFRS Standards**

Together with the revised *Conceptual Framework*, which became effective upon publication on 29 March 2018, the IASB has also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC 32.

**2. Accounting policies and reporting procedures – continued****d. New and revised IFRSs in issue but not yet effective - continued**

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB *Framework* of 2010, or the new revised Framework of 2018) or to indicate that definition in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The amendments, where they actually are updated, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

**e. Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Xgħajra Local Council and the revenue can be reliably measured, regardless of when the payment is received.

Revenue is recognised upon transfer of funds from the Central Government when there are no significant uncertainties concerning the derivation of consideration or associated costs.

Interest income is recognised in the income statement as it accrued under finance income.

**f. Functional and presentation currency**

Items included in the Local Council's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Euro is the Local Council's functional and presentation currency.

**g. Local Enforcement System**

The Local Council disclosed the administrative fee on the amount of contraventions paid at the Local Council and amount distributed from LESA and Regional Committees. The LESA and Regional Committees were taken over in 2015.

**2. Accounting policies and reporting procedures – continued****h. Government grants**

Government grants are not recognised until there is reasonable assurance the Local Council will comply with the conditions attaching to them and the grants will be received. Government grants are recognised in the statement of Financial Position. Government grants relating to operating expenditure are recognised in the statement of comprehensive income in the same period that the related expenditure is incurred. Government grants relating to the purchase of property, plant and equipment are accounted for using the capital approach, and are then deducted from the carrying amount of the relative non-current asset.

**i. Intangible assets**

Intangible assets comprise computer software. Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of 25% using the reducing balance method. Costs associated with maintaining computer software programmes are recognized as an expense as incurred.

Where an indication of impairment exists, in that the carrying amount of an intangible asset is greater than its estimated recoverable amount, a charge is made to write down the value of the asset to its estimated recoverable amount (Accounting policy (l)).

**j. Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on a monthly basis using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

• Land	0%
• Trees	0%
• Buildings	1%
• Office furniture and fittings	7.5% - 19%
• Construction works	10% - 63%
• Urban Improvements (Street Furniture)	10% - 63%
• Special Projects	10%
• Office Equipment	20% - 25%
• Motor Vehicles	20%
• Plant and Machinery	20% - 22%
• Computer Equipment	25%
• Litter Bins	100%
• Traffic and Road Signs	100%
• Street Lights	100%
• Playground Furniture	100%

**2. Accounting policies and reporting procedures – continued****j. Property, plant and equipment – continued**

Other plant and equipment are on a replacement basis.

The estimated useful lives, residual values and depreciation are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount, and are taken into account in determining operating profit.

**k. Intangible assets**

Intangible asset with finite useful life is carried at cost less accumulated depreciation and accumulated impairment loss. Amortisation is recognised on a straight line basis over the estimated useful life which is disclosed in note 10. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the affect of any changes in estimate being accounted for on a prospective basis. Intangible asset with indefinite useful life that is acquired separately is carried at cost less accumulated impairment losses.

**l. Impairment of assets**

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

**m. Receivables**

Receivables are carried at original invoice amount less provisions made for impairment of these receivables. A provision for impairment of amount receivables is established when there is objective evidence that the Local Council will not be able to collect all amounts due according to the set original terms. The amount of provision is recognised in the Statement of Comprehensive Income. Bad debts are written off during the year in which they are identified.

**n. Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at face value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts.

**o. Profits and losses**

Only profits that were realized at the date of the Financial Position are recognized in these Financial Statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the Financial Statements are approved.

**2. Accounting policies and reporting procedures – continued****p. Payables**

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

**q. Provisions**

Provisions are recognised when the Council has a present obligation (legal or constructive) as a result of a past event, it is probable that the Council will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**r. Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months from the end of the reporting period.

**s. Capital Management**

The Council's capital consists of its net assets, including working capital, represented by its retained funds. The Council's management objectives are to ensure:

- that the Council's ability to continue as a going concern is still valid and
- that the Council maintains a positive working capital ratio.

To achieve the above, the Council carries out a quarterly review of the working capital ratio ('Financial Situation Indicator'). The Council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

**2. Accounting policies and reporting procedures - continued****t. Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**u. Financial instruments**

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs. They are measured subsequently as described below.

**v. Financial assets**

For the purpose of subsequent measurement, financial assets of the Council are classified into loans and receivables upon initial recognition.

Receivables are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets as described below.

All income and expenses relating to loans and receivables are presented within 'finance income' or 'finance costs', except for impairment of receivables which is presented within 'administration and other expenditure'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Council's other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considerable to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

**2. Accounting policies and reporting procedures - continued****w. Financial liabilities**

The Council's financial liabilities include other payables. These are stated at their nominal amount which is reasonable approximation of fair value.

All interest-related charges are included within finance costs.

**3. Funds Received from Central Government**

	2019	2018
	€	€
In terms of Section 55 of the Local Councils Act (Cap 363)	224,044	212,404
Other Supplementary Government Income	7,858	9,491
Other Government Income	12,958	6,511
	<u>244,860</u>	<u>228,406</u>

**4. Local Enforcement System Income**

	2019	2018
	€	€
Administrative Fee	<u>729</u>	<u>837</u>

**5. Investment income**

	2019	2018
	€	€
Bank interest receivable	<u>37</u>	<u>2</u>



6. General Income	2019	2018
	€	€
General income	1,289	5,314
Community service	2,160	-
	<u>3,449</u>	<u>5,314</u>
7. Personal Emoluments	2019	2018
	€	€
Mayor's allowance	9,383	7,463
Executive Secretary and allowances	33,734	32,964
Employees' salaries	45,124	42,951
Social security contributions	6,476	6,404
Councillors' remuneration	9,702	6,400
	<u>104,419</u>	<u>96,182</u>
8. Operations and Maintenance	2019	2018
	€	€
<b>Repairs and Upkeep:</b>		
Public property and road markings	5,444	2,540
Signs	4,991	1,687
Other	181	-
	<u>10,616</u>	<u>4,227</u>
	2019	2018
	€	€
<b>Contractual Services:</b>		
Refuse collection (including bins on wheels and open skips)	26,402	29,453
Bulky Refuse Collection	4,516	5,032
Road and street cleaning (mechanical and manual)	22,404	9,766
Cleaning and Maintenance of Parks and Gardens	1,215	684
Cleaning and Maintenance of Council Premises	360	180
Street lighting	2,458	1,399
Wasteserv	14,071	19,499
	<u>71,426</u>	<u>66,013</u>
	<u>82,042</u>	<u>70,240</u>

**9. Administration and other expenditure**

	2019	2018
	€	€
Amortisation charge	30	-
Decrease in provision for doubtful debtors	(210)	(13,172)
Bad Debt written off	210	12,966
Bank charges	105	45
Community services & events	6,843	9,213
Depreciation	11,684	37,186
Information services	113	199
Insurance	2,075	1,947
Interest payable	238	-
Lease of equipment	607	609
Library	84	286
Local enforcement expenditure	46	-
Maintenance of vehicles and fuel	2,063	994
Materials & supplies	4,817	6,551
National & International membership	1,697	338
Office services	3,271	4,562
Penalty fines	-	250
Professional services	14,898	7,589
Rent	5,081	4,755
Overseas tickets	289	400
Transport	704	499
Utilities	3,648	2,835
	<u>58,293</u>	<u>78,052</u>

**10. Profit/(loss) for the year**

Profit/(loss) for the year has been arrived at after charging/(crediting)

	2019	2018
	€	€
Depreciation of property, plant and equipment (see note 12)	11,684	37,184
Amortisation of intangible asset (see note 11)	30	-
Decrease in provision for doubtful debts (see note 13)	(210)	(13,172)

## 11. Intangible asset

	2019
	€
<b>Movements for the year 31 December 2019</b>	
Additions	1,463
Amortisation charge	(30)
As at 31 December 2019	<u>1,433</u>
As at 31 December 2019	
Cost	1,463
Amortisation charge	(30)
	<u>1,433</u>

12a. Property, plant and equipment

## 12a. Property, plant and equipment

	Plant and machinery €	Office furniture €	Office equipment €	Litter Bins €	Motor Vehicles €	Urban Improvements €	New street signs €	Construction €	Special Programmes €	Assets under construction €	Total €
1 January 2019	6,111	17,839	26,698	428	8,130	178,351	14,532	212,728	61,989	262,122	788,928
Acquisitions	3,128	792	869	1,791	-	3,358	2,496	3,055	-	154,448	169,937
31 December 2019	9,239	18,631	27,567	2,219	8,130	181,709	17,028	215,783	61,989	416,570	958,865
Disposals and other reimbursements	-	-	-	-	-	-	-	-	-	-	-
1 January 2019	-	-	2,300	-	2,330	89,055	-	114,167	61,989	261,547	531,388
Disposals	-	-	-	-	-	-	-	-	-	149,193	149,193
31 December 2019	-	-	2,300	-	2,330	89,055	-	114,167	61,989	410,740	680,581
Accumulated Depreciation											
1 January 2019	5,934	14,491	20,799	428	97	79,011	14,532	94,631	-	-	229,923
Charge for the year	135	558	1,105	1,791	1,160	2,918	2,496	1,521	-	-	11,684
31 December 2019	6,069	15,049	21,904	2,219	1,257	81,929	17,028	96,152	-	-	241,607
Book Value											
31 December 2019	3,170	3,582	3,363	-	4,543	10,725	-	5,464	-	5,830	36,677

12b. Property, plant and equipment

	Plant and machinery	Office furniture and fittings	Office & computer equipment	Litter Bins	Motor Vehicles	Urban Improvements	New street signs	Construction	Special Programmes	Assets under construction	Total
	€	€	€	€	€	€	€	€	€	€	€
1 January 2018	6,041	17,839	22,676	428	2,330	178,351	14,532	212,728	61,989	261,547	778,461
for the year	70	-	4,022	-	5,800	-	-	-	-	575	10,467
31 December 2018	6,111	17,839	26,698	428	8,130	178,351	14,532	212,728	61,989	262,122	788,928
Costs and other adjustments											
1 January 2018	-	-	2,300	-	2,330	89,055	-	114,167	61,989	261,547	531,386
31 December 2018	-	-	2,300	-	2,330	89,055	-	114,167	61,989	261,547	531,386
Accumulated Depreciation											
January 2018	4,330	11,216	18,975	428	-	67,433	14,532	75,825	-	-	192,739
for the year	1,604	3,275	1,824	-	97	11,578	-	18,806	-	-	37,184
31 December 2018	5,934	14,491	20,799	428	97	79,011	14,532	94,631	-	-	229,923
Book Value											
1 December 2018	177	3,348	3,599	-	5,703	10,285	-	3,930	-	575	27,617

## 13. Receivables

	2019	2018
	€	€
Receivables	4,552	238
LES Debtors	22,297	22,507
Less: Provision for bad debts	(22,297)	(22,507)
Accrued income	3,392	10,909
	<u>7,944</u>	<u>11,147</u>
Prepayments	4,552	4,812
Other debtors	4,231	3,385
	<u>16,727</u>	<u>19,344</u>

The average credit period on sales of services is 60 days. No interest is charged on outstanding receivables. Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the company has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

	2019	2018
	€	€
<b>Age of receivables that are past due but not impaired</b>		
60-90 days	1,040	-
91-120 days	68	31
Total	<u>1,108</u>	<u>31</u>

In determining the recoverability of receivables, the company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

	2019	2018
	€	€
LES Debtors	<u>22,297</u>	<u>22,507</u>

**13. Receivables - continued**

	2019	2018
	€	€
<b>Movement in the allowance for doubtful debts</b>		
Balance at beginning of year	22,507	35,679
Amounts collected during the year	-	(206)
Provision for the year	(210)	(12,966)
Balance at end of year	<u>22,297</u>	<u>22,507</u>

**14. Cash and cash equivalents**

	2019	2018
	€	€
Cash in hand	333	103
Bank balances	229,897	320,473
	<u>230,230</u>	<u>320,576</u>

**15. Payables**

	2019	2018
	€	€
Trade payables	40,161	47,636
Advance payments and deferred income	102,712	195,260
Accruals	18,767	13,753
Bank balance overdrawn	25,191	16,963
	<u>186,831</u>	<u>273,612</u>

The total financial liabilities for the year amounted to €186,831 (2018: €273,612).

Trade payables and accruals principally comprise amounts outstanding for ongoing costs. The average credit period is 30 days.



**16. Related party transactions**

During the year, the Local Council had affected transactions with related parties resulting mainly in connection with income and administrative transactions, are disclosed in notes 3, 6, 8 and 9 to these financial statements. The following were the related parties:

<b>Name of Entity</b>	<b>Nature of relationship</b>
Department of Local Government	Significant control
Gozo Regional Committee	No control
Central Regional Committee	No control
North Regional Committee	No control
South Regional Committee	No control
South Eastern Regional Committee	Joint control
LESA	No control
ARMS Ltd	No Control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Cleansing Directorate	No control
Department of Lands	No control
Department of Inland Revenue	No control
Wasteserv Malta Ltd	No control
Bank of Valletta plc	No control
HSBC Bank Malta plc	No control
Central Bank of Malta	No control
Police General Headquarters	No control
Local Council Associations	No control
Commissioner of Data Protections	No control
Ministry of Finance	No control
Ministry for Justice, Culture and Local Government	No control
Department of Information	No control
ARMS Ltd	No control
Department of Inland Revenue	No control

The following transactions were carried out with related parties:

	2019 €	2018 €
<b>(a) Funds received from Local Government</b>	<b>231,902</b>	<b>228,406</b>
	2019 €	2018 €
<b>(b) Administrative fees from Regional Committees</b>	<b>729</b>	<b>837</b>

**16. Related party transactions - continued****Key management compensation**

Transactions with key management personnel are disclosed in note 7.

The ultimate controlling party of the Local Council is the Central Government since the Council's main revenue is from the Government allocation received every quarter. Apart from the normal funds received from the Government, the Council also receives funds relating to specific projects as well as other funds for the improvement of the locality.

**17. Financial risk management**

The Council's activities expose it to a variety of financial risks such as market risk, credit risk, liquidity risk and interest rate risk. The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Council's financial performance.

***Credit risk***

Financial assets which potentially subject the Council to concentrations of credit risk consist principally of cash at bank and debtors. The Council's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution. The Council has appropriate policies to ensure that income is received from sources with appropriate credit history. In this respect, credit risk with respect to debtors is monitored continuously and the Council places a provision on any debt on which there is doubt of recoverability. Bad debts are therefore negligible and in this respect the Council has no significant concentration of credit risk.

As at 31 December 2019, the Council's maximum exposure to credit risk which cause a financial loss to the Council due to failure to discharge an obligation by other parties arises from the carrying amounts of receivables. The Council has applied the simplified approach in IFRS 9 to measure the loss allowance. The Council determines the expected credit loss by estimating the credit loss experience based on the past due status of the debtor adjusted to reflect the current condition and estimates of future economic conditions.

The Council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period and is summarised as follows:

	2019 €	2018 €
Classes of financial assets – carrying amounts		
Trade and other receivables	7,944	11,147
Cash and cash equivalents	230,230	320,576
	<u>238,174</u>	<u>331,723</u>

## 17. Financial risk management - continued

*Liquidity risk*

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the Council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. In fact, at year end, the Council has as cash in bank and in hand the amount of €230,230. This should ensure an ongoing working capital of the Council for the next 12 months.

At 31 December 2019 the council's financial liabilities have contractual maturities which are summarised below:

## At 31 December 2019

	Current Within 1 year €	Non-current 1 to 5 years €	Later than 5 years €
Payables	40,161	-	-
Advance payments and deferred income	102,712	-	-
Accruals	18,767	-	-
Bank balance overdrawn	25,191	-	-

This compares to the maturity of the council's financial liabilities in the previous reporting period as follows:

## At 31 December 2018

	Current Within 1 year €	Non-current 1 to 5 years €	Later than 5 years €
Payables	47,636	-	-
Advance payments	195,270	-	-
Accruals	13,753	-	-
Bank balance overdrawn	16,963	-	-

**17. Financial risk management - continued****Foreign currency risk**

Foreign currency transaction arise when the Council buys or sells goods or services whose price is denominated in a foreign currency, or incurs or settles liabilities, denominated in a foreign currency. The Council does not trade in any foreign currencies.

**Interest rate risk**

Interest rate risk mainly arises through interest bearing liabilities and assets. The objectives of interest rate risk management is to optimise the balance between minimizing uncertainty caused by fluctuations in interest rates and maximizing the net interest income and expense.

**18. Summary of financial assets and liabilities**

The carrying amounts of the Council's financial assets and liabilities as recognised at the reporting dates under review are categorised as follows:

	2019 €	2018 €
<b>Current assets</b>		
Loans and receivables:		
Trade and other receivables	7,944	11,147
Cash and cash equivalents	230,230	320,576
	<u>238,174</u>	<u>331,723</u>
<b>Current liabilities</b>		
Financial liabilities measured at amortised costs:		
Payables	40,161	47,636
Other payables	102,712	195,270
Accruals	18,767	13,753
Bank balance overdrawn	25,191	16,963
	<u>186,831</u>	<u>276,622</u>

**19. Fair values estimation**

The nominal values less estimated credit adjustments of receivables and payables are assumed to approximate their fair values, otherwise, these have been adjusted to approximate their fair values.

**20. Capital commitments****Capital expenditure**

Commitments for capital expenditure not provided for in these financial statements are as follows:

	2019	2018
	€	€
Contracted but not provided for	-	37,000
Authorised but not contracted for	113,000	220,000

**21. Events after the reporting period**

Subsequent to year end, the World Health Organisation declared the spread of Coronavirus Disease (COVID-19), a worldwide pandemic. COVID-19 is having significant effects on global markets, supply, supply chains, business and communities. The Local Council Members' and Executive Secretary are monitoring the situation and taking action to safeguard the interest of the Local Council. To date the Local Council is operating as normal. The full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

# Report of the Local Government Auditor

To the Auditor General

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Xghajra Local Council set out on pages 2 to 26 which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Council as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act, the Local Councils (Financial) Procedures 1996 (the "Legislation").

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Council in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of those charged with governance for the financial statements

As described on page 1 the Executive Secretary and the members of the Local Council are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and are properly prepared in accordance with the provisions of the Legislation, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Secretary and the members of the Local Council are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is the intention to liquidate the Council or to cease operations, or have no realistic alternative but to do so.

The Executive Secretary and the members of the Local Council are responsible for overseeing the Council's financial reporting process.

#### Auditor's responsibilities for the audit of the financial statements

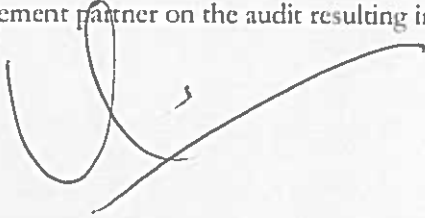
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditor's report is Mark Bugeja

A handwritten signature in black ink, appearing to be 'Mark Bugeja', written over the text of the previous block.

Mark Bugeja (Partner) for and on behalf of

**GRANT THORNTON**  
Certified Public Accountants

Fort Business Centre  
Triq L-Intornjatur Zone 1  
Central Business District  
Birkirkara CBD1050  
Malta

14 October 2020