



Hal Butte Local Council

Financial Report 31st December 2016



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Hal Balzan Local Council

Financial Statements

for the year ended 31st December 2016

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Hal Balzan Local Council

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

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's comprehensive income for the year and of the Council's retained funds at the end of 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, and the Local Council (Financial) Procedures issued in terms of the said Act.

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, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Not. Ian Spiteri
Mayor

Date: 05/05/17



Doriette Farrugia
Executive Secretary

Hal Balzan Local Council

Statement of comprehensive Income
for the year ended 31st December 2016

	Note	2016 Eur	2015 Eur
Funds received from Central Government	3	288,470	282,920
EU Financing	3	30,718	34,131
Income raised under the Local Enforcement System	3	4,145	3,847
General income	3	14,161	7,960
		<u>337,494</u>	<u>328,858</u>
Expenditure			
Personal emoluments	4	(64,030)	(73,443)
Operations and maintenance	5	(113,824)	(115,785)
Administration and other expenditure	6	(145,545)	(130,208)
		<u>(323,399)</u>	<u>(319,436)</u>
Surplus for the year		<u>14,095</u>	<u>9,422</u>

The notes on pages 6 to 21 form an integral part of these financial statements

Hal Balzan Local Council

Statement of financial position
at 31st December 2016

	Note	2016 Eur	2015 Eur
Assets			
Non-current Assets			
Property, plant and equipment	7a-b	782,541	817,206
		<u>782,541</u>	<u>817,206</u>
Current Assets			
Amounts receivable	8	39,615	37,326
Cash and bank balances	9	256,096	183,452
		<u>295,711</u>	<u>220,778</u>
Total Assets		<u>1,078,252</u>	<u>1,037,984</u>
Reserves and Liabilities			
Reserves			
Retained Fund		590,800	576,705
Non-Current Liabilities			
Deferred income	11	344,439	365,003
Current Liabilities			
Trade and other payables	10	143,013	96,276
Total Equity and Liabilities		<u>1,078,252</u>	<u>1,037,984</u>

The notes on pages 6 to 21 form an integral part of these financial statements

These Financial Statements were approved by the Local Council and are signed on its behalf by :


Not. Ian Spiteri
Mayor


Doriette Farrugia
Executive Secretary

Date : 05/05/17

Hal Balzan Local Council

Statement of changes in equity
for the year ended 31st December 2016

	Retained fund Eur
At 1st January 2015	567,283
Total comprehensive Income for the year	9,422
At 31st December 2015	576,705
Total comprehensive Income for the year	14,095
At 31st December 2016	590,800

The notes on pages 6 to 21 form an integral part of these financial statements

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Hal Balzan Local Council

Statement of cash flows
for the year ended 31st December 2016

	Note	2016 Eur	2015 Eur
Cash flows from operating activities			
Operating surplus for the period / year		14,095	9,422
Adjustments for:			
Bank interest received		(65)	0
Non-cash release of income from grants		(42,860)	(43,790)
Depreciation		90,843	87,660
Surplus for the year before working capital movements		62,013	53,292
Movement in receivables		(1,289)	(9,009)
Movement in payables		8,914	(12,340)
Net cash generated from operating activities		69,638	31,943
Cash flows from investing activities			
Payment to acquire property, plant and equipment		(5,167)	(122,569)
Bank interest received		65	0
Net cash used in investing activities		(5,102)	(122,569)
Cash flows from financing activities			
Receipts from Government to acquire fixed assets		8,108	113,694
Net cash used in financing activities		8,108	113,694
Movement in cash and cash equivalents		72,644	23,068
Cash and cash equivalents at the beginning of the year		183,452	160,384
Cash and cash equivalents at the end of the year	9	256,096	183,452

The notes on pages 6 to 21 form an integral part of these financial statements

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2016

Note

1 General Information

Balzan Local Council is the local authority of Balzan set up in accordance with the Local Councils Act. The office of the Local Council is situated at 153, Main Street, Balzan.

2 Accounting policies and reporting procedures

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 as modified to include fair values stated in the accounting policies below. These Financial Statements are prepared in accordance to the requirements of International Financial Reporting Standards 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.

The principal accounting policies and reporting procedures used by Local Councils are as follows :

a) Revenue recognition

Revenue is recognised when the amount of revenue and the associated costs can be measured reliably. Interest income is recognised in the income statement as it accrues.

b) Local Enforcement System

As from the 1st September 2011 the Balzan Local Council started to form part of the Regional Committee. The amount disclosed in the financial statements under Local Enforcement System Income represents the share of profit derived from the Regional Committee after deducting the related expenses.

c) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss to date. Depreciation is calculated on a monthly basis using the reducing balance method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows :

	%
Trees	0
Land	0
Buildings	1
Office furniture and fittings	7.5
Construction works	10
Special programmes	10
Urban improvements (Street Furniture)	10
Office equipment	20
Plant & Machinery	20
Motor Vehicles	20
Computer equipment	25
Plants	100
New street signs	Replacement basis
Litter Bins	Replacement basis
Playground Furniture	100
Street Lights	100
Street Mirrors	100

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2016

Note

d) Government and EU Grants

Government and EU grants are accounted for on a systematic basis in the Statement of Comprehensive Income over the periods necessary to match them with the related costs which they are intended to compensate. If such costs have already been incurred when the grant is made, or if there are no related costs, then the grant is accounted for when it becomes receivable.

Government and EU grants relating to property, plant and equipment are included as deferred grants and treated as a component of total funds and equity. Grants are credited to the Statement of Comprehensive Income over the expected useful lives of the related assets.

e) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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 carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less cost to sell and the value in use. Impairment losses are immediately recognised as an expense in the Statement of Comprehensive Income.

f) Amounts receivable

Amounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of amounts receivable is established when there is objective evidence that the Local Council will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income.

g) Foreign Currencies

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Local Council operates. These Financial Statements are presented in Euro, which is the Local Council's functional and presentation currency.

Transactions denominated in foreign currencies are translated into Euro at rates of exchange in operation on the dates of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into Euro at the rates of exchange prevailing at the date of the Statement of Financial Position.

h) Profits and Losses

Only profits that were realised at the date of the Statement of Financial Position are recognised 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.

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2016

Note

i) Cash and cash equivalents

Cash and cash equivalents are carried in the Statement of Financial Position at face value. For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and balances held with banks.

j) Trade and other payables

Trade payables comprise 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.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

k) Financial Instruments

All financial assets are measured at cost and accounted for using settlement accounting.

A credit risk provision for financial asset impairment is established if there is objective evidence that the Council will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts receivable from collateral, discounted based on the interest rate at inception.

The financial liabilities, other than those referred to in the accounting policies above, are classified as liabilities which are not held for trading ("other liabilities") under IAS 39, and are measured at cost, that is, the face value of such investments.

l) Critical estimates and judgements

The Council did not apply any critical estimates and judgements in the preparation of these accounts.

m) Accounting standards issued and adopted by the Council

The following new standards and interpretations, which have been issued by the IASB and the IFRIC and are relevant to these financial statements have been adopted in these financial statements. A description of these standards and interpretations, together with (where applicable) an indication of the effect of adopting them, is set out below. Changes and amendments to accounting standards that are not relevant to these financial statements have been excluded.

An amendment to **IAS 1 Presentation of Financial statements** in relation to aggregation and disaggregation of amounts as a result of materiality came into force during this accounting period. The Council has adopted these amendments and has aggregated or disaggregated amounts in line with these amendments to provide better interpretation of these financial statements.

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Notes to the financial statements for the year ended 31st December 2016

Note

m) Accounting standards issued and adopted by the Council (cont.)

In January 2016 the IASB issued amendments to **IAS 7 Statement of Cashflows** with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. These amendments are effective from periods commencing 1st January 2017, but the Council has deemed it fit to apply this from this financial period.

Changes to **IAS 16 Property, Plant and Equipment** also came into effect during this financial period, which amendments abolish the use of depreciation methods tied to revenue generation and recognition. Although the depreciation methods permitted by the Local Councils Financial Regulations only currently prescribe the reducing balance method of depreciation, the Council takes cognisance of this amendment and will not adopt such depreciation methods even if future amendments to the Local Councils Financial Regulations permit such a depreciation method.

n) Accounting standards issued but not adopted

The following new standards and interpretations, which have been issued by the IASB and the IFRIC and are relevant to these financial statements, are effective for future periods and have not been adopted early in these financial statements. A description of these standards and interpretations, together with (where applicable) an indication of the effect of adopting them, is set out below. Changes and amendments to accounting standards that are not relevant to these financial statements have been excluded.

Accounting standards issued and adopted by the EU

IFRS 9 (2014) Financial Instruments has been issued in July 2014, which is an amended version of IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013). This IFRS introduces new requirements for classifying and measuring financial assets and puts in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. In addition, it introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. The adoption of this standard will not effect the net assets of the Council, since it does not carry any of the instruments effected, but it would effect the disclosures to the financial statements. Although early adoption is permitted, the Council did not follow this course of action.

IAS 39 Financial Instruments: Recognition and Measurement was amended in June 2013 for hedge accounting and novations. These financial statements do not carry such amounts and, thus, there is no effect on the net assets recorded in these financial statements. As a result of the final **IFRS 9 (2014) Financial Instruments**, this IAS will no longer be effective after 1st January 2018.

IFRS 15 Revenue from Contracts with Customers has been issued in 2014 with the effective date being for financial periods on or after 1st January 2018 as per the amendment issued in September 2015. This IFRS replaces a number of IASs and interpretations, mainly **IAS 11 Contracts** and **IAS 18 Revenue**. **IFRS 15** introduces a five-step process for revenue recognition with emphasis on the contractual agreement between the provider and the customer. This does not fundamentally change the way that revenue is recognised by the Council and although the standard can be applied earlier, the Council did not opt for early adoption.

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Notes to the financial statements for the year ended 31st December 2016

Note

n) Accounting standards issued but not adopted (cont.)

Accounting standards issued and adopted by the EU (cont.)

Amendments to IAS 36 *Impairment of Assets* have been issued in May 2013 as a consequence of amendments to IFRS 13 *Fair Value Measurement*. These amendments remove the requirement to disclose the recoverable amount of each cash-generating unit where it is significant when compared to the entity's carrying amount of goodwill and intangible assets with indefinite useful lives. On the other hand, they require additional disclosures on individual assets, their fair value and discount rates applied. A further clarification for IFRS 13 was issued in December 2014 relating to portfolios. These are disclosure amendments so they have no effect on the net assets of the Council.

Accounting standards issued but not yet adopted by the EU

In tandem with IFRS 15, a new standard for *Leases*, IFRS 16, has also been issued with the same effective date as IFRS 15. This standard introduces changes to how leases are recognised by both parties to the transaction. Although early adoption is permitted, this standard cannot be adopted unless IFRS 15 is also adopted. Had it been adopted, the Council's lease agreements would have been recognised as assets depreciable in line with the payments as stipulated in the lease

IFRS 14, *Regulatory Deferral Accounts*, came into effect for periods commencing on or after 1st January 2016. This standard is a transitory standard which is applicable when an entity changes its reporting and newly adopts International Financial Reporting standards as issued by the IASB. This has no effect on these financial statements as they are already in line with IFRS.

IFRS 14, *Regulatory Deferral Accounts*, came into effect for periods commencing on or after 1st January 2016. This standard is a transitory standard which is applicable when an entity changes its reporting and newly adopts International Financial Reporting standards as issued by the IASB. This has no effect on these financial statements as they are already in line with IFRS.

IFRIC 22, *New Interpretation on foreign currency transactions and advance consideration*, issued in December 2016 and applicable for financial years commencing on or after 1st January 2018, states that the deemed date of a transaction in foreign currency when prepayments are involved, the transaction date is the date when the prepayment has been done for the purposes of determining the exchange rate. Since it is not yet endorsed by the EU, the Council did not deem it fit to adopt this earlier.

Other amendments to accounting standards which do not effect the financial reporting of the Council include: changes to IAS 12, *Income Taxes*, which clarifies when a deferred tax asset is recognised for unrealised losses; amendments to IFRS 15, *Revenue from Contracts with Customers*, which gives additional interpretations and further transitional reliefs; amendments to IFRS 2, *Share-based Payments*, which gives interpretations as to how share-based payments are accounted for in transactions based on performance and for modifications from cash-settled to equity-settled and the classification of transactions with net settlement features; and amendments to IAS 40, *Investment Property*, which gives an interpretation as to when a change of a property from investment property to inventory and gives a list of non-exhaustive evidence which needs to be given for change in such and excludes managerial decision as a motive for such change.

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Notes to the financial statements for the year ended 31st December 2016

Note

n) Accounting standards issued but not adopted (cont.)

New directives from the Department of Local Councils

During January 2017, the Department for Local Government issued directive 1/2017 in which Local Councils are required to change the accounting policies for both depreciation of fixed assets and recognition of Government Grants (IAS 20) in the purchase of fixed assets. This change of policy requires that depreciation of fixed assets is to be calculated on a straight line basis instead of the reducing balance basis as is currently adopted and to adopt the capital approach for accounting of Government Grants rather than the income method. These changes come into effect for financial periods commencing on or after 1st January 2018. The Council will be assessing the impact of these changes throughout the year.

Hal Balzan Local Council

Notes to the financial statements
for the year ended 31st December 2016

Note

3	<u>Revenue</u>	2016 Eur	2015 Eur
	Government income		
	In terms of section 55 of the Local Councils Act (Cap 363)	265,838	257,557
	Other Government Income	15,622	13,183
	Other Supplementary Government Income	7,010	12,180
		<u>288,470</u>	<u>282,920</u>
	EU Financing		
	ERDF Financing under OPI 2007-2013	<u>30,718</u>	<u>34,131</u>
	Income raised under the Local Enforcement System		
	Income from LES administration fees	4,145	3,847
		<u>4,145</u>	<u>3,847</u>
	General income		
	Income from tender documents	338	1,427
	Income from permits	11,641	5,618
	Sundry contributions & donations	2,182	915
		<u>14,161</u>	<u>7,960</u>
	Total revenue	<u>337,494</u>	<u>328,858</u>
4	<u>Personal emoluments</u>	2016 Eur	2015 Eur
	Personal emoluments include, inter alia :		
	Mayor's allowance	7,228	7,049
	Executive Secretary's salary and allowances	18,177	26,115
	Employees' salaries	29,211	29,408
	Social security contributions	3,014	4,471
	Councillors' Allowance	6,400	6,400
		<u>64,030</u>	<u>73,443</u>

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Hal Balzan Local Council

Notes to the financial statements
for the year ended 31st December 2016

Note

5 Operations and maintenance

2016

2015

Eur

Eur

Repairs and upkeep:

Signs	3,921	342
Public property	16,098	19,201
Road markings	4,098	2,054
Other repairs and upkeep	4,464	3,324
	<u>28,581</u>	<u>24,921</u>

Contractual services:

Refuse collection	53,255	54,431
Bulky refuse collection	2,520	2,967
Road and street cleaning	18,988	19,148
Cleaning and maintenance - public conveniences	3,013	4,164
Cleaning and maintenance - parks and gardens	2,214	2,214
Street lighting	3,620	6,226
Other	1,633	1,714
	<u>85,243</u>	<u>90,864</u>

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Hal Balzan Local Council

Notes to the financial statements
for the year ended 31st December 2016

Note

6 Administration and other expenditure

	2016	2015
	Eur	Eur
Utilities	8,063	6,476
Materials & supplies	1,905	1,796
Rent	10,467	2,097
Memberships	423	240
Office services	3,907	3,033
Transport	7,924	8,271
Information services	737	2,364
Professional services	10,139	8,566
Community services & events	10,949	8,844
Local enforcement expenses	188	861
Depreciation	90,843	87,660
	<u>145,545</u>	<u>130,208</u>

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Hal Balzan Local Council

Notes to the financial statements
for the year ended 31st December 2016

Note

7a Property, Plant and Equipment	Office furniture & fittings	Plant and machinery	Computer equipment	Office equipment	Urban improvements	New street signs	Construction works	Special programmes	Assets in the course of construction		Total
	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur
Cost - as at 1st January 2016	20,310	1,944	3,075	20,213	650,473	10,170	661,970	273,458	0	1,641,613	
Additions new this period	0	0	0	0	46,822	0	564	0	8,792	56,178	
Cost - as at 31st December 2016	20,310	1,944	3,075	20,213	697,295	10,170	662,534	273,458	8,792	1,697,791	
Grants - as at 1st January 2016	0	0	0	0	19,375	0	0	143,182	0	162,557	
Transferred during the period	0	0	0	0	0	0	0	0	0	0	
Grants - as at 31st December 2016	0	0	0	0	19,375	0	0	143,182	0	162,557	
Acc. depreciation - as at 1st January 2016	13,176	965	1,946	6,641	117,159	10,170	427,499	84,294	0	661,850	
Charge for the period	545	196	260	3,321	58,479	0	25,377	2,665	0	90,943	
Acc. depreciation - as at 31st December 2016	13,721	1,161	2,206	9,962	175,638	10,170	452,876	86,959	0	752,693	
Net book value - as at 31st December 2016	6,589	783	869	10,251	502,282	0	209,658	43,317	8,792	782,541	

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Hal Balzan Local Council

Notes to the financial statements
for the year ended 31st December 2016

Note

7b Property, Plant and Equipment	Office furniture & fittings	Plant and Machinery	Computer equipment	Office equipment	Urban improvements	New street signs	Construction works	Special programmes	Assets in the course of construction		Total
									Eur	Eur	
Cost - as at 1st January 2015	19,160	1,944	3,075	6,148	543,119	10,170	661,970	273,458	0	1,519,044	
Additions new this year	1,150	0	0	14,065	107,354	0	0	0	0	122,569	
Cost - as at 31st December 2015	20,310	1,944	3,075	20,213	650,473	10,170	661,970	273,458	0	1,641,613	
Grants - as at 1st January 2015	0	0	0	0	17,375	0	0	143,182	0	160,557	
Transferred during the year	0	0	0	0	2,000	0	0	0	0	2,000	
Grants - as at 31st December 2015	0	0	0	0	19,375	0	0	143,182	0	162,557	
Acc. depreciation - as at 1st January 2015	12,594	720	1,600	4,489	63,907	10,170	399,378	81,332	0	574,190	
Charge for the year	582	245	346	2,152	53,252	0	28,121	2,962	0	87,660	
Acc. depreciation - as at 31st December 2015	13,176	965	1,946	6,641	117,159	10,170	427,499	84,294	0	661,850	
Net book value - as at 31st December 2015	7,134	979	1,129	13,572	513,939	0	234,471	45,962	0	817,206	

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Hal Balzan Local Council

Notes to the financial statements
for the year ended 31st December 2016

Note

8 Amounts receivable

	2016 Eur	2015 Eur
Current		
Debtors	981	3,690
Blocked funds	242	242
Prepayments	8,446	1,334
Accrued income	29,346	31,460
Deposits	600	600
	<u>39,615</u>	<u>37,326</u>

9 Cash and cash equivalents

	2016 Eur	2015 Eur
For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the following:		
Cash in hand	102	116
Bank balances :		
Current accounts	237,480	165,245
Savings accounts	18,514	18,091
	<u>256,096</u>	<u>183,452</u>

10 Trade and other payables

	2016 Eur	2015 Eur
Current		
Creditors	74,603	27,394
Accruals	18,187	9,882
Deferred income (note 11)	37,358	51,213
FSS & NI due	2,300	0
Other deferred income	1,000	333
Retention money held	9,565	7,454
	<u>143,013</u>	<u>96,276</u>

Retention money held represents retention money held against permits issued to cover any breaches or damages caused by the permit holders. Once the permit is no longer required the money is refunded.

Hal Balzan Local Council

Notes to the financial statements
for the year ended 31st December 2016

Note

11 <u>Deferred income</u>	2016 Eur	2015 Eur
Current		
Opening balance	51,213	47,074
Released to income	(42,527)	(43,790)
Region surplus	0	11,843
Taken to capital on assets not depreciated	0	(2,000)
Current deferred income	28,672	38,086
Closing balance	37,358	51,213
Non-Current		
Opening balance	365,003	287,706
Grants received from UIF	0	93,744
Grants received from ERDF	0	21,639
Regional Committee surplus	8,108	0
Transferred to current deferred income	(28,672)	(38,086)
Closing balance	344,439	365,003
Maturity of non-current deferred income is as follows:		
Between one and two years	33,438	37,480
Between two and five years	80,840	90,459
After five years	230,161	237,064
	344,439	365,003
12 <u>Capital commitments</u>	2016 Eur	2015 Eur
Authorised and not contracted for	71,822	30,000
Analysed as follows:		
Authorised and not contracted for		
Construction works	25,000	30,000
Urban improvements	46,822	0
	71,822	30,000

Part of the urban improvements are being funded through UIF funds. The rest are being funded from the Council's internal funds.

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Notes to the financial statements for the year ended 31st December 2016

Note

13 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Central Government is the main related party of the Local Council. Up until December 2016, the Local Council received Eur265,838 (2015: Eur257,557) in funding from Central Government. Key management personnel who are deemed to exercise a significant influence over the Council are the Mayor, the Executive Secretary and the councilors who were remunerated as follows:

	2016 Eur	2015 Eur
Mayor	8,828	8,649
Executive Secretary	18,816	28,123
Councilors	4,800	4,800
	<u>32,444</u>	<u>41,572</u>

14 Classification of financial assets and financial liabilities

The Council's financial assets and liabilities have been classified as follows in accordance with IAS 39:

	Credits and other receivables	Other financial assets / liabilities	Total carrying amount	Fair value
2015				
Assets				
Trade and other receivables	35,992	-	35,992	35,992
Cash and cash equivalents	183,452	-	183,452	183,452
Total financial assets	<u>219,444</u>	<u>-</u>	<u>219,444</u>	<u>219,444</u>
Liabilities				
Trade and other payables	-	44,730	44,730	44,730
Total financial liabilities	<u>-</u>	<u>44,730</u>	<u>44,730</u>	<u>44,730</u>
2016				
Assets				
Trade and other receivables	31,169	-	31,169	31,169
Cash and cash equivalents	256,096	-	256,096	256,096
Total financial assets	<u>287,265</u>	<u>-</u>	<u>287,265</u>	<u>287,265</u>
Liabilities				
Trade and other payables	-	102,355	102,355	102,355
Total financial liabilities	<u>-</u>	<u>102,355</u>	<u>102,355</u>	<u>102,355</u>

15 Financial risk management

15.1 Financial risk factors

The Council's activities expose it to both credit risk and liquidity risk. The Council did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

The Council provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2016

Note

15 Financial risk management - Continued

a) Credit risk - continued

The Council's credit risk arises from cash and cash equivalents, including deposits with the banks and amounts receivable. The Council's exposures to credit risk are analysed as follows:

	2016 Eur	2015 Eur
Trade and other receivables	31,169	35,992
Cash and bank balances	256,096	183,452
	<u>287,265</u>	<u>219,444</u>

The ageing of the amounts receivable is as follows:

	2016 Eur	2015 Eur
Less than 1 month	199	303
Between 1 and 2 months due	373	0
Between 2 and 3 months due	0	617
Over 3 months due	409	2,770
	<u>981</u>	<u>3,690</u>

The maximum exposure to credit risk at the reporting date in respect of the financial assets mentioned above is disclosed above and in Notes 8 and 9 to these financial statements. The Council does not hold any collateral as security in this respect.

The Council banks only with local financial institutions with high quality standing or rating.

The Council's major debtors are the Government and the Regional Committees, thus, it deems that it does not have any risk of non-recoverability of its dues. An amount of €409 is past the credit period but the Council does not deem this balance to be impaired.

b) Liquidity risk

The Council's exposure to liquidity risk is mainly from its payables and retention monies as per note 11 above and which are due within one year. Given the requirements at law to maintain a healthy working capital, the Council takes all measures to keep its liquidity risk exposure in check. In fact it maintains sufficient cash to ensure the availability of an adequate amount of funding to meet the Council's obligations. The Council's exposure to liquidity risk is as follows:

	2016 Eur	2015 Eur
Creditors	74,603	27,394
Accruals	18,187	9,882
Retention money held	9,565	7,454
	<u>102,355</u>	<u>44,730</u>

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2016

Note

15 Financial risk management - Continued

15.2 Fair values of financial instruments

At 31 December 2016 and 31 December 2015, the carrying amounts of cash at bank, receivables, payables and accrued expenses in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

16 Contingent liabilities

The Council has a cash pledge of €242.

17 Operating Lease

In 2013, the Council entered into a non-cancellable operating lease of a commercial van to enable it to carry out road and street repairs over the whole village. The Council is obliged to pay €5,774 during the next year and €1,474 in 2018, when the lease expires.

In November 2015, the Council entered into a property lease agreement to use as Council premises for a period of 15 years starting on 1st January 2016, with the first five years being non-cancellable and the rest cancellable with a notice period of six months. In 2016, the Council was obliged to pay €8,400 while the lease from 2017 till 2030 will total to €159,600.

18 Capital

The Council does not carry any share capital but it does have an accumulated surplus which it uses to finance capital projects such as roads, urban improvements and other major projects of benefit to the Balzan residents and community. This, however, needs to be expended with due diligence in order not to fall below the minimum working capital requirements as required by the Local Councils (Financial) Procedures 1996.

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Financial statements for the year ended 31 December 2016

Report of the Local Government auditor to the Auditor General

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of Hal Balzan Local Council which comprise the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Qualified opinion

In our opinion, except for the effects of the matters described in paragraphs 1 below, the financial statements give a true and fair view of the financial position of Hal Balzan Local Council as of 31 December 2016 and of the results of its operations, changes in net assets/equity and its cash flows for the period then ended in accordance with the accounting policies set out on pages 6 to 11.

These financial statements comply in all material respect with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 but because of the matters set out in paragraph 1 below these financial statements have not been prepared in accordance with International Financial Reporting Standards as adopted by the E.U.

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 that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

1. As from 30 September 2002, all income and expenditure from the Local Enforcement System (LES) were centralised through the Birkikara Joint Committee and LES debtors at that date were transferred to the Joint Committee as well. The Birkikara Joint Committee ceased operations on 31 August 2011 and LES was centralised through the Central Regional Committee as from 1 September 2011. The Council has not reported any income from LES in the current period. We were unable to determine the amount of any additional income the Council is entitled to receive from Birkikara Joint Committee since the audited financial statements as at 31 December 2015 of the Joint Committee are qualified on the basis that amounts receivable could not be reconciled to the IT system and financial statements at period end were not available. All LES receivables of the Joint Committee have been provided for.

Financial statements for the year ended 31 December 2016

Report of the Local Government auditor to the Auditor General (continued)

Other Information

The Councillors and the Executive Secretary are responsible for the other information. The other information comprises the Statement of Local Council Members' and Executive Secretary's Responsibility. Our opinion on the financial statements does not cover this information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of the Local Council Members' and Executive Secretary

The Councillors and the Executive Secretary are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS as adopted by the E.U. and for such internal control as the Councillors and Executive Secretary 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 Councillors and the Executive Secretary are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Councillors and the Executive Secretary has no realistic alternative but to do so.

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 ISAs, we exercise professional judgment 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.

Financial statements for the year ended 31 December 2016

Report of the Local Government auditor to the Auditor General (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Councillors and the Executive Secretary.
- Conclude on the appropriateness of the Councillors and the Executive Secretary 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 the Councillors and the Executive Secretary 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.



This copy of the audit report has been signed by Ernestino Riolo (Partner) for and on behalf of

Mazars Malta
Certified Public Accountants
Attard,
Malta

5 May 2017