



Hal Balzan Local Council

Financial Report 31st December 2018



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Hal Balzan Local Council

Financial Statements

for the year ended 31st December 2018

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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



Ms Doriette Farrugia
Executive Secretary

Date: 25/04/2019

Hal Balzan Local Council

**Statement of comprehensive income
for the year ended 31st December 2018**

	<i>Note</i>	2018	2017
		<u>Eur</u>	<u>Restated Eur</u>
Funds received from Central Government	3	311,028	295,516
Income raised under the Local Enforcement System	3	2,232	6,805
General income	3	28,185	12,546
		<u>341,445</u>	<u>314,867</u>
Expenditure			
Personal emoluments	4	(80,656)	(78,204)
Operations and maintenance	5	(137,746)	(124,517)
Administration and other expenditure	6	(248,166)	(100,131)
		<u>(466,568)</u>	<u>(302,852)</u>
(Deficit) / Surplus for the year		<u><u>(125,123)</u></u>	<u><u>12,015</u></u>

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 financial position at 31st December 2018

	<i>Note</i>	2018 <u>Eur</u>	2017 Restated <u>Eur</u>
Assets			
Non-current Assets			
Property, plant and equipment	<i>7a-b</i>	<u>214,492</u>	<u>404,278</u>
Current Assets			
Inventory		220	0
Amounts receivable	<i>8</i>	23,981	27,515
Cash and bank balances	<i>9</i>	<u>334,492</u>	<u>263,426</u>
		<u>358,693</u>	<u>290,941</u>
Total Assets		<u><u>573,185</u></u>	<u><u>695,219</u></u>
Reserves and Liabilities			
Reserves			
Retained Fund		<u>477,692</u>	<u>602,815</u>
Non-Current Liabilities			
Deferred income	<i>11</i>	<u>28,799</u>	<u>28,799</u>
Current Liabilities			
Trade and other payables	<i>10</i>	<u>66,694</u>	<u>63,605</u>
Total Equity and Liabilities		<u><u>573,185</u></u>	<u><u>695,219</u></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


Ms Doriette Farrugia
Executive Secretary

Date : 25/04/2019

Hal Balzan Local Council

Statement of changes in equity for the year ended 31st December 2018

	Retained fund Eur
At 1st January 2017 (as previously registered)	590,800
Total comprehensive Income for the year (Restated)	<u>12,015</u>
At 31st December 2017 (Restated)	602,815
Total comprehensive Income for the year	<u>(125,123)</u>
At 31st December 2018	<u><u>477,692</u></u>

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 2018**

	<i>Note</i>	2018	2017
		Eur	Restated Eur
Cash flows from operating activities			
Operating surplus for the period / year		(125,123)	12,015
<i>Adjustments for:</i>			
Bank interest received		(31)	(31)
Loss on disposal		0	3,450
Depreciation		198,161	38,432
Surplus for the year before working capital movements		73,007	53,866
Movement in inventory		(220)	
Movement in receivables		3,534	(9,539)
Movement in payables		3,826	8,985
Net cash generated from operating activities		80,147	53,312
Cash flows from investing activities			
Payment to acquire property, plant and equipment		(9,112)	(79,046)
Bank interest received		31	31
Net cash used in investing activities		(9,081)	(79,015)
Cash flows from financing activities			
Receipts from Government to acquire fixed assets		0	33,033
Net cash used in financing activities		0	33,033
Movement in cash and cash equivalents		71,066	7,330
Cash and cash equivalents at the beginning of the year		263,426	256,096
Cash and cash equivalents at the end of the year	9	334,492	263,426

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 2018

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 7/9, Dun Spir Sammut Street, Hal 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 was previously calculated on a monthly basis using the reducing balance method. Following a change in policy, as from this year, depreciation is being calculated on a monthly basis using the straight line 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

The assets' useful lives and residual values are assessed at the end of each reporting period and adjusted if appropriate. When the carrying amount of an asset is greater than its estimated recoverable amount, its value is written down to its recoverable amount.

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

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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 written-off against the expenditure incurred on such property, plant and equipment in the year of purchase in line with the capital approach as per International Accounting Standard 20, Government Grants.

e) Impairment of financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Until the 31st December 2017, an impairment loss was 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 were immediately recognised as an expense in the Statement of Comprehensive Income.

As from 1st January 2018, financial assets are tested annually for impairment using the expected credit loss model. The Council assesses the risk of defaults in the 12 months after the end of the financial year. Such risks are probability weighted for their occurrence and all scenarios for the outcome of such risks are quantified, taking into consideration the time value of money when quantifying the outcome of such risks. The Council considers reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions as the basis for assessing such risks of defaults.

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.

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

Note

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.

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.

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

Note

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 16, Leases, was issued in January 2016, with effective date for financial periods commencing on or after 1st January 2019. This new standard requires that lessees recognise leased assets with a term of more than twelve months as assets and a liability against such assets. All leased assets, operating or financial, are now to be treated under one single accounting treatment in the lessees' books. Such assets will be measured on the basis of the right-of-use as other non-financial assets and depreciated accordingly. The lease repayments have to be divided between the interest on the lease and the principal and recognised accordingly in the financial statements including the statement of cash flows. In the case of the lessor, the accounting treatment remains unchanged from IAS 17, the previous standard this new standard replaces. Although this standard was not adopted early by the Council, this standard will effect the Council's financial statements as from 1st January 2019.

In 2017, a specific amendment was issued with regards, to IFRS 9, Financial Instruments, dealing with early payment of financial liabilities where such early payment allows for a compensation to the borrower. In such cases an exception can be made to measure such liabilities at amortised cost.

Other amendments to accounting standards which do not effect the financial reporting of the Council include IFRIC 23, Uncertainty over Income Tax Treatments, which clarifies the accounting for uncertainties in income taxes.

Accounting standards issued but not yet adopted by the EU

IFRS 17, Insurance Contracts, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. Its objective is to ensure that relevant information is provided to represent such contracts giving a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 is effective for accounting periods commencing on or after 1st January 2021. This does not have an effect on the Council's financial statements since it does not issue insurance contracts.

A number of other amendments come into force for financial periods commencing on or after 1st January 2019 including amendments to: IFRS 3, Business Combinations, clarifying the meaning of a business and requiring remeasurement of previously acquired interests in a newly acquired business; IFRS 11, Joint Arrangements, not requiring remeasurement of previously held interests in a newly acquired joint interest arrangement; IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, in relation to the definition of material, considering obscurity of information, reasonable influence on users and the narrowing the definition of users to primary users; IAS 12, Income Taxes, clarifying requirements of income tax consequences of dividends; IAS 19, Employee Benefits, dealing with changes in employee benefit plans; IAS 23, Borrowing Costs, which amendment requires that any residual borrowing for the acquisition of capital assets, after they are made available to the entity, become part of the general borrowing of the entity; and IAS 28, Investments in Associates and Joint Ventures, in relation to long-term interests in joint-ventures.

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

Note

3 <u>Revenue</u>	2018	2017
	Eur	Restated Eur
Government income		
In terms of section 55 of the Local Councils Act (Cap 363)	288,968	277,092
Other Government Income	0	6,037
Other Supplementary Government Income	22,060	12,387
	<u>311,028</u>	<u>295,516</u>
Income raised under the Local Enforcement System		
Income from LES administration fees	2,232	2,778
LESA Distribution to Council	0	4,027
	<u>2,232</u>	<u>6,805</u>
General income		
Income from tender documents	0	100
Income from permits	22,875	10,168
Sundry contributions & donations	2,100	2,278
Insurance refund	3,210	0
	<u>28,185</u>	<u>12,546</u>
Total revenue	<u>341,445</u>	<u>314,867</u>
4 <u>Personal emoluments</u>	2018	2017
	Eur	Eur
Personal emoluments include, inter alia :		
Mayor's allowance	7,464	7,345
Executive Secretary's salary and allowances	29,730	29,243
Employees' salaries	31,901	30,398
Social security contributions	5,161	4,958
Councillors' Allowance	6,400	6,260
	<u>80,656</u>	<u>78,204</u>

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

Note

5 Operations and maintenance

	2018	2017
	Eur	Eur
Repairs and upkeep:		
Signs	2,456	1,063
Public property	15,340	15,685
Road markings	1,577	3,653
Other repairs and upkeep	3,514	6,044
	<u>22,887</u>	<u>26,445</u>
 Contractual services:		
Refuse collection	65,601	60,291
Bulky refuse collection	4,765	3,464
Road and street cleaning	33,184	22,905
Cleaning and maintenance - public conveniences	3,550	3,333
Cleaning and maintenance - parks and gardens	3,027	2,587
Street lighting	2,869	3,476
Other	1,863	2,016
	<u>114,859</u>	<u>98,072</u>
	 <u>137,746</u>	 <u>124,517</u>

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

Note

6 Administration and other expenditure

	2018	2017
		Restated
	Eur	Eur
Utilities	6,958	3,503
Materials & supplies	658	1,154
Rent	10,175	10,833
Memberships	648	100
Office services	3,198	3,289
Transport	6,306	6,374
Information services	232	1,449
Professional services	14,611	18,891
Training	207	0
Community services & events	6,925	12,567
Local enforcement expenses	87	71
Sundry expenses	0	18
Assets write-off	0	3,450
Depreciation	198,161	38,432
	<u>248,166</u>	<u>100,131</u>

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

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
Cost - as at 1st January 2018	25,131	1,944	3,389	15,374	697,397	10,170	698,984	254,130	0	1,706,519
Additions new this period	1,900	0	3,290	3,210	392	0	320	0	0	9,112
Assets written-off / Adjustment	0	0	0	(172)	0	0	0	0	0	(172)
Cost - as at 31st December 2018	27,031	1,944	6,679	18,412	697,789	10,170	699,304	254,130	0	1,715,459
Grants - as at 1st January 2018	0	0	0	11,444	483,057	0	0	143,182	0	637,683
Additions	737	0	0	0	0	0	0	0	0	737
Grants - as at 31st December 2018	737	0	0	11,444	483,057	0	0	143,182	0	638,420
Acc. depreciation - as at 1st January 2018	6,000	1,318	1,768	1,920	76,894	10,170	477,130	89,358	0	664,558
Charge for the period	2,667	626	1,349	799	27,819	0	143,311	21,590	0	198,161
Released on write-off	0	0	0	(172)	0	0	0	0	0	(172)
Acc. depreciation - as at 31st December 2018	8,667	1,944	3,117	2,547	104,713	10,170	620,441	110,948	0	862,547
Net book value - as at 31st December 2018	17,627	0	3,562	4,421	110,019	0	78,863	0	0	214,492

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

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	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur
Cost - as at 1st January 2017	20,310	1,944	3,075	20,213	697,295	10,170	662,534	273,458	8,792	1,697,791
Additions new this period	16,101	0	1,373	1,519	0	0	9,042	0	0	28,035
Assets written-off / Adjustment	(11,280)	0	(1,059)	(6,358)	102	0	27,408	(19,328)	(8,792)	(19,307)
Cost - as at 31st December 2017	25,131	1,944	3,389	15,374	697,397	10,170	698,984	254,130	0	1,706,519
Grants - as at 1st January 2017	0	0	0	0	19,375	0	0	143,182	0	162,557
Adoption of the Capital Approach	0	0	0	14,064	463,682	0	0	0	0	477,746
Disposals	0	0	0	(2,620)	0	0	0	0	0	(2,620)
Grants - as at 31st December 2017	0	0	0	11,444	483,057	0	0	143,182	0	637,683
Acc. depreciation - as at 1st January 2017	13,721	1,161	2,206	9,962	175,638	10,170	452,876	86,959	0	752,693
Adoption of the Capital Approach	0	0	0	(4,880)	(108,474)	0	0	0	0	(113,354)
Charge for the period	1,013	157	421	432	9,756	0	24,254	2,399	0	38,432
Released on write-off	(8,734)	0	(859)	(3,620)	0	0	0	0	0	(13,213)
Reclassification	0	0	0	26	(26)	0	0	0	0	0
Acc. depreciation - as at 31st December 2017	6,000	1,318	1,768	1,920	76,894	10,170	477,130	89,358	0	664,558
Net book value - as at 31st December 2017	19,131	626	1,621	2,010	137,446	0	221,854	21,590	0	404,278

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Notes to the financial statements for the year ended 31st December 2018

Note

8 Amounts receivable	2018	2017
	Eur	Eur
Current		
Debtors	2,112	604
Blocked funds	242	242
Prepayments	3,170	7,120
Accrued income	17,857	18,459
Other receivables	0	490
Deposits	600	600
	23,981	27,515

In accordance with IFRS 9, the Council has assessed the risks and scenarios resulting from such risks occurring based on the information that is possesses. In accordance to this risk assessment model, the Council does not expect to have any material impairments to these balances and hence no impairment adjustments were deemed necessary.

9 Cash and cash equivalents

For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the following:

	2018	2017
	Eur	Eur
Cash in hand	522	116
Bank balances :		
Current accounts	286,174	244,637
Savings accounts	47,796	18,673
	334,492	263,426

In accordance with IFRS 9, the Council has assessed the risks and scenarios resulting from such risks occurring based on the information that is possesses. In accordance to this risk assessment model, the Council does not expect to have any material impairments to these balances and hence no impairment adjustments were deemed necessary.

10 Trade and other payables	2018	2017
	Eur	Restated Eur
Current		
Creditors	35,900	32,746
Accruals	16,039	18,923
Other deferred income	299	1,000
Retention money held	14,456	10,936
	66,694	63,605

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.

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

Note

11 <u>Deferred income</u>	2018	2017
	Eur	Restated Eur
Non-Current		
Opening balance	28,799	17,405
Regional Committee surplus	0	11,394
Closing balance	<u>28,799</u>	<u>28,799</u>

Maturity of non-current deferred income is as follows:

Between two and five years	28,799	28,799
	<u>28,799</u>	<u>28,799</u>

12 <u>Capital commitments</u>	2018	2017
	Eur	Eur
Authorised and not contracted for	<u>8,000</u>	<u>2,500</u>
Analysed as follows:		
Authorised and not contracted for		
Plant and Machinery	1,000	0
Office furniture and fittings	3,000	1,000
Office equipment	4,000	1,500
	<u>8,000</u>	<u>2,500</u>

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

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. For the year ended 2018, the Local Council received Eur288,968 (2017: Eur277,092) 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 councillors who were remunerated as follows:

	2018	2017
	Eur	Eur
Mayor	9,064	8,945
Executive Secretary	32,145	31,523
Councillors	4,800	4,660
	<u>46,009</u>	<u>45,128</u>

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

Note

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
2017 (Restated)				
Assets				
Trade and other receivables	20,395	-	20,395	20,395
Cash and cash equivalents	263,426	-	263,426	263,426
Total financial assets	283,821	-	283,821	283,821
Liabilities				
Trade and other payables	-	62,605	62,605	62,605
Total financial liabilities	-	62,605	62,605	62,605
2018				
Assets				
Trade and other receivables	20,811	-	20,811	20,811
Cash and cash equivalents	334,492	-	334,492	334,492
Total financial assets	355,303	-	355,303	355,303
Liabilities				
Trade and other payables	-	66,395	66,395	66,395
Total financial liabilities	-	66,395	66,395	66,395

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.

a) Credit risk

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:

	2018	2017 Restated
	Eur	Eur
Trade and other receivables	20,811	20,395
Cash and bank balances	334,492	263,426
	355,303	283,821

The ageing of the amounts receivable is as follows:

	2018	2017
	Eur	Eur
Less than 1 month	1,950	331
Between 1 and 2 months due	150	164
Over 3 months due	12	109
	2,112	604

PS df

Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

Note

15 Financial risk management - Continued

a) Credit risk - continued

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 €12 (2017: €109) 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 10 above and which are due within 60 days. 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:

	2018	2017
		Restated
	Eur	Eur
Creditors	35,900	32,746
Accruals	16,039	18,923
Retention money held	14,456	10,936
	<u>66,395</u>	<u>62,605</u>

15.2 Fair values of financial instruments

At 31 December 2018 and 31 December 2017, 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 Operating Lease

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 2018, the Council was obliged to pay €8,400.

	2018	2017
	Eur	Eur
Non-cancellable lease commitment:		
Due within one year	8,400	8,400
Due after one year but before five years	16,800	25,200
	<u>25,200</u>	<u>33,600</u>

17 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.

JS df

Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

Note

18 Impact of changes in accounting policies

Change in accounting treatment for Government and EU Grants for the acquisition of fixed assets

As highlighted in note 2 (m), during this financial year, the Council adopted a different approach to accounting for Government and EU Grants granted for the acquisition of fixed assets as per Directive 1/2017 issued by the Department for Local Government, using the capital approach as opposed to the deferred income approach as was previously adopted. This is in line with IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, which supports both methods. This change in accounting policy resulted in the following impact on the 2017 figures:

Statement of Financial Position (extract)

	2017 As Originally Presented Eur	Adoption of Capital Approach Eur	2017 Restated Eur
Non-current Assets			
Property, plant and equipment	728,289	(324,011)	404,278
Total Assets	1,019,230	(324,011)	695,219
Reserves			
Retained Fund	600,169	2,646	602,815
Non-Current Liabilities			
Deferred income	322,072	(293,273)	28,799
Current Liabilities			
Trade and other payables	96,989	(33,384)	63,605
Total Equity and Liabilities	1,019,230	(324,011)	695,219

Statement of Comprehensive Income (extract)

	2017 As Originally Presented Eur	Adoption of Capital Approach Eur	2017 Restated Eur
Funds received from Central Government	305,631	(10,115)	295,516
EU Financing	27,646	(27,646)	0
Total Income	352,628	(37,761)	314,867
Expenditure			
Administration and other expenditure	(140,538)	40,407	(100,131)
Total Expenditure	(343,259)	40,407	(302,852)
Surplus for the year	9,369	2,646	12,015

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2018

Note

18 Impact of changes in accounting policies (cont.)

Change in accounting treatment for Government and EU Grants for the acquisition of fixed assets (cont.)

Statement of Cash Flow (extract)

	2017 As Originally Presented Eur	Adoption of Capital Approach Eur	2017 Restated Eur
Cash flows from operating activities			
Operating surplus for the period / year	9,369	2,646	12,015
<i>Adjustments for:</i>			
Non-cash release of income from grants	(37,761)	37,761	0
Loss on disposal	6,096	(2,646)	3,450
Depreciation	76,193	(37,761)	38,432
Surplus for the year before working capital movements	53,866	0	53,866

Change in depreciation method

Directive 1/2017 also required a change in the depreciation policy from the reducing balance to the straight line method of calculation of depreciation. As a result of such a change, the results for 2018 include a one-off amount of Eur151,636 passed as part of this year's depreciation through the Statement of Comprehensive income and an equal decrease in the net book value of the fixed assets as reported in the Statement of Financial Position.

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Financial statements for the year ended 31 December 2018

Report of the Local Government auditor to the Auditor General

Report on the Audit of the Financial Statements

Qualified opinion

We have audited the accompanying financial statements of Hal Balzan Local Council which comprise the statement of financial position as at 31 December 2018, 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.

In our opinion, except for the effects of the matters described in paragraph 1 of the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of Hal Balzan Local Council as of 31 December 2018 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 10.

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 Qualified 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 2018 of the Joint Committee were not available and the last version available (2015) are qualified on the basis that amounts receivable could not be reconciled to the IT system. All LES receivables of the Joint Committee have been provided for.

Financial statements for the year ended 31 December 2018

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 2018

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.

Report on the Audit Other Legal and Regulatory Requirements

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards as adopted by the E.U, and the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996. In view of the matters set out under the basis for qualified opinion section of this report, these financial statements have not been prepared in line with these requirements.



*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

25 April 2019