

# **IL-GUDJA LOCAL COUNCIL**

## **Report and Financial Statements**

**For the year ended 31 December 2018**

*Prepared by: Ms Josianne Debono CPA  
Obo Dconsulta Ltd,  
(February 2019)*

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## **II-GUDJA LOCAL COUNCIL**

### **STATEMENT OF COUNCIL MEMBERS' AND EXECUTIVE SECRETARY'S RESPONSIBILITIES for the year ended 31 December 2018**

The Local Councils (Financial) Regulations 1993 require the Secretary to prepare a detailed Annual Administrative Report which includes a statement of the Council's statement of comprehensive income 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 Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with accounting policies applicable to Local Councils, the statement of comprehensive of the Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local Councils (Financial) Regulations, 1993, and the Local Council (Financial) Procedures, 1996 issued in terms of the said Act.

The Executive Secretary is responsible to ensure that an appropriate system of internal control is in operation, to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, 1993, the Local Council (Financial) Regulations, 1993, and the policies, systems and time scales referred to in the Local Council (Financial) Procedures, 1996. The Executive Secretary is also responsible to provide reasonable assurance that the assets of the Council are properly safeguarded, that fraud and other irregularities will be detected and that the operations of the Council are properly conducted in accordance with the Local Councils Act, 1993.

This statement was approved by the Council on 29 April 2019 and signed on its behalf by:

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Mr John M. Calleja  
Mayor

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Mr Ranier Busuttil  
Acting Executive Secretary

## II-GUDJA LOCAL COUNCIL

### Statement of Profit or Loss and Other Comprehensive Income For the year ended 31 December 2018

	Notes	Year Ended 2018 €	Year Ended 2017 as restated €
<b>Income</b>			
Funds received from Central Government	4	<b>305,842</b>	335,096
Income raised under Council Bye-Laws	5	<b>5,450</b>	3,177
Income from Law Enforcement System	6	<b>2,727</b>	2,295
General Income	7	<b>6,249</b>	4,283
		<b>320,268</b>	344,851
<b>Expenditure</b>			
Personnel emoluments	8	<b>69,279</b>	67,807
Operations and maintenance	9	<b>103,067</b>	101,618
Administrative and other expenses	10	<b>133,822</b>	82,385
		<b>306,168</b>	251,810
<b>Operating Surplus for the year</b>		<b>14,100</b>	93,041
Finance income	11	<b>463</b>	1,152
Finance costs		<b>(566)</b>	-
<b>Surplus for the year</b>		<b>13,997</b>	94,193
<b>Total Comprehensive Income</b>		<b>13,997</b>	94,193

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

## II-GUDJA LOCAL COUNCIL

### STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	Year Ended 2018 €	Year Ended 2017 as restated €	Year Ended 2017 as previously stated €
<b>Assets</b>				
<i>Non-current assets</i>				
Property, plant and equipment	12	337,237	426,940	487,062
		<b>337,237</b>	426,940	487,062
<i>Current assets</i>				
Trade and other receivables	13	21,761	16,366	16,366
Cash and cash equivalents	14	736,273	281,583	281,583
<b>Total current assets</b>		<b>758,034</b>	297,949	297,949
<b>Total assets</b>		<b>1,095,271</b>	724,889	785,011
<b>Reserves and liabilities</b>				
<i>Reserves</i>				
Retained earnings		658,621	644,624	644,624
<i>Non-current liabilities</i>				
Deferred income	15	-	-	53,684
<i>Current liabilities</i>				
Trade and other payables	16	436,650	80,265	86,703
		<b>436,650</b>	80,265	86,703
<b>Total liabilities</b>		<b>436,650</b>	80,265	140,387
<b>Total reserves and liabilities</b>		<b>1,095,271</b>	724,889	785,011

The financial statements were approved by the Council on 29 April 2019 and signed on its behalf by:

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Mr John M. Calleja  
Mayor

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Mr Ranier Busuttil  
Acting Executive Secretary

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

## II-GUDJA LOCAL COUNCIL

### STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Retained earnings €	Total earnings €
<b>At 1 January 2017</b>	550,431	550,431
Surplus for the year	94,193	94,193
Total comprehensive income	94,193	94,193
<b>At 31 December 2017</b>	<b>644,624</b>	<b>644,624</b>
<b>At 1 January 2018</b>	644,624	644,624
Surplus for the year	13,997	13,997
Total comprehensive income	13,997	13,997
<b>At 31 December 2018</b>	<b>658,621</b>	<b>658,621</b>
Total Equity	<b>658,621</b>	<b>658,621</b>

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

## II-GUDJA LOCAL COUNCIL

### STATEMENT OF CASHFLOWS For the year ended 31 December 2018

	Notes	2018 €	2017 as restated €
<b>Cash flows from operating activities</b>			
Surplus for the year		13,997	94,193
<i>Adjustments for:</i>			
Depreciation		93,202	43,093
Provision for Doubtful debts		-	(2,707)
Interest receivable		(463)	(1,152)
		<b>106,736</b>	133,427
<i>Movements in working capital:</i>			
(Increase) in receivables		(5,861)	(11,008)
Increase/(Decrease) in payables		2,388	(25,320)
<b>Net cash flows from operating activities</b>		<b>103,263</b>	97,099
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant and equipment		(3,499)	(737)
Payments to capital creditors		-	-
Interest received		941	792
<b>Net cash flows from investing activities</b>		<b>(2,558)</b>	55
<b>Cash flows from financing activities</b>			
Grants received		353,985	14,444
<b>Net cash flows from financing activities</b>		<b>353,985</b>	14,444
<b>Net increase in cash and cash equivalents</b>		<b>454,690</b>	111,598
Cash and cash equivalents at beginning of year		281,583	169,985
<b>Cash and cash equivalents at end of year</b>	14	<b>736,273</b>	281,583

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

## **II-GUDJA LOCAL COUNCIL**

### **Notes to the Financial Statements for the year ended 31 December 2018**

#### **1. General Information**

Il-Gudja Local Council is a local authority of Malta set up in accordance with the Local Councils Act (1993). The office of the Local Council is situated at 88, Triq Raymond Caruana, Il-Gudja. These financial statements were approved for issue by the Council Members on the 22nd April 2018. The Local Council's presentations as well as functional currency are denominated in Euro (€). Its ultimate controlling party is the Department for Local Government within the Ministry of Justice, Culture and Local Government (MJCL).

#### **2. Accounting Policies and Reporting Procedures**

The principal accounting policies applied 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.

##### ***Accounting Convention***

These financial statements are prepared under the historical cost convention, as modified to include fair values where it is stated in the accounting policies below. These financial statements are prepared in accordance with the provisions of the Local Councils Act, 1993 (Chap. 363), the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures, 1996 enacted in Malta and with the requirements of the International Financial Reporting Standards, as adopted by the EU.

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, 1993 (Cap 363).

##### ***New and revised standards that are effective for the current period***

In the current year, the Council has applied IFRS 9 Financial Instruments and the related consequential amendments to other International Financial Reporting Standards that are effective for periods that begin on or after 1 January 2018. IFRS 9 introduced new requirements for the classification and measurement of financial assets and introduced an 'expected credit loss' model for the impairment of financial assets.

There have been no changes to the classification, measurement or impairment of financial assets and liabilities as a result of the application of IFRS 9.

In the current year, the Council has applied IFRS 15 Revenue from Contracts with Customers which is effective for periods that begin on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition.

The application of IFRS 15 has not had an impact on the financial position and financial performance of the Council.

##### ***New and revised standards that are issued but not yet effective***

IFRS 16, 'Leases' introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised, with the exception of short-term and low-value leases. IFRS 16 will supersede the current lease guidance of IAS 17 and the related interpretations. The standard is mandatory for periods commencing on or after 1 January 2019.



## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

#### Accounting Policies and Reporting Procedures (continued)

The application of IFRS 16 will have no impact on the Council's financial statements.

#### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation, impairment and grants received for specific projects (which grants were treated through the balance sheet approach). Depreciation is calculated on a monthly basis using the **straight-line method of depreciation** at rates estimated to write down the cost of all assets over their expected useful life, other than land and trees, over their expected useful lives as follows:

#### *Property, plant and equipment – continued*

	Rates in %
Land	0
Trees	0
Buildings	1
Office Furniture & Fittings	7.5
Construction Works	10
Urban Improvements (Street Furniture)	10
Special Programmes (Projects)	10
Office Equipment and Computer Equipment	20
Motor Vehicles	20
Plant and Machinery	20
Road/Street Signs	Replacement basis
Litter Bins	Replacement basis
Playground Equipment	100
Street Lighting	100
Street Mirrors	Replacement basis
Plants	100

Up to the year ending 31<sup>st</sup> December 2017, depreciation was calculated using the reducing balance method. The change in the depreciation method has been affected according to the instructions in the DLG Directive 1/2017.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating surplus. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each year end. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

## **II-GUDJA LOCAL COUNCIL**

### **Notes to the Financial Statements for the year ended 31 December 2018**

#### **Accounting Policies and Reporting Procedures (continued)**

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Profit and Loss and Other Comprehensive Income during the financial year in which they are incurred.

#### ***Impairment of property, plant and equipment***

At the end of each reporting year, the Council reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Council estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### ***Impairment of financial assets other than inventories***

At the end of each reporting year, the carrying amount of assets is reviewed to determine whether there is any indication or objective evidence of impairment, as appropriate, and if any such indication or objective evidence exists, the recoverable amount of the asset is estimated.

## **II-GUDJA LOCAL COUNCIL**

### **Notes to the Financial Statements for the year ended 31 December 2018**

#### **Accounting Policies and Reporting Procedures (continued)**

In the case of financial assets that are carried at amortised cost, objective evidence of impairment includes observable data about the following loss events - significant difficulty of the issuer (or counterparty) and/or breach of contract.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

For loans, and receivables or, if there is objective evidence that an impairment loss has been incurred, the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

In the case of other assets tested for impairment, the recoverable amount is the higher of fair value less costs to sell (which is the amount obtainable from sale at arm's length transaction between knowledgeable, willing parties, less the costs of disposal) and value in use (which is the present value of the future cash flows expected to be derived, discounted using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

Impairment losses are recognised immediately in the statement of comprehensive income, unless the asset is carried at a re-valued amount, in which case, the impairment loss is recognised directly against the asset's revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for the asset.

For loans and receivables, if, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised; the previously recognised impairment loss is reversed directly.

In the case of assets tested for impairment, an impairment loss recognised in a prior period is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but in a manner, that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

Impairment reversals are recognised immediately in the comprehensive income statement, unless the asset is carried at a re-valued amount, in which case, the impairment reversal is recognised directly in reserves, unless an impairment loss on the same asset was previously recognised in the comprehensive income statement.

#### ***Cash and cash equivalents***

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

## **II-GUDJA LOCAL COUNCIL**

### **Notes to the Financial Statements for the year ended 31 December 2018**

#### **Accounting Policies and Reporting Procedures (continued)**

##### ***Receivables***

Receivables are recognised initially at the transaction price, less provision for impairment. A provision for impairment of general receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

A provision for impairment is established when there is objective evidence that the Council will not be able to collect all amounts receivable. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount to be received is impaired. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

##### ***Related Parties***

Related parties are those persons or bodies of persons having relationships with the Council as defined in International Accounting Standard No. 24.

##### ***Income recognition***

Income in general is stated when there is reasonable certainty that the income would be receivable and thus can be accrued for. Other income such as that derived from the organisation of courses, cultural, sporting and social activities is only recognised on a cash basis.

Income from investment activities is recognised when the rights of receipt have been established.

Interest income from financial assets is recognised when it is probable that the economic benefits will flow to the Council and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

##### ***Government grants***

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 thus deducted from the carrying amount of the relative non-current asset.

Up to the year ended 31<sup>st</sup> December 2017, government grants were accounted for using the income approach according to IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance." On 1<sup>st</sup> January 2018, the capital approach, according to IAS 20, has been adopted, in line with the directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting policy, and according to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", it has been accounted for retrospectively.

Government grants are not recognised until there is reasonable assurance that the Council will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Council with no future related costs are

## **II-GUDJA LOCAL COUNCIL**

### **Notes to the Financial Statements for the year ended 31 December 2018**

#### **Accounting Policies and Reporting Procedures (continued)**

recognised in profit or loss in the period in which they become receivable.

The benefit of a Central Government loan at a below-market rate of interest is treated as a government grant, measured as the difference between the proceeds received and the fair value of the loan based on prevailing market interest rates.

#### ***Financial instruments***

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

Financial assets are de-recognised 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.

Financial liabilities are de-recognised when they are extinguished, discharged, cancelled or expired. Financial assets and financial liabilities are measured initially at fair value plus transaction costs. Financial assets and financial liabilities are measured subsequently as described below:

#### ***Financial assets***

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

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss.

Loans and 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.

#### ***Loans and receivables***

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 method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Council's trade receivables and cash and cash equivalents 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 considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counter party default rates for each identified group. Impairment of 'trade receivables' is presented within 'other expenses'.

#### ***Financial liabilities***

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

## **II-GUDJA LOCAL COUNCIL**

### **Notes to the Financial Statements for the year ended 31 December 2018**

#### **Accounting Policies and Reporting Procedures (continued)**

##### ***Foreign currencies***

###### ***Functional and presentation currency***

These financial statements are presented in Euro (€), which is the Local Council's functional and presentation currency. In preparing the financial statements of the Council, transactions in currencies other than the Council's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting year, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated.

##### ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for the intended use or sale.

Investment income on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in Total Comprehensive Income for the period in which they are incurred.

##### ***General payables***

Payables and accrued expenditure are recognised initially at the transaction price and subsequently measured at amortised cost. The difference between the proceeds and the amount payable is recognised over the period of the payable using the effective interest method.

##### ***Judgements in applying accounting policies and key sources of estimating uncertainty***

In the process of applying the Council's accounting policies, the Council Members have made no judgements which can significantly affect the amounts recognised in the financial statements.

At the end of the reporting period, except as disclosed in note 20, there were no key assumptions concerning the future, or any other key sources of estimating uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

##### ***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 the 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 end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its

## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

#### Accounting Policies and Reporting Procedures (continued)

carrying amount is the present value of those cash flows (where 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.

#### 3. Surplus for the year

	Notes	2018 €	2017 €
<i>Surplus for the year is stated after charging:</i>			
Personnel Emoluments	8	69,279	67,807
Depreciation	12	93,202	43,093

#### 4. Funds Received from Central Government

	2018 €	2017 €
In terms of section 55 of the Local Councils Act, 1993	287,067	275,270
Other Supplementary Government Income ( <i>Note i</i> )	18,775	55,814
Urban Improvement Funds released to income	-	4,012
	305,842	335,096

*Note (i) Other supplementary income includes €14,331 (2017 - €26,331) representing Wasteserv tipping fees.*

#### 5. Income raised under Council Bye-Laws

	2018 €	2017 €
Permits	5,147	2,991
Kiosks	303	186
	5,450	3,177

#### 6. Income raised under Law Enforcement System

	2018 €	2017 €
LES Share of Joint Committee Results	985	484
Income from Regional Committees	1,742	1,811
	2,727	2,295

## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

In accordance with the Local Enforcement System (LES) issued by the Ministry by virtue of Section 72 of the Local Councils Act, 1993, the income relating to contraventions was delegated to the local councils through Legal Notice 32 of 2000.

The recording of income from contraventions, up to the 31 August 2011, was based on cash received from the Joint Committee.

As from the 1 September 2011 the contraventions previously accruing to the Council started accruing in favour of the 'Regjun Nofsinhar'. The Council's income from the Local Enforcement System therefore started reflecting two revenue streams as of that date. The revenue streams are as follows:

- a) Receipts of funds from the Joint Committee up to the 31 August 2011;
- b) 10% on the contraventions accruing to all Regional Committees that were settled at the Council's cash point.

#### 7. General Income

	2018	2017
	€	€
Commission of bills – WSC	440	487
Community and Cultural activities	1,764	3,016
Other income	540	780
Organic waste	3,505	-
	<u>6,249</u>	<u>4,283</u>

#### 8. Personnel emoluments

	2018	2017
	€	€
<i>Personnel emoluments include:</i>		
Mayor's honoraria	7,464	7,345
Council members' allowance	6,400	7,392
Acting executive salary and allowance	3,676	3,676
Employees' salaries	49,578	47,376
Social security contributions - employer's share	2,161	2,018
	<u>69,279</u>	<u>67,807</u>



## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

#### 9. Operations and Maintenance

	2018 €	2017 €
<i>Operations and maintenance includes:</i>		
<b>Repairs and upkeep</b>		
Road and street pavements	2,481	997
Road markings & signs	2,572	3,703
Maintenance of plant & machinery	216	102
Maintenance of public and council property	714	-
Office furniture & equipment	-	148
Other repairs & upkeep	5,593	3,286
	<b>11,576</b>	<b>8,236</b>
<b>Contractual Services</b>		
Operating materials and supplies	292	234
Waste disposal	21,964	26,065
Refuse collection	28,793	24,096
Bulky refuse collection	-	1,269
Open skips	1,989	3,255
Road & street cleaning	12,975	12,829
Cleaning & maintenance - public conveniences	4,655	4,655
Cleaning & maintenance of soft Areas	9,500	10,292
Cleaning council premises	1,500	1,592
Street lighting	9,554	8,907
LES and other contractual services	269	188
	<b>91,491</b>	<b>93,382</b>
<b>Total operations and maintenance</b>	<b>103,067</b>	<b>101,618</b>

## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

#### 10. Administrative and Other Expenses

	2018	2017
	€	€
Utilities incl. internet connectivity	5,392	10,087
Cleaning materials & supplies	236	222
Office services	3,794	2,682
Transport expenses (incl. fuel)	112	68
Information services	549	307
ICT expenses	372	-
Library expenses	3,668	5,038
Hire of equipment	566	283
Hire of transport	1,993	1,677
Travelling and entertainment expenses	12	176
Insurance coverage	1,890	1,632
Bank charges	87	84
Professional services	8,680	5,567
Participation fees	278	-
Community services, social & cultural events	12,565	11,200
Sundry minor expenses	426	269
Bad Debts	-	2,707
Provision for doubtful debts	-	(2,707)
Depreciation	93,202	43,093
	<b>133,822</b>	<b>82,385</b>

#### 11. Investment income

	2018	2017
	€	€
Bank interest on savings	67	42
Bank interest on term deposits	396	1,110
	<b>463</b>	<b>1,152</b>

## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

#### 12. Property, plant and equipment

	Trees	Construction & Special Programmes	Furniture & Fittings	New Street Signs	Urban Improve.	Office & Computer Equip.	Plant and Machinery	Total
Cost	€	€	€	€	€	€	€	€
As at 1 January 2018	384	1,441,333	44,521	2,784	112,474	40,129	3,051	1,644,676
Additions	-	-	239	-	1,918	797	545	3,499
As at 31 December 2018	384	1,441,333	44,760	2,784	114,392	40,926	3,596	1,648,175
<b>Grants and other reimbursements</b>								
As at 1 January 2018	-	676,291	-	-	2,050	5,318	-	683,659
Additions	-	-	-	-	-	-	-	-
As at 31 December 2018	-	676,291	-	-	2,050	5,317	-	683,659
<b>Depreciation</b>								
At 1 January 2018	-	379,152	26,498	2,784	92,739	30,594	2,310	534,077
Charge for the year	-	73,511	3,335	-	11,311	4,416	629	93,202
At 31 December 2018	-	452,663	29,833		104,050	35,010	2,939	627,279
<b>N.B.V. at 31 December 2018</b>	<b>384</b>	<b>312,379</b>	<b>14,927</b>	<b>-</b>	<b>8,292</b>	<b>598</b>	<b>657</b>	<b>337,237</b>

## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

#### 12. Property, plant and equipment - continued

	Trees	Construction & Special Programmes	Furniture & Fittings	New Street Signs	Urban Improve.	Office & Computer Equip.	Plant machinery	Total
Cost	€	€	€	€	€	€	€	€
As at 1 January 2017	384	1,441,333	44,282	2,784	112,474	39,950	2,732	1,643,939
Additions	-	-	239	-	-	179	319	737
Transferred to assets in use	-	-	-	-	-	-	-	-
As at 31 December 2017	384	1,441,333	44,521	2,784	112,474	40,129	3,051	1,644,676
<b>Grants and other reimbursements</b>								
As at 1 January 2017	-	612,611	-	-	2,050	-	-	614,661
Additions – Adoption of the Capital Approach as per IAS 20	-	63,680	-	-	-	5,318	-	68,998
As at 31 December 2017	-	676,291	-	-	2,050	5,318	-	683,659
<b>Depreciation</b>								
As at 1 January 2017	-	340,299	25,090	2,784	90,871	29,779	2,161	490,984
Charge for the year (adjusted)	-	38,853	1,408	-	1,868	815	149	43,093
As at 31 December 2017	-	379,152	26,498	2,784	92,739	30,594	2,310	534,077
<b>N.B.V as at 31 December 2017</b>	384	385,890	18,023	-	17,685	4,217	741	426,940

## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

#### 13. Trade and other Receivables

#### Notes

	2018	2017
	€	€
<b>Falling due within One Year</b>		
Receivables (Note i)	171	67
Other related undertakings (Note i)	1,247	1,150
Prepayments and accrued income	20,343	15,149
	<b>21,761</b>	16,366
	2018	2017
	€	€
(i) <i>Credit period analysis:</i>		
Within credit period	224	315
Exceeded credit period but not impaired	1,194	902
	<b>1,418</b>	1,217

#### 14. Cash and Cash Equivalents

Cash and cash equivalents in the statement of cash flows comprise the following amounts in the Council's statement of financial position:

	2018	2017
	€	€
Petty cash	128	165
Bank balances: Savings and Current accounts	629,157	124,430
Bank balances: Term Deposits	106,988	156,988
	<b>736,273</b>	281,583

## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

#### 15. Deferred Income

As explained in Note 2 – Accounting policies and reporting procedures on Government Grants, as from 01 January 2018, reporting of grants have been changed from Income approach to Capital approach and government grants related to the purchase of property, plant and equipment are deducted from the carrying amount of the relative non-current asset. Therefore, in financial statements, no deferred income in relation to grants is reported, except on projects not yet completed, as reported in Note 16. Since this is a change in accounting policy according to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, it has been accounted for retrospectively.

#### 16. Trade and Other Payables

	2018	2017
	€	€
<b>Falling due within One Year</b>		
Trade Payables	48,432	39,666
Amounts owed to Joint Committee	35	35
Other Related undertakings	17,590	26,399
Accruals	16,608	14,165
Deferred income - Measure 4	353,985	-
<b>Total payables</b>	<b>436,650</b>	<b>80,265</b>

#### 17. Capital commitments

2018	2017
€	€

Details of capital commitments at the accounting date are as follows:

(i) Approved but not yet contracted for (note a.)	885,000	250,000
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- a. *Resurfacing works of various roads* - the amount of €353,985 eligible costs has already been pre-financed in the reporting year and the remaining €353,985 will be funded by European Agricultural funds for Rural Developments in 2019. The Council will be funding 20% of the total cost of this project amounting to €177,030.

#### 18. Contingent liabilities

Contingencies which are not included in the financial statements amount to € 7,386 (2017: € 7,386). These might give rise to liabilities due by the Local Council in the future.

## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

#### 19. 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.

The ultimate controlling party of Il- Gudja Local Council is the Local Councils Department within the Ministry of Justice, Culture and Local Government (MJCL).

All the Companies, Authorities and Agencies set up by the Central Government are also considered to be related parties to Il-Gudja Local Council, but do not have significant control. The Joint Committee (up to the 31 August 2011), All Regional Committees (from 1 September 2011), the Local Councils Association and the other Local Councils are also considered to be related parties.

During the year under review, the Council carried out transactions with the following parties:

<b>Name of Entity:</b>	<b>Nature of Relationship</b>
Department of Local Councils	Significant Control
Regional Committee - Local Law Enforcement	No Control
Bank of Valletta	No Control
Employment & Training Corporation	No Control
Enemalta Corporation	No Control
Head of School - Primary A & B	No Control
Kunsill Malti għall-Isport	No Control
Local Councils Association	No Control
Local Councils, other than Local Council Gudja	No Control
Police Commissioner	No Control
Water Services Corporation	No Control
Wasteserv Malta Limited	No Control
Works Division - Director General Works	No Control

The following were the significant transactions carried out by the Council with related parties having significant control:

	<b>2018</b>	<b>2017</b>
	<b>€</b>	<b>€</b>
Income - Annual Financial Allocation	<b>287,067</b>	275,270

## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

#### 20. Financial Risk Management

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

Where applicable, any significant changes in the Council's exposure to financial risks or manner in which the Council manages and measures these risks are disclosed below.

Where possible, the Council aims to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of risk exposure associated with the financial instruments sharing similar characteristics is disclosed in more detail in the notes to the financial statements.

With respect to credit risk, the receivables are monitored continuously for recoverability. Receivables are presented net of an allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidences of a reduction in the recoverability of the cash flows. Known bad debts are therefore maintained to the lowest possible, thereby lowering as much as possible the concentration of credit risk.

#### *Liquidity risk*

Liquidity risk is the risk that the Local Council will not be able to meet its financial obligations as they fall due.

The Local Council's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Generally, the Local Council ensures that it has sufficient cash on demand to meet expected operational expenditure, including the servicing of financial obligations.

At 31 December 2018 and 31 December 2017, the contractual maturities on the financial liabilities of the Council were as summarized below. Contractual maturities reflect gross cash flows, which may differ from the carrying values of financial liabilities at the date of the Statement of Profit and Loss and Other Comprehensive Income.

	2018	2017
	€	€
<b>Trade and other payables</b>		
Less than 6 months	<b>40,320</b>	39,210
6 to 12 months	<b>372,195</b>	16,920
1 to 5 years	<b>24,135</b>	24,135
	<b>436,650</b>	80,265



## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

#### 20. Financial Risk Management - continued

##### *Capital management*

It is the policy of the council to maintain an adequate capital base in order to sustain the future development of the council and safeguard the ability of the council to continue operating. In this respect, the council monitors the operations and results of the council. The council is not subject to externally imposed capital requirements. There were no changes in the council's approach to capital management during the year.

##### *Interest Rate risk*

The Council's interest rate risk arises from the borrowings issued at variable rates expose the Council to cash flow interest rate risk. In general, the Council Members and Executive Secretary the Council's exposure to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financing position and cash flows are not deemed to be substantial in view of the nature of the assets and liabilities.

##### *Credit risk*

Financial assets which potentially subject the Council to concentration of credit risk consist primarily of cash at bank and receivables. The Council's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any financial credit history. In this respect, credit with respect to receivables 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.

##### *Movement in Provision for Doubtful Debts:*

	2018	2017
	€	€
Provision at 01 January	-	2,707
Movement	-	(2,707)
Provision at 31 December	-	-

#### 21. Events after the reporting date

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of approval of the financial statements – 22 April 2019 by the council members.

## II-GUDJA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2018

#### 22. Prior year Comparative amounts

Comparative amounts have been changed to reflect the change in method of calculating depreciation from reducing balance to straight line (*note 2- Property, Plant and equipment*); and change in accounting policy for Government grants from income approach to capital approach (*note 2 – Government Grants*) and be consistent with current year's presentation. Profit or Loss and Financial Position line items were adjusted as follows respectively:

	As reported in 2017 Audit	Adjustment to reflect change in Accounting Policy	As restated in 2018 Audit
		€	€
<b>Income</b>			
Other supplementary income	64,690	(8,876)	55,814
<b>Expenditure</b>			
Depreciation	51,969	(8,876)	43,093
	As reported in 2017 Audit	Adjustment to reflect change in Accounting Policy	As restated in 2018 Audit
		€	€
<b>Non-current assets</b>			
Property, plant and equipment	487,062	(60,122)	426,940
<b>Non-current liabilities</b>			
Deferred Income	53,684	(53,684)	-
<b>Current liabilities</b>			
Deferred Income	6,438	(6,438)	-

### **REPORT OF THE LOCAL GOVERNMENT AUDITORS ON IL-GUDJA LOCAL COUNCIL TO THE AUDITOR GENERAL**

#### **Report on the Audit of the Financial Statements**

##### **Opinion**

We have audited the financial statements of Il-Gudja Local Council which comprise the Statement of Financial Position as at 31 December 2018, and the statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows statement 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 statement of financial position of Il-Gudja Local Council as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

##### **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 opinion.

##### **Responsibilities of the Executive Secretary**

The Executive Secretary is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the EU, and for such internal control as the 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 Executive Secretary is 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 Council is intended to be liquidated or to cease operations, or has no realistic alternative but to do so.

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.

### **REPORT OF THE LOCAL GOVERNMENT AUDITORS ON THE II-GUDJA LOCAL COUNCIL TO THE AUDITOR GENERAL (continued)**

#### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

## **IL-GUDJA LOCAL COUNCIL**

### **REPORT OF THE LOCAL GOVERNMENT AUDITORS ON THE IL-GUDJA LOCAL COUNCIL TO THE AUDITOR GENERAL (continued)**

#### **Report on Other Legal and Regulatory Requirements**

In our opinion, the financial statements comply fully with the Local Councils Act, the Financial Regulations issued in terms of this Act and the Local Council (Financial) Procedures.

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**Mr Manuel Castagna**

For and on behalf of

**Nexia BT**

**Certified Public Accountants**

**The Penthouse, Suite 2**

**Capital Business Centre, Entrance C**

**Triq taz-Zwejt**

**San Gwann SGN 3000**

**Malta**

**Date: 29 April 2019**