

ANNUAL REPORT AND FINANCIAL STATEMENTS

2018



TA' KERĊEM

TA' KERĊEM LOCAL COUNCIL

Annual Report

and

Financial Statements

for the year ended 31 December 2018



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ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2018

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

for the year ended 31 December 2018

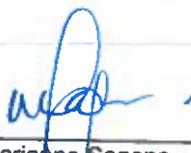
The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Councils' statement of comprehensive income for the year and of the Council's retained funds at the end of year. By virtue of the same 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 Councils (Financial) Regulations, and the Local Councils (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, the Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Local Council on the 30th April 2019 and signed on its behalf by



Mario Azzopardi
Mayor



Marianne Sagona
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

		2018	2017
		€	€
Income	<i>Notes</i>		
Funds received from Central Government	4	280,317	266,677
Income raised under Local Enforcement System	5	1,100	2,961
General Income	6	25,118	14,022
		<u>306,535</u>	<u>283,660</u>
Expenditure			
Personal emoluments	8	(81,097)	(79,683)
Operations and maintenance	9	(112,566)	(119,018)
Administration and other expenditure	10	(97,691)	(95,717)
		<u>(291,354)</u>	<u>(294,418)</u>
Operating Surplus / (Deficit) for the year	7	15,181	(10,758)
Finance costs	11	(5,436)	(5,839)
Finance income	12	45	31
Total comprehensive income / (loss) for the year		<u>9,790</u>	<u>(16,566)</u>

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 €	2017 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	15	520,143	565,323
		<u>520,143</u>	<u>565,323</u>
Current Assets			
Inventories	13	2,995	2,555
Receivables	14	19,317	15,004
Cash and Cash Equivalents	16	576,523	134,114
		<u>598,835</u>	<u>151,673</u>
Total Assets		<u><u>1,118,978</u></u>	<u><u>716,996</u></u>
RESERVES AND LIABILITIES			
Reserves			
Retained Funds		374,382	364,592
		<u>374,382</u>	<u>364,592</u>
Non-Current Liabilities			
Accruals	17	14,828	23,514
Long-term borrowings	18	75,113	92,615
Deferred income	19	51,974	51,974
		<u>141,915</u>	<u>168,103</u>
Current Liabilities			
Payables	17	107,279	168,343
Deferred income	19	478,255	-
Short-term borrowings	18	17,147	15,958
		<u>602,681</u>	<u>184,301</u>
Total Reserves and Liabilities		<u><u>1,118,978</u></u>	<u><u>716,996</u></u>

These financial statements were approved by the Local Council on 30th April 2019 and signed on its behalf by:



Mario Azzopardi
Mayor



Marianne Sagona
Executive Secretary

STATEMENT OF CHANGES IN EQUITY
 For the year ended 31 December 2018

	Retained Funds €
At 1 January 2017	381,158
Total comprehensive loss for the year 2017	(16,566)
At 31 December 2017	364,592
At 1 January 2018	364,592
Total comprehensive income for the year 2018	9,790
At 31 December 2018	374,382

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 €	2017 €
	Note	
Cash flows from Operating Activities		
Total comprehensive income/(loss) for the year	9,790	(16,566)
Reconciliation to cash generated from operations:		
Depreciation	56,989	56,118
Increase in provision for doubtful debts	(2,997)	588
Interest receivable	(45)	(31)
Operating Profit before Working Capital Changes	<u>63,737</u>	<u>40,109</u>
(Increase)/Decrease in inventories	(440)	1,641
Decrease/(Increase) in receivables	531	(793)
(Increase)/Decrease in other receivables	(1,847)	41,731
(Decrease)/Increase in payables	(57,016)	77,420
(Decrease) in other payables	(12,734)	(101,267)
Cash (used in)/generated from operating activities	<u>(7,769)</u>	<u>58,841</u>
Cash flows from Investing Activities		
Interest received	45	31
Purchase of property, plant & equipment	(16,809)	(31,282)
Repayment of grants to Paying Agency	-	(2,337)
Receipt of grants	483,255	51,974
Cash generated from investing activities	<u>466,491</u>	<u>18,386</u>
Cash flows from Financing Activities		
Repayment of long-term borrowings	(16,313)	(16,133)
Cash used in financing activities	<u>(16,313)</u>	<u>(16,133)</u>
Net Increase in Cash and Cash Equivalents	442,409	61,094
Cash and Cash Equivalents at the Beginning of the year	<u>134,114</u>	<u>73,020</u>
Cash and Cash Equivalents at the End of the year	<u>16</u> <u>576,523</u>	<u>134,114</u>

The notes on pages 8 to 23 form an integral part of these financial statements

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

1. General Information

The Ta' Kerċem Local Council is the local Authority of Ta' Kerċem set up in accordance with the Local Councils Act, 1993. The office of the Local Council is situated at Orvielo Square, Ta' Kerċem, Gozo. These financial statements were approved for issue by the Council Members on the 30th April 2019. The Local Council's presentation as well as functional currency is denominated in €.

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 Cap. 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Proceđures 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 (Cap. 363).

New and amended standards adopted by the Local Council

In the current year, the Local Council has applied a number of amendments to IFRS issued by the International Accounting Standards Boards (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

IFRS 9 Financial Instruments

The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

IFRS 15 Revenue from Contracts with Customers

The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Notes to the Financial Statements for the year ended 31 December 2018**2. Accounting Policies and Reporting Procedures***New Standards and amendments not yet effective:*

A number of new International Financial Reporting Standards and amendments and revisions thereto were in issue but not yet effective during the financial period under review. These include the following:

IFRS 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset and an interest expense on the recognised lease liability. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The Councillors and Executive Secretary are assessing the impact that the adoption of these International Financial Reporting Standards will have on the financial statements in the period of initial application. The Council anticipates that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements in the period of initial application.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Depreciation is 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:

	%
Land	0
Trees	0
Buildings	1
Office Furniture and Fittings	7.5
Construction Works-	10
Urban Improvements (Street Furniture)	10
Special Projects	10
Office Equipment	20
Motor Vehicles	20
Plant and Machinery	20
Computer Equipment	25
Plants	100
Litter Bins	Replacement basis
Playground Furniture	100
Traffic Signs	Replacement basis
Road Signs	Replacement basis
Street Mirrors	Replacement basis
Street Lights	100

The change in the deprecation method from reducing balance to straight line method took place as of January 2018 and has been effected 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 profit. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each statement of financial position date. 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.

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 Comprehensive Income during the financial period in which they are incurred.

Notes to the Financial Statements for the period ended 31 December 2018 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and the value in use. Impairment losses are immediately recognised as an expense in the Statement of Comprehensive Income.

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 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.

Borrowings

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

Borrowings are classified as current liabilities unless the Local Council has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Other payables

Other payables are classified with current liabilities and are stated at their nominal value unless the effect of discounting is material in which case other payables are measured at amortised cost using the effective interest method.

Financial instruments

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

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

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

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

Financial assets

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

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

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

Notes to the Financial Statements for the period ended 31 December 2018 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Financial assets (cont.)

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 other receivables fall into this category of financial instruments.

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

Financial liabilities

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

All interest-related charges are included within 'finance costs'.

Related parties

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

Revenue

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs and it can be measured reliably. Interest income is recognised in the statement of comprehensive income as it accrues.

Income from central government is not recognised until there is reasonable assurance that the Council will comply with any conditions attached to it, and that the income will be received. The received income is to be recorded gross and any deductions made for non-compliance are to be disclosed separately with expenses.

Local Enforcement System

During the year, the income recognised in the Statement of Comprehensive Income under the Local Enforcement System represents the administrative fees receivable from the Regional Committees and Local Enforcement System Agency for contraventions paid at the Local Council.

Government grants

Government grants relating to operating expenditure are recognized 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 year ended 31st December 2017, government grants were accounted for using the income approach according to IAS20 *Accounting for Government Grants and Disclosure of Government Assistance*. On 1st January 2018, the capital approach, according to IAS20, 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 IAS8 *Accounting Policies, Changes in Accounting Estimates and Errors*, it has been accounted for retrospectively.

Notes to the Financial Statements for the period ended 31 December 2018 (cont.)**Accounting Policies and Reporting Procedures (cont.)***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 €, which is the Council's functional and presentation currency.

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

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Profits and losses

Only surpluses 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.

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.

Capital Management

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

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

To achieve the above, the Council carries out a quarterly review of the working capital ratio ("Financial Situation Indicator"). This ratio was positive at the reporting date and has not changed significantly from the previous year. The Council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

3. Judgments in applying accounting policies and key sources of estimation

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Council, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

4. Funds received from central government

	2018	2017
	€	€
In terms of section 55 of the Local Councils Act	265,626	254,710
Supplementary Government Income	4,816	4,415
Other Government Income	9,875	7,552
	<u>280,317</u>	<u>266,677</u>

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**5. Local Enforcement system**

	2018	2017
	€	€
Distribution by LESA	-	2,250
Contraventions and other fines	1,100	711
	<u>1,100</u>	<u>2,961</u>

6. General Income

	2018	2017
	€	€
Cultural Events	1,250	1,320
Sponsorships	450	-
General Income	1,209	1,762
Community Services	14,560	5,243
Rent receivable	4,924	3,961
Income from Permits	2,725	1,736
	<u>25,118</u>	<u>14,022</u>

7. Operating surplus/(deficit) for the year

	2018	2017
	€	€
The operating surplus/(deficit) for the year is stated after charging:		
Staff salaries	81,097	79,683
Depreciation of property, plant and equipment	56,989	56,118
	<u>56,989</u>	<u>56,118</u>

8. Personal emoluments

	2018	2017
	€	€
Mayor's Remuneration	7,464	7,345
Mayor's and Councillors' Allowances	6,400	6,760
Executive Secretary Salary and Allowances	31,123	30,763
Employees' Salaries	30,665	29,607
Social Security Contributions	5,445	5,208
	<u>81,097</u>	<u>79,683</u>

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**9. Operations and Maintenance**

	2018	2017
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	15,393	11,755
Walkways	7,367	11,906
Signs	968	3,160
Road Markings	1,318	327
Other repairs and Upkeep	530	3,235
	<u>25,576</u>	<u>30,383</u>
<i>Contractual Services:</i>		
Waste Disposal	10,908	9,969
Refuse Collection	38,489	34,247
Bulky Refuse Collection	-	862
Open Skips	-	4,750
Road & Street Cleaning	3,652	3,239
Cleaning & Maintaining Non-Urban	27,706	26,323
Cleaning - Council Premises	803	1,135
Cleaning & Maintaining Parks & Gardens	1,090	1,784
Street Lighting	3,405	6,326
Studies & Consultations	937	-
	<u>86,990</u>	<u>88,635</u>
Total Operations and Maintenance Costs	<u>112,566</u>	<u>119,018</u>

10. Administrative and other expenditure

	2018	2017
	€	€
Utilities	6,475	8,548
Other repairs and upkeep	232	2,151
Rent	877	1,694
National and International Memberships	705	800
Office Services	3,159	2,478
Transport	2,754	2,092
Information Services	63	40
Lease of Equipment	50	-
Insurance Coverage	1,543	1,594
Penalties - MEPA	-	250
Professional Services	12,439	9,326
Other Hospitality Costs	699	644
Social and Cultural Events	14,703	9,394
(Decrease)/ Increase in provision on the receivables	(2,997)	588
Depreciation	56,989	56,118
	<u>97,691</u>	<u>95,717</u>

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**11. Finance Costs**

	2018	2017
	€	€
Bank charges	566	196
Bank interest	4,870	5,643
	<u>5,436</u>	<u>5,839</u>

12. Investment Income

	2018	2017
	€	€
Bank Interest Receivable	45	31
	<u>45</u>	<u>31</u>

13. Inventories

	2018	2017
	€	€
Stock of stamps	<u>2,995</u>	<u>2,555</u>

14. Receivables

	2018	2017
	€	€
Accounts receivables	5,165	2,699
Prepayments and accrued income	14,152	12,305
	<u>19,317</u>	<u>15,004</u>

Receivables

Account receivables are analysed as follows:

	2018	2017
	€	€
Within credit period	5,031	723
Exceeded credit period but not impaired	134	1,976
Impaired and provided for	2,303	5,300
Provision for doubtful debts	<u>(2,303)</u>	<u>(5,300)</u>
	<u>5,165</u>	<u>2,699</u>

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

15. Property, plant and equipment

	New Street Signs €	Urban Improvements & Construction €	Computer & Office Equipment €	Office Furniture & fittings €	Special Programmes & Construction €	Total €
Cost						
At 1 January 2018	4,554	593,977	25,531	21,426	1,314,441	1,959,929
Additions	-	-	1,336	-	15,473	16,809
At 31 December 2018	4,554	593,977	26,867	21,426	1,329,914	1,976,738
Depreciation						
At 1 January 2018	4,554	394,376	19,187	10,158	447,378	875,653
Charge for the year	-	16,240	189	845	39,715	56,989
At 31 December 2018	4,554	410,616	19,376	11,003	487,093	932,642
Grants						
At 1 January 2018	-	37,195	6,198	-	475,560	518,953
Additions	-	-	-	-	5,000	5,000
At 31 December 2018	-	37,195	6,198	-	480,560	523,953
Net Book values						
At 31 December 2018	-	146,166	1,293	10,423	362,261	520,143

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

15. Property, plant and equipment (cont.)

	New Street Signs €	Urban Improvements & Construction €	Computer & Office Equipment €	Office Furniture & fittings €	Special Programmes & Construction €	Total €
Cost						
At 1 January 2017	4,554	593,977	25,160	21,231	1,283,725	1,928,647
Additions	-	-	371	195	30,716	31,282
At 31 December 2017	4,554	593,977	25,531	21,426	1,314,441	1,959,929
Depreciation						
At 1 January 2017	4,554	375,703	17,781	9,281	365,469	772,788
Charge for the year	-	18,673	1,406	877	81,909	102,865
At 31 December 2017	4,554	394,376	19,187	10,158	447,378	875,653
Grants						
At 1 January 2017	-	22,832	-	-	68,433	91,265
Government grants prior years	-	14,363	6,198	-	407,127	427,688
At 31 December 2017	-	37,195	6,198	-	475,560	518,953
Net Book values						
At 31 December 2017	-	162,406	146	11,268	391,503	565,323

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**16. Cash & cash equivalents**

Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts.

	2018	2017
	€	€
Cash at Bank	567,811	134,037
Cash in Hand	8,712	77
	<u>576,523</u>	<u>134,114</u>

17. Payables

	2018	2017
	€	€
Accounts payable	77,475	134,491
Other payables	2,047	1,483
Accruals and deferred income	42,585	55,883
	<u>122,107</u>	<u>191,857</u>
Less Non-current accruals	14,828	23,514
	<u>107,279</u>	<u>168,343</u>
Non-Current Accruals	<u>14,828</u>	<u>23,514</u>
PPP		
Deferred between one and two years	9,832	9,832
Deferred between two and five years	4,996	13,682
	<u>14,828</u>	<u>23,514</u>

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**18. Borrowings**

	2018	2017
	€	€
Non-current		
Bank borrowings	<u>75,113</u>	<u>92,615</u>
Current		
Bank borrowings	<u>17,147</u>	<u>15,958</u>
Borrowings		
Repayable between one and two years	17,887	14,116
Repayable between two and five years	56,241	53,037
Repayable in five years or more	985	25,462
	<u>75,113</u>	<u>92,615</u>
Repayable after five years or more:		
Bank Loan	<u>985</u>	<u>25,462</u>
<i>Bank Loans</i>		

Long term borrowings consists of two bank loans borrowed by the Council with the approval of the Minister responsible for the Local Government to be repaid over a period of twenty years. The bank loan's interest rates are 4.65% and 4.90% respectively and repayments for the current year amounts to Eur21,287. The loan is paid through Eur 5,322 quarterly installments inclusive of interest. The Loans are secured by a general hypothec on the Council's assets and a pledge over an insurance policy.

19. Deferred income

	2018	2017
	€	€
Government grants		
At 1 January	51,974	477,389
Refunded to Paying Agency	-	(2,337)
Increase in year	<u>478,255</u>	<u>51,974</u>
	530,229	527,026
Released in year	-	(46,747)
Adjustment in line with Directive 1/2017	-	(428,305)
At 31 December	<u>530,229</u>	<u>51,974</u>
Current Deferred Income	<u>478,255</u>	-
Non-Current Deferred Income	<u>51,974</u>	<u>51,974</u>
Deferred Government Grants		
Deferred between one and two years	51,974	-
Deferred between two and five years	-	51,974
Deferred in five years or more	-	-
	<u>51,974</u>	<u>51,974</u>

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**20. Capital commitments**

	2018	2017
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	-	55,000
- Contracted for but not provided in the financial statements	<u>418,622</u>	<u>-</u>
(i) Approved but not yet contracted for:		
Lunzjata Works	-	55,000
Road resurfacing	<u>-</u>	<u>-</u>
	<u>-</u>	<u>55,000</u>
(i) Contracted for but not provided in the Financial Statements:		
Project financed under Measure 4.3	282,367	-
Triq Wenzu Mintoff - Project financed under Ministry for Gozo	89,285	-
Lunzjata Works	<u>46,970</u>	<u>-</u>
	<u>418,622</u>	<u>-</u>

21. Financial Risk Management

The Council's activities expose it to credit risk and liquidity risk through its use of financial instruments which result from its operating activities. The Council is not exposed to any market risk. The Council's risk management is coordinated by the council members and focuses on actively securing the council's short to medium term cash flow by minimising exposure to financial risks.

Credit risk

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

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**21. Financial Risk Management (cont.)**

The maximum exposure to credit risk for amounts receivable at the reporting date, net of impairment losses, by type of customer is as follows:

- Receivables from Related Parties: € 5,165

Liquidity Risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. In fact at year end, the Council has as cash and cash equivalents the amount of Euro 576,523. This should ensure an ongoing working capital of the Council for the next 12 months.

Going Concern Risk

The Council registered a net profit of €9,790 (2017: net loss of €16,566) during the year ended 31 December 2018, and as at that date, the Council had a net current liabilities position of €3,846 (2017: €32,628). These financial statements have been prepared on a going concern basis in view of the fact that it is understood that the ultimate controlling party will provide adequate funds for the Council to cover present liabilities as well as short term obligations and commitments arising.

	2018	2017
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	5,165	2,699
Cash and Cash Equivalents	576,523	134,114
	<u>581,688</u>	<u>136,813</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Accounts and other payables	<u>79,522</u>	<u>135,974</u>

Foreign Currency Risk

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

Interest Rate Risk

The Council operates two bank accounts which have financing facilities. These facilities have interest rates which did not fluctuate over the past years and as a result, the Council is not exposed to cash flow interest rate risk on bank balances.

Other risks

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions.

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**22. Related parties disclosures**

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

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Councils	Significant control
Gozo Regional Committee	Joint Control
North Regional Committee	No control
Central Regional Committee	No control
South Eastern Regional Committee	No control
South Regional Committee	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Cleansing Services Department	No control
Director General - Works Division	No control
Wasteserv Malta Limited	No control
Police General Headquarters	No control
Department of Lands	No control
Airmalta plc	No control
Bank of Valletta plc	No control
MCAST	No control
National Library of Malta	No control
Malta Tourism Authority	No control
Office of the Prime Minister	No control
Office of the Commissioner for Data Protection	No control

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

	2018			2017		
	Related party activity €	Total activity €	%	Related party activity €	Total activity €	%
<i>Income</i>						
Transactions with central government	280,317			266,677		
Transactions with regions	1,100			2,961		
	<u>281,417</u>	<u>306,535</u>	<u>92</u>	<u>269,638</u>	<u>283,660</u>	<u>95</u>
<i>Expenditure</i>						
Transactions with government entities	10,908			9,969		
Key personnel remuneration	81,097			79,683		
	<u>92,005</u>	<u>291,354</u>	<u>32</u>	<u>89,652</u>	<u>294,418</u>	<u>30</u>

The amounts due from / to related parties at year-end are disclosed in notes 14 and 17. The terms and conditions do not specify the nature of the consideration to be provided in settlement. These amounts are unsecured, interest free and repayable on demand.

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**23. Ultimate Controlling party**

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

24. Fair values estimation

At 31 December 2018 and at 31 December 2017, the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively, approximated their fair values due to the short term maturities of these assets and liabilities. The fair values of non-current financial assets and non-current financial liabilities are not materially different from their carrying amount.

25. Effect of Change in Accounting Policy

On 1 January 2018, the capital approach, according to IAS 20, has been adopted, in line with 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, has been accounted for retrospectively.

The effect of the restatement on these financial statements is summarised below

	2017 as originally reported	Adjustments	2017 as restated
	€	€	€
Non-Current Assets			
Property, plant and equipment	993,012	(427,689)	565,323
Non-Current Liabilities			
Deferred income	438,424	(386,450)	51,974
Current Liabilities			
Payables	167,727	616	168,343
Deferred income	41,855	(41,855)	-

TA' KERCEM LOCAL COUNCIL**REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL****Qualified Opinion**

We have audited the accompanying financial statements of Ta' Kercem Local Council, which comprise the statement of financial position as at 31 December 2018, and 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 information set out on pages 4 - 23.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the financial statements give a true and fair view of the financial position of the Local Council as of 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 European Union.

Basis for Qualified Opinion

Following Directive 01/2017 issued by the Department for Local Government, the Local Council changed its accounting policies on depreciation, whereby the straight line method is now to be applied instead of the reducing balance method and the accounting policy on government grants, whereby the capital approach is to be applied instead of the income approach. These changes became effective as from 1 January 2018. We were provided with limited information to ensure that the changes in the accounting policies were properly applied. From checks that we could carry out, it seems that the items of property, plant and equipment whose useful life expired, were not written off upon the adoption of the straight-line method and that the depreciation is not being worked out on the remaining useful life of the assets. Given the above limitations, we could not satisfy ourselves as to whether the application of the changes in the accounting policies was properly carried out in all respects. This would impact the carrying amounts of property, plant and equipment as well as the depreciation charge for the year.

We have requested a report from the architect about the projects that were completed during the year ended 31 December 2018 and the projects that were ongoing as of that date. This report was not received by the time of issuing this report. Consequently, we could not confirm whether there should have been any accruals as at 31 December 2018 relating to such projects that have not been reflected in these financial statements, which would result in an understatement of the accruals and of the property, plant and equipment.

When testing the accounts payable, just two confirmations were received out of the samples chosen. This means that the correctness of the other accounts payable chosen, amounting to €79,750, could not be confirmed. With respect to the accounts payable for which a confirmation was received, a total net variance of €5,886 was found that was not investigated. We could not satisfy ourselves through alternative audit procedures as to the correctness and completeness of the accounts payable.

REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued

Basis for Qualified Opinion - continued

With respect to the disclosures in the financial statements, we have noticed the following:

- IAS 1 – Presentation of Financial Statements, requires an entity to present a third statement of financial position when an entity applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in its financial statements and the effect is material. The effect of the change in the accounting policies in accordance with Directive 01/2017 are deemed to be material. These financial statements do not include a third statement of financial position.
- Whilst Note 2 is stating that the Local Council has adopted IFRS 9, other disclosures such as the accounting policy on amounts receivable in Note 2 and the credit risk in Note 21, are still in line with the old IAS 39 – Financial Instruments: Recognition and Measurement.
- Note 15 was not properly prepared following the changes in the accounting policies as in the comparatives, the amounts added to the grants, do not represent the gross amounts of grants received but the gross amounts of grants received less the amortization up till 31 December 2017. The amortization for the year ended 31 December 2017 should have been netted off against the depreciation charge for the year ended 31 December 2017 while the accumulated amortization up till 31 December 2016 should have been netted off against the accumulated depreciation as of that date.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Local 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.

Material Uncertainty Related to Going Concern

We draw attention to the Local Council's Statement of Financial Position on page 5 which shows that as at 31st December 2018, the current liabilities of the Local Council exceeded its current assets by €3,846. This condition indicates that a material uncertainty exists that may cast significant doubt as to whether the Local Council will be able to meet its liabilities as and when they fall due. Our opinion is not modified in respect of this matter.

REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued

Other Information

The Executive Secretary and the Local Council Members are responsible for the other information. The other information comprises the Statement of Local Council Members' and Executive Secretary's Responsibilities. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Council Responsibilities for the Financial Statements

As described on page 3, the Executive Secretary and the Local Council Members are 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 European Union, and for such internal control as the Executive Secretary and the Local Council Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Secretary and the Local Council Members are responsible for assessing the Local 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 it is inappropriate to presume that the Local Council will continue as a going concern.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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.

REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued

Auditor's Responsibilities for the Audit of the Financial Statements - continued

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 Local 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 and the Local Council Members.
- Conclude on the appropriateness of the Executive Secretary's and the Local Council Members' 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 Local 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 auditors' 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 Local 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 Executive Secretary and the Local Council Members 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 OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements have been properly prepared in accordance with the Local Councils Act (Cap. 363), the Financial Regulations issued in terms of the said Act and the Local Councils (Financial) Procedures.



*This copy of the audit report has been signed by
Conrad Borg (Partner)
for and on behalf of*

RSM Malta
Certified Public Accountants

Date: 30th April 2019