



MELLIEĦA

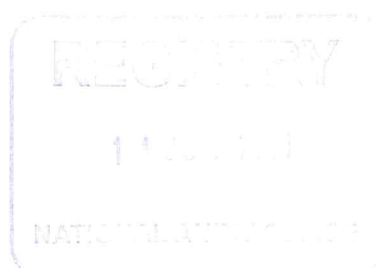
LOCAL COUNCIL MELLIEĦA

**Annual Report
and
Financial Statements**

for the year ended 31 December 2018

Prepared by

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ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2018

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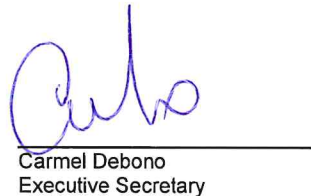
Statement of Local Council Members' and Executive Secretary's Responsibilities
for the year ended 31 December 2018

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

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, the Local Council (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 29th April 2019 and signed on its behalf by


John Buttigieg
Mayor


Carmel Debono
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

		2018 €	2017 €
	<i>Notes</i>		
Income			
Funds received from Central Government	4	1,249,400	1,312,296
Income raised under Local Council Bye-Laws	5	3,298	4,436
Income raised under Local Enforcement System	6	7,520	20,762
General Income	7	81,725	52,000
		<u>1,341,943</u>	<u>1,389,494</u>
Expenditure			
Personal emoluments	9	(170,364)	(160,324)
Operations and maintenance	10	(592,773)	(517,815)
Administrative and other expenditure	11	(1,300,262)	(703,287)
		<u>(2,063,399)</u>	<u>(1,381,426)</u>
Operating (Deficit) / Surplus for the year		(721,456)	8,068
Finance income	12	1,180	1,588
(Deficit) / Surplus for the year		<u>(720,276)</u>	<u>9,656</u>


The notes on pages 8 to 26 form an integral part of these financial statements


STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

		2018 €	31 Dec 2017 as Restated €	31 Dec 2017 as originally reported €
	<i>Notes</i>			
ASSETS				
Non-Current Assets				
Property, plant and equipment	13	3,012,269	3,631,996	5,108,045
Intangible assets	14	538	808	808
		<u>3,012,807</u>	<u>3,632,804</u>	<u>5,108,853</u>
Current Assets				
Inventories	15	19,198	10,813	10,813
Receivables	16	259,495	87,045	87,045
Cash and Cash Equivalents	17	1,091,327	791,263	791,263
		<u>1,370,020</u>	<u>889,121</u>	<u>889,121</u>
Total Assets		<u><u>4,382,827</u></u>	<u><u>4,521,925</u></u>	<u><u>5,997,974</u></u>
EQUITY AND LIABILITIES				
Reserves				
Retained Fund		<u>3,269,357</u>	<u>3,989,633</u>	<u>3,989,633</u>
		<u>3,269,357</u>	<u>3,989,633</u>	<u>3,989,633</u>
Non-Current Liabilities				
Long-term borrowings	19	14,836	45,496	45,496
Deferred income	20	473,029	15,163	1,350,285
		<u>487,865</u>	<u>60,659</u>	<u>1,395,781</u>
Current Liabilities				
Payables	18	<u>625,605</u>	<u>471,633</u>	<u>612,560</u>
		<u>625,605</u>	<u>471,633</u>	<u>612,560</u>
Total Equity and Liabilities		<u><u>4,382,827</u></u>	<u><u>4,521,925</u></u>	<u><u>5,997,974</u></u>

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


John Buttigieg
Mayor


Carmel Debono
Executive Secretary

The notes on pages 8 to 26 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Retained Funds €
At 1 January 2017	3,979,977
Surplus for the year 2017	9,656
	<hr/>
At 31 December 2017	3,989,633
	<hr/> <hr/>
At 1 January 2018	3,989,633
Deficit for the year 2018	(720,276)
	<hr/>
At 31 December 2018	3,269,357
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The notes on pages 8 to 26 form an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 €	2017 €
	Note	
Cash flows from Operating Activities		
Surplus for the year	(720,276)	9,656
Reconciliation to cash generated from operations:		
Depreciation	511,512	501,678
Decrease in value of PPE in line with Directive 1/2017	587,397	-
Interest receivable	(1,180)	(1,588)
Grant released	-	(155,779)
Operating Profit before Working Capital Changes	377,453	353,967
(Increase)/decrease in inventories	(8,385)	886
Increase in receivables	(135,283)	(13,566)
(Increase)/decrease in other receivables	(37,167)	18,233
Increase/(decrease) in payables	220,001	(143,837)
(Decrease)/increase in other payables	(66,029)	164,138
Cash generated from operating activities	350,590	379,821
Cash flows from Investing Activities		
Interest received	1,180	1,588
Purchase of intangible assets	-	(1,077)
Purchase of property, plant & equipment	(494,076)	(339,782)
Receipt of grant	473,030	-
Cash used in investing activities	(19,866)	(339,271)
Cash flows from Financing Activities		
Decrease in long term third party borrowings	(30,660)	(28,290)
Net increase in Cash and Cash Equivalents	300,064	12,260
Cash and Cash Equivalents at the Beginning of the year	791,263	779,003
Cash and Cash Equivalents at the End of the year	17 1,091,327	791,263

The notes on pages 8 to 26 form an integral part of these financial statements

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

1. General Information

The Mellieha Local Council is the local Authority of Malta set up in accordance with the Local Councils Act, 1993. The office of the Local Council is situated at 126, New Mill Street, Mellieha, MLH 1107. These financial statements were approved for issue by the Council Members on 29th 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) 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 (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 depreciation 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.

Up to the year ended 31 December 2017, depreciation was accounted for using the reducing balance method according to IAS 16 – Property, Plant and Equipment. On 1 January 2018, the straight-line method, according to IAS 16 has been adopted, in line with the Directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting estimate, which according to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, has been accounted for prospectively

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.

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

Accounting Policies and Reporting Procedures (cont.)

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.

Intangible assets

Intangible assets comprise externally generated computer software. In determining the classification of an asset that incorporates both intangible and tangible elements, judgement is used in assessing which element is more significant. Computer software which is an integral part of the related hardware is classified as property and equipment and accounted for in accordance with the Group's accounting policy on property and equipment. Where the software is not an integral part of the related hardware, this is classified as an intangible asset.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Computer software is initially measured at cost. It is subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses.

Computer software is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

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.

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

Accounting Policies and Reporting Procedures (cont.)

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'.

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

As from September 2012, the income recognised in the Statement of Comprehensive Income was derived from the five Regional Committees and Local Enforcement System Agency. During the year under review, the Council also received income from the Joint Committee under the pooling system.

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

Accounting Policies and Reporting Procedures (cont.)

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.

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.

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**4. Funds received from central government**

	2018	2017
	€	€
In terms of section 55 of the Local Councils Act	1,129,804	1,084,638
Supplementary Government Income	80,812	54,600
EU funding	5,982	1,020
Other Government Income	32,802	16,259
Grants Released	-	155,779
	<u>1,249,400</u>	<u>1,312,296</u>

5. Income raised from Bye-Laws

	2018	2017
	€	€
Bye-Law - Attivitajiet fil-Beraħ	1,433	2,434
Bye-Law - Organisation of Courses	160	450
Bye-Law - Skips	1,705	1,552
	<u>3,298</u>	<u>4,436</u>

6. Local Enforcement system

	2018	2017
	€	€
Contraventions and other fines	7,520	9,695
Distributions from LESA	-	11,067
	<u>7,520</u>	<u>20,762</u>

7. General Income

	2018	2017
	€	€
Cultural Events & sponsorships from NGOs	4,195	4,000
Sale of books and other merchandise	185	242
Rent Receivable	233	233
General Income	148	269
Tender Documents/Info Charges	1,897	-
Contributions	10	-
Refund of expenses	6,292	3,278
Income from Permits	68,765	43,978
	<u>81,725</u>	<u>52,000</u>

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**8. Deficit / surplus for the year**

	2018	2017
	€	€
Deficit / surplus for the year is stated after charging		
Staff salaries	170,364	160,324
Depreciation of property, plant & equipment	511,513	501,678

9. Staff Salaries

	2018	2017
	€	€
Mayor's Remuneration	11,194	11,020
Councillors' Allowances	11,150	11,161
Executive Secretary Salary and Allowances	34,568	33,729
Employees' Salaries	102,497	94,184
Social Security Contributions	10,955	10,230
	170,364	160,324

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**10. Operations and Maintenance**

	2018	2017
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	51,885	63,992
Signs	29,642	11,707
Road Markings	21,502	27,595
Other repairs and Upkeep	7,538	7,658
Council Property	4,003	3,280
Repairs and maintenance - litter bins	2,078	1,550
	<u>116,648</u>	<u>115,782</u>
<i>Contractual Services:</i>		
Refuse Collection	231,563	178,394
Bulky Refuse Collection	26,565	22,993
Open Skips & Bring-In Sites	1,263	2,602
Road & Street Cleaning	34,389	42,935
Cleaning & Maintaining Non-Urban	24,303	25,210
Cleaning - Public Conveniences	57,655	55,718
Cleaning - Council Premises	3,334	3,511
Cleaning & Maintaining Parks & Gardens	58,814	48,120
Cleaning & Maintaining Beaches	-	149
Street Lighting	31,973	21,861
Studies & Consultations	2,227	472
LES related expenditure	4,039	68
	<u>476,125</u>	<u>402,033</u>
 Total Operations and Maintenance Costs	 <u>592,773</u>	 <u>517,815</u>

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**11. Administration and other expenditure**

	2018	2017
	€	€
Utilities	16,691	17,635
Other repairs and upkeep	2,401	8,683
Rent	3,728	3,737
National and International Memberships	1,748	3,651
Office Services	2,828	2,321
Transport	2,583	2,081
Travel	891	66
Information Services	5,541	8,508
Lease of Equipment	3,546	3,410
Insurance Coverage	4,655	6,236
Bank Charges	413	300
Professional Services	22,898	27,886
EU Projects Expenses	-	-
Tuition for courses and expenses	3,450	1,235
Entertainment	1,710	2,077
Conference Expenses	45	150
Cultural Events	103,616	96,606
Community Services	15,638	14,817
Sundry Minor Expenses	1,658	1,900
General and administrative expenses	696	310
Twinning expenses	6,617	-
Reduction in value of PPE in line with Directive 1/2017	587,397	-
Depreciation	511,512	501,678
	<u>1,300,262</u>	<u>703,287</u>

12. Finance Income

	2018	2017
	€	€
Bank Interest Receivable	1,180	1,588
	<u>1,180</u>	<u>1,588</u>

MELLIEHA LOCAL COUNCIL

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

13. Property, plant and equipment (cont.)

	Property	Assets under construction	New Street Signs	Urban Improvements & Construction	Plant, machinery & Equipment	Office Furniture & fittings	Special Programmes	Total
	€	€	€	€	€	€	€	€
Cost								
At 1 January 2018	568,224	543,417	73,322	545,142	45,683	184,513	6,863,942	8,824,243
Additions	-	475,884	-	16,957	870	365	-	494,076
Reclassification	-	(261,534)	-	132,517	-	-	129,017	-
At 31 December 2018	568,224	757,767	73,322	694,616	46,553	184,878	6,992,959	9,318,319
Depreciation								
At 1 January 2018	14,357	-	73,322	545,142	37,619	64,887	3,105,022	3,840,349
Charge for the year	2,069	-	-	103,925	2,416	17,754	385,079	511,243
Adjustment Directive 1/2017	-	-	-	-	1,479	2,756	583,162	587,397
At 31 December 2018	16,426	-	73,322	649,067	41,514	85,397	4,073,263	4,938,989
Grants								
At 1 January 2018	-	-	-	-	-	-	1,351,898	1,351,898
At 31 December 2018	-	-	-	-	-	-	1,367,061	1,367,061
Net Book values								
At 31 December 2018	551,798	757,767	-	45,549	5,039	99,481	1,552,635	3,012,269

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

13. Property, plant and equipment (cont.)

	Property	Assets under construction	New Street Signs	Urban Improvements & Construction	Plant, machinery & Equipment	Office Furniture & fittings	Special Programmes	Total
	€	€	€	€	€	€	€	€
Cost								
At 1 January 2017	568,224	810,982	73,322	538,562	40,225	169,109	8,563,460	10,763,884
Additions	-	326,169	-	6,580	5,458	945	630	339,782
Reclassification	-	(593,734)	-	-	-	19,559	574,175	-
Government grants prior years	-	-	-	-	-	(5,100)	(2,274,323)	(2,279,423)
At 31 December 2017	568,224	543,417	73,322	545,142	45,683	184,513	6,863,942	8,824,243
Depreciation								
At 1 January 2017	12,425	-	73,322	534,190	35,876	57,254	3,429,248	4,142,315
Charge for the year	1,932	-	-	10,952	1,743	8,557	478,224	501,408
Adjusted	-	-	-	-	-	(924)	(802,450)	(803,374)
At 31 December 2017	14,357	-	73,322	545,142	37,619	64,887	3,105,022	3,840,349
Grants								
At 1 January 2017	-	-	-	-	-	-	-	-
At 31 December 2017	-	-	-	-	-	-	1,351,898	1,351,898
Net Book values								
At 31 December 2017	553,867	543,417	-	-	8,064	119,626	2,407,022	3,631,996

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**14. Intangible assets**

	Computer software €
Cost	
At 1 January 2018	1,077
Additions	-
	<hr/>
At 31 December 2018	1,077
	<hr/>
Depreciation	
At 1 January 2018	269
Charge for the year	270
	<hr/>
At 31 December 2018	539
	<hr/>
Net Book value	
At 31 December 2018	538
	<hr/> <hr/>

	Computer software €
Cost	
At 1 January 2017	-
Additions	1,077
	<hr/>
At 31 December 2017	1,077
	<hr/>
Depreciation	
At 1 January 2017	-
Charge for the year	269
	<hr/>
At 31 December 2017	269
	<hr/>
Net Book value	
At 31 December 2017	808
	<hr/> <hr/>

15. Inventories

	2018	2017
	€	€
Books and other publications	19,198	10,813
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**16. Receivables**

	2018	2017
	€	€
Receivables	157,476	22,193
Prepayments and accrued income	102,019	64,852
	<u>259,495</u>	<u>87,045</u>

Receivables

General receivables are analysed as follows:

	2018	2017
	€	€
Within credit period	156,629	6,569
Exceeded credit period but not impaired	847	15,624
Impaired and provided for	125,525	126,107
Provision for doubtful debts	<u>(125,525)</u>	<u>(126,107)</u>
	<u>157,476</u>	<u>22,193</u>

Local Enforcement System (LES) Debtors

LES Debtors are stated after a specific provision for doubtful debts amounting to €117,980 (2017 - €118,562).

Included in the accounts receivable are amounts due from related parties amounting to €164,960 (2017 : €19,291). These amounts are unsecured, interest free and repayable on demand.

17. 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	1,091,154	791,031
Cash in Hand	173	232
	<u>1,091,327</u>	<u>791,263</u>

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

	2018 €	2017 €
Payables	398,403	178,402
Other Payables	-	1,897
Accruals and deferred income	227,202	291,334
	<u>625,605</u>	<u>471,633</u>

Included in the accounts payable are amounts to related parties amounting to €79,325 (2017 : €60,215). These amounts are unsecured, interest free and repayable on demand.

19. 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	5,108,045	(1,476,049)	3,631,996
Non-Current Liabilities			
Deferred income	1,350,285	1,335,122	15,163
Current Liabilities			
Payables	612,560	140,927	471,633

20. Borrowings

	2018 €	2017 €
Non-current		
Third party borrowings	14,836	45,496
Borrowings		
Repayable between one and two years	14,836	31,807
Repayable between two and five years	-	13,689
	<u>14,836</u>	<u>45,496</u>

Third party loan is payable to a supplier under the Public Private Partnership scheme as per memo 45/2010 separated into two phases. It is repayable over a period of 7 years up to 2019 (Phase 1) and up to 2020 (Phase 2).

Long term amount payable under the scheme, inclusive of interest is €17,425.

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

	2018 €	2017 €
Government grants		
At 1 January	15,163	1,646,990
Increase in year	473,029	-
Deferred Income utilised and transferred to PPE	(15,163)	
	<u>473,029</u>	<u>1,646,990</u>
Released in year	-	(155,779)
Adjustment in line with Directive 1/2017		(1,476,048)
	<u>473,029</u>	<u>15,163</u>
At 31 December	<u>473,029</u>	<u>15,163</u>
Current Deferred Income	<u>-</u>	<u>-</u>
Non-Current Deferred Income	<u>473,029</u>	<u>15,163</u>
Deferred Government Grants		
Deferred between one and two years	-	-
Deferred between two and five years	-	-
Deferred in five years or more	473,029	15,163
	<u>473,029</u>	<u>15,163</u>
Deferred after five years or more	<u>473,029</u>	<u>15,163</u>

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**22. Capital commitments**

	2018 €	2017 €
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	937,736	259,681
- Contracted for but not provided in the financial statements	<u>536,773</u>	<u>344,140</u>
(i) Approved but not yet contracted for:		
New Street Lamps	178,229	34,207
Road Resurfacing	213,507	120,000
Triq l-Inkurunazzjoni Embellishment	306,000	-
Gnien il-Qighan Improvements	1,000	-
Inkurunazzjoni/Parish Sqr.Panoramic Lift	45,000	-
Mons F Xuereb/Nahal/Etna Open Space	100,000	2,500
Tunnara Project	-	30,000
Construction of Culverts	-	9,462
Street Furniture	5,000	2,000
Office Equipment & Computer Equipment	11,500	7,418
Gnien tas-Salib Playing Field	41,000	25,000
Gnien Dun Anton Debono	28,500	25,000
Office Improvements	8,000	4,094
	<u>937,736</u>	<u>259,681</u>
(i) Contracted for but not provided in the Financial Statements:		
New Street Lamps	-	45,036
Misrah il-Parrocca Mellieha Project	-	85,000
Tunnara Project	376,773	-
Embellishment of Stepped Streets	160,000	164,104
Ghajn tal-Mellieha & Environs Restoration	-	50,000
	<u>536,773</u>	<u>344,140</u>

23. Contingent liabilities

The Council has received a claim for damages for alleged injuries at ir-Ramla tal-Mixquqa amounting to €20,000, however liability is not being accepted by the Council's Insurance. The last correspondence received from claimant was in February 2016. The Council has also received other minor claims for damages/injuries allegedly caused to their vehicles on streets which are the responsibility of the Local Council. These claims are currently being quantified and assessed.

The council also recognises a variance of €26,315 with respect to amounts due to Central Asphalt; the variance of which is mainly due to disputes on certain invoices with Water Services Corporation on works carried out in Triq il-Qortin.

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**24. Related party transactions**

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 for Local Government	Significant control
North Joint Committee (Local Enforcement)	Joint Control
North Regional Committee	Joint Control
Central Regional Committee	No control
Gozo 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
ARMS	No control
Bank of Valletta plc	No control
Mellieha Primary School	No control
Department of Information	No control
MITA	No control
Office of the Commissioner for Data Protection	No control
Association of Local Councils' Secretaries	No control
Ministry for Resources and Rural Affairs	No control

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

	Related party activity	2018		Related party activity	2017	
	€	Total activity	%	€	Total activity	%
<i>Income</i>						
Transactions with central government	1,249,400			1,156,517		
Transactions with regions	7,520			20,762		
	<u>1,256,920</u>	<u>1,341,943</u>	<u>94</u>	<u>1,177,279</u>	<u>1,389,494</u>	<u>85</u>
<i>Expenditure</i>						
Transactions with government entities	124,893			108,887		
Key personnel remuneration	170,364			160,324		
	<u>295,257</u>	<u>2,063,399</u>	<u>14</u>	<u>269,211</u>	<u>1,381,426</u>	<u>19</u>

25. 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 Government, Councils also receive funds relating to specific projects as well as other funds for the improvement and betterment of the locality.

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**26. Financial Risk Management**

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

Credit risk

Financial assets which potentially subject the Council to concentrations of credit risk consist principally of cash at bank and debtors. The Council's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution. The Council has appropriate policies to ensure that income is received from sources with appropriate credit history. In this respect, credit risk with respect to 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.

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: €164,960

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 1,091,327. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive current net asset position of Euro 744,415 (2017: Euro 417,488) ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

	2018	2017
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	157,476	22,193
Cash and Cash Equivalents	1,091,327	791,263
	<u>1,248,803</u>	<u>813,456</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>398,403</u>	<u>178,402</u>

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

25. Financial Risk Management (cont.)

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 currencies.

Interest Rate Risk

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

Market risks

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

The Council's current discount rate in respect of the third party loan is 8.38%, with cash flows amounting to €53,241 over the next 3 years.

Other risks

The Council's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Council to cash flow interest rate risk. In general, 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 by the Councillors and Executive Secretary in view of the nature of the assets and liabilities.

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.

26. Fair value of financial assets and financial liabilities

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.

27. Prior year figures

The comparative figures in these financial statements have been changed as per the instructions of DLG Directive 1/2017

LOCAL COUNCIL MELLIEHA
Report of the Local Government Auditors to the Auditor General

Report on the Audit of the Financial Statements

We have audited the financial statements of LOCAL COUNCIL MELLIEHA, set out on pages 4 to 26, 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 notes to the financial statements, including a summary of significant accounting policies.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of LOCAL COUNCIL MELLIEHA as at 31 December 2018, and its financial performance for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for Qualified Opinion

In accordance with the Local Enforcement System (LES) issued by the Ministry by virtue of Article 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 Council entered into a pooling agreement with a number of local councils within the Local Enforcement System and formed a Joint Committee to manage and administer this function up to September 2011, when this was delegated to Regional Committees. In view that no proper audited financial statements have been prepared by the Joint Committee, we could not obtain reasonable assurance on the completeness of the share of income for the year under review, that has been recorded in the financial statements as well as on any possible accrued income or liabilities present as at end of the current financial year.

The Council does not maintain an appropriate fixed asset register to record its acquisitions of property, plant and equipment in view that substantial variances have been noted with the amounts recorded in the nominal ledger. Furthermore, a number of assets have been incorrectly categorized or not yet capitalised with the consequence that an incorrect depreciation charge has been applied and recognised in the financial statements. To this effect, we could not perform practical satisfactory audit procedures to obtain reasonable assurance on the completeness of the depreciation charged thereupon.

Throughout our testing of the receivables of the Council, which amount to € 157,476, we encountered a balance due from Transport Malta, amounting to € 144,208 which has not been confirmed nor received after year end. In view of the lack of information and evidence to confirm the recoverability of this amount, there were no practicable procedures to obtain reasonable assurance on the completeness and recoverability of this receivable.

Throughout our testing of the trade payables of the Council, which amount to €398,403, we encountered a significant number of misstatements arising out of the lack of proper accounting and recording of payables. For example, whilst the Council recognised amounts owed to Central Asphalt Ltd for the amount of €128,159, the supplier confirmation provided by Central Asphalt Limited indicates that the amounts due to them amount to € 152,474. Whilst this and other misstatements noted lead us to the opinion that these constitute a material misstatement of the liabilities of the Council as at year end, there were no practicable procedures to determine the exact amount of misstatement within the payables recognized by the Council.

International Financial Reporting Standards require that all applicable standards and their disclosure requirements are complied with in the preparation of financial statements. These financial statements lack

proper disclosures emanating from IAS 39 - Recognition and Measurement in relation to the disclosure of the liability accounted for using amortised cost in relation to the PPP scheme as well as from IAS 24-Related Parties in view that note 24 to the financial statements does not reflect the requirement of articles 18, 25 and 26 of the said standard.

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

Other Information

The Council is 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 this information, including the Statement of Local Council Members' and Executive Secretary's Responsibilities. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We have nothing to report in this regard.

Council's Responsibility for the Financial Statements

The Council Members and the Executive Secretary 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 EU and for such internal control as management determines 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 management are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intend to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council members and Executive secretary.
- Conclude on the appropriateness of the Council members and 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 Company'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 company 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 also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. These financial statements have not been prepared entirely in line with the requirements of International Financial Reporting Standards as adopted by the European Union.


This copy of the audit report has been signed by

Mr. Neville Cutajar (Audit Partner) for and on behalf of

3a

Certified Public Accountants

Level 2, Palazzo Ca Brugnara',

Valley Road,

Birkirkara Malta.

Date: 29th April 2019

