



**MOSTA**

**MOSTA LOCAL COUNCIL**

Annual Report

and

Financial Statements

for the year ended 31 December 2017



Prepared by

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MOSTA LOCAL COUNCIL

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2017**

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## MOSTA LOCAL COUNCIL

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### Statement of Local Council Members' and Executive Secretary's Responsibilities for the year ended 31 December 2017

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 21st May 2018 and signed on its behalf by

  
Keith Cassar  
Mayor  
Lorraine Templeman  
Executive Secretary

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

		2017 €	2016 €
	Notes		
<b>Income</b>			
Funds received from Central Government	4	1,368,218	1,281,562
Income raised under Local Council Bye-Laws	5	8,027	2,857
Income raised under Local Enforcement System	6	28,527	20,035
General Income	7	108,472	105,953
		<u>1,513,244</u>	<u>1,410,407</u>
<b>Expenditure</b>			
Personal emoluments	9	(200,235)	(196,257)
Operations and maintenance	10	(654,427)	(568,863)
Administrative and other expenditure	11	(441,884)	(442,062)
		<u>(1,296,546)</u>	<u>(1,207,182)</u>
<b>Operating Profit for the year</b>		<b>216,698</b>	<b>203,225</b>
<b>Finance income</b>	12	<b>184</b>	<b>220</b>
		<u>216,882</u>	<u>203,445</u>
<b>Profit for the year</b>		<b>216,882</b>	<b>203,445</b>

The notes on pages 8 to 24 form an integral part of these financial statements

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 €	2016 €
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Intangible assets	13	576	-
Property, plant and equipment	14	2,680,480	2,949,421
		<u>2,681,056</u>	<u>2,949,421</u>
<b>Current Assets</b>			
Inventories	15	-	14,883
Receivables	16	153,960	153,455
Cash and Cash Equivalents	17	433,653	227,745
		<u>587,613</u>	<u>396,083</u>
<b>Total Assets</b>		<u><u>3,268,669</u></u>	<u><u>3,345,504</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Reserves</b>			
Retained Fund		<u>1,876,637</u>	<u>1,659,755</u>
		<u>1,876,637</u>	<u>1,659,755</u>
<b>Non-Current Liabilities</b>			
Long-term borrowings	19	53,080	78,554
Deferred income	20	840,055	924,142
		<u>893,135</u>	<u>1,002,696</u>
<b>Current Liabilities</b>			
Payables	18	414,810	590,060
Deferred income	20	84,087	92,993
		<u>498,897</u>	<u>683,053</u>
<b>Total Equity and Liabilities</b>		<u><u>3,268,669</u></u>	<u><u>3,345,504</u></u>

These financial statements were approved by the Local Council on the 21st May 2018 and signed on its behalf by:

  
Keith Cassar  
Mayor

  
Lorraine Templeman  
Executive Secretary

The notes on pages 8 to 24 form an integral part of these financial statements

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2017

	Retained Funds €
At 1 January 2016	1,456,310
Surplus for the year 2016	203,445
At 31 December 2016	<u>1,659,755</u>
At 1 January 2017	1,659,755
Surplus for the year 2017	216,882
At 31 December 2017	<u>1,876,637</u>

The notes on pages 8 to 24 form an integral part of these financial statements

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2017.

	2017 €	2016 €
Note		
<b>Cash flows from Operating Activities</b>		
Profit for the year	216,882	203,445
Reconciliation to cash generated from operations:		
Depreciation	279,701	305,348
Bad Debts written off	-	754
Decrease in provision for Doubtful Debtors	-	(1,028)
Interest receivable	(184)	(220)
Grant released	(92,993)	(102,844)
Operating Profit before Working Capital Changes	403,406	405,455
Decrease in inventories	14,883	48
Decrease in receivables	4,506	2,494
(Increase) / Decrease in other receivables	(5,011)	30,280
(Decrease) in payables and other payables	(175,250)	(371,860)
Cash generated from operating activities	242,534	66,417
<b>Cash flows from Investing Activities</b>		
Interest received	184	220
Purchase of property, plant & equipment	(10,610)	(5,356)
Purchase of intangible assets	(726)	-
Proceeds from disposal of property, plant & equipment	-	(105,410)
Receipt of grants	-	18,750
Cash used in investing activities	(11,152)	(91,796)
<b>Cash flows from Financing activities</b>		
(Decrease) in long term liabilities	(25,474)	(107,532)
Cash used in financing activities	(25,474)	(107,532)
Net Increase / (Decrease) in Cash and Cash Equivalents	205,908	(132,911)
Cash and Cash Equivalents at the Beginning of the year	227,745	360,656
Cash and Cash Equivalents at the End of the year	433,653	227,745

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The notes on pages 8 to 24 form an integral part of these financial statements



## MOSTA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2017

#### 1. General Information

The Mosta 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 Civic Centre, Constitution Street, Mosta, MST9059.

These financial statements were approved for issue by the Council Members on the 21st May 2018. 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 2017.

Amendments to IAS 7 Disclosure Initiative. Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. The Local Council has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

Improvements in Annual Improvements 2012-2014 Cycle makes amendments to the following standards: IFRS 5 — Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

##### *New Standards and amendments not yet adopted:*

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

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows: Debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances). Investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss. All other instruments (including all derivatives) are measured at fair value with changes recognised in the profit or loss. The concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines. The standard remains available for application if the relevant date of initial application is before 1 February 2015 and is not yet endorsed for use in the EU.



Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

**2. Accounting Policies and Reporting Procedures**

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement. The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. The standard remains available for application if the relevant date of initial application is before 1 February 2015 and is not yet endorsed for use in the EU.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

**Classification and measurement.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

**Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.

**Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and nonfinancial risk exposures.

**Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39. These standards remain available for application if the relevant date of initial application is before 1 February 2015. It's effective for annual periods beginning on or after 1 January 2018 and is not yet endorsed for use in the EU.

IFRS 15 provides a single, principles based five step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018.

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. Applicable to annual reporting periods beginning on or after 1 January 2019.

**Amendments to IAS 40 Transfers of Investment Property.** The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction. Annual Improvements in Annual Improvements 2012-2014 Cycle include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Local Council. The package also includes amendments to IFRS 12 which is mandatorily effective for the Local Council in the current year. Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018.

Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

**3. Accounting Policies and Reporting Procedures**

IFRIC 22 Foreign Currency Transactions and Advance Consideration. Addresses how to determine the date of transaction for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

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.

*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 Council'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.

*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 reducing balance 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

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 year ended 31 December 2017 (cont.)

**2. Accounting Policies and Reporting Procedures**

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.

*Leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

*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.

*Inventories*

Inventories are valued at the lower of cost and net realisable value. Cost includes freight, handling and other direct costs. Costs of inventories include the transfer from retained funds of any gains/losses on qualifying cash flow hedges relating to purchases of stock items. However, borrowing costs and foreign exchange differences are excluded. Net realisable value is the price at which stocks can be sold in the course of Council activities less anticipated costs of selling.

*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.

Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

**2. Accounting Policies and Reporting Procedures**

*Financial instruments (cont.)*

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 Income Statement was derived from the five Regional Committees and the Local Enforcement System Agency.



Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

**2. Accounting Policies and Reporting Procedures**

*Government grants*

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement over the expected lives of the related assets.

*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 profits that were realised at the date of the Statement of Financial Position are recognised in these financial statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the financial statements are approved.

*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. 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.



# MOSTA LOCAL COUNCIL

## Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

### 4. Funds received from central government

	2017	2016
	€	€
In terms of section 55 of the Local Councils Act	1,185,524	1,099,687
Supplementary Government Income	81,411	71,053
Other Government Income	8,290	7,978
Grants Released	92,993	102,844
	<u>1,368,218</u>	<u>1,281,562</u>

### 5. Income raised from Bye-Laws

	2017	2016
	€	€
Advertising on Street Furniture	606	699
Income from publications	50	-
Income from skip permits	1,571	-
Use of facilities	5,800	2,158
	<u>8,027</u>	<u>2,857</u>

### 6. Local Enforcement system

	2017	2016
	€	€
Contraventions and other fines	28,527	20,035
	<u>28,527</u>	<u>20,035</u>

### 7. General Income

	2017	2016
	€	€
Cultural Events & sponsorships from NGOs	2,605	667
General Income	47,983	42,082
Reimbursement of expenses	5,555	4,222
Insurance claims	-	3,000
Income from Permits	52,329	55,982
	<u>108,472</u>	<u>105,953</u>

### 8. Profit for the year

	2017	2016
	€	€
Profit for the year is stated after charging		
Staff salaries	200,235	196,257
Depreciation of property plant & equipment	279,701	305,348
Bad debts written off	-	754
Movement in provision for doubtful debts	-	(1,028)
	<u>-</u>	<u>(1,028)</u>

# MOSTA LOCAL COUNCIL

## Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

### 9. Personal Emoluments

	2017	2016
	€	€
Mayor's Remuneration	14,053	13,991
Councillors' Allowances	15,371	15,220
Executive Secretary Salary and Allowances	31,922	24,758
Employees' Salaries	124,990	129,904
Social Security Contributions	13,899	12,384
	<u>200,235</u>	<u>196,257</u>

The average number of persons employed by the Council during the year was as 7 (2016: 7).

### 10. Operations and Maintenance

	2017	2016
	€	€
<i>Repairs and Upkeep:</i>		
Office furniture and upkeep	953	324
Patching and Pavements	99,755	26,705
Repairs to public property	775	183
Signs	3,691	6,660
Road Markings	14,378	3,622
Handyman repairs and upkeep	33,895	30,056
	<u>153,447</u>	<u>67,550</u>
<i>Contractual Services:</i>		
Refuse Collection	349,552	351,289
Bulky Refuse Collection	18,157	13,229
Road & Street Cleaning	79,457	77,765
Cleaning & Maintaining Non-Urban	-	642
Cleaning - Public Conveniences	8,951	11,343
Cleaning - Council Premises	1,365	-
Cleaning & Maintaining Parks & Gardens	29,683	29,355
Street Lighting	13,677	17,001
LES related expenditure	138	689
	<u>500,980</u>	<u>501,313</u>
<b>Total Operations and Maintenance Costs</b>	<u><b>654,427</b></u>	<u><b>568,863</b></u>

MOSTA LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

11. Administration and other expenditure

	2017	2016
	€	€
Utilities	16,855	18,591
Other repairs and upkeep	6,877	5,593
Rent	38,961	34,819
National and International Memberships	99	522
Office Services	3,579	4,673
Insurance Coverage	3,379	3,265
Bank Charges	599	168
Professional Services	29,094	24,425
Entertainment	1,554	1,287
Conference Expenses	51	375
Community Services	40,086	38,759
Sundry Minor Expenses	90	-
Provision for Doubtful Debtors	-	(1,028)
Bad Debts written off	-	754
Public relations expenses	4,975	1,831
Permits and licenses	1,101	2,680
Write off of obsolete stock	14,883	-
Depreciation	279,701	305,348
	<u>441,884</u>	<u>442,062</u>

12. Finance Income

	2017	2016
	€	€
Bank Interest Receivable	184	220

13. Intangible fixed assets

	Computer software	Total
<b>Cost</b>		
At 1 January 2017	-	-
Additions	726	726
At 31 December 2017	<u>726</u>	<u>726</u>
<b>Depreciation</b>		
At 1 January 2017	-	-
Charge for the year	150	150
At 31 December 2017	<u>150</u>	<u>150</u>
<b>Net Book value</b>		
At 31 December 2017	<u>576</u>	<u>576</u>

MOSTA LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

14. Property, plant and equipment

	Trees	Computer equipment	Office equipment	Street signs mirrors & lights	Urban Improvements	Plant, & machinery	Office Furniture & fittings	Construction works	Special Programmes	Total
	€	€	€	€	€	€	€	€	€	€
<b>Cost</b>										
At 1 January 2017	37,169	-	143,716	128,450	459,768	52,544	164,759	2,759,827	4,228,530	7,974,763
Additions	-	4,051	4,254	-	438	-	1,867	-	-	10,610
At 31 December 2017	37,169	4,051	147,970	128,450	460,206	52,544	166,626	2,759,827	4,228,530	7,985,373
<b>Depreciation</b>										
At 1 January 2017	-	-	127,370	128,450	341,149	52,544	118,010	1,498,070	590,939	2,856,532
Charge for the year	-	495	3,383	-	11,348	-	3,446	120,550	140,329	279,551
At 31 December 2017	-	495	130,753	128,450	352,497	52,544	121,456	1,618,620	731,268	3,136,083
<b>Grants</b>										
At 1 January 2017	-	-	-	-	-	-	-	-	2,168,810	2,168,810
At 31 December 2017	-	-	-	-	-	-	-	-	2,168,810	2,168,810
<b>Net Book values</b>										
At 31 December 2017	37,169	3,556	17,217	-	107,709	-	45,170	1,141,207	1,328,452	2,680,480

MOSTA LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

14. Property, plant and equipment (cont.)

	Trees	Office equipment	Street signs mirrors & lights	Urban Improvements	Plant, & machinery	Office Furniture & fittings	Construction works	Special Programmes	Total
	€	€	€	€	€	€	€	€	€
<b>Cost</b>									
At 1 January 2016	37,169	141,909	128,450	458,285	52,544	162,693	2,759,827	4,200,323	7,941,200
Additions	-	1,807	-	1,483	-	2,066	-	28,207	33,563
At 31 December 2016	37,169	143,716	128,450	459,768	52,544	164,759	2,759,827	4,228,530	7,974,763
<b>Depreciation</b>									
At 1 January 2016	-	123,776	128,450	328,661	52,544	114,463	1,364,785	438,505	2,551,184
Charge for the year	-	3,594	-	12,488	-	3,547	133,285	152,434	305,348
At 31 December 2016	-	127,370	128,450	341,149	52,544	118,010	1,498,070	590,939	2,856,532
<b>Grants</b>									
At 1 January 2016	-	-	-	-	-	-	-	2,470,596	2,470,596
At 31 December 2016	-	-	-	-	-	-	-	2,168,810	2,168,810
<b>Net Book values</b>									
At 31 December 2016	37,169	16,346	-	118,619	-	46,749	1,261,757	1,468,781	2,949,421

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MOSTA LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

15. Inventories

	2017	2016
	€	€
Books and other publications	-	14,883

16. Receivables

	2017	2016
	€	€
Receivables	17,148	21,654
Prepayments and accrued income	136,812	131,801
	<u>153,960</u>	<u>153,455</u>

*Receivables*

General receivables are analysed as follows:

	2017	2016
	€	€
Within credit period	14,995	18,284
Exceeded credit period but not impaired	2,153	3,370
Impaired and provided for	398,453	396,185
Provision for doubtful debts	<u>(398,453)</u>	<u>(396,185)</u>
	<u>17,148</u>	<u>21,654</u>

Included in the accounts receivable are amounts due from related parties amounting to €14,225(2016 : €6,073). These amounts are unsecured, interest free and repayable on demand.

17. Cash & cash equivalents

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

	2017	2016
	€	€
Cash at Bank	433,352	227,558
Cash in Hand	301	187
	<u>433,653</u>	<u>227,745</u>

Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

**18. Payables**

	2017	2016
	€	€
Payables	233,792	362,737
Other payables	68,135	53,262
Accruals - PPP	44,883	104,373
Accruals	68,000	69,688
	<u>414,810</u>	<u>590,060</u>

2017	0-90 days	91-180 days	180-365 days	Total
	€	€	€	€
Payables	93,337	38,951	101,504	233,792
Other payables	68,135	-	-	68,135
Accruals - PPP	11,221	11,221	22,443	44,885
Accruals	68,000	-	-	68,000
	<u>240,693</u>	<u>50,172</u>	<u>123,947</u>	<u>414,812</u>

2016	0-90 days	91-180 days	180-365 days	Total
	€	€	€	€
Payables	144,089	42,184	176,464	362,737
Other payables	53,262	-	-	53,262
Accruals - PPP	26,093	26,093	52,187	104,373
Accruals	69,688	-	-	69,688
	<u>293,132</u>	<u>68,277</u>	<u>228,651</u>	<u>590,060</u>

Included in the accounts payable are amounts to related parties amounting to €69,630 (2016 : €72,155). These amounts are unsecured, interest free and repayable on demand.

**19. Borrowings**

	2017	2016
	€	€
<b>Non-current</b>		
Third party borrowings	<u>53,080</u>	<u>78,554</u>
<b>Borrowings</b>		
Repayable between one and two years	27,608	29,577
Repayable between two and five years	25,472	48,977
Repayable in five years or more	-	-
	<u>53,080</u>	<u>78,554</u>

*Third party loan* is payable to a supplier under the Public Private Partnership scheme as per memo 45/2010 separated into two phases. One is repayable over a period of 9 years, 2014 to 2020 (Phase 1) and another is payable over a period of 4 years from the construction of that particular street, 2014 to 2018 (Phase 2). Long term amount payable under the scheme, inclusive of interest is €59,842.

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MOSTA LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

20. Deferred income

	2017	2016
	€	€
<b>Government grants</b>		
At 1 January	1,017,135	878,603
Transfer from Fixed Assets	-	301,786
Payment to Paying Agency	-	(105,410)
Increase in year	-	45,000
	<u>1,017,135</u>	<u>1,119,979</u>
Released in year	<u>(92,993)</u>	<u>(102,844)</u>
At 31 December	<u>924,142</u>	<u>1,017,135</u>
 <b>Current Deferred Income</b>	 <u>84,087</u>	 <u>92,993</u>
 <b>Non-Current Deferred Income</b>	 <u>840,055</u>	 <u>924,142</u>
 <b>Deferred Government Grants</b>		
Deferred between one and two years	76,037	84,087
Deferred between two and five years	187,163	206,972
Deferred in five years or more	576,855	633,083
	<u>840,055</u>	<u>924,142</u>
 <b>Deferred after five years or more</b>	 <u>576,855</u>	 <u>633,083</u>

21. Capital commitments

	2017	2016
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	-	-
- Contracted for but not provided in the financial statements	-	-
	<u>-</u>	<u>-</u>
 (i) Approved but not yet contracted for: Special Programmes	 <u>-</u>	 <u>-</u>
	<u>-</u>	<u>-</u>
 (i) Contracted for but not provided in the Financial Statements:	 <u>-</u>	 <u>-</u>
	<u>-</u>	<u>-</u>

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## MOSTA LOCAL COUNCIL

### Notes to the Financial Statements for the year ended 31 December 2017 (cont.)

#### 21. Capital commitments (cont.)

The Council does not have any capital commitments at year end other than those provided for in the financial statements. Other capital projects will only be considered by the Council if alternative source of funding is found for these projects.

#### 22. Contingent liabilities

There were no contingent liabilities in respect of bank guarantees at year end. However, at year end the council is involved in a number of legal disputes that could give rise to sums to be paid to third parties. These involve the following:

- a. A case instituted by a German Tourist for the liquidation of damages after the occurrence of an accident in the locality; This liability is covered by the Council's Insurance policy; and
- a. A case instituted by Paul Cushcieri Et in front of the Small Claims for an amount of more than €1,500 which claim is being contested.

The Council may also be subject to legal action from third parties who have suffered damages on Mosta Roads and are stating that the Council was at fault, which claims are being refused by the Council.

#### 23. Related party transactions

During the course of the year, the Council entered into transactions with related parties which are related through common ultimate controlling party. The Council entered into transactions with the following related parties:

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Councils	Significant control
North Joint Committee (Local Enforcement)	Joint Control
North Regional Committee	Joint Control
Street Lighting Joint Committee	Joint control
Local Enforcement System Agency	No 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
Arms Limited	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
Office of the Prime Minister	No control
Housing Authority	No control
Kunsill Malti għall-Isport	No control
Local Councils' Association	No control
Department for Elderly & Community	No control
Malta Communications Authority	No control
Ministry for Energy & Health	No control
Heritage Malta	No control
Office of the Commissioner for Data Protection	No control
Ministry for Resources and Rural Affairs	No control



**Notes to the Financial Statements for the year ended 31 December 2017 (cont.)**

**23. Related party transactions (cont)**

The amounts due from / to related parties at year-end are disclosed in notes 15 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.

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

	Related party activity €	2017 Total activity €	%	Related party activity €	2016 Total activity €	%
<i>Income</i>						
Transactions with central government	1,275,225			1,178,718		
Transactions with regions and LESA	28,527			20,035		
	<u>1,303,374</u>	<u>1,513,244</u>	<u>86</u>	<u>1,198,753</u>	<u>1,281,562</u>	<u>94</u>
<i>Expenditure</i>						
Transactions with government entities	166,564			161,888		
Key personnel remuneration	200,235			196,257		
	<u>366,799</u>	<u>1,296,546</u>	<u>28</u>	<u>358,145</u>	<u>1,207,182</u>	<u>30</u>

**24. 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.

**25. 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 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 2017 (cont.)**25. Financial Risk Management (cont.)***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 433,653. This should ensure an ongoing working capital of the Council for the next 12 months.

*Going Concern Risk*

The Council had a net profit of €216,882 (2016: €203,445) during the year ended 31 December 2017, and as at that date, the Council had a net current asset position of €172,803 (2016: negative €193,977).

**Summary of financial assets and liabilities by category:**

	2017	2016
	€	€
<b>Current Assets</b>		
Loans and receivables:		
Accounts and other receivables	17,148	21,654
Cash and Cash Equivalents	433,653	227,745
	<u>450,801</u>	<u>249,399</u>
<b>Current Liabilities</b>		
Financial liabilities measured at amortised costs:		
Payables	<u>414,810</u>	<u>590,060</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 bank accounts without any financing facilities. As a result, the Council is not exposed to cash flow interest rate risk on bank balances.

*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.

*Other risks*

The Council's interest rate risk arises from long term borrowings. However, the Council is not currently exposed to such risk since it does not have long term fluctuating interest borrowings. 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.

## **LOCAL COUNCIL MOSTA**

### **Report of the Local Government Auditors to the Auditor General**

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We have audited the accompanying financial statements of LOCAL COUNCIL MOSTA, set out on pages 4 to 24, which comprise the statement of financial position as of 31<sup>st</sup> December 2017, 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 notes.

#### **Disclaimer of Opinion**

We do not express an opinion on the accompanying financial statements of Local Council Mosta. Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion whether these financial statements give a true and fair view of the financial position of the Local Council Mosta as of 31<sup>st</sup> December 2017 and of its financial performance and its cash flows for the year then ended.

#### **Basis for Disclaimer of Opinion**

In accordance with the Local Enforcement System (LES) issued by the Ministry by virtue of article 72 of the Local Councils Act (Cap. 363), 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. Due to the fact 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 or expenditure that could have been recorded in the financial statements as well as on any accrued income or liabilities present as at end of the current financial year.

The Council does not maintain a proper fixed asset register to record fixed assets acquired by it. The Council has also failed to provide for its depreciation in line with its accounting policy. Due to this reason, we could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the fixed assets recorded in the financial statements, having a net book value of € 2,680,480 as well as on the completeness of the depreciation charged thereupon.

The Council has written off inventories held-for-resale amounting to €14,883 although such stock is still held at the Council's premises on the basis that such stock is not selling. This accounting treatment is not in line with the requirements of IAS 2 – Inventories, in relation to the measurement and recognition of such stock at its net realisable value (NRV).

As at year end, the Council has recognised other creditors amounting to €13,370. The information and evidence provided by the Council with respect to this balance was not appropriate to provide us with reasonable assurance as to the correctness of the balance and other alternate audit procedures performed did not provide us with the necessary assurance to determine whether there is any misstatement within these liabilities recognised by the Council.

The Council has recognised an amount of €924,142 as deferred income as at year end together with a release to the Statement of Comprehensive Income of €92,993. With respect to the 'EU Project' and 'Cult Exchange' project having a total deferred income balance of €318,467, no adequate supporting



evidence was provided to confirm this amount of deferred income recognised. In relation to a reclassification of €301,786 of grants from 'Property plant and equipment' to 'Deferred income' recorded in the prior year, such a transaction was not collaborated by appropriate workings and valid basis for such reclassification. The Council has also not rectified the incorrect release to income in previous years for grants obtained through the PPP scheme. Whilst we are of the opinion that these issues arising constitute a material misstatement of the deferred income of the Council as at year end, there were no practicable procedures to arrive to the amount of misstatement in relation of the deferred income liability as at year end as well as the release of deferred income for the year as recognised in the financial statements.

The financial statements include liabilities of €97,963 with respect to road works undertaken through the Public Private Partnership Scheme. The Council failed to apply properly as well as include disclosures arising from the requirements of IAS39 - Financial Instruments: Recognition & Measurement which requires that such long-term obligations are accounted for at amortised cost. This entails that after initial recognition this liability is measured at amortised cost using the effective interest method, less provision for any impairment. In this regard, the Council should have accounted for this liability accordingly using a proper discount rate which equates to the Council's cost of capital.

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 22 to the financial statements does not reflect the requirement of articles 18, 25 and 26 of the said standard.

#### **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 and fair presentation of these financial statements 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 have no realistic alternative but to do so.

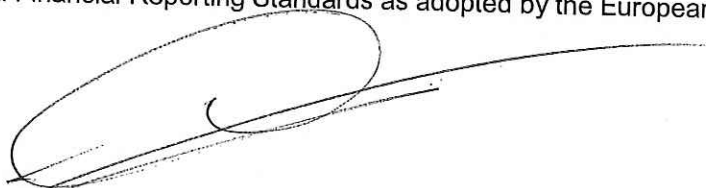
#### ***Auditors' Responsibility for the Audit of the Financial Statements***

Our responsibility is to conduct an audit on these financial statements in accordance with International Standards on Auditing. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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.

***Opinion 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. In view of the matters set out under the basis for disclaimer of opinion section of this report, these financial statements have not been prepared fully in line with the requirements of International Financial Reporting Standards as adopted by the European Union.



This copy of the report has been signed by  
Neville Cutajar (Partner) on its behalf

**3a**

Certified Public Accountants  
Level 2  
Palazzo Ca' Brugnera  
Valley Road  
Birkirkara BKR9024  
Malta

**Date: 21<sup>st</sup> May 2018**