



MOSTA LOCAL COUNCIL

**Annual Report
and
Financial Statements**

for the year ended 31 December 2018



Prepared by

Daniel Galea B. Accty. (Hons.) CPA

MOSTA LOCAL COUNCIL

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2018

CONTENTS

PAGES

Statement of Local Council Members' and Executive Secretary's responsibilities	3
Statement of Comprehensive Income	4
Statement of Financial Position	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 25
Report of the Local Government Auditor to the Auditor General	26 - 27

MOSTA LOCAL COUNCIL

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


Keith Cassar
Mayor


Lorraine Templeman
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

		2018 €	2017 €
	Notes		
Income			
Funds received from Central Government	4	1,308,796	1,275,225
Income raised under Local Council Bye-Laws	5	14,274	8,027
Income raised under Local Enforcement System	6	17,972	28,527
General Income	7	88,945	108,472
		<u>1,429,987</u>	<u>1,420,251</u>
 Expenditure			
Personal emoluments	9	(203,788)	(200,235)
Operations and maintenance	10	(656,529)	(654,427)
Administrative and other expenditure	11	(1,169,969)	(348,891)
		<u>(2,030,286)</u>	<u>(1,203,553)</u>
 Operating (loss)/profit for the year		(600,299)	216,698
 Finance income	12	302	184
		<u> </u>	<u> </u>
 (Loss)/profit for the year		<u>(599,997)</u>	<u>216,882</u>

The notes on pages 8 to 25 form an integral part of these financial statements


MOSTA LOCAL COUNCIL

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

		2018 €	2017 €
	<i>Notes</i>		
ASSETS			
Non-Current Assets			
Intangible assets	13	2,389	576
Property, plant and equipment	14	817,756	1,801,338
		<u>820,145</u>	<u>1,801,914</u>
Current Assets			
Inventories		-	-
Receivables	15	111,435	153,960
Cash and Cash Equivalents	16	838,152	433,653
		<u>949,587</u>	<u>587,613</u>
Total Assets		<u><u>1,769,732</u></u>	<u><u>2,389,527</u></u>
EQUITY AND LIABILITIES			
Reserves			
Retained Fund		1,276,640	1,876,637
		<u>1,276,640</u>	<u>1,876,637</u>
Non-Current Liabilities			
Long-term borrowings	18	27,607	53,080
Deferred income	19	-	45,000
		<u>27,607</u>	<u>98,080</u>
Current Liabilities			
Payables	17	465,485	414,810
Deferred income	19	-	-
		<u>465,485</u>	<u>414,810</u>
Total Equity and Liabilities		<u><u>1,769,732</u></u>	<u><u>2,389,527</u></u>

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


 Keith Cassar
 Mayor


 Lorraine Templeman
 Executive Secretary

The notes on pages 8 to 25 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	1,659,755
Profit for the year 2017	216,882
	<hr/>
At 31 December 2017	1,876,637
	<hr/>
At 1 January 2018	1,876,637
Loss for the year 2018	(599,997)
	<hr/>
At 31 December 2018	1,276,640
	<hr/>

The notes on pages 8 to 25 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		
(Loss) / Profit for the year	(599,997)	216,882
Reconciliation to cash generated from operations:		
Depreciation	358,602	186,708
Reduction in value of PPE in line with Directive 1/2017	636,704	-
Grants forfeited	(20,000)	-
Decrease in provision for Doubtful Debtors	(1,005)	-
Interest receivable	(302)	(184)
Operating Profit before Working Capital Changes	374,002	403,406
Decrease in inventories	-	14,883
(Increase)/Decrease in receivables	(600)	4,506
Decrease/(increase) in other receivables	44,130	(5,011)
Increase/(decrease) in payables and other payables	50,675	(175,250)
Cash generated from operating activities	468,207	242,534
Cash flows from Investing Activities		
Interest received	302	184
Purchase of property, plant & equipment	(36,053)	(10,610)
Purchase of intangible assets	(2,484)	(726)
Cash used in investing activities	(38,235)	(11,152)
Cash flows from Financing activities		
Decrease in long term liabilities	(25,473)	(25,474)
Cash used in financing activities	(25,473)	(25,474)
Net Increase in Cash and Cash Equivalents	404,499	205,908
Cash and Cash Equivalents at the Beginning of the year	433,653	227,745
Cash and Cash Equivalents at the End of the year	838,152	433,653

16

The notes on pages 8 to 25 form an integral part of these financial statements

MOSTA LOCAL COUNCIL

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

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 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 Directive 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 retrospectively

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

2. Accounting Policies and Reporting Procedures

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

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

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.

MOSTA LOCAL COUNCIL

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

2. Accounting Policies and Reporting Procedures

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 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 2018 (cont.)

2. Accounting Policies and Reporting Procedures

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 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 2018 (cont.)

4. Funds received from central government

	2018	2017
	€	€
In terms of section 55 of the Local Councils Act	1,236,332	1,185,524
Supplementary Government Income	68,446	81,411
Other Government Income	4,018	8,290
	<u>1,308,796</u>	<u>1,275,225</u>

5. Income raised from Bye-Laws

	2018	2017
	€	€
Advertising on Street Furniture	2,050	606
Income from publications	142	50
Income from donations	51	-
Income from skip permits	1,508	1,571
Use of facilities	10,523	5,800
	<u>14,274</u>	<u>8,027</u>

6. Local Enforcement system

	2018	2017
	€	€
Contraventions and other fines	17,972	28,527
	<u>17,972</u>	<u>28,527</u>

7. General Income

	2018	2017
	€	€
Cultural Events & sponsorships from NGOs	51	2,605
General Income	25,121	47,983
Reimbursement of expenses	-	5,555
Income from Permits	63,773	52,329
	<u>88,945</u>	<u>108,472</u>

8. Loss / Profit for the year

	2018	2017
	€	€
Profit for the year is stated after charging		
Mayor's Remuneration and Councillors' Allowance	30,719	29,424
Staff salaries	173,069	170,811
Depreciation of property plant & equipment	358,602	186,708
Movement in provision for doubtful debts	(1,005)	-
	<u></u>	<u></u>

[Handwritten signature]

MOSTA LOCAL COUNCIL

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

9. Personal Emoluments

	2018	2017
	€	€
Mayor's Remuneration	14,927	14,053
Councillors' Allowances	15,792	15,371
Executive Secretary Salary and Allowances	34,669	31,922
Employees' Salaries	124,056	124,990
Social Security Contributions	14,344	13,899
	<u>203,788</u>	<u>200,235</u>

The average number of persons employed by the Council during the year was as 7 (2017: 7).

10. Operations and Maintenance

	2018	2017
	€	€
<i>Repairs and Upkeep:</i>		
Office furniture and upkeep	251	953
Patching and Pavements	113,212	99,755
Repairs to public property	1,009	775
Signs	3,112	3,691
Road Markings	13,730	14,378
Plant and machinery	120	-
Sundry repairs	-	-
Handyman repairs and upkeep	32,583	33,895
	<u>164,017</u>	<u>153,447</u>
<i>Contractual Services:</i>		
Refuse Collection	318,855	349,552
Bulky Refuse Collection	18,480	18,157
Road & Street Cleaning	110,122	79,457
Cleaning - Public Conveniences	5,860	8,951
Cleaning - Council Premises	3,851	1,365
Cleaning & Maintaining Parks & Gardens	5,311	29,683
Street Lighting	28,748	13,677
LES related expenditure	1,285	138
	<u>492,512</u>	<u>500,980</u>
Total Operations and Maintenance Costs	<u>656,529</u>	<u>654,427</u>

MOSTA LOCAL COUNCIL

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

11. Administration and other expenditure

	2018	2017
	€	€
Utilities	15,467	16,855
Other repairs and upkeep	5,153	6,877
Rent	38,991	38,961
National and International Memberships	13	99
Office Services	2,741	3,579
Insurance Coverage	3,142	3,379
Bank Charges	142	599
Professional Services	39,018	29,094
Social and cultural events	9,147	1,554
Conference Expenses	491	51
Community Services	53,068	40,086
Sundry Minor Expenses	250	90
Provision for Doubtful Debtors	(1,005)	-
Public relations expenses	7,325	4,975
Permits and licenses	720	1,101
Adjustment in value of PPE in line with Directive 1/2017	636,704	
Write off of obsolete stock	-	14,883
Depreciation	358,602	186,708
	<u>1,169,969</u>	<u>348,891</u>

12. Finance Income

	2018	2017
	€	€
Bank Interest Receivable	<u>302</u>	<u>184</u>

MOSTA LOCAL COUNCIL

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

13. Intangible fixed assets

	Computer software €	Total €
Cost		
At 1 January 2018	726	726
Additions	2,484	2,484
At 31 December 2018	3,210	3,210
Depreciation		
At 1 January 2018	150	150
Charge for the year	671	671
At 31 December 2018	821	821
Net Book value		
At 31 December 2018	2,389	2,389
	Computer software €	Total €
Cost		
At 1 January 2017	-	-
Additions	726	726
At 31 December 2017	726	726
Depreciation		
At 1 January 2017	-	-
Charge for the year	150	150
At 31 December 2017	150	150
Net Book value		
At 31 December 2017	576	576

MOSTA LOCAL COUNCIL

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

14. Property, plant and equipment

	Trees	Improvem ents to premises	Comput er equipme nt	Office equipm ent	Street signs mirrors & lights	Urban Improvements	Plant, & machinery	Office Furniture & fittings	Construc tion works	Assets not yet capitalis ed	Special Program mes	Total
	€	€	€	€	€	€	€	€	€	€	€	€
Cost												
At 1 January 2018	37,169	-	4,051	145,355	128,450	360,884	52,544	166,626	2,759,827	-	2,963,036	6,617,942
Additions	147	1,130	888	2,808	-	-	25,000	4,360	-	747	973	36,053
At 31 December 2018	37,316	1,130	4,939	148,163	128,450	360,884	77,544	170,986	2,759,827	747	2,964,009	6,653,995
Depreciation												
At 1 January 2018	-	-	495	129,202	128,450	327,082	52,544	121,456	1,618,620	-	269,945	2,647,794
Charge for the year	-	38	1,085	3,004	-	5,958	-	5,659	261,887	-	80,300	357,931
Adjustment Directive 1/2017	-	-	-	6,980	-	-	-	31,048	499,111	-	99,565	636,704
At 31 December 2018	-	38	1,580	139,186	128,450	333,040	52,544	158,163	2,379,618	-	449,810	3,642,428
Grants												
At 1 January 2018	-	-	-	-	-	-	-	-	-	-	2,168,810	2,168,810
At 31 December 2018	-	-	-	-	-	-	25,000	-	-	-	2,168,810	2,193,810
Net Book values												
At 31 December 2018	37,316	1,092	3,359	8,977	-	27,844	-	12,823	380,209	747	345,389	817,75

MOSTA LOCAL COUNCIL

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

14. Property, plant and equipment (cont.)

	Trees	Computer equipment	Office equipment	Street signs mirrors & lights	Urban improvements	Plant, & machinery	Office Furniture & fittings	Construction works	Special Programmes	Total
	€	€	€	€	€	€	€	€	€	€
Cost										
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
Government grants prior years	-	-	(2,615)	-	(99,322)	-	-	-	(1,265,494)	(1,367,431)
At 31 December 2017	37,169	4,051	145,355	128,450	360,884	52,544	166,626	2,759,827	2,963,036	6,617,942
Depreciation										
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
Adjusted	-	-	(1,551)	-	(25,415)	-	-	-	(461,323)	(488,289)
At 31 December 2017	-	495	129,202	128,450	327,082	52,544	121,456	1,618,520	269,945	2,847,794
Grants										
At 1 January 2017	-	-	-	-	-	-	-	-	-	-
At 31 December 2017	-	-	-	-	-	-	-	-	-	-
Net Book values										
At 31 December 2017	37,169	3,556	16,153	-	33,802	-	45,170	1,141,207	524,281	1,801,338

MOSTA LOCAL COUNCIL

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

15. Receivables

	2018	2017
	€	€
Receivables	18,753	17,148
Prepayments and accrued income	92,682	136,812
	<u>111,435</u>	<u>153,960</u>

Receivables

General receivables are analysed as follows:

	2018	2017
	€	€
Within credit period	3,612	14,995
Exceeded credit period but not impaired	15,141	2,153
Impaired and provided for	394,128	398,453
Provision for doubtful debts	<u>(394,128)</u>	<u>(398,453)</u>
	<u>18,753</u>	<u>17,148</u>

Included in the accounts receivable are amounts due from related parties amounting to €19,322 (2017 : €14,225). These amounts are unsecured, interest free and repayable on demand.

16. Cash & cash equivalents

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

	2018	2017
	€	€
Cash at Bank	837,797	433,352
Cash in Hand	355	301
	<u>838,152</u>	<u>433,653</u>

MOSTA LOCAL COUNCIL

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

17. Payables

	2018	2017
	€	€
Payables	293,885	233,792
Other payables	69,977	54,436
Accruals - PPP	29,922	44,883
Accruals	71,701	81,699
	<u>465,485</u>	<u>414,810</u>

2018	0-90 days	91-180 days	180-365 days	Total
	€	€	€	€
Payables	95,572	128,912	69,501	293,985
Other payables	69,977	-	-	69,977
Accruals - PPP	29,922	-	-	29,922
Accruals	69,404	-	-	69,404
	<u>264,875</u>	<u>128,912</u>	<u>69,501</u>	<u>463,288</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>

Included in the accounts payable are amounts to related parties amounting to €59,933 (2017 : €69,630). These amounts are unsecured, interest free and repayable on demand.

18. Borrowings

	2018	2017
	€	€
Non-current		
Third party borrowings	<u>27,607</u>	<u>53,080</u>
Repayable between one and two years	27,607	27,608
Repayable between two and five years	-	25,472
	<u>27,607</u>	<u>53,080</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 was 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 €29,920.

MOSTA LOCAL COUNCIL

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

19. Deferred income

	2018 €	2017 €
Government grants		
At 1 January	45,000	1,017,135
Transferred to Grants Capital Approach PPE	(25,000)	-
Grants forfeited	(20,000)	-
Adjustment in line with Directive 1/2017		(879,142)
	-	137,993
Released in year	-	(92,993)
At 31 December	-	45,000
Current Deferred Income	-	-
Non-Current Deferred Income	-	45,000
Deferred Government Grants		
Deferred between one and two years	-	-
Deferred between two and five years	-	-
Deferred in five years or more	-	45,000
	-	45,000
Deferred after five years or more	-	45,000

20. Capital commitments

	2018 €	2017 €
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	1,365,000	-
- Contracted for but not provided in the financial statements	-	-
(i) Approved but not yet contracted for:		
Project financed under Measure 4.4	110,738	-
Projects financed under PA Development Fund	983,032	-
Projects financed under PAMA agreement	220,230	-
Project financed under Northern Region Tarmac Fund	26,388	-
Other Minor Projects	9,612	-
Office Furniture & Fittings	5,000	-
Office Equipment	5,000	-
Computer Equipment	5,000	-
	1,365,000	-
(i) Contracted for but not provided in the Financial Statements:	-	-

MOSTA LOCAL COUNCIL

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

21. 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 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;
- A case instituted by Paul Cuschieri Et In front of the Small Claims for an amount of more than €1,500 which claim is being contested; and
- The Council has an ongoing litigation with a contractor and issued a number of default notices to same Contractor, which default notices' value was reduced from the balance payable to the Contractor. Default Notices are being disputed by the Contractor.

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.

22. 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
Almalta 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

MOSTA LOCAL COUNCIL

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

22. 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	2018 Total activity	%	Related party activity	2017 Total activity	%
	€	€		€	€	
<i>Income</i>						
Transactions with central government	1,308,796			1,275,225		
Transactions with regions and LESA	17,972			28,527		
	<u>1,326,768</u>	<u>1,429,987</u>	<u>93</u>	<u>1,303,752</u>	<u>1,368,218</u>	<u>95</u>
<i>Expenditure</i>						
Transactions with government entities	2,164			166,564		
Key personnel remuneration	203,788			200,235		
	<u>205,952</u>	<u>2,030,286</u>	<u>10</u>	<u>366,799</u>	<u>1,296,546</u>	<u>28</u>

23. Ultimate controlling party

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

24. 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.

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 838,152. This should ensure an ongoing working capital of the Council for the next 12 months.

MOSTA LOCAL COUNCIL

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

24. Financial Risk Management (cont.)

Going Concern Risk

The Council had a net loss of €599,997 (2017: net profit €216,882) during the year ended 31 December 2018, and as at that date, the Council had a net current asset position of €484,102 (2017: €172,803).

	2018	2017
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	18,753	17,148
Cash and Cash Equivalents	838,152	433,653
	<u>856,905</u>	<u>450,801</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>465,485</u>	<u>414,810</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.

MOSTA LOCAL COUNCIL

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

25. Effect of Change in Accounting Policy

On 1 January 2018, the capital approach, according to IAS 20, has been adopted, in line with Directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting policy, and according to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, has been accounted for retrospectively.

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

	2017 as originally reported €	Adjustments €	2017 as restated €
Non-Current Assets			
Property, plant and equipment	2,680,480	(879,142)	1,801,338
Non-Current Liabilities			
Deferred income	840,055	795,055	45,000
Current Liabilities			
Deferred income	84,087	84,087	-



LOCAL COUNCIL MOSTA

Report of the Local Government Auditors to the Auditor General

We have audited the accompanying financial statements of LOCAL COUNCIL MOSTA, set out on pages 4 to 25, which comprise the statement of financial position as of 31st December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Qualified Opinion

In our opinion, except for the effects of the matter 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 MOSTA 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 (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 maintains a fixed asset register to record fixed assets acquired by it. However, a number of assets have been incorrectly categorized with the consequence that an incorrect depreciation rate has been recognised in the financial statements. Whilst we believe that there may be material misstatements in the depreciation provision and charge for the year, there were no practicable procedures to arrive to the exact amount of misstatement in the depreciation provision and depreciation charge for the year.

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 received a number of government grants in previous years in respect of capital projects. With respect to the 'EU Project' and 'Cult Exchange' project having a total balance of €288,040, no adequate supporting evidence was provided to confirm the amounts recognised and there were no practicable procedures to arrive to the amount of misstatement in relation of the grants as recognised in the financial statements and as allocated against the respective capital projects.

The financial statements include liabilities of €57,529 with respect to road works undertaken through the Public Private Partnership Scheme. The Council failed in this regard to undertake the proper measurement, recognition and disclosure criteria arising from the requirements of 'IAS 39 – 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. 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 1 – Presentation of Financial Statements' in relation to new and revised IFRSs adopted by the EU that are not mandatorily effective but allow early application for the year ending 31 December 2018 and they lack disclosures emanating from 'IAS 24 – Related Parties' in view that note 22 to the financial statements does not reflect the requirements of articles 18, 25 and 26 of the said standard. In addition, in view of the change in accounting policy with respect to government grants, the requirements of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors' requires the disclosure of a third balance sheet column in the Statement of Financial Position to clearly show the movement from the prior year audited financial position and the effect of the change in policy, with the current year position being termed as the restated position. This was not included in the Statement of Financial Position on page 5.

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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- 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' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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. 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 Malta

Date: 29 April 2019