



**MQABBA LOCAL COUNCIL**  
**REPORT AND FINANCIAL STATEMENTS**  
For the year ended 31<sup>st</sup> December 2013

Prepared by: J. Richard Falzon FIA AMIT CPA MBA (Henley)

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**Financial Statements for the year ended 31<sup>st</sup> December 2013****Statement of Local Council Members' and Executive Secretary's Responsibilities**

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

Tuesday, 22nd April, 2014



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**Mr. Nicholas Briffa**  
(Mayor)



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**Mr. Anthony Bonello**  
(Executive Secretary)

**Financial Statements for the year ended 31<sup>st</sup> December 2013**

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

*TO BE REPORTED BY THE LOCAL GOVERNMENT AUDITOR*

**Financial Statements for the year ended 31<sup>st</sup> December 2013**

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

*TO BE REPORTED BY THE LOCAL GOVERNMENT AUDITOR*

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**Statement of Comprehensive Income for the year ended 31<sup>st</sup> December 2013**


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	<i>Note</i>	<b>2013</b> €	<b>2012</b> €
<b>Income</b>			
Funds received from Central Government	4	349,159	310,871
Income raised under Local Council Bye-Laws	5	5,620	3,525
Income raised under Local Enforcement System	6	1,558	1,961
General Income	7	15,888	5,881
		<u>372,225</u>	<u>322,238</u>
<b>Expenditure</b>			
Personal emoluments	8	77,158	72,840
Operations and maintenance	9	122,593	109,774
Administration and other expenditure	10	184,860	145,761
		<u>(384,611)</u>	<u>(328,375)</u>
<b>Operating deficit for the year</b>		(12,386)	(6,137)
Investment income	11	345	562
<b>Deficit for the year</b>		<u>(12,041)</u>	<u>(5,575)</u>

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

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**Statement of Financial Position as at 31<sup>st</sup> December 2013**


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	<i>Note</i>	<b>2013</b> €	<b>2012</b> €
<b><u>ASSETS</u></b>			
<b>Non-current Assets</b>			
Property, plant and equipment	<b>12</b> <b>a-b</b>	1,274,674	1,366,129
<b>Current assets</b>			
Receivables	<b>13</b>	18,337	70,269
Cash and cash equivalents	<b>14</b>	86,305	118,697
		<u>104,642</u>	<u>188,966</u>
<b>Total Assets</b>		<u><u>1,379,316</u></u>	<u><u>1,555,095</u></u>
<b><u>Reserves and Liabilities</u></b>			
<b>Reserves</b>			
Retained funds		420,138	432,179
<b>Non-current Liabilities</b>			
Non-current deferred income	<b>15</b>	720,304	767,666
		<u>720,304</u>	<u>767,666</u>
<b>Current Liabilities</b>			
Trade and other payables	<b>16</b>	238,874	355,250
		<u>238,874</u>	<u>355,250</u>
<b>Total equity and liabilities</b>		<u><u>1,379,316</u></u>	<u><u>1,555,095</u></u>

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

These financial statements were approved by the Local Council on the 22nd April, 2014 and are signed on its behalf by:



\_\_\_\_\_  
**Mr. Nicholas Briffa**  
 (Mayor)



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**Mr. Anthony Bonello**  
 (Executive Secretary)

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**Statement of Changes in Equity for the year ended 31<sup>st</sup> December 2013**

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	<b>Retained Funds €</b>
Balance at 1st January 2012	437,754
Total comprehensive income for the year ended 31st December 2012	(5,575)
<b>Balance at 31st December 2012</b>	<u>432,179</u>
Balance at 1st January 2013	432,179
Total comprehensive income for the year ended 31st December 2013	(12,041)
<b>Balance at 31st December 2013</b>	<u>420,138</u>



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**Statement of Cash Flows for the year ended 31<sup>st</sup> December 2013**


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	<i>Note</i>	<b>2013</b> €	<b>2012</b> €
<b>Cash flows from operating activities</b>			
(Deficit)/ Surplus for the year		(12,041)	(5,575)
Adjustment for:			
Depreciation		126,955	88,638
Increase in provision for doubtful LES debtors		2,402	3,561
Grants released to income		(88,640)	(53,957)
Interest received		(345)	(537)
		<u>28,331</u>	<u>32,130</u>
(Decrease)/increase in payables		(19,728)	13,162
Decrease in receivables		<u>3,203</u>	<u>7,752</u>
<b>Net cash from operating activities</b>		<u>11,806</u>	<u>53,044</u>
<b>Cash flow from investing activities</b>			
Payment to acquire property, plant and equipment		(124,881)	(633,583)
Interest received		<u>345</u>	<u>537</u>
<b>Net cash from investing activities</b>		<u>(124,536)</u>	<u>(633,046)</u>
<b>Cash flow from financing activities</b>			
Grants received during the year		<u>80,338</u>	<u>506,374</u>
<b>Net cash flows from financing activities</b>		<u>80,338</u>	<u>506,374</u>
<b>Net increase in cash and cash equivalents</b>		(32,392)	(73,628)
Cash and cash equivalents at beginning of the year		<u>118,697</u>	<u>192,325</u>
Cash and cash equivalents at the end of the year	<b>14</b>	<u><u>86,305</u></u>	<u><u>118,697</u></u>

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

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013**

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**1. General Information**

Mqabba Local Council is the local authority of Mqabba setup in accordance with the Local Councils Act. The office of the Local Council is situated at 29, Triq il-Parrocca, Mqabba, Malta.

**2. Accounting Policies and Reporting Procedures**

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). The financial statements are prepared under the historical cost convention as modified to include fair values stated in the accounting policies below. These Financial Statements are prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the European Union and comply with the Local Councils Act Cap363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the council to exercise its judgment in the process of applying its accounting policies (see Note 3 – Critical accounting estimates and judgments).

The principal accounting policies and reporting procedures used by the Local Council are as follows:

**a. Revenue recognition**

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. Interest income is recognised in the profit or loss as it accrues.

**b. Local Enforcement System**

Local Enforcement Income represents the income as it accrues from contraventions as controlled by the Local Enforcement System (L.E.S). The amount receivable from the Local Enforcement System is disclosed in the statement of financial position. A full provision for bad debts is accounted for receivables aged over two years. As from the 1<sup>st</sup> September 2011, the Council forms part of the Southern Regional Committee, which is responsible for the L.E.S income of the locality. The contract provides for a 10% administration fee payable to the Council for contraventions collected by the Council and remitted to the respective Regional Committees.

**c. Financial instruments**

The Council recognises a financial instrument in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Receivables are initially recognised at fair value plus transaction costs. Receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Council has transferred substantially all risks and rewards of ownership or has not retained control of the financial asset.

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**


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**c. Financial instruments - continued**

The Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. If there is objective evidence that an impairment loss on receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

At 31st December 2013, the carrying amounts of cash at bank, receivables, payables, and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

**d. Property, Plant and Equipment**

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment loss to date. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The present values of property, plant and equipment do not differ materially from those that would be determined by using fair values at the end of each reporting period.

Subsequent costs are included in the asset's carrying amount 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 Local Council and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

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:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**

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**e. Government Grants**

Government grants are accounted for on a systematic basis in the profit or loss over the periods necessary to match them with the related costs which they are intended to compensate. If such costs have already been incurred when the grant is made, or if there are no related cost, then the grant is accounted for when it becomes receivable.

**f. 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 cost to sell and the value in use. Impairment losses are immediately recognised as an expense in the profit or loss.

**g. 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 in the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit or loss.

**h. Payables**

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of the council's activities from suppliers. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

**i. 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 currency. Transactions denominated in foreign currencies are translated into € using the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

**j. Profits and Losses**

Only profits that were realized at the reporting date 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.

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**


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**k. Cash and 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.

**3. Critical accounting estimates and judgments**

In the process of applying the council's accounting policies, the council has made no judgments which can significantly affect the amounts recognised in the financial statements.

At the reporting date, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**4. Funds received from Central Government**

	<b>2013</b>	<b>2012</b>
	<b>€</b>	<b>€</b>
In terms of section 55 of the Local Councils Act (Cap 363)	241,998	248,246
Government Grants	-	966
Other Government Income	18,521	7,702
Grants released for the year (note 15)	88,640	53,957
	<u><b>349,159</b></u>	<u><b>310,871</b></u>

**5. Income raised from Bye-Laws**

	<b>2013</b>	<b>2012</b>
	<b>€</b>	<b>€</b>
Income raised under Local Council Bye-Laws	<u>5,620</u>	<u>3,525</u>

**6. Local Enforcement Income**

	<b>2013</b>	<b>2012</b>
	<b>€</b>	<b>€</b>
Fines, Penalties and fees	<u>1,558</u>	<u>1,961</u>

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**


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**7. General Income**

	<b>2013</b>	<b>2012</b>
	<b>€</b>	<b>€</b>
Income from tender documents	914	797
Income from permits	276	128
Income from recharge of salaries	-	1,941
Contributions and donations	1,005	3,015
Other income	13,693	-
	<u><b>15,888</b></u>	<u><b>5,881</b></u>

**8. Personal Emoluments**

	<b>2013</b>	<b>2012</b>
	<b>€</b>	<b>€</b>
Mayor's allowance	6,696	6,508
Councillors' allowances	6,130	6,400
Executive Secretary's salary and allowances	26,276	25,304
Employees' salaries	33,128	30,096
Social Security Contributions	4,928	4,532
	<u><b>77,158</b></u>	<u><b>72,840</b></u>

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**


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**9. Operations and Maintenance**

	2013 €	2012 €
<b>Repairs and upkeep:</b>		
Road and street pavements	27,429	10,834
Street signs	2,119	4,478
Road markings	<u>1,679</u>	<u>478</u>
	<u><b>31,227</b></u>	<u><b>15,790</b></u>
 <b>Contractual Services:</b>		
Refuse collection	32,807	32,374
Bulky refuse collection	2,551	1,894
Road and Street Cleaning	19,917	19,537
Waste disposal	20,627	20,627
Cleaning and Maintenance of Public Conveniences	4,157	4,010
Cleaning and Maintenance of Parks and Gardens	4,563	3,320
Street lighting expenses	6,056	7,914
Local Enforcement System (L.E.S) Expenses	<u>688</u>	<u>4,308</u>
	<u><b>91,366</b></u>	<u><b>93,984</b></u>
	<u><u><b>122,593</b></u></u>	<u><u><b>109,774</b></u></u>

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**


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**10. Administration and other expenditure**

	2013 €	2012 €
Utilities	5,756	5,153
Other repairs and upkeep	1,242	546
Rent	1,607	2,096
National and International Memberships	5,524	233
Office Services	4,377	5,641
Transport	2,586	1,738
Information Services	6,394	4,466
Insurance	1,096	1,213
Professional services	10,842	13,290
Community and hospitality	13,797	14,872
Penalties	-	1,938
Sundry expenses	2,282	2,376
Depreciation	126,955	88,638
Increase in provision for doubtful L.E.S debtors	2,402	3,561
	<u><u>184,860</u></u>	<u><u>145,761</u></u>

**11. Investment Income**

	2013 €	2012 €
Bank interest	<u><u>345</u></u>	<u><u>562</u></u>



Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)

## 12a. Property, Plant and Equipment

Asset	Buildings	Office Furniture & Fittings	Plant & Machinery	Computer Equipment	Computer software	Office Equipment	Urban Improvements	Traffic Signs/Lights	Construction Works	Special Projects	Total
	€	€	€	€	€	€	€	€	€	€	€
<b>Cost</b>											
As at 31st December 2011	106 324	20 217	6 986	8 859	-	15 008	350 628	3 962	756 990	360 680	1 629 654
Additions	-	613	-	4 215	985	2 645	-	-	787 984	-	796 442
As at 31 December 2012	106 324	20 830	6 986	13 074	985	17 653	350 628	3 962	1 544 974	360 680	2 426 096
<b>Grants and other reimbursements</b>											
As at 31 December 2011	-	-	-	2 637	-	-	255 231	-	32 956	360 680	651 504
Additions	-	-	-	-	-	-	-	-	-	-	-
As at 31 December 2012	-	-	-	2 637	-	-	255 231	-	32 956	360 680	651 504
<b>Accumulated Depreciation</b>											
As at 31 December 2011	9 167	8 575	2 280	3 853	-	6 084	43 202	3 962	242 702	-	319 875
Charge for the year	972	877	941	4 744	21	2 693	5 220	-	73 770	-	88 638
As at 31 December 2012	10 139	9 452	3 221	8 597	21	8 777	48 422	3 962	316 472	-	408 463
<b>Net Book Value</b>											
As at 31 December 2012	96 185	11 378	3 765	4 477	964	9 476	46 975	-	1 195 546	-	1 366 129

Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)

## 12b. Property, Plant and Equipment

Asset	Buildings	Office Furniture & Fittings	Plant & Machinery	Computer Equipment	Computer software	Office Equipment	Urban Improvements	Traffic Signs/Lights	Construction Works	Special Projects	Total
	€	€	€	€	€	€	€	€	€	€	€
<b>Cost</b>											
As at 31st December 2012	106,324	20,830	6,986	13,074	985	17,653	350,628	3,962	1,544,974	360,680	2,426,096
Additions	-	-	-	1,162	-	6,261	4,763	-	23,314	-	35,500
As at 31 December 2013	106,324	20,830	6,986	14,236	985	23,914	365,391	3,962	1,568,288	360,680	2,461,596
<b>Grants and other reimbursements</b>											
As at 31 December 2012	-	-	-	2,637	-	-	255,231	-	32,956	360,680	651,504
Additions	-	-	-	-	-	-	-	-	-	-	-
As at 31 December 2013	-	-	-	2,637	-	-	255,231	-	32,956	360,680	651,504
<b>Accumulated Depreciation</b>											
As at 31 December 2012	10,139	9,452	3,221	8,597	21	8,177	48,422	3,962	316,472	-	408,463
Charge for the year	962	853	753	564	964	1,895	4,967	-	116,096	-	126,955
As at 31 December 2013	11,101	10,305	3,974	9,161	985	10,072	53,389	3,962	432,568	-	535,418
<b>Net Book Value</b>											
As at 31 December 2013	95,223	10,525	3,012	2,438	-	13,842	46,871	-	1,102,764	-	1,274,674

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**


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**13. Receivables**

	2013 €	2012 €
Receivables (Note 13.1)	4,912	7,092
Other receivables	286	-
L.E.S receivables (Note 13.2)	-	3,329
Prepayments and accrued income	13,139	59,848
	<u>18,337</u>	<u>70,269</u>

**Note 13.1**

Receivables within credit period	-	1,164
Receivables not within credit period*	4,912	5,928
	<u>4,912</u>	<u>7,092</u>

\* None of the receivables are at impaired status

The credit period on receivables (Note 13.1) is of 90 days. No interest is charged on receivables for the first 90 days from the date of request of payment. Thereafter, the Council may consider to impose an interest charge of 2% per annum on the outstanding balance. Allowances for doubtful debts are recognised against receivables after 730 days (two years). Receivables disclosed in (Note 13.1) include amounts (see below for aged analysis) that are past due at the end of the reporting date for which the Council has not recognised an allowance for doubtful debts, as these are still considered recoverable. The aging of receivables that are past due but not impaired are as follows;

	2013 €	2012 €
1 - 89 days	-	-
90 - 730 days	4,912	7,092
	<u>4,912</u>	<u>7,092</u>

**Note 13.2**

L.E.S receivables	96,941	96,941
Provision for L.E.S doubtful debts (reconciled in the next page)	(96,941)	(93,612)
	<u>-</u>	<u>3,329</u>

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**


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**13. Receivables - cont.**

	2013 €	2012 €
<b>Note 13.2 - cont.</b>		
<i>Movement in the allowance for doubtful debts:</i>		
Balance at beginning of the year	(93,612)	(90,051)
Movement in provision	<u>(3,329)</u>	<u>(3,561)</u>
Balance at the end of the year	<u><b>(96,941)</b></u>	<u><b>(93,612)</b></u>

The credit period on L.E.S receivables (Note 13.2) is of 60 days. As the system is controlled by the Central Government, the Council has no control on the charging of interest or the imposition of penalties. Allowances for doubtful debts are recognised against receivables after 730 days (two years). L.E.S receivables disclosed above (Note 13.2) include amounts (see below for aged analysis) that are past due at the end of the reporting date for which the Council has not recognised an allowance for doubtful debts, as these are still considered recoverable. The aging of L.E.S receivables that are past due but not impaired are as follows;

	2013 €	2012 €
1 - 59 days	-	-
60 - 730 days	<u>-</u>	<u>3,329</u>
	<u><b>-</b></u>	<u><b>3,329</b></u>

**14. Cash and Cash Equivalents**

	2013 €	2012 €
Bank balances	85,941	118,588
Cash in hand	<u>364</u>	<u>109</u>
	<u><b>86,305</b></u>	<u><b>118,697</b></u>

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**


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**15. Deferred income**

Deferred income relates to grants received from Central Government by the Council. It is composed of an amount which is apportioned between short-term and long-term components. The short term component represents the amounts expected to be released in the next financial year.

	2013 €	2012 €
Deferred income as at 1st January	855,817	377,150
Amount increased during the year	34,011	532,624
Less amount released during the year <sup>1</sup>	<u>(88,640)</u>	<u>(53,957)</u>
Deferred income as at 31st December	<u><b>801,188</b></u>	<u><b>855,817</b></u>

	2013 €	2012 €
Non-current deferred income	720,304	767,666
Current deferred income <sup>2</sup>	<u>80,884</u>	<u>88,151</u>
	<u><b>801,188</b></u>	<u><b>855,817</b></u>

1: Released amount during the year to the Statement of Comprehensive Income

2: Disclosed under Note 16

**16. Trade and other payables**

	2013 €	2012 €
Payables	121,430	196,226
Current deferred income	80,884	88,151
Accruals	<u>36,560</u>	<u>70,873</u>
	<u><b>238,874</b></u>	<u><b>355,250</b></u>

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**


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**17. Capital commitments**

At the end of the reporting period, the Council had no future capital expenditure plans. The capital commitments contracted by the Council as at accounting date are as follows;

	2013 €	2012 €
<u>Contracted for:</u>		
Property, plant and equipment	-	27,000

**18. Related party transactions**

Mqabba Local Council is ultimately controlled by the Central Government Local Councils Department.

Other related parties through ultimate control of the Central Government, but which have no control on the Mqabba Local Council include Water Services Corporation, Enemalta Corporation and Malta Environmental Planning Authority.

In the ordinary course of its operations, the Council received funds and income from the related parties. The Council's income reflected in the statement of comprehensive income comprises funds received from the Central Government amounting to € 349,159 (2012: € 310,871). The Council also received income derived from the Local Enforcement System amounting to € 1,558 (2012: € 1,961).

In the opinion of the Local Council's members, disclosure of related party transactions, which are generally carried out, is only necessary when the transactions effected have a material impact on the operating results and financial position of the Council.

**19. Capital management policies and procedures****Capital Management**

The Council manages its capital to ensure that it will be able to continue as a going concern, while implementing the planned commitments and optimising government funding in the locality. The Council's overall strategy remains unchanged from 2012.

The capital structure of the Council consists of the working capital made of the net assets as disclosed in the statement of financial position. On an annual basis, the Council reviews the net working capital ratio ensuring that it is positive and the liquidity ratio ensuring that it is more than 1:1.20. The ratios as at the end of the reporting period were as follows:

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**


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**19. Capital management policies and procedures - cont.**

	2013 €	2012 €
<b>Net working capital ratio and liquidity ratio</b>		
Current Assets (a)	104,642	188,966
Current Liabilities (b) <sup>1</sup>	53,618	73,055
Net Working Capital (c = a - b)	<u>51,024</u>	<u>115,911</u>
 Total assets (d)	 1,379,316	 1,555,095
 Net Working Capital Ratio (c ÷ d)	 0.04	 0.07
 Liquidity ratio (a ÷ b)	 1.00 : 1.95	 1.00 : 2.58
<b>Categories of financial instruments</b>		
<u>Financial assets</u>		
Cash and bank balances	86,305	118,697
Receivables	5,198	10,421
<u>Financial liabilities</u>		
Payables and accruals	157,990	267,099

<sup>1</sup> Amount is net of capital liabilities**20. Risk management objectives**

The Council is exposed to credit risk, liquidity risk and contractual maturity risk through its use of financial instruments which result from its operating and investing activities. The most significant financial risks to which the Council is exposed to are described below.

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**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**

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**20. Risk management objectives - cont.****Credit risk**

The Council's exposure to credit risk is limited to the carrying amount of financial assets recognized at the date of the Statement of Financial Position (as disclosed in Notes 13 and 14, and as referred to hereunder), which arises from cash and cash equivalents and credit exposures from receivables as follows:

	€
Receivables (Note 13.1)	4,912
Other receivables	286
L.E.S receivables (Note 13.2)	NIL
Prepayments and Accrued Income (Note 13)	13,845
Cash at bank (Note 14)	86,305

L.E.S receivables relate to sentenced cases arising from contraventions which are legally due to the Council. The credit risk exposure is high on L.E.S receivables as the Council has no control on such collectables. The amount disclosed is nil since total L.E.S receivables of € 96,941 (100%), have been fully provided for with a provision for bad debts of € 96,941 (100%).

Receivables arise from legal obligations due to the Council by third parties. The credit risk exposure is considered low as the Council is in direct contact with such debtors. Accrued income represents income receivable from Government and related agencies. Their relative credit exposure is considered low. The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective note to the financial statements and there is no collateral to secure such assets.

Cash at bank relates to balances held as savings accounts placed with a local reliable financial institution. The credit risk exposure in this respect is considered low.

**Liquidity risk**

The Council's exposure to liquidity risk arises from its obligations to meet financial liabilities, which comprise of trade and other payables. The Council monitors and manages its liquidity risk to a shortage of funds by maintaining sufficient cash and cash at bank, and by monitoring the availability of raising funds to ensure adequate amounts of funding to meet the obligations when they become due.

**Foreign currency risk**

Most of the Council's transactions are carried out in Euro. Exposure to foreign currency exchange rates arise from the Council's transactions in foreign currency. There were no figures translates from foreign currency to Euro as at the date of the Statement of the Financial Position, thus putting the foreign currency risk at nil.



**Notes to the Financial Statements for the year ended 31<sup>st</sup> December 2013 (cont..)**

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**20. Risk management objectives - cont.****Contractual maturity risk**

For the year ending 31st December, 2013 the Council had no contractual maturities for its non-derivative financial liabilities.

**Fair value of financial assets and financial liabilities**

At 31st December 2013, the fair value of non-current financial assets and non-current financial liabilities are not materially different from the carrying amounts.