

**XEWKIJA LOCAL COUNCIL**

**Annual Report and  
Financial Statements**

**For the year ended 31 December 2018**



Prepared by: Laurence Manicaró  
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On behalf of Parker Randall Turner  
Chartered Certified Accountants & Auditors  
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**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**For the year ended 31 December 2018**

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**Financial Statements for the year ended 31 December 2018**

**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 Councils (Financial) Regulations, and the Local Councils (Financial) Procedures issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, the Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Council and signed on its behalf on the 25 April 2019 by:



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Paul Azzopardi  
Mayor



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Marion Attard  
Executive Secretary

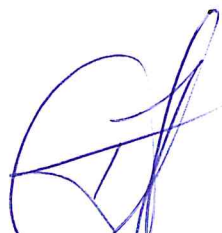
**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2018

	Notes	2018 €	2017 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	242,308	479,582
<b>Current Assets</b>			
Receivables	4	92,091	128,078
Cash and Cash Equivalents	5	479,411	259,014
		<u>571,502</u>	<u>387,092</u>
<b>Total Assets</b>		<u>€ 813,810</u>	<u>€ 866,674</u>
<b>RESERVES AND LIABILITIES</b>			
<b>Reserves</b>			
Retained Fund		622,835	760,061
<b>Current Liabilities</b>			
Payables	7	190,975	106,613
<b>Total reserves and liabilities</b>		<u>€ 813,810</u>	<u>€ 866,674</u>

The notes on pages 8 to 26 are an integral part of the financial statements.

These Financial Statements were approved by the Local Council on 25 April 2019 and signed on its behalf by:

  
\_\_\_\_\_  
Paul Azzopardi  
Mayor  
\_\_\_\_\_  
Marion Attard  
Executive Secretary

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2018

	Notes	2018 €	2017 €
<b>REVENUE</b>			
Funds received from central government	8	372,441	353,054
Funds raised under Local Enforcement System	9	1,269	4,199
General Income	11	51,892	10,868
		<u>425,602</u>	<u>368,121</u>
<b>EXPENDITURE</b>			
Personal emoluments	12	(64,861)	(51,658)
Operations and maintenance	13	(144,137)	(126,387)
Administration and other expenditure	14	(150,323)	(98,273)
Depreciation	15	(45,573)	(16,963)
		<u>(404,894)</u>	<u>(293,281)</u>
Operating surplus for the year		20,708	74,840
Investment income	10	93	88
Impairment provision	15	(158,027)	-
<b>Total Comprehensive (loss)/ income for the year</b>		<u>€ (137,226)</u>	<u>€ 74,928</u>

The notes on pages 8 to 26 are an integral part of the financial statements.

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2018

	Retained Funds 2017 €	Retained Funds 2017 €
At 1 January	760,061	685,133
Total Comprehensive (loss)/ income for the year	(137,226)	74,928
At 31 December	<u>€ 622,835</u>	<u>€ 760,061</u>

The notes on pages 8 to 26 are an integral part of the financial statements.

# STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 €	2017 €
<b>Cash Flows from Operating Activities</b>			
Total Comprehensive (Loss)/Income for the year		(137,226)	74,928
Adjustments for:			
Depreciation		45,573	16,963
Impairment losses		158,027	-
Investment Income		(93)	(88)
Bad debts provision		3,242	
Operating Profit before working capital changes		69,523	91,803
Decrease/ (increase) in Receivables		32,745	(45,509)
Increase/ (decrease) in Payables		5,229	(133,499)
Net Cash generated from/ (used in) operating activities		107,497	(87,205)
<b>Cash flows from Investing Activities</b>			
Purchase of property, plant and equipment		(48,525)	(89,145)
Investment Income		93	88
Capital grants received		154,621	152,568
Net Cash generated from investing activities		106,189	63,511
Net movement in Cash and Cash Equivalents		213,686	(23,694)
Cash and Cash Equivalents at the beginning of Year		232,649	256,343
Cash and Cash Equivalents at the end of year	5	€ 446,335	€ 232,649

The notes on pages 8 to 26 are an integral part of the financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018

### **1. General Information**

Xewkija Local Council is the local authority of Xewkija setup in accordance with the Local Councils Act. The office of the Local Council is situated at 2, Triq Torri Tingi, Xewkija XWK 2231.

### **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.

#### **(a) Accounting convention**

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 to the requirements of International Financial Reporting Standards as adopted by the EU and comply with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996.

#### **(b) Standards, amendments and interpretations to existing standards**

##### **New and amended standards adopted by the council**

The new and revised standards that became effective for annual periods beginning on or after 1 January 2018 made several minor amendments to a number of IFRSs. These include

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

### **(b) Standards, amendments and interpretations to existing standards - continued**

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS18 "Revenue" and IAS11 'Construction contracts' and related interpretations.

During the year the Local Council has changed its accounting policy on Government Grants to comply with Directive 1/2017 issued by the Department of Local Government. The Department for Local Government has instructed Local Councils to adopt the allowed alternative treatment as from 1 January 2018. The effect of this policy change is explained in Note 20 to the financial statements.

### **Standards, amendments and interpretations to existing standards that are not yet effective.**

The following standards and amendments to existing standards have been published and are mandatory (as applicable) for the Council accounting periods beginning on or after 1 January 2019 or later periods, but the Council has not early adopted them:

IFRS 16 presents new requirements for the recognition of leases replacing IAS 17 'Leases', and some lease-related Interpretations. The new standard requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value leases. The standard also provides new guidelines on the application of the definition of lease and on sale and lease back accounting. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The council has started to assess the impact of IFRS 16 but is not yet in a position to provide quantified information.

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.

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018 – continued

### **(c) Revenue recognition**

Revenue is recognised when the amount of revenue and the associated costs can be measured reliably. Interest income is recognised in the statement of comprehensive income as it accrues.

### **(d) Local Enforcement System**

During 2018 the amount disclosed in the financial statements under Local Enforcement Income represents the administrative fee of 10% that is chargeable to LESA and the various Regional Committees for contraventions paid at the Council.

### **(e) Property, Plant and Equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss 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
Road and traffic 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 financial reporting 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 2018 – continued

### **(e) Property, Plant and Equipment (continued)**

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 Local 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 year in which they are incurred.

### **(f) Government Grants**

Government grants are accounted for on the Capital Approach according to IAS 20 as the Council adopted Directive 1/2017 issued by the Department of Local Council. With the Capital Approach, any grants received are netted off against the cost of the asset to which they relate. Depreciation will be accounted on the resulting cost less grant.

### **(g) 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 statement of comprehensive income.

### **(h) 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 amounts 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 statement of comprehensive income.

### **(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 Euro, which is the Council's functional and presentation currency.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018 – continued

**(j) Surplus and deficits**

Only surpluses that were realised at the date of the Statement of Financial Position are recognised in these Financial Statements. All foreseeable liabilities and potential deficits 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.

**(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.

**(l) Related parties**

Related parties are those persons or bodies of persons having relationships with the Council as defined in IAS 24.

**(m) Payables**

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not they are presented as non-current liabilities.

Amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the council.

**(n) Financial Instruments**

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

### **(n) Financial Instruments – continued**

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 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'.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018 – continued

**(o) Critical accounting estimates and judgements**

The preparation of financial statements in conformity with IFRS adopted by the EU requires council members to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Use of available information and application of judgement are inherent in making estimates. Actual results in future could differ from such estimates and the differences may be material to the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In the opinion of the council members, 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 (revised).

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018 – continued

**3. PROPERTY, PLANT AND EQUIPMENT**

	Property €	Office Furniture & Fittings €	Computer Equipment €	Office & Other Equipment €	Urban Improvement €	Motor Vehicle €	New Street Signs €	Construction €	Assets Under Construction €	Total €
<b>Cost</b>										
At 1 Jan 2018	85,539	22,506	7,096	27,096	426,451	3,225	32,527	1,114,476	94,007	1,812,923
Additions	-	15,637	1,281	620	-	-	-	-	30,987	48,525
At 31 Dec 2018	€ 85,539	€ 38,143	€ 8,377	€ 27,716	€ 426,451	€ 3,225	€ 32,527	€ 1,114,476	€ 124,994	€ 1,861,448
<b>Grants and other reimbursements</b>										
At 1 Jan 2018	-	-	(1,407)	-	(3,115)	-	-	(688,412)	(45,000)	(737,934)
Additions	-	-	-	-	-	-	-	-	(82,199)	(82,199)
At 31 Dec 2018	€ -	€ -	€ (1,407)	€ -	€ (3,115)	-	€ -	€ (688,412)	€ (127,199)	€ (820,133)
<b>Depreciation</b>										
At 1 Jan 2018	(12,606)	(15,181)	(5,202)	(19,012)	(321,390)	(107)	(32,527)	(189,382)	-	(595,407)
Impairment	-	(1,146)	(222)	(6,932)	(87,312)	-	-	(62,415)	-	(158,027)
Charge for the year	(855)	(2,862)	(521)	(684)	(1,568)	(645)	-	(38,438)	-	(45,573)
At 31 Dec 2018	€ (13,461)	€ (19,189)	€ (5,945)	(26,628)	(410,270)	€ (752)	€ (32,527)	€ (290,235)	€ -	(799,007)
<b>Net Book Value</b>										
At 31 Dec 2018	€ 72,078	€ 18,954	€ 1,025	€ 1,088	€ 13,066	€ 2,473	€ -	€ 135,829	€ (2,205)	€ 242,308

# **XEWKIJA LOCAL COUNCIL**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018 – continued

### **3. PROPERTY, PLANT AND EQUIPMENT – Continued**

	Property €	Office Furniture & Fittings €	Computer Equipment €	Office & Other Equipment €	Urban Improvement €	Motor Vehicle €	New Street Signs €	Construction €	Assets Under Construction €	Total/ €
<b>Cost</b>										
At 1 Jan 2017	85,539	22,506	6,966	27,096	411,257	-	32,527	1,114,476	23,411	1,723,778
Additions	-	-	130	-	15,194	3,225	-	-	70,596	89,145
At 31 Dec 2017	€ 85,539	€ 22,506	€ 7,096	€ 27,096	€ 426,451	€ 3,225	€ 32,527	€ 1,114,476	€ 94,007	€ 1,812,923
<b>Grants and other reimbursements</b>										
At 1 Jan 2017	-	-	-	-	(3,115)	-	-	(209,795)	-	(212,910)
Prior year (Note 21)	-	-	(1,407)	-	-	-	-	(478,617)	(45,000)	(525,024)
At 31 Dec 2017	€ -	€ -	€ (1,407)	€ -	€ (3,115)	-	€ -	€ (688,412)	€ (45,000)	€ (737,934)
<b>Depreciation</b>										
At 1 Jan 2017	(11,873)	(14,609)	(5,704)	(17,206)	(310,607)	-	(32,527)	(285,052)	-	(677,578)
Prior year (Note 21)	-	-	749	-	-	-	-	154,870	-	155,619
Charge for the year	(733)	(572)	(247)	(1,806)	(10,783)	(107)	-	(59,200)	-	(73,448)
At 31 Dec 2017	€ (12,606)	€ (15,181)	€ (5,202)	(19,012)	(321,390)	€ (107)	€ (32,527)	€ (189,382)	€ -	(595,407)
<b>Net Book Value</b>										
At 31 Dec 2017	€ 72,933	€ 7,325	€ 487	€ 8,084	€ 101,946	€ 3,118	€ -	€ 236,682	€ 49,007	€ 479,582

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018 – continued

<b>4 Receivables</b>	2018 €	2017 €
Accounts receivable	14,288	6,515
Prepayments and accrued income	77,803	121,563
	<u>€ 92,091</u>	<u>€ 128,078</u>

<b>Receivables</b>	2018 €	2017 €
Within the credit period	48,588	74,658
Amounts against which a provision was made	(7,252)	(4,010)
Exceeded credit period but not yet impaired	17,298	23,973
Government grants under the PPP scheme	33,457	33,457
	<u>€ 92,091</u>	<u>€ 128,078</u>

**5 Cash and Cash Equivalents**

Cash and cash equivalents consist of cash in hand and balance with banks. Cash and cash equivalents included in the statement of cash flow comprise the following amounts in the Local Council statement of financial position:

	2018 €	2017 €
Bank Balances:		
Ordinary funds	322,621	258,781
Funds at central bank	156,605	-
Cash in hand	185	233
Overdrawn balances	(33,076)	(26,365)
Cash and cash equivalents	<u>446,335</u>	<u>232,649</u>
Transfer to payables (Note 7)	33,076	26,365
Cash at bank and in hand	<u>€ 479,411</u>	<u>€ 259,014</u>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018 – continued

	2018 €	2017 €
<b>6 Deferred Income</b>		
Long-term portion	-	343,325
Current portion	-	26,080
Non-current portion	-	369,405
Prior Year adjustment – transfer to property plant and equipment (Note 21)	-	(369,405)
	€ -	€ -
<b>7 Payables</b>		
Accounts payable	67,680	66,445
Other payables	2,918	3,521
Accruals	14,879	10,282
Grants received in advances (Note)	72,422	-
Overdrawn bank balances (Note 5)	33,076	26,365
	€ 190,975	€ 106,613

Note: The grants received in advance represent funding received on Measure 4.3 and Measure 4.4 which will be utilised on capital projects during 2019. Once the project will commence these will be capitalised under Property, plant and equipment. Capital commitments in relation to these grants are explained under Note 17 to the financial statements.

## XEWKIJA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

<b>8 Funds received from Central Government</b>	<b>2018</b>	<b>2017</b>
	€	€
In terms of section 55 of the Local Councils Act (CAP 363)	356,377	341,731
Other Government Income	16,064	11,323
	<u>€ 372,441</u>	<u>€ 353,054</u>
 <b>9 Income raised from Local Enforcement System</b>	 <b>2018</b>	 <b>2017</b>
	€	€
Income from administration fees	-	1,321
Income from LESA distributions	1,269	2,878
	<u>€ 1,269</u>	<u>€ 4,199</u>
 <b>10 Investment income</b>	 <b>2018</b>	 <b>2017</b>
Bank Interest Receivable	€ 93	€ 88
 <b>11 General Income</b>	 <b>2018</b>	 <b>2017</b>
	€	€
Income from permits	5,607	5,378
General income	25,890	1,295
Contributions and donations	20,395	4,195
	<u>€ 51,892</u>	<u>€ 10,868</u>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018 – continued

<b>12 Personal Emoluments</b>	<b>2018</b>	<b>2017</b>
	€	€
Personal emoluments include, inter alia:		
Mayor's honoraria	7,463	7,345
Mayor and Councillors' Allowance	6,400	6,400
Executive Secretary salary and allowances	28,740	23,897
Employees' Salaries	18,276	11,184
Social Security Contributions	3,982	2,832
<b>Total</b>	<b>€ 64,861</b>	<b>€ 51,658</b>
<b>13 Operations and Maintenance</b>		
Operations and maintenance includes, inter alia:	<b>2018</b>	<b>2017</b>
Repairs and Upkeep:	€	€
Road and Street Pavements (patching works)	22,610	2,702
Repairs	16,793	3,673
Street signs and markings	8,753	3,427
Trees planting and related expenses	4,093	29,290
<b>Total</b>	<b>52,249</b>	<b>39,092</b>
<b>Contractual Services:</b>	<b>2018</b>	<b>2017</b>
	€	€
Refuse Collection (including bins on wheels)	46,893	42,507
Bulky Refuse Collection (incl open skips)	170	-
Road and street cleaning (mechanical and manual)	6,332	11,769
Cleaning and maintenance of Public Conveniences	3,683	3,796
Maintenance parks and gardens and verges	7,568	5,096
Cleaning of council property	689	238
Tipping fees	24,491	18,199
Street Lighting	950	4,954
Other contractual services	1,112	736
	<b>91,888</b>	<b>87,295</b>
<b>Total Operations and Maintenance Expenses</b>	<b>€ 144,137</b>	<b>€ 126,387</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018 – continued

<b>14 Administration and other expenditure</b>	<b>2018</b>	<b>2017</b>
	<b>€</b>	<b>€</b>
Utilities	8,085	5,450
Other repairs and upkeep	11,590	10,238
National and International Memberships	611	2,035
Rent	2,857	472
Office Services	7,440	5,618
Travel	3,016	-
Transport	11,262	7,747
Information services	11,175	10,560
Other contractual services	2,412	1,043
Professional Services	19,170	20,327
Community and Hospitality	69,294	32,889
Sundry minor expenses	3,411	1,894
	<b>€ 150,323</b>	<b>€ 98,273</b>
	<b>2018</b>	<b>2017</b>
	<b>€</b>	<b>€</b>
<b>15. Depreciation and impairment provisions</b>		
Depreciation	45,573	16,963
Impairment	158,027	-
	<b>€ 203,600</b>	<b>€ 16,963</b>

**16. Related Parties Disclosures**

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

Name of entity	Nature of relationship
Department of Local Councils	Significant control
Regional Committees	No control
Ministry for Gozo	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Wastserv Malta Limited	No control

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

	<b>2018</b>	<b>2017</b>
Significant control		
Revenue:		
Annual financial allocation	<b>€ 356,377</b>	<b>€ 341,731</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018 – continued

**16. Related Parties Disclosures – Continued**

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.

The Council also receives revenue from other Government entities such as Water Services Corporation for trenching works carried out in the locality, and for the reinstatement of roads as a result of the trenching works and Wasteserv for the collection of organic waste.

**17. Contingent liabilities and gains**

The credit regarding the debt due from Mr. Charles Cordina is still in force. The Local Council has obtained an executive title to retrieve this debt from Mr. Charles Cordina. A judicial sale by auction was made on request of the Local Council from which the Council received €238 from the amount due. This amount has been accounted for in the accounts of 2010. The remaining balance of €5,777 is still due. This amount excludes interest and other fees being claimed which amount to approximately €1,500.

**18. Capital Commitments**

Details of capital commitments are as follows	2018 €	2017 €
Contracted for but not provided for	89,909	-
Approved but not contracted for	181,056	353,000
	<u>€ 270,965</u>	<u>€ 353,000</u>
Contracted for but not provided for: Measure 4.3 Project	89,909	-
Approved but not contracted for: Tisbieh tal Pjazza		200,000
Triq il-Knisja		83,000
Triq Sant Elizabeth		70,000
Measure 4.4 Project	181,056	-
	<u>€ 270,965</u>	<u>€ 353,000</u>

These projects are to be financed by EU Funds. An amount of € 154,622 has already been funded to the Local Council.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

### 19. Risk management objectives and policies

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

The most significant financial risks to which the council is exposed are described below.

#### 19.1 Credit risk

The council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period, as summarised below:

	2018	2017
	€	€
Class of financial assets – carrying amounts		
Trade and other receivables	92,091	128,078
Cash and Cash Equivalents	479,411	259,014
	<u>€ 571,502</u>	<u>€ 387,092</u>

The council continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The council's policy is to deal with only creditworthy counterparties.

The council considers that the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See notes 4 and 5 for further information on impairment or financial assets that are past due.

None of the council's financial assets is secured by collateral or other credit enhancements

The credit risk for liquid funds is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 – continued

### 19. Risk management objectives and policies - continued

#### 19.2 Liquidity risk

The council's exposure to liquidity risk arises from its obligations to meet its financial liabilities which comprise payables. Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities to ensure the availability of an adequate amount of funds to meet the council's obligations when they become due.

The council manages its liquidity needs through yearly budgets and business plans by carefully monitoring expected cash inflows and outflows on a daily basis. The council's liquidity is deemed to be sufficient in view of an excess of financial assets.

	2018	2017
Payables	€ 190,970	€ 106,613

#### 19.3 Interest rate risk

The Council has no significant interest-bearing assets other than cash and cash equivalents (Note 5), issued at variable rates. Cash and cash equivalents issued at variable rates expose the Council to cash flow interest rate risk. Management monitors the level of floating rate bank balances as a measure of cash flow risk taken on. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial.

#### 19.4 Summary of the financial assets and liabilities by category

The carrying amounts of the council's financial assets and liabilities as recognised at the reporting dates under review are categorised as follows:

Current Assets	2018 €	2017 €
Loans and receivables:		
Trade and other receivables	92,091	128,078
Cash and Cash Equivalents	479,411	259,014
	€ 571,502	€ 387,092
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	€ 190,975	€ 106,613

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**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018 – continued

**19. Risk management objectives and policies - continued****19.5 Capital risk management**

The Council's objectives when managing capital are to safeguard the Council's ability to continue as a going concern so that it can continue to provide a service to the residents of the Local Council by maintaining an optimal capital structure to reduce cost of capital.

The Council's equity, as disclosed in the statement of financial position, constitutes its capital. The Council's capital structure is monitored by the Executive Secretary and the Council with appropriate reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the Council's activities, the capital level as at the end of the reporting period is deemed adequate by the Council.

**20 Fair value estimation**

At 31 December 2018 and 31 December 2017, the carrying amounts of cash at bank, receivables and payables 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.

**21 Prior Year Adjustment**

On 1 January 2018, the Local Council applied Directive 1/2017 issued by the Department for Local Government in respect of the Accounting of Grants as per IAS 20 'Government Grants'. The Department for Local Government has instructed Local Councils to adopt the alternative capital approach as from 1 January 2018.

This is a change in accounting policies and, according to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', this has been accounted for retrospectively. The change in accounting policy has effected the Statement of Comprehensive Income and the Statement of Financial Position as follows:

**STATEMENT OF CHANGES IN EQUITY**

	Retained Funds €
Balance at 31 December 2017 before adjustment	760,061
Adjustment on depreciation for the year ended 31 December 2017	56,485
Adjustment on other government income for the year ended 31 December 2017 – Deferred government income	(56,485)
Balance at 31 December 2017 as restated	<hr/> € 760,061 <hr/>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2018 – continued

**21 Prior Year Adjustment (continued)**

	Note	Balances before adjustments €	Prior - Year Adjustments €	Reinstated Balances €
<b>Non-current assets</b>				
Property plant and equipment	3	848,987	(369,405)	479,582
<b>Current assets</b>				
Receivables	4	128,078	-	128,078
Cash at bank	5	259,014	-	259,014
		387,092	-	387,092
<b>Total assets</b>		€ 1,236,079	(369,405)	€ 866,674
<b>Reserves and liabilities</b>				
<b>Reserves</b>				
Retained earnings		760,061	-	760,061
<b>Non-current liabilities</b>				
Deferred income	6	343,325	(343,325)	-
<b>Current liabilities</b>				
Payables	7	132,693	(26,080)	106,613
<b>Total equity and liabilities</b>		€ 1,236,079	(369,405)	€ 866,674

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[www.rsm.com.mt](http://www.rsm.com.mt)**XEWKIJA LOCAL COUNCIL****REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL****Qualified Opinion**

We have audited the accompanying financial statements of Xewkija Local Council, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 4 - 26.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the financial statements give a true and fair view of the financial position of the Local Council as of 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Basis for Qualified Opinion**

Following Directive 01/2017 issued by the Department for Local Government, the Local Council changed its accounting policies on depreciation, whereby the straight line method is now to be applied instead of the reducing balance method and the accounting policy on government grants, whereby the capital approach is to be applied instead of the income approach. These changes became effective as from 1 January 2018. We were provided with limited information to ensure that the changes in the accounting policies were properly applied, including the proper allocation of the grants to the respective assets. From the tests that we could carry out, it transpired that the depreciation was worked out again from the date of acquisition based on the cost of the assets less any grants allocated to them using the straight-line basis on a yearly basis. The difference between the new accumulated depreciation and the accumulated depreciation as previously stated as at 31 December 2017, was written off as an impairment. Given the limitations mentioned, we could not satisfy ourselves as to the correctness of the carrying amounts of property, plant and equipment as well as the depreciation charge for the year.

Included in the accrued income as at 31<sup>st</sup> December 2018, there is an amount of €47,167 relating to various projects and activities, which has been brought forward from the previous years. No audit evidence was obtained during the performance of our audit to confirm the recoverability of such accrued income. Hence, we could not conclude whether these funds are to be provided for as doubtful or not, and therefore whether the receivables are overstated.

As at 31 December 2017, the Local Council had received grants amounting to Euro 45,000 relating to lifts and €83,592 relating to resurfacing works and water culverts in Church Street, that were not yet carried out or completed as of that date. Yet, we noticed that when the comparative figures were restated following the change in the accounting policy on government grants, these grants were still allocated against property, plant and equipment rather than left under deferred income in Note 6. These projects were not yet completed as at 31 December 2018. Furthermore, during the year ended 31 December 2018, funds received during the year amounting to €82,199, being part of the total funds receivable with respect to the projects under Measure 4.3, were transferred to property, plant and equipment when according to these financial statements these projects were not yet completed.

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

### Basis for Qualified Opinion - continued

From the architect's letter that we received during the audit, it transpired that resurfacing works carried out under Measure 4.3 were completed on two roads by 31 December 2018 and were in an advanced stage on the third road. The estimated cost of the two completed roads was €106,245, while the estimated cost of the uncompleted road was €62,245 once completed. The percentage completed till the end of the year was not given to us. The only cost in respect of these projects in these financial statements is €30,987 being presented as additions for the year of property, plant and equipment under the category assets under construction. We also noted that the Local Council has received an invoice from the contractor of this project amounting to €33,180 for works carried out on these roads, that was not reflected in these financial statements. The architect's letter also mentioned that the resurfacing works and water culverts in Church Street were 80% completed as at 31 December 2018 and these completed works were valued at €109,800. No invoices were received for such works and no accruals have been accounted for. This means that the accounts payable, the accruals and the property, plant and equipment are understated.

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

- Whilst Note 2 is stating that the Local Council has adopted IFRS 9, other disclosures such as the accounting policy on amounts receivable in Note 2 and the credit risk in Note 19, are still in line with the old IAS 39 – Financial Instruments: Recognition and Measurement.
- In Note 3, when the comparatives were restated, the amortization of the deferred income for the year ended 31 December 2017, was not netted off against the depreciation charge for the year, and therefore the depreciation shown in this note does not agree with the depreciation being disclosed in Note 15.

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

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

### **Other Information**

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

### **Council Responsibilities for the Financial Statements**

As described on page 3, the Executive Secretary and the Local Council Members are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Executive Secretary and the Local Council Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Secretary and the Local Council Members are responsible for assessing the Local Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to presume that the Local Council will continue as a going concern.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Local Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Secretary and the Local Council Members.
- Conclude on the appropriateness of the Executive Secretary's and the Local Council Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Local Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Local Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Executive Secretary and the Local Council Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

**Report on Other Legal and Regulatory Requirements**

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



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

RSM Malta  
Certified Public Accountants

Date: 25<sup>th</sup> April 2019