

Xghajra Local Council

Annual Report and Financial Statements
31 December 2017



Prepared by Paul Bugeja CPA

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Statement of Local Council Members' and Executive Secretary's Responsibilities

The Local Councils (Financial) Regulations 1993 require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's income and expenditure for the year and of the Council's retained funds at the end of the 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, 1993 and the Local Council (Financial) Procedures, 1996.

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 1993, and the Local Council (Financial) Procedures 1996. The Executive Secretary is also responsible for safeguarding the assets of the Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement has approved by the Council on 26 April 2018 and signed on its behalf by:



Anthony Valvo
Mayor



Ranier Busuttil
Executive Secretary

Statement of Comprehensive Income

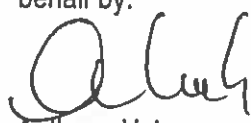
	Notes	2017	2016
		€	€
Income			
Funds received from central government	3	220,834	207,989
Income raised under Local Enforcement System	4	2,971	824
General Income	5	1,872	2,683
		<u>225,677</u>	<u>211,496</u>
Expenditure			
Personal emoluments	7	92,765	89,467
Operations and Maintenance	8	67,351	67,151
Administrative and other Expenditure	9	57,971	52,499
		<u>218,087</u>	<u>209,117</u>
Operating profit		<u>7,590</u>	<u>2,379</u>
Investment income	5	<u>2</u>	<u>3</u>
Profit for the year		<u>7,592</u>	<u>2,382</u>
Profit and total comprehensive income for the year		<u>7,592</u>	<u>2,382</u>

The notes on pages 6 to 28 form an integral part of these financial statements

Statement of Financial Position

	Notes	2017	2016
		€	€
ASSETS			
Non-current assets			
Property, plant and equipment	10	355,916	365,925
Current assets			
Receivables	11	20,395	45,495
Cash and cash equivalents	12	99,176	67,964
		119,571	113,459
Total Assets		475,487	479,384
Reserves			
Retained Fund		103,830	96,238
Non - Current Liabilities			
Deferred Income	13	302,830	305,666
Current Liabilities			
Payables	14	68,827	77,480
Total Reserves and Liabilities		475,487	479,384

These financial statements were approved by the Local Council on 26 April 2018 and are signed on its behalf by:


Anthony Valvo
Mayor


Ranier Busuttil
Executive Secretary

Statement of Changes in Equity

	Retained Funds €	Total €
Balance at 1 January 2016	93,856	93,856
Profit for the year	2,382	2,382
Balance at 31 December 2016	96,238	96,238
Balance at 1 January 2017	96,238	96,238
Profit for the year	7,592	7,592
Balance at 31 December 2017	103,830	103,830

The notes on pages 6 to 28 form an integral part of these financial statements

Statement of Cash Flows

	Notes .	2017 €	2016 €
Cash flows from operating activities			
Profit for the year		7,592	2,382
Adjustments for:			
Decrease in provision for doubtful LES debtors		12,939	(429)
Depreciation		10,936	11,760
Investment income receivable		(2)	(3)
Grant released		(3,115)	(3,367)
Surplus for the period before working capital movements		28,350	10,343
Movement in receivables		12,161	(25,227)
Movement in payables		(1,175)	(8,786)
Net cash generated from/(used in) operating activities		39,336	(23,720)
Cash flows (used in)/generated from financing activities			
Movement in grants		-	62,350
Net cash (used in)/generated from financing activities		-	62,350
Cash flows (used in)/generated from investing activities			
Investment income received		2	3
Payment to acquire property, plant and equipment	10a	(927)	3,777
Net cash (used in)/from investing activities		(925)	3,780
Movement in cash and cash equivalents		38,411	42,410
Cash and cash equivalents at the beginning of the year		50,547	8,137
Cash and cash equivalents at the end of the year	12	88,958	50,547
Net debt reconciliation			
This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.			
Net debt		2017 €	2016 €
Cash and cash equivalents		99,176	67,964
Borrowings – repayable within one year (including overdraft)		(10,218)	(17,417)
Net debt		88,958	50,547

Notes to the Financial Statements

For the year ended 31 December 2017

1. Statutory Information

Xghajra Local Council is the local authority of Xghajra setup in accordance with the Local Councils Act. The Office of the Local Council is situated at Delle Grazie Battery, Xghajra.

2. Accounting policies and reporting procedures

The principal accounting policies adopted 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. Basis of preparation

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, in accordance to the requirements of International Financial Reporting Standards (IFRSs) as adopted by the European Union 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. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In the opinion of the Executive Secretary, the accounting estimates and judgements made in the preparation of the Financial Statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirements of IAS 1 (revised) – 'Presentation of Financial Statements'.

2. Accounting policies and reporting procedures - continued**c. Application of new and revised international Financial Reporting Standards (IFRSs)****Amendments to IAS 7 Disclosure Initiative**

The Council has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non cash changes.

The Council's liabilities arising from financing activities consist of certain other financial liabilities (note 14). A reconciliation between the opening and closing balances of these items is provided in Statement of Cash Flows. Consistent with the transition provisions of the amendments the Council has not disclosed comparative information for the prior period. Apart from the additional disclosure in Statement of Cash Flows, the application of these amendments has had no impact on the Council's financial statements.

d. New and revised IFRSs in issue but not yet effective

The Council has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted:

IFRS 9	Financial instruments
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IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirement of IFRS9:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in

2. Accounting policies and reporting procedures - continued**d. New and revised IFRSs in issue but not yet effective– continued****IFRS 9 Financial Instruments – continued**

the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under AS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under AS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Council's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the members of the Council have assessed the impact of IFRS 9 to the Council's financial statements as follows:

Classification and measurement

- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

1. Accounting policies - continued**iii. New and revised IFRSs in issue but not yet effective – continued****IFRS 9 Financial Instruments – continued****Impairment**

Financial assets measured at amortised cost will be subject to the impairment provisions of IFRS 9.

Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted:

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 15 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS '16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Council has non-cancellable operating lease commitments, IAS 17 does not require the recognition of any right of use asset or liability for future payments for these leases, instead, certain information is disclosed as operating lease commitments. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Council will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16.

2. Accounting policies and reporting procedures - continued**d. New and revised IFRSs in issue but not yet effective – continued****IFRS 16 Leases - continued**

In contrast, for finance leases where the Council is a lessee, as the Council has already recognised an asset and a related finance lease liability for the lease arrangement, and in cases where the Council is a lessor (for both operating and finance leases), the members of the Council do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Council's financial statements.

e. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Xghajra Local Council and the revenue can be reliably measured, regardless of when the payment is received.

Revenue is recognised upon transfer of funds from the Central Government when there are no significant uncertainties concerning the derivation of consideration or associated costs.

Interest income is recognised in the income statement as it accrued under finance income.

f. Functional and presentation currency

Items included in the Local Council's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Euro is the Local Council's functional and presentation currency.

g. Local Enforcement System

The Local Council disclosed the administrative fee on the amount of contraventions paid at the Local Council and amount distributed from LESA.

h. Government grants

Government grants are accounted for on a systematic basis in the Statement of Comprehensive Income 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.

2. Accounting policies and reporting procedures - continued**i. Intangible assets**

Intangible assets comprise computer software. Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful live of 25% using the reducing balance method. Costs associated with maintaining computer software programmes are recognized as an expense as incurred.

Where an indication of impairment exists, in that the carrying amount of an intangible asset is greater than its estimated recoverable amount, a charge is made to write down the value of the asset to its estimated recoverable amount (Accounting policy (k)).

j. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on a monthly basis using the reducing balance method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

• Land	0%
• Buildings	1%
• Office furniture and fittings	7.5%
• Trees	0%
• Construction works	10%
• Urban Improvements (Street Furniture)	10%
• Special Projects	10%
• Office Equipment	20%
• Motor Vehicles	20%
• Plant and Machinery	20%
• Computer Equipment	25%
• Litter Bins	100%

Other plant and equipment are on a replacement basis.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount, and are taken into account in determining operating profit.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (Accounting policy (k)).

k. Impairment of assets

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 asset's carrying amount exceeds its

2. Accounting policies and reporting procedures - continued**k. Impairment of assets - continued**

recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

l. Amount receivables

Amount receivables are carried at original invoice amount less provisions made for impairment of these receivables. A provision for impairment of amount receivables is established when there is objective evidence that the Local Council will not be able to collect all amounts due according to the set original terms. The amount of provision is recognised in the Statement of Comprehensive Income. Bad debts are written off during the year in which they are identified.

m. Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of bank overdrafts.

n. Profits and losses

Only profits that were realized at the date of the Financial Position are recognized 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.

o. Payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. 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.

p. Provisions

Provisions are recognised when the Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

q. 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 (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

2. Accounting policies and reporting procedures – continued**q. Borrowings - continued**

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months from the end of the reporting period.

r. 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'). 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.

s. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

t. 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 transaction costs. They are measured subsequently as described below.

u. 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 as described below.

2. Accounting policies and reporting procedures – continued**u. Financial assets - continued**

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 rate 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 considerable 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

v. Financial liabilities

The Council's financial liabilities include other payables. These are stated at their nominal amount which is reasonable approximation of fair value.

All interest-related charges are included within finance costs.

3. Funds Received from Central Government

	2017	2016
	€	€
In terms of Section 55 of the Local Councils Act (Cap 363)	203,675	175,185
Other Supplementary Government Income	11,585	14,863
Other Government Income	5,574	17,941
	<u>220,834</u>	<u>207,989</u>

4. Local Enforcement System Income

	2017	2016
	€	€
Administrative Fee	658	824
LESA Distribution	2,313	-
	<u>2,971</u>	<u>824</u>

5. Investment income

	2017	2016
	€	€
Bank interest receivable	<u>2</u>	<u>3</u>

6. General Income

	2017	2016
	€	€
General income	1,872	2,008
Community services	-	350
Sponsorships	-	325
	<u>1,872</u>	<u>2,683</u>

7. Personal Emoluments

	2017	2016
	€	€
Mayor's allowance	7,345	7,228
Executive Secretary and allowances	29,717	28,904
Employees' salaries	43,226	41,034
Social security contributions	6,077	5,901
Councillors' remuneration	6,400	6,400
	<u>92,765</u>	<u>89,467</u>

8. Operations and Maintenance

	2017	2016
	€	€
Repairs and Upkeep:		
Public property and road markings	1,137	4,187
Signs	949	1,052
Other	(4)	629
	<u>2,082</u>	<u>5,868</u>
	2017	2016
	€	€
Contractual Services:		
Refuse collection (including bins on wheels)	29,668	29,508
Bulky Refuse Collection	4,189	2,482
Road and street cleaning (mechanical and manual)	8,121	8,121
Cleaning and Maintenance of Parks and Gardens	804	684
Cleaning and Maintenance of Council Premises	125	200
Street lighting	3,197	2,394
Wasteserv	19,165	17,894
	<u>65,269</u>	<u>61,283</u>
	<u>67,351</u>	<u>67,151</u>

9. Administration and other expenditure

	2017	2016
	€	€
Utilities	3,248	4,640
Materials & supplies	1,776	3,505
Transport	433	440
Information services	270	202
National & International membership	425	380
Rent	4,750	4,756
Office services	4,386	3,175
Lease of equipment	638	532
Professional services	8,941	4,502
Community services & events	4,246	4,205
Increase/(Decrease) in provision for doubtful debtors	12,931	(429)
Depreciation	10,936	11,760
Maintenance of vehicles and fuel	1,597	1,519
Insurance	1,954	1,642
Bad Debt written off	546	-
Bank charges	96	73
Late payment interests	160	-
Library	218	207
Visit Foreign Delegation	-	11,390
Entertainment	420	-
	<u>57,971</u>	<u>52,499</u>

10a. Property, plant and equipment

Asset	Plant and machinery	Office furniture and fittings	Office & computer equipment	Litter Bins	Motor Vehicles	Urban Improvements	New street signs	Construction	Special Programmes	Assets not yet capitalized	Total
	€	€	€	€	€	€	€	€	€	€	€
Cost											
As at 1 January 2017	5,881	17,795	22,676	-	2,330	178,056	14,532	212,728	61,989	261,547	777,534
Additions	160	44	-	428	-	295	-	-	-	-	927
Reclassification of assets	-	-	-	-	-	-	-	-	-	-	-
As at 31 December 2017	6,041	17,839	22,676	428	2,330	178,351	14,532	212,728	61,989	261,547	778,461
Grants and other reimbursements											
As at 1 January 2017	-	-	-	-	2,330	32,131	-	114,167	61,989	-	210,617
As at 31 December 2017	-	-	-	-	2,330	32,131	-	114,167	61,989	-	210,617
Accumulated Depreciation											
As at 1 January 2017	3,965	10,700	19,046	-	-	79,352	14,532	73,397	-	-	200,992
Charge for the year	305	516	812	428	-	6,387	-	2,428	-	-	10,936
As at 31 December 2017	4,330	11,216	19,858	428	-	85,739	14,532	75,825	-	-	211,928
Net Book Value											
As at 31 December 2017	1,711	6,623	2,818	-	-	60,481	-	22,736	-	261,547	355,916
As at 31 December 2016	1,916	7,095	3,630	-	-	66,573	-	25,164	-	261,547	365,925

10b. Property, plant and equipment

Asset	Plant and machinery €	Office furniture and fittings €	Office & computer equipment €	Motor Vehicles €	Urban improvements €	New street signs €	Construction €	Special Programmes €	Assets not yet capitalized €	Total €
Cost										
As at 1 January 2016	5,881	17,795	20,347	2,330	176,186	14,532	212,609	61,989	269,642	781,311
Additions	-	-	2,329	-	1,870	-	119	-	-	4,318
Decrease in assets	-	-	-	-	-	-	-	-	(8,095)	(8,095)
As at 31 December 2016	5,881	17,795	22,676	2,330	178,056	14,532	212,728	61,989	261,547	777,534
Grants and other reimbursements										
As at 1 January 2016	-	-	-	2,330	32,131	-	114,167	61,989	-	210,617
As at 31 December 2016	-	-	-	2,330	32,131	-	114,167	61,989	-	210,617
Accumulated Depreciation										
As at 1 January 2016	3,537	10,145	18,052	-	72,517	14,532	70,449	-	-	189,232
Charge for the year	428	555	994	-	6,835	-	2,948	-	-	11,760
As at 31 December 2016	3,965	10,700	19,046	-	79,352	14,532	73,397	-	-	200,992
Net Book Value										
As at 31 December 2016	1,916	7,095	3,630	-	66,573	-	25,164	-	261,547	385,925
As at 31 December 2015	2,344	7,650	2,295	-	71,538	-	27,993	-	269,642	381,462

11. Receivables

	2017	2016
	€	€
Receivables	277	850
Accrued income	15,000	26,999
	<u>15,277</u>	<u>27,849</u>
Prepayments	4,748	3,678
Other debtors	-	12,967
Other debtors	370	1,001
	<u>20,395</u>	<u>45,495</u>

The average credit period on sales of services is 60 days. Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the company has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

	2017	2016
	€	€
Age of receivables that are past due but not impaired		
60-90 days	-	90
91-120 days	31	701
Total	<u>31</u>	<u>791</u>

In determining the recoverability of receivables, the company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

	2017	2016
	€	€
Movement in the allowance for doubtful debts		
Balance at beginning of year	22,740	23,169
Amounts collected during the year	(35)	(429)
Provision for the year	12,966	-
Adjustment in receivables	8	-
Balance at end of year	<u>35,679</u>	<u>22,740</u>

12. Cash and cash equivalents

	2017	2016
	€	€
Cash in hand	223	229
Bank balances	98,953	67,735
	<u>99,176</u>	<u>67,964</u>

13. Long term deferred income

	2017	2016
	€	€
Government Grants		
At 1 January	308,707	249,774
Increase in year	-	62,300
	<u>308,707</u>	<u>312,074</u>
Released in year	(3,115)	(3,367)
At 31 December	<u>305,592</u>	<u>308,707</u>
Current Deferred Income	<u>2,762</u>	<u>3,041</u>
Grants	<u>302,830</u>	<u>305,666</u>

	2017	2016
	€	€
Between 1 and 2 years	2,456	2,431
Between 2 and 5 years	7,575	5,241
Over 5 years	292,799	297,994
Total	<u>302,830</u>	<u>305,666</u>

14. Payables

	2017	2016
	€	€
Creditors	45,603	44,501
Accruals	10,244	12,521
Bank balance overdrawn	10,218	17,417
	<u>66,065</u>	<u>74,439</u>
Financial liabilities		
Deferred income Government Grants	2,762	3,041
	<u>68,827</u>	<u>77,480</u>

15. Related party transactions

During the year, the Local Council had effected transactions with related parties resulting mainly in connection with income and administrative transactions, are disclosed in notes 3, 6 and 9 to these financial statements. The following were the related parties:

Name of Entity	Nature of relationship
Department of Local Councils	Significant control
Gozo Regional Committee	No control
Central Regional Committee	No control
North Regional Committee	No control
South Regional Committee	No control
South Eastern Regional Committee	Joint control
LESA	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Cleansing Directorate	No control
Department of Lands	No control
Wasteserv Malta Ltd	No control
Bank of Valletta plc	No control
HSBC Bank Malta plc	No control
Police General Headquarters	No control
Local Council Associations	No control
Commissioner of Data Protections	No control
Ministry of Finance	No control
Department of Information	No control

15. Related party transactions - continued

Name of Entity	Nature of relationship
ARMS Ltd	No control
Department of Inland Revenue	No control

The following transactions were carried out with related parties:

	2017	2016
	€	€
(a) Funds received from Local Government	203,675	175,185
	2017	2016
	€	€
(b) Administrative fees from Regional Committees	658	824

Key management compensation

Transactions with key management personnel are disclosed in note 8.

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

16. 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.

The Council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period and is summarised as follows:

16. Financial risk management - continued

Credit risk - continued

	2017 €	2016 €
Classes of financial assets – carrying amounts		
Trade and other receivables	15,277	27,849
Cash and cash equivalents	99,176	67,694
	<u>114,453</u>	<u>95,543</u>

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 in bank and in hand the amount of €99,176. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive net asset position of €103,380 ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

At 31 December 2017 the council's financial liabilities have contractual maturities which are summarised below:

At 31 December 2017

	Current Within €	Non-current 1 to 5 years €	Later than 5 years €
Payables	45,603	-	-
Other creditors	-	-	-
Accruals	10,244	-	-
Bank balance overdrawn	10,218	-	-

This compares to the maturity of the council's financial liabilities in the previous reporting period as follows:

16. Financial risk management - continued

Liquidity risk

At 31 December 2016

	Current Within 1 year €	Non-current 1 to 5 years €	Later than 5 years €
Payables	44,501	-	-
Other creditors		-	-
Accruals	12,521	-	-
Bank balance overdrawn	17,417	-	-

Foreign currency risk

Foreign currency transaction arise when the Council buys or sells goods whose price is denominated in a foreign currency, or incurs or settles liabilities, denominated in a foreign currency. The Council does not trade in any foreign currencies.

Interest rate risk

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

17. Summary of financial assets and liabilities

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

	2017 €	2016 €
Current assets		
Loans and receivables:		
Trade and other receivables	15,277	27,849
Cash and cash equivalents	99,176	67,964
	<u>114,453</u>	<u>95,543</u>
Current liabilities		
Financial liabilities measured at amortised costs:		
Payables	45,603	44,501
Accruals	10,244	12,521
Bank balance overdrawn	10,218	17,417

18. Fair values estimation

The nominal values less estimated credit adjustments of receivables and payables are assumed to approximate their fair values, otherwise, these have been adjusted to approximate their fair values.

19. Capital commitments**Capital expenditure**

Commitments for capital expenditure not provided for in these financial statements are as follows:

	2017 €	2016 €
Authorised but not contracted for	<u>60,000</u>	<u>-</u>

20. Subsequent event

The Department of Local Government is instructing Local Councils under Directive Number 1/2017 that when accounting for Government Grants, the Councils has to adopt the Capital Approach and not the Income Approach as from 1st January 2018. This is a change in accounting policy and in accordance to IAS 8 '*Accounting policies, Changes in Accounting Estimates and Errors*' this will not affect the final figure on the Statement of Comprehensive Income but it will only affect the Statement of Financial Position.

Report of the Local Government Auditor

To the Auditor General

Report on the audit of the financial statements

Qualified opinion

We have audited the financial statements of Xghajra Local Council set out on pages 2 to 28 which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for qualified opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Council as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act, the Local Councils (Financial) Procedures 1996 (the "Legislation").

Basis for qualified opinion

1. In recent years the Council received grants for various projects. At balance sheet date the total amount of grants shown with deferred income in note 13 amounted to € 305,592. At balance sheet date the carrying amount of the assets that were funded by those grants amounted to € 310,198. We could not reconcile the difference and we were not provided with satisfactory explanations for the difference.

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

Responsibilities of those charged with governance for the financial statements

As described on page 1 the Executive Secretary and the members of the Local Council are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and are properly prepared in accordance with the provisions of the Legislation, and for such internal control as they 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 members of the Local Council are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is the intention to liquidate the Council or to cease operations, or have no realistic alternative but to do so.

The Executive Secretary and the members of the Local Council are responsible for overseeing the 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 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 the ISAs, we exercise professional judgement 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 communicate with those charged with governance 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.

The engagement partner on the audit resulting in this independent auditor's report is Mark Bugeja



Mark Bugeja (Partner) for and on behalf of

GRANT THORNTON
Certified Public Accountants

Fort Business Centre
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Malta

26 April 2018