

Xghajra Local Council

Annual Report and Financial Statements  
31 December 2018

*Prepared by Paul Bugeja CPA*

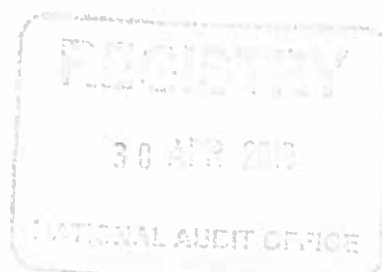


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### Statement of Local Council Members' and Executive Secretary's Responsibilities

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 15<sup>th</sup> April 2019 and signed on its behalf by:



Anthony Valvo  
Mayor



Ranier Busuttil  
Executive Secretary

**Statement of Comprehensive Income**

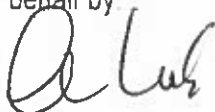
	Notes	2018	2017 (Re-stated)
		€	€
<b>Income</b>			
Funds received from central government	3	228,406	217,719
Income raised under Local Enforcement System	4	837	2,971
General Income	6	5,314	1,872
		<u>234,557</u>	<u>222,562</u>
<b>Expenditure</b>			
Personal emoluments	7	96,182	92,765
Operations and Maintenance	8	70,240	67,351
Administrative and other Expenditure	9	78,052	54,856
		<u>244,474</u>	<u>214,972</u>
<b>Operating (loss)/profit</b>		<u>(9,917)</u>	<u>7,590</u>
<b>Investment income</b>	5	<u>2</u>	<u>2</u>
<b>(Loss)/profit for the year</b>		<u>(9,915)</u>	<u>7,592</u>

*The notes on pages 6 to 25 form an integral part of these financial statements*

## Statement of Financial Position

	Notes	2018	2017 (Re-Styled)
		€	€
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	27,617	54,334
<b>Current assets</b>			
Receivables	11	19,344	20,395
Cash and cash equivalents	12	320,576	99,176
		<b>339,920</b>	<b>119,571</b>
<b>Total Assets</b>		<b>367,537</b>	<b>173,905</b>
<b>Reserves</b>			
Retained Fund		93,915	103,830
<b>Current Liabilities</b>			
Payables	13	273,622	70,075
<b>Total Reserves and Liabilities</b>		<b>367,537</b>	<b>173,905</b>

These financial statements were approved by the Local Council on 15<sup>th</sup> April 2019 and are signed on its behalf by:



Anthony Valvo  
Mayor



Ranier Busuttil  
Executive Secretary

The notes on pages 5 to 25 form an integral part of these financial statements

**Statement of Changes in Equity**

	Note	Retained Funds €	Total €
Balance at 1 January 2017		96,238	96,238
Profit for the year		7,592	7,592
<b>Restated balance at 31 December 2017</b>		<b>103,830</b>	<b>103,830</b>
Balance at 1 January 2018		103,830	103,830
Loss for the year		(9,915)	(9,915)
<b>Balance at 31 December 2018</b>		<b>93,915</b>	<b>93,915</b>

*The notes on pages 6 to 25 form an integral part of these financial statements*

**Statement of Cash Flows**

	Notes	2018 €	2017 €
<b>Cash flows from operating activities</b>			
(Loss)/profit for the year		(9,915)	7,592
Adjustments for:			
Decrease in provision for doubtful LES debtors/other debtors		(13,172)	12,939
Depreciation		37,186	7,821
Investment income receivable		(2)	(2)
<b>Surplus for the period before working capital movements</b>		<b>14,097</b>	<b>28,350</b>
Movement in receivables		14,221	12,161
Movement in payables		200,812	(1,175)
<b>Net cash generated from operating activities</b>		<b>229,130</b>	<b>39,336</b>
<b>Cash flows used in investing activities</b>			
Investment income received		2	2
Payment to acquire property, plant and equipment	10a	(10,467)	(927)
<b>Net cash used in investing activities</b>		<b>(10,465)</b>	<b>(925)</b>
<b>Cash flows used in financing activities</b>			
Government grants		(4,010)	-
<b>Net cash used in investing activities</b>		<b>(4,010)</b>	<b>-</b>
<b>Movement in cash and cash equivalents</b>		<b>214,655</b>	<b>38,411</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>88,958</b>	<b>50,547</b>
<b>Cash and cash equivalents at the end of the year</b>	12	<b>303,613</b>	<b>88,958</b>
<b>Net debt reconciliation</b>			
This section sets out an analysis of net debt and the movements in net debt for each of the periods presented			
<b>Net debt</b>		<b>2018 €</b>	<b>2017 €</b>
Cash and cash equivalents		320,576	99,176
Borrowings – repayable within one year (including overdraft)		(16,963)	(10,218)
<b>Net debt</b>		<b>303,613</b>	<b>88,958</b>

## Notes to the Financial Statements

### For the year ended 31 December 2018

#### 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)

#### Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Council has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. However, the Council has elected to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Council adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements are described below.

The Council has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

#### (a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Council has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Council has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments 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 amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

**2. Accounting policies - continued****c. Application of new and revised International Financial Reporting Standards as adopted by the EU (IFRSs) - continued****Impact of initial application of IFRS 9 Financial Instruments – continued**

Despite the foregoing, the Council may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Council may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Council may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Council has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The executive secretary of the Council reviewed and assessed the Council's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no impact on the Agency's financial assets.  
other year.

**(b) Impairment of financial assets**

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 IAS 39. The expected credit loss model requires the Council 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 of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. Accounting policies - continued
- c. Application of new and revised International Financial Reporting Standards as adopted by the EU (IFRSs) - continued

**Impact of initial application of IFRS 9 Financial Instruments – continued**

Specifically, IFRS 9 requires the Council to recognise a loss allowance for expected credit losses on:

- (1) Debt investments measured subsequently at amortised cost or at FVTOCI;
- (2) Lease receivables;
- (3) Trade receivables and contract assets; and
- (4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Council to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The Council had no particular assessment to make.

*(c) Classification and measurement of financial liabilities*

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk 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, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of IFRS 9 has had no impact on the classification and measurement of the Council's financial liabilities.

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

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.

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.

Furthermore, extensive disclosures are required by IFRS 16

As at 31 December 2018, 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.

**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 and Regional Committees. The LESA and Regional Committees were taken over in 2015.

**h. Government grants**

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

**2. Accounting policies and reporting procedures - continued****i. Depreciation of Fixed Assets**

During year 2018, a change in depreciation method has been effected according to the instructions in DLG Directive 1/2017, whereby from reducing balance method, depreciation is now being calculated on straight line method. Adjusted net book values as at 1 January 2017 and 31 December 2017 are reflected in the PPE Schedule on page 17.

**j. 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 (l)).

**k. 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%
• Trees	0%
• Buildings	1%
• Office furniture and fittings	7.5% - 19%
• Construction works	10% - 63%
• Urban Improvements (Street Furniture)	10% - 63%
• Special Projects	10%
• Office Equipment	20% - 25%
• Motor Vehicles	20%
• Plant and Machinery	20% - 22%
• Computer Equipment	25%
• Litter Bins	100%
• Traffic and Road Signs	100%
• Street Lights	100%
• Playground Furniture	100%

Other plant and equipment are on a replacement basis.

**2. Accounting policies and reporting procedures - continued****k. Property, plant and equipment - continued**

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 (l)).

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

**m. 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.

**n. 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.

**o. 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.

**2. Accounting policies and reporting procedures - continued****p. 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.

**q. 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.

**r. 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.

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.

**s. Operating lease**

Leases of assets where a significant portion of the risk and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

**t. 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.



**2. Accounting policies and reporting procedures – continued****u. 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.

**v. 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.

**w. 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.

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.

**2. Accounting policies and reporting procedures – continued****x. 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**

	2018	2017
	€	€
In terms of Section 55 of the Local Councils Act (Cap 363)	212,404	203,675
Other Supplementary Government Income	9,491	11,585
Other Government Income	6,511	2,459
	<u>228,406</u>	<u>217,719</u>

**4. Local Enforcement System Income**

	2018	2017
	€	€
Administrative Fee	837	658
LESA Distribution	-	2,313
	<u>837</u>	<u>2,971</u>

**5. Investment income**

	2018	2017
	€	€
Bank interest receivable	<u>2</u>	<u>2</u>

**6. General Income**

2018	2017
€	€

General income	5,314	1,872
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**7. Personal Emoluments**

2018	2017
€	€

Mayor's allowance	7,463	7,345
Executive Secretary and allowances	32,964	29,717
Employees' salaries	42,951	43,226
Social security contributions	6,404	6,077
Councillors' remuneration	6,400	6,400
	96,182	92,765

**8. Operations and Maintenance**

2018	2017
€	€

**Repairs and Upkeep:**

Public property and road markings	2,540	1,137
Signs	1,687	949
Other	-	(4)
	4,227	2,082

2018	2017
€	€

**Contractual Services:**

Refuse collection (including bins on wheels)	29,453	29,668
Bulky Refuse Collection	5,032	4,189
Road and street cleaning (mechanical and manual)	9,766	8,121
Cleaning and Maintenance of Parks and Gardens	684	804
Cleaning and Maintenance of Council Premises	180	125
Street lighting	1,399	3,197
Wasteserv	19,499	19,165
	66,013	65,269
	70,240	67,351

## 9. Administration and other expenditure

	2018	2017
	€	€
(Decrease)/ increase in provision for doubtful debtors	(13,172)	12,931
Bad Debt written off	12,966	546
Bank charges	45	96
Community services & events	9,213	4,246
Depreciation	37,186	7,821
Entertainment	-	420
Information services	199	270
Insurance	1,947	1,954
Late payment interests	-	160
Lease of equipment	609	638
Library	286	218
Maintenance of vehicles and fuel	994	1,597
Materials & supplies	6,551	1,776
National & International membership	338	425
Office services	4,562	4,386
Penalty fines	250	-
Professional services	7,589	8,941
Rent	4,755	4,750
Overseas tickets	400	-
Transport	499	433
Utilities	2,835	3,248
	<u>78,052</u>	<u>54,856</u>

10a. Property, plant and equipment

	Plant and machinery	Office furniture and fittings	Office & computer equipment	Litter Bins	Motor Vehicles	Urban improvements	New street signs	Construction	Special Programmes	Assets under construction	Total
	€	€	€	€	€	€	€	€	€	€	€
1 January 2018	6 041	17 839	22 676	428	2 330	178 351	14 532	212 728	61 989	261 547	778 461
2018	70	-	4 022	-	5 800	-	-	-	-	575	10 467
31 December 2018	6 111	17 839	26 698	428	8 130	178 351	14 532	212 728	61 989	262 122	788 928
<b>Depreciation</b>											
1 January 2018	-	-	2 300	-	2 330	89 055	-	114 167	61 989	261 547	531 368
31 December 2018	-	-	2 300	-	2 330	89 055	-	114 167	61 989	261 547	531 368
<b>Impairment</b>											
1 January 2018	4 330	11,216	18 975	428	-	67,433	14 532	75,825	-	-	192,739
for the year	1 604	3 275	1 824	-	97	11,578	-	18 806	-	-	37,184
31 December 2018	5 934	14 491	20 799	428	97	79 011	14 532	94 631	-	-	229 923
<b>Book Value</b>											
31 December 2018	177	3 348	3 599	-	5,703	10,285	-	3,930	-	575	27,617

# 10b. 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 under construction €	Total €
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
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											
at 1 January 2017	-	-	-	-	2,330	32,131	-	114,167	61,989	-	210,617
Government Grants prior years	-	-	2,300	-	-	56,924	-	-	-	261,547	320,771
at 31 December 2017	-	-	2,300	-	2,330	89,055	-	114,167	61,989	261,547	531,388
cumulated Depreciation											
at 1 January 2017	3,965	10,700	19,046	-	-	79,352	14,532	73,397	-	-	200,992
adjusted	-	-	(456)	-	-	(15,618)	-	-	-	-	(16,074)
charge for the year	365	516	812	428	-	6,367	-	2,428	-	-	10,936
adjusted	-	-	(427)	-	-	(2,688)	-	-	-	-	(3,115)
at 31 December 2017	4,330	11,216	18,975	428	-	67,433	14,532	75,825	-	-	192,739
at Book Value											
at 31 December 2017	1,711	6,623	1,401	-	-	21,863	-	22,736	-	-	54,334

**11. Receivables**

	2018	2017
	€	€
Receivables	238	277
LES Debtors	22,507	35,679
Less: Provision for bad debts	(22,507)	(35,679)
Accrued income	10,909	15,000
	<u>11,147</u>	<u>15,277</u>
Prepayments	4,812	4,748
Other debtors	3,385	370
	<u>19,344</u>	<u>20,395</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.

	2018	2017
	€	€
<b>Age of receivables that are past due but not impaired</b>		
60-90 days	-	-
91-120 days	31	31
Total	<u>31</u>	<u>31</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.

	2018	2017
	€	€
LES Debtors	<u>22,507</u>	<u>35,679</u>

**11. Receivables - continued**

	2018 €	2017 €
<b>Movement in the allowance for doubtful debts</b>		
Balance at beginning of year	35,679	22,740
Amounts collected during the year	(206)	(35)
Provision for the year	(12,966)	12,966
Adjustment in receivables	-	8
Balance at end of year	<u>22,507</u>	<u>35,679</u>

**12. Cash and cash equivalents**

	2018 €	2017 €
Cash in hand	103	223
Bank balances (Note)	320,473	98,953
	<u>320,576</u>	<u>99,176</u>

Note: The funds available for the Belveder project amounted to €211,250.

**13. Payables**

	2018 €	2017 €
Creditors	47,636	45,603
Advance payments	195,270	4,010
Accruals	13,753	10,244
Bank balance overdrawn	16,963	10,218
	<u>273,622</u>	<u>70,075</u>

The total financial liabilities for the year amounted to €273,622 (2017: €70,075).



**14. 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, 8 and 9 to these financial statements. The following were the related parties:

<b>Name of Entity</b>	<b>Nature of relationship</b>
Department of Local Government	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
ARMS Ltd	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
Department of Inland Revenue	No control
Wasteserv Malta Ltd	No control
Bank of Valletta plc	No control
HSBC Bank Malta plc	No control
Central Bank of Malta	No control
Police General Headquarters	No control
Local Council Associations	No control
Commissioner of Data Protections	No control
Ministry of Finance	No control
Ministry for Justice, Culture and Local Government	No control
Department of Information	No control
ARMS Ltd	No control
Department of Inland Revenue	No control

The following transactions were carried out with related parties:

	<b>2018</b>	<b>2017</b>
	<b>€</b>	<b>€</b>
<b>(a) Funds received from Local Government</b>	<b>212,404</b>	<b>203,675</b>
	<hr/>	<hr/>
	<b>2018</b>	<b>2017</b>
	<b>€</b>	<b>€</b>
<b>(b) Administrative fees from Regional Committees</b>	<b>837</b>	<b>658</b>
	<hr/>	<hr/>

**14. Related party transactions - continued****Key management compensation**

Transactions with key management personnel are disclosed in note 7.

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.

**15. 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.

As at 31 December 2018, the Council's maximum exposure to credit risk which cause a financial loss to the Council due to failure to discharge an obligation by other parties arises from the carrying amounts of receivables. The Council has applied the simplified approach in IFRS 9 to measure the loss allowance. The Council determines the expected credit loss by estimating the credit loss experience based on the past due status of the debtor adjusted to reflect the current condition and estimates of future economic conditions.

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:

	2018 €	2017 €
Classes of financial assets – carrying amounts		
Trade and other receivables	11,147	15,277
Cash and cash equivalents	320,576	99,176
	<b>331,723</b>	<b>114,453</b>

## 15. Financial risk management - continued

*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 €320,576 out of which €211,250 is not for operations but to be utilised for the Belveder project. 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 €93,915 ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

At 31 December 2018 the council's financial liabilities have contractual maturities which are summarised below:

**At 31 December 2018**

	Current Within	Non-current 1 to 5 years	Later than 5 years
	€	€	€
Payables	47,636	-	-
Advance payments	195,270	-	-
Accruals	13,753	-	-
Bank balance overdrawn	16,963	-	-

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

**At 31 December 2017**

	Current Within 1 year	Non-current 1 to 5 years	Later than 5 years
	€	€	€
Payables	45,603	-	-
Advance payments	4,010	-	-
Accruals	10,244	-	-
Bank balance overdrawn	10,218	-	-

**15. Financial risk management - continued****Foreign currency risk**

Foreign currency transaction arise when the Council buys or sells goods or services 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.

**16. 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:

	2018 €	2017 €
<b>Current assets</b>		
Loans and receivables:		
Trade and other receivables	11,147	15,277
Cash and cash equivalents	320,576	99,176
	<u>331,723</u>	<u>114,453</u>
<b>Current liabilities</b>		
Financial liabilities measured at amortised costs:		
Payables	47,636	45,603
Other payables	195,270	-
Accruals	13,753	10,244
Bank balance overdrawn	16,963	10,218
	<u>276,622</u>	<u>66,065</u>

**17. 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.

**18. Capital commitments****Capital expenditure**

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

	2018	2017
	€	€
Contracted but not provided for	37,000	-
Authorised but not contracted for	220,000	60,000

**19. Prior Year Adjustment**

Since the Department for Local Government instructed Local Councils to change the accounting treatment from Income Approach to Capital Approach for Government Grants, this change in accounting policy had brought into effect a change in the comparative figures and these were restated accordingly.

The change in the accounting policy was reflected by adjusting the liabilities and the property, plant equipment.

Dr: Government Grants	€320,771	
Cr: Property, Plant and Equipment		€320,771

**20. Events after the reporting period**

Up to the date of this report, there were no events to be reported which effect the financial statements.

# 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 27 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 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 2018, 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

The council's financial statements do not include all the disclosures required by IAS 7, *Statement of Cash Flows*, IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* and IFRS 9, *Financial Instruments*.

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

A handwritten signature in black ink, consisting of a large, stylized 'U' shape followed by a horizontal line that extends to the right and then curves upwards.

Mark Bugeja (Partner) for and on behalf of

**GRANT THORNTON**

Certified Public Accountants

Fort Business Centre  
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Malta

15 April 2019