Gharb Local Council

Annual Report and Financial Statements

For the year ended 31 December 2018

Prepared by: Pauliana Said

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Statement of Local Council Members' and Executive Secretary's Responsibilities For the year ended 31 December 2018

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

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

This statement was approved by the Council on 29th April, 2019 and signed on its behalf by

David Apap
Mayor

Emily Amatuli Depasquale
Executive Secretary

Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 €	2017 €
Revenue			
Funds Received from Central Government	3	326,910	309,165
Income raised under the Local Enforcement System	4	543	2,906
General Income	5	206,253	247,694
		533,706	559,765
Expenditure			
Personal Emoluments	6	(87,586)	(82,113)
Operations and Maintenance	7	(137,389)	(295,311)
Administration and Other Expenditure	8	(319,976)	(173,384)
		(544,951)	(550,808)
Operating (loss)/income for the year		(11,245)	8,957
Finance Income	9	69	40
Finance Costs	10	(3,732)	(4,137)
Total comprehensive (loss)/income for the year	6	(14,908)	4,860

Statement of Financial Position

For the year ended 31 December 2018

ASSETS	Notes	2018 €	2017 € Restated
Intangible Assets	11	4,307	174
Property, plant and equipment	12	(22,211)	(119,020)
Total non-current assets		(17,904)	(118,846)
Current Assets			
Receivables	13	357,645	368,238
Cash and cash equivalents	14	138,909	270,736
Total current assets		496,554	638,974
TOTAL ASSETS		478,650	520,128
RESERVES AND LIABILITES			
Retained earnings		295,084	309,992
Total reserves		295,084	309,992
LIABILITIES			
Non Current liabilities			
Bank Borrowings	16	55,468	62,583
Total non-current liabilties		55,468	62,583
Current liabilities			
Payables	15	128,098	147,553
Total current liabilities		128,098	147,553
TOTAL RESERVES AND LIABILITIES		478,650	520,128

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

David Apap
Mayor

Emily Amatuli Depasquale
Executive Secretary

Statement of Changes in Reserves

For the year ended 31 December 2018

	Retained Funds €
At 1 January 2017	388,557
Total Comprehensive Income for the year	4,860
	393,417
Prior year adjustment	(83,425)
At 31 December 2017	309,992
At 1 January 2018	309,992
Total comprehensive loss for the year	(14,908)
At 31 December 2018	295,084

Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 €	2017 €
Cash flow from operating activities			
Total comprehensive (loss) / profit for the year		(14,908)	4,860
Reconciliation to cash generated from operations:			
Depreciation		20,024	35,427
Amortisation		1,103	-
Interest Receivable		(69)	(40)
Loss on disposal of assets		22,783	-
		-------------	-------------
Operating profit before working capital changes		28,933	40,247
Decrease / (increase) in receivables		10,593	(143,495)
(Decrease) in payables		(26,912)	(161,963)
		-------------	-------------
Cash generated from / (used in) operating activities		12,614	(265,211)
		-------------	-------------
Cash flows from investing activities			
Interest received		69	40
Net movement in bank loans		(6,841)	(6,495)
Purchase of property, plant and equipment		(208,208)	(7,587)
Purchase of intangible assets		(5,236)	
Receipt of Grant		68,592	346,273
		-------------	-------------
Cash (used in) / generated from investing activities		(151,624)	332,231
		-------------	-------------
Net (decrease) / increase in cash in the year		(139,010)	67,020
Cash and cash equivalents at beginning of year		241,178	174,158
		=======	=======
Cash and cash equivalents at end of year	13	102,168	241,178
		=======	=======

Notes to the Financial Statements

For the year ended 31 December 2018

1 General Information

The Gharb Local Council is the local authority of Gharb set up in accordance with the Local Councils Act (1993). The office of the Local Council is situated at Triq il-Vizitazzjoni, Gharb. These financial statements were approved for issue by the Council Members on 29.04.2019. The Local Council's presentation as well as functional currency are denominated in €.

2 Accounting Policies and Reporting procedures

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Accounting convention

These financial statements are prepared under the historical cost convention, as modified to include fair values where it is stated in the accounting policies below. These financial statements are prepared in accordance with the provisions of the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 enacted in Malta and with the requirements of the International Financial Reporting Standards as adopted by the EU.

These financial statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjuction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act (Cap 363).

New and amended standards adopted by the Local Council

During the year under review, the Council has applied the following International Financial Reporting Standards as adopted by the EU:

Revised IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in; Classification and measurement -Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk; Impairment - The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is n longer necessary for a credit event to have occurred before a credit loss is recognized; Hedge accounting - introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures; Derecognition - The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39. The standard is effective for annual periods beginning on or after 1 January 2018.

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. These five steps in the model are as follows; Identify the contract with the customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contracts; Recognize revenue when (or as) the entity satisfies a performance obligation. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. The standard is effective for annual periods beginning on or after 1 January 2018.

Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. The standard is effective for annual periods beginning on or after 1 January 2018.

Amendments to the IFRS Standards 2014-2016 Cycle - IFRS 1 – Deletes the short-term exemptions in paragraphs E3-E7 of IFRS 1, because they have now served their intended purpose; IFRS 12 – Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10-B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets held for Sale and Discontinued Operations; IAS 28 – Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 was effective for annual periods beginning on or after 1 January 2017 and has already been implemented in previous periods.

New Standards and amendments not yet adopted:
A number of new International Financial Reporting Standards and amendments and revisions thereto were in issue but not yet adopted by the EU during the financial period under review. These include the following:

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the leases term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. Applicable to annual reporting periods beginning on or after 1 January 2019.

Amendments to the IFRS Standards 2015-2017 Cycle - IFRS 3 and IFRS 11 – The amendments to IFRS 3 clarify that when an entity obtains control of business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business; IAS 12 – The amendments clarify that the requirements in the former paragraph 52B (to recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized) apply to all income tax consequences of dividends by moving the paragraph away from the paragraph 52A that only deals with situations where there are different tax rates for the distributed and undistributed profits; IAS 23 – The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrow becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. Its effective for annual periods beginning on or after 1 January 2019 and are not yet endorsed for use in the EU.

The Councillors are assessing the impact that the adoption of these International Financial Reporting Standards will have on the financial statements in the period of initial application. The Councillors anticipate that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements in the period of initial application.

Intangible Asset

Computer software is valued at cost less accumulated depreciation and impairment losses to date. Depreciation to write off the cost is calculated on a yearly basis using the straight line method at 20% per annum.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Depreciation is calculated on a yearly basis using the straight line method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

	%
Land	0%
Trees	0%
Buildings	1%
Office furniture and fittings	8%
Construction works	10%
Urban Improvements (Street Furniture)	10%
Special Projects	10%
Office Equipment	20%
Motor Vehicles	20%
Plant and Machinery	20%
Computer equipment	25%
Plants	100%
Litter Bins	Replacement Basis
Playground Furniture	100%
Traffic Signs	Replacement Basis
Road Signs	Replacement Basis
Street Mirrors	Replacement Basis
Street Lights	100%

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

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

Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and the value in use. Impairment losses are immediately recognised as an expense in the Statement of Comprehensive Income.

Amounts receivable
Amounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of amounts receivable is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income.

Related Parties
Related parties are those persons or bodies of persons having relationships with the Council as defined in International Accounting Standards No. 24.

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

Income from central government is not recognised until there is reasonable assurance that the Council will comply with any conditions attached to it, and that the income will be received. The received income is to be recorded gross and any deductions made for non compliance are to be disclosed separately with expenses.

Government grants
Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate, which in the case of grants related to assets requires deducting it from the carrying amount of the asset, using the capital approach.

Foreign currencies
Items included in the financial statements are measured using the currency of the primary economic environment in which the Local Council operates. These financial statements are presented in €, which is the Council's functional and presentation currency.

Transactions denominated in foreign currencies are translated into € at the rates of exchange in operation on the dates of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into euro at the rates of exchange prevailing at the date of the Statement of Financial Position.

Profits and losses
Only profits that were realised at the date of the Statement of Financial Position are recognised in these financial statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the financial statements are approved.

Cash and cash equivalents
Cash and cash equivalents are carried in the Statement of Financial Position at face value. For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and balances held with banks.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historic experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. 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 IAS1 (revised) - 'Presentation of Financial Statement'

Capital management

The Council's capital consists of is 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
- that the Council maintains a positive working capital

To achieve the above, the Council carries out a quarterly review of the working capital ratio ('Financial Situation Indicator'). This ratio was positive at the reporting date and has not changed significantly from the previous year. 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.

Financial Instrument

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 expired.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs. They are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets of the Council are classified into loans and receivables upon initial recognition.

Receivables are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to loans and receivables are presented within 'finance income' or 'finance costs', except for impairment of receivables which is presented within 'administration and other expenditure'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Council's other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates at each identified group.

Financial Liabilities
The Council's financial liabilities includes other payables. These are stated at their nominal account which is a 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	245,180	235,104
Supplementary government income	81,730	74,061
	326,910	309,165

4 Income raised under Local Enforcement System

	2018 €	2017 €
Administration Income from Contraventions	543	2,906
	543	2,906

5 General Income

	2018 €	2017 €
Income from EU Programmes	54,796	160,305
Income from childcare	90,551	64,971
Income from Permits	5,002	3,608
Sponsorships	8,875	5,565
General Income	662	1,403
Hile of Equipment	-	161
Community income and donations	40,423	11,681
Insurance claims	5,944	-
	206,253	247,694

6 (Loss)/Profit for the year

(Loss)/Profit for the year is stated after charging:	Note	2018 €	2017 €
Staff Salaries		87,586	82,113
Depreciation of property, plant and equipment		20,024	35,430
Amortisation of intangible assets		1,103	-
		==========	==========

Staff Salaries	2018 €	2017 €
Mayor's Remuneration	7,464	7,465
Mayor and Councillors' Allowances	6,400	6,400
Executive Secretary salary and allowances	30,172	28,927
Employees' Salaries	37,545	33,613
Social security contributions	6,005	5,708
	--------------	--------------
	87,586	82,113
	==========	==========

Average number of persons employed		
Employees	4	4
Mayor and Councillors	5	5
	--------------	--------------

7 Operations and Maintenance

	2018 €	2017 €
Repairs and upkeep		
Road and street pavements	5,795	3,219
Repairs and upkeep	28,925	17,335
Street signs	2,527	2,641
Office furniture and equipment	1,900	6,346
Expenses in relation to EU Projects	13,786	195,444
Child care centre costs	36,113	26,610
Planting of trees	-	16,224
	--------------	--------------
	89,046	267,819
	==========	==========
Contractual services:		
Refuse collection	22,248	18,370
Bulky refuse collection	567	3,274
Open skips	-	1,535
Road and street cleaning	1,680	3,459
Cleaning and maintenance of public conveniences	4,395	-
Other contractual services	15,815	-
Street lighting	3,336	475
Other	302	379
	--------------	--------------
	48,343	27,492
	==========	==========
Total operations and maintenance expenses	137,389	295,311
	==========	==========

8 Administration and other expenditure

	2018 €	2017 €
Utilities	14,281	12,374
Materials and supplies	23,777	12,178
Rent	4,958	3,155
National and international	7,837	970
Office services	27,628	7,732
Transport	13,384	3,402
Overseas travel	71,787	8,550
Information services	1,357	1,860
Insurance	9,152	6,094
Professional services	36,131	19,893
Community and hospitality	59,973	61,746
Depreciation expense	20,024	35,430
Amortisation charge	1,103	-
Provision for bad debts	3,160	-
Lease of equipment	1,924	-
Donations and sundry expenses	717	-
Loss on disposals	22,783	-
	319,976	173,384

9 Finance Income

	2018 €	2017 €
Bank Interest receivable	69	40
	69	40

10 Finance Costs

	2018 €	2017 €
Interest payable	3,502	3,848
Bank Charges	230	289
	3,732	4,137

11 Property, plant and equipment
a)

	Assets under Construction €	Trees €	Construction €	Office Furniture & Fittings €	New Street Signs €	Urban Improvements €	Office Equipment €	Plant and Machinery €	Computer Equipment €	Motor Vehicles €	Special Programmes €	Total €
Cost												
At 1 January 2017	6,903	1,241	203,283	27,371	9,946	106,763	23,937	3,299	18,833	30,100	2,336,819	2,768,495
Additions	-	-	-	2,099	-	1,770	2,213		1,505	-	-	7,587
Reallocations	-	(1,241)	(19,679)	7,113	-	9,235	(4,395)	30,487	5,564	-	(28,421)	(1,337)
At 31 December 2017	6,903	-	183,604	36,583	9,946	117,768	21,755	33,786	25,902	30,100	2,308,398	2,774,745
Depreciation												
At 1 January 2017	-	-	112,894	18,309	9,946	54,784	14,188	2,290	15,541	11,298	645,113	884,363
Charge for the year	-	-	8,636	759	-	5,039	1,817	(3,633)	977	3,435	18,400	35,430
Reallocations	-	-	(30,182)	1,396	-	(3,450)	(2,219)	21,474	(236)	201	95,278	82,262
At 31 December 2017	-	-	91,348	20,464	9,946	56,373	13,786	20,131	16,282	14,934	758,791	1,002,055
Grants												
At 1 January 2017												
At 31 December 2017	-	-	92,167	-	-	84,290	-	8,607	-	-	1,706,646	1,891,710
Net Book Amount												
At 31 December 2017	6,903	-	89	16,119	-	(22,895)	7,969	5,048	9,620	15,166	(157,039)	(119,020)

11 Property, plant and equipment
b)

	Assets under Construction	Property	Construction	Office Furniture & Fittings	New Street Signs	Urban Improvements	Office Equipment	Plant and Machinery	Computer Equipment	Motor Vehicles	Special Programmes	Total
	€	€	€	€	€	€	€	€	€	€	€	€
Cost												
At 1 January 2018	6,903	-	183,604	36,583	9,946	117,768	21,755	33,786	25,902	30,100	2,308,398	2,774,745
Additions	-	-	-	-	-	31,801	89	2,121	848	803	172,546	208,208
Disposals/Impairment	-	-	(130)	(4,768)	-	(16,586)	(5,258)	(2,342)	(13,237)	-	(10,503)	(52,824)
At 31 December 2018	6,903	-	183,474	31,815	9,946	132,983	16,586	33,565	13,513	30,903	2,470,441	2,930,129
Depreciation												
At 1 January 2018	-	-	91,348	20,464	9,946	56,373	13,786	20,131	16,282	14,934	758,791	1,002,055
Charge for the period	-	-	-	2,386	-	-	2,305	6,533	2,767	6,033	-	20,024
Depreciation release on disposals		-	(41)	(2,010)	-	(7,680)	(3,974)	(1,675)	(9,816)	-	(4,845)	(30,041)
At 31 December 2018	-	-	91,307	20,840	9,946	48,693	12,117	24,989	9,233	20,967	753,946	992,038
Grants												
At 1 January 2018	-	-	92,167	-	-	84,290	-	8,607	-	-	1,706,646	1,891,710
Additions	60,000	-	-	-	-	-	-	-	-	-	8,592	68,592
Reallocation	-	-	-	-	-	-	2,000	(4,790)	2,790	-	-	-
At 31 December 2018	60,000	-	92,167	-	-	84,290	2,000	3,817	2,790	-	1,715,238	1,960,302
Net Book Amount												
At 31 December 2018	(53,097)	-	-	10,975	-	-	2,469	4,759	1,490	9,936	1,257	(22,211)

12 Intangible Fixed Assets

	Computer Software €	Total €
Cost		
At 1 January 2017	-	-
Reallocations	1,337	1,337
At 31 December 2017	1,337	1,337
Provision for amortisation		
At 1 January 2017	-	-
Reallocations	1,163	1,163
At 31 December 2017	1,163	1,163
Net Book Value		
At 31 December 2017	174	174
Cost		
At 1 January 2018	1,337	1,337
Additions	5,236	5,236
At 31 December 2018	6,573	6,573
Provision for amortisation		
At 1 January 2018	1,163	1,163
Charge for the year	1,103	1,103
At 31 December 2018	2,266	2,266
Net Book Value		
At 31 December 2018	4,307	4,307

13 Receivables

	Note	2018 €	2017 €
Accounts receivable		22,820	13,203
Prepayments and accrued income		263,357	297,276
Accrued income - PPP scheme		71,468	57,759
		357,645	368,238

Accounts receivable

General receivables are analysed as follows:

	2018 €	2017 €
Within credit period	3,221	13,203
Exceeded credit period but no impaired	19,599	-
	22,820	13,203

Note

Receivables are net of provision for doubtful debts of Eur 3,160.

14 Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following Statement of Financial Position amounts:

	2018 €	2017 €
Bank Balances	102,098	240,188
Cash in Hand	70	990
	102,168	241,178
Overdrawn bank balance	36,741	29,558
	138,909	270,736

15 Payables

	2018 €	2017 €
Amount payables	72,288	38,067
Accruals	11,865	60,099
Other payables - PPP scheme	-	10,897
Contractors' guarantee	-	2,002
Overdrawn bank balance	36,741	29,558
Short term bank borrowings	7,204	6,930
	128,098	147,553

16 Borrowings

	2018 €	2017 €
Bank loan	55,468	62,583
	==========	==========
Loan repayable from 1 to 2 years	7,295	7,295
Loan repayable from 2 to 5 years	26,567	26,567
Loan repayable over 5 years	21,606	28,721
	--------------	--------------
	55,468	62,583
	==========	==========

The Council has a loan facility of €105,000 with Bank of Valletta plc, in connection with the construction and finishing costs of the new Civic Centre in Gharb. The loan is repayable by quarterly instalments of €2,585.70, bears interest of 3% over the Central Bank Intervention rate, currently 2.15% per annum and is repayable in full by the end of 2026.

17 Capital commitments

	2018 €	2017 €
Total capital commitments	298,850	258,362
	==========	==========
(ii) Contracted for but not provided in Financial Statements:		
Resurfacing	298,850	258,362
	-------------	-------------
	298,850	258,362
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The resurfacing works will be fully funded, partly to be obtained by EU funding while the remainder will be obtained from the Ministry of Gozo and Gozo Regional Committee.

18 Change in accounting policy

The Council has applied a change in accounting policy for depreciation from monthly reducing balance method to monthly straight line method. This change in accounting policy is applied prospectively. The Council has also changed the accounting policy for Government Grants from the income approach to the capital approach. This change in accounting policy is applied retrospectively and hence did have an affect on the comparative figures.

In view of this, the Financial Statements for the year ended 31 December 2017 have been restated to reflect this correction.

	2017 Originally Reported €	Adjustment €	2017 Restated €
Property, plant and equipment	984,541	(1,019,962)	(35,421)
Deferred Income	957,378	(957,378)	-
Payables	210,137	(62,584)	147,553

18 Related Parties Disclosures

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

Name of entity	*Nature of relationship*
Department of Local Councils	Significant control
Gozo Regional Committee	Joint control
LESA	No control
Central Regional Committee	No control
North Regional Committee	No control
South Eastern Regional Committee	No control
South Regional Committee	No control
Police General Head Quarters	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Department of Agriculture	No control
Director General - Works Division	No control
Department of Lands	No control
Department of Inland Revenue	No control
Airmalta plc	No control
Bank of Valletta plc	No control
Wasteserv Malta Limited	No control
Kunsill Malti ghall-iSports	No control
Mitts Limited	No control
Ministry for the Family and social solidarity	No control
Malta Communications Authority	No control
Green MT	No control

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

	2018 €	2017 €
Annual Financial Allocation	245,180	235,104
	==========	==========

Key management compensation
Transactions with key management personnel are disclosed in note 6.

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

19 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 receivables. 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 receivables 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 maximum exposure to credit risk for amounts receivable at the reporting date, net of impairment losses, by type of customer is as follows:

	€
Receivables from related parties	22,820
	==========

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 fnds to meet commitments due. In fact, at year end, the Council has as cash and cash equivalents the amount of €138,909. This should ensure an ongoing working capital of the Council for the next 12 months. The Council resulted in a net current assets position of €368,456 which signifies that there is no adequate headroom available to cover present liabilities as well as shot term obligations and commitments arising.

Foreign currency risk
Foreign currency transactions arise when the Council buys or sells goods whose prices 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 objective of interest rate risk management is to optimise the balance between minimizing uncertainty caused by fluctuations in interest rates and maximising the net interest income and expense.

20 Summary of the financial assets and liabilities by category

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

	2018	2017
	€	€
Current Assets		
Trade and other receivables	357,645	368,238
Cash and cash equivalents	138,909	270,736
	496,554	638,974
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	128,098	147,553
	128,098	147,553

21 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.

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GHARB LOCAL COUNCIL

REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL

Qualified Opinion

We have audited the accompanying financial statements of Gharb Local Council, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 4 - 23.

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

Basis for Qualified Opinion

Following Directive 01/2017 issued by the Department for Local Government, the Local Council changed its accounting policies on depreciation, whereby the straight line method is now to be applied instead of the reducing balance method and the accounting policy on government grants, whereby the capital approach is to be applied instead of the income approach. These changes became effective as from 1 January 2018. We were provided with limited information to ensure that the changes in the accounting policies were properly applied. From the tests that we could carry out, it however transpired that items of property, plant and equipment whose useful life expired, were not written off upon the adoption of the straight-line method and that the depreciation is not being worked out on the remaining useful life of the assets. Furthermore, we noticed that grants received for specific projects, were allocated to several items of property, plant and equipment rather than those specific projects, clearly indicating that the allocation of grants to the respective assets was not properly carried out. Based on the limited tests that we could carry out, we could conclude that the application of the changes in the accounting policies was not properly carried out. This would impact the carrying amounts of property, plant and equipment, as well as the depreciation charge for the year.

Within the accrued income, there is an amount of €34,040 receivable from the Water Services Corporation, that have been brought forward from the previous years. No adequate audit evidence was obtained on these funds receivable to confirm the correctness and recoverability of such accrued income. Included also in the accrued income is an amount of €7,651 relating to Measure 125 that the Executive Secretary told us was received in the previous year, but the accounting entry for such receipt could not be traced.

These financial statements do not reflect the new bank account opened with the Central Bank of Malta that had a balance as at 31 December 2018 of €101,503 representing funds received relating to projects not yet done, less negative interest being charged by the bank. The deferred income and the cash and cash equivalents are therefore understated.

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

Basis for Qualified Opinion - continued

From the architect's letter that we received during the audit it transpired that resurfacing works were carried out during the year that were not fully completed by the end of the year. These included resurfacing works of Triq Madonna Tal-Virtu and resurfacing works of Triq tal-Wied Tal-Knisja and Triq Trux. The value of the works carried out on these roads till 31 December 2018 was valued by the architect at €118,177 and €66,228 respectively. No invoices were received from the suppliers for such works and no accruals have been accounted for. This means that the accruals and the property, plant and equipment are understated.

As at 31 December 2017, the Local Council had received grants amounting to Euro 364,035 relating to various capital projects that were not yet carried out and also had a balance of Euro 6,275 representing funds received in excess of the costs incurred on a capital project carried out in the previous years. Yet, we noticed that when the comparative figures were restated following the change in the accounting policy on government grants, these grants were still allocated against property, plant and equipment rather then left under deferred income. From these projects, only one was capitalized during the year ended 31 December 2018 with a cost of Euro 120,112. Furthermore, during the year ended 31 December 2018, new grants amounting to €68,592 were added as shown in Note 11. It transpired that this is made up of grants received less accrued income with respect to grants that was reversed. In the grants received, there are €126,765 that are grants not related to capital projects. No information was obtained on whether these other projects were completed during the year ended 31 December 2018.

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

- Note 18 is referring to the change in the depreciation accounting policy, which change has been applied prospectively and hence did not have any effects on the comparative figures as is being stated here. The restated figures being quoted in this note resulted from the change in the accounting policy on government grants which change was nowhere disclosed in these financial statements.
- Whilst Note 2 is stating that the Local Council has adopted IFRS 9, other disclosures such as the accounting policy on amounts receivable in Note 2 and the credit risk in Note 18, are still in line with the previous IAS 39.
- Note 11 was not properly prepared following the changes in the accounting policies as the amounts added to the grants, do not represent the gross amounts of grants received but the gross amounts of grants received less the amortization up till 31 December 2016. The amortization up till 31 December 2016 should have been netted off against the accumulated depreciation as of that date.
- IAS 1 – Presentation of Financial Statements, requires an entity to present a third statement of financial position when an entity applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements and the effect is material. The effect of the change in the accounting policies in accordance with Directive 01/2017 is deemed to be material. These financial statements do not include a third statement of financial position.

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

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

Other Information

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

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

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

Council Responsibilities for the Financial Statements

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

Council Responsibilities for the Financial Statements - continued

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Local Council's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Secretary and the Local Council Members.

- Conclude on the appropriateness of the Executive Secretary's and the Local Council Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Local Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Local Council to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on Other Legal and Regulatory Requirements

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

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

RSM Malta
Certified Public Accountants

Date: 29th April 2019