

**XEWKIJA LOCAL COUNCIL**

**Annual Report and  
Financial Statements  
For the Year Ended 31 December 2019**

**XEWKIJA LOCAL COUNCIL**

Report and Financial Statements for the year ended 31 December 2019

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**Statement of Local Council members' and Executive Secretary's Responsibilities**

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

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

Approved by the Council and signed on its behalf on the 26<sup>th</sup> May 2020 by:



Hubert Saliba  
Mayor



Marion Attard  
Executive Secretary

## STATEMENT OF FINANCIAL POSITION

	Note	2019 €	2018 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	<u>280,027</u>	<u>369,507</u>
<b>Current assets</b>			
Receivables	4	50,359	42,927
Cash and Cash Equivalents	5	<u>799,079</u>	<u>479,411</u>
<b>Total Current Assets</b>		<u>849,438</u>	<u>522,338</u>
<b>TOTAL ASSETS</b>		<u>1,129,465</u>	<u>891,845</u>
 <b>RESERVES AND LIABILITIES</b>			
<b>Reserves</b>			
Retained Fund		<u>586,992</u>	<u>573,671</u>
<b>Current Liabilities</b>			
Payables	6	<u>542,473</u>	<u>318,174</u>
<b>Total reserves and liabilities</b>		<u>1,129,465</u>	<u>891,845</u>

The notes on pages 6 to 22 are an integral part of the financial statements.

These Financial Statements were approved by the Local Council on <sup>26/05/2020</sup> and signed on its behalf by:



Hubert Saliba  
Mayor



Marion Attard  
Executive Secretary

**STATEMENT OF COMPREHENSIVE INCOME**

	Note	2019 €	2018 €
<b>REVENUE</b>			
Funds received from central government	7	411,878	372,441
Funds raised under Local Enforcement System	8	1,122	1,269
General Income	9	16,079	51,892
		<u>429,079</u>	<u>425,602</u>
<b>EXPENDITURE</b>			
Personal Emoluments	10	(79,918)	(64,861)
Operations and maintenance	11	(153,394)	(144,137)
Administration and other expenditure	12	(131,478)	(150,323)
Depreciation	13	(54,743)	(45,573)
		<u>(419,533)</u>	<u>(404,894)</u>
Operating surplus for the year		9,546	20,708
Investment income	14	170	93
Impairment provision	13	-	(158,027)
Write-off of payables		3,605	-
Write-off of Accrued Income	20	-	(49,164)
<b>Total Comprehensive income/(loss) for the year</b>		<u>13,321</u>	<u>(186,390)</u>

The notes on pages 6 to 22 are an integral part of the financial statements.

## STATEMENT OF CHANGES IN EQUITY

	Retained Funds 2019 €	Retained Funds 2018 €
At 1 January	573,671	760,061
<b>Total comprehensive income/(loss) for the year</b>	<u>13,321</u>	<u>(186,390)</u>
At 31 December	<u>586,992</u>	<u>573,671</u>

The notes on pages 6 to 22 are an integral part of the financial statements.

## STATEMENT OF CASH FLOWS

	Note	2019 €	2018 €
<b>Cash Flows from Operating Activities</b>			
Total Comprehensive Income/(Loss) for the year		13,321	(186,390)
Adjustments for:			
Depreciation		54,743	45,573
Impairment losses		-	158,027
Investment Income		(170)	(93)
Increase in provision for bad debts		-	3,242
		<u>67,894</u>	<u>20,359</u>
(Increase)/Decrease in receivables		(7,433)	81,909
(Decrease)/Increase in Payables		(10,024)	5,229
Net Cash generated from operating activities		<u>50,437</u>	<u>107,497</u>
<b>Cash flows from Investing Activities</b>			
Purchase of property, plant and equipment		(120,498)	(48,525)
Investment Income		170	93
Capital grants received		<u>422,041</u>	<u>154,621</u>
Net Cash generated from investing activities		<u>301,713</u>	<u>106,189</u>
Net movement in cash and cash equivalents		352,150	213,686
Cash and cash Equivalents at the beginning of the year		<u>446,335</u>	<u>232,649</u>
Cash and Cash Equivalents at the end of the year	5	<u>798,485</u>	<u>446,335</u>

The notes on pages 6 to 22 are an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS****1. General Information**

Xewkija Local Council is the local authority of Xewkija setup in accordance with the Local Councils Act. The office of the Local Council is situated at 28, Triq Santa Katerina, Xewkija XWK 2032.

**2. Accounting Policies and Reporting Procedures**

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

**(a) Accounting convention**

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

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

**(b) Standards, amendments and interpretations to existing standards****New and amended standards adopted by the council**

In 2019, the Council adopted new standards, amendments and interpretaions to existing standards that are mandatory for the Council's accounting period beginning in 2019. The Council initially applied IFRS 16 from 1 January 2019. Changes resulting from the adoption IFRS 16 were not material due to the Council not having any material leases. Other standards, interpretaions and amendments effective in 2019 do not have material effect on the Council's financial statements.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of the authorisation for issue of these financial statements, that are mandatory for the Council's accounting periods beginning after 01 January 2020 or later periods. The Council has not early adopted these revisions to the requirements of IFRSs and the Council is of the opinion that there are no requirements that will have a possible significant impact on the Council's financial statements in the year of initial application.



## NOTES TO THE FINANCIAL STATEMENTS - continued

## 2. Accounting Policies and Reporting Procedures (continued)

## (c) Revenue recognition

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

## (d) Local Enforcement System

During 2019 the amount disclosed in the financial statements under Local Enforcement Income represents the administrative fee of 10% that is chargeable to LESA and the various Regional Committees for contraventions paid at the Council.

## (e) Property, Plant and Equipment

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS - continued****(f) Government Grants**

Government grants relating to the purchase of property, plant and equipment are accounted for on the Capital Approach according to IAS 20. With the Capital Approach, any grants received are netted off against the cost of the asset to which they relate. Depreciation will be accounted on the resulting cost less grant. Government grants relating to operating expenditure are recognised in profit or loss in the same period that the related expenditure is incurred.

**(g) Impairment of Assets**

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

**(h) Amounts Receivable**

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

**(i) Foreign Currencies**

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Local Council operates. These Financial Statements are presented in Euro, which is the Council's functional and presentation currency.

**(j) Surplus and deficits**

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

**(k) Cash and Equivalents**

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

**(l) Related parties**

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

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**(m) Payables**

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

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

**(n) Financial Instruments**

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred .

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

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

**Financial assets**

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

Receivables are subject to review for impairment at least at each reporting date.

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS - continued****(n) Financial Instruments (continued)****Financial liabilities**

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

All interest-related charges are included within 'finance costs'.

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

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

In the opinion of the council members, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised).

NOTES TO THE FINANCIAL STATEMENTS - continued

3. Property, Plant and Equipment

	Property	Office Furniture /Fittings	Computer Equipment	Office Equipment	Urban Improvements	Motor Vehicle	New Street Signs	Construction and Paving	Assets Under Construction	Total
<b>Tangible Assets</b>										
Cost										
At 1 January 2019	85,539	38,143	8,377	27,716	426,451	3,225	32,527	1,114,476	124,994	1,861,448
Additions this year	-	3,683	-	6,822	16,813	-	-	4258	88,922	120,498
Reclassifications	-	5,986	-	-	3,658	-	-	204,272	(213,916)	0
At 31 December 2019	85,539	47,812	8,377	34,538	446,922	3,225	32,527	1,323,006	-	1,981,946

Grants and other reimbursements

At 1 January 2019	-	-	(1,407)	-	(3,115)	-	-	(688,412)	-	(692,934)
Additions	-	-	-	-	-	-	-	(155,235)	-	(155,235)
Reclassifications	-	-	-	-	-	-	-	-	-	-
At 31 December 2019	-	-	(1,407)	-	(3,115)	-	-	(843,647)	-	(848,169)

Depreciation

At 1 January 2019	(13,461)	(19,189)	(5,945)	(26,628)	(410,270)	(752)	(32,527)	(290,235)	-	(799,007)
Charge for the year	(855)	(3,587)	(353)	(1,784)	(3,755)	(645)	-	(43,764)	-	(54,743)
At 31 December 2019	(14,316)	(22,776)	(6,298)	(28,412)	(414,025)	(1,397)	(32,527)	(333,999)	-	(853,750)

Net Book Value

At 31 December 2019	71,223	25,036	672	6,126	29,783	1,828	-	145,360	-	280,027
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## NOTES TO THE FINANCIAL STATEMENTS - continued

## 3. Property, Plant and Equipment (continued)

Tangible Assets Cost	Office										Assets Under Construction	Total
	Property	Furniture /Fittings	Computer Equipment	Office Equipment	Urban Improvements	Motor Vehicle	New Street Signs	Construction	Construction	Construction		
At 1 January 2018	85,539	22,506	7,096	27,096	426,451	3,225	32,527	1,114,476	94,007	1,812,923		
Additions this year	-	15,637	1,281	620	-	-	-	-	30,987	48,525		
At 31 December 2018	85,539	38,143	8,377	27,716	426,451	3,225	32,527	1,114,476	124,994	1,861,448		
<b>Grants and other reimbursements</b>												
At 1 January 2018	-	-	(1,407)	-	(3,115)	-	-	(688,412)	-	(692,934)		
Additions	-	-	-	-	-	-	-	-	-	0		
At 31 December 2018	-	-	(1,407)	-	(3,115)	-	-	(688,412)	-	(692,934)		
<b>Depreciation</b>												
At 1 January 2018	(12,606)	(15,181)	(5,202)	(19,012)	(321,390)	(107)	(32,527)	(189,382)	-	(595,407)		
Impairment	-	(1,146)	(222)	(6,932)	(87,312)	-	-	(62,415)	-	(158,027)		
Charge for the year	(855)	(2,862)	(521)	(684)	(1,568)	(645)	-	(38,438)	-	(45,573)		
At 31 December 2018	(13,461)	(19,189)	(5,945)	(26,628)	(410,270)	(752)	(32,527)	(290,235)	-	(799,007)		
<b>Net Book Value</b>												
At 31 December 2018	72,078	18,954	1,025	1,088	13,066	2,473	-	135,829	124,994	369,507		

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 4. Receivables

	2019	2018
	€	€
Accounts Receivable	34,623	21,540
Provision for bad debts	(7,252)	(7,252)
Prepayments and accrued income	22,988	28,639
	<u>50,359</u>	<u>42,927</u>

## Receivables Analysis

	2019	2018
	€	€
Within the credit period	10,087	4,045
Amounts against which a provision	(7,252)	(7,252)
Exceeded credit period but not yet impaired	24,536	17,495
Accrued Income	22,034	27,792
Prepayments	954	847
	<u>50,359</u>	<u>42,927</u>

## 5. Cash and Cash Equivalents

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

	2019	2018
	€	€
Bank Balances:		
Ordinary funds	713,601	322,621
Funds at central bank	85,472	156,605
Cash in hand	6	185
Overdrawn balances	(594)	(33,076)
	<u>798,485</u>	<u>446,335</u>
Transfer to payables (Note 6)	594	33,076
	<u>799,079</u>	<u>479,411</u>

## 6. Payables

	2019	2018
	€	€
Accounts Payable	62,791	67,680
Other payables	2,918	2,918
Accruals	9,739	14,879
Grants received in advance	466,431	199,621
Overdrawn bank balances (Note 5)	594	33,076
	<u>542,473</u>	<u>318,174</u>

Note: The grants received in advance in 2018 represent funding received on Measure 4.4 (€72,422), Grant of lift (€45,000) and Measure 4.3 (€82,199) which will be utilised on capital projects during 2020. The grants received in advance in 2019 represent funding received on Triq il-Kbira (€178,505), Measure 4.4, (€72,422), St Elizabetha Street (€206,230), grant on Library Scheme (€2,890) and excess funds received on Measure 4.3 of (€6,384). Once the projects commence these will be capitalised under Property, plant and equipment. Capital commitments in relation to these grants are explained under Note 17 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS - continued

**7. Funds received from the Central Government**

	2019	2018
	€	€
In terms of section 55 of the Local Councils Act (CAP 363)	375,904	356,377
Other Government Income	35,974	16,064
	<u>411,878</u>	<u>372,441</u>

**8. Income raised from Local Enforcement System**

	2019	2018
	€	€
Income from administrative fees	1,122	1,269

**9. General Income**

	2019	2018
	€	€
Income from permits	10,045	5,607
General income	-	25,890
Contributions and donations	6,034	20,395
	<u>16,079</u>	<u>51,892</u>

**10. Personal Emoluments**

	2019	2018
	€	€
Personal emoluments include, inter alia:		
Mayor's honoraria	9,438	7,463
Mayor and Councillors' Allowance	9,691	6,400
Executive Secretary salary and allowances	30,601	28,740
Employees' Salaries	23,426	18,276
Social Security Contributions	6,762	3,982
	<u>79,918</u>	<u>64,861</u>

**11. Operations and Maintenance**

	2019	2018
	€	€
Operations and maintenance includes, inter alia:		
<b>Repairs and Upkeep:</b>		
Road and Street Pavements (patching works)	14,595	22,610
Repairs	9,237	16,793
Street signs and markings	12,526	8,753
Trees planting and related expenses	4,000	4,093
	<u>40,358</u>	<u>52,249</u>



## NOTES TO THE FINANCIAL STATEMENTS - continued

**Contractual Services:**

	€	€
Operations and maintenance includes, inter alia:		
Repairs and Upkeep:		
Refuse Collection (including bins on wheels)	50,490	46,893
Bulky Refuse Collection (incl open skips)	712	170
Road and street cleaning (mechanical and manual)	15,149	6,332
Cleaning and maintenance of Public Conveniences	5,947	3,683
Maintenance parks and gardens and verges	10,888	7,568
Cleaning of council property	270	689
Tipping fees	21,171	24,491
Street Lighting	8,409	950
Other contractual services	-	1,112
	<u>113,036</u>	<u>91,888</u>
 Total Operations and Maintenance Expenses	 <u>153,394</u>	 <u>144,137</u>

**12. Administration and other expenditure**

	2019	2018
	€	€
Utilities	9,092	8,084
Other repairs and upkeep	8,518	11,590
National and Memberships	555	521
Rent	1,616	2,857
Office services	10,406	7,440
Travel	2,813	3,016
Transport	7,230	11,262
Information services	9,087	11,175
Other contractual services	2,662	2,412
Professional Services	18,039	19,170
Community and Hospitality	61,409	69,384
Sundry minor expenses	51	3,412
	<u>131,478</u>	<u>150,323</u>

**13. Depreciation**

	2019	2018
	€	€
Depreciation	54,743	45,573
Impairment	-	158,027
	<u>54,743</u>	<u>203,600</u>

**14. Investment Income**

	2019	2018
	€	€
Bank Interest	170	93

NOTES TO THE FINANCIAL STATEMENTS - continued

15. Related Parties Disclosures

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

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

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

	2019	2018
	€	€
Significant control		
Revenue:		
Annual financial allocation	<u>375,904</u>	<u>356,377</u>

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

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

16. Contingent liabilities and gains

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

A case filed by Mr Paul Portelli against the Local Council is still pending. Mr Portelli is claiming for damages he sustained in his fields for the sum of €1,500 due to maintenance works he is claiming was not carried out by the Local Council. The Council is contesting this claim and there is still no indication how the case could be decided.

NOTES TO THE FINANCIAL STATEMENTS - continued

17. Capital Commitments

Details of capital commitments are as follows

	2019	2018
	€	€
Contracted for but not provided for	406,705	89,909
Approved but not contracted for	<u>178,505</u>	<u>181,056</u>
	<u>585,210</u>	<u>270,965</u>
<b>Approved and contracted for:</b>		
Measure 4.4 Project	161,831	
St. Elizabeth Street	244,874	
Measure 4.3 Project		89,909
<b>Approved but not contracted for:</b>		
Triq il-Kbira	178,505	
Measure 4.4 Project		<u>181,056</u>
	<u>585,210</u>	<u>270,965</u>

These projects are to be financed by EU Funds. An amount of €405,601 has already been funded to the Local Council.

18. Risk management objectives and policies

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

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

18.1 Credit Risk

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

	2019	2018
	€	€
Class of financial assets - carrying amounts		
Trade and other receivables	50,359	42,927
Cash and Cash Equivalents	<u>799,079</u>	<u>479,411</u>
	<u>849,438</u>	<u>522,338</u>

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

## NOTES TO THE FINANCIAL STATEMENTS - continued

**18. Risk management objectives and policies (continued)****18.1 Credit Risk (continued)**

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

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

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

**18.2 Liquidity Risk**

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

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

	2019 €	2018 €
Payables	<u>542,473</u>	<u>318,174</u>

**18.3 Interest Rate Risk**

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

**18.4 Summary of the financial assets and liabilities by category**

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

Current Assets	2019 €	2018 €
<b>Loans and receivables:</b>		
Trade and other receivables	50,359	42,927
Cash and Cash Equivalents	<u>799,079</u>	<u>479,411</u>
	<u>849,438</u>	<u>522,338</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

**18. Risk management objectives and policies (continued)****18.4 Summary of the financial assets and liabilities by category (continued)****Current Liabilities****Financial liabilities measured at amortised costs:**

Payables	<u>542,473</u>	<u>318,170</u>
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**18.5 Capital Risk Management**

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

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

**19. Fair Value Estimation**

At 31 December 2019 and 31 December 2018, the carrying amounts of cash at bank, receivables and payables reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

**20. Prior Year Error**

During the year an error in the accrued income brought forward from prior years was detected. The amount relates to €49,164 which could not be verified nor traced. It has been concluded that the accrued income declared as at 31st December 2018 was overstated by the said amount and such amount declared irrecoverable. It was decided that a prior period error is to be recognised, due to the impracticability of recognising the error on all prior periods the comparative information on the financial statements for the year ending 31st December 2019 is corrected prospectively from the earliest date practicable as per the provisions of IAS 8

This is an accounting error and according to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', this has been accounted for retrospectively. The correction of the accounting error has effected the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows as follows:

During the year an error has been identified in the 2018 financial statements. Grants received on construction not yet finalised has been capitalised under Property, plant and equipment, such grants received should have been allocated under deferred income. A prior period error is to be recognised in order to remove the grants received from Property, plant and equipment and allocate them under deferred income.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 20. Prior Year Adjustment (continued)

STATEMENT OF COMPREHENSIVE INCOME		2018	2018	2018	
		Balances	Prior - Year	Reinstated	
		before	Adjustments	Balances	
		Adjustments			
Note		€	€	€	
<b>REVENUE</b>					
	Funds received from central government	7	372,441	-	372,441
	Funds raised under Local Enforcement System	8	1,269	-	1,269
	General Income	9	51,892	-	51,892
			<u>425,602</u>	<u>-</u>	<u>425,602</u>
<b>EXPENDITURE</b>					
	Personal Emoluments	10	(64,861)	-	(64,861)
	Operations and maintenance	11	(144,137)	-	(144,137)
	Administration and other expenditure	12	(150,323)	-	(150,323)
	Depreciation	13	(45,573)	-	(45,573)
			<u>(404,894)</u>	<u>-</u>	<u>(404,894)</u>
	Operating surplus for the year		20,708	-	20,708
	Investment income	14	93	-	93
	Impairment provision		(158,027)	-	(158,027)
	Write-off of accrued income		-	(49,164)	(49,164)
	<b>Total Comprehensive (loss) for the year</b>		<u>(137,226)</u>	<u>(49,164)</u>	<u>(186,390)</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 20. Prior Year Adjustment (continued)

STATEMENT OF CASH FLOWS	2018	2018	2018
	Balances before Adjustments	Prior - Year Adjustments	Reinstated Balances
Note	€	€	€
<b>Cash Flows from Operating Activities</b>			
Total Comprehensive Income/(Loss) for the	(137,226)	(49,164)	(186,390)
Adjustments for:			
Depreciation	45,573	-	45,573
Impairment losses	158,027	-	158,027
Investment Income	(93)	-	(93)
Increase in provision for bad debts	3,242	-	3,242
Operating Profit before working capital changes	69,523	(49,164)	20,359
Decrease in receivables	32,745	49,164	81,909
Increase in Payables	5,229	-	5,229
Net Cash generated from operating activities	107,497	-	107,497
<b>Cash flows from Investing Activities</b>			
Purchase of property, plant and equipment	(48,525)	-	(48,525)
Investment Income	93	-	93
Capital grants received	154,621	-	154,621
Net Cash generated from investing activities	106,189	-	106,189
Net movement in cash and cash equivalents	213,686	-	213,686
Cash and cash Equivalents at the beginning of the year	232,649	-	232,649
Cash and Cash Equivalents at the end of the year	5 446,335	-	446,335

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[www.rsm.com.mt](http://www.rsm.com.mt)**XEWKIJA LOCAL COUNCIL****REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL****Report on the audit of the financial statements****Qualified Opinion**

We have audited the accompanying financial statements of Xewkija Local Council, which comprise the statement of financial position as at 31 December 2019, 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 2 - 22.

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 2019, 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**

No fixed assets register was provided to us during our audit and consequently, we could not carry out satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the property, plant and equipment as disclosed in note 3 to these financial statements.

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

During the year ended 31<sup>st</sup> December 2019, the Local Council carried out an exercise on the accrued income that has been brought forward for several years. Any accrued income for which no supporting documentation was found and the recoverability of which could not be verified, was written off against the opening retained earnings through a prior year adjustment. The total amount written off was €49,164. Out of this amount, €39,667 related to the PPP project and therefore these funds should have been deducted from the grants capitalized under the property, plant and equipment and an adjustment to the depreciation on that project should have been passed.



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

### Basis for Qualified Opinion - continued

From the architect's letter that we received during the audit it transpired that resurfacing works carried out in Church Street were completed by July 2019. The final certification of this project was not yet issued by the end of the year and no invoice was received either. The estimated cost of this project was €253,775. No accrual for this project was reflected in these financial statements. On the other hand, we noted that funds received in 2017 for this project, amounting to €83,592, were capitalized to under property, plant and equipment upon the adoption of Directive 01/2017 as noted in our report on the financial statements for the year ended 31<sup>st</sup> December 2018. This means that the accruals, the property, plant and equipment, the accrued income and the depreciation charge for the year, are understated.

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

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

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

## **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.

**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: 26<sup>th</sup> May 2020