



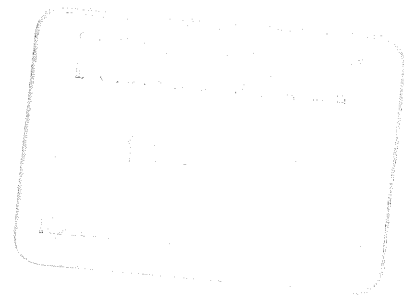
LOCAL COUNCIL MĠARR

Annual Report

and

Financial Statements

for the year ended 31 December 2019



Prepared by

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ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2019


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Statement of Local Council Members' and Executive Secretary's Responsibilities
for the year ended 31 December 2019


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 Local Council on the 18th May 2020 and signed on its behalf by



Paul Vella
Mayor



Cyprian Dalli
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

		2019	2018
		€	€
	<i>Notes</i>		
Income			
Funds received from Central Government	4	488,416	484,484
Income raised under Local Enforcement System	5	2,104	2,649
General Income	6	18,650	26,052
		<u>509,170</u>	<u>513,185</u>
Expenditure			
Personal emoluments	8	(98,347)	(89,765)
Operations and maintenance	9	(280,981)	(206,854)
Administrative and other expenditure	10	(120,926)	(140,343)
		<u>(500,254)</u>	<u>(436,962)</u>
Operating surplus for the year		8,916	76,223
Finance income	11	<u>1</u>	<u>1</u>
Surplus for the year		<u>8,917</u>	<u>76,224</u>


The notes on pages 8 to 24 form an integral part of these financial statements

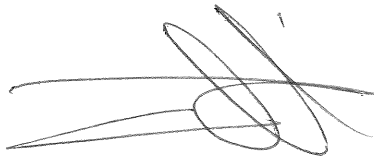
STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 €	2018 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	12	889,780	879,192
Intangible assets	13	2,779	3,705
		<u>892,559</u>	<u>882,897</u>
Current Assets			
Inventory	14	5,200	5,200
Receivables	15	64,265	19,850
Cash and Cash Equivalents	16	405,949	391,462
		<u>475,414</u>	<u>416,512</u>
Total Assets		<u><u>1,367,973</u></u>	<u><u>1,299,409</u></u>
EQUITY AND LIABILITIES			
Reserves			
Retained Fund		<u>1,218,591</u>	<u>1,209,674</u>
		<u>1,218,591</u>	<u>1,209,674</u>
Non-Current Liabilities			
Deferred income	18	-	20,061
		-	<u>20,061</u>
Current Liabilities			
Deferred income	18	2,754	-
Payables	17	146,628	69,674
		<u>149,382</u>	<u>69,674</u>
Total Equity and Liabilities		<u><u>1,367,973</u></u>	<u><u>1,299,409</u></u>

These financial statements were approved by the Local Council on 18th May 2020 and signed on its behalf by:


 Paul Vella
 Mayor


 Cyprian Dalli
 Executive Secretary

The notes on pages 8 to 24 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Retained Funds €
At 1 January 2018	1,133,450
Surplus for the year 2018	76,224
	<hr/>
At 31 December 2018	1,209,674
	<hr/> <hr/>
At 1 January 2019	1,209,674
Surplus for the year 2019	8,917
	<hr/>
At 31 December 2019	1,218,591
	<hr/> <hr/>

The notes on pages 8 to 24 form an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 €	2018 €
	Note	
Cash flows from Operating Activities		
Surplus for the year	8,917	76,224
Reconciliation to cash generated from operations:		
Depreciation	52,055	40,578
Interest receivable	(1)	(1)
Operating Profit before Working Capital Changes	<u>60,971</u>	<u>116,801</u>
Decrease in inventory	-	4
Increase in receivables	(44,415)	(1,029)
Increase in payables	76,954	35,075
Cash flow generated from operating activities	<u><u>93,510</u></u>	<u><u>150,851</u></u>
Cash flows from Investing Activities		
Interest received	1	1
Purchase of property, plant & equipment	(130,505)	(110,431)
Purchase of intangible assets	-	(3,705)
Receipt of grants	51,481	50,486
Cash flow used in investing activities	<u>(79,023)</u>	<u>(63,649)</u>
Net change in Cash and Cash Equivalents	14,487	87,202
Cash and Cash Equivalents at the Beginning of the year	<u>391,462</u>	<u>304,260</u>
Cash and Cash Equivalents at the End of the year	<u><u>405,949</u></u>	<u><u>391,462</u></u>
	16	

The notes on pages 8 to 24 form an integral part of these financial statements

Notes to the Financial Statements for the year ended 31 December 2019

1. General Information

The Mġarr Local Council is the local Authority of Mġarr set up in accordance with the Local Councils Act, 1993. The office of the Local Council is situated at 22, Sir Harry Luke Street, Mġarr. These financial statements were approved for issue by the Council Members on 18th May 2020. The Local Council's presentation as well as functional currency is 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 conjunction 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:

In the current year, the Local Council has applied a number of amendments to IFRS issued by the International Accounting Standards Boards (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2019.

IFRS 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset and an interest expense on the recognised lease liability. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

IFRS 15 Revenue from Contracts with Customers

The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Notes to the Financial Statements for the year ended 31 December 2019

Accounting Policies and Reporting Procedures

New Standards and amendments not yet effective:

At the end of the reporting period, certain new standards, interpretations or amendments thereto, were in issue and endorsed by the EU, but not yet effective for the current financial period. There have been no instances of early adoption of standards, interpretations or amendments ahead of their effective date.

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

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 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
Traffic Signs	Replacement basis
Road Signs	Replacement basis
Street Mirrors	Replacement basis
Street Lights	100

The change in the depreciation method from reducing balance to straight line method took place as of January 2018 and has been effected according to the instructions in the DLG Directive 1/2017. On 1 January 2018, the straight-line method, according to IAS 16 has been adopted, in line with the Directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting estimate, which according to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, has been accounted for prospectively.

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.

Leases

The Council has applied IFRS 16 using the retrospective approach. At inception of a contract, the Council assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Council assesses whether:

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

2. Accounting Policies and Reporting Procedures

Leases (cont.)

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Council has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Council has the right to direct the use of the asset. The Council has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Council has the right to direct the use of the asset if either:
 - The Council has the right to operate the asset; or
 - The Council designed the asset in a way that predetermines how and for what purpose it will be used.

The Council has applied this approach to contracts entered into or changed on or after 1 January 2019. At inception or on reassessment of a contract that contains a lease component, the Council allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Council has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Council recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. C The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Council's incremental borrowing rate. Generally, the Council uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Council is reasonably certain to exercise., lease payments in an optional renewal period if the Council is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Council is reasonably certain not to terminate early

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Council's estimate of the amount expected to be payable under a residual value guarantee or if the Council changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Council presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Leases (cont.)

Short-term leases and leases of low-value assets

The Council has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Council recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Intangible assets

Intangible assets comprise externally generated computer software. In determining the classification of an asset that incorporates both intangible and tangible elements, judgement is used in assessing which element is more significant. Computer software which is an integral part of the related hardware is classified as property and equipment and accounted for in accordance with the Group's accounting policy on property and equipment. Where the software is not an integral part of the related hardware, this is classified as an intangible asset.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Computer software is initially measured at cost. It is subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses.

Computer software is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes freight, handling and other direct costs. Costs of inventories include the transfer from retained funds of any gains/losses on qualifying cash flow hedges relating to purchases of stock items. However, borrowing costs and foreign exchange differences are excluded. Net realisable value is the price at which stocks can be sold in the course of Council activities less anticipated costs of selling.

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.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds and the redemption value is recognised in the income and expenditure account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Local Council has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Other payables

Other payables are classified with current liabilities and are stated at their nominal value unless the effect of discounting is material in which case other payables are measured at amortised cost using the effective interest method.

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

2. Accounting Policies and Reporting Procedures (cont.)

Financial instruments

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions of a 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 a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

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'.

Related parties

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

Revenue

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs and it can be measured reliably. 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.

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

2. Accounting Policies and Reporting Procedures (cont.)

Local Enforcement System

As from September 2012, the income recognised in the Income Statement was derived from the five Regional Committees and the Local Enforcement System Agency.

Government grants

Government grants relating to operating expenditure are recognized in the statement of Comprehensive Income in the same period that the related expenditure is incurred.

Government grants relating to the purchase of property, plant and equipment are accounted for using the capital approach, and are thus deducted from the carrying amount of the relative non-current asset.

Up to year ended 31st December 2017, government grants were accounted for using the income approach according to IAS20 *Accounting for Government Grants and Disclosure of Government Assistance*. On 1st January 2018, the capital approach, according to IAS20, has been adopted, in line with the Directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting policy, and according to IAS8 *Accounting Policies, Changes in Accounting Estimates and Errors*, it has been accounted for retrospectively.

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 € at the rates of exchange prevailing at the date of the Statement of Financial Position.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Profits and losses

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 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 Cash Flow Statement, cash and cash equivalents comprise cash in hand and balances held with banks.

Capital Management

The Council's capital consists of its net assets, including working capital, represented by its retained funds. The Council's management objectives are to ensure:

- that the Council's ability to continue as a going concern is still valid and
- that the Council maintains a positive working capital ratio.

To achieve the above, the Council carries out a quarterly review of the working capital ratio ("Financial Situation Indicator"). This ratio was negative at the reporting date. 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.

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

3. Judgments in applying accounting policies and key sources of estimation

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the Council, 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.

4. Funds received from central government

	2019	2018
	€	€
In terms of section 55 of the Local Councils Act	469,529	445,138
Supplementary Government Income	-	4,758
EU funding	1,150	1,600
Other Government Income	17,737	32,988
	<u>488,416</u>	<u>484,484</u>

5. Local Enforcement system

	2019	2018
	€	€
Contraventions and other fines	2,104	2,649
	<u>2,104</u>	<u>2,649</u>

6. General Income

	2019	2018
	€	€
General Income	2,759	9,353
Donations	15	300
Income from Permits	15,876	16,399
	<u>18,650</u>	<u>26,052</u>

7. Surplus for the year

	2019	2018
	€	€
Surplus for the year is stated after charging		
Staff salaries	98,347	89,765
Depreciation of property, plant & equipment	52,055	40,578
	<u>98,347</u>	<u>40,578</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

8. Personal Emoluments

	2019	2018
	€	€
Mayor's Remuneration	9,399	7,464
Councillors' Allowances	9,700	6,400
Executive Secretary Salary and Allowances	33,185	32,365
Employees' Salaries	40,006	37,690
Social Security Contributions	6,057	5,846
	<u>98,347</u>	<u>89,765</u>

Average number of employees : 4 (2018:4)

9. Operations and Maintenance

	2019	2018
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements (patching)	25,328	21,771
Handyman service	24,753	20,783
Signs	4,919	9,188
Road Markings	3,837	1,502
Other repairs and Upkeep	20,248	12,331
	<u>79,085</u>	<u>65,575</u>
<i>Contractual Services:</i>		
Waste Disposal	31,020	20,200
Refuse Collection	46,262	40,991
Bulky Refuse Collection	1,771	1,534
Open Skips & Bring-In Sites	861	818
Road & Street Cleaning	37,421	20,085
Cleaning - Public Conveniences	15,003	12,838
Cleaning & Maintaining Parks & Gardens	2,390	11,032
Other contractual services	2,738	-
Street Lighting	58,382	33,770
Studies and consultation	5,723	-
Local enforcement system expense	325	11
	<u>201,896</u>	<u>141,279</u>
Total Operations and Maintenance Costs	<u>280,981</u>	<u>206,854</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

10. Administrative and other expenditure

	2019	2018
	€	€
Utilities	9,724	11,795
Other repairs and upkeep	463	1,303
Rent	4,795	4,792
National and International Memberships	1,162	417
Office Services	3,662	6,176
Transport	3,978	5,248
Travel	797	22,947
Insurance Coverage	4,164	5,011
Bank Charges	519	234
Professional Services	16,861	18,504
Public relations	793	1,814
Tuition for courses and expenses	3,641	1,357
Entertainment	1,123	2,005
Social and cultural events	15,928	14,766
Sundry Minor Expenses	468	1,742
General and administrative expenses	793	1,654
Depreciation	52,055	40,578
	<u>120,926</u>	<u>140,343</u>

11. Finance Income

	2019	2018
	€	€
Bank Interest Receivable	1	1
	<u>1</u>	<u>1</u>

MIGARR LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

12. Property, plant and equipment

	Office Furniture & fittings	Computer Equipment	Plant & Machinery	Office Equipment	New Street Signs	Urban Improvements	Construction	Special Programmes	Office Extension	Assets not yet capitalised	Motor Vehicle	Total
	€	€	€	€	€	€	€	€	€	€	€	€
Cost At 1 January 2019	94,506	28,832	18,312	24,532	63,775	22,687	670,911	1,033,229	399,673	5,736	23,046	2,385,239
Additions	1,370	1,334	28,459	4,503	-	12,350	14,388	51,239	-	16,862	-	130,505
At 31 December 2019	95,876	30,166	46,771	29,035	63,775	35,037	685,299	1,084,468	399,673	22,598	23,046	2,515,744
Depreciation At 1 January 2019	34,114	23,753	13,247	23,010	63,775	2,534	444,213	526,140	7,953	-	17,553	1,156,292
Charge for the year	4,627	1,319	3,356	710	-	2,297	10,501	23,304	3,918	-	1,099	51,131
At 31 December 2019	38,741	25,072	16,603	23,720	63,775	4,831	454,714	549,444	11,871	-	18,652	1,207,423
Grants At 1 January 2019	-	-	-	-	-	-	132,955	179,375	-	-	-	312,330
At 31 December 2019	-	-	-	-	-	-	132,955	282,586	-	3,000	-	418,541
Net Book values At 31 December 2019	57,135	5,094	30,168	5,315	-	30,206	97,630	252,438	387,802	19,598	4,394	889,780

MGARR LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

12. Property, plant and equipment (cont.)

Cost	Office Furniture & fittings	Computer Equipment	Plant & Mach.	Office Equip.	New Street Signs	Urban Improvements	Const.	Special Program.	Office Extension	Assets not yet Capital.	Motor Veh.	Total
	€	€	€	€	€	€	€	€	€	€	€	€
At 1 January 2018	56,634	26,428	18,312	24,383	63,775	-	670,911	991,646	399,673	-	23,046	2,274,808
Additions	37,872	2,404	-	149	-	22,687	-	41,583	-	5,736	-	110,431
At 31 December 2018	94,506	28,832	18,312	24,532	63,775	22,687	670,911	1,033,229	399,673	5,736	23,046	2,385,239
Depreciation												
At 1 January 2018	32,269	22,635	11,980	22,639	63,775	-	433,797	508,442	3,997	-	16,180	1,115,714
Charge for the year	1,845	1,118	1,267	371	-	2,534	10,416	17,698	3,956	-	1,373	40,578
At 31 December 2018	34,114	23,753	13,247	23,010	63,775	2,534	444,213	526,140	7,953	-	17,553	1,156,292
Grants												
At 1 January 2018	-	-	-	-	-	-	132,955	179,375	-	-	-	312,330
At 31 December 2018	-	-	-	-	-	-	132,955	216,800	-	-	-	349,755
Net Book values												
At 31 December 2018	60,392	5,079	5,065	1,522	-	20,153	93,743	290,289	391,720	5,736	5,493	879,192

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

13. Intangible Assets

	Computer software €	Total €
Cost		
At 1 January 2019	3,705	3,705
Additions	-	-
	<u>3,705</u>	<u>3,705</u>
At 31 December 2019	<u>3,705</u>	<u>3,705</u>
Depreciation		
At 1 January 2019	-	-
Charge for the year	926	926
	<u>926</u>	<u>926</u>
At 31 December 2019	<u>926</u>	<u>926</u>
Net Book value		
At 31 December 2019	<u>2,779</u>	<u>2,779</u>

	Computer software €	Total €
Cost		
At 1 January 2018	-	-
Additions	3,705	3,705
	<u>3,705</u>	<u>3,705</u>
At 31 December 2018	<u>3,705</u>	<u>3,705</u>
At 1 January 2018	-	-
Charge for the year	-	-
	<u>-</u>	<u>-</u>
At 31 December 2018	<u>-</u>	<u>-</u>
Net Book value		
At 31 December 2018	<u>3,705</u>	<u>3,705</u>

14. Inventory

	2019 €	2018 €
Books and other publications	<u>5,200</u>	<u>5,200</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

15. Receivables

	2019	2018
	€	€
Receivables	10,472	10,347
Prepayments and accrued income	53,793	9,503
	<u>64,265</u>	<u>19,850</u>

Receivables

General receivables are analysed as follows:

	2019	2018
	€	€
Within credit period	469	9,910
Exceeded credit period but not impaired	10,003	437
Impaired and provided for	25,762	25,762
Provision for doubtful debts	<u>(25,762)</u>	<u>(25,762)</u>
	<u>10,472</u>	<u>10,347</u>

Local Enforcement System (LES) Debtors

LES Debtors are stated after a specific provision for doubtful debts amounting to €18,397 (2018 - €18,397).

Included in the accounts receivable are amounts due from related parties amounting to €10,258. (2018 : €9,387). These amounts are unsecured, interest free and repayable on demand.

16. Cash & cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts.

	2019	2018
	€	€
Cash at Bank	404,083	390,443
Cash in Hand	1,866	1,019
	<u>405,949</u>	<u>391,462</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

17. Payables

	2019	2018
	€	€
Payables	109,914	33,414
Accruals and other payables	36,714	36,260
	<u>146,628</u>	<u>69,674</u>

Included in the accounts payable are amounts due to related parties amounting to €13,052 (2018 : €5,757). These amounts are unsecured, interest free and repayable on demand.

18. Deferred Income

	2019	2018
	€	€
Government grants		
At 1 January	20,061	7,000
Increase in year	2,754	13,061
	<u>22,815</u>	<u>20,061</u>
Released in year	-	-
Transferred to PPE as Capital Grants	<u>(20,061)</u>	<u>-</u>
At 31 December	<u>2,754</u>	<u>20,061</u>
Current Deferred Income	<u>2,754</u>	<u>-</u>
Non-Current Deferred Income	<u>-</u>	<u>20,061</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

19. Capital Commitments

	2019	2018
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	109,000	171,634
- Contracted for but not provided in the financial statements	-	69,917
	<u>109,000</u>	<u>171,634</u>
(i) Approved but not yet contracted for:		
Special Programmes - Mixtla tal-Facciol	65,000	100,984
Outdoor Gym at Housing Estate	10,000	42,000
Renovation of Ta' Skorba Garden	17,000	15,000
Road Resurfacing	17,000	13,650
	<u>109,000</u>	<u>171,634</u>
(i) Contracted for but not provided in the Financial Statements:		
Rural Roads (Mizura 4.3)	-	69,917
	<u>-</u>	<u>69,917</u>

20. Related parties

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

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Government	Significant control
North Joint Committee (Local Enforcement)	Joint Control
North Regional Committee	Joint control
Central Regional Committee	No control
Gozo Regional Committee	No control
South Eastern Regional Committee	No control
South Regional Committee	No control
ARMS Limited	No control
Wasteserv Malta Limited	No control
Department of Lands	No control
LESA	No control
Bank of Valletta plc	No control
Commissioner of Police	No control
Kooperattiva Sinjali tat-Traffiku	No control
Majjistral Action Group	No control
Environmental Landscapes Consortium Ltd	No control
Heritage Malta	No control
Housing Authority	No control
Air Malta plc	No control
Cleansing Services Department	No control
Enemalta Corporation	No control
Malta Tourism Authority	No control

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

20. Related Party Transactions (cont.)

The amounts due from / to related parties at year-end are disclosed in notes 14 and 16. The terms and conditions do not specify the nature of the consideration to be provided in settlement. These amounts are unsecured, interest free and repayable on demand.

During the course of the year, the Council entered into transactions with related parties which are related through common ultimate controlling party.

	Related party activity €	2019 Total activity €	%	Related party activity €	2018 Total activity €	%
<i>Income</i>						
Transactions with central government	487,266			461,504		
Transactions with regions	2,104			2,649		
	<u>489,370</u>	<u>509,170</u>	<u>96</u>	<u>464,153</u>	<u>513,185</u>	<u>90</u>
<i>Expenditure</i>						
Transactions with government entities	31,020			60,341		
	<u>31,020</u>	<u>500,254</u>	<u>6</u>	<u>60,341</u>	<u>436,962</u>	<u>14</u>

21. Fair value of financial assets and financial liabilities

At 31 December 2019 and at 31 December 2018, the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively, approximated their fair values due to the short term maturities of these assets and liabilities. The fair values of non-current financial assets and non-current financial liabilities are not materially different from their carrying amount.

22. 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 debtors. The Council's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution. The Council has appropriate policies to ensure that income is received from sources with appropriate credit history. In this respect, credit risk with respect to debtors is monitored continuously and the Council places a provision on any debt on which there is doubt of recoverability. Bad debts are therefore negligible and in this respect the Council has no significant concentration of credit risk.

The 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: € 10,258

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)

22. Financial Risk Management (cont.)

Liquidity Risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. In fact at year end, the Council has as cash and cash equivalents the amount of €405,949. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive current net asset position of €326,032 (2018: €346,838) ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

Summary of financial assets and liabilities by category:

	2019	2018
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	10,472	10,347
Cash and Cash Equivalents	405,949	391,462
	<u>416,421</u>	<u>401,809</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>109,914</u>	<u>33,414</u>

Foreign Currency Risk

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

Interest Rate Risk

The Council operates bank accounts without any financing facilities. As a result, the Council is not exposed to cash flow interest rate risk on bank balances.

Market risks

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

Other risks

The Council's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Council to cash flow interest rate risk. In general, the Council's exposure to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financing position and cash flows are not deemed to be substantial by the Councillors and Executive Secretary in view of the nature of the assets and liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions.

Report of the Local Government Auditor

To the Auditor General

Report on the audit of the financial statements

Qualified opinion

We have audited the financial statements of Mgarr Local Council set out on pages 4 to 24 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described under the Basis for qualified opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Council as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act, the Local Councils (Financial) Procedures 1996 (the "Legislation").

Basis for qualified opinion

Up to 31 August 2011, all income and expenditure from the Local Enforcement System (LES) were centralised through the Joint Committee. The Joint Committee ceased operations on that date. No audited financial statements of the Joint Committee have been made available to us and consequently we were unable to determine whether the Council is entitled to receive any further income from the Joint Committee.

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

Responsibilities of those charged with governance for the financial statements

As described on page 3 the Executive Secretary and the members of the Local Council are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and are properly prepared in accordance with the provisions of the Legislation, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Secretary and the members of the Local Council are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is the intention to liquidate the Council or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

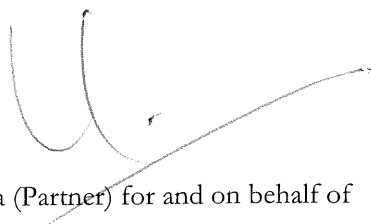
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



Mark Bugeja (Partner) for and on behalf of

GRANT THORNTON
Certified Public Accountants

Fort Business Centre
Triq l-Intornjatur, Zone 1
Central Business District,
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Malta

18 May 2020