



IL-MUNXAR LOCAL COUNCIL

**Annual Report
and
Financial Statements**

for the year ended 31 December 2022



Prepared by

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ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2022

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Statement of Local Council Members' and Executive Secretary's Responsibilities
for the year ended 31 December 2022

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 2nd May '23 and signed on its behalf by

Signed

Damien Spiteri
Mayor

Signed

Ryan Debrincat
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

		2022 €	2021 €
	<i>Notes</i>		
Income			
Funds received from Central Government	4	373,867	331,833
Income raised under Local Enforcement System	5	721	985
General Income	6	42,387	41,453
		<u>416,975</u>	<u>374,271</u>
Expenditure			
Personal emoluments	8	(118,370)	(105,095)
Operations and maintenance	9	(138,609)	(107,135)
Administrative and other expenditure	10	(174,868)	(124,615)
		<u>(431,847)</u>	<u>(336,845)</u>
Operating (Deficit) / Surplus for the year		(14,872)	37,426
Finance income		159	-
Total Comprehensive (deficit) / surplus for the year		<u>(14,713)</u>	<u>37,426</u>

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	<i>Notes</i>	2022 €	2021 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	11	201,214	177,948
		<u>201,214</u>	<u>177,948</u>
Current Assets			
Receivables	12	741,869	112,900
Cash and Cash Equivalents	13	717,060	927,821
		<u>1,458,929</u>	<u>1,040,721</u>
Total Assets		<u><u>1,660,143</u></u>	<u><u>1,218,669</u></u>
EQUITY AND LIABILITIES			
Reserves			
Retained Fund		525,330	540,043
		<u>525,330</u>	<u>540,043</u>
Non-Current Liabilities			
Deferred income	15	205,250	-
		<u>205,250</u>	<u>-</u>
Current Liabilities			
Payables	14	929,563	678,626
		<u>929,563</u>	<u>678,626</u>
Total Equity and Liabilities		<u><u>1,660,143</u></u>	<u><u>1,218,669</u></u>

These financial statements were approved by the Local Council on the 2nd May 23 and signed on its behalf by:

Signed

Damien Spiteri
Mayor

Signed

Ryan Debrincat
Executive Secretary

The notes on pages 8 to 22 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Retained Funds €
At 1 January 2021	502,617
Surplus for the year 2021	37,426
	<hr/>
At 31 December 2021	540,043
	<hr/> <hr/>
At 1 January 2022	540,043
Deficit for the year 2022	(14,713)
	<hr/>
At 31 December 2022	525,330
	<hr/> <hr/>

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 €	2021 €
	Note	
Cash flows from Operating Activities		
(Deficit)/ Surplus for the year	(14,713)	37,426
Reconciliation to cash generated from operations:		
Depreciation	32,623	31,543
Interest receivable	(159)	-
Operating Profit before Working Capital Changes	<u>17,751</u>	<u>68,969</u>
(Increase)/Decrease in receivables	(13,468)	18,466
Increase in payables	<u>476,107</u>	<u>192,430</u>
Cash generated from operating activities	<u>480,390</u>	<u>279,865</u>
Cash flows from Investing Activities		
Interest received	159	-
Purchase of property, plant & equipment	(1,227,345)	(373,675)
Receipt of grants	<u>536,035</u>	<u>484,041</u>
Cash (used in) / generated from investing activities	<u>(691,151)</u>	<u>110,366</u>
Net (decrease) / Increase in Cash and Cash Equivalents	(210,761)	390,231
Cash and Cash Equivalents at the Beginning of the year	<u>927,821</u>	<u>537,590</u>
Cash and Cash Equivalents at the End of the year	14 <u>717,060</u>	<u>927,821</u>

Notes to the Financial Statements for the year ended 31 December 2022

1. General Information

The Il-Munxar Local Council is the local Authority of Munxar set up in accordance with the Local Councils Act, 1993. The office of the Local Council is situated at Triq Profs Guze Aquilina, Il-Munxar. These financial statements were approved for issue by the Council Members on the _____ . 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 new standards and amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 01 January 2022.

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 anticipate that the adoption of the 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	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

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Property, plant and equipment (cont.)

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

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

Impairment of Assets

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

Amounts receivable

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

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.

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 expired.

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

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

2. Accounting Policies and Reporting Procedures (cont.)

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 therefrom are to be disclosed separately with expenses.

Local Enforcement System

The income recognised in the Statement of Comprehensive Income was derived from the administrative fees from the five Regional Committees and 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.

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

2. Accounting Policies and Reporting Procedures (cont.)

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 Statement of Cash Flows, 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 positive at the reporting date and has not changed significantly from the previous year. The Council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

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

	2022	2021
	€	€
In terms of section 55 of the Local Councils Act	307,395	296,396
Other Government Income	66,472	35,437
	<u>373,867</u>	<u>331,833</u>

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

5. Local Enforcement system

	2022	2021
	€	€
Income from Contraventions	721	985
	<u>721</u>	<u>985</u>

6. General Income

	2022	2021
	€	€
Sponsorship	-	1,000
Rent Receivable	5,869	4,720
Tender Documents/Info Charges	-	133
Income from Permits	7,988	6,846
Organic waste collection	28,530	28,715
Other income	-	39
	<u>42,387</u>	<u>41,453</u>

7. Surplus for the year

	2022	2021
	€	€
Surplus for the year is stated after charging		
Staff salaries	118,370	105,095
Depreciation of property, plant & equipment	<u>32,623</u>	<u>31,543</u>

8. Personal Emoluments

	2022	2021
	€	€
Mayor's Remuneration	10,742	10,571
Mayor's and Councillors' Allowances	13,000	13,000
Executive Secretary Salary and Allowances	44,061	32,240
Employees' Salaries	43,971	42,816
Social Security Contributions	6,596	6,468
	<u>118,370</u>	<u>105,095</u>

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

9. Operations and Maintenance

	2022	2021
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements (patching works)	3,651	2,525
Signs and Road Markings	1,179	1,715
Xlendi maintenance and upkeep	400	1,000
Other repairs and Upkeep	40,045	13,371
	<u>45,275</u>	<u>18,611</u>
<i>Contractual Services:</i>		
Refuse Collection	56,375	56,392
Bulky Refuse Collection	3,594	3,737
Road & Street Cleaning	6,254	5,555
Cleaning - Public Conveniences	5,074	5,345
Cleaning & Maintaining Parks & Gardens	1,707	1,642
Cleaning & Maintenance of Council premises	1,404	1,215
Tipping fees	8,088	8,633
Insurance	3,523	2,574
Local Enforcement System expenses	253	366
Street Lighting	7,062	3,065
	<u>93,334</u>	<u>88,524</u>
 Total Operations and Maintenance Costs	 <u>138,609</u>	 <u>107,135</u>

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

10. Administrative and other expenditure

	2022	2021
	€	€
Utilities	8,421	3,869
Materials and supplies	373	560
Rent	4,534	4,110
National and International Membership	840	500
Office Services	6,794	3,736
Transport	961	1,728
Information Services	120	110
Professional Services	26,550	42,839
Community services and events	93,322	35,474
Sundry expenses	330	146
Depreciation	32,623	31,543
	<u>174,868</u>	<u>124,615</u>

IL-MUNXAR LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

11. Property, plant and equipment

	Buildings & Improvements	Office Furniture & Fittings	Computer & Office Equipment	Plant & Machinery	New Street Signs	Urban Improvements	Construction	Assets under construction	Special Programmes	Total
	€	€	€	€	€	€	€	€	€	€
Cost										
At 1 January 2022	3,641	17,110	33,413	4,308	3,785	143,968	171,025	427,208	1,880,050	2,684,508
Additions	-	1,313	-	-	-	59,229	-	1,130,957	35,846	1,227,345
Reclassification								(898,639)	898,639	-
At 31 December 2022	3,641	18,423	33,413	4,308	3,785	203,197	171,025	659,526	2,814,535	3,911,853
Depreciation										
At 1 January 2022	914	14,132	29,609	2,839	3,785	80,417	104,586	-	415,854	652,136
Charge for the year	34	389	1,341	759	-	12,621	7,067	-	10,412	32,623
At 31 December 2022	948	14,521	30,950	3,598	3,785	93,038	111,653	-	426,266	684,759
Grants										
At 1 January 2022	-	-	2,242	-	-	-	22,682	420,692	1,408,808	1,854,424
Increase	-	-	-	-	-	43,536	-	1,100,999	26,921	1,171,456
Reclassification	-	-	-	-	-	-	-	(898,639)	898,639	-
At 31 December 2022	-	-	2,242	-	-	43,536	22,682	623,052	2,334,368	3,025,880
Net Book values										
At 31 December 2022	2,693	3,902	221	710	-	66,623	36,690	36,474	53,901	201,214

IL-MUNXAR LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

11. Property, plant and equipment (cont.)

	Buildings & Improvements	Office Furniture & Fittings	Computer & Office Equipment	Plant & Machinery	New Street Signs	Urban Improvements	Construction	Assets under construction	Special Programmes	Total
	€	€	€	€	€	€	€	€	€	€
Cost										
At 1 January 2021	3,641	17,110	33,413	4,308	3,785	130,890	171,025	73,104	1,873,557	2,310,833
Additions	-	-	-	-	-	13,078	-	354,104	6,493	373,675
At 31 December 2021	3,641	17,110	33,413	4,308	3,785	143,968	171,025	427,208	1,880,050	2,684,508
Depreciation										
At 1 January 2021	879	13,761	28,166	2,080	3,785	68,401	97,519	-	406,002	620,593
Charge for the year	35	371	1,443	759	-	12,016	7,067	-	9,852	31,543
At 31 December 2021	914	14,132	29,609	2,839	3,785	80,417	104,586	-	415,854	652,136
Grants										
At 1 January 2021	-	-	2,242	-	-	-	22,682	-	1,408,808	1,433,732
Increase	-	-	-	-	-	-	-	420,692	-	420,692
At 31 December 2021	-	-	2,242	-	-	-	22,682	420,692	1,408,808	1,854,424
Net Book values										
At 31 December 2021	2,727	2,978	1,562	1,469	-	63,551	43,757	6,516	55,388	177,948

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

12. Receivables

	2022	2021
	€	€
Accounts receivables	21,611	7,417
Prepayments and accrued income	<u>720,258</u>	<u>105,483</u>
	<u><u>741,869</u></u>	<u><u>112,900</u></u>

Receivables

General receivables are analysed as follows:

	2022	2021
	€	€
Within credit period	736,892	112,859
Exceeded credit period but not impaired	4,977	41
Impaired and provided for	23,587	24,250
Provision for doubtful debts	<u>(23,587)</u>	<u>(24,250)</u>
	<u><u>741,869</u></u>	<u><u>112,900</u></u>

Included in the accounts receivable are amounts due from related parties amounting to €21,611 (2021 : €7,417). These amounts are unsecured, interest free and repayable on demand.

13. Cash & cash equivalents

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

	2022	2021
	€	€
Cash at Bank	716,785	927,582
Cash in Hand	<u>275</u>	<u>239</u>
	<u><u>717,060</u></u>	<u><u>927,821</u></u>

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)**14. Payables**

	2022	2021
	€	€
Accounts payable	622,899	73,737
Other payables	218	-
Deferred Income	74,291	419,904
Accruals	232,155	184,985
	<u>929,563</u>	<u>678,626</u>

Included in the accounts payable are amounts due to related parties amounting to €3,168 (2021 : €5,304). These amounts are unsecured, interest free and repayable on demand.

15. Deferred Income – Government Grants

	2022	2021
	€	€
Government grants		
At 1 January	419,904	267,073
Increase in year	536,035	484,042
Utilized	(647,448)	(331,211)
Refunded to Government	(28,950)	-
	<u>279,541</u>	<u>419,904</u>
At 31 December	<u>279,541</u>	<u>419,904</u>
Current Deferred Income	<u>74,291</u>	<u>419,904</u>
Non-Current Deferred Income	<u>205,250</u>	<u>-</u>

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

16. Capital Commitments

	2022	2021
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	685,122	485,131
- Contracted for but not provided in the financial statements	<u>35,000</u>	<u>900,176</u>
(i) Approved but not yet contracted for:		
Ambjent Malta	-	35,000
Xlendi Waste Depot	90,000	34,753
Xlendi Promenade	368,125	-
GAG3 Project	52,628	220,618
GAG4 Project	-	51,773
Dahla Munxar	99,032	-
Measure 4.4 Various Locations	-	75,704
Playing field Munxar	49,745	42,283
Plant & Machinery	-	10,000
Office Furniture	-	10,000
Computer Equipment	-	5,000
Slow Streets	25,592	-
	<u>685,122</u>	<u>485,131</u>
(i) Contracted for but not provided in the Financial Statements:		
Ix-Xlendi Tower restoration and access	-	190,096
Xlendi Waste Depot	35,000	-
Measure 4.4 Xadba	-	140,182
Pjazza tal-Munxar	-	569,898
	<u>35,000</u>	<u>900,176</u>

The Council has Grant Agreements signed for the funding of most of the above capital projects

17. Contingent liabilities

During the year ended 31 December 2022, the Local Council was served with a judicial protest filed by two residents. The Council is rejecting the claim. Based on the information available to the Council, the extent of potential liabilities cannot be quantified.

18. Ultimate controlling party

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

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)**19. Financial Risk Management**

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.

Summary of financial assets and liabilities by category:

	2022	2021
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	741,869	112,900
Cash and Cash Equivalents	717,060	927,821
	<u>1,458,929</u>	<u>1,040,721</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>855,272</u>	<u>258,722</u>

Credit risk

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

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 Euro 717,060. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive net asset position of €525,330 (2021: €540,043) ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

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.

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

19. Financial Risk Management (cont.)

Other risks

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.

20. Related party transactions

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
Local Enforcement System Agency	No control
Malta Environment and Planning Authority	No control
Malta Information Technology Agency	No control
Water Services Corporation	No control
Enemalta Corporation	No control
ARMS Limited	No control
Director General - Works Division	No control
Wasteserv Malta Limited	No control
Police General Headquarters	No control
Department of Lands	No control
Airmalta plc	No control

The amounts due from / to related parties at year-end are disclosed in notes 12 and 14. 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.

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

20. Related party transactions (cont.)

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

	2022			2021		
	Related party activity €	Total activity €	%	Related party activity €	Total activity €	%
<i>Income</i>						
Transactions with central government	373,867			331,833		
Transactions with regions	721			985		
	<u>374,588</u>	<u>416,975</u>	<u>90</u>	<u>332,818</u>	<u>374,271</u>	<u>89</u>
<i>Expenditure</i>						
Transactions with government entities	8,088			8,633		
Key personnel remuneration	67,803			55,811		
	<u>75,891</u>	<u>431,847</u>	<u>18</u>	<u>64,444</u>	<u>336,845</u>	<u>19</u>

21. Fair values estimation

At 31 December 2022 and at 31 December 2021, 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.

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MUNXAR 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 Munxar Local Council, set out on pages 4-22, which comprise the statement of financial position as at 31 December 2022, 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 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Qualified Opinion

Following Directive 01/2017 issued by the Department for Local Government, the Local Council changed its accounting policies on depreciation, whereby the straight-line method is to be applied instead of the reducing balance method and the accounting policy on government grants, whereby the capital approach is to be applied instead of the income approach. These changes became effective as from 1 January 2018. We were provided with limited information to ensure that the changes in the accounting policies were properly applied. From the checks that we could carry out, it seems that the items of property, plant and equipment whose useful life expired, were not written off upon the adoption of the straight-line method and that the depreciation is not being worked out on the remaining useful life of the assets. Based on the limited tests that we could carry out, we could conclude that the application of the changes in the accounting policies was not properly carried out and no remedial action was taken during the current year. This would impact the carrying amounts of property, plant and equipment as well as the depreciation charge for the year.

We have requested a report from the architect about the projects that were completed during the year ended 31 December 2022 and the projects that were ongoing as of that date. This report was not received by the time of issuing this report. Consequently, we could not confirm whether there should have been any accruals as at 31 December 2022 relating to such projects that have not been reflected in these financial statements, which would result in an understatement of the accruals and of the property, plant and equipment.

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

Basis for Qualified Opinion - continued

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Local Council in accordance with the ethical requirements of both the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Code of Ethics for Warrant Holders in Malta. 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.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Council Responsibilities for the Financial Statements

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

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

Auditors' 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 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 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 auditors' 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 Local Councils (Financial) Regulations issued in terms of the said Act and the Local Councils (Financial) Procedures.

Signed

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

RSM Malta
Registered Auditors

02 May 2023