



**IL-MUNXAR LOCAL COUNCIL**

**Annual Report  
and  
Financial Statements**

**for the year ended 31 December 2019**



**Prepared by**

**Daniel Galea B. Accty. (Hons.) CPA**

**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 26th May 2020 and signed on its behalf by

Signed  
Damien Spiteri  
Mayor

Signed  
Ryan Debrincat  
Deputy Executive Secretary

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2019

		2019 €	2018 €
	<i>Notes</i>		
<b>Income</b>			
Funds received from Central Government	4	279,434	267,609
Income raised under Local Enforcement System	5	653	586
General Income	6	31,139	18,629
		<u>311,226</u>	<u>286,824</u>
 <b>Expenditure</b>			
Personal emoluments	8	(84,315)	(70,165)
Operations and maintenance	9	(143,536)	(91,464)
Administrative and other expenditure	10	(103,476)	(93,477)
		<u>(331,327)</u>	<u>(255,106)</u>
 <b>Operating (deficit) / surplus for the year</b>		<b>(20,101)</b>	<b>31,718</b>
 Finance income	11	<b>2</b>	<b>2</b>
 <b>Total comprehensive (deficit) / surplus for the year</b>		<u><b>(20,099)</b></u>	<u><b>31,720</b></u>

**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2019

	<i>Notes</i>	2019 €	2018 €
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	12	<u>214,363</u>	<u>219,115</u>
		<u>214,363</u>	<u>219,115</u>
<b>Current Assets</b>			
Receivables	13	9,394	10,201
Cash and Cash Equivalents	14	<u>584,195</u>	<u>613,336</u>
		<u>593,589</u>	<u>623,537</u>
<b>Total Assets</b>		<u><u>807,952</u></u>	<u><u>842,652</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Reserves</b>			
Retained Fund		<u>449,814</u>	<u>469,913</u>
		<u>449,814</u>	<u>469,913</u>
<b>Current Liabilities</b>			
Payables	15	<u>358,138</u>	<u>372,739</u>
		<u>358,138</u>	<u>372,739</u>
<b>Total Equity and Liabilities</b>		<u><u>807,952</u></u>	<u><u>842,652</u></u>

These financial statements were approved by the Local Council on the 26th May 2020 and signed on its behalf by:

Signed  
Damien Spiteri  
Mayor

Signed  
Ryan Debrincat  
Deputy Executive Secretary

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2019

	<b>Retained Funds €</b>
At 1 January 2018	438,193
Surplus for the year 2018	31,720
	<hr/>
<b>At 31 December 2018</b>	<b>469,913</b>
	<hr/> <hr/>
At 1 January 2019	469,913
Deficit for the year 2019	(20,099)
	<hr/>
<b>At 31 December 2019</b>	<b>449,814</b>
	<hr/> <hr/>

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 €	2018 €
	Note	
<b>Cash flows from Operating Activities</b>		
<b>(Deficit) / Surplus for the year</b>	<b>(20,099)</b>	31,720
Reconciliation to cash generated from operations:		
Depreciation	23,033	24,307
Reduction in value of PPE in line with Directive 1/2017	-	2,412
Interest receivable	(2)	(2)
Operating Profit before Working Capital Changes	<u>2,932</u>	<u>58,437</u>
Decrease in receivables	807	2,362
Increase in payables	<u>10,326</u>	<u>29,384</u>
<b>Cash generated from operating activities</b>	<u><u>14,065</u></u>	<u><u>90,183</u></u>
<b>Cash flows from Investing Activities</b>		
Interest received	2	2
Purchase of property, plant & equipment	(43,208)	(1,324)
Receipt of grant	-	281,248
<b>Cash (used in)/generated from investing activities</b>	<u>(43,206)</u>	<u>279,926</u>
Net (decrease) / increase in Cash and Cash Equivalents	<b>(29,141)</b>	370,109
Cash and Cash Equivalents at the Beginning of the year	<u>613,336</u>	<u>243,227</u>
<b>Cash and Cash Equivalents at the End of the year</b>	<b>14</b> <u><u>584,195</u></u>	<u><u>613,336</u></u>

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

**1. General Information**

The Il-Munxar Local Council is the local Authority of Il-Munxar (Gozo) 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 26th 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 new standards and 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 16 did not have any impact on the financial statements of the Local Council.

*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:



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

**2. Accounting Policies and Reporting Procedures (cont.)**

*Property, plant and equipment (cont.)*

	%
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

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.

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

**2. Accounting Policies and Reporting Procedures (cont.)**

*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 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*

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.

*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.

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

**4. Funds received from central government**

	2019	2018
	€	€
In terms of section 55 of the Local Councils Act	267,147	253,270
Other Government Income	12,287	14,339
	<u>279,434</u>	<u>267,609</u>

**5. Local Enforcement system**

	2019	2018
	€	€
Administration fees to Regional Committees/LESA	587	516
Income from Contraventions	66	70
	<u>653</u>	<u>586</u>

**6. General Income**

	2019	2018
	€	€
Sponsorship	2,500	-
Rent Receivable	3,125	2,950
Tender Documents/Info Charges	74	72
Income from Permits	6,016	5,285
Organic waste collection	19,338	10,296
Other income	86	26
	<u>31,139</u>	<u>18,629</u>

**7. (Deficit)/Surplus for the year**

	2019	2018
	€	€
(Deficit)/Surplus for the year is stated after charging		
Staff salaries (Note 8)	84,315	70,165
Depreciation of property, plant & equipment	23,033	24,307
	<u>23,033</u>	<u>24,307</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**8. Personal Emoluments**

	2019	2018
	€	€
Mayor's Remuneration	9,354	6,842
Mayor's and Councillors' Allowances	9,500	5,633
Executive Secretary Salary and Allowances	31,421	31,503
Employees' Salaries	28,997	21,732
Social Security Contributions	5,043	4,455
	<u>84,315</u>	<u>70,165</u>

**9. Operations and Maintenance**

	2019	2018
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements (patching works)	52,296	5,710
Signs and Road Markings	7,457	4,927
Council premises	1,077	1,416
Xlendi maintenance and upkeep	808	4,011
Other repairs and Upkeep	9,659	2,880
Public Property	430	448
	<u>71,727</u>	<u>19,392</u>
<i>Contractual Services:</i>		
Refuse Collection	28,523	34,794
Bulky Refuse Collection	3,373	3,428
Hire of skips	2,797	-
Road & Street Cleaning	5,194	4,183
Cleaning - Public Conveniences	6,159	7,179
Cleaning & Maintaining Parks & Gardens	1,221	1,464
Cleaning & Maintenance of verges	6,833	6,530
Cleaning & Maintenance of Council premises	1,454	1,518
Tipping fees	8,489	8,513
Insurance	2,253	1,932
Local Enforcement System expenses	1,380	1,150
Street Lighting	4,133	1,381
	<u>71,809</u>	<u>72,072</u>
<b>Total Operations and Maintenance Costs</b>	<u><b>143,536</b></u>	<u><b>91,464</b></u>

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

**10. Administrative and other expenditure**

	2019	2018
	€	€
Utilities	3,324	4,072
Materials and supplies	804	893
Rent	3,775	4,645
Office repair and upkeep	1,183	477
National and International Membership	998	500
Office Services	2,855	2,551
Transport	3,174	1,102
Travel	233	-
Information Services	54	75
Training	215	-
Professional Services	12,517	19,851
Community services and events	50,780	32,592
Adjustment in PPE in line with Directive 1/2017	-	2,412
Sundry expenses	531	-
Depreciation	23,033	24,307
	<u>103,476</u>	<u>93,477</u>

**11. Finance Income**

	2019	2018
	€	€
Bank Interest Receivable	<u>2</u>	<u>2</u>
	<u>2</u>	<u>2</u>

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

12. Property, plant and equipment

Cost	Buildings & Improvements €	Office Furniture & Fittings €	Computer & Office Equipment €	Plant & Machinery €	New Street Signs €	Urban Improvements €	Construction €	Assets under construction €	Special Programmes €	Total €
At 1 January 2019	3,641	16,610	31,208	1,712	3,785	118,429	171,025	-	1,635,860	1,982,270
Additions	-	500	2,205	2,596	-	10,857	-	27,050	-	43,208
At 31 December 2019	3,641	17,110	33,413	4,308	3,785	129,286	171,025	27,050	1,635,860	2,025,478
<b>Depreciation</b>										
At 1 January 2019	817	13,109	25,166	1,062	3,785	50,172	84,020	-	388,635	566,766
Charge for the year	28	282	1,234	260	-	7,220	6,433	-	7,576	23,033
At 31 December 2019	845	13,391	26,400	1,322	3,785	57,392	90,453	-	396,211	589,799
<b>Grants</b>										
At 1 January 2019	-	-	2,242	-	-	-	22,682	-	1,171,465	1,196,389
Additions	-	-	-	-	-	-	-	24,927	-	24,927
At 31 December 2019	-	-	2,242	-	-	-	22,682	24,927	1,171,465	1,221,316
<b>Net Book values</b>										
At 31 December 2019	2,796	3,719	4,771	2,986	-	71,894	57,890	2,123	68,184	214,363

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

12. Property, plant and equipment (cont.)

	Buildings & Improvements	Office Furniture & Fittings	Computer & Office Equipment	Plant & Machinery	New Street Signs	Urban Improvements	Construction	Special Programmes	Total
	€	€	€	€	€	€	€	€	€
<b>Cost</b>									
At 1 January 2018	3,641	16,610	30,483	1,113	3,785	118,429	171,025	1,635,860	1,980,946
Additions	-	-	725	599	-	-	-	-	1,324
At 31 December 2018	3,641	16,610	31,208	1,712	3,785	118,429	171,025	1,635,860	1,982,270
<b>Depreciation</b>									
At 1 January 2018	639	10,910	23,791	950	3,785	26,823	98,643	374,506	540,047
Charge for the year	178	283	879	112	-	23,349	(14,623)	14,129	24,307
Adjustment Directive 1/2017	-	1,916	496	-	-	-	-	-	2,412
At 31 December 2018	817	13,109	25,166	1,062	3,785	50,172	84,020	388,635	566,766
<b>Grants</b>									
At 1 January 2018	-	-	2,242	-	-	-	22,682	1,171,465	1,196,389
At 31 December 2018	-	-	2,242	-	-	-	22,682	1,171,465	1,196,389
<b>Net Book values</b>									
At 31 December 2018	2,824	3,501	3,900	650	-	68,257	64,323	75,760	219,115



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

**13. Receivables**

	2019	2018
	€	€
Accounts receivables	7,594	4,956
Prepayments and accrued income	1,800	5,245
	<u>9,394</u>	<u>10,201</u>

*Receivables*

General receivables are analysed as follows:

	2019	2018
	€	€
Within credit period	5,361	8,564
Exceeded credit period but not impaired	4,033	1,637
Impaired and provided for	24,436	24,506
Provision for doubtful debts	(24,436)	(24,506)
	<u>9,394</u>	<u>10,201</u>

Included in the accounts receivable are amounts due from related parties amounting to €7,594 (2018 : €4,956). These amounts are unsecured, interest free and repayable on demand.

**14. 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	583,883	613,009
Cash in Hand	312	327
	<u>584,195</u>	<u>613,336</u>

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

**15. Payables**

	2019	2018
	€	€
Accounts payable	12,709	28,896
Deferred Income	256,322	284,198
Accruals	89,107	59,645
	<u>358,138</u>	<u>372,739</u>

Included in the accounts payable are amounts due to related parties amounting to €1,116 (2018 : €4,165). These amounts are unsecured, interest free and repayable on demand.

**16. Deferred Income – Government Grants**

	2019	2018
	€	€
<b>Government grants</b>		
At 1 January	281,248	-
Increase in year	-	281,248
Utilised	(24,926)	-
At 31 December	<u>256,322</u>	<u>281,248</u>
<b>Current Deferred Income</b>	<u>256,322</u>	<u>281,248</u>
<b>Non-Current Deferred Income</b>	<u>-</u>	<u>-</u>

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

**17. Capital Commitments**

	2019	2018
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	530,000	517,380
- Contracted for but not provided in the financial statements	<u>459,117</u>	<u>-</u>
 (i) Approved but not yet contracted for:		
Pjazza tal-Munxar (shelters and pavement)	55,000	55,000
Ix-Xlendi Tower restoration and access	-	174,825
Other capital projects	85,000	-
Rubble building project - Measure 4.4	190,000	-
Pjazza tal-Munxar Project	200,000	-
Decorative luminaries	-	40,000
Resurfacing Triq il-Munxar	-	227,555
Set up of a new front office	-	13,000
Computer software	-	2,000
Office furniture	-	5,000
	<u>530,000</u>	<u>517,380</u>
 (i) Contracted for but not provided in the Financial Statements:		
Ix-Xlendi Tower restoration and access	217,651	-
Resurfacing Triq il-Munxar	<u>241,466</u>	<u>-</u>
	<u>459,117</u>	<u>-</u>

The Council had received a payment from Ministry for Gozo to be able to pay for the resurfacing of Triq il-Munxar. Furthermore, the Council has Grant Agreements signed for the funding of Ix-Xlendi Tower restoration and access and for Rubble Building Project.

**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.

**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.

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

**19. Financial Risk Management (cont.)**

*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.

	2019	2018
	€	€
<b>Current Assets</b>		
Loans and receivables:		
Accounts and other receivables	9,394	10,201
Cash and Cash Equivalents	<u>584,195</u>	<u>613,336</u>
	<u>593,589</u>	<u>623,537</u>
<b>Current Liabilities</b>		
Financial liabilities measured at amortised costs:		
Payables	<u>101,816</u>	<u>88,541</u>

*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 584,195. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive net current asset position of: €235,451 (2018: €250,798) 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.

*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.

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

**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
Bank of Valletta plc	No control
Malta Tourism Authority	No control
Office of the Prime Minister	No control
Office of the Commissioner for Data Protection	No control

The amounts due from / to related parties at year-end are disclosed in notes 13 and 15. 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.

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

	2019			2018		
	Related party activity	Total activity	%	Related party activity	Total activity	%
	€	€		€	€	
<i>Income</i>						
Transactions with central government	279,434			267,609		
Transactions with regions	653			586		
	<u>280,087</u>	<u>311,226</u>	<u>90</u>	<u>268,195</u>	<u>286,824</u>	<u>94</u>
<i>Expenditure</i>						
Transactions with government entities	8,489			8,513		
Key personnel remuneration	50,275			43,101		
	<u>58,764</u>	<u>331,327</u>	<u>18</u>	<u>51,614</u>	<u>255,106</u>	<u>20</u>

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

**21. Fair values estimation**

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.

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**IL-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 Il-Munxar Local Council, which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 4 – 22.

In our opinion, except for the matter described in the Basis for Qualified Opinion section of our report, the financial statements give a true and fair view of the financial position of the Local Council as of 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Basis for Qualified Opinion**

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



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

### **Other Information**

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

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

### **Council Responsibilities for the Financial Statements**

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

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.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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



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

### **Auditor's Responsibilities for the Audit of the Financial Statements - continued**

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Local Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Secretary and the Local Council Members.
- Conclude on the appropriateness of the Executive Secretary's and the Local Council Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Local Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Local Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

### **Report on Other Legal and Regulatory Requirements**

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

Signed

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

RSM Malta  
Certified Public Accountants

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