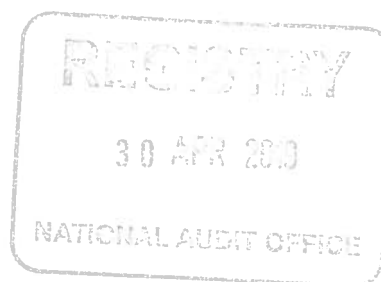


Local Council Qormi
Annual Audit Report
for the year ended 31 December 2018

Prepared by 3a



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

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's comprehensive income for the period, and of the Council's retained funds at the end of period. 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 period and its retained funds as at the period end, and that they comply with the Act, the Local Council (Financial) Regulations, and the Local Council (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, Local Council (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Council on 24 April 2019 and signed on its behalf by:



Jesmond Aquilina
Mayor



Karen Camilleri
Executive Secretary

REPORT OF THE LOCAL GOVERNMENT AUDITORS ON QORMI LOCAL COUNCIL TO THE AUDITOR GENERAL

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Qormi Local Council, which comprise the Statement of Financial Position as at 31 December 2018, and the statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the statement of financial position of Qormi Local Council as at 31 December 2018, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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 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 opinion.

Responsibilities of the Executive Secretary

The Executive Secretary is 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 EU, and for such internal control as the Executive Secretary determines are 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 is responsible for assessing the 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 the Council is intended to be liquidated or to cease operations, or has no realistic alternative but to do so.

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.

Local Council Qormi

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2018

	Notes	2018 €	2017 €
Revenue			
Funds received from Central Government	3	1,268,927	1,210,855
Income raised under Local Council Bye-Laws	4	7,208	2,853
Income raised under Local Enforcement System	5	21,934	26,841
General Income	6	94,219	104,648
		<u>1,392,288</u>	<u>1,345,197</u>
Expenditure			
Personal Emoluments	7	(199,393)	(198,595)
Operations and maintenance	8	(649,252)	(689,040)
Administration and other expenditure	9	(1,114,839)	(352,202)
		<u>(1,963,484)</u>	<u>(1,239,837)</u>
Operating (loss) / profit for the year		(571,196)	105,360
Finance income	10	137	121
Finance costs	11	(4,054)	(4,534)
Loss on assets written off	7	(513)	-
(Loss) / Profit for the year	7	<u>(575,626)</u>	<u>100,947</u>
Total comprehensive (expense) / income for the year		<u>(575,626)</u>	<u>100,947</u>

The notes on pages 8 to 31 form an integral part of these financial statements.

Statement of Financial Position
as at 31 December 2018

		2018	2017	2017
			(as restated)	(as previously stated)
	Notes	€	€	€
ASSETS				
Non-Current Assets				
Property, plant and equipment	13	1,958,746	2,141,389	2,785,669
Intangible assets	12	977	-	-
		<u>1,959,723</u>	<u>2,141,389</u>	<u>2,785,669</u>
Current Assets				
Inventories	14	2,692	170	170
Receivables	15	465,551	324,594	324,594
Cash at bank and in hand	16	666,001	496,454	496,454
		<u>1,134,244</u>	<u>821,218</u>	<u>821,218</u>
Total Assets		<u>3,093,967</u>	<u>2,962,607</u>	<u>3,606,887</u>
RESERVES				
Retained earnings		1,782,088	2,357,714	2,357,714
Total reserves		<u>1,782,088</u>	<u>2,357,714</u>	<u>2,357,714</u>
Non-Current Liabilities				
Long-term borrowings	18	193,882	44,868	44,868
Deferred income	19	-	-	723,339
		<u>193,882</u>	<u>44,868</u>	<u>768,207</u>
Current Liabilities				
Payables	17	886,934	466,690	387,631
Short-term borrowings	18	231,063	93,335	93,335
		<u>1,117,997</u>	<u>560,025</u>	<u>480,966</u>
Total Liabilities		<u>1,311,879</u>	<u>604,893</u>	<u>1,249,173</u>
Total reserves and liabilities		<u>3,093,967</u>	<u>2,962,607</u>	<u>3,606,887</u>

These financial statements were approved by the Local Council on 24th April 2019 and signed on its behalf by:

Jesmond Aquilina
Mayor


Karen Camilleri
Executive Secretary

The notes on pages 8 to 31 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2018

	Retained Funds
	€
At 1 January 2017	2,256,767
Profit for the year	100,947
	<u>100,947</u>
Total comprehensive income for the year	100,947
At 31 December 2017	2,357,714
	<u><u>2,357,714</u></u>
At 1 January 2018	2,357,714
Loss for the period	(575,626)
	<u>(575,626)</u>
Total comprehensive expense for the year	(575,626)
At 31 December 2018	1,782,088
	<u><u>1,782,088</u></u>

Statement of Cash Flows
for the year ended 31 December 2018

	2018		2017 <i>(as restated)</i>	
	€	€	€	€
Net (loss) / profit for the year	(575,626)		100,947	
Reconciliation to cash generated from operations:				
Depreciation	893,061		193,507	
Amortisation	176		-	
Loss on assets written-off	513		-	
Movement in Provision for Doubtful Debts	(5,436)		(4,622)	
Interest receivable	(137)		(121)	
Interest payable	4,054		4,534	
Operating profit before working capital changes	316,605		294,245	
(Increase) / Decrease in inventories	(2,522)		5	
Decrease in receivables	8,356		18,970	
Decrease / (increase) in other receivables	13,500		(13,003)	
Increase / (decrease) in payables	200,283		(3,083)	
(Decrease) / Increase in other payables	(167,133)		162,823	
Government grant released	(29,230)		(2,074)	
Cash generated from operating activities		339,859		457,883
Cash flow from Investing activities				
Interest received	137		121	
Purchase of intangible fixed assets	(1,153)		-	
Purchase of property, plant & equipment	(841,747)		(416,287)	
Receipt of grant	385,710		97,545	
Grant Forfitted	-		4,133	
Cash used in investing activities		(457,053)		(322,754)
Cash from financing activities				
New long term bank borrowings	198,000		3,627	
Bank interest paid	4,054		(3,627)	
Other interest paid	-		907	
Repayment of short term bank borrowings	(33,573)		(34,222)	
Increase in overdrawn bank current account	118,260		(46,334)	
Cash (used in)/generated from financing activities		286,741		(81,463)
Net Decrease in cash in the year		169,547		53,666
Cash at bank and in hand at beginning of year		496,454		442,788
Cash at bank and in hand at end of year		<u>666,001</u>		<u>496,454</u>

1. General Information

The Qormi Local Council is the local authority of Malta set up in accordance with the Local Councils Act(1993). The office of the Local Council is situated at 392, Victory Street, Qormi. These financial statements were approved for issue by the Council Members on 24 April 2019. The Local Council's presentation as well as functional currency are denominated in €.

2. Accounting Policies and Reporting Procedures

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

Accounting convention

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

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 revised standards that are effective for the current period

In the current year, the Council has applied IFR 9 Financial Instruments and the related consequential amendments to other International Financial Reporting Standards that are effective for periods that begin on or after 1 January 2018. IFRS 9 introduced new requirements for the classification and measurement of financial assets and introduced an 'expected credit loss' model for the impairment of financial assets.

There have been no changes to the classification, measurement or impairment of financial assets and liabilities as a result of the application of IFRS 9.

In the current year, the Council has applied IFRS 15 Revenue from Contracts with Customers which is effective for periods that begin on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition.

The application of IFRS 15 has not had an impact on the financial position and financial performance of the Council.

New and revised standards that are issued but not yet effective.

IFRS 16, 'Leases' introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised, with the exception of short-term and low-value leases. IFRS 16 will supersede the current lease guidance of IAS 17 and the related interpretations. The standard is mandatory for periods commencing on or after 1 January 2019.

At this stage the Council is still in the process of assessing and evaluating the impact of IFRS 16.

Intangible Fixed Assets

Computer Software

Computer software is stated at cost less accumulated depreciation and impairment losses to date. Amortisation to write off the cost is calculated on a monthly basis using the straight line method, at a rate calculated to write off the cost less residual value of each asset over its useful life, at 25% per annum.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Depreciation is calculated on a 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

Up to the year ended 31 December 2017, depreciation was calculated using the reducing balance method. The change in the depreciation method has been affected according to the instructions in the DLG Directive 1/2017.

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 company 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

The Council applies the simplified model of recognising lifetime expected credit losses for all trade receivable as these items do not have a significant component. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of comprehensive income on a straight-line basis over the period of the lease.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Amounts receivable

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

Related parties

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

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.

Revenue

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

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

Government grants

Government grants relating to operating expenditure are recognised 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 the year ended 31st December 2017, government grants were accounted for using the income approach according to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. On 1st January 2018, the capital approach, according to IAS 20, 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 IAS 8 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 profits that were realised at the date of the Statement of Financial Position are recognised in these financial statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the financial statements are approved.

Cash and equivalents

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

Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the Executive Secretary, the accounting estimates and judgements made in the preparation of the Financial Statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirements of IAS1 (revised) - 'Presentation of Financial Statements'.

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.

Financial instruments

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

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

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

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

Financial assets

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

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

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

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

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of 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'.

3. Funds received from central government

	2018	2017
	€	€
In terms of section 55 of the Local Councils Act	1,131,203	1,084,715
Supplementary Government Income	68,241	75,298
Other Government Income	69,483	50,842
	<u>1,268,927</u>	<u>1,210,855</u>

4. Income raised from Bye-Laws

	2018	2017
	€	€
Bye-Law - Advertising on Street Furniture	3,208	2,853
Bye-Law - Use of Facilities De La Cruz Garden	4,000	-
	<u>7,208</u>	<u>2,853</u>

5. Local Enforcement System

	2018	2017
	€	€
Contraventions and other fines	4,330	-
Administrative charges to Regional Committees	17,604	26,841
	<u>21,934</u>	<u>26,841</u>

6. General Income

	2018	2017
	€	€
Community Services	1,610	6,184
Sale of books and other merchandise	1,055	3
Tender Documents/Info. Charges	-	23
Media Advertising	35	-
Donations	2,000	-
Refund of expenses	26,997	48,240
Income from Permits	62,522	50,198
	<u>94,219</u>	<u>104,648</u>

7. Profit for the year

	2018	2017
	€	€
Profit for the year is stated after charging:		
Staff salaries	199,393	198,595
Depreciation of property, plant and equipment	893,061	193,508
Loss on assets written off	513	-
	<u>1,093,967</u>	<u>1,391,601</u>

Staff salaries

	2018	2017
	€	€
Mayor's Remuneration	14,927	14,468
Councillors' Allowances	13,600	13,734
Executive Secretary Salary and Allowances	32,337	34,131
Employees' Salaries	124,309	122,020
Social Security Contributions	14,220	14,242
	<u>199,393</u>	<u>198,595</u>

Average number of people employed

Employees	9	9
Mayor & Councillors	11	11

8. Operations and Maintenance	2018	2017
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	11,335	53,594
Signs	10,128	6,931
Road Markings	7,335	21,978
Office Furniture and Equipment	7,875	1,979
Other repairs and Upkeep	6,494	10,217
Council Property	1,484	695
	<u>44,651</u>	<u>95,394</u>
 <i>Contractual Services:</i>		
Waste Disposal	144,042	137,077
Refuse Collection	194,621	202,991
Bulky Refuse Collection	12,924	12,992
Bring-in Sites	1,392	930
Cleaning Services	1,900	1,271
Road & Street Cleaning	82,338	80,957
Cleaning & Maint. Non-Urban	7,692	7,513
Cleaning - Public Conveniences	17,807	17,959
Other Contractual Services	9,123	20,208
Clean. & Maint Parks & Gardens	77,890	69,004
Street Lighting	40,127	38,632
Studies & Consultations	13,398	2,885
Local Enforcement Expenses	1,347	1,227
	<u>604,601</u>	<u>593,646</u>
 Total Operations and Maintenance Costs	<u>649,252</u>	<u>689,040</u>

9. Administration and other expenditure

	2018	2017
	€	€
Utilities	13,288	13,761
Other repairs and upkeep	12,297	7,945
Rent	233	292
National and International Memberships	838	849
Office Services	16,629	5,636
Transport	5,548	4,626
Travel	1,291	4,263
Information Services	10,846	10,927
Insurance Coverage	4,879	4,036
Bank Charges	2,455	161
Penalties - Department of Local Councils	32	-
Professional Services	46,155	31,753
Training	6,667	11,123
Conference Expenses	925	1,091
Other Hospitality Costs	1,213	1,450
Social Events	64,814	17,112
Cultural Events	35,612	17,618
Community Services	1,997	28,876
Sundry Minor Expenses	1,495	1,797
Provision for Doubtful Debtors	(5,436)	(4,622)
Depreciation	893,061	193,508
	<u>1,114,839</u>	<u>352,202</u>

10. Finance Income

	2018	2017
	€	€
Bank Interest Receivable	137	121
	<u>137</u>	<u>121</u>

11. Finance Costs

	2018	2017
	€	€
Interest on Bank Loan	4,054	3,627
Interest charged by creditors	-	907
	<u>4,054</u>	<u>4,534</u>

12. Intangible fixed assets

	Computer Software €
Cost	
At 1 January 2018	-
Additions	1,153
At 31 December 2018	<u>1,153</u>
Amortisation	
At 1 January 2018	-
Charge for year	176
At 31 December 2018	<u>176</u>
Net book values	
At 31 December 2018	<u>977</u>

**Notes to the Financial Statements
for the year ended 31 December 2018**

13. Property, plant and equipment

	Property	Assets under construction	New Street Signs	Urban Improvements & Construction	Plant, machinery & equipment	Office Furniture & fittings	Motor vehicles	Special Programmes	Total
Cost	€	€	€	€	€	€	€	€	€
At 1 January 2017	532,368	49,558	70,658	2,880,376	134,364	109,613	15,500	3,547,139	7,339,576
Additions	-	167,078	-	220,459	8,545	613	-	19,592	416,287
Assets Capitalised	-	(1,200)	-	1,200	-	-	-	-	-
At 31 December 2017	<u>532,368</u>	<u>215,436</u>	<u>70,658</u>	<u>3,102,035</u>	<u>142,909</u>	<u>110,226</u>	<u>15,500</u>	<u>3,566,731</u>	<u>7,755,863</u>
Depreciation									
At 1 January 2017	32,404	-	70,658	1,839,623	109,793	58,371	2,043	1,695,857	3,808,749
Adjusted	-	-	-	(245,561)	(8,944)	-	-	(96,235)	(350,740)
Charge for the year	3,152	-	-	149,913	5,880	3,882	2,689	100,502	266,018
Adjusted	-	-	-	(43,512)	(959)	-	-	(28,040)	(72,511)
At 31 December 2017	<u>35,556</u>	<u>-</u>	<u>70,658</u>	<u>1,700,463</u>	<u>105,770</u>	<u>62,253</u>	<u>4,732</u>	<u>1,672,084</u>	<u>3,651,516</u>

Local Council Qormi

Notes to the Financial Statements
for the year ended 31 December 2018

Grants									
At 1 January 2017	-	-	-	(39,366)	-	-	-	(856,061)	(895,427)
Less government grants previously classified under income approach prior years	-	-	-	(616,805)	(13,613)	-	-	(352,340)	(982,758)
Less government grants previously classified under income approach current year	-	-	-	(84,772)	-	-	-	-	(84,772)
At 31 December 2017	-	-	-	(740,943)	(13,613)	-	-	(1,208,401)	(1,962,957)
Net book values									
At 31 December 2017	496,812	215,436	-	1,073,133	27,236	47,973	10,768	914,311	2,785,669
As Adjusted	496,812	215,436	-	660,629	23,526	47,973	10,768	686,246	2,141,390
Difference	-	-	-	412,504	3,710	-	-	228,065	644,279

Notes to the Financial Statements
for the year ended 31 December 2018

13. Property, plant and equipment

	Property	Assets under construction	New Street Signs	Urban Improvements & Construction	Plant, machinery & equipment	Office Furniture & fittings	Motor vehicles	Special Programmes	Total
Cost	€	€	€	€	€	€	€	€	€
At 1 January 2018	532,368	215,436	70,658	3,102,035	142,909	110,225	15,500	3,566,731	7,755,862
Additions	236,939	297,484	-	222,687	5,575	10,235	-	68,935	841,855
Assets capitalised	-	(378,409)	-	24,370	-	-	-	354,039	-
Disposals	-	-	-	-	(14,169)	-	-	-	(14,169)
At 31 December 2018	<u>769,307</u>	<u>134,511</u>	<u>70,658</u>	<u>3,349,092</u>	<u>134,315</u>	<u>120,460</u>	<u>15,500</u>	<u>3,989,705</u>	<u>8,583,548</u>
Depreciation									
At 1 January 2018	35,556	-	70,658	1,700,463	105,770	62,253	4,732	1,672,084	3,651,516
Charge for the year	3,852	-	-	405,750	15,584	17,302	3,282	447,291	893,061
Release on disposal	-	-	-	-	(13,656)	-	-	-	(13,656)
At 31 December 2018	<u>39,408</u>	<u>-</u>	<u>70,658</u>	<u>2,106,213</u>	<u>107,698</u>	<u>79,555</u>	<u>8,014</u>	<u>2,119,375</u>	<u>4,530,921</u>
Grants									
At 1 January 2018	-	-	-	740,943	13,613	-	-	1,208,401	1,962,957
Grants allocated to PPE during the year	-	-	-	50,000	-	-	-	80,924	130,924
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>790,943</u>	<u>13,613</u>	<u>-</u>	<u>-</u>	<u>1,289,325</u>	<u>2,093,881</u>
Net book values									
At 31 December 2018	<u>729,899</u>	<u>134,511</u>	<u>-</u>	<u>451,936</u>	<u>13,004</u>	<u>40,905</u>	<u>7,486</u>	<u>581,005</u>	<u>1,958,746</u>

14. Inventories

	2018	2017
	€	€
Souvenirs and similar merchandise	2,692	170
	<u>2,692</u>	<u>170</u>

15. Receivables

	2018	2017
	€	€
Receivables	10,622	18,122
LES Debtors	-	664
Other receivables	396	2,752
Accrued income	439,271	285,495
Financial assets	<u>450,289</u>	<u>307,033</u>
Other receivables	7,974	12,206
Prepayments	7,288	5,355
	<u>465,551</u>	<u>324,594</u>

Receivables

General receivables are analysed as follows:

	2018	2017
	€	€
Within credit period	3,171	5,264
Exceeded credit period but not impaired	18,607	24,014
Provision for doubtful debts	(11,156)	(11,156)
	<u>10,622</u>	<u>18,122</u>

Included in the receivables are debtors with a carrying amount of €7,451 (2017 : €12,855) which are past due at the reporting date for which the council has not provided as there has not been significant change in credit quality and the amounts are still considered recoverable. The age of financial assets past due but not impaired is as follows:

	2018	2017
	€	€
Not more than 3 months	4,928	4,974
More than 3 months but not more than 6 months	559	5,466
More than 6 months	1,964	2,415
	<u>7,451</u>	<u>12,855</u>

The movement in the provision for doubtful debts is as follows:

	2018	2017
	€	€
Balance at 1 January	606,811	611,433
Decrease in provision for LES debtors	(5,438)	(3,668)
(Decrease)/Increase in provision for general receivables	-	(954)
Balance at 31 December	<u>601,373</u>	<u>606,811</u>

Local Enforcement System (LES) Debtors

LES Debtors are stated after a specific provision for doubtful debts amounting to €590,218 (2017 - €595,654).

16. Cash at bank and in hand

	2018	2017
	€	€
Bank Balances	665,716	496,279
Cash in Hand	285	175
	<u>666,001</u>	<u>496,454</u>

17. Payables

	2018	2017
	€	€
Payables	290,809	90,526
Accruals	47,289	214,376
Financial liabilities	<u>338,098</u>	<u>304,902</u>
Other taxes and social security costs	-	578
Deferred Income Government Grants	547,247	160,153
Other Deferred Income	1,589	1,057
	<u>886,934</u>	<u>466,690</u>

18. Borrowings

		2018	2017
		€	€
Non-current			
Bank borrowings	<i>Note</i>	193,882	44,868
Current			
Overdrawn current bank account	<i>Note</i>	185,330	67,070
Bank borrowings	<i>Note</i>	45,733	26,265
		<u>231,063</u>	<u>93,335</u>
Borrowings			
Repayable between one and two years		45,733	26,265
Repayable between two and five years		82,940	44,868
Repayable in five years or more		110,941	-
		<u>239,614</u>	<u>71,133</u>

Overdrawn current bank account

The overdrawn balance is the result of accounting transactions for issued cheques not yet presented at year end and have been cashed on presentation after year end.

Bank loan

The first bank Loan is secured by a First General and Special Privilege Hypothec over townhouse numbered 390, 392, 394 and 396, Victory Street Qormi and other pledges on insurance policies. The loan bears interest at 4.0% per annum and is repayable by November 2020 by monthly instalments of €2,064.

The second bank loan is secured by a First General and Special Privilege Hypothec over garage 140, St.Edward Street, Qormi and other pledges on insurance policies. The loan bears interest at 4.75% per annum and is repayable by November 2026 by monthly instalments of €2,592.

19. Deferred income Government Grants	2018	2017
	€	€
Government grants		
At 1 January	160,153	667,457
Increase in year	547,247	231,811
Grants forfeited	-	20,250
	<u>707,400</u>	<u>879,018</u>
Capitalised / Released in year	(130,923)	(74,585)
Grant relating to revenue expenditure used during year	(29,230)	
Adjustment due to capital approach	-	(644,280)
At 31 December	<u>547,247</u>	<u>160,153</u>
Current Deferred Income	<u>547,247</u>	<u>160,153</u>
Non-Current Deferred Income	<u>-</u>	<u>-</u>

20. Capital commitments

	2018	2017
	€	€
Details of capital commitments at the accounting date are as follows:		
(i) Approved but not yet contracted for:		
Aquisition of property	236,939	232,050
Road Resurfacing & Special programmes	374,201	90,000
Urban Improvements	137,449	458,000
Construction	58,700	-
	<u>807,289</u>	<u>780,050</u>
(ii) Contracted for but not provided in the Financial Statements:		
Urban Improvements	142,438	-
	<u>142,438</u>	<u>-</u>
Government grants allocated to capital commitments:		
Road resurfacing and special programmes	547,247	-
	<u>547,247</u>	<u>-</u>

21. Contingent liabilities

As at 31 December 2018 the council had contingent liabilities in respect of four claims against it. The council is in a position to quantify the contingent liability of two claims.

One of the claims amounts to €453,123 (2017: €453,123), while the other is quantified as €180,975 (2017: €180,975). As regards the second claim, council has dismissed from legal proceedings but an appeal has been lodged by the aggrieved person. Both claims are being covered by insurance policies.

As at approval date of these financial statements, the council cannot quantify the contingent liability of the other two claims, however it is restricting such claims and no provision has been made in these financial statements in respect of these actions.

22. 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 Councils	Significant control
Central Joint Committee (Local Enforcement)	Joint Control
Northern Harbour District Joint Committee	Joint Control
South Regional Committee	Joint Control
Gozo Regional Committee	No control
North Regional Committee	No control
South Eastern Regional Committee	No control
Central Regional Committee	No control
Police General Head Quarters	No control
Local Councils' Association	No control
Local Enforcement System Agency	No control
Central Bank of Malta	No control
Malta Environment and Planning Authority	No control
Malta Communications Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Department of Inland Revenue	No control
Department of Information	No control
Department for Elderly and Community Care	No control
Commissioner for Data Protection	No control
Wasteserv Malta Limited	No control
Malta Information Technology Agency	No control
ARMS Ltd	No control
Ministry of Finance	No control
GAL - Foundation Local Action Group	No control
Maltapost plc	No control
Transport Malta	No control
Ministry of Transport and Infrastructure	No control
Malta Tourism Authority	No control
Malta Council for Science and Technology	No control
Water Services Corporation	No control

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

	2018	2017
	€	€
Annual Financial Allocation	1,131,203	1,084,715

Key management compensation

Transactions with key management personnel are disclosed in note 7.

23. Financial Risk Management

The Council's activities expose it to a variety of financial risks such as market risk, credit risk, liquidity risk and interest rate risk. The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Council's financial performance.

Credit risk

Financial assets which potentially subject the Council to concentrations of credit risk consist principally of cash at bank and 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 Council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period and is summarised as follows:

	2018	2017
	€	€
Classes of financial assets - carrying amounts		
Trade and other receivables	450,289	307,033
Cash and cash equivalents	666,001	496,454
	<u>1,116,290</u>	<u>803,487</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 in bank and in hand the amount of € 666,001. 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 € 1,782,088 ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

At 31 December 2018 the council's financial liabilities have contractual maturities which are summarised below:

31 December 2018

	Current within 1 year	Non-current 1 to 5 years	later than 5 years
	€	€	€
Payables	290,809	-	-
Accruals	47,289	-	-
Bank loan	<u>45,733</u>	<u>124,285</u>	<u>69,597</u>

This compares to the maturity of the council's financial liabilities in the previous reporting period as follows:

31 December 2017

	Current within 1 year €	Non-current 1 to 5 years €	later than 5 years €
Payables	90,526	-	-
Accruals	214,376	-	-
Bank loan	26,265	44,868	-
	<u> </u>	<u> </u>	<u> </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 currencies.

Interest rate risk

Interest rate risk mainly arises through interest bearing liabilities and assets. The objective of interest rate risk management is to optimise the balance between minimizing uncertainty caused by fluctuations in interest rates and maximizing the net interest income and expense.

24. Summary of financial assets and liabilities

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

	2018	2017
	€	€
Current assets		
Loans and receivables:		
Trade and other receivables	450,289	307,033
Cash and cash equivalents	666,001	496,454
	<u>1,116,290</u>	<u>803,487</u>
Non-current liabilities		
Financial liabilities measured at amortised costs		
Bank loan	193,882	44,868
	<u>193,882</u>	<u>44,868</u>
Current liabilities		
Financial liabilities measured at amortised cost:		
Bank loan	45,733	26,265
Payables	290,809	90,526
Accruals	47,290	214,376
	<u>383,832</u>	<u>331,167</u>

25. Fair values estimation

The nominal values less estimated credit adjustments of receivables and payables are assumed to approximate their fair values, otherwise, these have been adjusted to approximate their fair values.

26. Going Concern

The Statement of Financial Position on page 5 and the notes thereto, with special reference to capital commitments, suggest that the going concern assumption used in the preparation of these financial statements is dependent on further sources of funds other than the annual financial allocation by Central Government, on the collection of debts due to the Council and on the continued support of the Council's creditors. Any adverse change in either of these assumptions above, would not let the Council able to meet its financial obligations as they fall due without curtailing its future commitments.

27. Prior year Comparative amounts

Comparativ amounts have been changed to reflect the change in accounting policy for Government grants from income approach to capital approach and be consistent with current year's presentation. Profit or Loss and Financial Position line items were adjusted as follows respectively:

	<i>As reported in 2017 Audit</i>	<i>Adjustment to reflect change in Accounting Policy</i>	<i>As restated in 2018 Audit</i>
	€	€	€
Income			
Funds received from Central Government	1,283,367	(72,512)	1,210,855
Other Government income	123,354	(72,512)	50,842
Expenditure			
Administration and other expenditure	424,714	(72,512)	352,202
Depreciation	266,019	(72,512)	193,507
	<i>As reported in 2017 Audit</i>	<i>Adjustment to reflect change in Accounting Policy</i>	<i>As restated in 2018 Audit</i>
	€	€	€
Non-current assets			
Property, plant and equipment	2,785,669	(644,280)	2,141,389
Non-current liabilities			
Deferred income	723,339	(723,339)	-
Current liabilities			
Payables	387,631	79,059	466,690
Deferred income	82,151	79,059	161,210