



L-Imnsida Local Council

Annual Report and Financial Statements
31 December 2019

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Statement of Local Council Members' and Executive Secretary's Responsibilities

The Local Councils (Financial) Regulations 1993 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 the 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 year and its retained funds as at the year end, and that they comply with the Act, the Local Council (Financial) Regulations, 1993 and the Local Council (Financial) Procedures, 1996.

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 1993, and the Local Council (Financial) Procedures 1996. The Executive Secretary is also responsible for safeguarding the assets of the 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 28 May 2020 and signed on its behalf by:

Margaret Baldacchino Cefai
Mayor

Alan Vella
Executive Secretary

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2019	2018
		€	€
Income			
Funds received from central government	3	633,404	635,209
Income raised under Local Enforcement System	6	8,941	12,665
General Income	7	92,184	39,916
Income from Bye Law	8	53,428	74,451
		<u>787,957</u>	<u>762,241</u>
Expenditure			
Personal emoluments	9	166,428	169,745
Operations and Maintenance	10	391,546	381,871
Administrative and other Expenditure	11	124,403	236,196
		<u>682,377</u>	<u>787,812</u>
Operating surplus/(deficit) for the year		105,580	(25,571)
Finance Cost	4	(3,284)	(4,394)
Interest Income	5	26	40
Surplus/(Deficit) for the year		102,322	(29,925)

The notes on pages 6 to 30 form an integral part of these financial statements

Statement of Financial Position

	Notes	2019	2018
		€	€
ASSETS			
Non-current assets			
Intangible asset	12	3,506	3,556
Property, plant and equipment	13	457,725	503,160
Right of use asset	24	55,719	-
		516,950	506,716
Current assets			
Receivables	14	138,550	73,503
Cash and cash equivalents	15	333,515	266,688
		472,065	340,191
Total Assets		989,015	846,907
Reserves			
Retained Fund		686,043	583,721
Non-current Liabilities			
Long-term borrowings	16	56,775	77,819
Deferred Income	17	20,460	-
Payables	18	52,422	5,727
		129,657	83,546
Current Liabilities			
Short-term borrowings	16	20,949	20,172
Payables	17	152,366	159,468
		173,315	179,640
Total Liabilities		302,972	263,186
Total Reserves and Liabilities		989,015	846,907

These financial statements were approved by the Local Council on the 28 May 2020 and are signed on its behalf by:


Margaret Baldacchino Cefai
Mayor


Alan Vella
Executive Secretary

The notes on pages 6 to 30 form an integral part of these financial statements

Statement of Changes in Equity

	Retained Earnings €
Balance at 1 January 2018	613,646
Total comprehensive expenditure for the year	(29,925)
Balance at 31 December 2018	<u>583,721</u>
Balance at 1 January 2019	583,721
Total comprehensive income for the year	102,322
Balance at 31 December 2019	<u>686,043</u>

The notes on pages 6 to 30 form an integral part of these financial statements

Statement of Cash Flows

Notes	2019	2018
	€	€
Cash flows from operating activities		
Surplus/Deficit) for the year	102,322	(29,925)
Adjustments for:		
Depreciation	61,899	173,285
Depreciation on Right of use asset	3,095	-
Amortisation charge	1,297	1,069
Provision for bad debts	(7,622)	(8,154)
Bad Debts written off	8,164	2,258
Investment income receivable	(26)	(40)
Interest payable	3,284	4,394
	<hr/>	<hr/>
Surplus for the period before working capital movements	172,413	142,887
(Increase) in receivables	(59,817)	(14,377)
Increase in payables	5,132	61,580
Grants recognized in income	0	(16,500)
	<hr/>	<hr/>
Net cash generated from operating activities	117,728	173,590
	<hr/>	<hr/>
Cash flows used in investing activities		
Investment income receivable	26	40
Payment to acquire property, plant and equipment	(46,299)	(100,527)
Payment to acquire intangible asset	(531)	(3,622)
	<hr/>	<hr/>
Net cash (used in) investing activities	(46,804)	(104,109)
	<hr/>	<hr/>
Cash flows used in financing activities		
Grants received	30,352	2,839
Lease repayments	(4,193)	-
Repayment of bank borrowings	(20,267)	(21,119)
Interest paid	(3,284)	(4,394)
	<hr/>	<hr/>
Net cash generated from/(used in) financing activities	2,608	(22,674)
	<hr/>	<hr/>
Movement in cash and cash equivalents	73,532	46,807
	<hr/>	<hr/>
Cash and cash equivalents at the beginning of the year	259,983	213,176
Cash and cash equivalents at the end of the year	333,515	259,983

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**Notes to the Financial Statements
For the year ended 31 December 2019****1. Statutory Information**

L-Imsida Local Council is the local authority of I-Imsida setup in accordance with the Local Councils Act. The Office of the Local Council is situated at Civic Centre, Pjazza Menqa, I-Imsida.

2. Accounting policies

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

a. Basis of preparation

These financial statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act (Cap 363). The financial statements are prepared under the historical cost convention, as modified to include fair values stated in the accounting policies below.

These financial statements are prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and comply with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996.

b. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

However, in the opinion of the Council members, there are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

2. Accounting policies - continued**c. Application of new and revised international Financial Reporting Standards (IFRSs)****- IFRS 16 – Leases – effective 1 January 2019**

At the simplest level, the accounting treatment of leases by lessees changed fundamentally. IFRS 16 eliminated the current dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Instead, a single, on-balance sheet accounting model has been created that is similar to current finance lease accounting.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

For lessees, the lease became an on-balance sheet liability that attracts interest, together with a new asset on the other side of the statement of financial position. In other words, lessees will appear to become more asset-rich but also more heavily indebted.

The impacts are not limited to the statement of financial position. There are also changes in accounting over the life of the lease. In particular, councils will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals.

The lease in question refers to the site at Misrah il-Menqa, L-Imsida, that is used as office premises.

The Council chose the Modified Retrospective Approach. The Lease liability at the date of initial application was calculated at the present value of the remaining lease payments based on the Council's incremental borrowing rate of 3.65% over the remaining lease term. The lease is for a period of 15 years, as from January 2008. The lease is renewable for a further period of 15 years. The Right-of-use of Asset was created and valued at €58,814. The Annual Depreciation on a straight-line basis over the remaining lease term works out at €3,095 p.a. (Refer to Note 24).

- Annual Improvements to IFRS Standards 2015 – 2017 Cycle

- IFRS 3 & 11: remeasurement requirements on acquisition of control of Joint Venture, and change in Joint Venture status

The application of these amendments did not have a material effect on the Local Council's financial statements.

2. Accounting policies – continued

Standards, interpretations and amendments to published standards as adopted by the EU that are not yet effective for financial periods beginning on 1 January 2019

- Amendments to References to the Conceptual Framework in IFRS Standards – *effective 1 January 2020*

The revised *Conceptual Framework* includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of an asset and a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The Council members are of the opinion that these amendments will not have a material impact on the financial statements of the Regional Council.

- Amendments to IAS 1 and IAS 8 Definition of Material – *effective 1 January 2020*

In October 2018, the IASB issued amendments to IAS 1 Financial Statement Presentation and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to clarify the definition of 'material' in the context of applying IFRS. As the concept of what is and is not material is crucial in preparing financial statements in accordance with IFRS, a change in definition may fundamentally affect how preparers make judgements in preparing financial statements.

These amendments are a component of the IASB's 'Disclosure Initiative' project, which is intended to simplify financial statements and increase their usability.

The new definition changes the "bar" at which the definition is applied. The previous definition used the term "could" in the context of whether users are potentially affected, which has been interpreted broadly. The revised definition adjusts this to use the terminology "could reasonably be expected", which adds the element of reasonability, rather than any potential effect on users.

The revised definition also narrows the definition of those who may be affected from the previous term of "users" to "primary users", which further narrows the view of what may be material in a given circumstance.

Finally, the revised definition adds the concept that obscuring information may also be relevant in determining whether an element is material to primary users. For example, disclosure of a significant subsequent event would generally receive more prominence in the order in which it is presented in financial statements than insignificant disclosures. The Council members are of the opinion that these amendments will not have a material impact on the financial statements of the Council.

2. Accounting policies - continued

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – *effective 1 January 2020*

The IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide certain reliefs in connection with interest benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

The amendment requires disclosure of the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process.

The Council members are of the opinion that these amendments will not have a material impact on the financial statements of the Council.

d. Standards, interpretations and amendments issued by the International Accounting Standards Board (IASB) but not yet adopted by the European Union:

- Amendment to IFRS 3 Business Combinations

The Regional Council members are assessing the impact that the adoption of these Financial Reporting Standards will have in the financial statements of the Regional Council in the period of initial application.

2.1 Significant accounting policies

The principal accounting policies and reporting procedures used by the Council are as follows:

e. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Imsida Local Council and the revenue can be reliably measured, regardless of when the payment is received.

Revenue is recognised upon transfer of funds from the Central Government when there are no significant uncertainties concerning the derivation of consideration or associated costs.

Interest income is recognised in the income statement as it accrued under finance income.

f. Functional and presentation currency

Items included in the Local Council's financial statements are measured using the currency of the primary economic environment in which the entity operates. The Local Council's financial statements are presented in Euro, which is the Local Council's functional currency.

g. Local Enforcement System

The Msida Local Council forms part of the Regjun Centru. On 1st September 2011, all LES funds were diverted to five regions. With effect from 1st September 2011, the only income attributable to the Council is commission income based on the value of contraventions paid at Msida Local Council. In line with Memo issued from the Department for Local Government dated 30th September 2015, the LES operations started gradually being phased out from the Regional Committee towards the Local Enforcement System Agency (LESA) with effect from 1st October 2015, until December 2015.

Prior to 1st September 2011, the Msida Local Council formed part of the Central Joint Committee. The amount disclosed in the financial statements under Local Enforcement Income represents the share of profit derived from the Joint Committee after deducting the related expenses, which is accounted for on a cash basis, and the administrative charges to Regional Committees.

h. Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Computer Software

Computer software is valued at cost less accumulated amortisation and impairment losses to date. Amortisation to write off the cost is calculated on a monthly basis using the straight-line method. Due to the change in accounting policy relating to the depreciation method, the estimated useful life ranges between one to four years.

i. Impairment of assets*Impairment of Financial Assets*

The Local Council assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Council applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment of Non-Financial Assets

Assets are tested 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets are reviewed for possible reversal of the impairment at the end of each reporting period.

2. Accounting policies - continued**j. Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on a monthly basis using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

• Land	0%
• Trees	0%
• Buildings	1%
• Office furniture and fittings	7.5%-100%
• Construction works	10%-100%
• Urban Improvements (Street Furniture)	10%-100%
• Special Projects	10%-100%
• Office Equipment	20%-100%
• Motor Vehicles	20%-46%
• Plant and Machinery	20%-100%
• Plants	100%
• Computer Equipment	25%-100%
• Litter Bins	Replacement Basis
• Traffic and Road Signs	Replacement Basis
• Street Mirrors	Replacement Basis
• Street Lights	100%
• Playground Furniture	100%

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the 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 recognized 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 Profit or Loss and Other Comprehensive Income during the financial year in which they are incurred.

k. Amounts receivable

Amounts receivable are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Amounts receivable are carried at original invoice amount less provisions made for impairment of these receivables. A provision for impairment of amount receivables is established when there is objective evidence that the Local Council will not be able to collect all amounts due according to the set original terms. The amount of provision is recognised in the Statement of Comprehensive Income. Bad debts are written off during the year in which they are identified.

2. Accounting policies - continued**i. Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at face value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

m. Profits and losses

Only profits that were realized at the date of the Statement of Financial Position are recognized 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.

n. Trade and other payables

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

o. Provisions

Provisions are recognised when the Local Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

p. Leases

Assets held under a lease agreement are recognised as assets of the Council (representing the right to use the leased item for the lease term) at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a lease liability (representing the obligation to pay rentals). Lessees initially recognize a right-of-use asset and lease liability based on the discounted payments required under the lease, taking into account the lease term as determined under the new standard. Lease liabilities are measured with reference to an estimate of the lease term, which includes optional lease periods when an entity is reasonably certain to exercise an option to extend (or not to terminate) a lease. Lessees reassess the lease term only upon the occurrence of a significant event or a significant change in circumstances that are within the control of the lessee. Exemptions exist for short term and low value leases.

2. Accounting policies - continued**q. 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 (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income 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 from the end of the reporting period.

r. 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'). 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.

s. 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 transaction costs. They are measured subsequently as described below.

t. 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 as described below. The Council applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, the results of which were not considered to be material.

2. Accounting policies - continued**t. Financial assets - continued**

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 rate 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 considerable to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counter party 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.

u. Financial liabilities

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

All interest-related charges are included within finance costs.

v. Related parties

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

w. 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. Government grants that are related specifically to non-capital expenditures are recognised immediately in the Statement of Comprehensive Income.

2. Accounting policies - continued**x. 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. Except for the issues highlighted in note 2.2 below, the Council is of the opinion that 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'.

2.2. Judgements in applying accounting policies and key sources of estimating uncertainty

In preparing these Financial Statements, the Local Council has made judgements and estimates that affect the application of accounting policies and that can significantly affect the amounts recognised.

Judgements and estimates in relation to lessee accounting under IAS 17 became obsolete with the initial application of IFRS 16 'Leases' as of 1 January 2019. Any new judgements and estimates with regards to IFRS 16 Leases that warrant additional disclosures in terms of IAS 1 as outlined in Note 24.

3. Funds Received from Central Government

	2019 €	2018 €
In terms of Section 55 of the Local Councils Act (Cap 363)	626,196	593,666
Other supplementary income	6,608	41,543
Other government income	600	0
	<u>633,404</u>	<u>635,209</u>

4. Finance cost

	2019 €	2018 €
Bank interest payable	<u>3,284</u>	<u>4,394</u>

5. Investment income

	2019 €	2018 €
Bank interest receivable	<u>26</u>	<u>40</u>

6. Local Enforcement System

	2019 €	2018 €
Administrative charges to Regional Committees	7,844	9,462
Contraventions	1,097	3,203
	<u>8,941</u>	<u>12,665</u>

7. General income

	2019 €	2018 €
Advertising	3,138	3,673
Rental Income	20,000	10,000
Administrative Committee	1,906	14,294
Other income	67,140	11,949
	<u>92,184</u>	<u>39,916</u>

8. Income from bye law

	2019 €	2018 €
Income from permits	<u>53,428</u>	<u>74,451</u>

9. Personal Emoluments

	2019 €	2018 €
Mayor's allowance	13,623	11,196
Executive Secretary and allowances	35,033	33,661
Employees' salaries	91,629	101,431
Social Security Contributions	10,530	12,514
Councillors' allowances	15,613	10,943
	<u>166,428</u>	<u>169,745</u>

Average number of people employed

Employees	5	5
Mayor and Councillors	<u>7</u>	<u>7</u>

10. Operations and Maintenance

	2019 €	2018 €
Repairs and Upkeep:		
Patching works	2,597	1,634
Operating materials and supplies	5,465	5,237
Road and street pavements	(2,530)	10,344
Road signs and markings	12,759	11,513
Council property	3,338	18,619
Office furniture and equipment	4,699	1,363
Bins	8,163	3,391
Sundry repairs	7,355	3,653
	<u>41,846</u>	<u>55,754</u>

10. Operations and Maintenance - continued

	2019	2018
	€	€
Contractual Services:		
Refuse collection (including bins on wheels)	136,943	112,550
Waste disposal	68,507	72,224
Bulky refuse collection (including open skips)	23,829	21,657
Road and street cleaning (mechanical and manual)	36,502	57,301
Cleaning and Maintenance of Public Conveniences	7,914	7,858
Cleaning and Maintenance of Parks and Gardens	24,242	19,011
Cleaning Council Premises	16,244	6,914
LES related expenditure	2,697	4,366
Lease of equipment	-	120
Contract Management Services	3,788	5,272
Street Lighting and security	26,610	18,844
Other Contractual service	2,424	-
	<u>349,700</u>	<u>326,117</u>
	<u>391,546</u>	<u>381,871</u>

11. Administrative and other expenditure

	2019	2018
	€	€
Water and Electricity	4,397	4,829
Telecommunications	2,791	3,392
Rent	116	4,309
Accountancy services	3,953	3,540
Advertising and public relations expenses	5,979	2,502
Office services	254	2,394
Transport	3,683	4,652
Travel	-	195
Conference and participation expenses	987	812
Documentation	25	225
Insurance	3,614	3,454
Late payment interest	-	1,883
Engineering services	1,300	2,678
Other support service	3,348	6,739
Postages	133	126
Printing and stationery	7,363	5,541
Community services	18,862	19,327
Uniforms	406	83
Bank charges	40	34
Depreciation	61,899	173,285
Depreciation of right of use asset	3,095	-
Amortisation charge	1,297	1,069
Provision for bad debts	(7,622)	(8,154)
Bad debts written off	8,164	2,258
Sundry minor expenses	319	1,023
	<u>124,403</u>	<u>236,196</u>

12. Intangible asset

	Computer Software €
At 1 January 2018	
Cost	6,533
Accumulated amortisation	(5,530)
Net book amount	<u>1,003</u>
Movements for the year ended 31 December 2018	
Opening net book amount	1,003
Additions	3,622
Amortisation charge	(1,069)
Closing net book amount	<u>3,556</u>
At 31 December 2018	
Cost	10,155
Accumulated amortisation	(6,599)
Net book amount	<u>3,556</u>
Movements for the year ended 31 December 2019	
Opening net book amount	3,556
Additions	531
Reclassification from PPE (note 13a)	716
Amortisation charge	(1,297)
Closing net book amount	<u>3,506</u>
At 31 December 2019	
Cost	11,402
Accumulated amortisation	(7,896)
Net book amount	<u>3,506</u>

Amortisation of €1,297 (2018: €1,069) is included in administrative expenses.

13a. Property, plant and equipment

	Trees €	Office Furniture & Fittings €	Computer & Office Equipment €	Urban Improvements €	Plant & Machinery €	Motor Vehicles €	Street Signs, Mirrors & Lights €	Construction Works €	Building €	Assets not yet utilised €	Total €
Cost											
At 1st January 2019	20,417	81,168	55,206	202,345	3,198	13,860	51,284	1,939,085	467,057	12,689	2,846,329
Additions	0	2,633	2,400	0	0	0	916	21,745	5,189	1,961	34,844
Reclassified to intangibles	0	0	(716)	0	0	0	0	0	0	0	(716)
Credit on past additions	0	0	0	0	0	0	0	(2,000)	0	0	(2,000)
At 31st December 2019	20,417	83,821	56,890	202,345	3,198	13,860	52,200	1,958,830	472,246	14,650	2,878,457
Grants											
At 1st January 2019	6,690	28,411	2,300	34,273	0	0	0	1,249,699	0	0	1,321,373
Additions	0	0	0	0	0	0	0	17,120	0	0	17,120
Grants reversed	0	0	0	0	0	0	0	(1,456)	0	0	(1,456)
At 31st December 2019	6,690	28,411	2,300	34,273	0	0	0	1,265,363	0	0	1,337,037
Depreciation											
At 1st January 2019	0	33,075	43,307	160,061	2,826	13,860	51,284	577,993	139,390	0	1,021,796
Charge for the year	0	3,308	3,383	7,182	80	0	0	30,542	17,404	0	61,899
At 31st December 2019	0	36,383	46,690	167,243	2,906	13,860	51,284	608,535	156,794	0	1,083,695
Net Book Value											
At 31st December 2019	13,727	19,027	7,900	829	292	0	916	84,932	315,452	14,650	457,725

13b. Property, plant and equipment

	Trees €	Office Furniture & Fittings €	Computer & Office Equipment €	Urban Improvements €	Plant & Machinery €	Motor Vehicles €	Street Signs, Mirrors & Lights €	Construction Works €	Building €	Assets not yet utilised €	Total €
Cost											
At 1st January 2018	20,417	72,169	46,257	186,327	2,798	13,860	50,505	1,892,140	467,057	0	2,751,530
Additions	0	9,019	8,949	16,018	400	0	779	46,945	0	12,689	94,799
At 31st December 2018	20,417	81,188	55,206	202,345	3,198	13,860	51,284	1,939,085	467,057	12,689	2,846,329
Grants											
At 1st January 2018	6,690	28,411	2,300	25,538	0	0	0	1,204,957	0	0	1,267,896
Additions	0	0	0	8,735	0	0	0	44,742	0	0	53,477
At 31st December 2018	6,690	28,411	2,300	34,273	0	0	0	1,249,699	0	0	1,321,373
Depreciation											
At 1st January 2018	0	25,685	37,562	125,408	1,978	12,689	50,445	472,600	122,144	0	848,511
Charge for the year	0	7,390	5,745	34,653	848	1,171	839	105,393	17,246	0	173,285
At 31st December 2018	0	33,075	43,307	160,061	2,826	13,860	51,284	577,993	139,390	0	1,021,796
Net Book Value											
At 31st December 2018	13,727	19,702	9,599	8,011	372	0	0	111,393	327,667	12,689	503,160

14. Receivables

	2019 €	2018 €
Receivables	79,442	29,133
Provision for doubtful debts	0	(7,622)
Other receivables	32,755	1,042
Accrued income	22,874	46,896
Financial assets	135,071	69,449
Prepayments	3,479	4,054
	138,550	73,503

The total financial assets for the year amounted to €135,071 (2018: €69,449).

The average credit period on sales of services is 60 days. Receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the company has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

	2019 €	2018 €
Age of receivables that are past due but not impaired		
60-90 days	61,188	5,558
91-120 days	2,743	15,953
More than 120 days	15,511	7,622
Total	79,442	29,133

In determining the recoverability of a receivable, the Local Council considers any change in the credit quality of the receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. The impairment loss on receivables is included in administrative expenses in the statement of comprehensive income.

15. Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following amounts in the Local Council Statement of Financial Position:

	2019 €	2018 €
Petty Cash	260	230
Bank balances:		
Current	60,486	135,948
Savings	270,495	126,412
Cash in hand	2,274	4,098
Cash and Cash Equivalents in Statement of Financial Position	<u>333,515</u>	266,688
Less Bank Balance Overdrawn	0	(6,705)
Cash and Cash Equivalents in Statement of Cash Flows	<u>333,515</u>	<u>259,983</u>

16. Borrowings

	2019 €	2018 €
Non-Current Liabilities		
Long-term Bank borrowings	<u>56,775</u>	<u>77,819</u>
Current Liabilities		
Bank borrowings	<u>20,949</u>	<u>20,172</u>
Borrowings		
Repayable between one and two years	21,762	20,945
Repayable between two and five years	35,013	56,874
	<u>56,775</u>	<u>77,819</u>

The bank loan is secured by channelling through account of all and any funds which are received by the council from the Government of Malta. The loan bears interest at MIBOR plus 1.5% per annum (3.65%) (2018: 3.65%) and is repayable by monthly instalments of €1,962.50 (2018: €1,962.50) inclusive of interest and will be cleared within 20 years from drawdown, ie 30/05/2027.

17. Deferred Income

	2019 €	2018 €
At Beginning of year	0	54,890
Increase in period	<u>20,460</u>	<u>15,087</u>
	20,460	69,977
Adoption of Capital Approach	0	(53,477)
Recognised in income	<u>0</u>	<u>(16,500)</u>
	<u>20,460</u>	<u>0</u>

18. Payables

	2019 €	2018 €
Bank Balance Overdrawn	0	6,705
Payables	98,251	120,643
Other payables	5,359	3,495
Accruals	26,557	28,625
Lease liabilities (note 24)	2,199	0
Deferred rental income	20,000	0
	<u>152,366</u>	<u>159,468</u>

The total financial liabilities for the year are disclosed in note 22.

Payables due after more than one year

	2019 €	2018 €
Lease liabilities (note 24)	52,422	-
Payables (PPP Scheme)	-	5,727
	<u>52,422</u>	<u>5,727</u>

19. Contingent liabilities

At 31 December 2019, the Council had a guarantee facility of €1,100 and garnishee order of €1,470.84. There were also two pending claims against Msida Local Council regarding damages to tires, the amount of which does not exceed €500.

20. Related party transactions

During the year, the Local Council had affected transactions with related parties resulting mainly in connection with income and administrative transactions, are disclosed in notes 3 and 11 to these financial statements. The following were the related parties:

Name of Entity	Nature of relationship
Department of Local Councils	Significant Control
Gozo Regional Committee	No Control
Central Regional Committee	No Control
North Regional Committee	Joint Control
South Regional Committee	No Control
South Eastern Regional Committee	No Control
Local Enforcement Systems Agency	No Control
ARMS Ltd	No Control
Commissioner of Data Protection	No Control
Department of Information	No Control
Ministry of Finance	No Control
Police General Head Quarters	No Control
Malta Environment and Planning Authority	No Control
Water Services Corporation	No Control
Enemalta Corporation	No Control
Cleansing Directorate	No Control
Department of Lands	No Control
Wasteserv Malta Limited	No Control
Bank of Valletta plc	No Control
Department of Lands	No Control
Local Councils' Association	No Control
Central Bank of Malta	No Control
Department of Inland Revenue	No Control
Ministry for Justice, Culture and Local Government	No Control

20. Related party transactions – continued

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

	2019 €	2018 €
(a) Funds received from Local Government	626,196	593,666

Key management compensation

The Mayor, Councillors and Executive Secretary of the Council make up the Key Management Personnel. Total remuneration paid to them amounts to € 66,689 (2018: €58,216).

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, the Council also receives funds relating to specific projects as well as other funds for the improvement of the locality.

21. 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:

	2019 €	2018 €
Classes of financial assets – carrying amounts		
Trade and other receivables	135,071	69,449
Cash and cash equivalents	333,515	266,688
	468,586	336,137

21. Financial risk management – continued***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 €333,515. 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 €169,093 ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

At 31 December 2019 the council's financial liabilities have contractual maturities which are summarised below:

At 31 December 2019

	Current Within 1 year €	Non-current 1 to 5 years €	Later than 5 years €
Payables	103,610	-	-
Borrowings	20,949	56,775	-
Accruals	26,557	-	-
Lease liabilities	2,199	9,629	42,793

21. Financial risk management – continued

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

At 31 December 2018

	Current Within 1 year €	Non-current 1 to 5 years €	Later than 5 years €
Payables	124,138	5,727	-
Bank Balance overdrawn	6,705	-	-
Borrowings	20,172	77,819	-
Accruals	28,625	-	-

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 objectives 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.

22. 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:

	2019 €	2018 €
Current assets		
Loans and receivables:		
Trade and other receivables	135,071	69,449
Cash and cash equivalents	333,515	266,688
	<u>468,586</u>	<u>336,137</u>
Current liabilities		
Financial liabilities measured at amortised costs:		
Payables	103,610	124,138
Bank balance overdrawn	0	6,705
Borrowings	20,949	20,172
Accruals	26,557	28,625
Lease liabilities	2,199	0
	<u>153,315</u>	<u>179,640</u>
Non-Current liabilities		
Financial liabilities measured at amortised costs:		
Long-term Borrowings	56,775	77,819
Payables	0	5,727
Lease liabilities	52,422	0
	<u>109,197</u>	<u>83,546</u>

23. 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.

24. Adoption of IFRS 16

	€
Right of use Asset	
Cost 1 January 2019	
Initial application of IFRS 16	58,814
Accumulated Depreciation	
Initial application of IFRS 16	0
Charge for the year	<u>3,095</u>
	3,095
Net Book Value 31 December 2019	55,719

The below table shows the right-of-use assets and corresponding lease liabilities recognised as at 1 January 2019 and as at 31 December 2019. All recognised right-of-use assets relate to the site at Misrah il-Menqa, L-Imsida, that is used as office premises.

	31 December 2019 €	1 January 2019 €
Right-of-use asset	55,719	58,814
Lease liabilities:	54,621	58,814
Of which are:		
Current lease liabilities	2,199	4,193
Non-current lease liabilities	52,422	54,621
Maturity Analysis		
Less than one year	2,199	4,193
One to five years	9,629	9,290
More than five years	42,793	45,331

25. Capital commitments**Capital expenditure**

Commitments for capital expenditure not provided for in these financial statements are as follows:

	2019 €	2018 €
Contracted but not provided for	-	-
Authorised but not contracted	<u>62,395</u>	<u>1,447,987</u>

These commitments for capital expenditure will be financed out of the reserved funds.

Financial statements for the year ended 31 December 2019

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 Msida Local Council which comprise the statement of financial position as at 31 December 2019, 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 notes.

In our opinion, except for the effects of the matters described in the Basis for Qualified section of our report, the accompanying financial statements give a true and fair view of the financial position of Msida Local Council as of 31 December 2019 and of the results of its operations, changes in net assets/equity and its cash flows for the period then ended in accordance with the accounting policies set out on pages 6 to 15.

These financial statements comply in all material respect with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 and because of the matters set out in paragraph 1 and 2 below, these financial do not comply with the requirements of International Financial Reporting Standards as adopted by the E.U.

Basis for Qualified Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Council in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements 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.

1. The information disclosed in note 2 in relation to new standards adopted by the council and other standards in issue but not yet effective does not capture all the changes and related impacts since 31 December 2018 and as such, does not meet the requirements on IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Financial statements for the year ended 31 December 2019

Report of the Local Government auditor to the Auditor General (continued)

Basis for Qualified Opinion (continued)

2. Whereas the Council adopted IFRS 9, we were not provided with an assessment of the impact of adoption of the Expected Credit Loss model to impair the Financial Assets of the Council. The financial statements also lack disclosure on the methodology used and impact that this model had on the financial assets that amount to EUR468,586 at 31 December 2019.

Other Information

The Councillors and the Executive Secretary are responsible for the other information. The other information comprises the Statement of Local Council Members' and Executive Secretary's Responsibility. Our opinion on the financial statements does not cover this information. In connection with our audit of the financial statements, our responsibility is to read the other information 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.

Responsibilities of the Local Council Members' and Executive Secretary

The Councillors and the Executive Secretary are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS as adopted by the E.U. and for such internal control as the Councillors and Executive Secretary 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 Councillors and the Executive Secretary are 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 Councillors and the Executive Secretary has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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



Financial statements for the year ended 31 December 2019

Report of the Local Government auditor to the Auditor General (continued)


Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

We communicate with the Councillors and the Executive Secretary 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

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards as adopted by the E.U, and the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996. In view of the matters set out under the Basis for Qualified Opinion section of this report, these financial statements have not been prepared in line with these requirements.



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

Mazars Malta
Certified Public Accountants
Attard,
Malta
28 May 2020

