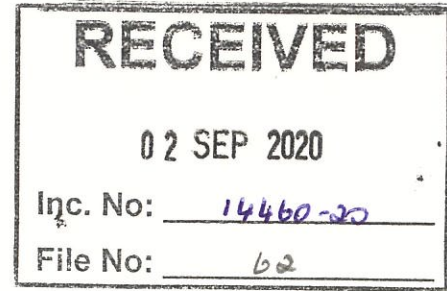


The Mayor,
San Giljan Local Council,
Triq Forrest,
San Giljan



6 August 2020

Financial Statements for the period ended 31 December 2019

During the course of our audit for the year ended 31 December 2019, we have reviewed the accounting system and procedures operated by the Council. We have also reviewed the operations of the Council and how they conform to the Local Council Act 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Income

The situation with the Joint Committee share of profits remains unchanged from previous periods (refer to note 2.1). Similar to last year, we identified issues with recognition of accrued income (refer to notes 2.3 and 2.6 – 2.9) and a similar issue with funds received from the Central Region (refer to note 2.4).

1.2 Grants

In view of the adoption of the capital approach and the lack of development on this matter, the Council has taken all deferred income against related cost.

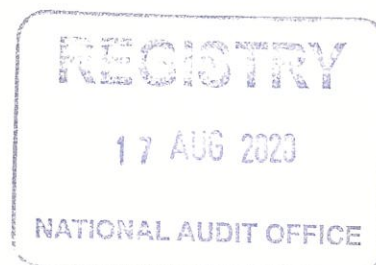
1.3 Expenditure

Once again, we noted discrepancies between actual and budgeted expenditure (refer to notes 3.1 & 3.2).

Once again, we identified weaknesses in the procurement process (refer to notes 3.4 and 3.8 - 3.14) as well as the insured value of assets (refer to note 3.6). We did not identify any issues with accounting for bins or donations.

1.4 Receivables

Similar to last year, we identified long overdue balances in the debtors list (refer to note 4.1) and also differences on reconciliation to customer balance confirmations letters (refer to note 4.3).



1.5 Bank accounts

We noted weaknesses in the bank reconciliation process (refer to notes 5.1 - 5.3).

1.6 Trade and other payables

Monthly statements were once again not obtained by the Council (refer to note 6.1). On the other hand, we did not identify any reconciling differences with supplier statements, and we did not identify any material issues from our cut-off and unrecorded liability tests.

Similar to last year, we identified issues with PPP payables (refer to note 6.4).

1.7 Financial Statements

We again noted instances in which the Financial Statements did not comply fully with IFRS requirements (refer to note 7).

1.8 Council's meetings

Once again we identified instances in which the Council meetings were not held monthly (refer to note 10.1) and that minutes uploaded were once again not marked as "IFFIRMATI" (refer to note 10.2). We also identified issues with Councillor attendance (refer to notes 10.4 – 10.6).

1.9 Budget

The Council budget for 2020 was prepared on the appropriate templates however the overview and summary section was once again left blank (refer to note 11). On the other hand, the Council prepared a business plan for the period 2019 – 2024.

Current year issues

2 Income

Income from pre-regional committees

- 2.1** The Sliema Joint Committee, of which St. Julian's Council formed part, has not yet provided the Council with audited accounts for 2019. In the current year the Council recognised income amounting to EUR955 from pre-regional Committees.
- 2.2** We understand that the Council has consistently requested the audited Financial Statements from the Joint Committee. However, we necessarily had to qualify our audit opinion since, in the absence of the Committee's Financial Statements, we were unable to determine the Council's share of profit from the pooling system and LES debtors outstanding as at 31 December 2019.

Organic waste collection refund

- 2.3 We noted that the Council did not apply consistency in accounting for refunds of cost incurred to collect organic waste. The Council reversed opening accrued income amounting to EUR7,163 against other income whereas the refunds claimed for the period October 2018 to December 2019 amounting to EUR59,260 were recognised under General Income. We proposed the necessary adjustments to set off the reversal of opening accrued income against the amount invoiced for the 2018 period during 2019 and to present the amounts consistently in line with the previous period. The Council approved our proposed adjustments and reflected them in the audited Financial Statements.

Unutilised funds received from Central Region Committee

- 2.4 At the financial position date, we noted that the Council had EUR96,346 in unutilised funds distributed by the Central Region. As noted in the past, these are to be used for specific projects and are to be deposited in a separate bank account. The Council has in fact deposited most of the funds in a separate account, however, the balance in this account at year end was EUR105,137, a difference of EUR8,791. We noted that the Council used these funds to settle capital expenditure that is expected to be financed from UIF funds (amount is recognised in accrued income) and hence these are to be re-deposited on receipt.
- 2.5 We remind the Council of the need to separate project bound funds from other funds and recommend that the necessary transfers are made from the operating accounts to this account to reconcile the balance. The Council should also adopt the necessary controls to ensure that the funds in this bank account are kept in line with the deferred income balance.

Accrued income, deferred income and grants

- 2.6 When analysing other income, we noted that the Council received the sum of EUR6,333 under the Irrigation Scheme and recognised this amount as income. Although these funds were received during 2019, the project is expected to commence in 2020. In view of this we have proposed an audit adjustment to reclassify this balance to deferred income rather than income. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 2.7 From an analysis of movement in accrued income, we noted that at 31 December 2018, the Council had recognised the sum of EUR163,722 in UIF funds receivable on Bertha K Ilg works and EUR76,822 in UIF funds receivable on Lapsi Street parking. These amounts were recognised also as grants in the PPE schedule. Throughout 2019, the Council received the amount of EUR158,158 on these two projects and reversed EUR61,459 and EUR20,927 from accrued income and grants recognised in previous periods. Whereas the reversals were reflected in the books of the Council, these were set off against additional grants received in 2019 in the PPE Schedule disclosed in the unaudited Financial Statements. The reversal of grants was presented separately following our notification.
- 2.8 We also noted that at 31 December 2018, the Council recognised accrued income amounting to EUR48,531 in funds received from UIF for works on a garden and installation of open-air gym and equipment. Throughout 2019, the Council reversed such accrued income and grant recognised in 2018. We also noted that an accrued expenditure amounting to EUR31,478 recognised in Assets Not Yet Capitalised and

related to this project was also reversed by the Council. Following discussions held with the Council, we concluded that the Council has already acquired and stored the equipment at a cost of EUR17,053 whereas the works on the garden had not yet started. Hence, whereas the accrual for such works was overstated in 2018, the grant receivable on the costs incurred to date is still recoverable. As a result, we proposed an adjustment to reinstate EUR17,053 as accrued income and grants by the same amount. We also recommended that this grant is to be reclassified from Special Programs to Assets Not Yet Capitalised since the original cost of the asset is included under this heading. We also recommended that the cost reversed is also presented separately in the PPE Schedule. The Council approved our proposed adjustments and recommended changes to the Schedule and reflected them in the audited Financial Statements.

2.9 From testing and discussions held on the closing accrued income balances, we noted the following:

- Accrued income receivable from Water Services Corporation in relation to works on Diodorus Siculus Street amounted to EUR4,476. However, agreements with the Corporation indicate that the amount covered will be EUR2,909. Hence, we proposed an adjustment to reduce accrued income by EUR1,567.
- Accrued income receivable from Water Services Corporation in relation to works on William Hardmann Street amounted to EUR5,190. However, agreements with the Corporation indicate that the amount covered will be EUR1,353. Hence, we proposed an adjustment to reduce accrued income by EUR3,837.
- Accrued income receivable from the UIF fund in relation to works on William Hardmann Street amounted to EUR46,111. However, we noted that that funds approved for this project amounted to EUR22,313 and hence, we proposed an adjustment to reduce accrued income by EUR23,798.

The Council approved our proposed adjustments to accrued income and reflected them in the audited Financial Statements.

2.10 The Council brought forward deferred income received from the Central Regional Council amounting to EUR302,821. During 2019, the Council indicated that it had received the amount of EUR67,035 and utilised the amount of EUR191,965. However, from the minutes of the Central Regional Council, we noted that it had only approved the sum of EUR174,634 and the projects on which these were used did not tally to those indicated by the Council. Following discussions held with the Executive Secretary, the Council made fresh requests to the Central Region to bring both sets of data in line. As a result, we proposed an adjustment to reclassify a further EUR81,544 from deferred income to grants. The Council approved our proposed adjustments reflected them in the audited Financial Statements.

2.11 From testing and discussions held on grants recognised during 2019, we noted the following:

- The Council received the sum of EUR25,523 in relation to works to be carried out on Diodorus Siculus Street. Works to be financed from this amount had not yet started in 2019 and hence we proposed an adjustment to reclassify the amount to deferred income.

- The Council also received the sum of EUR73,062 in relation to works to be carried out on 6 different roads. Works on these roads were not yet started by end of 2019 and hence, we proposed an adjustment to reclassify the amount to deferred income.
- Grants recognised under Special Programs included the amount of EUR41,946 in relation to works on Lower Mensija road. Works on the part of the road were not completed and expenditure was recognised under Assets Not Yet Capitalised. Hence, we proposed an adjustment to reclassify the grant to this category.
- Grants recognised under Special Programs included also the amounts of EUR2,909 and EUR2,172 in relation to works incurred on behalf of the Water Services Corporation on Diodorus Siculus and Berha K. Ilg streets respectively. The related costs were expensed by the Council. Similarly, the grants also included the amount of EUR5,149 allocated from Central Region Council in relation to works carried out on H. Stumme Street that had been recognised in expenses. Hence, we proposed an adjustment to reclassify these amounts from grants to income.

The Council approved our proposed adjustments to grants and reflected them in the audited Financial Statements.

2.12 The Council should adopt the necessary controls to ensure that accrued income, deferred income and grants are recognised appropriately and in a timely manner. Consideration is to be made in relation to amounts received, amounts receivable as well as status and nature of related works.

3 Expenditure

Budgeted versus actual expenditure

3.1 The Council had budgeted a capital expenditure of EUR3,607,876 allocated as tabled below. However, expenditure amounted to EUR767,468. The Council incurred capital expenditure in excess of the amount budgeted for four specific categories.

	Actual Figures EUR	Budgeted Figures EUR	Difference EUR
Trees	5,733	-	5,733
Office Furniture & Fittings	2,591	5,000	- 2,409
Office Equipment	3,564	5,000	- 1,436
Urban Improvemets	38,664	-	38,664
Special Programmes	571,063	3,597,876	- 3,026,813
Construction	26,478	-	26,478
Assets Not Yet Capitalised	119,375	-	119,375
	767,468	3,607,876	- 2,840,408

3.2 A comparison between the Council's budgeted and actual income and expenditure identified discrepancies between the actual results and the forecasted items. Discrepancies were noted in income as well as expenditure. The Council registered an overall deficit as opposed to the forecasted surplus of EUR66,752 and we noted that in various instances income was higher than that budgeted for the respective income.

Actual income exceeds the amount forecasted by EUR132,100. We also noted that in various instances expenditure was higher than that budgeted for the respective cost item. The analysis is tabled below after excluding non-cash expenditure such as depreciation, provision for bad debts, bad debts and loss on disposal.

	Actual Figures EUR	Budgeted Figures EUR	Difference EUR
Income			
Funds Received from Central Government	844,512	844,512	-
Other income	90,269	2,000	88,269
Income Raised Under Local Council Bye-Laws	139,878	120,000	19,878
Income Raised Under LES	7,582	12,000	- 4,418
General Income	46,371	18,000	28,371
	1,128,612	996,512	132,100

	Actual Figures EUR	Budgeted Figures EUR	Difference EUR
Expenditure			
<i>Personal Emoluments</i>			
Mayor's Remuneration	13,415	12,000	1,415
Councillors' Allowances	16,802	12,000	4,802
Executive Secretary Salary and Allowances	35,709	146,700	- 9,707
Employees' Salaries	101,284	12,000	- 2,009
Social Security Contributions	9,991	12,000	- 2,009
	177,201	182,700	- 5,499
<i>Operations and Maintenance</i>			
Road and Street Pavements (Patching Works)	59,629		
Public Property	5,583		
Street Signs	8,380	140,000	9,744
Road Markings	18,435		
Other Repairs and Upkeep	57,717		
Waste Disposal	165,883	62,355	- 11,472
Refuse Collection	28,215	115,000	3,215
Bulky Refuse Collection	166,072	25,000	46,072
Road and Street Cleaning	13,850	120,000	645
Cleaning and Maintenance - Public Conveniences	46,706	13,205	14,706
Cleaning and Maintenance - Parks and Gardens	23,503	32,000	12,003
Cleaning and Maintenance - Soft areas	66,388	11,500	30,388
Support Services	114,169	36,000	89,169
Street Lighting		25,000	
	774,530	580,060	194,470

	Actual Figures EUR	Budgeted Figures EUR	Difference EUR
Expenditure			
<i>Administration and Other Expenses</i>			
Utilities	11,763	7,000	4,763
Other Repairs and Upkeep	5,267	16,000	- 10,733
Rent	1,750	2,300	- 550
National and International Memberships	854	500	354
Office Services	22,368	11,000	11,368
Transport	18,716	9,000	9,716
Travel	4,093	3,000	1,093
Information Services	7,156	3,000	4,156
Other Contractual Services	14,644	-	14,644
Insurance Coverage	2,973	3,000	- 27
Bank Charges	569	600	- 31
Professional Services	37,312	25,000	12,312
Hospitality	-	14,000	- 14,000
Tuition for Courses and Expenses	5,670	1,600	4,070
Community Services	136,438	40,000	96,438
Sundry Minor Expenses	4,904	5,000	- 96
Lease of Equipment	-	500	- 500
LES Related Expenses	18,792	2,000	16,792
Twinning Expenses	567	20,000	- 19,433
	293,836	163,500	130,336
Total Expenditure	1,245,567	926,260	319,307
Finance Income	61	-	61
Finance Costs	- 2,474	- 3,500	1,026
	- 2,413	- 3,500	1,087
Surplus for the Year	- 119,368	66,752	- 186,120

3.3 Whilst we recognise that the Council has put more effort into preparing the budget, we re-iterate that the Council should compile the annual budget with due care and diligence to use it as a guideline to control its expenditure during the year. Any projected variances should be adjusted at least on a quarterly basis to ensure that the Council would either have sufficient funds available to justify the increase in expenditure, or else reallocate excess funds where there are decreases in expenditure or increase in income received.

Payments made prior to approval

3.4 Our testing on payments made by the Council, identified payments that were made prior to the approval of the Schedule of Payments on which they were disclosed. These are listed in Appendix 1.

3.5 We remind the Council that expenses should first be approved by the Council before payment is issued to the supplier/contractor.

Insurance cover

- 3.6 The Council renewed its Insurance Policy as from 1 September 2019. An analysis of the insured assets identified the following discrepancies between the net book value recognised in the last set of audited Financial Statements and value of the insured assets:

Asset category	NBV per 2018 AFS EUR	Sum Insured EUR	Difference from Policy
Property	160,093	259,144	- 91,609
Office, Furniture and Fittings	7,442		
Office Equipment / plant & machinery	16,017	15,198	819
	<u>183,552</u>	<u>274,342</u>	<u>- 90,790</u>

- 3.7 The Council should adhere to Circular 33/2016 that requires an insurance cover of its buildings and contents including fire, theft and damage at the net book value of the asset as per latest signed Financial Statements. The Circular also clarifies that community assets do not need to be insured.

Other expenses

- 3.8 The Council organised a Christmas meal which was attended by 20 people made up of Councillors and employees of the Council. The total cost incurred amounted to EUR643 which sums up to EUR32.15 per person. The cost per person exceeds the capping of EUR30 per person allowed for such an activity.
- 3.9 We noted that the Council accrued for a cost of EUR894 that was incurred by the Council to acquire Christmas Hampers for the vulnerable.
- 3.10 We remind the Council that donations are specifically prohibited by Article 63A of the Local Council Act, whether in cash or in kind unless they fall within the exception under Directive 5A/2016.
- 3.11 The Council's tender for Cleaning, Maintenance and Upkeep of Public Convenience was awarded on 22 August 2013¹. As reported in 2018, the Contract has been extended and was still running throughout 2019. The expense incurred during 2019 amounted to EUR13,766. During meeting 5 held on 30 September 2019, the Council agreed to issue a new tender for the provision of this service.
- 3.12 The Council's tender for the Collection of Mixed and Household Waste was awarded on 1 November 2015². The contract expired on 31 October 2019 and was extended to 29 February 2020. The expense incurred between November and December 2019 amounted to EUR14,086. During meeting 2 held on 18 July 2019, the Council agreed to issue a new tender for the provision of this service.

¹ Sandro Caruana

² Galea Cleaning Solutions

- 3.13** The Council's tender for the Collection of Bulky Reuse was awarded on 1 November 2016³. The contract expired on 31 October 2019 and was extended to 29 February 2020. The expense incurred between November and December 2019 amounted to EUR4,203.
- 3.14** The Council should monitor expenditure incurred to ensure that appropriate procurement procedures are applied for expenses that require a public quotation or tender procedures through the ePPS system. The Council should ensure that such procedures are commenced 6 months prior to expiration of contracts to avoid operating under an expired contract.
- 3.15** We also noted that the Council organised a conference funded by the European Commission. Whereas the total costs incurred were within the allocated funds for the organisation of this conference, costs amounting to EUR8,738 were not allocated to the specific cost ledger account applicable for this Conference but included under other expense headings such as transport, hospitality and other community costs. Hence, we proposed an adjustment to reclassify these expenses to the appropriate ledger account. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

4 Receivables

Overdue receivables

- 4.1** Whilst reviewing trade receivables, we noted balances amounting to EUR41,552 that have been due for more than 2 years. The list of balances is included in Appendix 2. At the Financial Position date, the provision on these balances amounted to EUR27,586.
- 4.2** We also noted that the Council wrote off balances amounting to EUR4,271 as bad debts however, the amount was written off against the provision for bad debts brought forward from 2018. We also noted that the write off was only approved by the Council during a meeting held in April 2020 whereas the unaudited Financial Statements had been approved in February 2020. We proposed an adjustment to separate the bad debt written off from the provision for bad debts. The Council approved our proposed adjustment and reflected it in the Financial Statements.
- 4.3** We also circularised a sample of debtors. In one instance⁴, the amount receivable per ledger, at 31 December 2019, amounted to EUR2,778 however, the customer indicated that it does not owe any funds to the Council. An analysis of the statements indicated that the customer did not account for invoice 713 for EUR1,100 and the balance of EUR1,678 in an unreconciled difference brought forward from previous periods.

³ Melchior Dimech

⁴ Active Enterprises

4.4 We recommend that the Council follows up the recoverability of these balances and provides for any unrecoverable amounts. We also remind the Council that any write offs, of amounts due to the Council are to be approved by the Council prior to the reflection of such transaction in the accounting records and Financial Reports.

5 Bank accounts

Bank reconciliations

5.1 Although monthly bank reconciliations were available, not all the reports included the date that the reconciliation was prepared and hence, we could not determine whether these were always prepared within the stipulated time frames. From the dated reports, we noted that the December 2019 reconciliation of HSBC account 050, was dated on the 27 January 2020 and that of BOV account 015 was dated 23/02/2020. Hence, the reconciliations were prepared after the 10-working day period.

5.2 Whereas we requested copies of all monthly bank reconciliations, we noted that the following were not provided to us:

Account	Months
BOV ACC 005	Jun – Nov
BOV ACC 015	Nov
BOV ACC 429	Sep – Oct
BOV ACC 954	Apr – Nov

5.3 We also noted that the unreconciled transactions included in the December bank reconciliations included the following stale/aged uncleared transactions:

Account	Transaction type	Date	Reference	EUR
HSBC ACC 002	Payment	26/04/2019	17440	704.50
HSBC ACC 002	Payment	17/05/2019	17477	67.00
HSBC ACC 050	Deposit	01/03/2019	6613	3.48
HSBC ACC 050	Deposit	01/03/2019	6614	90.00
HSBC ACC 050	Deposit	10/06/2019	7445	160.00

5.4 We recommend that the Council adopts procedures to ensure that all bank reconciliation reports are issued and dated within 10 working days from each month end. We also

recommend that aged uncleared transactions are investigated and amended as necessary.

6 Trade and other payables

Creditors' statements

- 6.1 As part of our procedures, we requested statements for the Council's main creditors. We noted that monthly statements were not readily available for all suppliers. Memos issued from time to time by the DLG specifically state that the Council should obtain monthly statements.
- 6.2 Whereas we understand that the Council is in fact asking for all statements, we remind it that these statements are necessary to ensure completeness and correctness of records and timely recording of liabilities.

Overdue Payables

- 6.3 From an analysis of payables at year end, we noted that EUR29,389 (excluding PPP liabilities) have been due for more than one year. A list of these payables is included in Appendix 3.

PPP Payables

- 6.4 The Council still has payables due under the PPP scheme that amount to EUR26,993 at the Financial Position date. At 31 December 2019, EUR14,733 was recognised under current liabilities. From an analysis of the amount due, we noted that the Council was bound to settle EUR7,767 during 2019, however the Council paid the sum of EUR13,715 that includes EUR5,948 due in relation to previous years. From the current liability of EUR14,733, only EUR7,767 was planned to be paid during 2020, whereas the balance of EUR6,966 should have been paid over the previous 2 years.

7 Financial Statements

Presentation of Financial Statements

- 7.1 In line with the Department's requirements, the Council is obliged to prepare the Financial Statements in accordance with International Financial Reporting Standards (IFRSs).
- 7.2 The Council's Financial Statements are not compliant with IFRSs in the following instances:
- IAS 7 *Statement of Cash Flow* relating to disclosure on outflows for settlement of capital creditors and grants received was not presented correctly. The Council amended such disclosures in the audited Financial Statements following our notification.

- The Council reported a rental cost of EUR1,750, however, the Financial Statements do not disclose the necessary disclosures required by IFRS 16 *Leases*. The Council amended such disclosures in the audited Financial Statements following our notification.
- The Council has a non-current, interest free creditor arising on the PPP project. Such financial liabilities should be accounted for using the amortised cost approach. This approach required by IAS 39 *Financial Instruments: recognition and measurement* is not being applied by the Council. The Council amended such disclosures in the audited Financial Statements following our notification.
- IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* regarding disclosures of new and amended IFRSs that have been adopted by the Council was not updated correctly from the previous year in the unaudited Financial Statements. In the audited Financial Statements, the note was updated but still failed to include all changes and an explanation of the impact of adoption of these standards.
- As from 1 January 2018, the Council adopted the Expected Credit loss model on all financial assets. Throughout the audit, we were not provided with an assessment of the impact of this model and how this affected the results of the Council. At the financial position date, the Council has financial assets amounting to EUR631,407.
- In note 26 the Council disclosed that all its financial liabilities mature within 60 days from year end, however, the Council's financial liabilities include elements that fall due at different periods including elements that fall due after one year. The summary of financial liabilities presented in this note excludes bank borrowings amounting to EUR50,681 and non-current PPP payables amounting to EUR12,260. This disclosure is not in line with the requirements of IFRS 7.
- In note 23 of the un-audited Financial Statements, the Council disclosed its contingent liabilities, however, this disclosure did not capture all known cases in which the Council is involved. It also lacks disclosure in relation to a balance of EUR21,808 on an invoice for EUR51,808 which is being contested in relation to planning, design and project management work charged out by a supplier⁵. This disclosure is not in line with the requirements of IAS 37. Whereas the Council updated the note in the audited Financial Statements to include cases relating to cases relating to toing of vehicles, it did not include reference to the contested balance of EUR21,808.

⁵ Med Developers

- The policy on Government Grants disclosed on page 11 indicates that these are accounted under the Income Approach whereas the Council had in fact adopted the Capital approach as from 1 January 2018.

7.3 Our opinion has been qualified in respect of the unadjusted shortcomings mentioned above.

8 Payroll

Vacation Leave

8.1 We noted that Council approved to carry forward employees' unutilised vacation leave from 2019 to 2020 which exceeded the limit allowed by the regulations as follows:

Employee	Hours b/f	Hours for year	Hours used	Hours c/f
Employee 1	43.65	208.00	177.50	74.15
Employee 2	39.70	208.00	172.75	74.95
Employee 3	-	156.00	56.25	99.75

8.2 We remind the Council that the Local Council (Human Resources) regulations require that clerical employees of the Council should avail of 70% of their vacation leave by end of September and may only carry forward up to 48hours to the following year (subject to the Council's approval). The approval is to be documented in the Council's minutes.

9 Property, plant and equipment (PPE)

Additions to PPE

9.1 From an analysis of additions to PPE, we noted the following:

- Invoice number 9919 from a contractor⁶ for road surfacing works was recognised in the books at EUR69,927 whereas the invoice amounted to EUR87,410. The difference of EUR17,483 relates to retention moneys however these are still a liability at year end and form part of the certified cost of the works carried out by the contractor.
- Similarly, invoice number 9719 from the same supplier for major patching works was recognised in the books at EUR15,890 whereas the invoice amounted to EUR19,863. The difference of EUR3,973 relates to retention moneys however these are still a liability at year end and form part of the certified cost of the works carried out by the contractor.

⁶ LK Limited

We proposed an adjustment to increase PPE additions and liabilities by EUR21,456. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

- 9.2 We recommend that the Council recognises certified costs in full rather than the amounts paid to ensure that the cost of the asset is recognised in full by completion date and depreciation is applied on the appropriate value. Moreover, the liabilities of the Council would be presented fairly.

Assets Not Yet Capitalised (ANYC)

- 9.3 From a review of assets recognised by the Council, we noted the following:

- The Council recognised costs amounting to EUR30,000 on the design and planning of embellishment works on the Spinola Junction. The amount was recognised under construction costs however, works on this project have not yet started and are subject to further discussion between the Council and authorities. Hence, we proposed an adjustment to reclassify the amount to ANYC.
- The amount recognised under ANYC included monument costs amounting to EUR7,236 and Upper Mensija road costs amounting to EUR2,185. Both projects were completed by end of 2019 and hence, we proposed an adjustment to reclassify the costs from this category to Construction and Special Programs respectively.

The Council approved our proposed adjustments and reflected them in the audited Financial Statements.

- 9.4 We recommend that the Council sets up the necessary controls to ensure that the assets under construction are recognised under the ANYC heading and are reclassified to the appropriate category on completion and certification of works.

- 9.5 We also noted that the Council brought forward the following projects under the ANYC heading that have been carried forward to another year. From discussions held with the Council, it transpired that there was no movement in:

- Professional fees incurred on planning and designs of a home for the elderly amounting to EUR23,600. The costs were initially recognised in 2016,
- Spinola works retention fees amounting to EUR2,933 accrued for in 2016, and
- Outdoor Gym equipment costing EUR17,054 recognised in 2017 (refer to note 2.8).

- 9.6 The Council should assess the status of each project under ANYC and the ability of the Council to continue with its plans. Should the Council determine that any of these plans have to be scrapped or shelved for an indeterminable period of time, then the related costs are to be expensed rather than carried forward under this category. We remind the Council that, at the current status, the projects do not qualify to be recognised as capital expenditure under the other classes of PPE.

Depreciation charge

- 9.7** We recalculated the depreciation charge for the year especially in view of the impact that the adjustments emanating from notes 2.8 – 2.11 and notes to 9.1 – 9.3 would have on the depreciable value of assets. Our calculation identified an overall difference of EUR25,138 partly resulting from the audit adjustments and partly since the Council has applied a full year depreciation in the year of acquisition rather than applying depreciation from the month in which the asset is ready for its intended use. Hence, we proposed an adjustment to decrease the depreciation charge for the year on Construction (EUR4,674), Office Furniture and Fittings (EUR154), Urban Improvements (EUR21,600) and Office Equipment (EUR710). On the other hand, we also proposed an adjustment to increase the charge on Special Programs by EUR2,000. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 9.8** We recommend that the Council applies the necessary controls on recognition of capital expenditure and grants to ensure that the depreciation charge is calculated fairly. We also recommend that the depreciation charge is applied as from the month the asset is ready for its intended use.

10 Council's meetings

Frequency of meetings and minutes

- 10.1** The Local Councils Act requires that the Council meets at least once a month and such meetings should not be in excess of 5-week intervals. Even though the Council abided by the 5-week interval, the Council did not hold a meeting during the month of December. We were informed that the meeting was called up but it had to be postponed due to sudden and unexpected personal circumstances relating to the Executive Secretary.
- 10.2** We also noted at the time of our audit, that the Council had uploaded all minutes and schedules of payments on the applicable portal. However, minutes of meeting 54 – 60 held between January and June 2019 and minutes of meetings 3 and 8 held between August and November 2019 were not marked as 'IFFIRMATI' as required by Memo 10/2016. The schedule of payments uploaded on the same portal also exclude the wording 'IFFIRMATA' and also fail to include the names of the persons approving and signing such schedules.
- 10.3** We remind the Council that meetings are to be held every 5 weeks and at least one meeting is to be held every month. We also remind the Council that Memo 10/2016 sets the format for maintaining and uploading of minutes.

Councillor attendance

- 10.4** Once again, we noted that whereas Councillors give adequate notice of their absence from a Council meeting, and such notification was presented to the Council during the respective meeting, Councillors do not present a medical certificate to substantiate their absence in case of health reasons.

- 10.5** We remind the Council that as clearly stated in Circular 6/2017, absence due to sickness is only justified if this is attested with a medical certificate. Failure to provide a medical certificate should result in deductions from the respective Councillor allowance. Whereas such a requirement was removed in July 2019, this memo was still valid for the period January to June 2019.
- 10.6** We reviewed Councillor's attendance for meetings and noted the following:
- One Councillor was excused for 3 out of 8 meetings held between January and June 2019 and a second Councillor was excused for 4 out of 8 meetings held during the same period.
 - A third Councillor was excused for 5 out of 8 meetings held between January and June 2019, however this Councillor does not occupy the seat anymore.
- 10.7** We noted that the Council did not discuss instances when a Councillor missed more than 1/3 of the meetings in a 6-month period. The Council is required to discuss such instances and determine whether the Councillor's absence was justified. The Council is also required to report to the Minister with the result of their decision.

11 Budget and business plan

- 11.1** Once again, whereas the Council has presented its budget for 2020 on the appropriate templates, the overview and summary section was not completed.

12 Liquidity position

Financial Situation Indicator

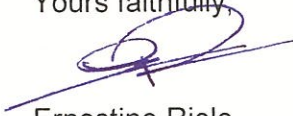
- 12.1** The Council's Financial Situation Indicator (FSI) at the end of the financial year under review is negative which is lower than the minimum positive balance of 10% of the annual Government allocation.
- 12.2** The Executive Secretary is bound by section 4(1)(c) of the Local Council (Financial) Regulations 1993 to maintain an FSI equal to or more than ten percent of the allocation approved in terms of section 55 of the Local Councils Act. The Regulations also state that the Executive Secretary must immediately notify the Director when the FSI falls below ten percent and explain the actions that are to be taken by the Council to remedy the situation. This will also be reflected as a qualification in our audit report due to the lack of compliance with Local Council (Financial) Regulations.

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the Financial Statements of the Council. In consequence, our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Mr. Paul Spiteri and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Ernestino Riolo
Partner
for and on behalf of
Mazars Malta



Appendix

Appendix 1: Payments issued before approval

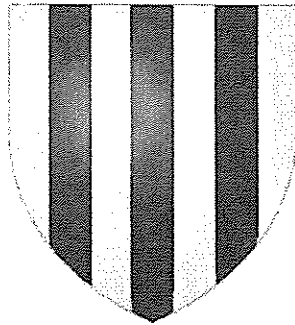
Supplier	Amount (EUR)	Cheque No.	Approval Date	Date Cashed
LK Ltd	13,196	17367	02/05/2019	24/04/2019
LK Ltd	15,890	151	04/07/2019	15/06/2019
LK Ltd	57,243	145	10/01/2019	21/12/2018

Appendix 2: Payables overdue for more than one year

	EUR
Active Enterprises	1,678
REGJUN GHAWDEX	42
Green MT Ltd	13,594
Media Trends Ltd - Sean Fitz	13,965
Water Services Corporation	12,272
	41,552

Appendix 3: Payables overdue for more than one year

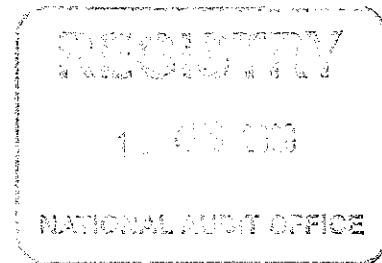
	365+ Days EUR
Malta Planning & Design Consulting Ltd	23,600
Public Cleansing Dept.	671
Wasteserv	5,118
	29,389



SAN GILJAN LOCAL COUNCIL

**Annual Report
and
Financial Statements**

for the year ended 31 December 2019



Prepared by

Daniel Galea B. Accty. (Hons.) CPA

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2019

<i>CONTENTS</i>	<i>PAGES</i>
Statement of Local Council Members' and Executive Secretary's responsibilities	3
Statement of Comprehensive Income	4
Statement of Financial Position	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 26
Report of the Independent Local Government Auditor to the Auditor General	

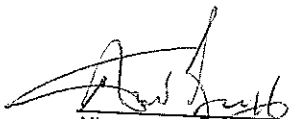
SAN GILJAN LOCAL COUNCIL


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

The Local Councils (Financial) Regulations' require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's comprehensive income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with the accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local 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, the 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 Local Council on the 6th August 2020 and signed on its behalf by


Albert Buttigieg
Mayor


Paul Spiteri
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

		2019 €	2018 €
	<i>Notes</i>		
Revenue			
Funds received from Central Government	4	934,781	846,345
Income raised under Local Council Bye-Laws	5	139,878	145,965
Income raised under Local Enforcement System	6	7,582	13,788
General Income	7	46,371	3,079
		<u>1,128,612</u>	<u>1,009,177</u>
Expenditure			
Personal emoluments	9	(177,201)	(157,059)
Operations and maintenance	10	(774,530)	(519,162)
Administrative and other expenditure	11	(352,641)	(334,596)
		<u>(1,304,372)</u>	<u>(1,010,817)</u>
Operating Deficit for the year		(175,760)	(1,640)
Finance income	12	61	158
Finance costs	13	(2,474)	(2,712)
Deficit for the year		<u>(178,173)</u>	<u>(4,194)</u>

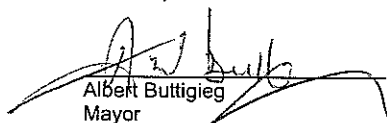
SAN GILJAN LOCAL COUNCIL

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 €	2018 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	14	622,268	399,161
Intangible asset	15	2,447	3,422
		<u>624,715</u>	<u>402,583</u>
Current Assets			
Receivables	16	318,949	339,622
Cash and Cash Equivalents	17	317,994	608,334
		<u>636,943</u>	<u>947,956</u>
Total Assets		<u><u>1,261,658</u></u>	<u><u>1,350,539</u></u>
EQUITY AND LIABILITIES			
Reserves			
Retained Fund		<u>519,416</u>	<u>697,589</u>
		<u>519,416</u>	<u>697,589</u>
Non-Current Liabilities			
Long-term borrowings	19	45,425	50,728
Long-term payables	20	12,260	20,027
Deferred income	21	151,231	302,821
		<u>208,916</u>	<u>373,576</u>
Current Liabilities			
Payables	18	478,037	274,357
Short-term borrowings	19	5,256	5,017
Deferred income	21	50,033	-
Total Liabilities		<u>533,326</u>	<u>279,374</u>
Total Equity and Liabilities		<u><u>1,261,658</u></u>	<u><u>1,350,539</u></u>

These financial statements were approved by the Local Council on 6th August 2020 and signed on its behalf by:


Albert Buttigieg
Mayor


Paul Spiteri
Executive Secretary

The notes on pages 8 to 26 form an integral part of these financial statements

SAN GILJAN LOCAL COUNCIL

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Retained Funds €
At 1 January 2018	701,783
Deficit for the year 2018	(4,194)
	<hr/>
At 31 December 2018	697,589
	<hr/> <hr/>
At 1 January 2019	697,589
Deficit for the year 2019	(178,173)
	<hr/>
At 31 December 2019	519,416
	<hr/> <hr/>

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 €	2018 €
	Note	
Cash flows from Operating Activities		
Surplus / (Deficit) for the year	(178,173)	(4,194)
Reconciliation to cash generated from operations:		
Depreciation and amortisation	55,607	44,888
(Decrease)/increase in provision for bad debts	(1,101)	24,416
Bad debts written off	4,271	-
Loss on disposal	28	-
Interest receivable	(61)	(158)
Interest payable	2,474	2,712
Grants recognised in income	(10,230)	-
Operating Profit before Working Capital Changes	<u>(127,185)</u>	<u>67,664</u>
Increase in receivables	(71,072)	(21,107)
Increase in payables	241,225	105,119
Cash generated from operating activities	<u>42,968</u>	<u>151,676</u>
Cash flows from Investing Activities		
Interest received	61	158
Purchase of property, plant & equipment	<u>(781,183)</u>	<u>(600,541)</u>
Cash used in investing activities	<u>(781,122)</u>	<u>(600,383)</u>
Cash flows from Financing Activities		
Repayment of bank loans	(5,064)	(4,833)
Receipt of grant	455,352	181,526
Interest paid	<u>(2,474)</u>	<u>(2,712)</u>
Cash generated from investing activities	<u>447,814</u>	<u>173,981</u>
Net decrease in Cash and Cash Equivalents	<u>(290,340)</u>	<u>(274,726)</u>
Cash and Cash Equivalents at the Beginning of the year	<u>608,334</u>	<u>883,060</u>
Cash and Cash Equivalents at the End of the year	<u>17</u> <u>317,994</u>	<u>608,334</u>

The notes on pages 8 to 26 form an integral part of these financial statements

SAN GILJAN LOCAL COUNCIL

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

1. General Information

The San Giljan Local Council is the local Authority of San Giljan set up in accordance with the Local Councils Act, 1993. The office of the Local Council is situated at Triq Forrest, San Giljan. These financial statements were approved for issue by the Council Members on 6th August 2020. The Local Council's presentation as well as functional currency is denominated in €.

2. Accounting Policies and Reporting Procedures

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

Accounting convention

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

These financial statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act (Cap. 363).

New and amended standards adopted by the Council

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

IFRS 16 Leases: This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 Leases and will eliminate the classifications of operating leases and finance leases for lessees. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs.

Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). For lessor accounting, the standard does not substantially change how a lessor accounts for leases under IAS 17.

Annual Improvements to IFRS Standards 2015-2017 Cycle: The following standards have been amended: (1) IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business; (2) IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits; (3) IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

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

Accounting Policies and Reporting Procedures

New Standards and amendments not yet effective:

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Depreciation is calculated on a monthly basis using the straight line method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

	%
Land	0
Trees	0
Buildings	1
Office Furniture and Fittings	7.5
Construction Works	10
Urban Improvements (Street Furniture)	10
Special Projects	10
Office Equipment	20
Motor Vehicles	20
Plant and Machinery	20
Computer Equipment	25
Plants	100
Litter Bins	Replacement basis
Playground Furniture	100
Traffic Signs	Replacement basis
Road Signs	Replacement basis
Street Mirrors	Replacement basis
Street Lights	100

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

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

Leases

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

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Council has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

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

Accounting Policies and Reporting Procedures (cont.)

Leases (cont.)

- The Council has the right to direct the use of the asset. The Council has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Council has the right to direct the use of the asset if either:
- The Council has the right to operate the asset; or
- The Council designed the asset in a way that predetermines how and for what purpose it will be used.

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

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

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

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

Accounting Policies and Reporting Procedures (cont.)

Impairment of Assets

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

Inventories

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

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.

Government Grants

Government grants are accounted for on the Income Approach in accordance with IAS 20. They are accounted for on a systematic basis in the Statement of Comprehensive Income over the periods necessary to match them with the related costs which they intend to compensate. If such costs are already incurred when the grant is made, or if there are no related costs, then the grant is accounted for when it becomes receivable.

Payables

Payables are classified with either the current or the non-current liabilities depending on their due dates and are stated at their nominal value unless the effect of discounting is material, in which case trade payables are measured at amortised cost using the effective interest method.

Other payables

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

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 Council has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

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

Accounting Policies and Reporting Procedures (cont.)

Financial instruments

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

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

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

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

Financial assets

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

Receivables are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is

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

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

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Financial liabilities

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

All interest-related charges are included within 'finance costs'.

Related parties

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

Income recognition

Income is recognised at the fair value of the amount received or receivable, to the extent that it is probable that future economic benefits will flow to the Council and these can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Government grants are recognised when there is reasonable assurance that all conditions attaching to them are complied with and the grants will be received. Government grants related to income are recognised in profit or loss over the periods necessary to match them with the related costs which are intended to compensate, on a systematic basis. Such grants are presented as a credit in the statement of comprehensive income.

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

Accounting Policies and Reporting Procedures (cont.)

Local Enforcement Income

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

Foreign currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the Council operates. These financial statements are presented in €, which is the Council's functional and presentation currency.

Transactions denominated in foreign currencies are translated into € at the rates of exchange in operation on the dates of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into € at the rates of exchange prevailing at the date of the Statement of Financial Position.

Borrowing costs

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

Profits and losses

Only surpluses that were realised at the date of the Statement of Financial Position are recognised in these financial statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the financial statements are approved.

Cash and cash equivalents

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

Capital Management

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

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

To achieve the above, the Council carries out a quarterly review of the working capital ratio ("Financial Situation Indicator"). This ratio was positive at the reporting date and has not changed significantly from the previous year. The Council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

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

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the Council, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

SAN GILJAN LOCAL COUNCIL

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

4. Funds received from central government

	2019	2018
	€	€
In terms of section 55 of the Local Councils Act	844,512	800,642
Other Government Income	90,269	45,703
	<u>934,781</u>	<u>846,345</u>

5. Income raised under Local Council Bye-Laws

	2019	2018
	€	€
Income from contravention of Bye-Laws	<u>139,878</u>	<u>145,965</u>

6. Local Enforcement system

	2019	2018
	€	€
Pre-regional Committees	955	6,848
Regional Committees/LESA - Administrative Fees	6,627	6,940
	<u>7,582</u>	<u>13,788</u>

7. General Income

	2019	2018
	€	€
General Income	46,371	2,825
Contributions and donations	-	254
	<u>46,371</u>	<u>3,079</u>

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

8. Deficit for the year

	2019	2018
	€	€
Deficit for the year is stated after charging		
Staff salaries	177,201	157,059
Depreciation and amortisation	55,607	44,888
(Decrease)/increase in provision for bad debts	(1,101)	24,416
	<u>177,201</u>	<u>244,263</u>

9. Personal Emoluments

	2019	2018
	€	€
Mayor's Remuneration	13,415	11,196
Councillors' Allowances	16,802	11,200
Executive Secretary Salary and Allowances	35,709	35,902
Employees' Salaries	101,284	89,351
Social Security Contributions	9,991	9,410
	<u>177,201</u>	<u>157,059</u>

The average number of persons employed by the Council during the year was as 7 (2018: 7).

10. Operations and Maintenance

	2019	2018
	€	€
<i>Repairs and Upkeep:</i>		
Road and Street Pavements (patching works)	59,629	60,573
Public property	5,583	14,920
Street signs	8,380	9,574
Road Markings	18,435	19,981
Plant and machinery	800	-
Other repairs and Upkeep	56,917	43,987
	<u>149,744</u>	<u>149,035</u>
<i>Contractual Services:</i>		
Refuse Collection	165,883	125,603
Bulky Refuse Collection	28,215	24,579
Road and Street Cleaning	166,072	133,946
Cleaning and Maintenance - Public Conveniences	13,850	13,432
Cleaning and Maintenance - Parks and Gardens	46,706	46,980
Cleaning and Maintenance - Soft areas	23,503	-
Support Services	66,388	1,272
Street Lighting	114,169	24,315
	<u>624,786</u>	<u>370,127</u>
Total Operations and Maintenance Costs	<u>774,530</u>	<u>519,162</u>

SAN GILJAN LOCAL COUNCIL

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

11. Administrative and other expenditure

	2019	2018
	€	€
Utilities	11,763	13,240
Other repairs and upkeep	5,267	14,321
Rent	1,750	1,750
National and International Memberships	854	730
Office Services	22,368	10,448
Transport	18,716	7,998
Travel	4,093	1,382
Information services	7,156	2,651
Other contractual services	14,644	13,480
Insurance	2,973	2,366
Bank Charges	569	231
Professional Services	37,312	55,528
Tuition for courses and expenses	5,670	850
Community Services	136,436	87,706
Sundry minor expenses	4,904	11,005
LES related expenses	18,794	20,608
Asset Disposal Account	28	-
Bad debts write off	4,271	-
(Decrease)/increase in provision for bad debts	(1,101)	24,416
Twinning expenses	567	20,998
Depreciation and amortisation	55,607	44,888
	<u>352,641</u>	<u>334,596</u>

12. Interest Income

	2019	2016
	€	€
Bank Interest Receivable	<u>61</u>	<u>158</u>

13. Finance Costs

	2019	2016
	€	€
Loan interest	<u>2,474</u>	<u>2,712</u>

SAN GILJAN LOCAL COUNCIL

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

14. Property, plant and equipment

	Property	Trees	Office Furniture & fittings	Office Equipment	Urban Improvements	Assets not yet Capitalised	New Street Signs	Const	Special Programmes	Total
	€	€	€	€	€	€	€	€	€	€
At 1 January 2019	185,798	3,084	71,858	53,668	27,258	107,066	9,707	216,686	2,186,980	2,862,105
Additions	-	5,733	2,591	3,564	38,664	119,375	-	26,478	571,063	767,468
Disposal	-	-	-	(62)	-	-	-	-	-	(62)
Capitalised	-	-	-	-	-	(23,732)	-	7,236	16,496	-
Reversal	-	-	-	-	-	(31,597)	-	-	-	(31,597)
At 31 December 2019	185,798	8,817	74,449	57,170	65,922	171,112	9,707	250,400	2,774,539	3,597,914
Depreciation										
At 1 January 2019	25,705	-	64,416	37,081	27,258	-	9,707	216,686	365,360	746,213
Charge for the year	1,906	-	1,020	5,288	17,064	-	-	974	28,380	54,632
Eliminated on disposal	-	-	-	(34)	-	-	-	-	-	(34)
At 31 December 2019	27,611	-	65,436	42,335	44,322	-	9,707	217,660	393,740	800,811
Grants										
At 1 January 2019	-	-	-	2,218	-	-	-	-	1,714,513	1,716,731
Grants for current year	-	-	-	-	-	41,946	-	-	530,022	571,968
Grants reclassification	-	-	-	-	-	17,053	-	-	(17,053)	-
Grants reversed	-	-	-	-	-	-	-	-	(113,864)	(113,864)
At 31 December 2019	-	-	-	2,218	-	58,999	-	-	2,113,618	2,174,835
Net Book values										
At 31 December 2019	168,187	8,817	9,013	12,617	21,600	112,113	-	32,740	267,181	622,268

SAN GILJAN LOCAL COUNCIL

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

14. Property, plant and equipment (cont.)

	Property €	Trees €	Office Furniture & fittings €	Office Equipment €	Urban Improvements €	Assets not yet Capitalised €	New Street Signs €	Construction €	Special Programmes €	Total €
Cost										
At 1 January 2018	185,798	3,084	69,372	52,197	27,258	26,533	9,707	216,686	1,676,466	2,267,101
Additions	-	-	2,486	1,471	-	80,533	-	-	510,514	595,004
At 31 December 2018	185,798	3,084	71,858	53,668	27,258	107,066	9,707	216,686	2,186,980	2,862,105
Depreciation										
At 1 January 2018	23,798	-	58,525	29,632	27,258	-	9,707	216,686	336,347	701,953
Charge for the year	1,907	-	5,891	7,449	-	-	-	-	29,013	44,260
At 31 December 2018	25,705	-	64,416	37,081	27,258	-	9,707	216,686	365,360	746,213
Grants										
At 1 January 2018	-	-	-	2,218	-	-	-	-	1,210,547	1,212,765
Grants for current year	-	-	-	-	-	-	-	-	503,966	503,966
At 31 December 2018	-	-	-	2,218	-	-	-	-	1,714,513	1,716,731
Net Book values										
At 31 December 2018	160,093	3,084	7,442	14,369	-	107,066	-	-	107,107	399,161

SAN GILJAN LOCAL COUNCIL

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

15. Intangible property, plant & equipment

	Computer software
	€
Cost	
At 1 January and 31 December 2019	4,160
Depreciation	
At 1 January 2019	738
Charge for the year	975
At 31 December 2019	1,713
Net Book value	
At 31 December 2019	2,447
	Computer software
	€
Cost	
At 1 January 2018	260
Additions	3,900
At 31 December 2018	4,160
Depreciation	
At 1 January 2018	110
Charge for the year	628
At 31 December 2018	738
Net Book value	
At 31 December 2018	3,422

SAN GILJAN LOCAL COUNCIL

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

16. Receivables

	2019	2018
	€	€
Receivables	61,799	39,774
Accrued income	251,614	297,284
Prepayments	5,536	2,564
	<u>318,949</u>	<u>339,622</u>

Receivables

General receivables are analysed as follows:

	2019	2018
	€	€
Within credit period	18,339	10,536
Exceeded credit period but not impaired	43,460	29,238
Impaired and provided for	27,586	28,687
Provision for doubtful debts	(27,586)	(28,687)
	<u>61,799</u>	<u>39,774</u>

Included in the accounts receivable are amounts due from related parties amounting to €53,638 (2018 : €40,482). These amounts are unsecured, interest free and repayable on demand. Receivables are stated net of impairment provision of €27,586 (2018: €28,687).

17. Cash & cash equivalents

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

	2019	2018
	€	€
Cash at Bank	317,875	607,268
Cash in Hand	119	1,066
	<u>317,994</u>	<u>608,334</u>

SAN GILJAN LOCAL COUNCIL

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

18. Payables

	2019	2018
	€	€
Payables	306,345	139,855
Other payables	23,337	21,762
Accruals	148,355	112,740
	<u>478,037</u>	<u>274,357</u>

Included in the accounts payable are amounts due to related parties amounting to €36,050 (2018 : €15,452). These amounts are unsecured, interest free and repayable on demand.

19. Borrowings

	2019	2018
	€	€
Non-current		
Bank borrowings	<u>45,425</u>	<u>50,728</u>
Current		
Bank borrowings	<u>5,256</u>	<u>5,017</u>
Borrowings		
Repayable between one and two years	5,518	5,254
Repayable between two and five years	18,211	17,363
Repayable in five years or more	<u>21,696</u>	<u>28,111</u>
	<u>45,425</u>	<u>50,728</u>
Repayable after five years or more:		
Bank Loan	<u>21,696</u>	<u>28,111</u>

The Bank Loan is guaranteed by the Central Government and secured by a 1st General Hypothec over the San Giljan Local Council assets and a Special Hypothec on the Council Offices and Garage. Loan attracts interest at 4.6% (2018 – 4.6%) and are repayable in monthly instalments of €629.69 (2018 - €629.69) inclusive of interest.

SAN GILJAN LOCAL COUNCIL

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

20. Amounts payable under the PPP agreement

	2019	2018
	€	€
Non-current		
Public Private Partnership (PPP) Agreement	<u>12,260</u>	<u>20,027</u>
Borrowings		
Repayable between one and two years	12,260	7,767
Repayable between two and five years	-	12,260
	<u>12,260</u>	<u>20,027</u>
Repayable after five years or more:		
Public Private Partnership (PPP) Agreement	<u>-</u>	<u>-</u>

Amount payable under the PPP agreement is repayable in annual payments up to 2022. Balance payable under the scheme is €26,993.

21. Deferred income

	2019	2018
	€	€
Government grants		
At 1 January	302,821	350,459
Increase in year including funds from Central Regional Committee	67,035	18,371
State Funds allocated to Local Council	<u>413,606</u>	<u>437,957</u>
	783,462	806,787
Recognized in Property, Plant & Equipment	(571,968)	(503,966)
Recognized in Income Statement	<u>(10,230)</u>	<u>-</u>
At 31 December	<u>201,264</u>	<u>302,821</u>
Current Deferred Income	<u>50,033</u>	<u>-</u>
Non-Current Deferred Income	<u>151,231</u>	<u>302,821</u>
Deferred Government Grants		
Deferred between one and two years	-	-
Deferred between two and five years	-	-
Deferred in five years or more	<u>151,231</u>	<u>302,821</u>
	<u>151,231</u>	<u>302,821</u>
Deferred after five years or more	<u>151,231</u>	<u>302,821</u>

SAN GILJAN LOCAL COUNCIL

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

22. Capital commitments

	2019	2018
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	<u>866,000</u>	<u>3,587,876</u>
- Contracted for but not provided in the financial statements	<u>-</u>	<u>20,000</u>
(i) Approved but not yet contracted for:		
Construction	-	-
Office Furniture and fittings	10,000	5,000
Office Equipment	10,000	5,000
Project at Scicluna Steps	-	143,600
Church Parking Area	-	96,822
Works at Triq il-Forrest	-	209,596
Spinola Project	-	3,030,000
Various Development Planning Fund funded projects	846,000	-
Various other works in the locality	-	97,858
	<u>866,000</u>	<u>3,587,876</u>
(i) Contracted for but not provided in the Financial Statements:		
ATM at Ta' Giorni	-	20,000
	<u>-</u>	<u>20,000</u>

These capital commitments will be financed by funds which the Council received from the Central Regional Committee, DP Funds and from own funds.

23. Contingent liabilities

The Council has received various claims for damages to their vehicles allegedly caused by the state of repair of the Locality's roads which claims may have a financial effect on the St Julian's Local Council.

The Council was also served with a Court case before the First Hall Civil Court by a plaintiff who is suing the Council for damages incurred when suffered injuries to his leg allegedly as a result of the lack of upkeep of the pavement by the Council. The damages are to be liquidated by the Court and therefore the value remains uncertain.

The Council was also served with two Court cases before the Small Claims Tribunal and First Hall Civil Court for damages sustained on the towing of a motor vehicle.

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

24. Related party transactions

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

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Councils	Significant control
Local Enforcement System Agency	No control
Central Regional Committee	No control
Gozo Regional Committee	No control
South Eastern Regional Committee	No control
South Regional Committee	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Arms Limited	No control
Cleansing Services Department	No control
Director General - Works Division	No control
Wasteserv Malta Limited	No control
Police General Headquarters	No control
Department of Lands	No control
Airmalta plc	No control
Bank of Valletta plc	No control
Office of the Prime Minister	No control
Office of the Commissioner for Data Protection	No control
Association of Local Councils' Secretaries	No control
Ministry for Resources and Rural Affairs	No control

The amounts due from / to related parties at year-end are disclosed in notes 16 and 18. The terms and conditions do not specify the nature of the consideration to be provided in settlement. These amounts are unsecured, interest free and repayable on demand.

Key Management compensation

Transactions with key management personnel are disclosed in note 9. The Council considers the Mayor, Councillors & Executive Secretary to be Key Management personnel.

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

	2019			2018		
	Related party activity €	Total activity €	%	Related party activity €	Total activity €	%
<i>Income</i>						
Transactions with central government	934,781			846,345		
Transactions with regions	7,582			13,788		
	<u>942,363</u>	<u>1,128,612</u>	<u>83</u>	<u>860,133</u>	<u>1,009,177</u>	<u>85</u>
<i>Expenditure</i>						
Transactions with government entities	44,512			43,425		
Key personnel remuneration	67,782			60,150		
	<u>112,294</u>	<u>1,304,372</u>	<u>9</u>	<u>103,575</u>	<u>1,010,817</u>	<u>10</u>

SAN GILJAN LOCAL COUNCIL

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

25. Ultimate controlling party

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

26. Financial Risk Management

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

Credit risk

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

Liquidity Risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. In fact at year end, the Council has as cash and cash equivalents the amount of Euro 608,334. This should ensure an ongoing working capital of the Council for the next 12 months.

Going Concern Risk

The Council registered a deficit of €178,173 (2018: deficit of €4,194) during the year ended 31 December 2019, and as at that date, the Council had a positive net current asset position of €103,617 (2018: €668,582).

Ageing of financial assets is disclosed in note 16.

All financial liabilities mature within 60 days from year end.

Summary of financial assets and liabilities by category:

	2019	2018
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	313,413	337,058
Cash and Cash Equivalents	317,994	608,334
	<u>631,407</u>	<u>945,392</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	478,037	274,357

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

26. Financial Risk Management (cont.)

Foreign Currency Risk

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

Interest Rate Risk

The Council operates a bank account which have financing facilities. This facility has interest rates which did not fluctuate over the past years and as a result, the Council is not exposed to cash flow interest rate risk on bank balances.

Market risks

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

Other risks

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

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



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 San Giljan 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 Basis for Qualified Opinion paragraph of our report, the accompanying financial statements give a true and fair view of the financial position of San Giljan 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 8 to 13.

Because of the matter set out in paragraph 9 of the Basis for Qualified Opinion section below, these financial statements do not 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 paragraphs 1, 2, 3,4 5, 6, 7 & 8 of the Basis for Qualified opinion section below these financial statements have not been prepared in accordance with 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. As from 30 September 2002, all income and expenditure from the Local Enforcement System (LES) were centralised through the Group H Joint Committee and LES debtors at that date were transferred to the Joint Committee as well. The Group H Joint Committee ceased operations on 31 August 2011 and LES was centralised through the Central Regional Committee as from 1 September 2011. In view that no proper audited financial statements have been prepared by the Joint Committee, we could not obtain reasonable assurance on the completeness on the share of income as well as any possible accrued income or liabilities present at the financial position date.



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. The financial statements do not disclose the relevant lease commitments arising on leased areas as required by IFRS 16, *Leases*.
3. The Council's interest free non-current payable arising on the PPP project is accounted for at historical cost rather amortised cost as required by IAS 39, *Financial Instruments*.
4. 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 disclose all the standards that were adopted as from 1 January 2109 and the list of standards that were in issue but not yet adopted. The note also lacks information on the impact (if any) of the adoption of new standards that came into effect as from 1 January 2019 and those that will have to be adopted as from 1 January 2020. As such, the disclosure does not meet the requirements on IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*
5. Whereas the Council adopted the Expected Credit Loss model imposed by IFRS 9, we were not provided with an assessment of the impact of adoption of this model on 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 EUR631,407 at 31 December 2019.
6. The information provided in note 26 on page 25 in relation to the value of financial liabilities at 31 December 2019 and their maturity does not capture all financial liabilities as disclosed in the Statement of Financial Position and their respective maturity.
7. The information provided in note 23 on page 23 in relation to contingent liabilities does not include a balance of EUR21,808 which is in dispute and not recognised as a liability by the Council.
8. The Government Grants policy disclosed on page 11 indicates that the Council applies the Income Approach model in accordance with the IAS 20 whereas the Council had adopted and effectively applied the Capital Approach model as from 1 January 2018.
9. The Council has a negative FSI index which is lower than the minimum positive balance of 10% of the annual Government allocation allowed by the Local Councils (Financial) Procedures

Financial statements for the year ended 31 December 2019

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

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.

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:

- 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.

Financial statements for the year ended 31 December 2019

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

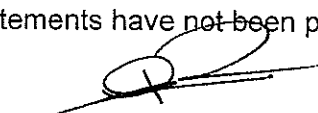
Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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

6 August 2020