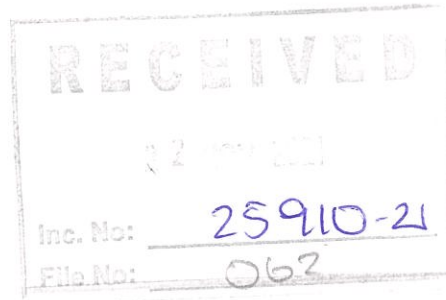


Our Ref: NAO 107/2021/52
Your Ref:

22 November 2021



The Mayor
St Julians Local Council
St Julian's

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2020**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2020.

After seeking the Regional Council's approval, you are kindly requested to submit your response to the Director (Monitoring & Support) Local Government Division, the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

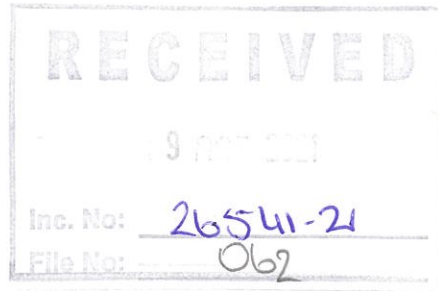
Yours faithfully,



Tanya Mercieca
Asst. Auditor General

Encls.

The Mayor
San Giljan Local Council
Forrest Street,
St. Julians, STJ 2033
Malta.



Grant Thornton
Fort Business Centre
Triq l-Intornjatur, Zone 1
Central Business District
Birkirkara CBD 1050
Malta

T +356 20931000

www.granthornton.com.mt

Our ref MB/mf/117221

19 October 2021

Dear Sir,

Financial statements for the year ended 31 December 2020

During the course of our audit for the year ended 31 December 2020 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils 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

We again noticed that the Council did not obtain the financial statements from the Joint Committee (refer to notes 2.16 and 2.17).

We did not note any inconsistencies in revenue recognition.

We did not identify irregularities in funds received from Central Region.

We again identified irregularities in accrued income (refer to notes 5.8 and 5.10).

1.2 Expenditure

We are pleased to note that the council did not exceed the budgeted expenditure for the year.

We did not identify any payments made prior to being approved in council meetings.

We did not identify any irregularity in other expenses.

1.3 Payroll

We did not identify any irregularities in payroll.



1.4 Property, plant and equipment

We are pleased to note that the council accounted for additions appropriately.

We did not identify any irregularities in assets under construction.

We are pleased to note that the council accounted for depreciation appropriately.

1.5 Receivables

We again identified long outstanding trade receivables (refer to note 5.3).

Once again, we identified discrepancies between amounts shown in the books of account and debtor confirmations (refer to note 5.1).

1.6 Cash and cash equivalents

We are pleased to note that the council prepared the bank reconciliations during the year.

1.7 Trade and other payables

As in previous year, when performing our test on the payable balances, we noticed that reconciliations were not prepared for any supplier selected (refer to note 7.1).

We again identified overdue payables (refer to note 7.3).

As in previous years, we identified irregularities in the PPP payable amount (refer to note 7.6).

1.8 Financial Statements

We again identified irregularities in the presentation of Financial Statements (refer to note 8.1).

1.9 Council Meetings

We again noted irregularities in council meetings (refer to note 9.1).

We did not identify any irregularities in councilor's attendance.

Similar to previous years, the Budget prepared was not complete (refer to note 9.9).

1.10 Liquidity Position

Similar to prior years, the council's Financial Situation Indicator is below the minimum positive balance of 10% (refer to note 12.1).

2 Income

Other Government income

- 2.1 As part of our audit testing, we requested the council to provide us with a comprehensive list of what the other Government income is made up of. After various attempts, the council provided us with a list which still did not match the income as listed in the books of account. In fact, the list provided by the council showed an income of €50,412 whilst the books of account show an amount of €49,601. No adjustment was proposed from our end since no explanation for the discrepancy was forthcoming.

- 2.2 We recommend that the council maintains a complete list of all revenue accounts and ensures that the nominal ledger entries are concise and give all the necessary detail so as to be able to identify exactly what the income is made up of.

General income

- 2.3 During our audit, we came across instances where the council did not deposit its general income on a regular basis. Examples are:

Receipt number	Details	Receipt date	Deposit date	€
18422	Permits	22.12.2020	29.12.2020	60.00
18004	Permits	27.10.2020	05.11.2020	10.00
17209	Permits	08.08.2020	13.08.2020	10.00
16783	Permits	27.06.2020	02.07.2020	15.00
16493	Permits	29.05.2020	04.06.2020	10.00
16196	Permits	22.04.2020	27.04.2020	15.00
16037	Permits	27.03.2020	02.04.2020	10.00

- 2.4 Apart from the security implications of leaving cash and cheques on the premises unnecessarily, this contravenes the relevant regulations. We recommend that the council implements procedures so that all receipts are deposited at least twice weekly.

Custodial Receipts

- 2.5 During our audit, we came across instances where the council did not deposit its general income on a regular basis. Examples are:

Receipt number	Details	Receipt date	Deposit date	€
28155456	Contravention	24.07.2020	30.07.2020	23.29
77102535	Contravention	17.12.2020	30.12.2020	35.00
59198413	Contravention	27.11.2020	03.12.2020	58.00
10045406	Contravention	09.10.2020	15.10.2020	50.00
610977996	Contravention	28.08.2020	03.09.2020	23.29
1852559	Lands	01.10.2020	05.11.2020	103.64
1822924	Lands	01.07.2020	24.09.2020	30.28
1793936	Lands	02.01.2020	26.02.2020	68.21

- 2.6 Apart from the security implications of leaving cash and cheques on the premises unnecessarily, this contravenes the relevant regulations. We recommend that the council implements procedures so that all receipts are deposited at least twice weekly.

Income from LES administration fee

- 2.7 We obtained Loqus report 483 and reconciled to income from LES administration fees and established that the council's income from LES administration fees for 2020 is understated by €1,294. No audit adjustment was proposed due to the fact that no explanation for the discrepancy was provided.
- 2.8 We recommend that the council generates the Loqus report frequently and reconciles amounts to fees claimed for collection of fines. Any discrepancies should be discussed with Loqus on a timely manner.

Revenue classification

- 2.9 During the course of our audit we noted that revenue from permits amounting to €81,745.68 was incorrectly classified as income raised by Local Council Bye-Laws instead of general income. We also noted that income received for organic waste collection amounting to €65,069 was incorrectly classified as general income instead of other Government income. Audit adjustments were proposed to rectify this. The audit adjustments were correctly incorporated in the audited financial statements.
- 2.10 Moreover, we also noted that income from the Malta Tourism Authority, amounting to €15,569.99 was incorrectly classified as general income instead of other Government income whilst income from Government fund allocations amounting to €5,995, was incorrectly classified as general income rather than other Government income. Audit adjustments were proposed to rectify this misclassification. The audit adjustments were correctly incorporated in the audited financial statements.
- 2.11 We recommend that the council pays more attention to where income is being allocated so that proper classification is made.
- 2.12 The council also recorded as general income, money received in relation to a capital grant in relation to road works in Triq Bonavita. The grant had a value of €67,999.66. An audit adjustment was proposed to account for this as grant under the assets under construction class. The audit adjustment was correctly incorporated in the audited financial statements.
- 2.13 We recommend that the council adheres to the IAS 20 '*Accounting for Government Grants and Disclosure of Government Assistance*' and transfers grants to fixed assets based on the percentage of completion of the project.

LES Invoices

- 2.14 The following invoices were not sent to LESA in the first week of the following month:

Invoice month	Invoice date
February 2020	17.03.2020
March 2020	08.05.2020
May 2020	28.07.2020
June 2020	28.07.2020
July 2020	09.09.2020
August 2020	09.09.2020
September 2020	13.01.2021
October 2020	14.01.2021
November 2020	14.01.2021
December 2020	14.01.2021

- 2.15 In accordance with memo 91/2011 councils are required to issue LESA invoices in the first week of the following month.

Joint committee

- 2.16 We noted that the Lvant Joint Committee, of which San Giljan Local Council formed part up to 31 August 2011, has provided audited financial statements for the year ended 31 December 2011.

- 2.17 The reserves of the committee at that date amount to €3.01 million. We were unable to determine whether the council is entitled to receive any further income from the Joint Committee. As a result, our audit report has been qualified.
- 2.18 Nevertheless, we recommend that the council raises this issue with the Department for Local Government and ensures that the joint committee is liquidated and that the council receives any further income that may be due to it.

3 Expenditure

Procurement procedures

- 3.1 Our testing on cheque payments revealed the below irregularities for the following listed purchases

Supplier	Details	€	Note
Jonstor	Various lamps, timers, tape, connectors, solv-it for MSD	1,473.68	(b)
Green Supplier Ltd	Pots & Plants at San Giljan front in Triq Censu Tabone	825	(a,b)
Tiffrankadotcom	2 full set of coloured printer toners for office	3,980.00 816.00	(a,b)

(a) The council did not raise a purchase order.

(b) The council failed to obtain any quotation.

- 3.2 In accordance with the Procurement Guidelines, 2017 issued by the Department for Local Government, the council should raise purchase orders for all purchases above €50. Furthermore the council should obtain at least three signed quotations for purchases exceeding €50 up to €5,000.
- 3.3 We would also like to remind the council that in accordance with the Procurement Guidelines 2017, councils are specifically required to make a public call for quotations for expenditure in the range of €5,000 to €10,000 and issue a call for tenders for expenditures above €10,000. We also draw your attention to section e.01 of the Local Councils (Financial) Procedures, 1996 which states that a similar purchase within four months is to be considered as one single purchase.

Asset insurance

- 3.4 During our audit we identified the below discrepancies between the asset insurance cover and net book value of assets as stated in the prior year audited financial statements:

Asset	Sum insured €	NBV in books of account* €
Buildings	259,144	158,187
Furniture and fittings	-	9,013
Office and electronic equipment	15,198	12,617
Total	274,342	179,817

- 3.5 It is evident that some of the fixed assets are over/under insured. May we advise the council to perform at least an annual review of its insurance policy in order to ensure that the council's insurance coverage is in line with current legislation.

Rent Expense

- 3.6 Whilst performing audit procedures we noted that the council recorded a rent expense amounting to €1,750 in the books of account. We noted that the council did not account for this amount in accordance IFRS 16 'Leases'. The council also failed to provide us with an assessment of leases in line with the standard. However, given that the effect on the financial statements was not deemed to be material, no adjustments were proposed from our end.
- 3.7 We recommend that the council reviews all lease contracts in place and considers the impact of IFRS 16 'Leases' on the council's financial statements and adjust if the need arises.

4 Fixed assets

Classification of financial statements with accounting records

- 4.1 We identified differences between the net book value (NBV) of certain assets in the financial statements and the NBV in the accounting records of the same categories. These are summarised below:

Asset category	NBV in financial statement €	NBV in unaudited accounting record €	Difference €
Office equipment	7,742	9,390	(1,648)
Special programmes	233,788	276	233,512
Assets not yet capitalised	174,889	406,754	(231,865)
	416,419	416,420	(1)

- 4.2 We recommend that the council investigates these classifications and ensures that the financial statements reflect what is included in the books of account.

Classification of financial statements with fixed assets register

- 4.3 We identified differences between the net book value of certain asset categories in the fixed assets register and the net book value in financial statements. These are summarised below:

Asset category	NBV in unaudited financial statements	NBV in fixed assets register	Difference
	€	€	
Urban improvements	51,860	30,261	21,599
Construction	26,899	48,499	(21,600)
	78,759	78,760	(1)

- 4.4 We recommend that the council ensures that the fixed asset register is updated with the categories shown in the fixed asset register tying up with both the financial statements and the nominal accounts so as to have the correct net book value for both tangible and intangible assets.

Details of fixed asset register

- 4.5 When reviewing the fixed asset register, we noted that certain details like invoice numbers, location and suppliers' details are missing. For example:

Asset category	Asset code	Description	Net book value €
Construction	CONW004	Monument	2,845.60
Office furniture	SHELF006	Shelves and brackets	1,637.46
Urban improvements	UI004	Benches	13,343.83
Office equipment	CCTV	CCTV	1,191.38

- 4.6 We recommend that every possible effort should be made to complete the fixed asset register to include at least all of the following:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)
- Cost
- Depreciation rate
- Location of the asset
- Grants received

- 4.7 An updated fixed asset register enables the council to exercise proper control over the council's property, plant and equipment. It provides a suitable inventory/checklist which may be used to determine whether assets previously purchased are still in existence or in use. We therefore recommend that the council's fixed asset register is updated henceforth with all relevant details.

5 Trade and other receivables

Confirmation of trade receivables

- 5.1 We have obtained a statement from Wasteserv Malta Ltd showing a balance of €57,125.00 due to the council. However, the council's books of account indicate a balance of €68,774.50. The council indicated that the discrepancy is coming from invoices which WasteServ Malta Ltd have not included in their books and that contact has been made by the council to reconcile discrepancies.
- 5.2 We recommend that, as with all debtors, regular reconciliations of amounts due are prepared to promptly highlight any differences. Discussions with the debtors is then encouraged to reconcile the amounts and amend accordingly the books of account.

Long outstanding balances

- 5.3 Whilst reviewing receivables we noted the following overdue balances:

	€
Active Enterprises	2,777.79
Green MT	13,593.87
Media Trendz	16,451.82
Mr Paul Fenech	175.00
Streetcom Outdoor Advertising	3,444.89
WasteServ Malta Ltd	15,399.50
Water Services Corporation	35,179.14
	<u>87,022.01</u>

- 5.4 From the balances included above, the council has the following provisions in place:

	€
Active Enterprises	1,678.31
Green MT	13,593.87
Mr Paul Fenech	175.00
Water Services Corporation	35,179.14
	<u>50,626.32</u>

- 5.5 We recommend that the council regularly reviews overdue receivables for recoverability. The council should determine how the receivable amount originated and if it is not valid or no longer recoverable the council should obtain approval in a council meeting to make a specific provision or write it off. The discussion and approval should be minuted in the council's minutes.

Pre-regional LES debtors

- 5.6 According to report 622 issued from Loqus, the council's tribunal payments for the pooling period up to 31 August 2011 is €1,286,513. No amount is recognised as an LES receivable in the council's books of account and in the financial statements. We did not propose an audit adjustment to account for LES debtors because it has no effect on the financial statements since LES debtors are carried at nil value following a provision for doubtful debts for the same amount.
- 5.7 We recommend that the council takes the matter up with Loqus to determine what the correct balance is and then considers whether an adjustment should be passed in the council's books.

Accrued income

- 5.8 During our testing we noted that the council recorded the amount of €22,509 and €35,933 from the Development Planning Fund in relation to works in Triq Forrest and Triq il-Mensija respectively as accrued income. Upon obtaining supporting documentation it was noted that these amounts were not covered by the original agreement signed with the Planning Fund and the council has submitted a supplementary claim for these amounts. However, to date of audit, the council has not yet received confirmation that the Development Planning Fund has accepted the claim by the council. Therefore, an audit adjustment was proposed to remove the accrued income and the grant allocated to these projects by €58,442. The audit adjustment was correctly incorporated in the audited financial statements.
- 5.9 We recommend that the council records accrued income when the funds have been approved and the council is reasonably certain that the amounts are going to be received.
- 5.10 Furthermore we noted that the council was showing as accrued income an amount of €6,120 and €12,278.73 in relation to Triq Bonavita and Triq William Hardman respectively. Upon enquiry with the council, it was noted that these amounts have been received by the council in August 2020. Therefore, an audit adjustment amounting to €18,398.73 was proposed to transfer these amounts from accrued income to the grants allocated to these projects. The audit adjustment was correctly incorporated in the audited financial statements.
- 5.11 We remind the council that the books of account should reflect the actual amounts received or still to be received. This would ensure that the books of account show a true view of the situation.

6 Bank and cash

LC Other Entities Account

- 6.1 During the audit fieldwork it was noted that the council did not open a new bank account which is to be used for the deposits of funds and subsequent transfers of the amounts due to entities such as LESA and the Lands Department. Instead, the council continued to adopt the old system of depositing funds directly to the entities' bank accounts.
- 6.2 Even though the council receives limited transactions, we still recommend the council to open this account as instructed by Directive 05/2020.

Bank loan

- 6.3 When we performed the loan repayment calculations to measure bank loan into its short-term and long-term amounts, we noted a difference of €5,517.91 from the amount shown in the council's books of accounts and proposed a reclassification. We also noted that in the financial statements presented, the council did account for the short-term portion of the loan liability.
- 6.4 We again recommend that the council considers the terms of the current bank loan agreement when calculating short term portion of loan. This is because an overstatement in the current portion of loan impacts the council's liquidity position and FSI.

7 Trade and other payables

Suppliers' statements

- 7.1 During the course of our audit we noted that the council did not obtain statements as at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account. Circulars issued from time to time by the Department for Local Government specifically emphasise that the council should acquire monthly statements from all its suppliers.
- 7.2 We recommend that the council obtains monthly statements from all suppliers in order to ensure proper recording of creditors in the council's ledgers. This will highlight any discrepancies between amounts recorded in the ledger and amounts in suppliers' statements.

Long outstanding creditors

- 7.3 The council's creditor list includes the following balances which have been outstanding for more than one year:

	€
Galea Cleaning Solutions	4,501.40
MI Projects	26,050.86
Mica Med Limited	826.00
Malta Planning and Des Con	23,600.00
Public Cleansing Department	670.66
Stylish Bathroom Centre	8,341.87
WasteServ Malta Ltd	21,896.38
	<u>85,887.17</u>

- 7.4 The council informed us that the balances with Mica Med Limited, Malta Planning and Des Con and the Public Cleansing Department are in dispute, hence why no payment has been made to date of audit. The council also informed us that they are in discussion with MI Projects and Stylish Bathroom Centre to settle these amounts.
- 7.5 We recommend that the council reviews these amounts and either settles them if still due, or else, reverses them after having obtained approval from the council. Furthermore, decisions and discussion regarding these balances should be minuted during council meeting.

PPP payables

- 7.6 During the year under review we noted that the council did not distinguish between trade creditors and capital creditors in the trial balance for the short term balances. Furthermore, we noted that included in long-term capital creditors, the council was showing the balance of €12,260 whilst from documentation obtained, the long term balance should have been €6,130.14. We have proposed an audit adjustment to transfer the amount included with payables to a separate account amounting to €14,733.39 and to transfer the amount of €6,130.13 from long-term to current PPP payable account. The audit adjustments were correctly incorporated in the audited financial statements.
- 7.7 We recommend that capital creditors are disclosed separately, especially when they are long term, to avoid taking incorrect figures when calculating liquidity and FSI ratios. Separate disclosure will also aid in the preparation of the cash flow statement.

Contractor's deposit guarantee

- 7.8 Upon enquiry about the council's deposit guarantees amounting to €24,537, we were informed that these relate to deposits requested upon application for permits of construction work by an individual or body corporate. Some of these deposits go back to 2015 which were never claimed.
- 7.9 We recommend that the council obtains advice on whether such amounts are still due to the contractor or whether legally, these are now the council's revenue. Furthermore, before removing such amounts from the guarantees to the profit or loss, approval in council meeting should be obtained.

8 Financial statements

Presentation of financial statements

- 8.1 We have also identified the following shortcomings in the financial statements of the council:
- i. In note 2 'Accounting Policies and reporting Procedures', the council is stating that they have adopted IFRS 16 in 2020 when the date of initial application was 2019.
 - ii. Note 11, 'Administrative and other expenditure', the total for 2020 is not casting.
- 8.2 These shortcomings were corrected in the audited financial statements prepared by the council, however we still recommend that the council gives more attention in the preparation of the financial statements.

9 Council meetings

Frequency of meetings

- 9.1 Whilst viewing the council minutes, we again noted that the time lapse between meetings exceeded five weeks:

Council meeting	Date of meeting	Date of subsequent meeting
Meeting 22	01.09.2020	13.10.2020

- 9.2 We draw your attention to section 43(2) of the Local Councils Act which states that committee's meetings should be held at least once a month or at any other shorter intervals as the committee may decide. This period should not, however, exceed five consecutive weeks.

Schedules of payments

- 9.3 Whilst performing audit procedures on the schedules of payments we noted that listed cheques were not in a sequential order.
- 9.4 During our analysis we noted various cheque numbers which were omitted from the schedules of payments. Further enquiries revealed that the omitted cheques were cancelled and erroneously not listed on the schedules as cancelled. Examples include cheque numbers 18048, 18502 and 18310.

- 9.5 In accordance with P1.11 of the Local Councils (Financial) Procedures, 1996 the executive secretary must prepare complete and accurate schedules of payments containing information in sequential order and present them for council's approval. We recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedule of payments. The cancelled cheques should be retained as evidence of their cancellation.
- 9.6 We also noted that some schedules of payments did not include bank transfer reference details and instead, the council only indicated that the payment was sent through a bank transfer.
- 9.7 Furthermore, the council, did not include details of the nominal account to which the expenses were allocated. We also noted that purchase orders were being entered into schedule of payments and then cancelled out on a later date. In some instances, invoices which were paid by the same cheque number were entered in a separate schedule of payments according to the invoice date rather than entered together according to the payment date.
- 9.8 We reiterate our recommendation that the council abides by section P1.11.c.c.01. of the Financial Procedures which dictates the amount of detail required on the schedules of payment. Furthermore, the executive secretary is to ensure the corrections of information prior to each council meeting.

Budget 2021

- 9.9 We noted that the council prepared its 2021 budget however the council did not complete 'Overview and Summary section.'
- 9.10 We recommend the council present a complete budget including overview and summary as this would assist the users to understand the plan of the council.

10 Electronic website

- 10.1 During our audit fieldwork, we noted the following shortcomings in relation to the electronic site:
- i. Up to the date of the audit fieldwork the following documents were not uploaded on website:
 - a. The business plan for the period 2020-2022;
 - b. The management letter for the year 2019; and
 - c. The reply to the management letter for the year 2019.
 - ii. The following documents were not uploaded within the required timeframe:
 - a. The quarterly financial statements for the year;
 - b. The annual budget for the year 2020;
 - c. The annual administration reports for the year 2019; and
 - d. The financial statements for the year 2019.
- 10.2 This contravenes the Local Councils (Financial) Procedures, 1996 which mandate specific timelines for these reports and minutes. We recommend the council uploads all documents in pdf within the required time. Furthermore, the council should indicate as signed all documents uploaded as confirmation that the uploaded documents have been approved and are the correct ones.

Uploading of management letter and other documents

- 10.3 Memo 7/2016 required the council to upload the management letter on the website. We have noted that the council did not upload the letter on the website whilst other councils uploaded it. We would like to point out the Local Councils (Audit) Procedures, P2.10.06b states that “such correspondence would not be made public ...”.
- 10.4 We therefore recommend that the council contacts the Department for clarification of this contradiction.
- 10.5 We would also like to remind the council of the recent General Data Protection Regulations as indicated to councils in SPI 7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore certain documents should be carefully scrutinised to ensure that they do not contravene the GDPR prior to uploading on website.

11 Capital commitments

- 11.1 During the year under review we noted that the council has €195,841 in property, plant and equipment commitments 2021 budget. The financial statements include capital commitments of €921,554 which cover both long-term and short-term projects. The council should disclose capital commitments required within the coming year and future years separately informing users of the council’s future intentions.
- 11.2 We recommend that the financial statements should adequately disclose the council’s future capital expenditure plans, if any, as agreed to the budget and business plan. Where appropriate it is advisable to explain how such capital expenditure is to be funded.

12 Liquidity position

Financial Situations Indicator

- 12.1 The council’s Financial Situations Indicator (FSI) at the end of the financial period under review is negative, which is less than the minimum positive balance of ten per cent of the annual Government allocation.
- 12.2 The executive secretary is bound by section 4(1)(c) of the Local Councils (Financial) Regulations, 1993 to maintain a positive balance and the FSI must not be less than ten per cent 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 per cent, and explain the actions that are to be taken by the council to remedy the situation.

Going concern

- 12.3 The council has a negative liquidity position of €13,796. Included with current liabilities is an amount of €96,346 with respect to deferred income for capital projects which have not been completed as ta year end. To this end, this amount was excluded from the current liabilities when calculating the liquidity position.
- 12.4 We recommend that the council takes immediate remedial action to improve the liquidity position as required by the Financial Procedures, 1996. The council should

try its utmost to curb recurring and capital expenditure falling in its functions, but without negatively impacting the long-term feature of the locality.

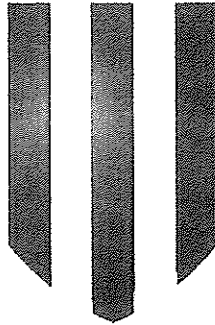
Conclusion

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,

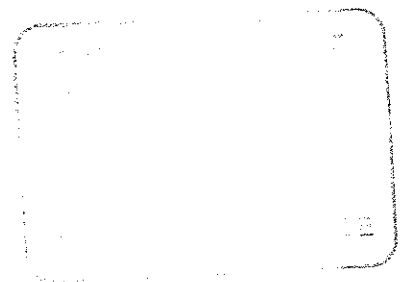




SAN GILJAN LOCAL COUNCIL

**Annual Report
and
Financial Statements**

for the year ended 31 December 2020



Prepared by

Daniel Galea B. Accty. (Hons.) CPA

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2020

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SAN GILJAN LOCAL COUNCIL


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

for the year ended 31 December 2020

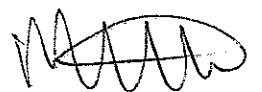
The Local Councils (Financial) Regulations' require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's comprehensive income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations 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 19th October 2021 and signed on its behalf by



Albert Buttigieg
Mayor



Paul Spiteri
Executive Secretary

SAN GILJAN LOCAL COUNCIL

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

		2020 €	2019 €
	<i>Notes</i>		
Revenue			
Funds received from Central Government	4	1,042,052	934,781
Income raised under Local Council Bye-Laws	5	43,117	139,878
Income raised under Local Enforcement System	6	7,883	7,582
General Income	7	81,745	46,371
		<u>1,174,797</u>	<u>1,128,612</u>
Expenditure			
Personal emoluments	9	(203,557)	(177,201)
Operations and maintenance	10	(750,159)	(774,530)
Administrative and other expenditure	11	(215,457)	(352,641)
		<u>(1,169,173)</u>	<u>(1,304,372)</u>
Operating Surplus/(Deficit) for the year		5,624	(175,760)
Finance income	12	5	61
Finance costs	13	(2,141)	(2,474)
Surplus/(Deficit) for the year		<u>3,488</u>	<u>(178,173)</u>


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


STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 €	2019 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	14	677,488	622,268
Intangible asset	15	1,553	2,447
		<u>679,041</u>	<u>624,715</u>
Current Assets			
Receivables	16	208,013	318,949
Cash and Cash Equivalents	17	217,404	317,994
		<u>425,417</u>	<u>636,943</u>
Total Assets		<u>1,104,458</u>	<u>1,261,658</u>
EQUITY AND LIABILITIES			
Reserves			
Retained Fund		<u>522,904</u>	<u>519,416</u>
		<u>522,904</u>	<u>519,416</u>
Non-Current Liabilities			
Long-term borrowings	19	39,865	45,425
Long-term payables	20	6,130	12,260
Deferred income	21	-	151,231
		<u>45,995</u>	<u>208,916</u>
Current Liabilities			
Payables	18	433,695	478,037
Short-term borrowings	19	5,518	5,256
Deferred income	21	96,346	50,033
Total Liabilities		<u>535,559</u>	<u>533,326</u>
Total Equity and Liabilities		<u>1,104,458</u>	<u>1,261,658</u>

These financial statements were approved by the Local Council on 19th October 2021 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 2020

	Retained Funds €
At 1 January 2019	697,589
Deficit for the year 2019	(178,173)
	<hr/>
At 31 December 2019	519,416
	<hr/> <hr/>
At 1 January 2020	519,416
Surplus for the year 2020	3,488
	<hr/>
At 31 December 2020	522,904
	<hr/> <hr/>

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020	2019
	€	€
	Note	
Cash flows from Operating Activities		
Surplus / (Deficit) for the year	3,488	(178,173)
Reconciliation to cash generated from operations:		
Depreciation and amortisation	48,869	55,607
Increase/(decrease) in provision for bad debts	23,194	(1,101)
Bad debts written off	-	4,271
Loss on disposal	-	28
Interest receivable	(5)	(61)
Interest payable	2,141	2,474
Grants recognised in income	-	(10,230)
Operating Surplus/(Deficit) before Working Capital Changes	<u>77,687</u>	<u>(127,185)</u>
Decrease/(increase) in receivables	110,936	(71,072)
(Decrease)/increase in payables	<u>(40,693)</u>	<u>241,225</u>
Cash generated from operating activities	147,930	42,968
Cash flows from Investing Activities		
Interest received	5	61
Purchase of property, plant & equipment	<u>(326,222)</u>	<u>(781,183)</u>
Cash used in investing activities	(326,217)	(781,122)
Cash flows from Financing Activities		
Repayment of bank loans	(5,064)	(5,064)
Receipt of grant	84,902	455,352
Interest paid	<u>(2,141)</u>	<u>(2,474)</u>
Cash generated from investing activities	77,697	447,814
Net decrease in Cash and Cash Equivalents	<u>(100,590)</u>	<u>(290,340)</u>
Cash and Cash Equivalents at the Beginning of the year	<u>317,994</u>	<u>608,334</u>
Cash and Cash Equivalents at the End of the year	17 <u>217,404</u>	<u>317,994</u>

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

Notes to the Financial Statements for the year ended 31 December 2020

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 19th October 2021. The Local Council's presentation as well as functional currency is denominated in €.

2. Accounting Policies and Reporting Procedures

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

Accounting convention

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

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

New and amended standards adopted by the Local Council:

In the current year, the Local Council has applied a number of new standards and amendments to IFRS issued by the International Accounting Standards Boards (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2020.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements.

New Standards and amendments not yet effective:

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

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

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

Accounting Policies and Reporting Procedures (cont.)

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
- 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.

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Leases (cont.)

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. 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.

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.

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

Accounting Policies and Reporting Procedures (cont.)

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 have already been 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.

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'.

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Financial assets (cont.)

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.

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.

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Profits and losses

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

Cash and cash equivalents

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

Capital Management

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

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

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

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

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

4. Funds received from central government

	2020	2019
	€	€
In terms of section 55 of the Local Councils Act	905,817	844,512
EU funding	25,000	-
Other Government Income	111,235	90,269
	<u>1,042,052</u>	<u>934,781</u>

5. Income raised under Local Council Bye-Laws

	2020	2019
	€	€
Income from permits	<u>43,117</u>	<u>139,878</u>

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

6. Local Enforcement system

	2020	2019
	€	€
Pre-regional Committees	2,316	955
Regional Committees/LESA - Administrative Fees	<u>5,567</u>	<u>6,627</u>
	<u><u>7,883</u></u>	<u><u>7,582</u></u>

7. General Income

	2020	2019
	€	€
General Income	<u>81,745</u>	<u>46,371</u>
	<u><u>81,745</u></u>	<u><u>46,371</u></u>

8. Surplus/Deficit for the year

	2020	2019
	€	€
Surplus/Deficit for the year is stated after charging		
Staff salaries	203,557	177,201
Depreciation and amortisation	48,869	55,605
Provision for bad debts	<u>23,194</u>	<u>(1,101)</u>

9. Personal Emoluments

	2020	2019
	€	€
Mayor's Remuneration	15,027	13,415
Councillors' Allowances	24,543	16,802
Executive Secretary Salary and Allowances	36,238	35,709
Employees' Salaries	116,400	101,284
Social Security Contributions	<u>11,349</u>	<u>9,991</u>
	<u><u>203,557</u></u>	<u><u>177,201</u></u>

The average number of persons employed by the Council during the year was as 8 (2019: 7).

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

10. Operations and Maintenance

	2020	2019
	€	€
<i>Repairs and Upkeep:</i>		
Road and Street Pavements (patching works)	2,227	59,629
Public property	11,546	5,583
Street signs	14,499	8,380
Road Markings	5,864	18,435
Plant and machinery	-	800
Other repairs and Upkeep	50,912	56,917
	<u>85,048</u>	<u>149,744</u>
<i>Contractual Services:</i>		
Refuse Collection	232,613	165,883
Bulky Refuse Collection	42,605	28,215
Road and Street Cleaning	172,790	166,072
Cleaning and Maintenance - Public Conveniences	9,422	13,850
Cleaning and Maintenance - Parks and Gardens	21,559	46,706
Cleaning and Maintenance - Soft areas	21,765	23,503
Support Services	76,209	66,388
Street Lighting	88,148	114,169
	<u>665,111</u>	<u>624,786</u>
 Total Operations and Maintenance Costs	 <u>750,159</u>	 <u>774,530</u>

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

11. Administrative and other expenditure

	2020	2019
	€	€
Utilities	15,817	11,763
Other repairs and upkeep	6,237	5,267
Rent	1,750	1,750
National and International Memberships	952	854
Office Services	5,846	22,368
Transport	18,560	18,716
Travel	-	4,093
Information services	289	80
Other contractual services	7,154	14,644
Insurance	2,892	2,973
Bank Charges	653	571
Professional Services	48,680	37,312
Tuition for courses and expenses	732	5,670
Community Services	27,581	136,436
Sundry minor expenses	1,032	4,904
LES related expenses	4,040	18,794
Asset Disposal Account	-	28
Bad debts write off	-	4,271
(Decrease)/increase in provision for bad debts	23,194	(1,101)
Twinning expenses	-	567
EU projects expenses	1,677	-
Depreciation and amortisation	48,869	55,605
	<u>215,457</u>	<u>352,641</u>

12. Interest Income

	2020	2016
	€	€
Bank Interest Receivable	<u>5</u>	<u>61</u>

13. Finance Costs

	2020	2016
	€	€
Loan interest	<u>2,141</u>	<u>2,474</u>

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

14. Property, plant and equipment

	Property €	Trees €	Office Furniture & fittings €	Office Equipment €	Urban Improvements €	Assets not yet Capitalised €	New Street Signs €	Construction €	Special Programmes €	Total €
Cost										
At 1 January 2020	185,798	8,817	74,449	57,170	65,922	171,112	9,707	250,400	2,774,539	3,597,914
Additions	-	-	-	-	31,581	294,641	-	-	-	326,222
At 31 December 2020	185,798	8,817	74,449	57,170	97,503	465,753	9,707	250,400	2,774,539	3,924,136
Depreciation										
At 1 January 2020	27,611	-	65,436	42,335	44,322	-	9,707	217,660	393,740	800,811
Charge for the year	1,747	-	801	4,875	1,321	-	-	5,841	33,393	47,978
At 31 December 2020	29,358	-	66,237	47,210	45,643	-	9,707	223,501	427,133	848,789
Grants										
At 1 January 2020	-	-	-	2,218	-	58,999	-	-	2,113,618	2,174,835
Grants for current year	-	-	-	-	-	223,024	-	-	-	223,024
At 31 December 2020	-	-	-	2,218	-	282,023	-	-	2,113,618	2,397,859
Net Book values										
At 31 December 2020	156,440	8,817	8,212	7,742	51,860	183,730	-	26,899	233,788	677,488

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

14. Property, plant and equipment (cont.)

	Property	Trees	Office Furniture & fittings	Office Equipment	Urban Improvements	Assets not yet Capitalised	New Street Signs	Const	Special Programmes	Total
Cost	€	€	€	€	€	€	€	€	€	€
At 1 January 2019	185,798	3,084	71,858	53,666	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	260,400	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	-	59,999	-	-	2,113,618	2,174,835
Net Book values										
At 31 December 2019	158,187	8,817	9,013	12,617	21,600	112,113	-	32,740	267,181	622,268

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

15. Intangible property, plant & equipment

	Computer software €
Cost	
At 1 January 2020	4,160
	<hr/>
At 31 December 2020	4,160
	<hr/>
Depreciation	
At 1 January 2020	1,713
Charge for the year	894
	<hr/>
At 31 December 2020	2,607
	<hr/>
Net Book value	
At 31 December 2020	1,553
	<hr/> <hr/>
Cost	
At 1 January 2019	4,160
	<hr/>
At 31 December 2019	4,160
	<hr/>
Depreciation	
At 1 January 2019	738
Charge for the year	975
	<hr/>
At 31 December 2019	1,713
	<hr/>
Net Book value	
At 31 December 2019	2,447
	<hr/> <hr/>

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

16. Receivables

	2020	2019
	€	€
Receivables	190,326	61,799
Accrued income	14,999	251,614
Prepayments	2,688	5,536
	<u>208,013</u>	<u>318,949</u>

Receivables

General receivables are analysed as follows:

	2020	2019
	€	€
Within credit period	49,879	18,339
Exceeded credit period but not impaired	140,447	43,460
Impaired and provided for	50,780	27,586
Provision for doubtful debts	<u>(50,780)</u>	<u>(27,586)</u>
	<u>190,326</u>	<u>61,799</u>

Included in the accounts receivable are amounts due from related parties amounting to €164,532 (2019 : €53,638). These amounts are unsecured, interest free and repayable on demand. Receivables are stated net of impairment provision of €50,780 (2019: €27,586).

17. Cash & cash equivalents

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

	2020	2019
	€	€
Cash at Bank	217,121	317,875
Cash in Hand	283	119
	<u>217,404</u>	<u>317,994</u>

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

18. Payables

	2020	2019
	€	€
Payables	315,600	281,832
Other payables	24,712	23,337
Public Private Partnership (PPP) Agreement	20,864	24,513
Accruals	72,519	148,355
	<u>433,695</u>	<u>478,037</u>

Included in the accounts payable are amounts due to related parties amounting to €81,622 (2019 : €36,050). These amounts are unsecured, interest free and repayable on demand.

19. Borrowings

	2020	2019
	€	€
Non-current		
Bank borrowings	<u>39,865</u>	<u>45,425</u>
Current		
Bank borrowings	<u>5,518</u>	<u>5,256</u>
Borrowings		
Repayable between one and two years	5,518	5,518
Repayable between two and five years	18,211	18,211
Repayable in five years or more	<u>16,136</u>	<u>21,696</u>
	<u>39,865</u>	<u>45,425</u>
Repayable after five years or more:		
Bank Loan	<u>16,136</u>	<u>21,696</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% (2019 – 4.6%) and are repayable in monthly instalments of €629.69 (2019 - €629.69) inclusive of interest.

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

20. Amounts payable under the PPP agreement

	2020	2019
	€	€
Non-current		
Public Private Partnership (PPP) Agreement	<u>6,130</u>	<u>12,260</u>
Borrowings		
Repayable between one and two years	6,130	12,260
Repayable between two and five years	-	-
	<u>6,130</u>	<u>12,260</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

	2020	2019
	€	€
Government grants		
At 1 January	201,264	302,821
Increase in year including funds from Central Regional Committee	-	67,035
State Funds allocated to Local Council	126,947	413,606
	<u>328,211</u>	<u>783,462</u>
Recognized in Property, Plant & Equipment	(231,865)	(571,968)
Recognized in Income Statement	-	(10,230)
	<u>-</u>	<u>-</u>
At 31 December	<u>96,346</u>	<u>201,264</u>
Current Deferred Income	<u>96,346</u>	<u>50,033</u>
Non-Current Deferred Income	<u>-</u>	<u>151,231</u>
Deferred Government Grants		
Deferred between one and two years	-	-
Deferred between two and five years	-	-
Deferred in five years or more	-	151,231
	<u>-</u>	<u>151,231</u>
Deferred after five years or more	<u>-</u>	<u>151,231</u>

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

22. Capital commitments

	2020	2019
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	<u>823,568</u>	<u>866,000</u>
- Contracted for but not provided in the financial statements	<u>97,986</u>	<u>-</u>
 (i) Approved but not yet contracted for:		
Construction	-	-
Office Furniture and fittings	-	10,000
Office Equipment	5,000	10,000
Resurfacing Triq Ross	87,066	-
Resurfacing Trejzet il-Bajja	145,912	-
Resurfacing Triq il-Qaliet	89,818	-
Resurfacing Telghet Birkirkara	228,396	-
Resurfacing Triq Lapsi	267,376	-
Various Development Planning Fund funded projects	-	846,000
	<u>823,568</u>	<u>866,000</u>
 (i) Contracted for but not provided in the Financial Statements:		
Resurfacing Triq Diodorus Siculus	<u>97,986</u>	<u>-</u>
	<u>97,986</u>	<u>-</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 a Court Case before the First Hall Civil Court by a plaintiff who is suing the Council for Damages incurred by the same when suffered injuries to his leg allegedly as a result of the lack of upkeep of the pavement by the Local Council. The damages are to be liquidated by the Court and therefore the value remains uncertain.

The Council was also served with a Court Case before the Court of Appeal (Inferior) whereby a party who was found liable for damages caused in a traffic accident is seeking compensation from the Council. The amount is not more than €850 excluding interest and court expenses.

Notes to the Financial Statements for the year ended 31 December 2020 (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:

	Related party activity	2020 Total activity	%	Related party activity	2019 Total activity	%
	€	€		€	€	
<i>Income</i>						
Transactions with central government	1,042,052			934,781		
Transactions with regions	7,883			7,582		
	<u>1,049,935</u>	<u>1,174,797</u>	<u>89</u>	<u>942,363</u>	<u>1,128,612</u>	<u>83</u>
<i>Expenditure</i>						
Transactions with government entities	56,827			44,512		
Key personnel remuneration	75,808			67,782		
	<u>132,635</u>	<u>1,169,173</u>	<u>11</u>	<u>112,294</u>	<u>1,304,372</u>	<u>9</u>

Notes to the Financial Statements for the year ended 31 December 2020 (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 profit of €3,488 (2019: deficit of €178,173) during the year ended 31 December 2020, and as at that date, the Council had a negative net current asset position of €110,142 (2019: positive net current asset position of €103,617).

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:

	2020	2019
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	205,325	313,413
Cash and Cash Equivalents	217,404	317,994
	<u>422,729</u>	<u>631,407</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>412,831</u>	<u>478,037</u>

Notes to the Financial Statements for the year ended 31 December 2020 (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.

Report of the Local Government Auditor

To the Auditor General

Report on the audit of the financial statements

Qualified opinion

We have audited the financial statements of San Giljan Local Council set out on pages 4 to 26 which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Council as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act, the Local Councils (Financial) Procedures 1996 (the “Legislation”).

Basis for qualified opinion

Up to 31 August 2011, all income and expenditure from the Local Enforcement System (LES) were centralised through the Lvant Joint Committee of which San Giljan Local Council formed part. The Joint Committee ceased operations on that date. The most recent audited financial statements of the Joint Committee that were made available to us are those for the year ended 31 December 2011. Those financial statements show that the Committee had accumulated reserves amounting to €3.01 million. Due to the uncertainty as to whether the Council will receive further amounts from the Committee, the Council has not recognised any receivable from the Committee. In the absence of more recent audited financial statements, we are unable to determine whether the Council is entitled to receive any further income from the Joint Committee.

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 of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of those charged with governance for the financial statements

As described on page 3 the Executive Secretary and the members of the Local Council are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and are properly prepared in accordance with the provisions of the Legislation, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Secretary and the members of the Local Council are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is the intention to liquidate the Council or to cease operations, or have no realistic alternative but to do so.

The Executive Secretary and the members of the Local Council are responsible for overseeing the Council's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

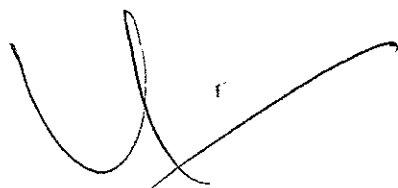
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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 the ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 those charged with governance 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.

The engagement partner on the audit resulting in this independent auditor's report is Mark Bugeja.

A handwritten signature in black ink, appearing to be 'M. Bugeja', written over a horizontal line.

Mark Bugeja (Partner) for and on behalf of

GRANT THORNTON
Certified Public Accountants

Fort Business Centre
Triq l-Intornjatur, Zone 1
Central Business District,
Birkirkara CBD 1050
Malta

19 October 2021