

Our Ref: NAO 107/2015/52
Your Ref:

24 June 2019

The Mayor and Executive Secretary
St Julians Local Council
St Julian's

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2018**

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 2018.

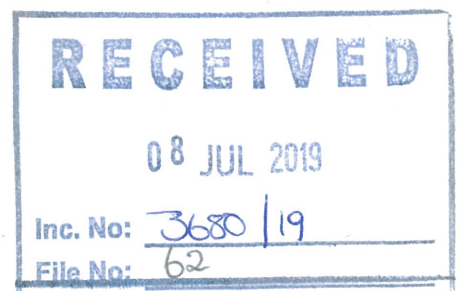
After seeking the Council's approval, you are kindly requested to submit your response to the Director (Local Government), the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,



Tanya Mercieca
Asst. Auditor General

Encls.



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

2 May 2019



Financial Statements for the period ended 31 December 2018

During the course of our audit for the year ended 31 December 2018, 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

Deferred income relating to plants and trees was utilised in full during 2017 and hence no issues arose in 2018. On the other hand, the situation with the Joint Committee share of profits remains unchanged from previous periods (refer to note 2.1).

Once again, we identified issues with recognition of accrued income (refer to note 2.3) and a similar issue with funds received from the Central Region (refer to note 2.5).

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

Since the petty cash limit was increased to EUR50, we did not identify transactions that exceeded this limit.

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

The Council has formally approved leave carried forward by employees which was within the permitted limits.

Once again, we identified payments that were made prior to approval by the Council (refer to note 3.4) and also identified weaknesses in the procurement process (refer to notes 3.6 & 3.7).

1.4 Receivables

Similar to last year, we identified long overdue balances in the debtors list (refer to note 4.1). We also noted that the situation with Water Services Corporation is similar to that reported for 2017 (refer to note 4.2).

We did not identify any issues in accounting for prepayments.

1.5 Bank accounts

BOV cheques still do not include the Council's Coat of Arms (refer to note 5.3).

1.6 Trade and other payables

Monthly statements were once again not obtained by the Council (refer to note 6.1).

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 within a 5 week interval (refer to note 8.1) and that minutes uploaded were once again not marked as "IFFIRMATI" (refer to note 8.2). We also identified minutes and schedules that were not signed by the Mayor and Executive Secretary (refer to note 8.4).

We did not identify instances in which Councillors missed an excessive number of meetings, on the other hand, the Council is not requesting and retaining copies of medical certificates (refer to note 8.6).

1.9 Budget

The Council budget for 2019 was prepared on the appropriate templates however the overview and summary section was once again left blank and the business plan for the period 2019 – 2021 was not prepared. (refer to note 9).

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 2017. In the current year the Council recognised income amounting to EUR673 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 2018.

Accrued income

- 2.3 As from 31 October 2018, the Council, through its contractor, started collecting organic waste at an extra cost which amounted to EUR7,163. The Council was entitled to claim back the cost from WasteServ, however, this was not recharged by year end. We proposed an adjustment to recognise the amount as accrued income. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 2.4 We recommend that the Council adopts procedures to reclaim back these costs and recognise them as income in the year they occur.

Unutilised funds received from Central Region Committee

- 2.5 Throughout 2018, the Council received additional funds amounting to EUR18,371 from the Central Region that were recognised directly as income rather than deferred and used for approved projects. We proposed an adjustment to reclassify the amount to accrued income. The Council approved our adjustment and reflected it in the audited Financial Statements.
- 2.6 At the financial position date, we noted that the Council had EUR302,821 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 EUR91,772, a difference of EUR211,049. We noted that the Council used these funds to settle EUR198,323 in capital expenditure that is expected to be financed from UIF funds (amount is recognised in accrued income). We also noted that the receipt of EUR18,371 during 2018 was deposited in another account. Together, these amount to EUR216,694 and the difference between this amount and EUR211,049 relates to other LES deposits made to this account and interest earned.
- 2.7 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.

3 Expenditure

Budgeted versus actual expenditure

- 3.1 The Council had budgeted a capital expenditure of EUR310,000 allocated as tabled below. However, expenditure amounted to EUR595,004. The Council incurred capital expenditure in excess of the amount budgeted for two specific categories.

	Actual Figures EUR	Budgeted Figures EUR	Difference EUR
Office Furniture & Fittings	2,486	5,000	- 2,514
Office Equipment	1,471	5,000	- 3,529
Special Programmes	510,514	230,000	280,514
Construction	-	70,000	- 70,000
Assets Not Yet Capitalised	80,533	-	80,533
	595,004	310,000	285,004

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 lower surplus and we noted that in various instances income was higher than that budgeted for the respective income. Actual income exceeds the amount forecasted by EUR88,535. 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 and provision for bad debts.

	Actual Figures EUR	Budgeted Figures EUR	Difference EUR
Income			
Funds Received from Central Government	800,642	800,642	-
Other income	45,703	2,000	43,703
Income Raised Under Local Council Bye-Laws	145,965	70,000	75,965
Income Raised Under LES	13,788	30,000	- 16,212
General Income	3,079	18,000	- 14,921
	1,009,177	920,642	88,535

	Actual Figures EUR	Budgeted Figures EUR	Difference EUR
Expenditure			
<i>Personal Emoluments</i>			
Mayor's Remuneration	11,196	11,118	78
Councillors' Allowances	11,200	11,200	-
Executive Secretary Salary and Allowances	35,902	132,912	- 7,659
Employees' Salaries	89,351	12,000	- 2,590
Social Security Contributions	9,410	-	-
	157,059	167,230	10,171

	Actual Figures EUR	Budgeted Figures EUR	Difference EUR
Expenditure			
<i>Operations and Maintenance</i>			
Road and Street Pavements (Patching Works)	60,573		
Public Property	14,920		
Street Signs	9,574	100,000	49,035
Road Markings	19,981		
Other Repairs and Upkeep	43,987		
Waste Disposal		62,355	
Refuse Collection	125,603	115,000	- 51,752
Bring In Sites	-	1,416	- 1,416
Bulky Refuse Collection	24,579	22,500	2,079
Road and Street Cleaning	133,946	100,000	33,946
Cleaning - Council Premises	-	20,000	- 20,000
Cleaning and Maintenance - Public Conveniences	13,432	13,205	227
Cleaning and Maintenance - Parks and Gardens	46,980	21,000	25,980
Support Services	1,272	-	1,272
Street Lighting	24,315	25,000	- 685
	519,162	480,476	38,686
<i>Administration and Other Expenses</i>			
Utilities	13,240	7,000	6,240
Other Repairs and Upkeep	14,321	12,000	2,321
Rent	1,750	2,300	- 550
National and International Memberships	730	1,000	- 270
Office Services	10,448	10,000	448
Transport	7,998	9,000	- 1,002
Travel	1,382	3,000	- 1,618
Information Services	2,651	1,500	1,151
Other Contractual Services	13,480	22,000	- 8,520
Insurance Coverage	2,366	2,500	- 134
Bank Charges	231	600	- 369
Professional Services	55,528	25,000	30,528
Hospitality	-	12,000	- 12,000
Tuition for Courses and Expenses	850	1,600	- 750
Community Services	87,706	10,000	77,706
Sundry Minor Expenses	11,005	3,000	8,005
Lease of Equipment	-	500	- 500
LES Related Expenses	20,608	1,000	19,608
Twining Expenses	20,998	20,000	998
	265,292	144,000	121,292
Total Expenditure	941,513	791,706	149,807
Finance Income	158	-	158
Finance Costs	- 2,712	- 3,500	788
	- 2,554	- 3,500	946
Surplus for the Year	65,110	125,436	- 61,902

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.

Other expenditure

- 3.6 On 1 February 2017, the Council awarded a tender for the upkeep and cleaning of parks and gardens to a contractor.¹ Due to issues with the service provided, the Council terminated the contract with effect from 1 July 2018 and a new tender was issued. In the meantime, the Council hired a new contractor² to carry out the necessary works. The new tender was awarded in December 2018 and the fees incurred between July and December amounted to EUR30,431.
- 3.7 The Council tender for the Cleaning, Maintenance and Upkeep of Public Convenience was awarded on 22 August 2013.³ The contract has been extended and was still running throughout 2018 even if this exceeds 3 years. The expense incurred during 2018 amounted to EUR13,382.
- 3.8 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.

Insurance cover

- 3.9 The Council renewed its Insurance Policy as from 1 September 2018. 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 Covered	NBV of Assets 2017 EUR	Amount Insured EUR	Difference EUR
Property	162,000	259,143	- 86,296
Office Furniture/Fittings	10,847		
Office equipment	21,883	15,197	6,686
	194,730	274,340	- 79,610

¹ Wilson Mifsud obo WM Environmental Ltd

² Galea Cleaning Solution

³ Sandro Caruana

- 3.10 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.

Replacement bins

- 3.11 Throughout 2018, the Council capitalised the cost of replacing various bins at a value of EUR10,261 on which the Council recognised a depreciation charge of EUR6,251. Since the policy on litter bins is that of a replacement basis, we proposed an adjustment to reclassify the capitalised cost to expenses for the year and reverse the depreciation provision. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

Donations

- 3.12 Throughout 2018, the Council paid for cleaning services carried out at the Millennium Chapel. These payments started from June 2018 and amounted to EUR1,400 inclusive of an accrual of EUR250 for the month of December.
- 3.13 We remind the Council that donations are specifically prohibited by Article 63A of the Local Council Act, whether in cash or in kind unless as they fall within the exception under Directive 5A/2016.

4 Receivables

Overdue receivables

- 4.1 Whilst reviewing trade receivables we noted balances amounting to EUR28,687 which have been due for over 365 days. The list of balances is included in Appendix 2. At the financial position date, the provision on these balances amounted to EUR4,271. Hence, we proposed an adjustment to increase the provision by EUR24,416. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.
- 4.2 We also circularised a sample of debtors including Water Services Corporation. The amount receivable per ledger, at 31 December 2018, amounted to EUR35,337 (2017: EUR12,272) however, the amount confirmed by WSC was only EUR981 (2017: EUR981). Throughout 2018, the Council issued 20 invoices amounting to EUR23,065 to the Corporation.
- 4.3 We recommend that the Council follows up the recoverability of these balances and provides for any unrecoverable amounts.

Receipts from debtors

- 4.4 As part of our testing we analysed the statements issued to debtors and assessed these reports against the debtors list included in Sage. Our testing identified the following errors:

- The amount due from a customer⁴ as per the list was EUR11,848, however, the separate statement issued to the debtor indicated that the amount due was only EUR1,678. From our testing we noted that EUR10,170 recovered during 2018 were allocated directly against income rather than the debtor and effectively overstating income by that amount.
- Similarly, the amount due from another customer⁵ was stated at EUR12,436 whereas the statement issued to the debtor indicated that the amount due was EUR10,805. Once again, our testing indicated that receipts amounting to EUR1,631 were recognised directly in income rather than setting off the debtor balance.
- Our testing on income also identified a further receipt of EUR412 from another debtor⁶ that was recorded directly in income rather than set-off versus the invoice recorded in debtors.

We proposed the necessary adjustments to reclassify EUR12,213 from income to receivables. The Council approved our proposed adjustment and reflected it in the audited Financial Statements.

- 4.5 We recommend that the Council adopts the necessary procedures to ensure that receipts from debtors are recognised as a receipt from that debtor rather than income.

5 Bank accounts

Bank reconciliations

- 5.1 Although monthly bank reconciliations were available, the reports did not include the date the reconciliation was prepared and hence, we could not determine whether these were prepared within the stipulated time frames. We also noted that the reconciliations provided did not include evidence that they were reviewed and approved by the Executive Secretary.

- 5.2 We recommend that the Council adopts procedures to ensure that the bank reconciliation reports are issued and electronically stamped within 10 working days from each month end and that each reconciliation is verified and marked as approved by the Executive Secretary.

Cheque book

- 5.3 From our review on bank payments, we noted that the BOV cheques do not include the coat of arms of the Council as required by the Local Council (Financial) Regulations.

⁴ Active Enterprises

⁵ Media Trends Ltd

⁶ Raymond Bonnici

6 Trade and other payables

Creditors' statements

- 6.1 As part of our procedures, we requested statements for the Council's main creditors. Whereas statements were available for the main balances at 31 December 2018, 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 The Council's records indicated that the amount due to a supplier⁷ at the Financial Position date amounted to EUR34,065 whereas the supplier indicated that the amount due was EUR38,043. The difference of EUR3,978 was analysed and mainly related to an uncleared December payment of EUR1,776, un-recorded December invoices amounting to EUR2,094 and other differences of EUR108. The un-recorded invoices of EUR2,094 were not yet received by the Council since certification was still pending. However, since the works were carried out in 2018, we proposed an adjustment to recognise the amount within accrued expenditure. The Council approved our adjustment and recorded it in the audited Financial Statements.
- 6.3 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.

Cut-off and accrued liabilities

- 6.4 Our testing on cut-off and unrecorded liabilities identified a payment of EUR4,000 made to a contractor⁸ for cleaning of culverts. Whereas the invoice was issued and paid in January 2019, the related service was carried out during the month of December 2018. The Council did not include this cost within accrued liabilities, hence we proposed an adjustment to increase expenses and accrued liabilities by EUR4,000. The Council approved our adjustment and recorded it in the audited Financial Statements.
- 6.5 Our testing on accrued liabilities identified the following over accrued balances:
- Accrued expense of EUR57,243 for resurfacing works carried out by a contractor⁹ since the actual invoice was also recorded by the Council hence resulting in double booking of the cost and liability.
 - Accrued expense of EUR15,188 for the construction of an ATM room whereas the works were expected to start in 2019 and hence the liability was not yet in place at the Financial Position date.

We proposed the necessary adjustments to reduce accruals by EUR72,431. The Council approved our proposed adjustment and included it in the audited Financial Statements.

⁷ Mica Med Ltd

⁸ JL Brothers

⁹ LK Limited

6.6 We recommend that the Council adopts the necessary controls to ensure that the Council records its payables and accruals at the right time and at the right levels.

PPP Payables

6.7 The Council still has payables due under the PPP scheme¹⁰ that amount to EUR40,708 at the Financial Position date. At 31 December 2018, EUR20,681 was recognised under current liabilities. From an analysis of the amount due, we noted that the Council was bound to settle EUR7,767 during 2018, however the Council only paid the sum of EUR1,637. From the current liability of EUR20,681, only EUR7,767 was planned to be paid during 2019, whereas the balance of EUR12,914 should have been paid over the previous 3 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. This had the following impacts on the cash flow:
 - Receipt of grants under cash flow from financing activities were disclosed at EUR456,328. However, this amount included EUR289,075 in UIF funds that are still recorded as accrued income and ignore receipt of EUR14,273 from Tarmac initiative that were included as accrued income at the end of 2017. The net impact of EUR274,802 should have been deducted from this amount hence disclosing receipt of grants at EUR181,526 and increase in receivables at EUR21,107 rather than EUR295,909.
 - The payment of EUR1,637 of long-term liabilities and included in cash flows from Financing Activities, was a payment to the PPP creditor for Property, Plant and Equipment. Hence, the amount should have been included with such payments under Cash Flows from Investing Activities and restated at EUR600,541 rather than EUR598,904.
- The Council reported a rental cost of EUR 1,750, however, the Financial Statements do not disclose the necessary disclosures required by IAS 17 *Leases*.

¹⁰ Polidano Brothers

- 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.
- 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 effected the results of the Council. At the financial position date, the Council has financial assets amounting to EUR945,392. We also noted that the impairment policy and credit risk assessment as disclosed in the financial assets were not updated to new impairment models as required by IFRS 9.
- IAS 8: *Accounting policies, Changes in Accounting Estimates and Errors* regarding the adoption of Directive 1/2017 that resulted in a change in accounting policy for recognition of grants. The Council did not disclose the nature and reason for the change and the impact of this change. In the audited Financial Statements, the Council disclosed in note 27 the nature and reason for the change and the impact of the change on Statement of Financial Position, however:
 - The analysis of the impact on each line item within the Statement of Comprehensive Income was not disclosed,
 - The analysis of the impact on each line item within the Statement of Cash Flows was not disclosed, and
 - The 2017 original figures do not agree with the amount reported in the 2017 audited Financial Statements. The note should read as follows:

	2017 as originally reported	Adjustments	2017 as restated
	EUR	EUR	EUR
Non-current assets			
Property, plant & equip.	412,751	(60,368)	352,383
Total non-current assets	412,901	(60,368)	352,533
Total Assets	1,364,090	(60,368)	1,303,722
Non-current Liabilities			
Deferred income	404,928	(54,469)	350,459
Total non-current liabilities	488,524	(54,469)	434,055

Current liabilities			
Payables	169,007	(5,899)	163,108
Total Current liabilities	173,783	(5,899)	167,884
Total equity and liabilities	1,364,090	(60,368)	1,303,722

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

7.4 We also noted the following shortcomings in the audited Financial Statements:

- Note 24 on page 24 should have either been headed as related party transactions (which is note 24 on page 23) or else renumbered to note 25 (and the rest renumbered accordingly).
- The 10% administrative fee as disclosed in note 6 as per amount invoiced and recalculated should amount to EUR6,940 rather than EUR13,115. The difference of EUR6,175 are other LES collections.
- The depreciation charge for the year on Urban Improvements as disclosed in note 14 on page 16 should have been zero since the asset has been fully depreciated. The accumulated depreciation would remain at EUR27,258 and net book value would be nil. The EUR6,251 should have been allocated between office equipment (EUR1,648) and Special Programmes (EUR4,603) and the respective net book values should have been EUR14,369 and EUR107,107.

8 Council's meetings

Frequency of meetings and minutes

8.1 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. The Council met every month however, the 5-week interval was exceeded in the following instance:

Meeting Date & no.	Meeting Date & no.	Weeks
10/05/2018 – 46	15/06/2018 – 47	5 weeks – 1 day

8.2 We also noted at the time of our audit, that the Council had only uploaded the January 2018 minutes and schedules of payments on the applicable portal and these minutes did not include the wording 'IFFIRMATA' 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.

- 8.3 We recommend that the Council ensures that the 5 weeks interval between meetings is not exceeded. We also recommend that the Council follows the requirements of Memo 10/2016.
- 8.4 From a review of the bound copies of the minutes and schedule of payments, we also noted that the minutes of meeting 52 and Schedule of Payments numbered 137, 138 and 159 were not signed by the Mayor.
- 8.5 We recommend that the Council ensures that all minutes and schedule of payments are dated and signed accordingly.

Councillor attendance

- 8.6 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.
- 8.7 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.

9 Budget and business plan

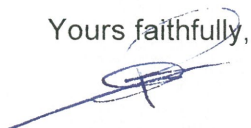
- 9.1 Once again, whereas the Council has presented its budget for 2019 on the appropriate templates, the overview and summary section was not completed. On the other hand, the business plan for the period 2019 – 2021 was not prepared.

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

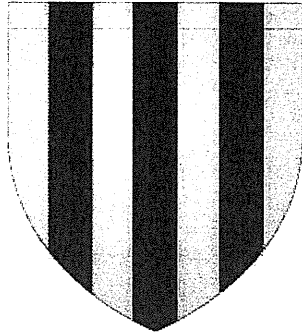
Appendix

Appendix 1: Payments issued before approval

Supplier	Invoice No	Amount EUR	Cheque No.	Approval Date	Date Cashed
LK Ltd	7718	5,971	16504	12/04/2018	23/03/2018
LK Ltd	9018	22,772	17147	03/01/2019	22/12/2018

Appendix 2: Receivables due over 2 years

	EUR
Active Enterprises	1,678
Regjun Ghawdex	42
Green MT Ltd	13,594
Marco Polo Hotel	41
Regjun Tramuntana	131
San Giljan Police Station	4,230
Water Services Corporation	8,971
	<u>28,687</u>



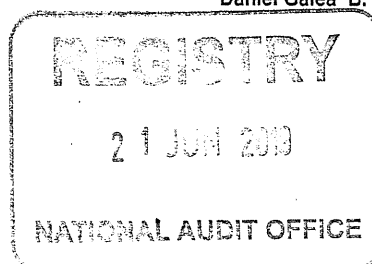
SAN GILJAN LOCAL COUNCIL

**Annual Report
and
Financial Statements**

for the year ended 31 December 2018

Prepared by

Daniel Galea B. Accty. (Hons.) CPA



ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2018

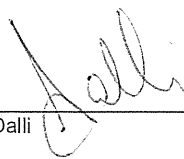
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Statement of Local Council Members' and Executive Secretary's Responsibilities
for the year ended 31 December 2018


The Local Councils (Financial) Regulations' require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's comprehensive income for the 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 2nd May 2019 and signed on its behalf by



Guido Dalli
Mayor



Paul Spiteri
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

		2018 €	2017 €
	<i>Notes</i>		
Revenue			
Funds received from Central Government	4	846,345	783,862
Income raised under Local Council Bye-Laws	5	145,965	82,946
Income raised under Local Enforcement System	6	13,788	55,891
General Income	7	3,079	23,431
		<u>1,009,177</u>	<u>946,130</u>
Expenditure			
Personal emoluments	9	(157,059)	(161,510)
Operations and maintenance	10	(519,162)	(479,059)
Administrative and other expenditure	11	(334,596)	(167,314)
		<u>(1,010,817)</u>	<u>(807,883)</u>
Operating (deficit)/surplus for the year		(1,640)	138,247
Finance income	12	158	188
Finance costs	13	(2,712)	(2,937)
(Deficit)/surplus for the year		<u>(4,194)</u>	<u>135,498</u>

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 €	2017 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	14	399,161	352,383
Intangible asset	15	3,422	150
		<u>402,583</u>	<u>352,533</u>
Current Assets			
Receivables	16	339,622	68,129
Cash and Cash Equivalents	17	608,334	883,060
		<u>947,956</u>	<u>951,189</u>
Total Assets		<u><u>1,350,539</u></u>	<u><u>1,303,722</u></u>
EQUITY AND LIABILITIES			
Reserves			
Retained Fund		697,589	701,783
		<u>697,589</u>	<u>701,783</u>
Non-Current Liabilities			
Long-term borrowings	19	50,728	55,802
Long-term payables	20	20,027	27,794
Deferred income	21	302,821	350,459
		<u>373,576</u>	<u>434,055</u>
Current Liabilities			
Payables	18	274,357	163,108
Short-term borrowings	19	5,017	4,776
Total Liabilities		<u>279,374</u>	<u>167,884</u>
Total Equity and Liabilities		<u><u>1,350,539</u></u>	<u><u>1,303,722</u></u>

These financial statements were approved by the Local Council on 2nd May 2019 and signed on its behalf by:

Guido Dalli
Mayor

Paul Spiteri
Executive Secretary

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Retained Funds €
At 1 January 2017	566,285
Surplus for the year 2017	135,498
At 31 December 2017	701,783
At 1 January 2018	701,783
Deficit for the year 2018	(4,194)
At 31 December 2018	697,589

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 2018

	2018 €	2017 €
	Note	
Cash flows from Operating Activities		
(Deficit)/surplus for the year	(4,194)	135,498
Reconciliation to cash generated from operations:		
Depreciation and amortisation	44,888	21,523
Provision for bad debts	24,416	41
Interest receivable	(158)	(188)
Interest payable	2,712	2,937
Grants released	-	(1,000)
Operating Profit before Working Capital Changes	<u>67,664</u>	<u>158,811</u>
Increase in receivables	(295,909)	(12,081)
Increase/(decrease) in payables	<u>105,062</u>	<u>(26,209)</u>
Cash (used in)/generated from operating activities	<u>(123,183)</u>	<u>120,521</u>
Cash flows from Investing Activities		
Interest received	158	188
Purchase of property, plant & equipment	<u>(598,904)</u>	<u>(21,794)</u>
Cash used in investing activities	<u>(598,746)</u>	<u>(21,606)</u>
Cash flows from Financing Activities		
Repayment of bank loans	(4,776)	(4,614)
Repayment of other long term payables	(1,637)	-
Receipt of grant	456,328	132,662
Interest paid	<u>(2,712)</u>	<u>(2,937)</u>
Cash generated from investing activities	<u>447,203</u>	<u>125,111</u>
Net (decrease)/Increase in Cash and Cash Equivalents	(274,726)	224,026
Cash and Cash Equivalents at the Beginning of the year	<u>883,060</u>	<u>659,034</u>
Cash and Cash Equivalents at the End of the year	<u>17</u> <u>608,334</u>	<u>883,060</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 2018

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 2nd May 2019. 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 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 2018.

IFRS 9 Financial Instruments

The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

IFRS 15 Revenue from Contracts with Customers

The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

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

2. Accounting Policies and Reporting Procedures

New Standards and amendments not yet effective:

A number of new International Financial Reporting Standards and amendments and revisions thereto were in issue but not yet effective during the financial period under review. These include the following:

IFRS 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset and an interest expense on the recognised lease liability. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The Councillors 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

The change in the depreciation method from reducing balance to straight line method took place as of January 2018 and has been effected according to the instructions in the DLG Directive 1/2017.

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

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

2. Accounting Policies and Reporting Procedures (cont.)

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

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

Intangible assets

Intangible assets comprise externally generated computer software. In determining the classification of an asset that incorporates both intangible and tangible elements, judgement is used in assessing which element is more significant. Computer software which is an integral part of the related hardware is classified as property and equipment and accounted for in accordance with the Group's accounting policy on property and equipment. Where the software is not an integral part of the related hardware, this is classified as an intangible asset.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Computer software is initially measured at cost. It is subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses.

Computer software is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

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.

Amounts receivable

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds and the redemption value is recognised in the income and expenditure account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Local Council has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

2. Accounting Policies and Reporting Procedures (cont.)

Other payables

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

Financial instruments

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

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

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

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

Financial assets

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

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

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

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

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

Financial liabilities

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

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

Related parties

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

Revenue

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

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

2. Accounting Policies and Reporting Procedures (cont.)

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

Local Enforcement System

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

Government grants

Government grants relating to operating expenditure are recognized in the statement of Comprehensive Income in the same period that the related expenditure is incurred.

Government grants relating to the purchase of property, plant and equipment are accounted for using the capital approach, and are thus deducted from the carrying amount of the relative non-current asset.

Up to year ended 31st December 2017, government grants were accounted for using the income approach according to IAS20 *Accounting for Government Grants and Disclosure of Government Assistance*. On 1st January 2018, the capital approach, according to IAS20, has been adopted, in line with the Directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting policy, and according to IAS8 *Accounting Policies, Changes in Accounting Estimates and Errors*, it has been accounted for retrospectively.

Foreign currencies

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

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

Borrowing costs

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

Profits and losses

Only 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 Cash Flow Statement, 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 negative at the reporting date. 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.

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

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

	2018	2017
	€	€
In terms of section 55 of the Local Councils Act	800,642	767,739
Other Government Income	45,703	15,122
Grants Released	-	1,001
	<u>846,345</u>	<u>783,862</u>

5. Income raised under Local Council Bye-Laws

	2018	2017
	€	€
Income from contravention of Bye-Laws	<u>145,965</u>	<u>82,946</u>

6. Local Enforcement system

	2018	2017
	€	€
Pre-regional Committees	673	4,725
LESA Surplus	-	43,679
Regional Committees/LESA - Administrative Fees	13,115	7,487
	<u>13,788</u>	<u>55,891</u>

7. General Income

	2018	2017
	€	€
General Income	2,825	23,431
Contributions and donations	254	-
	<u>3,079</u>	<u>23,431</u>

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

8. Deficit/surplus for the year

	2018	2017
	€	€
Deficit/surplus for the year is stated after charging		
Staff salaries	157,059	161,510
Depreciation and amortisation	44,888	21,523
Provision for bad debts	24,416	41
	<u>157,059</u>	<u>161,510</u>

9. Personal Emoluments

	2018	2017
	€	€
Mayor's Remuneration	11,196	11,018
Councillors' Allowances	11,200	11,200
Executive Secretary Salary and Allowances	35,902	34,960
Employees' Salaries	89,351	94,494
Social Security Contributions	9,410	9,838
	<u>157,059</u>	<u>161,510</u>

10. Operations and Maintenance

	2018	2017
	€	€
<i>Repairs and Upkeep:</i>		
Road and Street Pavements (patching works)	60,573	59,349
Public property	14,920	7,835
Street signs	9,574	9,697
Road Markings	19,981	17,797
Other repairs and Upkeep	43,987	13,946
	<u>149,035</u>	<u>108,624</u>
<i>Contractual Services:</i>		
Refuse Collection	125,603	162,297
Bulky Refuse Collection	24,579	24,695
Road and Street Cleaning	133,946	115,739
Cleaning and Maintenance - Public Conveniences	13,432	13,382
Cleaning and Maintenance - Parks and Gardens	46,980	20,974
Support Services	1,272	17,061
Street Lighting	24,315	16,287
	<u>370,127</u>	<u>370,435</u>
Total Operations and Maintenance Costs	<u>519,162</u>	<u>479,059</u>

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

11. Administrative and other expenditure

	2018	2017
	€	€
Utilities	13,240	10,381
Other repairs and upkeep	14,321	3,005
Rent	1,750	1,750
National and International Memberships	730	810
Office Services	10,448	9,100
Transport	7,998	7,847
Travel	1,382	-
Information services	2,651	934
Other contractual services	13,480	11,649
Insurance	2,366	1,824
Bank Charges	231	379
Professional Services	55,528	26,640
Tuition for courses and expenses	850	765
Community Services	87,706	65,986
Sundry minor expenses	11,005	3,190
LES related expenses	20,608	1,490
Provision for bad debts	24,416	41
Twinning expenses	20,998	-
Depreciation and amortisation	44,888	21,523
	<u>334,596</u>	<u>167,314</u>

12. Interest Income

	2018	2016
	€	€
Bank Interest Receivable	<u>158</u>	<u>188</u>

13. Finance Costs

	2018	2016
	€	€
Loan interest	<u>2,712</u>	<u>2,937</u>

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

14. Property, plant and equipment

	Property €	Trees €	Office Furniture & fittings €	Office Equipment €	Urban Improvement S €	Assets not yet Capitalise d €	New Street Signs €	Construction €	Special Programme S €	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	5,801	6,251	-	-	-	24,410	44,260
At 31 December 2018	25,705	-	64,416	35,433	33,509	-	9,707	216,686	360,757	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	16,017	6,251	107,066	-	-	111,710	399,161

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2018 (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 2017	185,798	3,084	67,710	38,998	25,830	26,533	9,707	216,686	1,676,466	2,250,812
Additions	-	-	1,662	13,199	1,428	-	-	-	-	16,289
At 31 December 2017	185,798	3,084	69,372	52,197	27,258	26,533	9,707	216,686	1,676,466	2,267,101
Depreciation										
At 1 January 2017	22,169	-	57,744	26,017	25,830	-	9,707	216,686	333,381	691,534
Charge for the year	1,629	-	781	3,954	1,428	-	-	-	13,687	21,479
Adoption of capital approach	-	-	-	(339)	-	-	-	-	(10,721)	(11,060)
At 31 December 2017	23,798	-	58,525	29,632	27,258	-	9,707	216,686	336,347	701,953
Grants										
At 1 January 2017	-	-	-	-	-	-	-	-	1,134,777	1,134,777
Government grants prior years	-	-	-	2,218	-	-	-	-	75,770	77,988
At 31 December 2017	-	-	-	2,218	-	-	-	-	1,210,547	1,212,765
Net Book values										
At 31 December 2017	162,000	3,084	10,847	20,347	-	26,533	-	-	129,572	352,383

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

15. Intangible property, plant & equipment

	Computer software €
Cost	
At 1 January 2018	260
Additions	3,900
	<hr/>
At 1 January & 31 December 2018	4,160
	<hr/>
Depreciation	
At 1 January 2018	110
Charge for the year	628
	<hr/>
At 31 December 2018	738
	<hr/>
Net Book value	
At 31 December 2018	3,422
	<hr/> <hr/>
	Computer software €
Cost	
At 1 January 2017	260
Additions	-
	<hr/>
At 1 January & 31 December 2017	260
	<hr/>
Depreciation	
At 1 January 2017	66
Charge for the year	44
	<hr/>
At 31 December 2017	110
	<hr/>
Net Book value	
At 31 December 2017	150
	<hr/> <hr/>

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

16. Receivables

	2018	2017
	€	€
Receivables	39,774	43,067
Accrued income	297,284	21,742
Prepayments	2,564	3,320
	<u>339,622</u>	<u>68,129</u>

Receivables

General receivables are analysed as follows:

	2018	2017
	€	€
Within credit period	10,536	3,237
Exceeded credit period but not impaired	29,238	39,830
Impaired and provided for	28,687	4,271
Provision for doubtful debts	<u>(28,687)</u>	<u>(4,271)</u>
	<u>39,774</u>	<u>43,067</u>

Included in the accounts receivable are amounts due from related parties amounting to €40,482 (2016 : €18,060). These amounts are unsecured, interest free and repayable on demand. Receivables are stated net of impairment provision of €28,687 (2016: €4,271).

17. Cash & cash equivalents

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

	2018	2017
	€	€
Cash at Bank	607,268	882,737
Cash in Hand	1,066	323
	<u>608,334</u>	<u>883,060</u>

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

18. Payables

	2018	2017
	€	€
Payables	139,855	102,111
Other payables	21,762	17,970
Accruals	112,740	38,536
FSS/NI Due	-	4,491
	<u>274,357</u>	<u>163,108</u>

Included in the accounts payable are amounts due to related parties amounting to €15,452 (2016 : €7,925). These amounts are unsecured, interest free and repayable on demand.

19. Borrowings

	2018	2017
	€	€
Non-current		
Bank borrowings	<u>50,728</u>	<u>55,802</u>
Current		
Bank borrowings	<u>5,017</u>	<u>4,776</u>
Borrowings		
Repayable between one and two years	5,254	5,008
Repayable between two and five years	17,363	16,524
Repayable in five years or more	<u>28,111</u>	<u>34,270</u>
	<u>50,728</u>	<u>55,802</u>
Repayable after five years or more:		
Bank Loan	<u>28,111</u>	<u>34,270</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% (2016 – 4.6%) and are repayable in monthly instalments of €629.69 (2016 - €629.69) inclusive of interest.

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

20. Amounts payable under the PPP agreement

	2018	2017
	€	€
Non-current		
Public Private Partnership (PPP) Agreement	<u>20,027</u>	<u>27,794</u>
Borrowings		
Repayable between one and two years	7,767	7,767
Repayable between two and five years	<u>12,260</u>	<u>20,027</u>
	<u>20,027</u>	<u>27,794</u>

Amount payable under the PPP agreement is repayable in annual payments up to 2022. Balance payable under the scheme is €40,708.

21. Deferred income

	2018	2017
	€	€
Government grants		
At 1 January	350,459	284,725
Increase in year including funds from Central Regional Committee	18,371	132,662
UIF Funds allocated to Local Council	<u>437,957</u>	-
	806,787	417,387
Recognized in Property, Plant & Equipment	<u>(503,966)</u>	<u>(66,928)</u>
At 31 December	<u>302,821</u>	<u>350,459</u>
Current Deferred Income	<u>-</u>	<u>-</u>
Non-Current Deferred Income	<u>302,821</u>	<u>350,459</u>
Deferred Government Grants		
Deferred between one and two years	-	-
Deferred between two and five years	-	-
Deferred in five years or more	<u>302,821</u>	<u>350,459</u>
	<u>302,821</u>	<u>350,459</u>
Deferred after five years or more	<u>302,821</u>	<u>350,459</u>

SAN GILJAN LOCAL COUNCIL

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

22. Capital commitments

	2018	2017
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	<u>3,587,876</u>	<u>310,000</u>
- Contracted for but not provided in the financial statements	<u>20,000</u>	<u>-</u>
(i) Approved but not yet contracted for:		
Construction	-	-
Office Furniture and fittings	5,000	5,000
Office Equipment	5,000	5,000
Project at Scicluna Steps	143,600	140,000
Church Parking Area	96,822	-
Works at Triq il-Forrest	209,596	
Asfaltar Triq il-Mensija	-	14,082
Spinola Project	3,030,000	-
Pavement Alley	-	13,550
Gym Equipment	-	50,000
Playing Area	-	10,000
Various other works in the locality	97,858	72,368
	<u>3,587,876</u>	<u>310,000</u>
(i) Contracted for but not provided in the Financial Statements:		
ATM at Ta' Giorni	<u>20,000</u>	<u>-</u>
	<u>20,000</u>	<u>-</u>

These capital commitments will be financed by funds which the Council received from the Central Regional Committee, UIF 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 is also involved in an appeal for an unsuccessful bidder for a tender, which appeal is in front of the Public Contracts Review Board.

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

	2018			2017		
	Related party activity €	Total activity €	%	Related party activity €	Total activity €	%
<i>Income</i>						
Transactions with central government	846,345			782,871		
Transactions with regions	13,788			55,891		
	<u>860,133</u>	<u>1,009,177</u>	<u>85</u>	<u>838,762</u>	<u>946,130</u>	<u>89</u>
<i>Expenditure</i>						
Transactions with government entities	43,425			61,086		
Key personnel remuneration	60,150			58,980		
	<u>103,575</u>	<u>1,010,817</u>	<u>10</u>	<u>120,066</u>	<u>807,883</u>	<u>15</u>

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

24. 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.

25. 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 €4196(2017: profit of €135,498) during the year ended 31 December 2018, and as at that date, the Council had a positive net current asset position of €668,582 (2016: 783,305).

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:

	2018	2017
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	337,058	64,809
Cash and Cash Equivalents	608,334	883,060
	<u>945,392</u>	<u>947,869</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>274,357</u>	<u>163,108</u>

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

27. Effect of Change in Accounting Policy

On 1 January 2018, the capital approach, according to IAS 20, has been adopted, in line with Directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting policy, and according to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, has been accounted for retrospectively.

The comparative figures in these financial statements have been changed as per the instructions of DLG Directive 1/2017

The effect of the restatement on these financial statements is summarised below

	2017 as originally reported €	Adjustments €	2017 as restated €
Non-Current Assets			
Property, plant and equipment	1,009,955	(657,572)	352,383
Non-Current Liabilities			
Deferred income	705,543	355,084	350,459
Current Liabilities			
Payables	243,125	80,017	163,108

Financial statements for the year ended 31 December 2018

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 2018, 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 2018 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.

These financial statements comply in all material respect with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 but because of the matters set out in paragraphs 1, 2, 3,4 5, 6 & 7 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. The Council recognised EUR673 in income from pre-regional committees. 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 2018

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 IAS 17 *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. Elements represented in the Statement of Cash Flows do not reflect the actual amount of cash receipts as required by IAS7, *Statement of Cash Flow*. Receipt of grants is overstated by EUR274,802 and should read EUR181,526 whereas increase in receivables should amount to EUR21,107. Payments for Property, Plant and Equipment should also amount to EUR600,541 whereas repayment of long term payables should be nil.
5. 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 2108 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 2018 and those that will have to be adopted as from 1 January 2019. As such, the disclosure does not meet the requirements on IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*
6. Whereas the Council indicated in note 2 that it has 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 EUR945,392 at 31 December 2018. The impairment policy and the credit risk assessment as represented in the financial statements were also not updated to reflect the new impairment model.
7. As required by Directive 1/2017 and as disclosed in note 27, the Council adopted the IAS 20 capital approach treatment for recognition and disclosure of grants. The change was applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The Council did not disclose the impact on the Statement of Comprehensive Income and the Statement of Cash Flows. Also, the disclosure on the impact on the Statement of Financial Position discloses the wrong original values for PPE, non-current Deferred Income and current payable which should amount to EUR412,751, 404,928 and 169,007 respectively, The effect movement amounts to EUR60,368, EUR54,469 and EUR5,899 on the respective line item.

Financial statements for the year ended 31 December 2018

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 2018

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

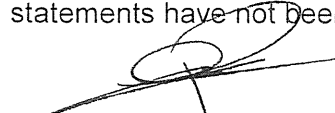
Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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

2 May 2019