

IŻ-ŻEBBUĠ (GOZO) LOCAL COUNCIL

**Annual Report
and
Financial Statements**

for the year ended 31 December 2019

Prepared by

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ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2019

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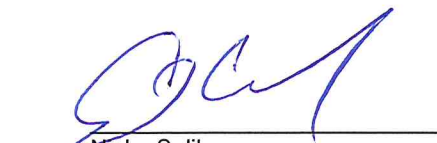
Statement of Local Council Members' and Executive Secretary's Responsibilities

for the year ended 31 December 2019

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes the Local Council's statement of 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 Councils (Financial) Regulations, and the Local Councils (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 Councils (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 28th May 2020 and signed on its behalf by



Nicky Saliba
Mayor

Neville Galea
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

		2019 €	2018 €
	<i>Notes</i>		
INCOME			
Funds received from Central Government	4	557,329	525,533
Income raised under Local Enforcement System	5	628	480
General Income	6	39,477	30,026
		<u>597,434</u>	<u>556,039</u>
EXPENDITURE			
Personal emoluments	8	(108,246)	(93,656)
Operations and maintenance expenses	9	(258,216)	(206,209)
Administrative and other expenditure	10	(260,952)	(433,488)
		<u>(627,414)</u>	<u>(733,353)</u>
Operating deficit for the year	7	(29,980)	(177,314)
Finance income	11	308	197
Total comprehensive deficit for the year		<u>(29,672)</u>	<u>(177,117)</u>

The notes on pages 8 to 22 form an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 €	2018 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	12	<u>740,052</u>	<u>800,303</u>
		<u>740,052</u>	<u>800,303</u>
Current Assets			
Inventories	13	2,842	4,083
Receivables	14	86,846	13,683
Cash and Cash Equivalents	15	<u>567,114</u>	<u>695,631</u>
		<u>656,802</u>	<u>713,397</u>
Total Assets		<u><u>1,396,854</u></u>	<u><u>1,513,700</u></u>
RESERVES AND LIABILITIES			
Reserves			
Retained Earnings		<u>635,466</u>	<u>665,138</u>
		<u>635,466</u>	<u>665,138</u>
Current Liabilities			
Payables	16	577,444	321,665
Deferred income	17	<u>183,944</u>	<u>526,897</u>
		<u>761,388</u>	<u>848,562</u>
Total Reserves and Liabilities		<u><u>1,396,854</u></u>	<u><u>1,513,700</u></u>

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



Nicky Saliba
Mayor



Neville Galea
Executive Secretary

The notes on pages 8 to 22 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Retained Funds €
At 1 January 2018	842,255
Deficit for the year 2018	(177,117)
	<hr/>
At 31 December 2018	665,138
	<hr/> <hr/>
At 1 January 2019	665,138
Deficit for the year 2019	(29,672)
	<hr/>
At 31 December 2019	635,466
	<hr/> <hr/>

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019	2018
	€	€
	Note	
Cash flows from Operating Activities		
Total comprehensive deficit for the year	(29,672)	(177,117)
Reconciliation to cash generated from operations:		
Depreciation	132,475	139,549
Reduction in value in line with Directive 1/2017	-	184,316
Increase in provision for doubtful debts	42	1,964
Interest receivable	<u>(308)</u>	<u>(197)</u>
Operating Profit before Working Capital Changes	102,537	148,515
Decrease/(increase) in Inventories	1,241	(4,083)
(Decrease)/increase in receivables	<u>(73,205)</u>	<u>7,318</u>
Decrease in Payables	<u>255,779</u>	<u>207,186</u>
Cash generated from operating activities	286,352	358,936
Cash flows from Investing Activities		
Interest received	308	197
Purchase of property, plant & equipment	<u>(673,151)</u>	<u>(377,049)</u>
Receipt of grant	<u>257,974</u>	<u>539,959</u>
Cash (used in)/ generated from investing activities	(414,869)	163,107
Cash flows from Financing Activities		
Net (Decrease) / Increase in Cash and Cash Equivalents	(128,517)	522,043
Cash and Cash Equivalents at the Beginning of the year	<u>695,631</u>	<u>173,588</u>
Cash and Cash Equivalents at the End of the year	15 567,114	695,631

The notes on pages 8 to 22 form an integral part of these financial statements

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

1. General Information

The Iż-Żebbuġ (Gozo) Local Council is the local Authority of Iz-Zebbug (Gozo) set up in accordance with the Local Councils Act, 1993. The office of the Local Council is situated at Church Street, Iż-Żebbuġ, Gozo. These financial statements were approved for issue by the Council Members on 28th May 2020. The Local Council's presentation as well as functional currency is denominated in €.

2. Accounting Policies and Reporting Procedures

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

Accounting convention

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

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

New and amended standards adopted by the 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 2019.

IFRS 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 'Leases' and 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.

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 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:

Notes to the Financial Statements for the year ended 31 December 2019**2. Accounting Policies and Reporting Procedures***Property, plant and equipment (cont.)*

	%
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.

Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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 period ended 31 December 2019 (cont.)

2. Accounting Policies and Reporting Procedures

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.

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

2. Accounting Policies and Reporting Procedures

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.

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

The income recognised in the Statement of Comprehensive Income was derived from administrative fees charged to 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.

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 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.

Notes to the Financial Statements for the period ended 31 December 2019 (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

	2019	2018
	€	€
In terms of section 55 of the Local Councils Act	548,630	520,130
Supplementary Government Income	8,541	4,803
Other Government Income	158	600
	<u>557,329</u>	<u>525,533</u>

5. Local Enforcement system

	2019	2018
	€	€
Administrative charges to Regional Committees and LESA	<u>628</u>	<u>480</u>

6. General Income

	2019	2018
	€	€
Community services	1,515	750
Contributions and donations	510	-
Temporary permits	13,750	14,476
Other Income	23,702	14,800
	<u>39,477</u>	<u>30,026</u>

7. Operating deficit for the year

	2019	2018
	€	€
Deficit for the year is stated after charging		
Staff salaries	108,246	93,656
Depreciation of non-current assets	<u>132,475</u>	<u>139,549</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**8. Personal Emoluments**

	2019	2018
	€	€
Mayor's Honoraria	9,432	7,463
Mayor's and Councillors' Allowances	9,700	6,400
Executive Secretary Salary and Allowances	32,689	33,049
Employees' Salaries	49,640	40,086
Social Security Contributions	6,785	6,658
	<u>108,246</u>	<u>93,656</u>

9. Operations and Maintenance

	2019	2018
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	72,935	15,377
Street Signs and markings	8,707	7,889
Public property	15,546	17,727
	<u>97,188</u>	<u>40,993</u>
<i>Contractual Services:</i>		
Waste Disposal	33,109	28,002
Refuse Collection	56,279	64,039
Bulky Refuse Collection	14,562	10,171
Cleaning and Maintenance of Public Conveniences	11,726	11,791
Cleaning and Maintenance of Parks and Gardens	22,406	22,279
Cleaning and Maintenance of Soft Areas	1,224	6,084
Cleaning and Maintenance of Beach and Coastal areas	-	1,908
Road & Street Cleaning	2,301	316
Other contractual services	-	94
Street Lighting	17,821	19,968
Local enforcement expenses	1,600	564
	<u>161,028</u>	<u>165,216</u>
Total Operations and Maintenance Costs	<u>258,216</u>	<u>206,209</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**10. Administrative and other expenditure**

	2019	2018
	€	€
Utilities	3,178	3,297
Other repairs and upkeep	2,135	4,630
Rent	7,700	7,700
National and International Memberships	2,232	695
Office Services	11,511	6,958
Transport and Travel	8,161	5,103
Information Services	3,946	2,682
Insurance Coverage	2,437	1,692
Bank charges	647	274
Professional Services	28,075	26,108
Community and Hospitality	3,885	5,036
Social and cultural events	53,649	42,122
Training	40	207
Other expenses	839	768
Twining expenses	-	387
Increase in provision for doubtful debts	42	1,964
Reduction in value of PPE in line with Directive 1/2017	-	184,316
Depreciation and amortisation	132,475	139,549
	<u>260,952</u>	<u>433,488</u>

11. Finance Income

	2019	2018
	€	€
Bank Interest Receivable	<u>308</u>	<u>197</u>

IŻ-ŻEBBUĠ (GOZO) LOCAL COUNCIL

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

12. Property, plant and equipment

	Office Furniture/ Fittings	Office/ Computer Equipment	Plant & Machinery	Urban Improvements	Assets under Construction	New Street Signs	Construction/ Special Programmes	Total
	€	€	€	€	€	€	€	€
Cost								
At 1 January 2019	33,170	32,671	5,620	528,689	169,422	59,235	2,452,989	3,281,796
Additions	680	-	-	17,464	207,197	-	447,810	673,151
Reclassification	-	-	-	-	(102,451)	-	102,451	-
At 31 December 2019	33,850	32,671	5,620	546,153	274,168	59,235	3,003,250	3,954,947
Depreciation								
At 1 January 2019	23,817	28,658	2,289	374,456	-	59,235	1,113,138	1,601,593
Charge for the year	1,306	354	-	29,264	-	-	101,551	132,475
At 31 December 2019	25,123	29,012	2,289	403,720	-	59,235	1,214,689	1,734,068
Grants								
At 1 January 2019	-	2,242	4,484	-	-	-	873,174	879,900
Additions	-	-	-	8,390	188,934	-	403,603	600,927
Reclassification	-	1,153	(1,153)	-	-	-	-	-
At 31 December 2019	-	3,395	3,331	8,390	188,934	-	1,276,777	1,480,827
Net Book values								
At 31 December 2019	8,727	264	-	134,043	85,234	-	511,784	740,052

IŻ-ŻEBBUĠ (GOZO) LOCAL COUNCIL

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

12. Property, plant and equipment (cont.)

	Office Furniture/ Fittings €	Office/ Computer Equipment €	Plant & Machinery €	Urban Improvements €	Assets under Construction €	New Street Signs €	Construction/ Special Programmes €	Total €
Cost								
At 1 January 2018	33,170	32,671	5,620	493,661	50,150	59,235	2,230,240	2,904,747
Additions	-	-	-	35,028	119,272	-	222,749	377,049
At 31 December 2018	33,170	32,671	5,620	528,689	169,422	59,235	2,452,989	3,281,796
Depreciation								
At 1 January 2018	18,258	25,633	2,150	329,330	-	59,235	843,122	1,277,728
Charge for the year	1,343	1,797	139	32,926	-	-	103,344	139,549
Adjustment Directive 1/2017	4,216	1,228	-	12,200	-	-	166,672	184,316
At 31 December 2018	23,817	28,658	2,289	374,456	-	59,235	1,161,394	1,649,849
Grants								
At 1 January 2018	-	2,242	4,484	-	-	-	744,977	751,703
Additions	-	-	-	-	-	-	79,941	79,941
At 31 December 2018	-	2,242	4,484	-	-	-	824,918	831,644
Net Book values								
At 31 December 2018	9,353	1,771	(1,153)	154,233	169,422	-	466,677	800,303

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**13. Inventories**

	2019	2018
	€	€
Stock of books	2,842	4,083
	<u>2,842</u>	<u>4,083</u>

14. Receivables

	2019	2018
	€	€
Accounts receivables	7,873	4,379
Prepayments and accrued income	78,973	9,304
	<u>86,846</u>	<u>13,683</u>

Receivables

The receivables are analysed as follows:

	2019	2018
	€	€
Within credit period	75,789	6,755
Exceeded credit period but not impaired	11,057	6,928
Impaired and provided for	34,299	35,316
Provision for doubtful debts	<u>(34,299)</u>	<u>(35,316)</u>
	<u>86,846</u>	<u>13,683</u>

Included in the accounts receivable are amounts due from related parties amounting to €12,995 (2018 : €9,459). The amounts from related parties which are impaired are €5,122 (2018: €5,080) These amounts are unsecured, interest free and repayable on demand.

15. Cash & cash equivalents

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

	2019	2018
	€	€
Cash at Bank	566,059	692,519
Cash in Hand	1,055	3,112
	<u>567,114</u>	<u>695,631</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**16. Payables**

	2019	2018
	€	€
Accounts payable	336,676	152,460
Accruals	240,768	169,205
	<u>577,444</u>	<u>321,665</u>

Included in the accounts payable are amounts due to related parties amounting to €4,675 (2018 : €4,205). These amounts are unsecured, interest free and repayable on demand.

17. Deferred Income

	2019	2018
	€	€
Government grants		
At 1 January	526,897	66,880
Increase in year	257,974	460,017
	<u>784,871</u>	<u>526,897</u>
Transferred to Capital Grants under PPE	<u>(600,927)</u>	<u>-</u>
At 31 December	<u>183,944</u>	<u>526,897</u>
Current Deferred Income	<u>183,944</u>	<u>526,897</u>
Non-Current Deferred Income	<u>-</u>	<u>-</u>

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**18. Capital Commitments**

	2019	2018
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	366,500	379,000
- Contracted for but not provided in the financial statements	<u>163,406</u>	<u>10,000</u>
(i) Approved but not yet contracted for:		
Furniture & Fittings	2,000	2,000
PA Development Planning Fund Funded projects	352,500	375,000
Public Convenience - Xwejni	10,000	-
Computer equipment	<u>2,000</u>	<u>2,000</u>
	<u>366,500</u>	<u>379,000</u>
(i) Contracted for but not provided in the Financial Statements:		
War Monument Marsalforn	-	5,900
Council's contribution on EU funded project	-	4,100
Reconstruction of Triq Ghajn Mhelhel	<u>163,406</u>	<u>-</u>
	<u>163,406</u>	<u>10,000</u>

The Council had received a payment from Ministry for Gozo to finance the resurfacing of Triq Ghajn Mhelhel. Furthermore, the Council will be receiving a grant from the Development Planning Fund for the projects funded under this scheme.

19. Contingent liabilities and assets

There were no contingent liabilities in respect of bank guarantees at year end. The Council had received judicial letters from two individuals for two separate claims for damages on their vehicles, which amounts did not exceed Eur4,500 in total. The Council has refused these claim and as at year end, did not receive further communication from the claimants. Furthermore, at year end the council has a trade dispute with Gatt Tarmac for Eur29,736 which claim from this supplier had been brought forward for a number of years.

20. 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.

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**21. Financial Risk Management**

The Council's activities expose it to credit risk and liquidity risk through its use of financial instruments which result from its operating activities. The Council is not exposed to any market risk. The Council's risk management is coordinated by the council members and focuses on actively securing the council's short to medium term cash flow by minimising exposure to financial risks.

The most significant financial risks to which the council is exposed are described below.

Credit risk

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

Summary of financial assets and liabilities by category:

	2019	2018
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	86,846	13,683
Cash and Cash Equivalents	567,114	695,631
	<u>653,960</u>	<u>709,314</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>577,444</u>	<u>321,665</u>

Liquidity Risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. In fact at year end, the Council has as cash and cash equivalents the amount of €567,114. This should ensure an ongoing working capital of the Council for the next 12 months.

Going Concern Risk

The Council had a net loss of €29,672 (2018: loss of €177,117) during the year ended 31 December 2019, and as at that date, the Council had a net current liabilities position of €104,586 (2018: €135,165). These financial statements have been prepared on a going concern basis in view of the fact that it is understood that the ultimate controlling party will provide adequate funds for the Council to cover present liabilities as well as short term obligations and commitments arising.

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**21. 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 bank accounts without any financing facilities. As a result, the Council is not exposed to cash flow interest rate risk on bank balances.

Other risks

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.

22. Related party transactions

During the year under review, the Council carried out transactions with the following related parties:

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Government	Significant control
North Joint Committee (Local Enforcement)	Joint Control
North Regional Committee	Joint Control
Central Regional Committee	No control
Gozo Regional Committee	No control
South Eastern Regional Committee	No control
South Regional Committee	No control
Local Enforcement System Agency	No control
Planning Authority	No control
Malta Information Technology Agency	No control
Water Services Corporation	No control
Enemalta Corporation	No control
ARMS Limited	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
Malta Tourism Authority	No control
Office of the Prime Minister	No control
Office of the Commissioner for Data Protection	No control

The amounts due from / to related parties at year-end are disclosed in notes 14 and 16. 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.

Notes to the Financial Statements for the year ended 31 December 2019 (cont.)**22. Related party transactions (cont.)**

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

	2019			2018		
	Related party activity €	Total activity €	%	Related party activity €	Total activity €	%
<i>Income</i>						
Transactions with central government	557,329			525,533		
Transactions with regions	628			480		
	<u>557,957</u>	<u>597,434</u>	<u>93</u>	<u>526,013</u>	<u>556,039</u>	<u>95</u>
<i>Expenditure</i>						
Transactions with government entities	37,983			32,191		
Key personnel remuneration	108,246			93,656		
	<u>146,229</u>	<u>627,414</u>	<u>23</u>	<u>125,847</u>	<u>733,353</u>	<u>17</u>

23. Fair values estimation

At 31 December 2019 and at 31 December 2018, the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively, approximated their fair values due to the short term maturities of these assets and liabilities. The fair values of non-current financial assets and non-current financial liabilities are not materially different from their carrying amount.

Report of the Local Government Auditors to the Auditor General

