

**Ghajnsielem Local Council**  
**Annual Report and Financial Statements**  
**For the year ended 31 December 2020**

*Prepared by: Pauliana Said*



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### Statement of Local Council Members' and Executive Secretary's Responsibilities For the year ended 31 December 2020


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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 Council on 14/10/21 and signed on its behalf by:

  
\_\_\_\_\_  
Kevin Cauchi  
Mayor

  
\_\_\_\_\_  
Lucienne Haber  
Executive Secretary

## Statement of Comprehensive Income

For the year ended 31 December 2020


	Notes	2020 €	2019 €
<b>Revenue</b>			
Funds Received from Central Government	3	412,248	399,040
Income raised under the Local Enforcement System	4	1,342	1,580
General Income	5	53,502	53,208
		-----	-----
		467,092	453,828
		-----	-----
<b>Expenditure</b>			
Personal Emoluments	6	(108,142)	(99,401)
Operations and Maintenance	7	(138,440)	(124,929)
Administration and Other Expenditure	8	(219,135)	(232,967)
		-----	-----
		(465,717)	(457,297)
		-----	-----
<b>Operating income/(loss) for the year</b>	6	1,375	(3,469)
Finance Income	9	131	33
		-----	-----
<b>Total comprehensive income/(loss) for the year</b>		1,506	(3,436)
		-----	-----

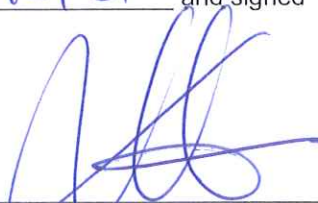
## Statement of Financial Position

For the year ended 31 December 2020

	Notes	2020 €	2019 €
<b>ASSETS</b>			
Intangible asset	10	109	163
Property, plant and equipment	11	680,825	643,142
<b>Total non-current assets</b>		<u>680,934</u>	<u>643,305</u>
Receivables	12	90,744	98,751
Cash and cash equivalents	13	367,221	530,989
<b>Total current assets</b>		<u>457,965</u>	<u>629,740</u>
<b>TOTAL ASSETS</b>		<u><u>1,138,899</u></u>	<u><u>1,273,045</u></u>
<b>RESERVES AND LIABILITIES</b>			
Retained earnings		779,471	777,965
<b>Total reserves</b>		<u>779,471</u>	<u>777,965</u>
<b>LIABILITIES</b>			
Payables	14	359,428	495,080
<b>Total current liabilities</b>		<u>359,428</u>	<u>495,080</u>
<b>TOTAL RESERVES AND LIABILITIES</b>		<u><u>1,138,899</u></u>	<u><u>1,273,045</u></u>

These financial statements were approved by the Local council on 14/10/21 and signed on its behalf by:

  
\_\_\_\_\_  
Kevin Cauchi  
Mayor

  
\_\_\_\_\_  
Lucienne Haber  
Executive Secretary

## Statement of Changes in Reserves

For the year ended 31 December 2020

	Retained Funds €
At 1 January 2019	781,401
Total comprehensive loss for the year	(3,436)
<b>At 31 December 2019</b>	<b>777,965</b>
At 1 January 2020	777,965
Total comprehensive income for the year	1,506
<b>At 31 December 2020</b>	<b>779,471</b>

## Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 €	2019 €
<b>Cash flow from operating activities</b>			
<b>Total comprehensive income/(loss) for the year</b>		1,506	(3,436)
Reconciliation to cash generated from operations:			
Depreciation		80,914	73,164
Amortisation		54	54
Provision for bad debts		7,254	-
Interest Receivable		(131)	(33)
		-----	-----
Operating profit before working capital changes		89,597	69,749
Decrease/(Increase) in receivables		754	(25,340)
(Decrease)/Increase in payables		(209,760)	196,202
		-----	-----
<b>Cash (used in)/generated from operating activities</b>		<b>(119,410)</b>	<b>240,611</b>
		-----	-----
<b>Cash flows from investing activities</b>			
Interest received		131	33
Purchase of property, plant and equipment		(142,381)	(538,118)
Receipt of grants		97,892	222,507
		-----	-----
<b>Cash (used in) investing activities</b>		<b>(44,358)</b>	<b>(315,578)</b>
		-----	-----
<b>Net decrease in cash in the year</b>		<b>(163,768)</b>	<b>(74,967)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>530,989</b>	<b>605,956</b>
		=====	=====
<b>Cash and cash equivalents at end of year</b>	13	<b>367,221</b>	<b>530,989</b>
		=====	=====

## Notes to the Financial Statements For the year ended 31 December 2020

### 1 General Information

The Local Council Ghajnsielem is the local authority of Ghajnsielem set up in accordance with the Local Councils Act (1993). The office of the Local Council is situated at JF De Chambray, Ghajnsielem. These financial statements were approved for issue by the Council Members on 14/10/21. The Local Council's presentation as well as functional currency are 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*

During the year under review, the Council has applied the following International Financial Reporting Standards as adopted by the EU:

IAS1 and IAS8 'definition of material' has been amended to clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards. Effective for annual reporting periods beginning on or after 1 January 2020.

Amendment to IFRS 16 Covid-19 related rent concessions provides lessees with an exemption from assessing whether a Covid-19 related rent concession is a lease modification. Effective for annual reporting periods beginning on or after 1 June 2020.

#### *New Standards and amendments not yet adopted:*

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

IAS1 has been amended with the aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non current. Effective for annual reporting periods beginning on or after 1 January 2023.

Amendments to IAS 16 Property, plant and equipment prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit and loss. Effective for annual reporting periods beginning on or after 1 January 2022 and not yet endorsed for use in the EU.

The amendments to IAS 37 Onerous Contracts specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). Effective for annual reporting periods beginning on or after 1 January 2022 and not yet endorsed for use in the EU.

Annual Improvements to IFRS standards 2018 -2020 makes amendments to; IFRS1 – the amendment permits a subsidiary that applies paragraph D16(a) of IFRS1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs; IFRS9 – the amendment clarifies which fees an entity includes when it applies the 10% test in paragraph B3.3.6 of IFRS9 in assessing whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf; IFRS16 - the amendment to illustrative example 13 accompanying IFRS16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example; IAS41 – the amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. Effective for annual reporting periods beginning on or after 1 January 2022 and not yet endorsed for use in the EU.

Amendments to classification of liabilities as current or non current IAS1 defers the effective date of the January 2020 amendments by one year, so that entities would be required to apply the amendments for annual periods beginning on or after 1 January 2023.

The Councillors 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 Councillors anticipate 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.

#### *Intangible Asset*

Computer software is valued at cost less accumulated depreciation and impairment losses to date. Depreciation to write off the cost is calculated on a monthly basis using the straight line method at 20% per annum.

#### *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	8%
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.

#### *Related Parties*

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

#### *Revenue*

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. 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.

#### *Government grants*

Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate, which in the case of grants related to assets requires deducting it from the carrying amount of the asset, using the capital approach.

#### *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 euro at the rates of exchange prevailing at the date of the Statement of Financial Position.

#### *Profits and losses*

Only profits 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.

#### *Critical accounting estimates and judgements*

Estimates and judgements are continually evaluated and based on historic experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the Executive Secretary, the accounting estimates and judgements made in the preparation of the financial statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirements of IAS1 (revised) - 'Presentation of Financial Statement'.

#### *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
- that the Council maintains a positive working capital

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.

#### *Financial Instrument*

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

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

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

Financial assets and financial liabilities are measured initially at fair value plus transaction 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 at each identified group.

#### *Financial Liabilities*

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

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

## 7 Operations and Maintenance

	2020	2019
	€	€
<i>Repairs and upkeep</i>		
Road and street pavements	3,568	3,839
Street signs	3,801	2,902
Road markings	1,751	1,013
Equipment repairs	1,503	-
Other repairs and upkeep	16,592	6,410
	-----	-----
	27,215	14,164
	=====	=====
<i>Contractual services:</i>		
Refuse collection	71,707	64,200
Bulky refuse collection	2,984	4,782
Road and street cleaning	16,550	19,193
Cleaning and maintenance of public conveniences	8,115	7,185
Cleaning and maintenance of parks and gardens	7,440	4,901
Cleaning council offices	2,944	2,720
Other contractual services	240	-
Street lighting	1,163	7,784
LES related expenditure	82	-
	-----	-----
	111,225	110,765
	=====	=====
Total operations and maintenance expenses	138,440	124,929
	=====	=====

## 8 Administration and other expenditure

	2020	2019
	€	€
Utilities	7,714	4,927
Materials and supplies	24,229	18,896
Rent	4,925	2,700
National and international	711	930
Office services	7,197	15,658
Transport	4,700	9,700
Overseas travel	3,275	468
Information services	6,795	10,847
Other contractual services	1,062	10,370
Professional services	29,908	14,132
Training costs	3,375	348
Community and hospitality	32,211	62,289
Depreciation	80,914	73,164
Amortisation	54	54
Provision for bad debts	7,254	-
Penalties	-	1,200
Lease of equipment	4,811	7,284
	-----	-----
	219,135	232,967
	=====	=====

**9 Finance Income**

	2020 €	2019 €
Bank Interest receivable	131	33

**10 Intangible asset**

	Computer Software €	Total €
<b>Cost</b>		
At 1 January 2020	1,342	1,342
At 31 December 2020	1,342	1,342
<b>Provision for diminution in value</b>		
At 1 January 2020	1,179	1,179
Charge for the year	54	54
At 31 December 2020	1,233	1,233
<b>Net book values</b>		
At 31 December 2020	109	109
At 31 December 2019	163	163

**11 Property, plant and equipment**  
a)

	Assets under Construction	Buildings	Office Furniture & Fittings	New Street Signs	Urban Improvements	Computer Equipment	Plant and Machinery	Motor Vehicles	Special Programmes	Total
	€	€	€	€	€	€	€	€	€	€
<b>Cost</b>										
At 1 January 2019	9,996	236,750	28,964	13,246	254,004	11,396	46,755	24,426	931,669	1,557,206
Additions	1,575	-	-	-	8,450	1,346	2,644	42,126	481,977	538,118
Reallocations	(9,996)	-	-	-	-	-	-	-	9,996	-
At 31 December 2019	1,575	236,750	28,964	13,246	262,454	12,742	49,399	66,552	1,423,642	2,095,324
<b>Depreciation</b>										
At 1 January 2019	-	13,707	11,617	13,246	177,178	8,955	33,197	15,899	348,260	622,059
Charge for the year	-	-	1,407	-	12,164	990	1,525	2,425	54,653	73,164
At 31 December 2019	-	13,707	13,024	13,246	189,342	9,945	34,722	18,324	402,913	695,223
<b>Grants</b>										
At 1 January 2019	-	-	-	-	22,231	-	9,573	8,527	463,585	503,916
Additions	-	223,043	-	-	-	-	-	30,000	-	253,043
At 31 December 2019	-	223,043	-	-	22,231	-	9,573	38,527	463,585	756,959
<b>Net Book Amount</b>										
At 31 December 2019	1,575	-	15,940	-	50,881	2,797	5,104	9,701	557,144	643,142

**11 Property, plant and equipment**  
b)

	Assets under Construction	Buildings	Office Furniture & Fittings	New Street Signs	Urban Improvements	Computer Equipment	Plant and Machinery	Motor Vehicles	Special Programmes	Total
	€	€	€	€	€	€	€	€	€	€
<b>Cost</b>										
At 1 January 2020	1,575	236,750	28,964	13,246	262,454	12,742	49,399	66,552	1,423,642	2,095,324
Additions	38,209	-	-	-	15,413	-	576	-	88,183	142,381
Reallocations	-	-	-	-	-	-	-	-	-	-
At 31 December 2020	39,784	236,750	28,964	13,246	277,867	12,742	49,975	66,552	1,511,825	2,237,705
<b>Depreciation</b>										
At 1 January 2020	-	13,707	13,024	13,246	189,342	9,945	34,722	18,324	402,913	695,223
Charge for the year	-	-	1,407	-	7,839	990	1,640	3,925	65,113	80,914
At 31 December 2020	-	13,707	14,431	13,246	197,181	10,935	36,362	22,249	468,026	776,137
<b>Grants</b>										
At 1 January 2020	-	223,043	-	-	22,231	-	9,573	38,527	463,585	756,959
Receipt/(Repayment) of grant	33,784	-	-	-	-	-	-	(10,000)	-	23,784
At 31 December 2020	33,784	223,043	-	-	22,231	-	9,573	28,527	463,585	780,743
<b>Net Book Amount</b>										
At 31 December 2020	6,000	-	14,533	-	58,455	1,807	4,040	15,776	580,214	680,825

## 12 Receivables

		2020 €	2019 €
Amounts receivable	<i>Note</i>	51,250	36,096
Prepayments and accrued income		39,494	62,655
		-----	-----
		90,744	98,751
		=====	=====

### *Amounts receivable*

General receivables are analysed as follows:

		2020 €	2019 €
Within credit period		6,315	8,542
Exceeded credit period but no impaired		44,935	27,554
		-----	-----
		51,250	36,096
		=====	=====

### *Note*

Receivables are net of provision for doubtful debts of Eur 14,011 (2019: Eur 6,757)

## 13 Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following Statement of Financial Position amounts:

		2020 €	2019 €
Bank Balances		367,117	530,948
Cash in Hand		104	41
		-----	-----
		367,221	530,989
		=====	=====

## 14 Payables

		2020 €	2019 €
Accounts payables		80,783	287,047
Accruals		12,030	15,526
Short term deferred income		266,615	192,507
		-----	-----
		359,428	495,080
		=====	=====

## 15 Capital commitments

		2020 €	2019 €
Total capital commitments		437,032 =====	281,280 =====
(i) Approved but not yet contracted for:			
Resurfacing works in Triq Hamri	<i>Note</i>	118,860	122,000
Special Projects - Tofa Square	<i>Note</i>	100,000	82,000
Special Projects - Garden		120,000	-
Embellishment		40,000	-
Irrigation system		14,142	-
(ii) Approved and contracted for:			
Rubble walls		44,030 -----	77,280 -----
		437,032 -----	281,280 -----

*Note*

Resurfacing works to be carried out will be fully financed by UIF funds.

*Note*

Special Projects will be partly financed by government entities and EU funds.

## 16 Contingent Liabilities

There is a lawsuit pending against the Local Council in the names Vincent Xueret Et. Vs Noel Grima ET. The council has good grounds of defence, however in case that the court case is not decided in its favour, the Council might be condemned to pay up to Eur 300,000. This figure is estimative since the plaintiffs have not put forth a concrete figure but are asking the Court to liquidate the damages.

## 17 Related Parties Disclosures

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 Councils	Significant control
Gozo Regional Committee	Joint control
LESA	No control
Central Regional Committee	No control
North Regional Committee	No control
South Eastern Regional Committee	No control
South Regional Committee	No control
Police General Head Quarters	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Department of Agriculture	No control

## REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued

### Basis for Qualified Opinion - continued

Following Directive 01/2017 issued by the Department for Local Government, the Local Council changed its accounting policies on depreciation, whereby the straight-line method is to be applied instead of the reducing balance method and the accounting policy on government grants, whereby the capital approach is to be applied instead of the income approach. These changes became effective as from 1 January 2018. We were provided with limited information to ensure that the changes in the accounting policies were properly applied. From the limited tests that we could carry out, it however transpired that items of property, plant and equipment whose useful life expired, were not written off upon the adoption of the straight-line method and that the depreciation is not being worked out on the remaining useful life of the assets. Furthermore, we noticed that grants received for specific projects, were allocated to several items of property, plant and equipment rather than those specific projects, clearly indicating that the allocation of grants to the respective assets was not properly carried out. Based on the limited tests that we could carry out, we could conclude that the application of the changes in the accounting policies was not properly carried out. This would impact the carrying amounts of property, plant and equipment, as well as the depreciation charge for the year.

As at 31 December 2017, the Local Council had deferred income amounting to €101,363 relating to three different projects that were not yet carried out as of that date. Yet, we noticed that when the comparative figures were restated following the change in the accounting policy on government grants in accordance with Directive 01/2017, these grants were still allocated against property, plant and equipment rather than left under deferred income. One of the projects for which there were funds amounting to €9,615, was then carried out during 2018 whilst the other two projects were carried out during 2019. We have also noticed that the grants received for one of the projects amounted to €81,748 when the actual costs of this project amounted to €74,127 meaning that part of the grants capitalized should have been presented under other payables as these extra funds should be refunded back. Furthermore, we noticed for the second project done during 2019, the full funds were accrued for during the current year when €10,000 thereof were received during 2017. Therefore, the other payables, the accrued income and the property, plant and equipment are misstated.

During the year ended 31 December 2018, the Local Council received two grants amounting to €120,996 and €138,363 respectively for two projects that were not yet carried out. Yet these grants have been netted off against the property, plant and equipment in the financial statements rather than classified as deferred income, and they were allocated to project which they do not relate to. During the year ended 31 December 2019, one of these projects was completed. The total costs amounted to €198,629 and 90% therefore should have been covered by grants. This means that the total grants receivable for this project amount to €178,766 when only €138,363 are reflected in the accounts. The remaining balance has not been accrued for. The other project relating to the funds amounting to €120,996, was commenced during 2019 but is not yet completed according to the Local Council. The invoices received during 2019 and 2020 as the project progresses, amounting in total to €119,815, were still capitalized under special programmes rather than under assets under construction. Given that grants are allocated to incorrect projects and assets are being treated as complete when they are not, the depreciation charge for the year is misstated, as are the property, plant and equipment, the accrued income and the deferred income.

## **REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued**

### **Basis for Qualified Opinion - continued**

When testing the accounts payable, confirmations were only received from less than half of the samples chosen, despite the various chasing that was carried out. We could not satisfy ourselves through alternative audit procedures as to the correctness and completeness of the accounts payable.

In the financial statements for the year ended 31 December 2018, the note relating to property, plant and equipment, was not properly prepared following the changes in the accounting policies in accordance with Directive 01/2017. The amounts added to the grants, did not represent the gross amounts of grants received but the gross amounts of grants received less the amortization up till 31 December 2016. The amortization up till 31 December 2016 should have been netted off against the accumulated depreciation as of that date. This error in the presentation was not corrected in these financial statements as the same figures were brought forward year on year, both for the grants and for the accumulated depreciation.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Local Council in accordance with the ethical requirements of both the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Code of Ethics for Warrant Holders in Malta. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Other Information**

The Executive Secretary and the Local Council Members are responsible for the other information. The other information comprises the Statement of Local Council Members' and Executive Secretary's Responsibilities. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Council Responsibilities for the Financial Statements**

As described on page 3, the Executive Secretary and the Local Council Members are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Executive Secretary and the Local Council Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued**

### **Council Responsibilities for the Financial Statements - continued**

In preparing the financial statements, the Executive Secretary and the Local Council Members are responsible for assessing the Local 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 it is inappropriate to presume that the Local Council will continue as a going concern.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 skepticism 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 Local Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Secretary and the Local Council Members.
- Conclude on the appropriateness of the Executive Secretary's and the Local Council Members' 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 Local 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 auditors' 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 Local 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.

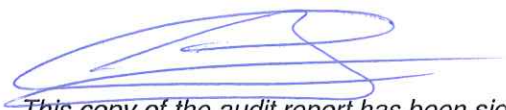
**REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued**

**Auditor's Responsibilities for the Audit of the Financial Statements - continued**

We communicate with the Executive Secretary and the Local Council Members 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**

In our opinion, the financial statements have been properly prepared in accordance with the Local Councils Act (Cap. 363), the Financial Regulations issued in terms of the said Act and the Local Councils (Financial) Procedures.



*This copy of the audit report has been signed by  
Conrad Borg (Principal)  
for and on behalf of*

RSM Malta  
Certified Public Accountants

Date: 14<sup>th</sup> October 2021