



MOSTA

MOSTA 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 a statement of the Local Council's comprehensive income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with the accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local Council (Financial) Regulations, and the Local Council (Financial) Procedures issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, the Local Council (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Local Council on the 19th May 2020 and signed on its behalf by



Romilda B. Zarb
Mayor



Lorraine Templeman
Executive Secretary

MOSTA LOCAL COUNCIL

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

		2019 €	2018 €
Income	<i>Notes</i>		
Funds received from Central Government	4	1,429,363	1,308,796
Income raised under Local Council Bye-Laws	5	38,555	14,274
Income raised under Local Enforcement System	6	13,053	17,972
General Income	7	86,047	88,945
		<u>1,567,018</u>	<u>1,429,987</u>
Expenditure			
Personal emoluments	9	(241,282)	(203,788)
Operations and maintenance	10	(852,165)	(656,529)
Administrative and other expenditure	11	(437,948)	(1,169,969)
		<u>(1,531,395)</u>	<u>(2,030,286)</u>
Operating Profit / (Loss) for the year		35,623	(600,299)
Finance income	12	403	302
		<u>36,026</u>	<u>(599,997)</u>
Profit / (Loss) for the year		36,026	(599,997)

The notes on pages 8 to 25 form an integral part of these financial statements




STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 €	2018 €
ASSETS			
Non-Current Assets			
Intangible assets	13	1,777	2,389
Property, plant and equipment	14	588,009	817,756
		<u>589,786</u>	<u>820,145</u>
Current Assets			
Inventories		3,693	-
Receivables	15	89,778	111,435
Cash and Cash Equivalents	16	1,202,467	838,152
		<u>1,295,938</u>	<u>949,587</u>
Total Assets		<u><u>1,885,724</u></u>	<u><u>1,769,732</u></u>
EQUITY AND LIABILITIES			
Reserves			
Retained Fund		1,312,666	1,276,640
		<u>1,312,666</u>	<u>1,276,640</u>
Non-Current Liabilities			
Long-term borrowings	18	-	27,607
		<u>-</u>	<u>27,607</u>
Current Liabilities			
Payables	17	557,317	465,485
Deferred income	19	15,721	-
		<u>573,058</u>	<u>465,485</u>
Total Equity and Liabilities		<u><u>1,885,724</u></u>	<u><u>1,769,732</u></u>

These financial statements were approved by the Local Council on the 19th May 2020 and signed on its behalf by:


 Romilda B. Zarb
 Mayor


 Lorraine Templeman
 Executive Secretary

The notes on pages 8 to 25 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	1,876,637
Loss for the year 2018	(599,997)
At 31 December 2018	1,276,640
At 1 January 2019	1,276,640
Profit for the year 2019	36,026
At 31 December 2019	1,312,666

The notes on pages 8 to 25 form an integral part of these financial statements



STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 €	2018 €
	Note	
Cash flows from Operating Activities		
Profit / (Loss) for the year	36,026	(599,997)
Reconciliation to cash generated from operations:		
Depreciation	228,603	357,931
Amortisation	612	671
Reduction in value of PPE in line with Directive 1/2017	-	636,704
Grants forfeited	-	(20,000)
Increase / (decrease) in provision for Doubtful Debtors	32	(1,005)
Interest receivable	(403)	(302)
Operating Profit before Working Capital Changes	<u>264,870</u>	<u>374,002</u>
Increase in inventories	(3,693)	-
Increase in receivables	(24,031)	(600)
Decrease in other receivables	45,656	44,130
Decrease in payables and other payables	91,852	50,675
Cash generated from operating activities	<u><u>374,654</u></u>	<u><u>468,207</u></u>
Cash flows from Investing Activities		
Interest received	403	302
Purchase of property, plant & equipment	(36,789)	(36,053)
Purchase of intangible assets	-	(2,484)
Receipt of grants	53,654	-
Cash generated from/(used in) investing activities	<u><u>17,268</u></u>	<u><u>(38,235)</u></u>
Cash flows from Financing activities		
Decrease in long term liabilities	(27,607)	(25,473)
Cash used in financing activities	<u><u>(27,607)</u></u>	<u><u>(25,473)</u></u>
Net Increase in Cash and Cash Equivalents	364,315	404,499
Cash and Cash Equivalents at the Beginning of the year	<u>838,152</u>	<u>433,653</u>
Cash and Cash Equivalents at the End of the year	16 <u><u>1,202,467</u></u>	<u><u>838,152</u></u>

The notes on pages 8 to 25 form an integral part of these financial statements

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

1. General Information

The Mosta Local Council is the local Authority of Malta set up in accordance with the Local Councils Act, 1993. The office of the Local Council is situated at Civic Centre, Constitution Street, Mosta, MST9059.

These financial statements were approved for issue by the Council Members on the 19th 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.

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

Accounting Policies and Reporting Procedures

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.

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:

	Years
Land	No Depreciation
Trees	No Depreciation
Buildings	100
Office Furniture and Fittings	13 1/3
Construction Works	10
Urban Improvements (Street Furniture)	10
Special Projects	10
Office Equipment	5
Motor Vehicles	5
Plant and Machinery	5
Computer Equipment	4
Plants	Replacement basis
Litter Bins	Replacement basis
Playground Furniture	Replacement basis
Traffic Signs	Replacement basis
Road Signs	Replacement basis
Street Mirrors	Replacement basis
Street Lights	Replacement basis

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. On 1 January 2018, the straight-line method according to IAS 16 has been adopted in line with Directive 1/2017 issued by the Department for Local Government. This is a change in accounting estimate which, according to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, has been accounted for retrospectively

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.

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

2. Accounting Policies and Reporting Procedures

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.

Leases

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

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Council has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Council has the right to direct the use of the asset. The Council has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Council has the right to direct the use of the asset if either:
 - The Council has the right to operate the asset; or
 - The Council designed the asset in a way that predetermines how and for what purpose it will be used.

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

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

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

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

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

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

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

Accounting Policies and Reporting Procedures (cont.)

Leases (cont.)

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

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

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

Short-term leases and leases of low-value assets

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

Inventories

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

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.

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.



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

2. Accounting Policies and Reporting Procedures

Financial instruments (cont.)

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.

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, which income consists of administration fee of 10% of cash collected on behalf of LESA or the Regional Committee

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.

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

2. Accounting Policies and Reporting Procedures

Government grants (cont.)

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 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.

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. The Council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

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

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

MOSTA LOCAL COUNCIL

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

4. Funds received from central government

	2019	2018
	€	€
In terms of section 55 of the Local Councils Act	1,301,832	1,236,332
Supplementary Government Income	-	68,446
Other Government Income	127,531	4,018
	<u>1,429,363</u>	<u>1,308,796</u>

5. Income raised from Bye-Laws

	2019	2018
	€	€
Advertising on Street Furniture	7,958	2,050
Income from publications	12,889	142
Income from donations	-	51
Income from skip permits	1,440	1,508
Income from courses	6,385	-
Use of facilities	9,883	10,523
	<u>38,555</u>	<u>14,274</u>

6. Local Enforcement system

	2019	2018
	€	€
Contraventions and other fines	13,053	17,972
	<u>13,053</u>	<u>17,972</u>

7. General Income

	2019	2018
	€	€
Cultural Events & sponsorships from NGOs	420	51
General Income	15,068	25,121
Income from Permits	70,559	63,773
	<u>86,047</u>	<u>88,945</u>

8. Profit/Loss for the year

	2019	2018
	€	€
Profit for the year is stated after charging		
Mayor's Remuneration	15,870	14,344
Staff salaries	35,833	34,669
Depreciation and amortisation	229,215	358,601
Movement in provision for doubtful debts	32	(1,005)
	<u>32</u>	<u>(1,005)</u>

MOSTA LOCAL COUNCIL

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

9. Personal Emoluments

	2019	2018
	€	€
Mayor's Remuneration	18,007	14,927
Councillors' Allowances	23,140	15,792
Executive Secretary Salary and Allowances	35,833	34,669
Employees' Salaries	145,577	122,401
Social Security Contributions	15,870	14,344
Overtime	2,855	1,655
	<u>241,282</u>	<u>203,788</u>

The average number of persons employed by the Council during the year was as 8 (2018: 7).

10. Operations and Maintenance

	2019	2018
	€	€
<i>Repairs and Upkeep:</i>		
Office furniture and upkeep	905	251
Patching and Pavements	108,312	113,212
Repairs to public property	4,254	1,009
Signs	7,061	3,112
Road Markings	11,339	13,730
Plant and machinery	289	120
Handyman repairs and upkeep	33,757	32,583
	<u>165,917</u>	<u>164,017</u>
<i>Contractual Services:</i>		
Refuse Collection	380,666	318,855
Bulky Refuse Collection	32,640	18,480
Road & Street Cleaning	152,350	110,122
Cleaning & Maintaining Non-Urban	745	-
Cleaning - Public Conveniences	5,905	5,860
Cleaning - Council Premises	3,522	3,851
Cleaning & Maintaining Parks & Gardens	72,387	5,311
Street Lighting	37,445	28,748
LES related expenditure	588	1,285
	<u>686,248</u>	<u>492,512</u>
Total Operations and Maintenance Costs	<u>852,165</u>	<u>656,529</u>

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

11. Administration and other expenditure

	2019	2018
	€	€
Utilities	15,945	15,467
Other repairs and upkeep	7,763	5,153
Rent	37,463	38,991
National and International Memberships	300	13
Office Services	5,588	2,741
Transport	110	-
Insurance Coverage	4,078	3,142
Bank Charges	283	142
Professional Services	33,266	39,018
Tuition for courses and expenses	467	-
Social and cultural events	15,570	9,147
Conference Expenses	292	491
Community Services	69,639	53,068
Sundry Minor Expenses	-	250
Provision for Doubtful Debtors	32	(1,005)
Public relations expenses	17,783	7,325
Permits and licenses	154	721
Adjustment in value of PPE in line with Directive 1/2017	-	636,704
Depreciation	229,215	358,601
	<u>437,948</u>	<u>1,169,969</u>

12. Finance Income

	2019	2018
	€	€
Bank Interest Receivable	<u>403</u>	<u>302</u>

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

13. Intangible fixed assets

	Computer software €	Total €
Cost		
At 1 January 2019	3,210	3,210
Additions	-	-
	<u>3,210</u>	<u>3,210</u>
At 31 December 2019	3,210	3,210
Depreciation		
At 1 January 2019	821	821
Charge for the year	612	612
	<u>1,433</u>	<u>1,433</u>
At 31 December 2019	1,433	1,433
Net Book value		
At 31 December 2019	<u>1,777</u>	<u>1,777</u>
	Computer software €	Total €
Cost		
At 1 January 2018	726	726
Additions	2,484	2,484
	<u>3,210</u>	<u>3,210</u>
At 31 December 2018	3,210	3,210
Depreciation		
At 1 January 2018	150	150
Charge for the year	671	671
	<u>821</u>	<u>821</u>
At 31 December 2018	821	821
Net Book value		
At 31 December 2018	<u>2,389</u>	<u>2,389</u>



MOSTA LOCAL COUNCIL

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

14. Property, plant and equipment

	Trees	Improvements to premises	Computer equipment	Office equipment	Street signs mirrors & lights	Urban Improvements	Plant, & machinery	Office Furniture & fittings	Construction works	Assets not yet capitalised	Special Programmes	Total
	€	€	€	€	€	€	€	€	€	€	€	€
Cost												
At 1 January 2019	37,316	1,130	4,939	148,163	128,450	360,884	77,544	170,986	2,759,827	747	2,964,009	6,653,995
Additions	-	-	185	20,391	-	7,133	-	2,387	-	-	6,693	36,789
At 31 December 2019	37,316	1,130	5,124	168,554	128,450	368,017	77,544	173,373	2,759,827	747	2,970,702	6,690,784
Depreciation												
At 1 January 2019	-	38	1,580	139,186	128,450	333,040	52,544	158,163	2,379,618	-	449,810	3,642,429
Charge for the year	-	169	1,270	4,044	-	3,784	-	3,738	134,386	-	81,212	228,603
At 31 December 2019	-	207	2,850	143,230	128,450	336,824	52,544	161,901	2,514,004	-	531,022	3,871,032
Grants												
At 1 January 2019 received during the year	-	-	-	-	-	-	25,000	-	-	-	2,168,810	2,193,810
	-	-	-	9,308	-	-	-	-	-	-	28,625	37,933
At 31 December 2019	-	-	-	9,308	-	-	25,000	-	-	-	2,197,435	2,231,743
Net Book values At 31 December 2019	37,316	923	2,274	16,016	-	31,193	-	11,472	245,823	747	242,245	588,009

MOSTA LOCAL COUNCIL

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

14. Property, plant and equipment (cont.)

	Trees	Improvements to premises	Computer equipment	Office equipment	Street signs mirrors & lights	Urban Improvements	Plant, & machinery	Office Furniture & fittings	Construction works	Assets not yet capitalised	Special Programmes	Total
	€	€	€	€	€	€	€	€	€	€	€	€
Cost												
At 1 January 2018	37,169	-	4,051	145,355	128,450	360,884	52,544	166,626	2,759,827	-	2,963,036	6,617,942
Additions	147	1,130	888	2,808	-	-	25,000	4,360	-	747	973	36,053
At 31 December 2018	37,316	1,130	4,939	148,163	128,450	360,884	77,544	170,986	2,759,827	747	2,964,009	6,653,995
Depreciation												
At 1 January 2018	-	-	495	129,202	128,450	327,082	52,544	121,456	1,618,620	-	269,945	2,647,794
Charge for the year	-	38	1,085	3,004	-	5,958	-	5,659	261,887	-	80,300	357,931
Adjustment Direttiva 1/2017	-	-	-	6,980	-	-	-	31,048	499,111	-	99,565	636,704
At 31 December 2018	-	38	1,580	139,186	128,450	333,040	52,544	158,163	2,379,618	-	449,810	3,642,429
Grants												
At 1 January 2018	-	-	-	-	-	-	-	-	-	-	2,168,810	2,168,810
At 31 December 2018	-	-	-	-	-	-	25,000	-	-	-	2,168,810	2,193,810
Net Book values												
At 31 December 2018	37,316	1,092	3,359	8,977	-	27,844	-	12,823	380,209	747	345,389	817,756

MOSTA LOCAL COUNCIL

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

15. Receivables

	2019	2018
	€	€
Receivables	42,752	18,753
Prepayments and accrued income	47,026	92,682
	<u>89,778</u>	<u>111,435</u>

Receivables

General receivables are analysed as follows:

	2019	2018
	€	€
Within credit period	34,909	3,612
Exceeded credit period but not impaired	7,843	15,141
Impaired and provided for	352,880	394,128
Provision for doubtful debts	<u>(352,880)</u>	<u>(394,128)</u>
	<u>42,752</u>	<u>18,753</u>

Included in the accounts receivable are amounts due from related parties amounting to €39,339 (2018 : €19,322). These amounts are unsecured, interest free and repayable on demand. Amounts due from LES Debtors amount to €346,265 and are fully provided for.

16. 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	1,201,807	837,797
Cash in Hand	660	355
	<u>1,202,467</u>	<u>838,152</u>

MOSTA LOCAL COUNCIL

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

17. Payables

	2019	2018
	€	€
Payables	307,265	293,885
Other payables	114,821	69,977
Accruals - PPP	29,920	29,922
Accruals	105,331	71,701
	<u>557,337</u>	<u>465,485</u>

2019	0-90 days	91-180 days	180-365 days	Total
	€	€	€	€
Payables	178,572	31,493	97,200	307,265
Other payables	114,821	-	-	114,821
Accruals - PPP	29,920	-	-	29,920
Accruals	105,331	-	-	105,331
	<u>428,644</u>	<u>31,493</u>	<u>97,200</u>	<u>557,337</u>

2018	0-90 days	91-180 days	180-365 days	Total
	€	€	€	€
Payables	95,572	128,912	69,501	293,985
Other payables	69,977	-	-	69,977
Accruals - PPP	29,922	-	-	29,922
Accruals	71,701	-	-	71,701
	<u>267,172</u>	<u>128,912</u>	<u>69,501</u>	<u>465,585</u>

Included in the accounts payable are amounts to related parties amounting to €62,136 (2018 : €59,933). These amounts are unsecured, interest free and repayable on demand.

18. Borrowings

	2019	2018
	€	€
Non-current		
Third party borrowings	-	27,607
Borrowings		
Repayable between one and two years	-	27,607
Repayable between two and five years	-	-
Repayable in five years or more	-	-
	<u>-</u>	<u>27,607</u>

Third party loan is payable to a supplier under the Public Private Partnership scheme as per memo 45/2010 separated into two phases. One is repayable over a period of 9 years, 2014 to 2020 (Phase 1) and another was payable over a period of 4 years from the construction of that particular street, 2014 to 2018 (Phase 2). Long term amount payable under the scheme, inclusive of interest is NIL.

MOSTA LOCAL COUNCIL

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

19. Deferred income

	2019	2018
	€	€
Government grants		
At 1 January	-	45,000
Transferred to Grants Capital Approach PPE	-	(25,000)
Grants forfeited	-	(20,000)
Received during the year	<u>15,721</u>	-
At 31 December	<u>15,721</u>	-
Current Deferred Income	<u>15,721</u>	-
Non-Current Deferred Income	<u>-</u>	<u>-</u>

20. Capital commitments

	2019	2018
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	1,261,332	1,365,000
- Contracted for but not provided in the financial statements	<u>388,668</u>	-
(i) Approved but not yet contracted for:		
Project financed under Measure 4.4	-	110,738
Projects financed under PA Development Fund	850,000	983,032
Projects financed under PAMA agreement	75,332	220,230
Project financed under Northern Region Tarmac Fund	26,388	26,388
Pavements around the Locality	200,000	-
Other Minor Projects	19,612	9,612
Motor Vehicle	25,000	-
Office Furniture & Fittings	10,000	5,000
Office Equipment	45,000	5,000
Computer Equipment	10,000	5,000
	<u>1,261,332</u>	<u>1,365,000</u>
(i) Contracted for but not provided in the Financial Statements:		
Project financed under Measure 4.4	110,738	-
Projects financed under PA Development Fund	277,930	-
	<u>388,668</u>	-

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

21. Contingent liabilities

There were no contingent liabilities in respect of bank guarantees at year end. However, at year end the council is involved in a number of legal disputes that could give rise to sums to be paid to third parties. These involve the following:

- a. A case instituted by a German Tourist for the liquidation of damages after the occurrence of an accident in the locality; This liability is covered by the Council's Insurance policy;
- b. The Council has an ongoing litigation with a contractor and issued a number of default notices to same Contractor, which default notices' value was reduced from the balance payable to the Contractor. Default Notices are being disputed by the Contractor who has recently indicated that they will open claim in the Civil Court against the Council

The Council may also be subject to legal action from third parties who have suffered damages on Mosta Roads and are stating that the Council was at fault, which claims are being refused by the Council.

22. 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
North Joint Committee (Local Enforcement)	Joint Control
North Regional Committee	Joint Control
Street Lighting Joint Committee	Joint 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
MCAST	No control
National Library of Malta	No control
Office of the Prime Minister	No control
Housing Authority	No control
Kunsill Malti għall-Isport	No control
Local Councils' Association	No control
Department for Elderly & Community	No control
Malta Communications Authority	No control
Ministry for Energy & Health	No control
Heritage Malta	No control
Office of the Commissioner for Data Protection	No control
Ministry for Resources and Rural Affairs	No control

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

22. Related party transactions (cont)

The amounts due from / to related parties at year-end are disclosed in notes 15 and 17. 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.

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	1,429,363			1,308,796		
	<u>1,429,363</u>	<u>1,567,015</u>	<u>92</u>	<u>1,308,796</u>	<u>1,429,987</u>	<u>93</u>
<i>Expenditure</i>						
Transactions with government entities	10,841			2,164		
Key personnel remuneration	241,282			203,788		
	<u>252,123</u>	<u>1,531,392</u>	<u>16</u>	<u>205,952</u>	<u>2,030,286</u>	<u>10</u>

23. 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.

24. 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 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.

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 1,202,467. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive current net asset position of €738,601 (2018: €484,102) ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

MOSTA LOCAL COUNCIL

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

24. Financial Risk Management (cont.)

	2019	2018
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	42,752	18,753
Cash and Cash Equivalents	<u>1,202,467</u>	<u>838,152</u>
	<u>1,245,219</u>	<u>856,905</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>513,042</u>	<u>465,485</u>

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.

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. However, the Council is not currently exposed to such risk since it does not have long term fluctuating interest borrowings. In general, the Council's exposure to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financing position and cash flows are not deemed to be substantial by the Councillors and Executive Secretary in view of the nature of the assets and liabilities.

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

Report of the Local Government Auditor

To the Auditor General

Report on the audit of the financial statements

Qualified opinion

We have audited the financial statements of Mosta Local Council set out on pages 4 to 25 which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in paragraphs 1 to 4 under the Basis for qualified opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Council as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act, the Local Councils (Financial) Procedures 1996 (the “Legislation”).

Basis for qualified opinion

1. Up to 31 August 2011, all income and expenditure from the Local Enforcement System (LES) were centralised through the North Joint Committee. The North Joint Committee ceased operations on that date. No audited financial statements of the North Joint Committee have been made available to us and consequently we were unable to determine whether the Council is entitled to receive any further income from the North Joint Committee.
2. As at 31 December 2019, the council’s Other Creditors included an amount of €13,370 which originated many years ago. The council failed to provide us with sufficient and appropriate audit evidence to enable us to verify this balance and there were no satisfactory alternative procedures which we could performed to ensure that this amount is not mis-stated.
3. In previous years, the council had received a number of Government grants in respect of capital projects entitled ‘EU Project’ and ‘Cult Exchange’ which together amounted to €288,040. The Council did not provide us with adequate supporting documentation to enable us to verify whether these amounts were properly accounted for and there were no practicable procedures which we could apply to form an opinion on this matter.

Our testing on fixed assets and capital creditors revealed the following:

- (a) included in note 17 to these financial statements are liabilities amounting to €29,920 relating to road works undertaken through the Public Private Partnership Scheme. This balance has been confirmed by the creditor. The council did not follow the proper measurement, recognition and disclosure criteria arising from the requirements of ‘IAS 39 – Financials Instruments: Recognition & Measurement’. This standard requires that such long-term obligations are

accounted for at amortised cost using the effective interest rate method, less provision for any impairment.

- (b) according to the accounting records of the council, the creditor referred to in point 4(a) above is owed an additional €77,648. Upon further enquiries the council explained that this balance is being brought forward from previous years but no supporting evidence about this amount is available.
- (c) for the year ended 31 December 2019, the council passed an adjustment in its accounting records amounting to €27,609 by virtue of which it reduced the amounts due to the creditor referred to in point 4(a) above and reduced fixed asset additions. The Council did not provide us with adequate explanations for this adjustment.

Because of the matters described in points 4(a), (b) and (c) above we could not verify whether or not fixed assets and capital creditors are materially mis-stated.

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

Responsibilities of those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



Mark Bugeja (Partner) for and on behalf of

GRANT THORNTON
Certified Public Accountants

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19 May 2020