

Our Ref: NAO 107/2015/6
Your Ref:

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16 June 2020

The Mayor and Executive Secretary
Qormi Local Council
Qormi

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2019**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2019.

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

Yours faithfully,



Tanya Mercieca
Asst. Auditor General

Encls.

The Mayor
Qormi Local Council
392, Triq il-Vitorja
Hal Qormi (Citta' Pinto) QRM 2507
Malta

4th May 2020

Dear Sir,



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

During our audit for the year ended 31 December 2019, we have reviewed the accounting systems and procedures operated by the Local Council. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Trade receivables

Contrary to previous year, we received the circularisation letter testing 76% of the total trade receivables as at year-end.

1.2 Income raised under LES

Similar to previous year, a discrepancy was noted between the balances recorded in the accounts and 10% commission attributable to the Local Council (refer to point 2.1).

1.3 Wages

We were pleased to note that the Council reported a surplus for the year and hence, the health scheme is in line with regulations.

1.4 Trade payables

We were pleased to obtain supplier reconciliations as at 31 December 2019 for all selected suppliers.

Again, we noted two debit balances in the creditors' list while no payment should be approved and affected before having the appropriate invoice in hand (refer to point 2.3). However, we were pleased to note that these were correctly classified in the accounts.

1.5 Bank

We were pleased to note that the Council did not have any stale cheques in the bank reconciliations as at year-end.

1.6 Accruals

Similar to previous year, it was noted that the bank interest accrual as at year-end was not accounted for (refer to point 2.4).

We were pleased to note that all other accruals were accounted for as appropriate.

1.7 Adoption of IFRS 9

As in previous year, the Council did not calculate and account for the expected credit loss as stipulated by IFRS 9. However, effect on accounts is not material (refer to point 2.5).

1.8 Petty cash

We were pleased to note that the Council's petty cash balance amounted to €231.94 as at year-end which is in accordance to Legislation.

1.9 Expenses

As in previous year, we noted some expenses which exceeded those budgeted (refer to point 2.6). However, we were pleased to note that the cost of the event 'Jum Hal Qormi' did not exceed 0.5% of the annual government allocation.

1.10 Legal letter

Contrary to previous year, we were provided with the legal letter determining any legal cases held against the Council.

1.11 Loss for the year

We were pleased to note that the Local Council managed to obtain a positive result for the year ended 31 December 2019.

2 Management letter points for the year**2.1 Income raised under LES**

While testing the income raised under LES, it was noted that the amount recorded in the accounts was understated by €356 when compared to the 10% commission attributable to the Local Council, as per LESA Report (refer to list of unadjusted errors in point 2.7).

We recommend that a reconciliation is performed between the accounts and the LESA report before the accounts are approved for the audit.

2.2 Wages reconciliation

A difference of €26 arose between the salaries as per accounts and the amounts as per FSS forms, as shown in the wages reconciliation below:

	€
Gross Salaries as per FS5s	199,671
1/2 the total social security as per FS7/ FS5s	14,095
Maternity fund contributions as per FS7/ FS5s	440
Total wage for the year as per FS7/ FS5s	<u>214,206</u>
Employees' salaries	127,963
Executive secretary salaries	35,172
Mayor's allowance	18,006
Councillors' allowance	20,217
NI	<u>14,535</u>
As per accounts	215,893
Add Opening accruals	7,079
Less Closing accruals	<u>(8,740)</u>
Total wages for the year as per accounts	<u>214,232</u>
Difference	<u>(26)</u>

Since the difference is not material for audit purposes, no further testing was deemed necessary (refer to point 2.7).

2.3 Trade payables

While performing our testing on trade payables, we have noted debit balances in the creditors' list amounting to €8,056 in relation to an advance payment to ARMS Ltd and Sandro Caruana. It should be noted that there should not be debit balances in the creditors' list as no payment can be approved and effected before having the appropriate invoice in hand.

We recommend that the Council complies with applicable legislation and performs payments only when the proper documentation is in hand, and also that the correct balances are reflected in the accounts.

In addition, the balance payable to Mica Med Limited was overstated by €96, when compared to the supplier's statement. Given that the extrapolated error on trade payables amounting to €170 was not material, no adjustment was proposed (refer to point 2.7).

2.4 Accruals

While testing the accruals as at year-end, it was noted that the bank interest accrual of €77 was not accounted for. This amount was confirmed with the bank audit report provided from APS Bank plc. Since amount is not material, an audit adjustment was not proposed (refer to point 2.7).

2.5 Adoption of IFRS 9

The Council did not calculate and account for the expected credit loss as stipulated by IFRS 9. The receivable balances of the Council are mainly composed of balances with government-related entities. Given the low risk associated with such entities, the default risk is considered to be insignificant and will not result into a material amount. Consequently, the audit report is not qualified in this respect.

2.6 Expenses

While performing our analytical review on the expenses incurred during the year under review, we noted that the following expenses for the year exceeded the budgeted amounts:

Expenses	Amount exceeded €
Repairs and upkeep	7,079
Cleaning and maintenance – Parks & gardens	50,837
Refuse collection	23,343

We recommend that the Local Council revises the method used in calculating the budgets in order to be more accurate and reflect actual costs incurred. This will help the Local Council in being more efficient and also helps to plan future cash flows in a more effective manner.


2.7 List of unadjusted errors

During the audit, we encountered a number of errors which were non-material both individually and in aggregate, for which there was no need to adjust the financial statements. Refer to the details below:

1. Dr Bank loan interest payable	€77
Cr Accruals	€77
<i>Being omission of accrual of bank loan interest – Refer to 2.4</i>	
2. Dr B/S	€356
Cr Income raised under LES (P/L)	€356
<i>Being difference found between LES reports and accounts – Refer to 2.1</i>	
3. Dr B/S	€26
Cr Wages	€26
<i>Being discrepancy in wages reconciliation – Refer to 2.2</i>	
4. Dr Trade payables	€174
Cr Expenses	€174
<i>Being extrapolated error value on trade payables – Refer to 2.3</i>	

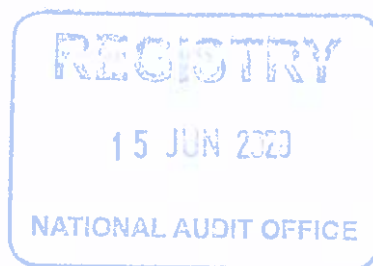
We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Local Council. In consequence, our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcations or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would also like to take this opportunity to thank the Mayor, Executive Secretary, and staff for their help during the course of our audit.



Mr. Manuel Castagna CPA
For and on behalf of Nexia BT

Local Council Qormi
Annual Audit Report
for the year ended 31 December 2019



Prepared by 3a

Contents

	Page
Statement of Local Council Members' and Executive Secretary's Responsibilities	1
Report of the Local Government Auditor to the Auditor General	2 - 3
Statement of Profit or Loss and Other Comprehensive Income	4
Statement of Financial Position	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 - 28

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 period, and of the Council's retained funds at the end of period. 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 period and its retained funds as at the period 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 continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, 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 Council on 4 May 2020 and signed on its behalf by:



Renald Falzon
Mayor



Karen Camilleri
Executive Secretary

REPORT OF THE LOCAL GOVERNMENT AUDITORS ON QORMI LOCAL COUNCIL TO THE AUDITOR GENERAL

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Qormi Local Council, which comprise the Statement of Financial Position as at 31 December 2019, and the statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the statement of financial position of Qormi Local Council as at 31 December 2019, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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 Council in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Executive Secretary

The Executive Secretary is 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 EU, and for such internal control as the Executive Secretary determines are 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 is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council is intended to be liquidated or to cease operations, or has no realistic alternative but to do so.

Auditors' 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Secretary.
- Conclude on the appropriateness of the Executive Secretary'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 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 auditors' report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Executive Secretary regarding, among other matters, the planned scope and timing of the audit and significant audit figures, 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 comply fully with the Local Councils Act, the Financial Regulations issued in terms of this Act and the Local Council (Financial) Procedures.



Mr Manuel Castagna

For and on behalf of
Nexia BT
Certified Public Accountants

The Penthouse, Suite 2
Capital Business Centre, Entrance C
Triq taz-Zwejt
San Gwann SGN 3000
Malta

Date: 4th May 2020

Local Council Qormi

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2019

	Notes	2019 €	2018 €
Revenue			
Funds received from Central Government	3	1,287,268	1,268,927
Income raised under Local Council Bye-Laws	4	8,250	7,208
Income raised under Local Enforcement System	5	16,276	21,934
General Income	6	220,729	94,219
		<u>1,532,523</u>	<u>1,392,288</u>
Expenditure			
Personal Emoluments	7	(215,893)	(199,393)
Operations and maintenance	8	(717,086)	(649,252)
Administration and other expenditure	9	(414,927)	(1,114,839)
		<u>(1,347,906)</u>	<u>(1,963,484)</u>
Operating profit / (loss) for the year		184,617	(571,196)
Finance income	10	62	137
Finance costs	11	(11,931)	(4,054)
Loss on assets written off	7	-	(513)
Profit / (Loss) for the year	7	<u>172,748</u>	<u>(575,626)</u>
Total comprehensive income / (expense) for the year		<u>172,748</u>	<u>(575,626)</u>

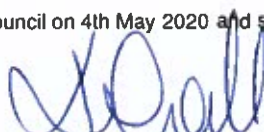
The notes on pages 8 to 28 form an integral part of these financial statements.

		2019	2018
	Notes	€	€
ASSETS			
Non-Current Assets			
Property, plant and equipment	13	1,803,167	1,958,746
Intangible assets	12	689	977
		<u>1,803,856</u>	<u>1,959,723</u>
Current Assets			
Inventories	14	4,555	2,692
Receivables	15	724,631	465,551
Cash at bank and in hand	16	772,699	666,001
		<u>1,501,885</u>	<u>1,134,244</u>
Total Assets		<u>3,305,741</u>	<u>3,093,967</u>
RESERVES			
Retained earnings		1,954,836	1,782,088
Total Reserves		<u>1,954,836</u>	<u>1,782,088</u>
Non-Current Liabilities			
Long-term borrowings	18	151,753	193,882
		<u>151,753</u>	<u>193,882</u>
Current Liabilities			
Payables	17, 19	1,054,207	886,934
Short-term borrowings	18	144,945	231,063
		<u>1,198,152</u>	<u>1,117,997</u>
Total Liabilities		<u>1,350,905</u>	<u>1,311,879</u>
Total Reserves and Liabilities		<u>3,305,741</u>	<u>3,093,967</u>

These financial statements were approved by the Local Council on 4th May 2020 and signed on its behalf by:



Renald Falzon
Mayor



Karen Camilleri
Executive Secretary

The notes on pages 8 to 28 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	2,357,714
Loss for the year	(575,626)
	(575,626)
Total comprehensive expense for the year	(575,626)
At 31 December 2018	1,782,088
	1,782,088
At 1 January 2019	1,782,088
Profit for the year	172,748
	172,748
Total comprehensive income for the year	172,748
At 31 December 2019	1,954,836
	1,954,836

Statement of Cash Flows
for the year ended 31 December 2019

	2019		2018	
	€	€	€	€
Cash flow from operating activities				
Net profit / (loss) for the year	172,748		(575,626)	
Reconciliation to cash generated from operations:				
Depreciation and amortisation	257,004		893,237	
Loss on assets written off	-		513	
Movement in provision for doubtful debts	(1,804)		(5,436)	
Interest receivable	(62)		(137)	
Interest payable	11,931		4,054	
Operating profit before working capital changes	439,817		316,605	
(Increase) in inventories	(1,863)		(2,522)	
(Increase) / decrease in receivables	(66,241)		8,356	
(Increase) / decrease in other receivables	(191,035)		13,500	
(Decrease) / increase in payables	(147,415)		200,283	
Increase / (decrease) in other payables	314,687		(167,133)	
Government grant released	-		(29,230)	
Cash generated from operating activities		347,950		339,859
Cash flow from investing activities				
Interest received	62		137	
Purchase of intangible fixed assets	-		(1,153)	
Purchase of property, plant & equipment	(470,225)		(841,747)	
Receipt of grant	369,089		385,710	
Cash used in investing activities		(101,074)		(457,053)
Cash flow from financing activities				
New long term bank borrowings	-		198,000	
Bank interest paid	(11,931)		4,054	
Repayment of short term bank borrowings	(42,651)		(33,573)	
(Decrease) / increase in overdrawn bank current account	(85,596)		118,260	
Cash (used in) / generated from financing activities		(140,178)		286,741
Net increase in cash in the year		106,698		169,547
Cash at bank and in hand at beginning of year		666,001		496,454
Cash at bank and in hand at end of year		772,699		666,001

1. General Information

The Qormi 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 392, Victory Street, Qormi. These financial statements were approved for issue by the Council Members on 4 May 2020. 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.

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 revised standards that are issued but not yet effective.

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Additional guidance is provided that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

Amendments to References to the Conceptual Framework in IFRS Standards

The IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

The Council does not expect that the adoption of the amended Standards will have a material impact on the financial statements of the Local Council.

New and revised standards that are effective for the current period

In the current year, the Local Council has applied IFRS 16, Leases that is effective for periods that begin on or after 1 January 2019. IFRS 16 introduced a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. Under the new standard, an asset (the right-of-use the leased item) and a financial liability to pay rentals are recognized, with the exception of short-term and low-value leases. IFRS 16 superseded the current lease guidance of IAS 17 and the related interpretations.

The adoption of IFRS 16 has not had an impact on the financial position and financial performance of the Local Council.

Intangible Fixed Assets**Computer Software**

Computer software is stated at cost less accumulated amortisation and impairment losses to date. Amortisation to write off the cost is calculated on a monthly basis using the straight line method, at a rate calculated to write off the cost less residual value of each asset over its useful life, at 25% 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	7.5
Construction Works	10
Urban Improvements (Street Furniture)	10
Special Projects	10
Office Equipment	20
Motor Vehicles	20
Plant and Machinery	20
Computer Equipment	25
Plants	100
Litter Bins	Replacement Basis
Playground Furniture	100
Traffic Signs	Replacement Basis
Road Signs	Replacement Basis
Street Mirrors	Replacement Basis
Street Lights	100

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

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Impairment of Assets

The Council recognises an allowance for expected credit losses (ECLs) for trade receivables. ECLs are based on the difference between the contracted cash flows due in accordance with the contract and all the cash flows that the Council expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Council applies a simplified approach in calculating ECLs as a practical expedient. Therefore the Council does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Amounts receivable

Amounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less expected credit losses. The amount of credit loss is updated at each reporting period to reflect changes in credit risk since initial recognition.

Amounts receivable are derecognised when the rights to receive cash flows have expired or when substantially all risks and rewards of ownership have been transferred. When there is no reasonable expectation of recovering part or all of an amount receivable, its carrying value is written off.

Related parties

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

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.

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 relating to operating expenditure are recognised in the Statement of Comprehensive Income in the same period that the related expenditure is incurred.

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

Foreign currencies

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

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

Borrowing costs

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

Profits and losses

Only 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 historical 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 Statements'.

Capital Management

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

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

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

Financial Instruments

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 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, as 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'.

3. Funds received from central government	2019	2018
	€	€
In terms of section 55 of the Local Councils Act	1,193,187	1,131,203
Supplementary Government Income	58,112	68,241
Other Government Income	35,969	69,483
	<u>1,287,268</u>	<u>1,268,927</u>
4. Income raised from Bye-Laws	2019	2018
	€	€
Bye-Law - Advertising on Street Furniture	5,900	3,208
Bye-Law - Use of Facilities De La Cruz Garden	2,350	4,000
	<u>8,250</u>	<u>7,208</u>
5. Local Enforcement System	2019	2018
	€	€
Contraventions and other fines	23	4,330
Administrative charges to Regional Committees	16,253	17,604
	<u>16,276</u>	<u>21,934</u>
6. General Income	2019	2018
	€	€
Community Services	1,367	1,610
Sale of books and other merchandise	55	1,055
Tender Documents/Info. Charges	20	-
Media Advertising	1,470	35
Donations	-	2,000
Refund of expenses	143,014	26,997
Insurance Claims	945	-
Income from Permits	73,858	62,522
	<u>220,729</u>	<u>94,219</u>

7. Profit / (Loss) for the year

		2019	2018
		€	€
Profit / (loss) for the year is stated after charging:			
Staff salaries	<i>Note</i>	215,893	199,393
Amortisation of intangible assets		288	82
Depreciation of property, plant and equipment		256,716	892,979
Loss on assets written off		-	513
		<u>215,893</u>	<u>199,393</u>

Staff salaries

	2019	2018
	€	€
Mayor's Remuneration	18,006	14,927
Councillors' Allowances	20,217	13,600
Executive Secretary Salary and Allowances	35,172	32,337
Employees' Salaries	127,963	124,309
Social Security Contributions	14,535	14,220
	<u>215,893</u>	<u>199,393</u>

Average number of people employed

Employees	9	9
Mayor & Councillors	11	11
	<u>20</u>	<u>20</u>

8. Operations and Maintenance

	2019	2018
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	17,982	11,335
Signs	12,799	10,128
Road Markings	11,829	7,335
Office Furniture and Equipment	1,239	7,875
Plant & Equipment	112	-
Other repairs and Upkeep	7,103	6,494
Council Property	1,015	1,484
	<u>52,079</u>	<u>44,651</u>

<i>Contractual Services:</i>		
Waste Disposal	138,066	144,042
Refuse Collection	225,277	194,621
Bulky Refuse Collection	12,924	12,924
Bring-in Sites	861	1,392
Cleaning Services	3,558	1,900
Road & Street Cleaning	79,876	82,338
Cleaning & Maint. Non-Urban	17,952	7,692
Cleaning - Public Conveniences	14,772	17,807
Cleaning - Council Premises	109	-
Other Contractual Services	13,323	9,123
Clean. & Maint. Parks & Gardens	50,837	77,890
Clean. & Maint. Soft Areas	74,613	-
Street Lighting	27,896	40,127
Studies & Consultations	4,470	13,398
Local Enforcement Expenses	473	1,347
	<u>665,007</u>	<u>604,601</u>
Total Operations and Maintenance Costs	<u>717,086</u>	649,252

9. Administration and other expenditure

	2019	2018
	€	€
Utilities	18,169	13,288
Other repairs and upkeep	5,688	12,297
Rent	-	233
National and International Memberships	786	838
Office Services	16,461	16,629
Transport	5,854	5,548
Travel	2,416	1,291
Information Services	6,677	10,846
Insurance Coverage	5,978	4,879
Bank Charges	1,815	2,455
Penalties - Department of Local Councils	10	32
Professional Services	24,090	46,155
Training	5,173	6,667
Conference Expenses	1,077	925
Other Hospitality Costs	1,489	1,213
Social Events	55,053	64,814
Cultural Events	7,754	35,612
Community Services	-	1,997
Sundry Minor Expenses	1,237	1,495
Provision for Doubtful Debtors	(1,804)	(5,436)
Depreciation and amortisation	257,004	893,061
	<u>414,927</u>	<u>1,114,839</u>

10. Finance Income

	2019	2018
	€	€
Bank Interest Receivable	62	137
	<u>62</u>	<u>137</u>

11. Finance Costs

	2019	2018
	€	€
Interest on Bank Loan	11,931	4,054
	<u>11,931</u>	<u>4,054</u>

12. Intangible fixed assets	Computer Software €
Cost	
At 1 January 2018	-
Additions	1,153
At 31 December 2018	<u>1,153</u>
Amortisation	
At 1 January 2018	-
Charge for the year	176
At 31 December 2018	<u>176</u>
Net book values	
At 31 December 2018	<u>977</u>
Cost	
At 1 January 2019	1,153
Additions	-
At 31 December 2019	<u>1,153</u>
Amortisation	
At 1 January 2019	176
Charge for the year	288
At 31 December 2019	<u>464</u>
Net book values	
At 31 December 2019	<u>689</u>

Local Council Qormi

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

13. Property, plant and equipment	Property	Assets under construction	New Street Signs	Urban Improvements & Construction	Plant, machinery & equipment	Office Furniture & fittings	Motor vehicles	Special Programmes	Total
	€	€	€	€	€	€	€	€	€
Cost									
At 1 January 2018	532,368	215,436	70,658	3,102,035	142,909	110,225	15,500	3,566,731	7,755,862
Additions	236,939	297,484	-	222,687	5,575	10,235	-	68,935	841,855
Assets Capitalised	-	(378,409)	-	24,370	-	-	-	354,039	-
Disposals	-	-	-	-	(14,169)	-	-	-	(14,169)
At 31 December 2018	<u>769,307</u>	<u>134,511</u>	<u>70,658</u>	<u>3,349,092</u>	<u>134,315</u>	<u>120,460</u>	<u>15,500</u>	<u>3,989,705</u>	<u>8,583,548</u>
Depreciation									
At 1 January 2018	35,556	-	70,658	1,700,463	105,770	62,253	4,732	1,672,084	3,651,516
Charge for the year	3,852	-	-	405,750	15,584	17,302	3,282	447,291	893,061
Release on disposal	-	-	-	-	(13,656)	-	-	-	(13,656)
At 31 December 2018	<u>39,408</u>	<u>-</u>	<u>70,658</u>	<u>2,106,213</u>	<u>107,698</u>	<u>79,555</u>	<u>8,014</u>	<u>2,119,375</u>	<u>4,530,921</u>
Grants									
At 1 January 2018	-	-	-	740,943	13,613	-	-	1,208,401	1,962,957
Grants allocated to PPE during the year	-	-	-	121,124	-	-	-	9,800	130,924
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>862,067</u>	<u>13,613</u>	<u>-</u>	<u>-</u>	<u>1,218,201</u>	<u>2,093,881</u>
Net book values									
At 31 December 2018	<u>729,899</u>	<u>134,511</u>	<u>-</u>	<u>380,812</u>	<u>13,004</u>	<u>40,905</u>	<u>7,486</u>	<u>652,129</u>	<u>1,958,746</u>

Local Council Qomri

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

13. Property, plant and equipment

	Property	Assets under construction	New Street Signs	Urban Improvements & Construction	Plant, machinery & equipment	Office Furniture & fittings	Motor vehicles	Special Programmes	Total
	€	€	€	€	€	€	€	€	€
Cost									
At 1 January 2019	769,307	134,511	70,658	3,349,092	134,315	120,460	15,500	3,989,705	8,583,548
Additions	-	337,997	-	128,990	3,328	-	-	-	470,225
Assets capitalised	-	(240)	-	240	-	-	-	-	-
Disposals	-	-	-	-	(483)	-	-	-	(483)
At 31 December 2019	769,307	472,268	70,658	3,478,232	137,160	120,460	15,500	3,989,705	9,053,290
Depreciation									
At 1 January 2019	39,408	-	70,658	2,106,213	107,698	79,555	8,014	2,119,375	4,530,921
Write-offs	-	-	-	-	-	-	-	-	-
Charge for the year	4,954	-	-	108,433	4,839	13,156	3,282	122,051	256,715
Release on disposal	-	-	-	-	(483)	-	-	-	(483)
At 31 December 2019	44,362	-	70,658	2,214,646	112,054	92,711	11,296	2,241,426	4,787,153
Grants									
At 1 January 2019	-	-	-	862,067	13,613	-	-	1,218,201	2,093,881
Grants allocated to PPE during the year	-	-	-	18,000	-	-	-	1,351,089	369,089
At 31 December 2019	-	-	-	880,067	13,613	-	-	2,569,290	2,462,970
Net book values									
At 31 December 2019	724,945	472,268	-	383,519	11,493	27,749	4,204	178,989	1,803,167

Prepared by 3a

14. Inventories	2019 €	2018 €
Souvenirs and similar merchandise	4,555	2,692
	<u>4,555</u>	<u>2,692</u>

15. Receivables	2019 €	2018 €
Receivables	76,863	10,622
Other receivables	1,141	396
Accrued income	628,164	439,271
Financial assets	706,168	450,289
Other receivables	10,386	7,974
Prepayments	8,077	7,288
	<u>724,631</u>	<u>465,551</u>

Receivables

General receivables are analysed as follows:

	2019 €	2018 €
Within credit period	28,481	3,171
Exceeded credit period but not impaired	59,538	18,607
Provision for doubtful debts	(11,156)	(11,156)
	<u>76,863</u>	<u>10,622</u>

Included in the receivables are debtors with a carrying amount of €48,382 (2018 : €7,451) which are past due at the reporting date for which the council has not provided as there has not been significant change in credit quality and the amounts are still considered recoverable. The age of financial assets past due but not impaired is as follows:

	2019 €	2018 €
Not more than 3 months	2,007	4,928
More than 3 months but not more than 6 months	9,638	559
More than 6 months	36,737	1,964
	<u>48,382</u>	<u>7,451</u>

The movement in the provision for doubtful debts is as follows:

	2019 €	2018 €
Balance at 1 January	601,373	606,811
Decrease in provision for LES debtors	(1,802)	(5,438)
Balance at 31 December	<u>599,571</u>	<u>601,373</u>

Local Enforcement System (LES) Debtors

LES Debtors are stated after a specific provision for doubtful debts amounting to €588,414 (2018 - €590,218).

16. Cash at bank and in hand

	2019 €	2018 €
Bank Balances	772,467	665,716
Cash in Hand	232	285
	<u>772,699</u>	<u>666,001</u>

17. Payables	2019 €	2018 €
Payables	143,394	290,809
Other creditors	60,479	-
Accruals	371,673	47,289
Financial liabilities	575,546	338,098
Other taxes and social security costs	4,790	-
Deferred Income Government Grants	<i>Note 19</i> 457,840	547,247
Other Deferred Income	16,031	1,589
	<u>1,054,207</u>	<u>886,934</u>
18. Borrowings	2019 €	2018 €
Non-current		
Bank borrowings	<i>Note</i> 151,753	193,882
Current		
Overdrawn current bank balances	<i>Note</i> 99,734	185,330
Bank borrowings	<i>Note</i> 45,211	45,733
	<u>144,945</u>	<u>231,063</u>
Borrowings		
Repayable between one and two years	18,027	45,529
Repayable between two and five years	47,715	78,757
Repayable in five years or more	86,011	69,596
	<u>151,753</u>	<u>193,882</u>

Overdrawn current bank balances

The overdrawn balance is the result of accounting transactions for issued cheques not yet presented at year end and have been cashed on presentation after year end.

Bank loan

The first bank Loan is secured by a First General and Special Privilege Hypothec over townhouse numbered 390, 392, 394 and 396, Victory Street Qormi and other pledges on insurance policies. The loan bears interest at 4.0% per annum and is repayable by November 2020 by monthly instalments of €2,064.

The second bank loan is secured by a First General and Special Privilege Hypothec over garage 140, St. Edward Street, Qormi and other pledges on insurance policies. The loan bears interest at 4.75% per annum and is repayable by November 2026 by monthly instalments of €2,592.

19. Deferred income Government Grants	2019	2018
	€	€
Government grants		
At 1 January	547,247	160,153
Movement for the year	(29,248)	547,247
	<u>517,999</u>	<u>707,400</u>
Capitalised / Released in year	-	(130,923)
Grant relating to revenue expenditure used during year	-	(29,230)
Reallocated to other creditors	(60,159)	-
	<u>457,840</u>	<u>547,247</u>
At 31 December	<u>457,840</u>	<u>547,247</u>
Current Deferred Income	<u>457,840</u>	<u>547,247</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:		
(i) Approved but not yet contracted for:		
Acquisition of property	-	236,939
Road Resurfacing & Special programmes	-	374,201
Office Furniture and Fittings	5,000	-
Urban Improvements	135,124	137,449
Construction	220,868	58,700
Office Equipment	5,000	-
	<u>365,992</u>	<u>807,289</u>
(ii) Contracted for but not provided in the Financial Statements:		
Urban Improvements	31,546	142,438
	<u>31,546</u>	<u>142,438</u>
Government grants allocated to capital commitments:		
Road resurfacing and special programmes	574,986	547,247
Urban improvements	40,824	-
Construction	52,440	-
	<u>668,250</u>	<u>547,247</u>

21. Contingent liabilities

As at 31 December 2019 the council had contingent liabilities in respect of four claims against it. The council is in a position to quantify the contingent liability of two claims.

One of the claims amounts to €453,123 (2018: €453,123), while the other is quantified as €180,975 (2018: €180,975). As regards the second claim, council has dismissed from legal proceedings but an appeal has been lodged by the aggrieved person. Both claims are being covered by insurance policies.

As at approval date of these financial statements, the council cannot quantify the contingent liability of the other two claims, however it is restricting such claims and no provision has been made in these financial statements in respect of these actions.

22. Related party transactions

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

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Councils	Significant control
Central Joint Committee (Local Enforcement)	Joint Control
Northern Harbour District Joint Committee	Joint Control
South Regional Committee	Joint Control
Gozo Regional Committee	No control
North Regional Committee	No control
South Eastern Regional Committee	No control
Central Regional Committee	No control
Police General Head Quarters	No control
Local Councils' Association	No control
Local Enforcement System Agency	No control
Central Bank of Malta	No control
Malta Environment and Planning Authority	No control
Malta Communications Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Department of Inland Revenue	No control
Department of Information	No control
Department for Elderly and Community Care	No control
Commissioner for Data Protection	No control
Wasteserv Malta Limited	No control
Malta Information Technology Agency	No control
ARMS Ltd	No control
Ministry of Finance	No control
GAL - Foundation Local Action Group	No control
Maltapost plc	No control
Transport Malta	No control
Ministry of Transport and Infrastructure	No control
Malta Tourism Authority	No control
Malta Gaming Authority	No control
Malta Council for Science and Technology	No control
Local Council Zurrieq	No control
Local Council San Pawl il-Bahar	No control

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

	2019 €	2018 €
Annual Financial Allocation	1,193,187	1,131,203

Key management compensation

Transactions with key management personnel are disclosed in note 7.

23. 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.

The Council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period and is summarised as follows:

	2019	2018
	€	€
Classes of financial assets - carrying amounts		
Trade and other receivables	706,168	450,289
Cash and cash equivalents	772,699	666,001
	<u>1,478,867</u>	<u>1,116,290</u>

Liquidity risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the Council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. In fact, at year end, the Council has as cash in bank and in hand the amount of € 772,699. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive net asset position of € 1,954,836 ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

At 31 December 2019 the council's financial liabilities have contractual maturities which are summarised below:

31 December 2019	Current	Non-current	
	within 1 year €	1 to 5 years €	later than 5 years €
Payables	143,394	-	-
Other creditors	60,479	-	-
Accruals	371,673	-	-
Bank loan	45,211	65,742	86,011

This compares to the maturity of the council's financial liabilities in the previous reporting period as follows:

31 December 2018	Current	Non-current	
	within 1 year €	1 to 5 years €	later than 5 years €
Payables	290,809	-	-
Accruals	47,289	-	-
Bank loan	45,733	124,285	69,597

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 currencies.

Interest rate risk

Interest rate risk mainly arises through interest bearing liabilities and assets. The objective of interest rate risk management is to optimise the balance between minimizing uncertainty caused by fluctuations in interest rates and maximizing the net interest income and expense.

24. Summary of financial assets and liabilities

The carrying amounts of the Council's financial assets and liabilities as recognised at the reporting dates under review are categorised as follows.

	2019	2018
	€	€
Current assets		
Loans and receivables:		
Trade and other receivables	706,168	450,289
Cash and cash equivalents	772,699	666,001
	<u>1,478,867</u>	<u>1,116,290</u>
Non-current liabilities		
Financial liabilities measured at amortised cost:		
Bank loan	151,753	193,882
	<u>151,753</u>	<u>193,882</u>
Current liabilities		
Financial liabilities measured at amortised cost:		
Bank loan	45,211	45,733
Payables	143,394	290,809
Other creditors	60,479	-
Accruals	371,673	47,289
	<u>620,757</u>	<u>383,831</u>

25. Fair values estimation

The nominal values less estimated credit adjustments of receivables and payables are assumed to approximate their fair values, otherwise, these have been adjusted to approximate their fair values.

26. Events after the reporting period

Subsequent to year end, the World Health Organisation declared the spread of Coronavirus Disease (COVID-19), a worldwide pandemic. COVID-19 is having significant effects on global markets, supply chains, businesses, and communities. The Local Council Members' and Executive Secretary are monitoring the situation and taking action to safeguard the interests of the Local Council. To date the Local Council is operating as normal. The full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

27. Going Concern

The Statement of Financial Position on page 5 and the notes thereto, with special reference to capital commitments, suggest that the going concern assumption used in the preparation of these financial statements is dependent on further sources of funds other than the annual financial allocation by Central Government, on the collection of debts due to the Council and on the continued support of the Council's creditors. Any adverse change in either of these assumptions above, would not let the Council able to meet its financial obligations as they fall due without curtailing its future commitments.