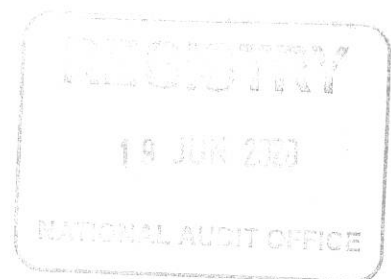


**Local Council San Lawrenz**  
**Annual Report and Financial Statements**  
**For the year ended 31 December 2019**



*Prepared by: Pauliana Said*

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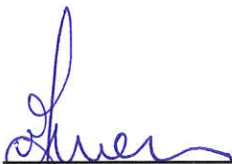
**Statement of Local Council Members' and Executive Secretary's Responsibilities  
For the year ended 31 December 2019**

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

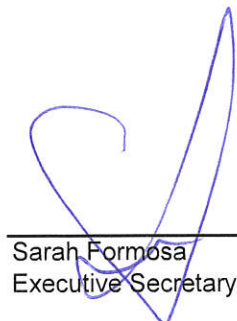
The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, the Local Councils (Financial) Regulations, and the Local Councils (Financial)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

This statement was approved by the Council on 11/6/2020 and signed on its behalf by



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Noel Formosa  
Mayor



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Sarah Formosa  
Executive Secretary

## Statement of Comprehensive Income

For the year ended 31 December 2019

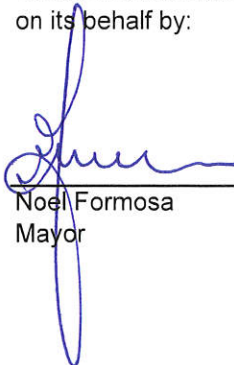
	Notes	2019 €	2018 €
<b>Revenue</b>			
Funds Received from Central Government	3	219,444	175,435
Income raised under the Local Enforcement System	4	146	190
General Income	5	17,738	18,827
		-----	-----
		237,328	194,452
		-----	-----
<b>Expenditure</b>			
Personal Emoluments	6	(74,247)	(71,812)
Operations and Maintenance	7	(58,893)	(51,035)
Administration and Other Expenditure	8	(101,113)	(84,990)
		-----	-----
		(234,253)	(207,837)
		-----	-----
<b>Operating profit/(loss) for the year</b>	6	3,075	(13,385)
Finance Income	9	58	5
		-----	-----
<b>Total comprehensive profit/(loss) for the year</b>	6	3,133	(13,380)
		-----	-----


**Statement of Financial Position**

**For the year ended 31 December 2019**

	Notes	2019 €	2018 €
<b>ASSETS</b>			
Property, plant and equipment	10	162,735	169,705
<b>Total non-current assets</b>		<u>162,735</u>	<u>169,705</u>
<b>Current assets</b>			
Stocks	11	121	189
Receivables	12	119,983	91,470
Cash and cash equivalents	13	137,772	117,905
<b>Total current assets</b>		<u>257,876</u>	<u>209,564</u>
<b>TOTAL ASSETS</b>		<u>420,611</u>	<u>379,269</u>
<b>RESERVES AND LIABILITES</b>			
Retained earnings		148,487	145,354
<b>Total reserves</b>		<u>148,487</u>	<u>145,354</u>
<b>LIABILITIES</b>			
Payables	14	272,124	233,915
<b>Total current liabilities</b>		<u>272,124</u>	<u>233,915</u>
<b>TOTAL RESERVES AND LIABILITES</b>		<u>420,611</u>	<u>379,269</u>

These financial statements were approved by the Local council on 11/6/2020 and signed on its behalf by:

  
\_\_\_\_\_  
Noel Formosa  
Mayor

  
\_\_\_\_\_  
Sarah Formosa  
Executive Secretary

### Statement of Changes in Reserves

For the year ended 31 December 2019

	<b>Retained Funds</b>
	€
At 1 January 2018	158,734
Loss for the year	(13,380)
<b>At 31 December 2018</b>	<u>145,354</u>
At 1 January 2019	145,354
Profit for the year	3,133
<b>At 31 December 2019</b>	<u>148,487</u>

## Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 €	2018 €
<b>Cash flow from operating activities</b>			
<b>Total comprehensive profit/(loss) for the year</b>		3,133	(13,380)
Reconciliation to cash generated from operations:			
Depreciation		21,574	19,235
Interest Receivable		(58)	(5)
		-----	-----
Operating profit before working capital changes		24,649	5,850
Decrease/(Increase) in inventories		68	(92)
(Increase)/Decrease in receivables		(28,513)	2,454
Increase/(Decrease) in payables		50,330	(11,058)
		-----	-----
<b>Cash generated from / (used in) operating activities</b>		46,534	(2,846)
<b>Cash flows from investing activities</b>			
Interest received		58	5
Purchase of property, plant and equipment		(149,028)	(5,534)
Receipt of Grant		125,720	106,077
		-----	-----
<b>Cash (used in) / generated from investing activities</b>		(23,250)	100,548
		-----	-----
<b>Net increase in cash in the year</b>		23,284	97,702
<b>Cash and cash equivalents at beginning of year</b>		113,048	15,346
		=====	=====
<b>Cash and cash equivalents at end of year</b>	13	136,332	113,048
		=====	=====

## Notes to the Financial Statements

### For the year ended 31 December 2019

#### 1 General Information

The Local Council San Lawrenz is the local authority of San Lawrenz set up in accordance with the Local Councils Act (1993). The office of the Local Council is situated at Triq id-Duluri, San Lawrenz. These financial statements were approved for issue by the Council Members on 11/6/2020. 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 as adopted by the EU.

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

##### *New and amended standards adopted by the Local Council*

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

IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. It is applicable to annual reporting periods beginning on or after 1 January 2019.

Long term interests in Associates and Joint Ventures (amendments to IAS 25) clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. It is effective for annual periods beginning on or after 1 January 2019.

Annual Improvements to IFRS Standards 2015-2017 Cycle makes amendments to the following standards: IFRS 3 and IFRS 11 - the amendments to IFRS 3 clarify that when an entity obtains control of



a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business; IAS 23 – the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. This is effective for annual periods beginning on or after 1 January 2019.

The amendments in Plan Amendments, Curtailment or Settlement (amendments to IAS 19) are :- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. This is effective for annual periods beginning on or after 1 January 2019.

*New Standards and amendments not yet adopted:*

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

The amendments in Definition of Material (amendments to IAS 1 and IAS 8) clarify the definition of material and align the definition used in the conceptual framework and the standards. It is effective for annual reporting periods beginning on or after 1 January 2020.

The Councillors are assessing the impact that the adoption of these International Financial Reporting Standards will have on the financial statements in the period of initial application. The Councillors anticipate that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements in the period of initial application.

*Intangible Asset*

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

*Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Depreciation is calculated on a monthly basis using the straight line method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

	%
Land	0%
Trees	0%
Buildings	1%
Office furniture and fittings	8%
Construction works	10%
Urban Improvements (Street Furniture)	10%
Special Projects	10%
Office Equipment	20%
Motor Vehicles	20%
Plant and Machinery	20%

Computer equipment	25%
Plants	100%
Litter Bins	Replacement Basis
Playground Furniture	100%
Traffic Signs	Replacement Basis
Road Signs	Replacement Basis
Street Mirrors	Replacement Basis
Street Lights	100%

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

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

#### *Impairment of Assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and the value in use. Impairment losses are immediately recognised as an expense in the Statement of Comprehensive Income.

#### *Amounts receivable*

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

#### *Related Parties*

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

#### *Revenue*

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. Interest income is recognised in the Statement of Comprehensive Income as it accrues.

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

#### *Government grants*

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

#### *Foreign currencies*

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

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

#### *Profits and losses*

Only profits that were realised at the date of the Statement of Financial Position are recognised in these financial statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the financial statements are approved.

#### *Cash and cash equivalents*

Cash and cash equivalents are carried in the Statement of Financial Position at face value. For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and balances held with banks.

#### *Critical accounting estimates and judgements*

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

#### *Capital management*

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

- that the Council's ability to continue as a going
- that the Council maintains a positive working capital

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

#### *Financial Instrument*

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

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

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

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

*Financial assets*

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

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

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

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

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

*Financial Liabilities*

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

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

**3 Funds received from central government**

	2019 €	2018 €
In terms of section 55 of the Local Councils Act	177,829	169,337
Supplementary government income	41,615	6,098
	-----	-----
	219,444	175,435
	=====	=====

**4 Income raised under Local Enforcement System**

	2019 €	2018 €
Administration Income from Contraventions	146	190
	-----	-----
	146	190
	=====	=====

## 5 General Income

	2019 €	2018 €
Community Services	11,782	9,940
Cultural Events	-	3,990
Income from Permits	1,100	1,244
Contributions and other income	4,856	3,653
	-----	-----
	17,738	18,827
	=====	=====

## 6 Profit/(Loss) for the year

	2019 €	2018 €
Profit/(Loss) for the year is stated after charging:		
Staff Salaries	74,247	71,812
Depreciation of property, plant and equipment	21,574	19,236
	=====	=====

	2019 €	2018 €
<i>Staff Salaries</i>		
Mayor's Remuneration	9,436	7,464
Mayor and Councillors' Allowances	9,700	6,400
Executive Secretary salary and allowances	31,014	32,857
Employees' Salaries	19,997	20,456
Social security contributions	4,100	4,635
	-----	-----
	74,247	71,812
	=====	=====

	2019	2018
<i>Average number of persons employed</i>		
Employees	2	2
Mayor and Councillors	5	5
	-----	-----

## 7 Operations and Maintenance

	2019 €	2018 €
<i>Repairs and upkeep:</i>		
Road and street pavements	-	2,856
Street signs	1,978	622
Other repairs and upkeep	9,261	3,287
	-----	-----
	11,239	6,765
	=====	=====

<i>Contractual services:</i>		
Refuse collection including tipping fees	22,409	21,170
Bulky refuse collection	2,390	-
Open skips	3,416	3,119
Road and street cleaning	1,180	1,794
Cleaning and maintenance of public conveniences	3,636	3,635
Cleaning and maintenance of parks and gardens	5,100	80
Handyman services	7,741	10,401
Street lighting	1,782	4,071
	-----	-----
	47,654	44,270
	=====	=====
Total operations and maintenance expenses	58,893	51,035
	=====	=====

#### 8 Administration and other expenditure

	2019	2018
	€	€
Utilities	5,937	6,737
Materials and supplies	2,941	1,827
Rent	850	850
National and international	518	636
Office services	3,950	4,782
Transport	1,536	1,511
Overseas travel	-	2,628
Information services	3,551	597
Other contractual services	31,413	26,627
Professional services	11,297	9,264
Community and hospitality	13,564	6,786
Depreciation	21,574	19,236
Lease of equipment	3,398	3,259
LES expenditure	584	-
Penalties	-	250
	-----	-----
	101,113	84,990
	=====	=====

#### 9 Finance Income

	2019	2018
	€	€
Bank Interest receivable	58	5
	-----	-----
	58	5
	=====	=====

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

	Assets under Construction	Property	Construction	Office Furniture & Fittings	New Street Signs	Urban Improvements	Office Equipment	Plant and Machinery	Computer Equipment	Special Programmes	Total
	€	€	€	€	€	€	€	€	€	€	€
<b>Cost</b>											
At 1 January 2018	-	2,583	436,653	53,823	4,072	115,490	44,315	11,743	10,523	1,239,822	1,919,024
Additions	-	-	-	3,540	-	-	838	1,156	-	-	5,534
Reversals	-	-	(436,653)	-	-	(39,640)	(691)	691	-	476,293	-
At 31 December 2018	-	2,583	-	57,363	4,072	75,850	44,462	13,590	10,523	1,716,115	1,924,558
<b>Depreciation</b>											
At 1 January 2018	-	-	220,916	24,805	4,072	58,972	28,156	8,861	9,308	264,423	619,513
Charge for the year	-	-	-	2,220	-	1,688	2,787	1,113	304	11,123	19,235
Reallocations	-	-	(220,916)	-	-	-	-	-	-	220,916	-
At 31 December 2018	-	-	-	27,025	4,072	60,660	30,943	9,974	9,612	496,462	638,748
<b>Grants</b>											
At 1 January 2018	-	-	141,041	-	-	-	1,537	-	-	974,337	1,116,915
Reallocations	-	-	(141,041)	-	-	-	-	-	-	141,041	-
Refund of grants	-	-	-	-	-	-	-	-	-	(810)	(810)
At 31 December 2018	-	-	-	-	-	-	1,537	-	-	1,114,568	1,116,105
<b>Net Book Amount</b>											
At 31 December 2018	-	2,583	-	30,338	-	15,190	11,982	3,616	911	105,085	169,705

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

	Assets under Construction	Property	Construction	Office Furniture & Fittings	New Street Signs	Urban Improvements	Office Equipment	Plant and Machinery	Computer Equipment	Special Programmes	Total
	€	€	€	€	€	€	€	€	€	€	€
<b>Cost</b>											
At 1 January 2019	-	2,583	-	57,363	4,072	75,850	44,462	13,590	10,523	1,716,115	1,924,558
Additions	3,023	-	-	426	-	-	-	5,636	-	139,943	149,028
At 31 December 2019	3,023	2,583	-	57,789	4,072	75,850	44,462	19,226	10,523	1,856,058	2,073,586
<b>Depreciation</b>											
At 1 January 2019	-	-	-	27,025	4,072	60,660	30,943	9,874	9,612	496,462	638,748
Charge for the year	-	-	-	2,474	-	1,688	2,954	2,073	304	12,081	21,574
At 31 December 2019	-	-	-	29,499	4,072	62,348	33,897	12,047	9,916	508,543	660,322
<b>Grants</b>											
At 1 January 2019	-	-	-	-	-	-	1,537	-	-	1,114,568	1,116,105
Additions	-	-	-	-	-	-	-	-	-	134,424	134,424
At 31 December 2019	-	-	-	-	-	-	1,537	-	-	1,248,992	1,250,529
<b>Net Book Amount</b>											
At 31 December 2019	3,023	2,583	-	28,290	-	13,502	9,028	7,179	607	98,523	162,735



### 11 Stocks

	2019 €	2018 €
Stock of gift vouchers	121	189
	=====	=====

### 12 Receivables

		2019 €	2018 €
Amounts receivable	<i>Note</i>	13,181	7,974
Prepayments and accrued income		106,802	83,496
		-----	-----
		119,983	91,470
		=====	=====

#### *Amounts receivable*

General receivables are analysed as follows:

	2019 €	2018 €
Within credit period	3,040	2,671
Exceeded credit period but no impaired	10,141	5,303
	-----	-----
	13,181	7,974
	=====	=====

#### *Note*

Receivables are net of provision for doubtful debts of Eur 954 (2017 : Eur 954)

### 13 Cash and cash equivalents

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

	2019 €	2018 €
Bank Balances	136,283	112,941
Cash in Hand	49	107
	-----	-----
	136,332	113,048
Overdrawn bank balance	1,440	4,857
	-----	-----
	137,772	117,905
	=====	=====

#### 14 Payables

	2019 €	2018 €
Amount payables	73,892	58,033
Accruals	45,051	8,018
Deferred income	148,183	156,887
Other payables	3,558	6,120
Overdrawn bank balance	1,440	4,857
	----- 272,124 =====	----- 233,915 =====

#### 15 Capital commitments

	2019 €	2018 €
Total capital commitments	324,250 =====	263,250 =====
(i) Approved but not yet contracted:		
Resurfacing works	<i>Note</i> 274,250	-
(ii) Contracted for but not provided in Financial Statements:		
Resurfacing works	<i>Note</i> -	263,250
Electric passenger van	<i>Note</i> 50,000	-
	----- 324,250 -----	----- 263,250 -----

The council is currently undertaking resurfacing through EU funding measures while the electric passenger van is fully financed by Transport Malta.

#### 16 Related Parties Disclosures

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

<i>Name of entity</i>	<i>Nature of relationship</i>
Department of Local Councils	Significant control
Gozo Regional Committee	Joint control
LESA	No control
Central Regional Committee	No control
North Regional Committee	No control
South Eastern Regional Committee	No control
South Regional Committee	No control
Police General Head Quarters	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control

Department of Agriculture	No control
Director General - Works Division	No control
Department of Lands	No control
Department of Inland Revenue	No control
Airmalta plc	No control
Bank of Valletta plc	No control
Wasteserv Malta Limited	No control
Kunsill Malti għall-iSports	No control
Mitts Limited	No control
Ministry for the Family and social solidarity	No control
Malta Communications Authority	No control
Green MT	No control

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

	2019	2018
	€	€
Annual Financial Allocation	177,829	162,967
	=====	=====

#### Key management compensation

Transactions with key management personnel are disclosed in note 6.

#### 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 to specific projects as well as other funds for the improvement and betterment of the locality.

## 17 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 receivables. 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 receivables 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 maximum exposure to credit risk for amounts receivable at the reporting date, net of impairment losses, by type of customer is as follows:

	€
Receivables from related parties	13,181
	=====

*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 €137,772. This should ensure an ongoing working capital of the Council for the next 12 months. As at that date, the Council had a net current liabilities position of €14,247 which signifies that there is no adequate headroom available to cover present liabilities as well as short term obligations and commitments arising.

*Foreign currency risk*

Foreign currency transactions arise when the Council buys or sells goods whose prices 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 maximising the net interest income and expense.

**18 Summary of the financial assets and liabilities by category**

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 €
<i>Current Assets</i>		
Trade and other receivables	119,983	91,470
Cash and cash equivalents	137,772	117,905
	-----	-----
	257,755	209,375
	=====	=====
<i>Current Liabilities</i>		
Financial liabilities measured at amortised costs:		
Payables	272,124	233,915
	-----	-----
	272,124	233,915
	=====	=====

**19 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.

## **SAN LAWRENZ LOCAL COUNCIL**

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

#### **Report on the audit of the financial statements**

#### **Qualified Opinion**

We have audited the accompanying financial statements of San Lawrenz Local Council, 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 a summary of significant accounting policies and other explanatory information set out on pages 4 - 20.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the financial statements give a true and fair view of the financial position of the Local Council as of 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### **Basis for Qualified Opinion**

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

No proper fixed assets register was provided to us during our audit and consequently, we could not carry out satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the property, plant and equipment as disclosed in Note 10 to these financial statements.



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

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

As at 31 December 2017, the Local Council had deferred income amounting to €53,140 relating to projects that were not yet carried out as of that date. Yet, we noticed that when the comparative figures were restated following the change in the accounting policy on government grants, these grants were still allocated against property, plant and equipment rather than left under deferred income. It transpired that these projects have not been done by 31 December 2019. Consequently, the deferred income and the property, plant and equipment are understated.

We have requested a report from the architect about the projects that were completed during the year ended 31 December 2019 and the projects that were ongoing as of that date. This report was not received by the time of issuing this report. Consequently, we could not confirm whether there should have been any accruals as at 31 December 2019 relating to such projects that have not been reflected in these financial statements, which would result in an understatement of the accruals and of the property, plant and equipment.

Last year we noted that Note 10, relating to property, plant and equipment, was not properly prepared following the changes in the accounting policies in accordance with Directive 01/2017. The amounts added to the grants, do not represent the gross amounts of grants received but the gross amounts of grants received less the amortization up till 31 December 2016. The amortization up till 31 December 2016 should have been netted off against the accumulated depreciation as of that date. This error in the presentation of figures was not corrected in these financial statements as the same figures of last year were brought forward in Note 10 both for the grants and for the accumulated depreciation.

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

### **Material Uncertainty Related to Going Concern**

We draw attention to the Local Council's Statement of Financial Position on page 5 which shows that as at 31<sup>st</sup> December 2019, the current liabilities of the Local Council exceeded its current assets by €14,248. This condition indicates that a material uncertainty exists that may cast significant doubt as to whether the Local Council will be able to meet its liabilities as and when they fall due. Our opinion is not modified in respect of this matter.

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

### **Other Information**

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial statements, the Executive Secretary and the Local Council Members are responsible for assessing the Local Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to presume that the Local Council will continue as a going concern.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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

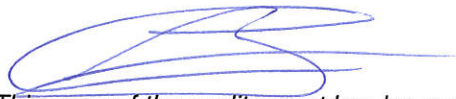
### **Auditor's Responsibilities for the Audit of the Financial Statements - continued**

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Local Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Secretary and the Local Council Members.
- Conclude on the appropriateness of the Executive Secretary's and the Local Council Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Local Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Local Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Executive Secretary and the Local Council Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on Other Legal and Regulatory Requirements**

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



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

RSM Malta  
Certified Public Accountants

Date: 11<sup>th</sup> June 2020