

Gzira Local Council

Annual Report and Financial Statements

For the year ended 31 December 2018

Prepared by:

GMM & Associates (Malta) Limited



ANNUAL REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2018

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Financial Statements for the Year ended 31 December 2018

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

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, Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Council and signed on its behalf on 11th July 2019 by:



Conrad Borg Manche
Mayor



Anthony Attard
Executive Secretary

Statement of Financial Position


As at 31 December 2018


	Note	2018 €	Restated * 2017 €
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	3	471,455	512,794
Current Assets			
Trade and Other Receivables	4	85,456	69,063
Cash and Cash Equivalents	5	334,125	370,849
		419,581	439,912
Total Assets		891,036	952,706
RESERVES AND LIABILITIES			
Capital and Reserves			
Retained Funds		614,437	692,928
Non-Current Liabilities			
Long Term Borrowings	6	8,642	17,945
Deferred Income	7	121,815	120,964
Long Term PPP Payable	8	7,199	15,140
		137,656	154,049
Liabilities			
Trade and Other Payables	8	138,943	105,729
Total Liabilities		276,599	259,778
TOTAL RESERVES AND LIABILITIES		891,036	952,706

* See note 22 for details about restatements for changes in accounting policies.

The above statement of financial position should be read in conjunction with the accompanying notes.

Approved by the Council and signed on its behalf on 11th July 2019 by:


 Conrad Borg Manche
 Mayor


 Anthony Attard
 Executive Secretary

Statement of Comprehensive Income
 Year ended 31 December 2018

	Note	2018 €	Restated * 2017 €
REVENUE			
Funds Received from Central Government	9	591,532	554,397
Income Raised under Local Council Bye-Laws	10	82,012	86,635
Income Raised under Law Enforcement System	11	11,559	17,493
General Income	12	-	40,590
		<u>685,103</u>	<u>699,115</u>
EXPENDITURE			
Personal Emoluments	13	(120,850)	(120,540)
Operations and Maintenance	14	(386,404)	(328,493)
Administration and Other Expenditure	15	(254,965)	(171,716)
		<u>(762,219)</u>	<u>(620,749)</u>
Total Operating (deficit)/surplus for the year		(77,116)	78,366
Investment Income	16	33	49
Finance Costs	17	(1,408)	(1,715)
(Deficit)/ Surplus for the year		<u>(78,491)</u>	<u>76,700</u>

* See note 22 for details about restatements for changes in accounting policies.

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
Year ended 31 December 2018

Retained Funds	2018	2017
	€	€
At 1 January	692,928	616,228
Deficit/(Surplus) for the year	<u>(78,491)</u>	<u>76,700</u>
At 31 December	<u>614,437</u>	<u>692,928</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows
 Year ended 31 December 2018

	Note	2018 €	Restated * 2017 €
(Deficit)/Surplus for the year		(78,491)	76,700
Adjustments for:			
Depreciation		95,831	37,675
Loss on Disposal		-	331
Fair value gain on property		-	(40,000)
Provision for bad debts		678	1,641
Interest Receivable		(33)	(49)
Interest Payable		1,113	1,487
Operating Surplus before Working Capital Changes		<u>19,098</u>	<u>77,785</u>
Movement in Receivables		(17,071)	(2,909)
Movement in Payables		<u>33,592</u>	<u>5,198</u>
Net Cash generated from Operating Activities		<u>35,619</u>	<u>80,074</u>
Cash flows from Investing Activities			
Interest received		33	49
Interest paid		(1,113)	(1,487)
Purchase of Property, Plant and Equipment		(62,433)	(50,104)
Deferred Income Grants		851	18,709
Cash Flow (used in)/generated from Investing Activities		<u>(62,662)</u>	<u>(32,833)</u>
Cash flow From Financing Activities			
Payments to Long-Term Borrowings		<u>(9,681)</u>	<u>(8,545)</u>
Cash Flow used in Financing Activities		<u>(9,681)</u>	<u>(8,545)</u>
Movement in Cash and Cash Equivalents		(36,724)	38,696
Cash and Cash Equivalents at the Beginning of the year		<u>370,849</u>	<u>332,153</u>
Cash and Cash Equivalents at the End of the year	5	<u>334,125</u>	<u>370,849</u>

* See note 22 for details about restatements for changes in accounting policies.

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements for the year ended 31 December 2018

1. General Information

Gzira Local Council is the local authority of Gzira setup in accordance with the Local Councils Act, 1993. The office of the Local Council is situated at Rue d'Argens, Gzira. The local council's presentation as well as the functional Currency are denominated in Euro. The financial statements were authorised for issue by the council on the 11th July 2019.

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.

a. Accounting convention

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).

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

b. Standards, amendments and interpretations to existing standards

New and revised standards that are effective for annual years beginning on or after 1st January 2018.

A number of new and revised standard are effective for annual years beginning on or after 1st January 2018. Information on these new standards is presented below.

- IFRS 9 in respect of Financial Instruments which will be effective for the accounting years beginning on or after 1 January 2018.
- IFRS 15 in respect of Revenue from contracts with customers which will be effective for the accounting years beginning on or after 1 January 2018.
- IFRS 2 in respect of share-based payments which will be effective for the accounting years beginning on or after 1 January 2018.
- IAS 40 in respect of transfer of investment property which will be effective for the accounting years beginning on or after 1 January 2018.
- IFRIC 22 - Foreign currency transactions and advance consideration (effective for annual reporting periods beginning on or after 1 January 2018)
- Annual Improvements to IFRS Standards 2014-2016 Cycle (effective for annual reporting periods beginning on or after 1 January 2018)

Impact of initial application of the revised IFRS 9 Financial Instruments

In the current year, the Council has applied IFRS 9 Financial Instruments and the related consequential amendments to other International Financial Reporting Standards that are effective for periods that begin on or after 1 January 2018. IFRS 9 introduced new requirements for the classification and measurement of financial assets and introduced an 'expected credit loss' model for the impairment of financial assets.

There has been no changes to the classification, measurement or impairment of financial assets and liabilities as a result of the application of IFRS 9.

Notes to the Financial Statements for the year ended 31 December 2018

Accounting Policies and Reporting Procedures (Cont'd)

c. Standards, amendments and interpretations to existing standards (Cont'd)

Impact of initial application of the revised IFRS 15 Revenue with contracts with customers

The council's revenue mainly consists of government allocation except for Local Enforcement Income, which represents the share of profit derived from the administrative fee of 10% that is chargeable to the respective Regional Committees for contraventions paid at the Council. Consequently, the adoption of IFRS 15 Revenue from Contracts with Customers did not have an impact on the financial statements of the council.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the council.

- IFRS 16 - Leases (effective for annual reporting periods beginning on or after 1 January 2019). This standard introduces a comprehensive model for the identification of lease arrangement and accounting treatments for both lessors and lessees. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised, with the exception of short-term and low-value leases. IFRS 16 will supersede the current lease guidance of IAS 17 and the related interpretations. The standard is mandatory for periods commencing on or after 1 January 2019. At this stage, the Council is still in the process of assessing and evaluating the impact of IFRS 16.
- IFRIC 23 - Uncertainty over Income Tax Treatments (effective for annual reporting periods beginning on or after 1 January 2019)
- IFRS 9 (Amendments) - Prepayment Features with Negative Compensation (effective for annual reporting periods beginning on or after 1 January 2019)
- IFRS 17 - Insurance Contracts (effective for annual reporting periods beginning on or after 1 January 2021)
- IAS 28 (Amendments) - Long-term interests in associates and joint ventures (effective for annual reporting periods beginning on or after 1 January 2019)
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective for annual reporting periods beginning on or after 1 January 2019)
- IAS 19 (Amendments) - Plan Amendment, Curtailment or Settlement (effective for annual reporting periods beginning on or after 1 January 2019)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual reporting periods beginning on or after 1 January 2020)
- IFRS 3 (Amendments) - Definition of a Business (effective for annual reporting periods beginning on or after 1 January 2020)
- IAS 1 and IAS 8 (Amendments) - Definition of Material (effective for annual reporting periods beginning on or after 1 January 2020)

The Council is still assessing the effect of these changes on the financial statements

Notes to the Financial Statements for the year ended 31 December 2018
Accounting Policies and Reporting Procedures (Cont'd)**d. Revenue recognition**

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

e. Local Enforcement System

During the year ended 31/12/2018 the amount disclosed in the financial statements under Local Enforcement Income represents the share of profit derived from the administrative fee of 10% that is chargeable to the respective Regional Committees for contraventions paid at the Council.

f. Property, Plant and Equipment

Freehold land is not depreciated. Furniture and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives. In line with directive 1/2017 the council has adopted the straight-line method of depreciation as from 1 January 2018 instead of the previously used reducing balance method. The estimated useful lives, residual values and depreciation method are renewed at the end of each reporting year, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in the statement of comprehensive income.

Tangible fixed assets are stated at cost less accumulated depreciation and grants received for specific projects. Depreciation is calculated on a monthly basis using the reducing balance method at rates estimated to write down the cost of all tangible fixed assets, other than land and trees over their expected useful lives 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 and Road Signs	Replacement basis
Street Mirrors	Replacement basis
Street Lights	100

Certain depreciation rates such as those of plants, playground equipment and street lighting had their depreciation rate changed from 10% to 100% in October 2002 by virtue of Legal Notice 323 of 2002. Litter bins and street signs are treated on replacement basis as per memo 121/2011.

Further to the change in the depreciation method as instructed under directive 1 of 2017 the council was also instructed to adopt the capital approach of grants rather than the previously used income approach of grants, where such change is classified as a change in accounting policy as further described in note 22.

Notes to the Financial Statements for the year ended 31 December 2018

Accounting Policies and Reporting Procedures (Cont'd)

g. Government Grants

Government grants are not recognised until there is reasonable assurance that the Council will comply with the conditions attaching to them and that the grants will be received.

As described in the property, plant and equipment policy above the council was instructed to adopt the capital approach of government grants as opposed to the previously used income approach as per IAS 20. Such change is classified as a change in accounting policy as per IAS 8, which results in the change to be applied retrospectively as a result of which prior year figures were restated. Further information on the effect of this change is found in note 22 Change in Accounting Policy.

Under the capital approach grants received are deducted from the respective asset's carrying account it was received for. This is shown as a separate line item in the property, plant and equipment note below.

h. Impairment of Financial Assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Council uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Council's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 19.

i. Amounts Receivable

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Council will not be able to collect all amounts receivable.

Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are considered as indicators that the amount to be received is impaired. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The amount of the provision is recognised in the Statement of income and Expenditure

j. 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 Euro which is the Council's functional and presentation currency.

k. Surplus and deficits

Only surpluses that were realised at the date of the Statement of Financial Position are recognised in these Financial Statements. All foreseeable liabilities and potential deficits 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.

l. Cash and 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.

m. Related parties

Related parties are those persons or bodies of persons having relationships with the Council as defined in IAS 24.

During the year under review, the Local Council's related party that exercises a significant control was the Department for Local Government (note 19). The parties that exercise no control are disclosed in note 19.

Notes to the Financial Statements for the year ended 31 December 2018

Accounting Policies and Reporting Procedures (Cont'd)

n. Payables

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not they are presented as non-current liabilities.

Amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Local Council.

o. 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, 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 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'.

Notes to the Financial Statements for the year ended 31 December 2018

Accounting Policies and Reporting Procedures (Cont'd)

p. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires council members to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Use of available information and application of judgement are inherent in making estimates. Actual results in future could differ from such estimates and the differences may be material to the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

In the opinion of the council members, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised).

q. Borrowings

Borrowings are initially recognised at cost, being the fair value of the consideration received and including acquisition charges associated with the borrowing.

Subsequent to initial recognition, all interest-bearing borrowings, other than liabilities held for trading, are subsequently measured at amortised cost, using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on settlement. Liabilities which are held for trading are subsequently measured at fair value.

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

Gzira Local Council

Notes to the Financial Statements for the year ended 31 December 2018

3. Property, Plant and Equipment

Tangible Assets Cost	Property €	Office Furniture /fittings €	Improvements to Property €	New Street Signs €	Urban Improvements €	Office Equipment €	Computer Equipment €	Gym Equipment €	Trees €	Construction €	Motor Vehicle €	Plant and Machinery €	Asset Under Construction €	Total €
At 1 January 2018	224,201	56,358	14,990	1,009	121,352	20,894	43,872	7,400	27,928	959,444	14,000	725	14,997	1,507,170
Additions	-	-	-	-	413	865	4,367	-	-	35,327	-	-	13,520	54,492
At 31 December 2018	224,201	56,358	14,990	1,009	121,765	21,759	48,239	7,400	27,928	994,771	14,000	725	28,517	1,561,662
Grants and other reimbursements														
At 1 January and 31 December 2018	-	-	-	-	83,197	1,273	-	-	-	235,547	-	-	-	320,017
Accumulated Depreciation														
At 1 January 2018	29,263	36,160	8,510	1,009	35,771	17,171	36,963	5,889	-	501,879	1,554	190	-	674,359
Charge for the year	2,243	4,252	150	-	2,418	2,609	7,551	725	-	72,919	2,818	146	-	95,831
At 31 December 2018	31,506	40,412	8,660	1,009	38,189	19,780	44,514	6,614	-	574,798	4,372	336	-	770,190
Net Book Value														
At 31 December 2018	192,695	15,946	6,330	-	379	706	3,725	786	27,928	184,426	9,628	389	28,517	471,455

Gzira Local Council

Notes to the Financial Statements for the year ended 31 December 2018

3. Property, Plant and Equipment – Restated *

Tangible Assets	Property	Office Furniture /fitings	Improvements to Property	New Street Signs	Urban Improvements	Office Equipment	Computer Equipment	Gym Equipment	Trees	Construction	Motor Vehicle	Plant and Machinery	Asset Under Construction	Total
Cost	€	€	€	€	€	€	€	€	€	€	€	€	€	€
At 1 January 2017	179,001	56,358	14,990	1,009	112,644	20,298	43,210	7,400	27,928	959,444	550	725	2,000	1,425,557
Additions	45,200	-	-	-	6,708	596	662	-	-	-	14,000	-	14,997	82,163
Disposals	-	-	-	-	-	-	-	-	-	-	(550)	-	-	(550)
Reclassification	-	-	-	-	2,000	-	-	-	-	-	-	-	(2,000)	-
At 31 December 2017	224,201	56,358	14,990	1,009	121,352	20,894	43,872	7,400	27,928	959,444	14,000	725	14,997	1,507,170
Grants and other reimbursements														
At 1 January 2017	-	-	-	-	-	-	-	-	-	104,002	-	-	-	104,002
Adoption of the Capital Approach	-	-	-	-	83,197	1,273	-	-	-	131,545	-	-	-	216,015
At 31 December 2017	-	-	-	-	83,197	-	-	-	-	235,547	-	-	-	320,017
Accumulated Depreciation														
At 1 January 2017	27,606	34,582	7,810	1,009	57,304	16,678	34,979	5,551	-	493,710	190	71	-	679,490
Adoption of Capital Approach	-	-	-	-	(21,641)	-	-	-	-	(20,946)	-	-	-	(42,587)
Charge for the year	1,657	1,578	700	-	108	493	1,984	338	-	29,115	1,583	119	-	37,675
Release on Disposal	-	-	-	-	-	-	-	-	-	-	(219)	-	-	(219)
At 31 December 2017	29,263	36,160	8,510	1,009	35,771	17,171	36,963	5,889	-	501,879	1,554	190	-	674,359
Net Book Value														
At 31 December 2017	194,938	20,198	6,480	-	2,384	2,450	6,909	1,511	27,928	222,018	12,446	535	14,997	512,794

* See note 22 for details about restatements for changes in accounting policies.

Notes to the Financial Statements for the year ended 31 December 2018

4. Trade and Other Receivables

	2018	2017
	€	€
Trade Receivables	9,557	8,136
Provision for bad debts	((5,679)	(4,999)
Other receivables	2,776	2,776
Accrued income	68,098	53,028
Financial assets	<u>74,752</u>	<u>58,941</u>
Prepayments	10,702	10,122
	<u>85,456</u>	<u>69,063</u>

Trade receivables

Within the credit period	2,532	1,275
Exceeded credit period but not yet impaired	1,348	1,862
	<u>3,880</u>	<u>3,137</u>

The carrying value of short-term receivables is considered a reasonable approximation of fair value.

In determining the recoverability of receivables, the council considers any change in the credit quality of each receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the debtor base being unrelated.

The Council felt the need to make a provision for doubtful debts on an amount receivable from one of its customers. This customer seems to be undergoing financial difficulty so the whole debt is being considered as doubtful. LES receivables are stated net of provision for doubtful debts of €309,027.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and balance with banks. Cash and cash equivalents included in the Statement of cash flows comprise the following amounts in the Local Council's Statement of Financial Position:

	2018	2017
	€	€
Bank Balances:		
Ordinary funds	334,125	370,782
Cash in hand	-	67
Cash at bank and in hand	<u>334,125</u>	<u>370,849</u>

6. Long Term Borrowings

	2018	2017
	€	€
Bank loans	<u>8,642</u>	<u>17,945</u>

The Local Council had obtained facilities, specifically for the purchase of property used to house the administrative offices of the Council. Loan I (€) and Loan II (€). Loan I (currently at €5,572) is repayable in monthly instalments of €262 (2017: €262) and bears interest at the rate of 4.65% (2017: 4.65%) per annum.

Notes to the Financial Statements for the year ended 31 December 2018
6. Long Term Borrowings (Cont'd)

Loan II (currently at €11,627) is repayable in monthly instalments of €571 (2017: €571) and bears interest at 4.65% (2017: 4.65%) per annum. The loans are repayable by March 2021.

The facility is secured by:

- (a) First General Hypothec over the Council's assets
- (b) First Special Hypothec and Special Privilege over the property purchased.

The instalments falling due within one year are being disclosed with the Current Liabilities while the balance falling due after one year is separately disclosed under long term borrowings above.

7. Deferred Income

	2018	Restated *
	€	2017
		€
Analysis		
Balance brought forward	120,964	1,143,440
Received in Current Year	851	18,709
Reversal during the year	-	(867,757)
	<u>121,815</u>	<u>294,392</u>
Adoption of Capital Approach	-	(173,428)
	<u>121,815</u>	<u>120,964</u>

* See note 22 for details about restatements for changes in accounting policies.

8. Trade and Other Payables

	2018	Restated *
	€	2017
		€
Financial Liabilities		
Trade Payables	88,481	68,753
PPP Payable	7,941	7,941
Accruals and Other Creditors	29,436	17,710
FSS and NI Due	4,528	2,390
Loan - Current Portion	8,557	8,935
	<u>138,943</u>	<u>105,729</u>
Total Current Liabilities	<u>138,943</u>	<u>105,729</u>
Non-Current Financial Liabilities		
Long Term PPP Payable	<u>7,199</u>	<u>15,140</u>
Total Payables	<u>146,142</u>	<u>120,869</u>

* See note 22 for details about restatements for changes in accounting policies.

Notes to the Financial Statements for the year ended 31 December 2018

9. Funds received from Central Government

	2018	Restated *
	€	2017
		€
In terms of section 55 of the Local Councils Act (CAP 363)	553,106	530,376
Other Supplementary Government Income	7,404	10,221
Other Government Income	31,022	13,800
	<u>591,532</u>	<u>554,397</u>

* See note 22 for details about restatements for changes in accounting policies.

10. Income raised under Local Council Bye-Laws

	2018	2017
	€	€
Income from Bye-Laws	<u>82,012</u>	<u>86,635</u>

11. Income raised under the Law Enforcement System

	2018	2017
	€	€
Pre-regional Committees	1,074	361
Regional Committees - Administrative Fees	10,485	7,782
LESA surplus distribution	-	9,350
	<u>11,559</u>	<u>17,493</u>

12. General Income

	2018	2017
	€	€
Other income	-	590
Fair value gain on donation of Property	-	40,000
	<u>-</u>	<u>40,590</u>

13. Personal Emoluments

	2018	2017
	€	€
Personal emoluments include, inter alia:		
Mayor's Allowance	10,347	11,017
Councillor's Allowances	8,200	8,800
Executive Secretary salary and allowance	32,891	31,594
Employees' Salary and Allowances	61,698	61,749
Social Security Contributions	7,714	7,380
	<u>120,850</u>	<u>120,540</u>

Notes to the Financial Statements for the year ended 31 December 2018

14. Operations and Maintenance

Operations and maintenance include, inter alia:

Repairs and Upkeep:	2018	2017
	€	€
Road and Street Pavements (patching works)	4,488	4,025
Street Signs	4,730	4,120
Road Markings	7,007	1,944
Other repairs and upkeep expenses	68,114	50,845
	<u>84,339</u>	<u>60,934</u>
Contractual Services:		
Refuse Collection (including bins on wheels)	111,178	78,266
Bulky Refuse Collection (including open skips)	18,876	16,747
Road and Street Cleaning (mechanical and manual)	65,034	57,529
Tipping fees	52,973	54,662
Cleaning and Maintenance of Non-Urban	271	-
Cleaning and Maintenance of Public Conveniences	1,252	8,188
Cleaning and Maintenance of Parks and Gardens	26,571	26,716
Cleaning - Council Premises	1,470	1,410
Street Lighting	8,441	9,660
Other Contractual Services	15,999	14,381
	<u>302,065</u>	<u>267,559</u>
Total Operations and Maintenance Expenses	<u>386,404</u>	<u>328,493</u>

15. Administration and other expenditure

	2018	Restated *
	€	€
Utilities	10,688	9,221
Materials & Supplies	9,068	7,837
Rent	11,582	10,640
Office Services	18,806	20,327
Information services (including library)	15,320	7,309
Professional Services	16,666	17,598
Insurance	5,613	4,332
Community and Hospitality	67,708	51,747
Penalties	413	1,300
Increase in provision for bad debts	678	1,641
Depreciation	95,831	37,675
Transport Expense	1,236	1,525
Loss on disposal	-	331
Participation fees	1,356	133
LES expenses	-	100
	<u>254,965</u>	<u>171,716</u>

* See note 22 for details about restatements for changes in accounting policies.

16. Investment income

	2018	2017
	€	€
Bank Interest Receivable	<u>33</u>	<u>49</u>

Notes to the Financial Statements for the year ended 31 December 2018
17. Finance Costs

	2018	2017
	€	€
Bank interest	1,113	1,487
Bank charges	295	228
	<u>1,408</u>	<u>1,715</u>

18. Capital Commitments

For the year ending 31 December 2018, the council approved the below Capital Commitment;

Authorised by the Local Council and contracted:

Description	Capital Commitments €	Grants Approved €
Construction of a niche	23,000	-

19. Financial Instruments and Related Parties Disclosures

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

Name of entity	Nature of relationship:
Department of Local Councils	Significant control
Regional Committees	No control
Malta Environment and Planning Authority	No control
Assocjazzjoni Kunsilli Lokali	No control
ARMS Limited	No control
Office of The Attorney General	No control
Police Department	No control
Courts of Justice	No control
Department of Information	No control
Information And Data Protection Commissioner	No control
Malta Library & Information Association	No control
Ministry For Resources and Rural Affairs	No control
Malta Information Technology Agency	No control
Public Broadcasting Services Ltd	No control
WasteServ Malta Ltd	No control

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

	2018	2017
	€	€
Significant control:		
Financial allocation for the year	<u>551,793</u>	<u>530,376</u>

The ultimate controlling party of Gzira Local Council is the Central Government since the Council's main revenue is from the Government allocation received every quarter. Apart from the normal funds received from Government, Councils also receive funds relating to specific projects as well as other funds for the improvement and betterment of the locality.

Notes to the Financial Statements for the year ended 31 December 2018

20. Risk management objectives and policies

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

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

20.1. 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 year, as summarised below:

	2018	2017
Class of financial assets – carrying amounts	€	€
Trade and other receivables	74,754	58,941
Cash and Cash Equivalents	334,125	370,849
	<u>408,879</u>	<u>429,790</u>

The council continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The council's policy is to deal with only creditworthy counterparties.

The council considers that the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See note 4 for further information on impairment or financial assets that are past due.

None of the council's financial assets is secured by collateral or other credit enhancements

The credit risk for liquid funds is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

20.2. Liquidity risk

The council's exposure to liquidity risk arises from its obligations to meet its financial liabilities which comprise payables. Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities to ensure the availability of an adequate amount of funds to meet the council's obligations when they become due.

The council manage its liquidity needs through yearly budgets and business plans by carefully monitoring expected cash inflows and outflows on a daily basis. The council's liquidity is deemed to be sufficient in view of an excess of financial assets.

	2018	2017
	€	€
Payables	103,621	91,834
Accruals and other creditors	33,964	20,100
	<u>137,585</u>	<u>111,934</u>
Long term and short-term borrowings	2018	2017
	€	€
Current within 1 year	8,557	8,935
Due in 1 to 5 years	8,642	17,945
	<u>17,199</u>	<u>26,880</u>

Notes to the Financial Statements for the year ended 31 December 2018

20.3. Summary of the financial assets and liabilities by category

The council manages its liquidity needs through yearly budgets and business plans by carefully monitoring expected cash inflows and outflows on a regular basis.

Current Assets	2018	2017
Loans and Receivables:	€	€
Trade and Other Receivables	74,754	58,941
Cash and Cash Equivalents	334,125	370,849
	<u>408,879</u>	<u>429,790</u>
 Non-current Liabilities		
Financial liabilities measured at amortised costs:		
Borrowings	8,642	17,945
Financial liabilities measured at historic costs:		
Trade Payables	7,199	15,140
	<u>15,841</u>	<u>33,085</u>
 Current Liabilities		
Financial liabilities measured at historic costs:		
Trade Payables	96,422	76,694
Accruals and Other Creditors	33,964	20,100
Borrowings due within 1 year	8,557	8,935
	<u>138,943</u>	<u>105,729</u>
	<u>154,784</u>	<u>138,814</u>

20.4. Interest rate risk

The Council has no significant interest-bearing assets other than cash and cash equivalents (Note 5), issued at variable rates. Cash and cash equivalents issued at variable rates expose the Council to cash flow interest rate risk. Management monitors the level of floating rate bank balances as a measure of cash flow risk taken on. Based on this analysis, management considers the potential impact on surplus or deficit of a defined interest rate shift that is reasonably possible at the end of the reporting year to be immaterial.

20.5. Capital risk management

The Council's objectives when managing capital are to safeguard the Council's ability to continue as a going concern so that it can continue to provide a service to the residents of the Local Council by maintaining an optimal capital structure to reduce cost of capital.

The Council's equity, as disclosed in the statement of financial position, constitutes its capital. The Council's capital structure is monitored by the Executive Secretary and the Council with appropriate reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the Council's activities and the extent of borrowings, the capital level as at the end of the reporting year is deemed adequate by the Council.

21. Fair value estimation

At 31 December 2018 and 2017 the carrying amounts of cash at bank, receivables and payables reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short year of time between the origination of the instruments and their expected realisation.

Notes to the Financial Statements for the year ended 31 December 2018

22. Change in Accounting Policies

This note explains the impact of the adoption of the capital approach of government grants as per directive 1/2017.

22. (a) Impact on the Financial Statements

As from 1 January 2018 the council was instructed by the department of local government (directive 1/2017) to adopt the capital approach of government grants as opposed to the previously used income approach as per IAS 20. As a result of the change in this accounting policy in-line with IAS 8 prior year financial statements had to be restated.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. This change did not have an impact on the retained earnings of the council.

Balance sheet (extract)	31/12/2017 as originally presented Euro	Adoption of capital approach Euro	31/12/2017 Restated Euro
Non-current Assets			
Property, plant and equipment	674,663	(161,869)	512,794
Total Assets	<u>1,114,575</u>	<u>(161,869)</u>	<u>952,706</u>
Total Equity	<u>692,928</u>	<u>-</u>	<u>692,928</u>
Non-current liabilities			
Deferred Income	272,398	(151,434)	120,964
Current liabilities			
Trade and other payables	116,164	(10,435)	105,729
Total Equity and Liabilities	<u>1,114,575</u>	<u>(161,869)</u>	<u>952,706</u>

Notes to the Financial Statements for the year ended 31 December 2018

22. (a) Impact on the Financial Statements (Cont'd)

Statement of comprehensive income (extract) 2017	31/12/2017 as originally presented Euro	Adoption of capital approach Euro	31/12/2017 Restated Euro
Income			
Funds received from central government	565,956	(11,559)	554,397
Expenditure			
Administration and other expenditure	(183,275)	11,559	(171,716)
Surplus for the year	<u>76,700</u>	<u>-</u>	<u>76,700</u>

Financial statements for the year ended 31 December 2018

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 Gzira Local Council which comprise the statement of financial position as at 31 December 2018, 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 notes.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of Gzira Local Council as of 31 December 2018 and of the results of its operations, changes in net assets/equity and its cash flows for the period then ended in accordance with the accounting policies set out on pages 8 to 13.

These financial statements comply in all material respect with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 but because of the matters set out in in the Basis for Qualified Opinion below, these financial do not comply with the requirements of International Financial Reporting Standards as adopted by the E.U.

Basis for Qualified Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Council in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements 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.

1. As from 30 September 2002, all income and expenditure from the Local Enforcement System (LES) were centralised through the Group H Joint Committee and LES debtors at that date were transferred to the Joint Committee as well. The Group H Joint Committee ceased operations on 31 August 2011 and LES was centralised through the Central Regional Committee as from 1 September 2011. The Council reported income of EUR1,074 from LES in the current year. We were unable to determine the amount of any income the Council is entitled to receive from Group H Joint Committee since its audited financial statements were not made available to us.

Financial statements for the year ended 31 December 2018

Report of the Local Government auditor to the Auditor General (continued)

Basis for Opinion (continued)

2. The Council's interest free non-current payable arising on the PPP project is accounted for at historical cost rather amortised cost as required by IAS 39, *Financial Instruments*.
3. The financial statements do not disclose the relevant lease information arising on leased property as required by IAS 17, *Leases*.
4. Related party disclosures as disclosed in note 19 do not define who the Council considers to be Key Management Personnel and do not disclose the remuneration paid to them as required by IAS 24, *Related Party Disclosures*
5. As required by Directive 1/2017 and as disclosed in note 22, the Council adopted the IAS 20 capital approach treatment for recognition and disclosure of grants. The change was applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Although the Council disclosed the impact of this change in note 22, it did not disclose the impact on the Statement of Cash Flows.
6. The Capital Commitments of the Council are disclosed on note 18 on page 20 and quantified at EUR23,000. However, these do not include expenditure committed for the Literacy Room at EUR2,000 and the Multi sensor room at EUR5,800.
7. The Council has 3 cases being heard in front of the Small Claims Tribunal and another in front of the First Hall of the Civil Court. The Council did not include the necessary Contingent Liabilities disclosures required IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Other Information

The Councillors and the Executive Secretary are responsible for the other information. The other information comprises the Statement of Local Council Members' and Executive Secretary's Responsibility. Our opinion on the financial statements does not cover this information. In connection with our audit of the financial statements, our responsibility is to read the other information 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.

Responsibilities of the Local Council Members' and Executive Secretary

The Councillors and the Executive Secretary are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS as adopted by the E.U. and for such internal control as the Councillors and Executive Secretary determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Financial statements for the year ended 31 December 2018

Report of the Local Government auditor to the Auditor General (continued)

Responsibilities of the Local Council Members' and Executive Secretary (continued)

In preparing the financial statements, the Councillors and the Executive Secretary are 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 Councillors and the Executive Secretary has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with 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 Councillors and the Executive Secretary.
- Conclude on the appropriateness of the Councillors and the Executive Secretary use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Financial statements for the year ended 31 December 2018

Report of the Local Government auditor to the Auditor General (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

We communicate with the Councillors and the Executive Secretary 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

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards as adopted by the E.U, and the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996. In view of the matters set out under the Basis for Qualified Opinion section of this report, these financial statements have not been prepared in line with these requirements.



This copy of the audit report has been signed by Ernestino Riolo (Partner) for and on behalf of

Mazars Malta
Certified Public Accountants
Attard,
Malta
11 July 2019