

Nadur Local Council

Annual Report
and
Financial Statements

1 January – 31 December 2018



Prepared by:
M. Camilleri

**ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2018**

CONTENTS

PAGES

Statement of Local Council Members' and Executive Secretary's responsibilities	3
Statement of financial position	4
Statement of comprehensive income	5
Statement of changes in equity	6
Statement of cash flows	7
Notes to the financial statements	8 - 23
Independent auditors' report	24 - 27

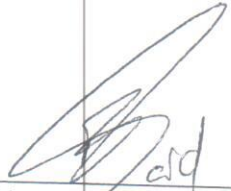
Financial Statements for the year ended 31 December 2018


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, 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.

Approved by the Council and signed on its behalf on the 29th April 2019 by:



Edward Said
Mayor


Sue Ellen Bugeja
Executive Secretary

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	31 December 2018 €	Restated 31 December 2017 €
ASSETS			
Non-current assets			
Property, plant and equipment	3	819,044	763,072
		<u>819,044</u>	<u>763,072</u>
Current Assets			
Receivables	4	48,736	23,506
Cash and Cash Equivalents	5	420,379	219,990
		<u>469,115</u>	<u>243,496</u>
Total Assets		<u><u>1,288,159</u></u>	<u><u>1,006,568</u></u>
RESERVES AND LIABILITIES			
Reserves			
Retained Fund		560,331	664,531
Non-current liabilities			
Long term borrowings	6	27,142	34,934
Non-current payables	6	24,867	49,734
Deferred income grants	7	297,860	-
Current liabilities			
Payables	8	377,959	257,369
Total reserves and liabilities		<u><u>1,288,159</u></u>	<u><u>1,006,568</u></u>

The notes on pages 8 to 23 are an integral part of the financial statements.

These Financial Statements were approved by the Local Council on the 29th April 2019 and signed on its behalf by:


Edward Said
Mayor


Sue Ellen Bugeja
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	Notes	2018 €	Restated 2017 €
REVENUE			
Funds received from central government	9	504,597	473,318
Funds raised under Local Enforcement System	10	1,668	5,243
General Income	11	53,028	39,063
		<u>559,293</u>	<u>517,624</u>
EXPENDITURE			
Personal emoluments	12	(89,584)	(80,190)
Operations and maintenance	13	(220,740)	(209,013)
Administration and other expenditure	14	(351,595)	(195,466)
		<u>(661,919)</u>	<u>(484,669)</u>
Operating (Loss) / Income for the year		(102,626)	32,955
Investment income	15	84	31
Finance cost	16	(1,658)	(2,144)
Total Comprehensive (Loss) / Income for the year		<u>(104,200)</u>	<u>30,842</u>

The notes on pages 8 to 23 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2018

	Retained Earnings 2018 €	Retained Earnings 2017 €
At 1 January		
Total Comprehensive (Loss) / Income for the year	664,531 (104,200)	633,689 30,842
At 31 December	<u>560,331</u>	<u>664,531</u>

The notes on pages 8 to 23 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 €	2017 €
Cash Flows from Operating Activities			
Total Comprehensive (Loss) / Income for the year		(104,200)	30,842
Adjustments for:			
Depreciation		166,506	80,004
Investment Income		(84)	(31)
Interest Payable		1,658	2,144
Operating Profit before Working Capital Changes		63,880	112,959
Increase in receivables		(25,230)	(11,320)
Increase / (Decrease) in payables		50,225	(47,753)
Net Cash generated from Operating Activities		88,875	53,886
Cash flows from Investing Activities			
Purchase of property, plant and equipment		(222,478)	(53,725)
New grants received		297,860	219,966
Investment Income		84	31
Interest Payable		(1,658)	(2,144)
Net Cash generated from Investing Activities		73,808	164,128
Cash flows from Financing Activities			
Movement in bank loan		(7,792)	(7,483)
Net Cash (used in) Financing Activities		(7,792)	(7,483)
Net Increase in Cash and Cash Equivalents		154,891	210,531
Cash and Cash Equivalents at the Beginning of Year		219,990	9,459
Cash and Cash Equivalents at the End of Year	5	374,881	219,990

The notes on pages 8 to 23 are an integral part of the financial statements.

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

1. General Information

Nadur Local Council is the local Authority of Nadur setup in accordance with the Local Council's Act. The office of the Local Council is situated at North Street, Nadur NDR1222, Gozo.

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

Annual Improvements: 2018 made several minor amendments to a number of IFRSs. None of the changes to IFRSs and interpretations has had, or is expected to have, a material impact on the council's financial statements.

New and amended standards adopted by the council

In the current year, the Local Council has tried to identify any amendments to IFRSs issued by the International Accounting Standards Boards (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows: Debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances). Investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss. All other instruments (including all derivatives) are measured at fair value with changes recognised in the profit or loss. The concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines.

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement. The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

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

b. Standards, amendments and interpretations to existing standards - continued

New and amended standards adopted by the council - continued

IFRS 15 provides a single, principles based five step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018.

Any standards, amendments and interpretations that became effective and were relevant to the Local Council during 2018 were adopted and adhered to.

Standards, amendments and interpretations to existing standards that are 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 and were not yet effective. A case in point is the following IFRS:

IFRS 16 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. Applicable to annual reporting periods beginning on or after 1 January 2019.

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

c. Revenue recognition

Revenue is recognised when the amount of revenue and the associated costs can be measured reliably.

d. Local Enforcement System

During 2018 the amount disclosed in the financial statements under Local Enforcement Income represents the administrative fee of 10% that is chargeable to the various Regional Committees and the Law Enforcement System Agency for contraventions paid at the Council.

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

e. Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss to date.

Up till 31 December 2017, depreciation was calculated on a monthly basis using the reducing balance method at rates calculated to write off the cost less residual value of each asset over its expected useful life. However, as from 1 January 2018, the Department for Local Government instructed Local Councils to depreciate non-current assets using the straight line method of depreciation, on a monthly basis. Such change in depreciation method is treated as a change in an accounting estimate under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and will be accounted for prospectively. The depreciation charge for 2018 will be based on the net book value of the non-current assets held as at 31 December 2017.

The depreciation rates to be used for the calculation of the depreciation using the straight line method are to remain unchanged and shall be as follows:

Land	%
Trees	0
Buildings	0
Office Furniture and Fittings	1
Construction Works	7.5
Urban Improvements (Street Furniture)	10
Special Projects	10
Office Equipment	10
Motor Vehicles	20
Plant and Machinery	20
Computer Equipment	20
Plants	25
Litter Bins	100
Playground furniture	replacement basis
Road and traffic Signs	100
Street Mirrors	replacement basis
Street Lights	replacement basis
	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 financial reporting 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.

f. Government Grants

As from 1st January 2018, government grants will be accounted for using the Capital Approach rather than the Income Approach as per previous years. Both treatments of government grants are allowable and governed under IAS 20. Such a change in treatment of government grants is treated as a change in accounting policy which under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' is accounted for retrospectively. To this effect, even though the change in accounting policy will not affect the final figure on the Statement of Comprehensive Income and thus will not change the balance of the Retained Reserves, the figures in the Statement of Comprehensive Income and in the Statement of Financial Position will be restated in order for comparatives to be effective and comparisons possible.

Under the Capital Approach, government grants are deducted directly against the cost of the non-current asset to which they relate. The grant under this approach is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge. On the other hand, under the Income Approach, government grants are accounted for on a systematic basis in the Statement of Comprehensive Income over the periods necessary to match them with the related costs which they are intended to compensate. If such costs have already been incurred when the grant is made, or if there are no related cost, then the grant is accounted for when it becomes receivable.

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

g. 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 cost to sell and the value in use. Impairment losses are immediately recognised as an expense in the Statement of Comprehensive Income.

h. 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 amounts of the asset in 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.

i. 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.

j. 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.

k. 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.

l. 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. The parties that exercise no control were Water Services Corporation and Malta Environment and Planning Authority whereas there was joint control with the Gozo Joint Committee.

m. 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 council.

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

n. 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.

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 – continued

o. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by the EU 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 period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

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).

p. 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, are measured at amortised cost, using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on settlement.

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

Nadur Local Council

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

3a Property, Plant and Equipment

Cost	Trees	Office Furniture / fittings	Office & Computer Equipment	Plant & Machinery	Urban Improvements	New Street Signs	Construction	Special Programmes	Council Premises	Assets under Construction	Total
At 1 January 2018	€ 6,812	€ 32,674	€ 30,666	€ 32,625	€ 532,178	€ 13,942	€ 1,720,638	€ 136,328	€ 138,150	€ -	€ 2,644,013
Reclassification	-	-	-	-	-	-	-	-	-	-	-
Additions this year	-	204	1,360	-	7,660	-	133,862	-	-	-	-
At 31 December 2018	6,812	32,878	32,026	32,625	539,838	13,942	1,854,500	136,328	138,150	79,392	2,866,491
Grants and other reimbursements											
At 1 January 2018	-	-	-	-	-	-	(229,616)	(68,341)	-	-	(297,957)
Additions this year	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2018	-	-	-	-	-	-	(229,616)	(68,341)	-	-	(297,957)
Accumulated Depreciation											
At 1 January 2018	-	(21,695)	(24,373)	(30,017)	(364,741)	(13,942)	(1,064,613)	(54,835)	(8,768)	-	(1,582,984)
Charge this year	-	(2,462)	(5,043)	(2,608)	(53,955)	-	(87,904)	(13,152)	(1,382)	-	(166,506)
At 31 December 2018	-	(24,157)	(29,416)	(32,625)	(418,696)	(13,942)	(1,152,517)	(67,987)	(10,150)	-	(1,749,490)
Net book value											
At 31 December 2018	6,812	8,721	2,610	-	121,142	-	472,367	-	128,000	79,392	819,044

Nadur Local Council

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

	Trees	Office Furniture / fittings	Office & Computer Equipment	Plant & Machinery	Urban Improvements	New Street Signs	Construction	Special Programmes	Council Premises	Assets under Construction	Total
Cost	€	€	€	€	€	€	€	€	€	€	€
At 1 January 2017	6,812	32,674	29,331	32,625	543,244	13,942	2,426,833	136,328	138,150	-	3,359,939
Reclassification	-	-	-	-	-	-	-	-	-	-	-
Additions this year	-	-	2,940	-	13,307	-	37,478	-	-	-	-
Deferred Income Grants (Restated)	-	-	(1,605)	-	(24,373)	-	(743,673)	-	-	-	53,725
At 31 December 2017	6,812	32,674	30,666	32,625	532,178	13,942	1,720,638	136,328	138,150	-	(769,651)
Grants and other reimbursements											
At 1 January 2017	-	-	-	-	-	-	(229,616)	(68,341)	-	-	(297,957)
Additions this year	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2017	-	-	-	-	-	-	(229,616)	(68,341)	-	-	-
Accumulated Depreciation											
At 1 January 2017	-	(20,927)	(22,574)	(29,282)	(347,336)	(13,942)	(1,007,470)	(53,982)	(7,467)	-	(1,502,980)
Charge this year (Restated)	-	(768)	(2,083)	(735)	(19,481)	-	(114,600)	(853)	(1,301)	-	(139,821)
Release of Deferred Income Grants (Restated)	-	-	284	-	2,076	-	57,457	-	-	-	59,817
At 31 December 2017	-	(21,695)	(24,373)	(30,017)	(364,741)	(13,942)	(1,064,613)	(54,835)	(8,768)	-	(1,582,984)
Net book value											
At 31 December 2017	6,812	10,979	6,293	2,608	167,437	-	426,409	13,152	129,382	-	763,072

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

4 Receivables

	2018	2017
	€	€
Accounts receivable	46,709	21,732
Prepayments	2,027	1,774
	<u>48,736</u>	<u>23,506</u>

Receivables

Within the current period	30,367	7,880
Exceeded credit period but not yet impaired	18,369	15,626
	<u>48,736</u>	<u>23,506</u>

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	420,303	219,923
Cash in hand	76	67
Overdrawn balances	(45,498)	-
	<u>374,881</u>	<u>219,990</u>
Transfer to payables	45,498	-
Cash at bank and in hand	<u>420,379</u>	<u>219,990</u>

6 Non-current Liabilities

	2018	2017
	€	€
Borrowings	27,142	34,934
Non-current liability	24,867	49,734
	<u>52,009</u>	<u>84,668</u>

The Council has a loan facility with APS Bank Limited, in connection with the construction and finishing costs of the new premises to house the administrative offices of the Council and a public convenience at North Street, Nadur. This loan is repayable in monthly instalments of Euro 787.33, bears interest of 1.75% over the Central Bank Intervention rate and is repayable in full by June 2026.

The facility is secured by:

- First General Hypothec over the Council's assets for Euro 116,469.
- First Special Hypothec for Euro 116,469 on a piece of land covering an area of 3,372 sq.mts situated at Our Lady of Fatima Street, Nadur.

The instalments falling due within one year are being disclosed with Current Liabilities while the balance is separately disclosed as falling due after one year.

Notes to the Financial Statements for the year ended 31 December 2018 – continued**6 Non-current Liabilities - continued****Non-current payables**

Non-current liabilities may be analysed as follows:

	2018	2017
	€	€
Due between 1 to 2 years	34,315	34,315
Due between 2 to 5 years	17,694	50,353
Due after 5 years	-	-
	<u>52,009</u>	<u>84,668</u>

7 Deferred Income Grants

	2018	Restated 2017
	€	€
Deferred Income 1 to 2 years	297,860	-
Deferred Income 2 to 5 years	-	-
Deferred Income over 5 years	-	-
	<u>297,860</u>	<u>-</u>

	2018	Restated 2017
	€	€
Opening balance	-	549,685
Increase in grants	297,860	219,966
Setoff of grants against non-current assets	-	(769,651)
Closing balance	<u>297,860</u>	<u>-</u>
Less Current portion	-	-
Non-current portion	<u>297,860</u>	<u>-</u>

8 Payables

	2018	Restated 2017
	€	€
Accounts payable	295,523	212,803
Accruals	27,490	35,118
Borrowings	9,448	9,448
Overdrawn balances	45,498	-
	<u>377,959</u>	<u>257,369</u>

9 Funds received from Central Government

	2018	Restated 2017
	€	€
In terms of section 55 of the Local Councils Act (CAP 363)	471,929	452,946
Other Government Income	32,668	20,372
	<u>504,597</u>	<u>473,318</u>

10 Income raised from Local Enforcement System

	2018	2017
	€	€
Administrative income from contraventions	1,668	2,567
Distributions from LESA pooling system	-	2,676
	<u>1,668</u>	<u>5,243</u>

Notes to the Financial Statements for the year ended 31 December 2018 – continued**11 General Income**

	2018	2017
	€	€
Cultural activities	-	1,535
Community services	636	1,252
Contributions and other income	36,549	18,823
Income from documents	11	138
Insurance claims	-	1,439
Income from permits	15,832	15,876
	<u>53,028</u>	<u>39,063</u>

12 Personal Emoluments

	2018	2017
	€	€
Personal emoluments include, inter alia:		
Mayor's honoraria and allowances	9,064	8,945
Councillors' allowance	4,800	4,800
Executive secretary salary, bonuses and allowances	31,562	30,197
Employees' salaries	38,518	31,153
Social security contributions	5,640	5,095
	<u>89,584</u>	<u>80,190</u>

13 Operations and Maintenance

	2018	2017
	€	€
Operations and maintenance includes, inter alia:		
Repairs and Upkeep:		
Road and street pavements	21,545	17,893
Street signs and road markings	2,680	2,685
Public property	3,124	5,439
Other	2,789	2,436
Total	<u>30,138</u>	<u>28,453</u>

Contractual Services:

Refuse Collection (including bins on wheels)	75,912	74,295
Bulky Refuse Collection (incl. open skips)	8,981	10,264
Road and Street Cleaning (mechanical and manual)	19,245	15,793
Cleaning and Maintenance of Public Conveniences	3,018	4,070
Cleaning and maintenance - parks and gardens	6,249	5,565
Local Enforcement System - expenses	1,276	35
Street lighting	7,080	14,055
Other	68,841	56,483
	<u>190,602</u>	<u>180,560</u>
Total Operations and Maintenance Expenses	<u>220,740</u>	<u>209,013</u>

Notes to the Financial Statements for the year ended 31 December 2018 – continued**14 Administration and other expenditure**

	2018	Restated 2017
	€	€
Utilities	11,501	8,525
Other repairs and upkeep	8,050	6,625
National and International Memberships	1,800	1,567
Rent	2,506	2,530
Office Services	7,774	7,608
Travel	7,901	5,324
Transport	16,646	6,814
Information services	16,941	7,214
Other contractual services	3,261	1,660
Professional Services	43,027	33,095
Community and Hospitality	65,682	34,500
Depreciation	166,506	80,004
	<u>351,595</u>	<u>195,466</u>

15 Investment income

	2018	2017
	€	€
Bank Interest Receivable	84	31
	<u>84</u>	<u>31</u>

16 Finance cost

	2018	2017
	€	€
Interest on bank loan	1,658	1,967
Interest paid to third parties	-	177
	<u>1,658</u>	<u>2,144</u>

17 Capital Commitments

	2018	2017
	€	€
Capital expenditure approved and contracted for	406,920	27,000
Capital expenditure approved but not yet contracted for	76,832	286,000
	<u>483,752</u>	<u>313,000</u>

Further analysis as follows:

Capital expenditure approved and Contracted for:

Patching Works – Ta' Zrajk	10,380	-
Restructuring Works – Rural Roads	336,000	-
Patching Works – Triq il-Qortin	-	27,000
Artificial Turf – Nadur Football Ground	60,540	-
	<u>406,920</u>	<u>27,000</u>

Capital expenditure approved but not yet contracted for:

Embellishment of Playing Fields:

Railings	49,350	25,000
Safety Mats	21,431	-
Outdoor Gym	6,051	-
Restructuring of Roads	-	161,000
Other Projects	-	100,000
	<u>76,832</u>	<u>286,000</u>

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

17 Capital Commitments - continued

It should be noted that the restructuring works for Rural Roads is financed partly through EU Funds, partly through co-financing and partly by the Nadur Local Council. In fact, the Nadur Local Council will only pay around 10% of the overall expenditure.

As detailed in the table above, the embellishment of playing fields will involve the installation of new railings, new safety mats and an outdoor gym. All such expenditure will be wholly financed through the Development Planning Fund. The same applies to the artificial turf project for the Nadur Football Ground, which though undertaken by the Nadur Local Council, will be wholly financed through the Development Planning Fund.

18 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	Limited / Non-significant control
Ministry for Gozo	No control

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

	2018	2017
Significant control:		
Revenue	€	€
Annual financial allocation	<u>471,929</u>	<u>452,946</u>

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

19 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.

19.1 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 period, as summarised below:

	2018	2017
Class of financial assets – carrying amounts	€	€
Trade and other receivables	48,736	23,506
Cash and Cash Equivalents	<u>420,379</u>	<u>219,990</u>
	<u>469,115</u>	<u>243,496</u>

Nadur Local Council

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

19 Risk management objectives and policies – continued

19.1 Credit risk - continued

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 notes 4 and 5 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.

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

	2018	Restated 2017
	€	€
Payables	377,959	257,369
	<u>377,959</u>	<u>257,369</u>

19.3 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 profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial.

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

19 Risk management objectives and policies – continued

19.4 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:

	2018	2017
	€	€
Current Assets		
Loans and receivables:		
Trade and other receivables	48,736	23,506
Cash and Cash Equivalents	420,379	219,990
	<u>469,115</u>	<u>243,496</u>
Non-current Liabilities		
Financial liabilities measured at amortised costs:		
Borrowings	27,142	34,934
	<u>27,142</u>	<u>34,934</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	368,511	247,921
Borrowings	9,448	9,448
	<u>377,959</u>	<u>257,369</u>

19.5 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, the capital level as at the end of the reporting period is deemed adequate by the Council.

20 Fair value estimation

At 31 December 2018 and 31 December 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 period of time between the origination of the instruments and their expected realisation.

Notes to the Financial Statements for the year ended 31 December 2018 – continued**21 Change in Accounting Estimates – Grants**

On 1 January 2018, the Local Council applied Directive 1/2017 issued by the Department for Local Government in respect of Accounting of Grants as per IAS 20 – Government Grants. The Department for Local Government has instructed Local Councils to adopt the alternative capital approach as from 1 January 2018.

This is a change in accounting policy and according to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, this has to be accounted for retrospectively. The change in accounting policy did not affect the Statement of Comprehensive Income. The effect of the change has been the reclassification of opening balances of Property, Plant and Equipment and Deferred Grants in the Statement of Financial as represented below:

	Note	Balance Before Adjustments €	Prior Year Adjustments €	Reinstated Balances €
Non-Current Assets				
Property, plant & equipment	3	1,472,906	(709,834)	763,072
Current Assets				
Receivables	4	23,506	-	23,506
Cash and cash equivalents	5	219,990	-	219,990
		243,496	-	243,496
Total Assets		1,716,402	(709,834)	1,006,568
Reserves and Liabilities				
Reserves				
Retained earnings		664,531	-	664,531
Non-Current Liabilities				
Long-term borrowings	6	34,934	-	34,934
Non-current payables	6	49,734	-	49,734
Deferred income grants	7	647,450	(647,450)	-
Current liabilities				
Payables	8	319,753	(62,384)	257,369
Total Reserves and Liabilities		1,716,402	(709,834)	1,006,568

NADUR LOCAL COUNCIL**REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL****Qualified Opinion**

We have audited the accompanying financial statements of Nadur Local Council, which comprise the statement of financial position as at 31 December 2018, 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 - 23.

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 2018, 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

As at 31 December 2017, the Local Council had received grants amounting to €143,407 relating to resurfacing works 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 in Note 7. This project was carried out during the year ended 31 December 2018.

From the architect's letter that we received during the audit, it transpired that during the year ended 31 December 2018, the Local Council completed a project in relation to the new synthetic turf for the football pitch. The cost of this project as per the architect's letter was €60,540. This capital expenditure was not reflected in these financial statements. This means that the accruals and the property, plant and equipment are understated by this amount. Depreciation should have also been calculated as from the date of completion of the project.

The deferred income as at 31 December 2018 amounting to €297,860, has been classified as non-current in the statement of financial position. From the information we have obtained during our audit, the related projects are to be completed in the following year and thus this deferred income should have been classified as current liabilities.

With respect to the disclosures in the financial statements, we have noticed the following:

- Whilst Note 2 is stating that the Local Council has adopted IFRS 9, other disclosures such as the accounting policy on amounts receivable in Note 2 and the credit risk in Note 19, are still in line with the old IAS 39 – Financial Instruments: Recognition and Measurement.
- Note 3 was not properly prepared following the changes in the accounting policies as the cost of the property, plant and equipment should have remained the same, the gross grants should have been shown in the section about grants underneath and the amortization of the deferred income up till 31 December 2016 should have been netted off against the accumulated depreciation as at 1 January 2017.

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

Basis for Qualified Opinion - continued

- IAS 1 – Presentation of Financial Statements, requires an entity to present a third statement of financial position when an entity applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements and the effect is material. The effect of the change in the accounting policies in accordance with Directive 01/2017 are deemed to be material. These financial statements do not include a third statement of financial position.

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 4 which although it is showing a net current assets position as at 31st December 2018, if one had to remove the restricted cash and cash equivalents of €218,854, the current liabilities of the Local Council would exceed its current assets by €127,698. 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.

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.

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

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.
- 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.

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

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

- 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: 29th April 2019