

Local Council Marsaxlokk

Annual Audit Report

For the year ended 31 December 2021



Local Council Marsaxlokk

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Local Council Marsaxlokk

Statement of Financial Position
for the year ended 31 December 2021

ASSETS	Notes	2021 €	2020 €
Non-current assets			
Property, plant and equipment	11	151,347	154,425
Current Assets			
Receivables	12	28,854	34,707
Cash and cash equivalents	13	311,946	300,732
Total current assets		<u>340,800</u>	<u>335,439</u>
Total Assets		<u>492,147</u>	<u>489,864</u>
Reserves			
Retained earnings		380,012	406,556
		<u>380,012</u>	<u>406,556</u>
Current Liabilities			
Trade and other payables	14	112,135	83,308
		<u>112,135</u>	<u>83,308</u>
Total equity and liabilities		<u>492,147</u>	<u>489,864</u>

These financial statements were approved by the Local Council on 2 September 2022 and signed on its behalf by:


Steven Grech
Mayor


Charles Attard
Deputy Executive Secretary

New standards and interpretations not yet adopted (cont'd)

Amendments to IAS 37, amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether the contract is onerous. The amendments are effective for annual reporting periods on or after 1 January 2022.

Amendments to IAS 8 – to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023.

Amendments to IAS 1 and IFRS Practice Statement 2 – amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.

The Councillors are assessing the impact that the adoption of these International Financial Reporting Standards will have on the financial statements for the period of initial application. The Councillors 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.

Property, plant and equipment

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

Land	%
Trees	0
Buildings	0
Office Furniture and Fittings	1
Construction Works	7.5 - 100
Urban Improvements (Street Furniture)	10 - 100
Special Projects	10 - 100
Office Equipment	20 - 100
Motor Vehicles	20 - 48
Plant and Machinery	20 - 100
Computer Equipment	25 - 100
Plants	100
Litter Bins	Replacement Basis
Playground Furniture	100
Traffic Signs	Replacement Basis
Road Signs	Replacement Basis
Street Mirrors	Replacement Basis
Street Lights	100

Up to the year ended 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 according to IAS 16 Property, Plant and Equipment. On 1 January 2018, the straight line method in line with IAS16, has adopted, in line with Directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting estimate, and according to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, it has been accounted for prospectively.

New standards and interpretations not yet adopted (cont'd)

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 asset are reviewed and adjusted as appropriate, at each end of the reporting period. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

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

Impairment of trade and other receivables.

Trade and other assets are measured at fair value, with changes in fair value subsequently recognized in profit and loss. The Council applies the simplified approach for all trade receivables and contract assets. Accordingly, the assessment to determine whether there is a significant increase in credit risk is not applicable for such financial assets.

Where the Council does not have reasonable and supportable information that is available without undue cost or effort to measure life time expected credit loss on an individual instrument basis and in order to ensure the life time expected credit losses are recognized before an asset becomes credit-impaired or an actual default occurs, life time expected credit losses on the remaining financial assets are measured on a collective basis. In such instances and where appropriate, the financial instruments are grouped on the basis of shared credit risk characteristics and the life time expected credit losses are estimated using provision matrix based on actual credit loss experience over past years, which is adjusted to reflect current conditions and the Council's view of economic conditions over the expected lives of the receivables.

Such adjustments are based on factors that are specific to the debtors and economic and industry indicators such as GDP, unemployment rates and/or industry projections, where applicable, unless the effect is considered to be immaterial.

The Council's trade receivables are of a short term nature as they are based on credit terms of less than one year and, thus, do not include a significant financing component.

For the purpose of the provision matrix, loss rates are calculated using a 'roll rate' method based on the probability a receivable progressing through successive stages of delinquency over a selected period, taking into consideration the applicable credit terms for such debtors and the past due status. Unless the effect is immaterial, for the receivable after 360 days, the loss rate was adjusted to take into consideration the actual recoveries over the selected period.

Impairment of cash and cash equivalents.

Cash and cash equivalents are demand deposits, a one day probability of default has been applied, based on the respective external ratings of the counter party banks and adequate loss given default rate to the carrying amount at the measurement date.

The Council bank with local financial institutions with high quality standing and rating and management consider the probability of default to be close to zero.

New standards and interpretations not yet adopted (cont'd)

Related parties

Related parties are those persons or bodies of persons having relationships with the council as defined in international accounting standard No. 24

Revenue

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

Local enforcement system

Up till August 2011, the council use to manage the local enforcement system in its locality and used to receive all the income generated from the fines. As from 1 September 2011 the council started to form part of the southern region, which took over the management of the local enforcement system and the council is receiving a 10% administration fee on every fine paid at the council. As from October 2015 LESA took over the administration of the local enforcement system.

Government grants

Government grants relating to operating expenditure are recognized in the statement of comprehensive income in the same period that the related expenditure is incurred. Government grants relating to the purchase of property, plant and equipment are accounted for using the capital approach, and are thus deducted from the carrying amount of the relative non-current asset.

Up to the year ended 31 December 2017, government grants were accounted for using the income approach according to IAS 20 Accounting for government grants and disclosure of government assistant. On 1 January 2018, the capital approach, according to IAS 20, has been adopted, in line with the directive No. 1/2017 issued by the department for local government. This is a change in the accounting policy, and according to IAS 8 Accounting policies, changes in accounting estimates and errors it has been accounted for retrospectively.

Profits and losses

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

Cash and equivalents

Cash and cash equivalents are carried in the statement of financial position. For the purposes of the cash flow statement, cash and cash equivalents compromise cash in hand and balances held with banks.

New standards and interpretations not yet adopted (cont'd)

Financial Instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Local 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.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The Local Council does not have any financial assets categorised as FVTPL and FVOCI in the periods presented.

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within 'finance costs', 'finance income' or 'other financial items'.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Local Council's cash and cash equivalents, and most receivables fall into this category of financial instruments.

New standards and interpretations not yet adopted (cont'd)

Impairment of financial assets

IFRS 9's impairment requirements use forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets

recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The Local Council considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Classification and measurement of financial liabilities

The Local Council's financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Local Council designates a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income'.

New standards and interpretations not yet adopted (cont'd)**Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectant of future events that are believed to be reasonable under the circumstances.

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

Capital management policies

The Council's objectives when management capital are:

- To safeguard the Council's ability to continue as a going concern, so that it can continue to provide services and benefits to its local community.

The Council sets the amount of capital in proportion to risk. The Council manages the capital structure and make adjustments to within the lights of changes in economic conditions and the risk characteristics of the underlying assets.

The Council monitors capital on the basis of the debt-to-adjusted capital ratio. The ration is calculated as net debt + adjusted capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Adjusted capital comprises of retained earnings.

3. Funds received from central government

	2021 €	2020 €
In terms of section 55 of the Local Council Act	385,500	374,586
Other Government Income	39,273	73,972
	<u>424,773</u>	<u>448,558</u>

4. Local Enforcement Income

	2021 €	2020 €
Contraventions & other fines	-	(58)
Income for LES administration fees	1,148	711
	<u>1,148</u>	<u>653</u>
		<u>12</u>

5. Investment Income

	2021 €	2020 €
Bank Interest	1	7
	<u>1</u>	<u>7</u>
	<u>1</u>	<u>7</u>

6. General Income

	2021 €	2020 €
Income from courses	341	800
Media Advertising	-	1,320
Donations	-	175
Contributions	3,080	3,000
Insurance Claims	548	708
Income from Permits	10,573	9,938
	<u>14,542</u>	<u>15,941</u>
	<u>14,542</u>	<u>15,941</u>

7. (Loss)/ Profit for the year

	2021 €	2020 €
Profit for the year is stated after charging:		
Staff salaries	116,471	108,802
Depreciation of non-current assets	53,135	49,188
	<u>116,471</u>	<u>108,802</u>
	<u>169,606</u>	<u>157,990</u>

Local Council Marsaxlokk

**Notes to the Financial Statements
for the year ended 31 December 2021**

8. Personal Emoluments

	2021	2020
	€	€
Mayor's Honoraria	10,571	10,404
Mayor's & Councillors' Allowance	13,000	13,000
Executive Secretary Salary and Allowances	16,757	14,603
Employees' Salaries	69,856	64,811
Social Security Contributions	6,287	5,984
	<u>116,471</u>	<u>108,802</u>

9. Operations and Maintenance

	2021	2020
	€	€
<i>Repairs and Upkeep:</i>		
Public Property	1,918	6,908
Road/Street Pavements	52	110
Signs and road markings	1,745	4,608
Road & Street Patching	446	465
Office Furniture and Equipment	1,688	4,919
Plant & Equipment	345	5,094
Sundry Repairs	-	80
Other repairs and upkeep	486	470
Council property	456	3,588
	<u>7,136</u>	<u>26,242</u>

Contractual Services:

Refuse Collection	47,562	51,455
Bulky Refuse Collection	13,425	7,659
Tipping fees	21,038	23,031
Hire of Open Skips	1,369	94
Road & Street Cleaning	26,528	24,241
Cleaning & Maintenance of Non-Urban Roads	618	767
Cleaning – Public Conveniences	14,620	13,965
Cleaning – Council Premises	44	455
Other Contractual Services	-	13,383
Cleaning & Maintenance Parks & Garden	26,812	18,980
Clean. & Maint. Soft Areas	-	96
Clean. & Maint. Beaches	-	420
Street Lighting	17,760	13,614
Studies & Consultations	531	-
Local Enforcement Expenses	49	23

<u>170,356</u>	<u>168,183</u>
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<u>177,492</u>	<u>194,425</u>
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10. Administrative and other expenditures

	2021	2020
	€	€
Utilities	10,463	9,336
Uniforms	1,394	280
Sundry materials & supplies	8,846	7,902
Rent	8,834	8,434
Participation fee – Nat. Mtg.	-	86
Printing	5,362	4,698
Stationery	1,723	1,720
Subscriptions	-	504
Couriers	1,916	2,098
Postages	120	322
Transport	3,761	3,061
Information Services	6,575	4,464
Insurance Coverage	4,087	1,840
Bank Charges	348	150
IT Development Services	13,032	8,370
Legal services	7,555	3,844
Accounting services	7,452	7,281
Professional services	280	-
Medical services	-	2,087
Other support services	18,636	13,085
Entertainment	480	-
Other Hospitality Costs	1,029	437
Social Events	-	11,556
Community Services	18,168	-
Provision for LES receivable	(151)	(155)
Amortisation and Deprecation	53,135	49,188
	<u>173,045</u>	<u>140,588</u>

Local Council Marsaxlokk

Notes to the Financial Statements
for the year ended 31 December 2021

11. Property, plant and equipment

	Motor Vehicle	Property	Construction Works	New Street Signs	Urban Improvements	Plant and Machinery	Office & Computer Equipment	Office Furniture & Fittings	Assets under construction	Total
	€	€	€	€	€	€	€	€	€	€
Cost										
At 1 January 2020	20,806	57,633	1,483,883	14,554	331,237	15,957	100,083	100,756	32,008	2,156,917
Additions	2,500	-	-	-	6,166	799	11,122	6,623	20,549	47,759
Reclassifications	-	-	-	-	31,689	-	-	-	(31,689)	-
At 31 December 2020	<u>23,306</u>	<u>57,633</u>	<u>1,483,883</u>	<u>14,554</u>	<u>369,092</u>	<u>16,756</u>	<u>111,205</u>	<u>107,379</u>	<u>20,868</u>	<u>2,204,676</u>
Grants										
At 1 January 2020	-	44,232	760,810	-	270,134	-	51,983	59,474	-	1,186,633
Government grants current year	-	-	-	-	34,654	-	3,322	-	14,732	52,708
At 31 December 2020	-	44,232	760,810	-	304,788	-	55,305	59,474	14,732	1,239,341
Depreciation										
At 1 January 2020	19,765	558	609,825	14,554	35,224	14,788	40,695	26,313	-	761,722
Charge for the year	1,208	133	31,775	-	9,383	526	4,423	1,740	-	49,188
At 31 December 2020	<u>20,973</u>	<u>691</u>	<u>641,600</u>	<u>14,554</u>	<u>44,607</u>	<u>15,314</u>	<u>45,118</u>	<u>28,053</u>	-	<u>810,910</u>
Net book values										
At 31 December 2020	<u>2,333</u>	<u>12,710</u>	<u>81,473</u>	<u>-</u>	<u>19,697</u>	<u>1,442</u>	<u>10,782</u>	<u>19,852</u>	<u>6,136</u>	<u>154,425</u>

Notes to the Financial Statements
for the year ended 31 December 2021

11 Property, plant and equipment

	Motor Vehicle	Property	Construction Works	New Street Signs	Urban Improvements	Plant and Machinery	Office & Computer Equipment	Office Furniture & Fittings	Assets under construction	Total
	€	€	€	€	€	€	€	€	€	€
Cost										
At 1 January 2021	23,306	57,633	1,483,883	14,554	369,092	16,756	111,205	107,379	20,868	2,204,676
Additions	4,950	-	-	-	14,454	400	4,891	1,030	33,750	59,475
Reclassifications	-	-	-	-	20,476	-	-	-	(20,476)	-
At 31 December 2021	<u>28,256</u>	<u>57,633</u>	<u>1,483,883</u>	<u>14,554</u>	<u>404,022</u>	<u>17,156</u>	<u>116,096</u>	<u>108,409</u>	<u>34,142</u>	<u>2,264,151</u>
Grants										
At 1 January 2021	-	44,232	760,810	-	304,788	-	55,305	59,474	14,732	1,239,341
Government grants current year	-	-	-	-	-	-	-	-	9,418	9,418
Reclassification	-	-	-	-	16,617	-	-	-	(16,617)	-
At 31 December 2021	-	<u>44,232</u>	<u>760,810</u>	-	<u>321,405</u>	-	<u>55,305</u>	<u>59,474</u>	<u>7,533</u>	<u>1,248,759</u>
Depreciation										
At 1 January 2021	20,973	691	641,600	14,554	44,607	15,314	45,118	28,053	-	810,910
Charge for the year	1,490	134	31,665	-	12,188	498	4,498	2,662	-	53,135
At 31 December 2021	<u>22,463</u>	<u>825</u>	<u>673,265</u>	<u>14,554</u>	<u>56,795</u>	<u>15,812</u>	<u>49,616</u>	<u>30,715</u>	-	<u>864,045</u>
Net book values										
At 31 December 2021	<u>5,793</u>	<u>12,576</u>	<u>49,808</u>	-	<u>25,822</u>	<u>1,344</u>	<u>11,175</u>	<u>18,220</u>	<u>26,609</u>	<u>151,347</u>

12. Receivables

	2021 €	2020 €
Receivables	6,765	20,057
Other receivables	2,809	2,801
Accrued income	13,500	7,140
Financial assets	<u>23,074</u>	<u>29,998</u>
Prepayments	5,780	4,709
	<u>28,854</u>	<u>34,707</u>

Receivables

Receivables are non-interest bearing and are generally 30-days term.

General receivables are analysed as follows:

	2021 €	2020 €
Within credit period	4,690	3,935
Exceeded credit period but not impaired	2,075	16,122
	<u>6,765</u>	<u>20,057</u>

LES Debtors

LES debtors are stated after a specific provision for doubtful debts amounting to € 49,319 (2020: €49,470).

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

	2021 €	2020 €
Balance at 1 January	49,470	49,625
(Decrease) in provision for LES Debtor	(151)	(155)
	<u>49,319</u>	<u>49,470</u>

13. Cash and equivalents

	2021 €	2020 €
Bank Balances	311,820	300,040
Cash in Hand	126	692
Cash and cash equivalents	<u>311,946</u>	<u>300,732</u>

14. Payables

	2021 €	2020 €
Payables	49,576	42,261
Other payables	1,057	606
Accruals	47,214	31,990
Financial Liabilities	<u>97,847</u>	<u>74,857</u>
Deferred income and grants	14,288	8,424
Indirect taxes and social security	-	27
	<u>112,135</u>	<u>83,308</u>

15. Capital commitments

	2021 €	2020 €
Details of capital commitments at the accounting date are as follows:		
Approved but not yet contracted for		
These could be analysed as follows:	-	49,385
(i) Approved but not yet contracted		
Construction	-	47,885
Office & computer equipment	-	1,500
	<u>-</u>	<u>49,385</u>

16. Contingent liabilities and contingent asset

The council is still discussing a penalty received from the Environment & Resources Authority to € 6,400 (2020: € 6,400). The outcome is uncertain and due to this, the amount has not been provided for.

A third party has instituted legal proceedings against the Council amounting to € 17,381 (2020: €17,381) due to an incident that happened at Marsaxlokk. Though the Local Council has appeal the court decision, the above amount has been provided for.

17. Related party transactions

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

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Government	Significant control
Regional Committee (Local Enforcement)	Joint control
Fgura Joint Committee (Local Enforcement)	Joint Control
Local Enforcement System Agency	No Control
Gozo Regional Committee	No Control
North Regional Committee	No Control
South Regional Committee	No Control
South Eastern Regional Committee	No Control
Central Regional Committee	No Control
Public General Head Quarters	No Control
Local Councils' Association	No Control
Malta Information Technology Agency	No Control
Malta Communication Authority	No Control
Malta Tourism Authority	No Control
Malta Transport Authority	No Control
Department of Lands	No Control
Department of Inland Revenue	No Control
Permanent Secretary – Ministry of Education	No Control
Permanent Secretary – Ministry for Family & Social Solidarity	No Control
Bank of Valletta plc	No Control
Airmalta plc	No Control
Jobs plus	No Control
Arms Limited	No Control
Planning Authority	No Control
Environment and Resources Authority	No Control
Water Services Corporation	No Control
Enemalta Corporation	No Control
Cleansing Services Department	No Control
Director General – Works Division	No Control
Wasterserv Malta Limited	No Control
Commissioner for Data Protection	No Control

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

	2021 €	2020 €
Annual Financial Allocation	385,500	374,588
	<u> </u>	<u> </u>

Key management compensation

Transactions with key management personnel are disclosed in note 7.

18. Financial Risk Management

The exposure to risk and the way risks arises, together with the local Council's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below.

The objectives, policies and processes for managing financial risks and the methods used to measure such risks are subject to continual improvement and development.

Where applicable, any significant changes in the local Council's exposure to financial risks or manner in which the council manages and measures these risks are disclosed below.

Where the possible, the Local Council aims to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of the risk exposure associated with financial instruments sharing similar characteristics is disclosed in more detail in the notes to the financial statements.

	2021 €	2020 €
Categories of financial instruments		
Financial assets		
Loans and receivables	311,946	300,732
Cash and bank balances	23,074	29,998
Receivables	<u>335,020</u>	<u>330,730</u>
	<u> </u>	<u> </u>
Financial liabilities		
Trade payables and other payables	97,847	74,857
	<u>97,847</u>	<u>74,857</u>
	<u> </u>	<u> </u>

The Council is exposed 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 flows by minimizing the exposure to financial risks.

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

Credit risk

Financial assets which potentially subject to Council to concentration of credit risk are principally made up of cash at bank and debtors. The Council's cash is placed with quality financial institutions.

The Council applies the simplified approach for all trade receivables and contract assets which uses a lifetime expected allowances. Accordingly, the assessment to determine whether there is a significant increase in credit risk is not applicable for such financial assets.

Where the Council does not have reasonable and supportable information that is available without undue costs or effort to measure life time expected loss on an individual instrument basis and in order to ensure the life time expected credit losses are recognized before and asset becomes credit-impaired or an actual default occurs, life time expected credit losses on the remaining financial assets are measured on a collective basis. In such instances and where appropriate, the financial instruments are grouped on the basis of shared credit risk characteristics and the life time expected credit losses are estimated using a provision matrix based on actuals credit loss experience over past years, which is adjusted to reflect current conditions and the Council's view of economic conditions over the expected lives of the receivables.

Such adjustments are based on factors that are specific to the debtors and economic and industry indicators such as GDP, unemployment rates and/or industry projections, where applicable, unless the effect is considered to be immaterial.

The Council' trade receivables are of a short-term nature as they are based on credit terms of less than one year and, thus, do not include a significant financing component.

For the purpose of the provision matrix, loss rates are calculated using a 'roll rate' method based on the probability a receivable progressing through successive stages of delinquency over a selected period, taking into consideration the applicable credit terms for such debtors and the past due status. Unless the effect is immaterial, for receivables after 30 days, the loss rate was adjusted to take into consideration the proportion of actual recoveries over the selected period.

As at 31 December 2021, trade receivables of €2,075 (2020: €16,122) were past due but not impaired. The ageing of these past due trade receivables was over 1 month. These mainly related to a number of government entities for whom there is no recent history of default and exposure is very limited. Whilst a number of customers account for a certain percentage of the Council's past due trade debts, management has not identified any major concerns with respect to concentration of credit risk. Categorization of trade receivables as past due is determined by the Council on the basis of the nature of the credit terms in place and credit arrangements actually utilized in managing exposures with customer. Exposure is immaterial.

Cash and cash equivalents

The Council banks only with local financial institution with high quality standing or rating. At 31 December 2021 cash and cash equivalents are held with counterparty with a credit rating of 888 and are callable on demand. The Council considers the probability of default to be close to zero as the counterparty has a strong capacity to meet its contractual obligations in the near term. As a result, no loss allowance has been recognized based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Council.

Liquidity risk

The Council is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprises trade and other payables. Prudent liquidity risk management includes maintaining sufficient cash to ensure the availability of an adequate amount of funding to meet the Council's obligations.

Management monitors liquidity risk by reviewing expected cash flow and ensures that no additional financing facilities are expected to be required over the coming year. The Council manages its liquidity needs through yearly budgets and business plans by carefully monitoring expected cash inflows and outflows on a daily basis.

At the end of the reporting period, the Local Council's net asset position amounted to €228,667 (2020: €252,131) view of the matching of cash inflows and outflows arising from the expected maturities of financial instruments. In this respect management does not consider liquidity risk to the Council as significant taking into account the liquidity management process referred to above.

The following table analyses the Council's financial liabilities into relevant maturity grouping based on the remaining period at 31 December 2021 to the contractual maturity date. The amounts disclosed below are the contractual undiscounted cash flows. Balance due within equal their carrying balances, as the impact of discounting is not significant.

	Current Payable Within 1 year	Payable within 1&2 years	Non-Current Payable Within 2&5 years	Payable after more than 5 years	Total
	€	€	€	€	€
31 December 2021					
Payables	49,576	-	-	-	49,576
Other payables	1,057	-	-	-	1,057
Accruals	47,214	-	-	-	47,214
	<u>97,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,847</u>
31 December 2020					
Payables	42,261	-	-	-	42,261
Other payables	606	-	-	-	606
Accruals	31,990	-	-	-	31,990
	<u>74,857</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,857</u>

With respect to the maturity of the Council's financial liabilities as at 31 December 2021, the Council discloses that the trade and other payables are entirely repayable within one year from the end of the respective reporting period.

19. Fair value estimation

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



Report of the Local Government Auditor

To the Auditor General

Report on the audit of the financial statements

Qualified opinion

We have audited the financial statements of Marsaxlokk Local Council set out on pages 2 to 24 which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for qualified opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act, the Local Councils (Financial) Procedures 1996 (the “Legislation”).

Basis for opinion

Up to 31 August 2011, all income and expenditure from the Local Enforcement System (LES) were centralised through the Zejtun Joint Committee of which Marsaxlokk Local Council joined part. The most recent audited financial statements of the Joint Committee that were made available to us are those for the year ended 31 December 2014. Those financial statements show that the Committee had accumulated reserves amounting to €840,665. Due to the uncertainty as to whether the Council will receive further amounts from the Committee, the Council has not recognised any receivable from the Committee. In the absence of more recent audited financial statements, we are unable to determine whether the Council is entitled to receive any further income from the Joint Committee.

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

Responsibilities of those charged with governance for the financial statements

As described on page 1 the Deputy Executive Secretary and the members of the Local Council are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and are properly prepared in accordance with the provisions of the Legislation, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements


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

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

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

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

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



Mark Bugeja (Partner) for and on behalf of

GRANT THORNTON
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2 September 2022