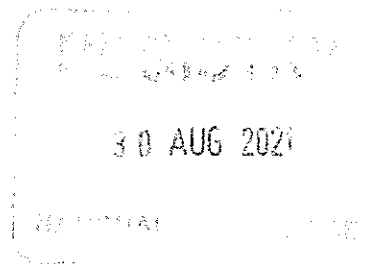


Local Council Marsaxlokk

Annual Audit Report

for the year ended 31 December 2020

Prepared by:
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B.Accountancy(Honours) AIA, DIP. IFR CPA,Reg Auditor



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**Statement of Local Council Members' and Executive Secretary's Responsibilities
for the year ended 31 December 2020**

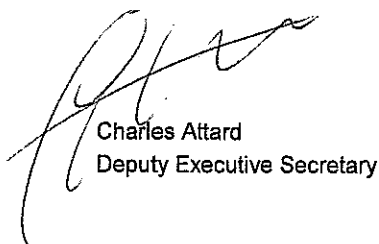
The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of comprehensive income for the year, and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the 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 Council (Financial) Regulations, and the Local Council (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 Council (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Council on 19 August 2021 and signed on its behalf by:



Steven Grech
Mayor



Charles Attard
Deputy Executive Secretary

**Statement of Comprehensive Income
for the year ended 31 December 2020**

		2020	2019
	Notes	€	€
Revenue			
Funds received from Central Government	3	448,558	425,580
Income raised under Local Enforcement System	4	653	1,713
General Income	6	15,941	18,740
		<u>465,152</u>	<u>446,033</u>
Expenditure			
Personal Emoluments	7	(108,802)	(115,556)
Operations and maintenance	8	(194,425)	(167,705)
Administration and other expenditure	9	(140,588)	(134,502)
		<u>(443,815)</u>	<u>(417,763)</u>
Operating profit for the year		21,337	28,270
Finance income	5	7	65
Profit for the year		<u>21,344</u>	<u>28,335</u>

The notes on pages 6 to 24 form an integral part of these financial statements.

		2020	2019
	Notes	€	€
ASSETS			
Non-Current Assets			
Property, plant and equipment	10	154,425	208,562
		<u>154,425</u>	<u>208,562</u>
Current Assets			
Receivables	11	34,707	27,446
Cash and cash equivalents	12	300,732	257,944
		<u>335,439</u>	<u>285,390</u>
Total Assets		<u>489,864</u>	<u>493,952</u>
RESERVES			
Retained earnings		406,556	385,212
Total reserves		<u>406,556</u>	<u>385,212</u>
Current Liabilities			
Trade and other payables	13	83,308	108,740
Total Liabilities		<u>83,308</u>	<u>108,740</u>
Total reserves and liabilities		<u>489,864</u>	<u>493,952</u>

These financial statements were approved by the Local Council on 19th August 2021 and signed on its behalf by:



Steven Grech
Mayor



Charles Attard
Deputy Executive Secretary

The notes on pages 6 to 24 form an integral part of these financial statements.

**Statement of Changes In Equity
for the year ended 31 December 2020**

	Retained Funds	Total
	€	€
At 1 January 2019	356,877	356,877
Profit for the year	28,335	28,335
At 31 December 2019	<u>385,212</u>	<u>385,212</u>
At 1 January 2020	385,212	385,212
Profit for the year	21,344	21,344
At 31 December 2020	<u>406,556</u>	<u>406,556</u>

**Statement of Cash Flows
for the year ended 31 December 2020**

	2020		2019	
	€	€	€	€
Net profit for the year	21,344		28,335	
Reconciliation to cash generated from operations:				
Amortisation and Depreciation	49,188		52,897	
Movement in Provision for Doubtful Debts	(155)		-	
Interest receivable	(7)		(65)	
Government grant released	-		-	
Operating surplus before working capital changes	70,370		81,167	
(Increase) in receivables	(7,498)		(5,184)	
(Increase) in other receivables	392		(2,575)	
Increase in payables	16,400		9,070	
(Decrease)/increase in other payables	(41,832)		38,001	
Cash generated from operating activities		37,832		120,479
Cash flow from Investing activities				
Interest received	7		65	
Purchase of property, plant & equipment	(47,759)		(45,447)	
Grants received	52,708		6,693	
Cash generated from/(used in) investing activities		4,956		(38,689)
Net increase in cash in the year		42,788		81,790
Cash and equivalents at beginning of year		257,944		176,154
Cash and equivalents at end of year	Note 12	300,732		257,944

1. General Information

The Marsaxlokk Local Council is the local authority of Malta set up in accordance with the Local Councils Act(1993). The office of the Local Council is situated at 2, Triq Vittorjo Cassar, Marsaxlokk. These financial statements were approved for issue by the Council Members on 19 August 2021. The Local Council's company's presentation as well as functional currency is €.

2. Accounting Policies and Reporting Procedures

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Accounting convention

These financial statements are prepared under the historical cost convention, as modified to include fair values where it is stated in the accounting policies below. These financial statements are prepared in accordance with the provisions of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 enacted in Malta and with the requirements of the International Financial Reporting Standards.

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

New and amended standards adopted by the Local Council

In the current year the Council has applied the below new and revised IFRS issued by IASB that is mandatory effective for financial year beginning 1st January 2020.

IAS 1 and IAS 8 Definition of Material include amendments to its definition of material to make it easier for companies to make materiality judgements. IAS 1 and IAS 8 Definition of Material, will be effective for financial periods beginning on, or after, 1 January 2020.

Amendments to references to the Conceptual Framework in IFRS standards include some important issues which were not covered or were unclear or out of date. It contains a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability and clarifications in important areas. These amendments will be effective for financial periods beginning on, or after, 1 January 2020.

Amendments to IFRS 9, IAS 39 and IFRS 7 as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Local Council.

Amendment to IFRS 16- amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (phase 2) - amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after 1 January 2021.

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

Annual Improvements to IFRS Standards 2018–2020. The pronouncement contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

Amendments to IAS 16, regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. The amendments are effective for annual reporting periods beginning 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 - amendment 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 in the period of initial application. The Councillors anticipate that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements in the period of initial application.

Property, plant and equipment

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

	%
Land	0
Trees	0
Buildings	1
Office Furniture and Fittings	7.5 - 100
Construction Works	10 - 100
Urban Improvements (Street Furniture)	10 - 100
Special Projects	10 - 100
Office Equipment	20 - 100
Motor Vehicles	20 - 46
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 31st 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 1st January 2018, the straight line method in line with IAS 16, has been adopted, in line with the 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.

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 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 recognised 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 recognised 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 a 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 receivables after 360 days, the loss rate was adjusted to take into consideration the proportion of actual recoveries over the selected period.

Impairment of cash and cash equivalents

Cash and cash equivalents are demand deposits, a 1-day probability of default has been applied, based on the respective external ratings of the counterparty banks and an adequate loss given default rate to the carrying amount at the measurement date.

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

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

Local Enforcement System

Up till August 2011, the Council used 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 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 31st December 2017, government grants were accounted for using the income approach according to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. On 1st 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 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 the 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 comprise cash in hand and balances held with banks.

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 substantially all 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

Trade and other assets are measured at fair value, with changes in fair value subsequently recognised in profit and loss. Details of impairment policies and the calculation of the loss allowance as per above.

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 with 'bank charges.'

Critical Accounting Estimates and Judgements

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

In the opinion of the 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 managing 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 makes adjustments to it in the light 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. This ratio 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	2020	2019
	€	€
In terms of section 55 of the Local Council Act	374,586	357,808
Other Government Income	73,972	67,772
	<u>448,558</u>	<u>425,580</u>
4. Local Enforcement Income	2020	2019
	€	€
Contraventions & other fines	(58)	-
Income from LES administration fees	711	1,713
	<u>653</u>	<u>1,713</u>
5. Investment Income	2020	2019
	€	€
Bank Interest	7	65
	<u>7</u>	<u>65</u>
6. General Income	2020	2019
	€	€
Income from courses	800	-
General Income	-	1
Media Advertising	1,320	1,050
Donations	175	-
Contributions	3,000	4,027
Insurance Claims	708	-
Income from Permits	9,938	13,662
	<u>15,941</u>	<u>18,740</u>
7. Profit for the year	2020	2019
	€	€
Profit for the year is stated after charging:		
Staff salaries	108,802	115,556
Depreciation of non-current assets	49,188	52,897
	<u>157,990</u>	<u>168,453</u>

Personal Emoluments

	2020	2019
	€	€
Mayor's Honoraria	10,404	9,384
Mayor's & Councillors' Allowance	13,000	9,700
Executive Secretary Salary and Allowances	14,603	29,719
Employees' Salaries	64,811	59,236
Social Security Contributions	5,984	7,517
	<u>108,802</u>	<u>115,556</u>

8. Operations and Maintenance

	2020	2019
	€	€
<i>Repairs and Upkeep:</i>		
Public Property	6,908	-
Road/Street Pavements	110	227
Signs and road markings	4,608	3,989
Road & Street Patching	465	6,921
Office Furniture and Equipment	4,919	305
Plant & Equipment	5,094	468
Maintenance of motor vehicle	-	1,120
Sundry Repairs	80	-
Other repairs and Upkeep	470	7,360
Council Property	3,588	724
	<u>26,242</u>	<u>21,114</u>

<i>Contractual Services:</i>		
Refuse Collection	51,455	42,818
Bulky Refuse Collection	7,659	9,272
Tipping fees	23,031	18,010
Hire of Open Skips	94	1,652
Road & Street Cleaning	24,241	25,833
Cleaning & Maintenance Non-Urban Roads	767	-
Cleaning - Public Conveniences	13,965	16,646
Cleaning - Council Premises	455	-
Other Contractual Services	13,383	-
Cleaning & Maintenance Parks & Gardens	18,980	19,565
Clean. & Maint. Soft Areas	96	-
Clean. & Maint. Beaches	420	-
Street Lighting	13,614	10,370
Studies & Consultations	-	2,313
Local Enforcement Expenses	23	112
	<u>168,183</u>	<u>146,591</u>
	<u>194,425</u>	<u>167,705</u>

9. Administration and other expenditure

	2020	2019
	€	€
Utilities	9,336	8,059
Uniforms	280	43
Cleaning materials & supplies	-	171
Sundry materials & supplies	7,902	2,119
Rent	8,434	8,434
Participation fee - Nat. Mtg.	86	303
Printing	4,698	6,285
Stationery	1,720	1,323
Subscriptions	504	504
Couriers	2,098	2,945
Postages	322	493
Transport	3,061	2,306
Travel	-	171
Information Services	4,464	4,632
Insurance Coverage	1,840	4,396
Bank Charges	150	54
IT Development Services	8,370	4,801
Legal services	3,844	1,187
Accountancy services	7,281	6,747
Professional services	2,087	-
Other support services	13,085	13,449
Training	-	207
Entertainment	-	300
Other Hospitality Costs	437	492
Social Events	11,556	12,184
Provision for LES receivables	(155)	-
Amortisation and Depreciation	49,188	52,897
	<u>140,588</u>	<u>134,502</u>

10. 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 2019	20,806	57,633	1,483,883	14,554	323,877	15,832	94,263	99,574	1,048	2,111,470
Additions	-	-	-	-	7,360	125	5,820	1,182	30,960	45,447
At 31 December 2019	20,806	57,633	1,483,883	14,554	331,237	15,957	100,083	100,756	32,008	2,156,917
Grants										
At 1 January 2019	-	44,232	760,810	-	264,966	-	51,176	58,756	-	1,179,940
Government grants current year	-	-	-	-	5,168	-	807	718	-	6,693
At 31 December 2019	-	44,232	760,810	-	270,134	-	51,983	59,474	-	1,186,633
Depreciation										
At 1 January 2019	14,698	424	577,642	14,554	27,684	14,131	35,473	24,219	-	708,825
Reclassification	-	-	-	-	-	-	-	-	-	-
Charge for the year	5,067	134	32,183	-	7,540	657	5,222	2,094	-	52,897
At 31 December 2019	19,765	558	609,825	14,554	35,224	14,788	40,695	26,313	-	761,722
Net book values										
At 31 December 2019	1,041	12,843	113,248	-	25,879	1,169	7,405	14,969	32,008	208,562

Notes to the Financial Statements
for the year ended 31 December 2020

10. 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
Reclassification	-	-	-	-	31,689	-	-	-	(31,689)	-
At 31 December 2020	23,306	57,633	1,483,883	14,554	369,092	16,756	111,205	107,379	20,868	2,204,676
Grants										
At 1 January 2020	-	44,232	760,810	-	270,134	-	51,983	59,474	-	1,186,633
Government grant 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	20,973	691	641,600	14,554	44,607	15,314	45,118	28,053	-	810,910
Net book values										
At 31 December 2020	2,333	12,710	81,473	-	19,697	1,442	10,782	19,852	6,136	154,425

11. Receivables

	2020	2019
	€	€
Receivables	20,057	12,559
Other receivables	2,801	2,948
Accrued income	7,140	6,285
Financial assets	<u>29,998</u>	<u>21,792</u>
Prepayments	4,709	5,654
	<u>34,707</u>	<u>27,446</u>

Receivables

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

General receivables are analysed as follows:

	2020	2019
	€	€
Within credit period	3,935	2,251
Exceeded credit period but not impaired	16,122	10,308
	<u>20,057</u>	<u>12,559</u>

LES Debtors

LES debtors are stated after a specific provision for doubtful debts amounting to € 99,361 (2019:€ 49,625).

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

	2020	2019
	€	€
Balance at 1 January	49,625	49,625
(Decrease) in provision for LES Debtors	(155)	-
Balance at 31 December	<u>49,470</u>	<u>49,625</u>

12. Cash and equivalents

	2020	2019
	€	€
Bank Balances	300,040	257,898
Cash in Hand	692	46
Cash and cash equivalents	<u>300,732</u>	<u>257,944</u>

13. Payables

	2020	2019
	€	€
Payables	42,261	25,861
Other payables	606	116
Accruals	31,990	67,758
Financial Liabilities	<u>74,857</u>	<u>93,735</u>
Deferred income and grants	8,424	14,921
Indirect taxes and social security	27	84
	<u>83,308</u>	<u>108,740</u>

14. Capital commitments

	2020	2019
	€	€
Details of capital commitments at the accounting date are as follows:		
Approved but not yet contracted for	<u>49,385</u>	<u>175,000</u>
These could be analysed as follows:		
<i>(i) Approved but not yet contracted for:</i>		
Construction	47,885	125,000
Computer equipment	1,500	-
Urban improvement	-	50,000
	<u>49,385</u>	<u>175,000</u>

15. Contingent liabilities and contingent asset

The Council is still discussing a penalty received from the Environment & Resources Authority amounting to € 6,400 (2019:€ 6,400). The outcome is uncertain and due to the this, the amount has not been provided for.

A third party has instituted legal proceedings against the Council amounting to € 17,381 (2019: € 17, 381) due to an incident that happened at Marsaxlokk. Though the Local Council has appealed the court decision, the above amount has been provided for.

16. 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
Wasteserv 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:

	2020	2019
	€	€
Annual Financial Allocation	<u>374,586</u>	<u>357,808</u>

Key management compensation

Transactions with key management personnel are disclosed in note 7.

17. Financial Risk Management

The exposure to risk and the way risks arise, 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 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.

<i>Categories of financial instruments</i>	2020	2019
<i>Financial assets</i>	€	€
<i>Loans and Receivables</i>		
Cash and bank balances	300,732	257,944
Receivables	29,998	21,792
	<u>330,730</u>	<u>279,736</u>
<i>Financial liabilities</i>		
Trade payables and other payables	74,857	93,735
	<u>74,857</u>	<u>93,735</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 minimising 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 the 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 allowance. 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 recognised 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 a 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 receivables after 360 days, the loss rate was adjusted to take into consideration the proportion of actual recoveries over the selected period.

As at 31 December 2020, trade receivables of € 16,122 (2019 :€ 10,308) 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. Categorisation 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 utilised in managing exposures with customers. Exposure is immaterial.

Previous accounting policy for impairment of trade and other receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment.

The Council considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Cash and cash equivalents

The Council banks only with local financial institution with high quality standing or rating. At 31 December 2020, cash and cash equivalents are held with counterparty with a credit rating of BBB 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 recognised 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 comprise 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 flows 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 € 252,131 (2019: € 176,650) view of the matching of cash inflows and outflows arising from 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 groupings based on the remaining period at 31 December 2020 to the contractual maturity date. The amounts disclosed below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Current	Non- Current			Total
	<i>Payable within 1 year</i>	<i>Payable withing 1 & 2 years</i>	<i>Payable within 2 & 5 years</i>	<i>Payable after more than 5 years</i>	
	€	€	€	€	€
31 December 2020					
Payables	42,261	-	-	-	-
Other payables	606	-	-	-	-
Accruals	31,990	-	-	-	-
	<u>74,857</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
31 December 2019					
Payables	25,861	-	-	-	25,861
Other payables	116	-	-	-	116
Accruals	67,758	-	-	-	67,758
	<u>93,735</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,735</u>

With respect to the maturity of the Council's financial liabilities as at 31 December 2020, the Council discloses that the trade and other payables are entirely repayable within one year from the end of the respective reporting period.

18. Fair values estimation

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

19. Comparative Figures

Certain amounts have been re-classified to conform with the current year's presentation.

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 2020, 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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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19th August 2021