

Local Council Birkirkara

Annual Audit Report

for the year ended 31 December 2018




**Statement of Local Council Members' and Executive Secretary's Responsibilities
for the year ended 31 December 2018**

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's 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 Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Council on 8 July 2019 and signed on its behalf by:



Joanne Debono Grech
Mayor



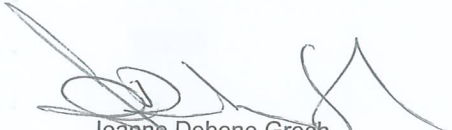
Neil Spiteri
Executive Secretary

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Joanne Debono Grech
Mayor



Neil Spiteri
Executive Secretary

**Statement of Comprehensive Income
for the year ended 31 December 2018**

	Notes	2018 €	2017 <i>As restated</i> €
Revenue			
Funds received from Central Government	3	1,441,586	1,392,470
Income raised under Local Council Bye-Laws	4	131,539	124,536
Income raised under Local Enforcement System	5	14,936	54,840
General Income	6	235,830	160,536
		<u>1,823,891</u>	<u>1,732,382</u>
Expenditure			
Personal Emoluments	7	(259,782)	(238,756)
Operations and maintenance	8	(1,012,922)	(919,332)
Administration and other expenditure	9	(1,463,561)	(533,004)
		<u>(2,736,265)</u>	<u>(1,691,092)</u>
Operating (loss)/profit for the year		(912,374)	41,290
Finance income	10	-	70
Finance costs	11	(1,200)	(2,002)
		<u>(913,574)</u>	<u>39,358</u>
(Loss)/Profit for the year	7	<u>(913,574)</u>	<u>39,358</u>

The notes on pages 6 to 29 form an integral part of these financial statements.

Statement of Financial Position
as at 31 December 2018

		2018	2017
	Notes	€	As restated €
ASSETS			
Non-Current Assets			
Property, plant and equipment	13	2,668,249	2,731,545
Intangible assets	12	856	1,797
		<u>2,669,105</u>	<u>2,733,342</u>
Current Assets			
Inventories	14	-	2,957
Receivables	15	903,224	307,408
Cash and cash equivalents	16	11,999	111,484
		<u>915,223</u>	<u>421,849</u>
Total Assets		<u><u>3,584,328</u></u>	<u><u>3,155,191</u></u>
RESERVES			
Retained earnings		466,684	1,380,258
Total equity		<u><u>466,684</u></u>	<u><u>1,380,258</u></u>
Non-Current Liabilities			
Long-term payables	19	27,371	54,837
Deferred income	17	1,816,784	1,056,361
		<u>1,844,155</u>	<u>1,111,198</u>
Current Liabilities			
Payables	18	1,273,489	663,735
		<u>1,273,489</u>	<u>663,735</u>
Total Liabilities		<u><u>3,117,644</u></u>	<u><u>1,774,933</u></u>
Total equity and liabilities		<u><u>3,584,328</u></u>	<u><u>3,155,191</u></u>

These financial statements were approved by the Local Council on 8th July 2019 and signed on its behalf by:

Joanne Debono Grech
Mayor

Neil Spiteri
Executive Secretary

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Statement of Changes in Equity
for the year ended 31 December 2018

	Retained Funds	Total
	€	€
	<i>As restated</i>	<i>As restated</i>
At 1 January 2017	1,340,900	1,340,900
Profit for the year	39,358	39,358
At 31 December 2017	<u>1,380,258</u>	<u>1,380,258</u>
At 1 January 2018	1,380,258	1,380,258
Profit for the year	(913,574)	(913,574)
At 31 December 2018	<u>466,684</u>	<u>466,684</u>
Equity interests	<u>466,684</u>	<u>466,684</u>

The notes on pages 6 to 29 form an integral part of these financial statements.

Statement of Cash Flows
for the year ended 31 December 2018

	2018		2017 <i>As restated</i>	
	€	€	€	€
Cash flow from operating activities				
Net (loss) / profit for the year	(913,574)		39,358	
Reconciliation to cash generated from operations:				
Depreciation	1,110,790		257,545	
Amortisation of intangible assets	941		362	
Inventory write-offs	2,957		-	
Movement in Provision for Doubtful Debts	(27,159)		(7,927)	
Bad Debts written off	28,384		-	
Interest receivable	-		(70)	
Interest payable	1,200		2,002	
Operating profit before working capital changes	<u>203,539</u>		<u>291,270</u>	
Decrease in inventories	-		214	
(Increase) / Decrease in receivables	(39,287)		8,099	
(Increase) / Decrease in other receivables	(31,424)		(39,510)	
Increase in payables	447,439		(51,503)	
Increase in other payables	183,094		87,581	
Government grants released	-		(27,884)	
Cash generated from / (used in) operating activities		763,361		268,267
Cash flow from investing activities				
Interest received	-		70	
Purchase of intangible fixed assets	-		(1,144)	
Purchase of property, plant & equipment	(1,138,739)		(1,059,915)	
Grants received	277,093		769,908	
Cash (used in)/generated from investing activities		(861,646)		(291,081)
Cash from financing activities				
Interest paid	(1,200)		(2,002)	
Cash generated from financing activities		(1,200)		(2,002)
Net Decrease in cash in the year		(99,485)		(24,816)
Cash and equivalents at beginning of year		<u>111,484</u>		<u>136,300</u>
Cash and equivalents at end of year		11,999		111,484

The notes on pages 6 to 29 form an integral part of these financial statements.

1. General Information

The Birkirkara Local Council is the local authority of Birkirkara set up in accordance with the Local Councils Act(1993). The office of the Local Council is situated at Civic Centre, 2nd Floor, Tumas Fenech Street, Birkirkara. These financial statements were approved for issue by the Council Members on 8 July 2019. The Local Council's presentation as well as functional currency are denominated in €.

2. Accounting Policies and Reporting Procedures

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

Accounting convention

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

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

New and amended standards adopted by the Local Council

During the year the Council has applied the following International Financial Reporting Standards as adopted by the EU which have become mandatorily effective for the year ending 31 December 2018:

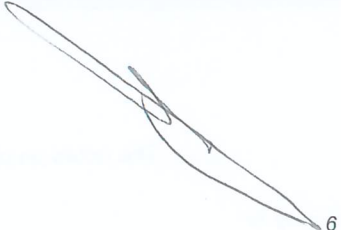

On 24 July 2014, the IASB issued IFRS 9 Financial Instruments. The finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement has become mandatory for annual periods beginning on or after 1 January 2018. The standard contains requirements in the following areas:

Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.



On 28 May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. 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; & Recognise revenue when (or as) the entity satisfies a performance obligation. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

New and revised IFRSs adopted by the EU that are not mandatorily effective for the year ending 31 December 2018:

Below is a list of new or revised standards, as well as interpretations and amendments to IFRSs adopted by the EU, that are not yet mandatorily effective (but allow early application) for the year ending 31 December 2018:

- IFRS 16 Leases - IFRS 16 was issued on 13 January 2016 to specify how an IFRS reporter will recognise, measure, present and disclose leases. The standard becomes applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2019.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9) - Issued 12 October 2017. Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. The amendment becomes applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2019.

Standards and Interpretations issued by the IASB but not yet adopted by the EU:

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB except for the following standards and amendments to the existing standards, which were not endorsed for use in the EU as at 31 December 2018 and cannot be applied by the entities preparing their financial statements in accordance with IFRS as adopted by the EU:

- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued 12 December 2017)
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (issued 7 February 2018)
- Amendments to References to the Conceptual Framework in IFRS Standards (issued 29 March 2018)
- Amendment to IFRS 3 Definition of a Business (issued 22 October 2018)
- Amendments to IAS 1 and IAS 8 Definition of Material (issued 31 October 2018)

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

Intangible Fixed Assets

Computer Software

Computer software is valued at cost less accumulated depreciation and impairment losses to date. Depreciation to write off the cost is calculated on a monthly basis using the straight line method at 25% per annum.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Up to 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 as follows:

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

Directive issued in 2017 by the Department of Local Councils, applicable as from 1st January 2018, instructs the Council to depreciate non-current assets on a monthly basis using straight line method at the rates specified in the Local Council (Financial) Procedures (P1.X1).

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 date of Statement of Financial Position. 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 year in which they are incurred.

Impairment of Assets

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



Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Amounts receivable

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

Related parties

Related parties are those persons or bodies of persons having relationships with the Council as defined in International Accounting 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 income statement as it accrues.

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

Local Enforcement System

The Birkirkara Local Council forms part of the Birkirkara Joint Committee up to 31 August 2011. The amount disclosed in the financial statements under Local Enforcement Income represents the share of profit derived from the Joint Committee after deducting the related expenses.

As from 1 September 2011, the Central Regional Committee has taken over the Local Enforcement System function and the Council receives 10% administrative reimbursements on fines collected. Subsequently, as from 1st October 2015, the Local Enforcement System Authority is now responsible for the overall management and control of the Local Enforcement System.

Foreign currencies

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

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

Government grants

Government grants relating to operating expenditure are recognised 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.

Borrowing costs

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

Profits and losses

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

Cash and equivalents

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

Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and based on historic experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the Executive Secretary, the accounting estimates and judgements made in the preparation of the Financial Statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirements of IAS 1 (revised) - 'Presentation of Financial Statement'.

Capital Management

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

- that the Council's ability to continue as a going concern is still valid and
- that the Council maintains a positive working capital ratio.



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

Financial 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 transaction costs. They are measured subsequently as described below.

Financial assets

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

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

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

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

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

Financial Liabilities

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

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



3. Funds received from central government	2018	2017
	€	<i>Restated</i> €
In terms of section 55 of the Local Councils Act	1,338,044	1,283,056
Supplementary Government Income	103,542	79,529
Other Government Income	-	29,885
	<u>1,441,586</u>	<u>1,392,470</u>
4. Income raised from Bye-Laws	2018	2017
	€	€
Bye-Law - Advertising on Street Furniture	10,069	7,514
Bye-Law - Use of facilities	121,470	116,488
Bye-Law - Organisation of Courses	-	534
	<u>131,539</u>	<u>124,536</u>
5. Local Enforcement System	2018	2017
	€	€
Administration charge on fines collected	14,936	18,520
Share of Profit from Joint Committee	-	36,320
	<u>14,936</u>	<u>54,840</u>
6. General Income	2018	2017
	€	€
Sale of books and other merchandise	-	16
Sponsorships	2,913	3,450
General Income	1,734	-
Contributions	146,069	91,258
Refund of expenses	-	1,340
Income from Permits	85,114	64,472
	<u>235,830</u>	<u>160,536</u>

7. (Loss) / profit for the year

	2018	2017
	€	<i>Restated</i> €
(Loss)/profit for the year is stated after charging:		
Staff salaries	259,782	238,756
Depreciation of tangible assets & amortisation of intangible assets	1,111,731	257,907

Staff salaries

	2018	2017
	€	€
Mayor's Allowance	14,927	14,623
Mayor's and Councillors' Allowance	15,314	14,690
Executive Secretary Salary and Allowances	36,271	35,850
Employees' Salaries	176,420	158,286
Social Security Contributions	16,850	15,307
	<u>259,782</u>	<u>238,756</u>

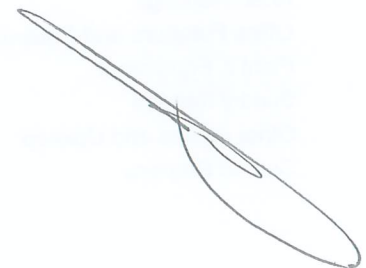
Average number of employees:

Employees	11	11
Mayor and councillors	13	13
	<u>24</u>	<u>24</u>

8. Operations and Maintenance

	2018	2017
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	96,151	150,892
Signs	10,267	5,923
Road Markings	5,530	5,086
Office Furniture and Equipment	1,454	344
Plant & Equipment	336	-
Sundry Repairs	-	88
Other repairs and Upkeep	90,849	65,823
Council Property	21,096	6,143
	<u>225,683</u>	<u>234,299</u>

<i>Contractual Services:</i>		
Waste Disposal	204,135	152,943
Refuse Collection	254,017	219,286
Bulky Refuse Collection	20,231	21,887
Hiring of Skips - Bins on Wheels	6,698	7,408
Road & Street Cleaning	158,592	153,275
Cleaning - Public Conveniences	8,413	3,929
Other Contractual Services	17,767	4,709
Clean. & Maint. Parks & Gardens	55,647	51,234
Street Lighting	36,946	37,751
Studies & Consultations	15,014	31,340
Local Enforcement Expenses	9,779	1,271
	<u>787,239</u>	<u>685,033</u>
Total Operations and Maintenance Costs	<u>1,012,922</u>	<u>919,332</u>

9. Administration and other expenditure

	2018	2017
	€	<i>Restated</i> €
Utilities	58,358	57,265
Other repairs and upkeep	33,095	18,845
Rent	7,908	7,901
National and International Memberships	15	23
Office Services	23,151	17,287
Transport	51,435	40,056
Information Services	9,401	6,650
Lease of Equipment	1,415	35,990
Insurance Coverage	6,401	5,541
Bank Charges	265	202
IT Development Services	19,705	11,947
Management & Operating Services	888	2,124
Architect/Engineering Services	20,742	6,506
Legal Services	10,903	4,468
Medical services	600	-
Accountancy Services	12,373	10,338
Other Services	22,909	14,612
Security/Police Services	13,964	3,868
Training	892	631
Conference Expenses	1,636	1,035
Other Hospitality Costs	-	210
Community Services	51,136	34,564
Sundry Minor Expenses	3,413	2,961
Increase / (Decrease) in Provision for bad debts	15,178	(7,927)
Provision for LES Bad Debts	(42,337)	-
Bad Debts written off	28,384	-
Depreciation and amortisation	1,111,731	257,907
Impairment of assets	-	-
	<u>1,463,561</u>	<u>533,004</u>

10. Finance Income

	2018	2017
	€	€
Bank Interest Receivable	-	70
	<u>-</u>	<u>70</u>

11. Finance Costs

	2018	2017
	€	€
Interest charged on overdue balances	<u>1,200</u>	<u>2,002</u>

12. Intangible fixed assets

	Computer Software
	€
Cost	
At 1 January 2017	3,214
Additions	1,144
At 31 December 2017	<u>4,358</u>
Additions	-
At 31 December 2018	<u><u>4,358</u></u>
Provision for diminution in value	
At 1 January 2017	2,199
Charge for year	362
At 31 December 2017	<u>2,561</u>
Charge for year	941
At 31 December 2018	<u><u>3,502</u></u>
Net book values	
At 31 December 2018	<u><u>856</u></u>
At 31 December 2017	<u><u>1,797</u></u>

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

13. Property, plant and equipment

	Assets under construction €	New Street Signs €	Urban Improvements & Construction €	Plant, machinery & equipment €	Office Furniture & fittings €	Special Programmes €	Total €
Cost							
At 1 January 2017	135,489	174,371	1,683,400	349,491	53,283	5,958,495	8,354,529
Additions	889,782	-	48,682	18,669	6,011	-	963,144
At 31 December 2017	1,025,271	174,371	1,732,082	368,160	59,294	5,958,495	9,317,673
Depreciation							
At 1 January 2017	-	174,371	1,121,549	141,005	19,546	2,972,820	4,429,291
Adoption of capital approach	-	-	(143,349)	(7,319)	-	(752,620)	(903,288)
Charge for the year	-	-	77,548	49,362	2,794	127,841	257,545
At 31 December 2017	-	174,371	1,055,748	183,048	22,340	2,348,041	3,783,548
Grants							
At 1 January 2017	-	-	-	-	-	431,273	431,273
Adoption of capital approach	-	-	343,153	12,037	-	2,016,117	2,371,307
At 31 December 2017	-	-	343,153	12,037	-	2,447,390	2,802,580
Net book values							
As restated	1,025,271	-	333,181	173,075	36,954	1,163,064	2,731,545

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

13. Property, plant and equipment	Assets under construction	New Street Signs	Urban Improvements & Construction	Plant, machinery & equipment	Office Furniture & fittings	Special Programmes	Total
Cost	€	€	€	€	€	€	€
At 1 January 2018	1,025,272	174,371	1,732,081	368,160	59,294	5,958,495	9,317,673
Additions	999,128	-	61,254	18,670	11,442	-	1,090,494
Assets Capitalised	(45,700)	-	45,700	-	-	-	-
At 31 December 2018	1,978,700	174,371	1,839,035	386,830	70,736	5,958,495	10,408,167
Depreciation							
At 1 January 2018	-	174,371	1,055,748	183,048	22,339	2,348,041	3,783,547
Charge for the year	-	-	302,422	98,370	7,928	702,071	1,110,791
At 31 December 2018	-	174,371	1,358,170	281,418	30,267	3,050,112	4,894,338
Grants							
At 1 January 2018	-	-	343,153	12,037	-	2,447,390	2,802,580
Utilised during the year	-	-	43,000	-	-	-	43,000
At 31 December 2018	-	-	386,153	12,037	-	2,447,390	2,845,580
Net book values							
At 31 December 2018	1,978,700	-	94,712	93,375	40,469	460,993	2,668,249

14. Inventories

	2018	2017
	€	€
Books and other publications	-	2,957
	<u> </u>	<u> </u>

15. Receivables

	2018	2017
	€	€
Receivables	95,741	67,900
Other receivables	3,479	3,256
Accrued income	795,356	230,891
Financial assets	<u>894,576</u>	<u>302,047</u>
Prepayments	8,648	5,361
	<u>903,224</u>	<u>307,408</u>

Receivables

General receivables are analysed as follows:

	2018	2017
	€	€
Within credit period	29,533	54,652
Exceeded credit period but not impaired	66,208	13,248
Impaired and provided for	43,869	28,691
Provision for doubtful debts	(43,869)	(28,691)
	<u>95,741</u>	<u>67,900</u>

Included in the receivables are debtors with a carrying amount of € 61,594 (2017: € 13,248) which are past due at the reporting date, for which the Council has not provided as there has not been significant change in the credit quality and the amounts are still considered recoverable. The age of financial assets past due but not impaired is as follows:

	2018 €	2017 €
Not more than 3 months	37,091	5,044
More than 3 months but not more than 6 months	4,165	1,247
More than 6 months	20,338	6,957
	<u>61,594</u>	<u>13,248</u>

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

	2018 €	2017 €
Balance as at 1 January	532,340	540,267
(Decrease) in provision for LES debtors	(42,337)	(2,446)
Increase / (Decrease) in provision for general receivables	15,178	(5,481)
Balance at 31 December	<u>505,181</u>	<u>532,340</u>

Local Enforcement System (LES) Debtors

LES Debtors are stated after a specific provision for doubtful debts amounting to € 461,312 (2017: € 503,649)

General Receivables

General receivables are stated after a specific provision for doubtful debts amounting to € 43,869 (2017: € 28,691)

Accrued Income

Grants receivables are stated after a specific provision for doubtful debts amounting to € 85,284 (2017: € 85,284)

16. Notes to the Statement of Cash Flows

Cash & cash equivalents

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

	2018 €	2017 €
Bank Balances	10,306	111,340
Cash in Hand	1,693	144
	<u>11,999</u>	<u>111,484</u>



17. Deferred income	2018	2017
	€	€
Government grants		
At 1 January 2018	1,056,361	1,642,578
Increase in year	803,423	911,687
	<u>1,859,784</u>	<u>2,554,265</u>
Application of capital approach Recognised income	(43,000)	(1,468,019)
	<u>-</u>	<u>(29,885)</u>
At 31 December 2018	<u>1,816,784</u>	<u>1,056,361</u>
Current Deferred Income	<u>-</u>	<u>-</u>
Non-Current Deferred Income	<u>1,816,784</u>	<u>1,056,361</u>
Deferred Government Grants		
Deferred between one and two years	1,816,784	43,000
Deferred between two and five years	-	1,013,361
	<u>1,816,784</u>	<u>1,056,361</u>
18. Payables	2018	2017
	€	€
Payables	907,636	480,976
Other payables	425	407
Accruals	257,136	170,191
Financial liabilities	<u>1,165,197</u>	<u>651,574</u>
Other taxes and social security costs	7,336	5,932
Other Deferred income	100,956	6,229
	<u>1,273,489</u>	<u>663,735</u>




19. Non-Current Payables

	2018	2017
	€	€
Non-current		
Related party debt	20,779	-
Capital Creditors	6,592	54,837
	<u>27,371</u>	<u>54,837</u>
Maturity		
Repayable between one and two years	8,967	48,245
Repayable between two and five years	9,499	6,592
Repayable in five years or more	8,905	-
	<u>27,371</u>	<u>54,837</u>



20. Capital commitments

	2018	2017
	€	€
Details of capital commitments at the accounting date are as follows:		
Approved but not yet contracted for	70,000	56,000
Contracted for but not provided in the financial statements	-	476,400
	<u> </u>	<u> </u>

These could be analysed as follows:

(i) Approved but not yet contracted for:

Plant & Machinery	6,000	6,000
Office Furniture and Fittings	8,000	4,000
Urban Improvements	30,000	20,000
Office Equipment & Computer Equipment	6,000	6,000
Urban Greening Project	20,000	20,000
	<u>70,000</u>	<u>56,000</u>

(ii) Contracted for but not provided in the Financial Statements:

Embellishment Gnien Stazzjon	-	276,400
Embellishment Valley Area	-	200,000
	<u> </u>	<u>476,400</u>

21. Contingent liabilities

The Council is contesting the following:

a) Claim made by a particular bidder granted the use of Council's facilities as adjudicated by tender but which had to be revoked due to legal difficulties on the devolution of the said site by the Council. The bidder is seeking the Council for damages from loss of business and equipment. The extent of the claim could not be quantified.

b) Claim made by one of its service providers (TCTC) regarding amounts payable for courses fees. The value of the claim amounts to € 35,000.

c) A Court case against it by Ms. Helen Sammut Alessi regarding alleged damages sustained by works performed by the Council at St. Helen Square. The amount could not be quantified.

d) Claims made by a particular supplier amounting to €55,385, currently contested by the Council as services not yet certified and therefore not payable. The supplier is reserving the right to take legal actions against the Council if the amount in question is not settled accordingly. The contractor is claiming that the works should have been certified as soon as executed.

e) Claims made by a third party claiming an amount of €429 from the Council jointly with other Government Authorities, namely Malta Industrial Parks et al.

f) Claims made by other third parties claiming damages against the Council, may result in a potential financial liability of an amount not exceeding €6,000 if the case is adjudicated against it.



22. 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 Councils	Significant control
Birkirkara Joint Committee (Local Enforcement)	Joint Control
Central Regional Committee	Joint Control
Gozo Regional Committee	No control
South Regional Committee	No control
North Regional Committee	No control
South East Regional Committee	No control
Local Enforcement System Authority	No control
Malta Environment and Planning Authority	No control
Malta Tourism Authority	No control
Maltapost plc	No control
Malta Communications Authority	No control
MEUSAC	No control
Foundation for Educational Services	No control
Bank of Valletta plc	No control
Police General Headquarters	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Department of Public Cleansing	No control
Department of Information	No control
Department of Lands	No control
Commissioner of Data Protection	No control
Department of Health	No control
Department of Civil Protection	No control
Ministry for the Elderly	No control
Ministry for Information Technology and Communications	No control
Ministry for Resources and Rural Affairs	No control
Minsity for Social Policy	No control
Department for Public libraries	No control
Wasteserv Malta Limited	No control
Msida Local Council	No Control

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

	2018	2017
	€	€
Annual Financial Allocation	<u>1,338,044</u>	<u>1,283,056</u>

Key management compensation

The Council considers the Mayor, Councillors and Executive Secretary as key management personnel. Transactions with key management personnel are disclosed in note 7 and presented as follows:

	2018	2017
	€	€
Mayor's Honoraria	14,927	14,623
Mayor's and Councillors' Allowance	15,314	14,690
Executive Secretary Salary and Allowances (inclusive of Social Security Costs)	38,687	38,130
	<u>68,928</u>	<u>67,443</u>

Ultimate controlling party

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

23. Financial Risk Management

The Council's activities expose it to a variety of financial risks such as market risk, credit risk, liquidity risk and interest rate risk. The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Council's financial performance.

Credit risk

Financial assets which potentially subject the Council to concentrations of credit risk consist principally of cash at bank and debtors. The Council's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution. The Council has appropriate policies to ensure that sales of products are made to customers with appropriate credit history. In this respect, credit risk with respect to debtors is monitored continuously and the Council places a provision on any debt on which there is doubt of recoverability. Bad debts are therefore negligible and in this respect the Council has no significant concentration of credit risk.

The Council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period and is summarised as follows:

	2017	2016
	€	€
Classes of financial assets - carrying amounts:		
Trade and other receivables	894,576	302,047
Cash and cash equivalents	11,999	111,484
	<u>906,575</u>	<u>413,531</u>

Liquidity risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council tries to monitor and manage its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. As at year end, the Council has cash and cash equivalents amounting to € 11,999. The Council also maintains a positive net asset position of € 466,684.

At 31 December 2018, the council's financial liabilities had contractual maturities which are summarised below:

	Current within 1 year	Non - Current 1 to 5 years	Non-Current later than 5 years
	€	€	€
Payables	907,636	18,466	8,905
Other payables	425		
Accruals	257,136	-	-
	<u> </u>	<u> </u>	<u> </u>

This compares to the maturity of the Council's financial liabilities in the previous reporting period as follows:

	Current within 1 year	Non - Current 1 to 5 years	Non-Current later than 5 years
	€	€	€
Payables	480,976	54,837	-
Other creditors	407		
Accruals	170,191	-	-
	<u> </u>	<u> </u>	<u> </u>

Foreign currency risk

Foreign currency transactions arise when the Council buys or sells goods whose price is denominated in a foreign currency, or incurs or settles liabilities, denominated in a foreign currency. The Council does not trade in any foreign currencies.

Interest rate risk

Interest rate risk mainly arises through interest bearing liabilities and assets. The objective of interest rate risk management is to optimise the balance between minimizing uncertainty caused by fluctuations in interest rates and maximizing the net interest income and expense.

24. Summary of financial assets and liabilities

The carrying amounts of the council's financial assets and liabilities as recognised at the reporting dates under review are categorised as follows.

	2017	2016
	€	€
Current assets		
Loans and receivables:		
Trade and other receivables	894,576	302,047
Cash and cash equivalents	11,999	111,484
	<u>906,575</u>	<u>413,531</u>
Current liabilities		
Financial liabilities measured at amortised cost:		
Payables	907,636	480,976
Other creditors	425	407
Accruals	257,136	170,191
	<u>1,165,197</u>	<u>651,574</u>
Non-Current liabilities		
Financial liabilities measured at amortised cost:		
Payables	<u>54,837</u>	<u>103,082</u>

25. 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.

26. Comparative Figures

During 2018, major changes in the Chart of Accounts as established by the Department of Local Councils have come into force. Furthermore, the Council implemented the provisions of Directive 1/2017 regarding changes in accounting treatment for grants and depreciation. In view of this, certain comparative figures were reclassified to compare with current year figures.

27. Going Concern

The statement of financial position on page 3 and the notes thereto, with special reference to capital commitments, suggest that the going concern assumption used in the preparation of these financial statements is dependent on further sources of funds other than the annual financial allocation by Central Government, on the collection of debts due to the Council and on the continued support of the Council's creditors. Any adverse change in either of these assumptions above, would not let the Council able to meet its financial obligations as they fall due without curtailing its future commitments.

Two handwritten signatures in blue ink are present on the page. The signature on the left is a stylized, cursive mark. The signature on the right is a more vertical, elongated cursive mark.

Financial statements for the year ended 31 December 2018

Report of the Local Government auditor to the Auditor General

Report on the Audit of the Financial Statements

Qualified opinion

We have audited the accompanying financial statements of Birkirkara Local Council which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effects of the matters described Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of Birkirkara Local Council as of 31 December 2018 and of the results of its operations, changes in net assets/equity and its cash flows for the period then ended in accordance with the accounting policies set out on pages 6 to 11.

Because of the matters set out in paragraphs 6 below, these financial statements do not comply fully with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 and because of the matters set out in paragraph 1, 2, 3, 4 and 5 below, these financial do not comply with the requirements of International Financial Reporting Standards as adopted by the E.U.

Basis for Qualified Opinion

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

1. As from 1 January 2000, all income and expenditure from the Local Enforcement System (LES) were centralised through the Birkirkara Joint Committee and LES debtors at that date were transferred to the Joint Committee as well. The Birkirkara Joint Committee ceased operations on 31 August 2011 and LES was centralised through the Central Regional Committee as from 1 September 2011. The Council did not report any income from Pre-Regional tickets. We were unable to determine the amount of any additional income the Council is entitled to receive from Birkirkara Joint Committee since the audited financial statements of the Joint Committee are not available. All LES receivables of the Joint Committee have been provided for.

Financial statements for the year ended 31 December 2018

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

Basis for Opinion (continued)

2. The financial statements do not disclose the relevant lease information arising on leased areas as required by IAS 17, *Leases*.
3. The company's interest free non-current payable arising on the PPP project is accounted for at historical cost rather amortised cost as required by IAS 39, *Financial Instruments*.
4. Whereas the Council indicated in note 2 that it has adopted IFRS 9, we were not provided with an assessment of the impact of adoption of the Expected Credit Loss model to impair the Financial Assets of the Council. The financial statements do not disclose the impact that this model had on the financial assets that amount to EUR906,575 at 31 December 2018.
5. *Accounting policies, Changes in Accounting Estimates and Errors* regarding the adoption of Directive 1/2017 that resulted in a change in accounting policy for recognition of grants. The Council disclosed the nature and reason for the change in note 26 on page 28, however, the impact of this change on each Financial Statement line was not disclosed
6. The council has a negative FSI index which is lower than the minimum positive balance of 10% of the annual Government allocation allowed by the Local Councils (Financial) Procedures.

Material Uncertainty Related to Going Concern

Without further qualifying our opinion, we draw attention to the Council's Statement of Financial Position on page 3 which shows that at 31 December 2018, the Council's current liabilities (excluding deferred income) exceeded current assets (excluding prepayments, accrued income and inventories) by EUR1,061,314. The significance of this deficiency casts doubts as to whether the Council will be able to meet its liabilities as they fall due and the capital commitments amounting to EUR70,000 which, as explained in note 20, were contracted for at the financial position date.

The council is also disputing the amounts of EUR96,814 and other unquantified amounts claimed by different service providers and which have been disclosed as contingent liabilities in note 21 to the financial statements. Should it result that part or all of the amounts currently in dispute have to be paid to the creditors, the deficiency reported in the preceding paragraph will increase.

Financial statements for the year ended 31 December 2018

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

Basis for Qualified Opinion (continued)

As explained in note 27 to these financial statements, the going concern assumption underlying the preparation of these financial statements is dependent on the Council having sources of funds other than the annual financial allocation it receives from Government, and on the continued support of the Council's creditors. If these assumptions do not materialise, the Council will not be able to meet its financial obligations as they fall due without curtailing its future commitments

Other Information

The Councillors and the Executive Secretary are responsible for the other information. The other information comprises the Statement of Local Council Members' and Executive Secretary's Responsibility. Our opinion on the financial statements does not cover this information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of the Local Council Members' and Executive Secretary

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

In preparing the financial statements, the Councillors and the Executive Secretary are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Councillors and the Executive Secretary has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Financial statements for the year ended 31 December 2018

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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

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



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

Mazars Malta
Certified Public Accountants
Attard,
Malta

8 July 2019

