

Hal Balzan Local Council

Financial Statements
for the year ended

31st December 2019



Hal Balzan Local Council

Financial Report 31st December 2019

**Kunsill Lokali:
Hal-Balzan**

26 JUN 2020

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Prepared by: Mark Debono B.Accty (Hons.), AIA, AIMIS, CPA

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Hal Balzan Local Council

Financial Statements for the year ended 31st December 2019

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Hal Balzan Local Council

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

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



Not. Ian Spiteri
Mayor



Ms Doriette Farrugia
Executive Secretary

Date: 28/04/2020

Hal Balzan Local Council

**Statement of comprehensive income
for the year ended 31st December 2019**

	<i>Note</i>	2019 <u>Eur</u>	2018 <u>Eur</u>
Funds received from Central Government	3	334,003	311,028
Income raised under the Local Enforcement System	3	1,898	2,232
General income	3	28,282	28,185
		<u>364,183</u>	<u>341,445</u>
Expenditure			
Personal emoluments	4	(93,517)	(80,656)
Operations and maintenance	5	(141,730)	(137,746)
Administration and other expenditure	6	(107,698)	(248,166)
		<u>(342,945)</u>	<u>(466,568)</u>
Surplus / (Deficit) for the year		<u>21,238</u>	<u>(125,123)</u>

The notes on pages 6 to 20 form an integral part of these financial statements

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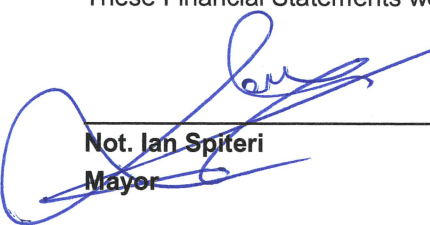
Hal Balzan Local Council

Statement of financial position at 31st December 2019

	Note	2019 Eur	2018 Eur
Assets			
Non-current Assets			
Property, plant and equipment	7a-b	298,183	214,492
Current Assets			
Inventory		285	220
Amounts receivable	8	23,462	23,981
Cash and bank balances	9	397,597	334,492
		421,344	358,693
Total Assets		719,527	573,185
Reserves and Liabilities			
Reserves			
Retained Fund		488,110	477,692
Non-Current Liabilities			
Lease liabilities	16	124,636	0
Deferred income	11	37,312	28,799
		161,948	28,799
Current Liabilities			
Trade and other payables	10	69,469	66,694
Total Equity and Liabilities		719,527	573,185

The notes on pages 6 to 20 form an integral part of these financial statements

These Financial Statements were approved by the Local Council and are signed on its behalf by :


Not. Ian Spiteri
Mayor


Ms Doriette Farrugia
Executive Secretary

Date : 28/04/2020

Hal Balzan Local Council

Statement of changes in equity for the year ended 31st December 2019

	<i>Note</i>	<u>Retained fund</u> <u>Eur</u>
At 1st January 2018		602,815
Total comprehensive Income for the year		<u>(125,123)</u>
At 31st December 2018		477,692
In respect of adopting IFRS16	18	(10,820)
Total comprehensive Income for the year		<u>21,238</u>
At 31st December 2019		<u><u>488,110</u></u>

The notes on pages 6 to 20 form an integral part of these financial statements

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Hal Balzan Local Council

**Statement of cash flows
for the year ended 31st December 2019**

	<i>Note</i>	2019 Eur	2018 Eur
Cash flows from operating activities			
Operating surplus / (deficit) for the year		21,238	(125,123)
<i>Adjustments for:</i>			
Bank interest received		(31)	(31)
Lease interest		4,641	0
Depreciation		56,667	198,161
Surplus for the year before working capital movements		82,515	73,007
Movement in inventory		(65)	(220)
Movement in receivables		4,056	3,534
Movement in payables		(6,307)	3,826
Grants utilised		(299)	
Net cash generated from operating activities		79,900	80,147
Cash flows from investing activities			
Payment to acquire property, plant and equipment		(11,967)	(9,112)
Grants received		8,812	
Bank interest received		31	31
Net cash used in investing activities		(3,124)	(9,081)
Cash flows from financing activities			
Lease payments		(9,030)	0
Lease interest paid		(4,641)	0
Net cash used in financing activities		(13,671)	0
Movement in cash and cash equivalents		63,105	71,066
Cash and cash equivalents at the beginning of the year		334,492	263,426
Cash and cash equivalents at the end of the year	9	397,597	334,492

The notes on pages 6 to 20 form an integral part of these financial statements

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

1 General information

Balzan Local Council is the local authority of Balzan set up in accordance with the Local Councils Act. The office of the Local Council is situated at 7/9, Dun Spir Sammut Street, Hal Balzan.

2 Accounting policies and reporting procedures

These Financial Statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act, Cap 363. The financial statements are prepared under the historical cost convention as modified to include fair values stated in the accounting policies below. These Financial Statements are prepared in accordance to the requirements of International Financial Reporting Standards and comply with the Local Councils Act, Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996.

The principal accounting policies and reporting procedures used by Local Councils are as follows :

a) Revenue recognition

Revenue is recognised when the amount of revenue and the associated costs can be measured reliably. Interest income is recognised in the income statement as it accrues.

b) Local Enforcement System

As from the 1st September 2011 the Balzan Local Council started to form part of the Regional Committee. The amount disclosed in the financial statements under Local Enforcement System Income represents the share of profit derived from the Regional Committee after deducting the related expenses.

c) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss to date. Depreciation was previously calculated on a monthly basis using the reducing balance method. Following a change in policy, as from this year, depreciation is being calculated on a monthly basis using the straight line method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

	%
Trees	0
Land	0
Buildings	1
Office furniture and fittings	7.5
Construction works	10
Special programmes	10
Urban improvements (Street Furniture)	10
Office equipment	20
Plant & Machinery	20
Motor Vehicles	20
Computer equipment	25
Plants	100
New street signs	Replacement basis
Litter Bins	Replacement basis
Playground Furniture	100
Street Lights	100
Street Mirrors	100
Right of Use Assets	Over term of lease

The assets' useful lives and residual values are assessed at the end of each reporting period and adjusted if appropriate. When the carrying amount of an asset is greater than its estimated recoverable amount, its value is written down to its recoverable amount.

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

d) Government and EU Grants

Government and EU grants are accounted for on a systematic basis in the Statement of Comprehensive Income over the periods necessary to match them with the related costs which they are intended to compensate. If such costs have already been incurred when the grant is made, or if there are no related costs, then the grant is accounted for when it becomes receivable.

Government and EU grants relating to property, plant and equipment are written-off against the expenditure incurred on such property, plant and equipment in the year of purchase in line with the capital approach as per International Accounting Standard 20, Government Grants.

e) Impairment of financial assets

As from 1st January 2018, financial assets are tested annually for impairment using the expected credit loss model. The Council assesses the risk of defaults in the 12 months after the end of the financial year. Such risks are probability weighted for their occurrence and all scenarios for the outcome of such risks are quantified, taking into consideration the time value of money when quantifying the outcome of such risks. The Council considers reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions as the basis for assessing such risks of defaults.

f) 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 Local 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.

g) Foreign Currencies

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

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

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

h) 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.

i) Cash and cash 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.

j) Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

k) Financial instruments

All financial assets are measured at cost and accounted for using settlement accounting.

A credit risk provision for financial asset impairment is established if there is objective evidence that the Council will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts receivable from collateral, discounted based on the interest rate at inception.

The financial liabilities, other than those referred to in the accounting policies above, are classified as liabilities which are not held for trading ("other liabilities") under IAS 39, and are measured at cost, that is, the face value of such investments.

l) Critical estimates and judgements

The Council did not apply any critical estimates and judgements in the preparation of these accounts.

m) Accounting standards issued and adopted by the Council

The following new standards and interpretations, which have been issued by the IASB and the IFRIC and are relevant to these financial statements have been adopted in these financial statements. A description of these standards and interpretations, together with (where applicable) an indication of the effect of adopting them, is set out below. Changes and amendments to accounting standards that are not relevant to these financial statements have been excluded.

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

m) Accounting standards issued and adopted by the Council (cont.)

IFRS 16, Leases, was issued in January 2016, with effective date for financial periods commencing on or after 1st January 2019. This new standard requires that lessees recognise leased assets with a term of more than twelve months as assets and a liability against such assets. All leased assets, operating or financial, are now to be treated under one single accounting treatment in the lessees' books. Such assets will be measured on the basis of the right-of-use as other non-financial assets and depreciated accordingly. The lease repayments have to be divided between the interest on the lease and the principal and recognised accordingly in the financial statements including the statement of cash flows. In the case of the lessor, the accounting treatment remains unchanged from IAS 17, the previous standard this new standard replaces. The Council has adopted this standard using the modified retrospective approach whereby the effect of prior year movements have been accounted for as an adjustment in the opening equity.

Other standards or amendments to standards which came into effect during this year but not effecting the Council's Financial Statements, include: amendments to IFRS 9, Financial Instruments, which deal with prepayment contracts on loans and borrowings; amendments to IAS 28, Investments in Associates and Joint Ventures, which amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied; amendments to IAS 19, Employee Benefits, with the aim to harmonise accounting practices and to provide more relevant information for decision-making; IFRIC 23, Uncertainty over Income Tax Treatments, which is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12, Income Taxes, and Annual Improvements to IFRS Standards 2015–2017 Cycle, which provides amendments to IAS 12, Income Taxes, IAS 23, Borrowing Costs, IFRS 3, Business Combinations and IFRS 11, Joint Arrangements, all standards that are not relevant to the Council.

n) Accounting standards issued but not adopted

The following new standards and interpretations, which have been issued by the IASB and the IFRIC and are relevant to these financial statements, are effective for future periods and have not been adopted early in these financial statements. A description of these standards and interpretations, together with (where applicable) an indication of the effect of adopting them, is set out below.

Accounting standards issued and adopted by the EU

A number of other amendments come into force for financial periods commencing on or after 1st January 2020 including: amendments to References to the Conceptual Framework in IFRS Standards which clarifies which version of the Conceptual Framework a number of IFRSs refer to; amendments to IFRS 3, Business Combinations, which gives a definition of business with the aim of resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets; amendments to IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves; and amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform, which modifies specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

n) Accounting standards issued but not adopted (cont.)

Accounting standards issued but not yet adopted by the EU

IFRS 17, Insurance Contracts, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. Its objective is to ensure that relevant information is provided to represent such contracts giving a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 is effective for accounting periods commencing on or after 1st January 2022. This does not have an effect on the Council's financial statements since it does not issue insurance contracts.

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

3 <u>Revenue</u>	2019 Eur	2018 Eur
Government income		
In terms of section 55 of the Local Councils Act (Cap 363)	304,802	288,968
Other Government Income	24,665	0
Other Supplementary Government Income	4,536	22,060
	<u>334,003</u>	<u>311,028</u>
Income raised under the Local Enforcement System		
Income from LES administration fees	1,898	2,232
LESA Distribution to Council	0	0
	<u>1,898</u>	<u>2,232</u>
General income		
Income from permits	26,270	22,875
Sundry contributions & donations	2,012	2,100
Insurance refund	0	3,210
	<u>28,282</u>	<u>28,185</u>
Total revenue	<u>364,183</u>	<u>341,445</u>
4 <u>Personal emoluments</u>	2019 Eur	2018 Eur
Personal emoluments include, inter alia :		
Mayor's allowance	9,390	7,464
Executive Secretary's salary and allowances	30,586	29,730
Employees' salaries	38,015	31,901
Social security contributions	5,826	5,161
Councillors' Allowance	9,700	6,400
	<u>93,517</u>	<u>80,656</u>

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

5 Operations and maintenance

	2019	2018
	Eur	Eur
Repairs and upkeep:		
Signs	2,674	2,456
Public property	13,907	15,340
Road markings	1,187	1,577
Other repairs and upkeep	2,202	3,514
	<u>19,970</u>	<u>22,887</u>
 Contractual services:		
Refuse collection	67,885	65,601
Bulky refuse collection	8,444	4,765
Road and street cleaning	33,969	33,184
Cleaning and maintenance - public conveniences	3,510	3,550
Cleaning and maintenance - parks and gardens	3,027	3,027
Street lighting	2,883	2,869
Other	2,042	1,863
	<u>121,760</u>	<u>114,859</u>
	<u>141,730</u>	<u>137,746</u>

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

6 <u>Administration and other expenditure</u>	2019	2018
	<u>Eur</u>	<u>Restated Eur</u>
Utilities	4,035	6,958
Materials & supplies	660	658
Rent	1,850	10,175
Lease Interest	4,641	0
Memberships	1,231	648
Office services	3,538	3,198
Transport	1,535	6,306
Information services	1,351	232
Professional services	22,804	14,611
Training	462	207
Community services & events	8,611	6,925
Local enforcement expenses	254	87
Sundry expenses	59	0
Depreciation	56,667	198,161
	<u>107,698</u>	<u>248,166</u>

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Hal Balzan Local Council

Notes to the financial statements
for the year ended 31st December 2019

Note

7a Property, Plant and Equipment	Office furniture & fittings	Plant and machinery	Computer equipment	Office equipment	Motor Vehicles (Right of Use)	Urban improvements	New street signs	Construction works	Property (Right of Use)	Special programmes	Total
	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur
Cost - as at 1st January 2019	27,031	1,944	6,679	18,412	0	697,789	10,170	699,304	0	254,130	1,715,459
Additions new this period	2,272	0	169	248	0	6,623	0	2,655	0	0	11,967
Recognition of leased assets	0	0	0	0	28,125	0	0	0	132,907	0	161,032
Assets written-off / Adjustment	(58)	0	0	(127)	0	0	0	0	0	0	(185)
Cost - as at 31st December 2019	29,245	1,944	6,848	18,533	28,125	704,412	10,170	701,959	132,907	254,130	1,888,273
Grants - as at 1st January 2019	737	0	0	11,444	0	483,057	0	0	0	143,182	638,420
Additions	0	0	0	0	0	3,836	0	0	0	0	3,836
Grants - as at 31st December 2019	737	0	0	11,444	0	486,893	0	0	0	143,182	642,256
Acc. depreciation - as at 1st January 2019	8,667	1,944	3,117	2,547	0	104,713	10,170	620,441	0	110,948	862,547
Recognition of leased assets	0	0	0	0	2,223	0	0	0	26,582	0	28,805
Charge for the period	1,815	0	1,184	1,092	4,445	21,082	0	18,189	8,860	0	56,667
Released on write-off	(58)	0	0	(127)	0	0	0	0	0	0	(185)
Acc. depreciation - as at 31st December 2019	10,424	1,944	4,301	3,512	6,668	125,795	10,170	638,630	35,442	110,948	947,834
Net book value - as at 31st December 2019	18,084	0	2,547	3,577	21,457	91,724	0	63,329	97,465	0	298,183

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Hal Balzan Local Council

Notes to the financial statements
for the year ended 31st December 2019

Note

7b Property, Plant and Equipment

	Office furniture & fittings	Plant and Machinery	Computer equipment	Office equipment	Urban improvements	New street signs	Construction works	Special programmes	Total
	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur
Cost - as at 1st January 2018	25,131	1,944	3,389	15,374	697,397	10,170	698,984	254,130	1,706,519
Additions new this period	1,900	0	3,290	3,210	392	0	320	0	9,112
Assets written-off / Adjustment	0	0	0	(172)	0	0	0	0	(172)
Cost - as at 31st December 2018	27,031	1,944	6,679	18,412	697,789	10,170	699,304	254,130	1,715,459
Grants - as at 1st January 2018	0	0	0	11,444	483,057	0	0	143,182	637,683
Adoption of the Capital Approach	737	0	0	0	0	0	0	0	737
Grants - as at 31st December 2018	737	0	0	11,444	483,057	0	0	143,182	638,420
Acc. depreciation - as at 1st January 2018	6,000	1,318	1,768	1,920	76,894	10,170	477,130	89,358	664,558
Charge for the period	2,667	626	1,349	799	27,819	0	143,311	21,590	198,161
Released on write-off	0	0	0	(172)	0	0	0	0	(172)
Acc. depreciation - as at 31st December 2018	8,667	1,944	3,117	2,547	104,713	10,170	620,441	110,948	862,547
Net book value - as at 31st December 2018	17,627	0	3,562	4,421	110,019	0	78,863	0	214,492

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

8 <u>Amounts receivable</u>	2019	2018
	Eur	Eur
Current		
Debtors	6,873	2,112
Blocked funds	0	242
Prepayments	6,068	3,170
Accrued income	9,921	17,857
Deposits	600	600
	<u>23,462</u>	<u>23,981</u>

In accordance with IFRS 9, the Council has assessed the risks and scenarios resulting from such risks occurring based on the information that it possesses. In accordance to this risk assessment model, the Council does not expect to have any material impairments to these balances and hence no impairment adjustments were deemed necessary.

9 Cash and cash equivalents

For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the following:

	2019	2018
	Eur	Eur
Cash in hand	127	522
Bank balances :		
Current accounts	340,790	286,174
Savings accounts	56,680	47,796
	<u>397,597</u>	<u>334,492</u>

In accordance with IFRS 9, the Council has assessed the risks and scenarios resulting from such risks occurring based on the information that it possesses. In accordance to this risk assessment model, the Council does not expect to have any material impairments to these balances and hence no impairment adjustments were deemed necessary.

10 Trade and other payables

	2019	2018
	Eur	Eur
Current		
Creditors	30,437	35,900
Accruals	13,531	16,039
Other deferred income	0	299
Lease liabilities (note 16)	9,382	0
Retention money held	16,119	14,456
	<u>69,469</u>	<u>66,694</u>

Retention money held represents retention money held against permits issued to cover any breaches or damages caused by the permit holders. Once the permit is no longer required the money is refunded.

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

11 <u>Deferred Income</u>	2019	2018
	Eur	Eur
Non-Current		
Opening balance	28,799	28,799
Regional Committee surplus	8,513	0
Closing balance	<u>37,312</u>	<u>28,799</u>

Maturity of non-current deferred income is as follows:

Between two and five years	<u>37,312</u>	<u>28,799</u>
	<u>37,312</u>	<u>28,799</u>

12 <u>Capital commitments</u>	2019	2018
	Eur	Eur
Authorised and not contracted for	<u>6,100</u>	<u>8,000</u>
Analysed as follows:		
Authorised and not contracted for		
Plant and Machinery	500	1,000
Office furniture and fittings	2,600	3,000
Office equipment	3,000	4,000
	<u>6,100</u>	<u>8,000</u>

Part of the urban improvements are being funded through UIF funds. The rest are being funded from the Council's internal funds.

13 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Central Government is the main related party of the Local Council. For the year ended 2019, the Local Council received Eur304,802 (2018: Eur288,968) in funding from Central Government. Key management personnel who are deemed to exercise a significant influence over the Council are the Mayor, the Executive Secretary and the councillors who were remunerated as follows:

	2019	2018
	Eur	Eur
Mayor	9,390	9,064
Executive Secretary	32,934	32,145
Councillors	9,700	4,800
	<u>52,024</u>	<u>46,009</u>

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

14 Classification of financial assets and financial liabilities

The Council's financial assets and liabilities have been classified as follows in accordance with IAS 39:

	Credits and other receivables	Other financial assets / liabilities	Total carrying amount	Fair value
2018				
Assets				
Trade and other receivables	20,811	-	20,811	20,811
Cash and cash equivalents	334,492	-	334,492	334,492
Total financial assets	355,303	-	355,303	355,303
Liabilities				
Trade and other payables	-	66,395	66,395	66,395
Total financial liabilities	-	66,395	66,395	66,395
2019				
Assets				
Trade and other receivables	17,394	-	17,394	17,394
Cash and cash equivalents	397,597	-	397,597	397,597
Total financial assets	414,991	-	414,991	414,991
Liabilities				
Trade and other payables	-	194,105	194,105	194,105
Total financial liabilities	-	194,105	194,105	194,105

15 Financial risk management

15.1 Financial risk factors

The Council's activities expose it to both credit risk and liquidity risk. The Council did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

The Council provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

a) Credit risk

The Council's credit risk arises from cash and cash equivalents, including deposits with the banks and amounts receivable. The Council's exposures to credit risk are analysed as follows:

	2019 Eur	2018 Eur
Trade and other receivables	17,394	20,811
Cash and bank balances	397,597	334,492
	414,991	355,303

The ageing of the amounts receivable is as follows:

	2019 Eur	2018 Eur
Less than 1 month	2,408	1,950
Between 1 and 2 months due	4,453	150
Over 3 months due	12	12
	6,873	2,112

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

15 Financial risk management - Continued

a) Credit risk - continued

The maximum exposure to credit risk at the reporting date in respect of the financial assets mentioned above is disclosed above and in Notes 8 and 9 to these financial statements. The Council does not hold any collateral as security in this respect.

The Council banks only with local financial institutions with high quality standing or rating.

The Council's major debtors are the Government and the Regional Committees, thus, it deems that it does not have any risk of non-recoverability of its dues. An amount of €12 (2018: €12) is past the credit period but the Council does not deem this balance to be impaired.

b) Liquidity risk

The Council's exposure to liquidity risk is mainly from its payables and retention monies as per note 10 above and which are due within 60 days. Given the requirements at law to maintain a healthy working capital, the Council takes all measures to keep its liquidity risk exposure in check. In fact it maintains sufficient cash to ensure the availability of an adequate amount of funding to meet the Council's obligations. The Council's exposure to liquidity risk is as follows:

	2019 Eur	2018 Eur
Creditors	30,437	35,900
Accruals	13,531	16,039
Lease liabilities	9,382	0
Retention money held	16,119	14,456
	<u>69,469</u>	<u>66,395</u>

15.2 Fair values of financial instruments

At 31 December 2019 and 31 December 2018, the carrying amounts of cash at bank, receivables, payables and accrued expenses in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

16 Leases

The Council leases two assets: the Council Office, on a 15 year lease which commenced on 1st January 2016; and the Council Van with a five-year term lease which commenced on 1st July 2018. The Council has the option to purchase the van after expiry of the lease.

Right-of-use assets

	Council Office Eur	Council Van Eur	Total Eur
Net carrying amount			
31st December 2019	97,465	21,457	118,922
Depreciation expense for the year ended			
31st December 2019	8,860	4,445	13,305

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Hal Balzan Local Council

Notes to the financial statements for the year ended 31st December 2019

Note

16 Leases - Continued

	2019
	Eur
<i>Amounts recognised in profit and loss</i>	
Depreciation expense on right-of-use assets	13,305
Interest expense on lease liabilities	4,641
Expense relating to short-term leases	1,850
<i>Lease liabilities</i>	
Non-current	124,636
Current	9,382
	<u>134,018</u>
<i>Maturity analysis</i>	
Not later than 1 year	9,382
Later than 1 year and not later than 5 years	49,622
Later than 5 years	75,014
	<u>134,018</u>

17 Capital

The Council does not carry any share capital but it does have an accumulated surplus which it uses to finance capital projects such as roads, urban improvements and other major projects of benefit to the Balzan residents and community. This, however, needs to be expended with due diligence in order not to fall below the minimum working capital requirements as required by the Local Councils (Financial) Procedures 1996.

18 Impact of adoption of IFRS16

As a result of the adoption of IFRS 16, Leases, the Council opted to adjust the opening retained earnings with the prior years' impact on the Statement of Comprehensive Income. In the calculation of the lease interest, the Council adopted the following incremental borrowing rates:

Council Office: 3%
Council Van: 4.82%

Statement of prior year changes to the Statement of Comprehensive Income

	Eur
Reversal of rent	25,200
Reversal of van lease payment	2,988
Recognition of lease interest	(9,851)
Recognition of depreciation in right-of use assets	(28,805)
Recognition of insurance on Council van	(300)
Recognition of licence for Council van	(52)
Prior year adjustment	<u>(10,820)</u>

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Financial statements for the year ended 31 December 2019

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 Hal Balzan Local Council which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effects of the matters described in paragraph 1 of the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of Hal Balzan Local Council as of 31 December 2019 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 10.

These financial statements comply in all material respect with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 but because of the matters set out in paragraph 1 below these financial statements have not been prepared in accordance with International Financial Reporting Standards as adopted by the E.U.

Basis for Qualified Opinion

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

1. As from 30 September 2002, all income and expenditure from the Local Enforcement System (LES) were centralised through the Birkikara Joint Committee and LES debtors at that date were transferred to the Joint Committee as well. The Birkikara Joint Committee ceased operations on 31 August 2011 and LES was centralised through the Central Regional Committee as from 1 September 2011. The Council has not reported any income from LES in the current period. We were unable to determine the amount of any additional income the Council is entitled to receive from Birkikara Joint Committee since the audited financial statements as at 31 December 2019 of the Joint Committee were not available and the last version available (2015) are qualified on the basis that amounts receivable could not be reconciled to the IT system. All LES receivables of the Joint Committee have been provided for.

Financial statements for the year ended 31 December 2019

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

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.
- 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.

Financial statements for the year ended 31 December 2019

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

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

- 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.

Report on the Audit Other Legal and Regulatory Requirements

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



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

Mazars Malta
Certified Public Accountants
Attard,
Malta

28 April 2020