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Prepared by: **Mr Christian Gravina**
GCS Accounting Malta Limited
Certified Public Accountant
115A, Floor 1, Msida Valley Road
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Statement of Local Council Members' and Executive Secretary's Responsibilities

The Local Councils (Financial) Regulations 1993 require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's financial position at the end of the year and of the Local Council's comprehensive income for the year. In virtue of the above 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 applicable accounting standards the financial position of the Council at the end of the financial year and the comprehensive income for the year.

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Mr. David Michael Schenck
Mayor



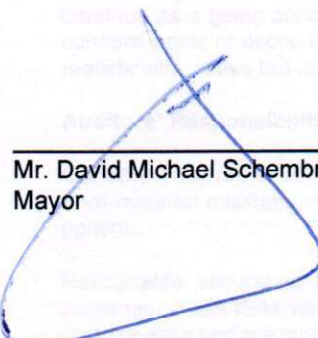
Mr. Christopher Farnon
Executive Secretary

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


The Local Councils (Financial) Regulations 1993 require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's financial position at the end of the year and of the Local Council's comprehensive income for the 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 financial position of the Local Council as at the year and its comprehensive income for the year, and that they comply with the Act, the Local Council (Financial) Regulations, 1993 and the Local Council (Financial) Procedures, 1996.

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 1993, and the Local Council (Financial) Procedures 1996. 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 24.09.2020 and signed on its behalf by:


Mr. David Michael Schembri
Mayor




Mr. Christopher Falzon
Executive Secretary

Independent Auditors' Report

To the Auditor General

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Qrendi Local Council, set out on pages 4 to 18, which comprise the Statement of Financial Position as at 31 December 2019, and the statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the statement of financial position of Qrendi Local Council as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity 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 opinion.

Responsibilities of the Executive Secretary

The Executive Secretary is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the EU, and for such internal control as the Executive Secretary determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Secretary is responsible for assessing the entity'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 entity is intended to be liquidated or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Independent Auditors' Report

To the Auditor General

Report on the Audit of the Financial Statements (continued)

- 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 entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Secretary.
- Conclude on the appropriateness of the Executive Secretary's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements comply fully with the Local Councils Act, the Financial Regulations issued in terms of this Act and the Local Council (Financial) Procedures.

Mr Manuel Castagna

For and on behalf of
Nexia BT
Certified Public Accountants

The Penthouse, Suite 2
Capital Business Centre, Entrance C
Triq taz-Zwejt
San Gwann SGN 3000
Malta

Date: 18th September 2020

Statement of financial position

		As at 31 December	
		2019	2018
		€	€
ASSETS			
Non-current assets			
Property, plant and equipment	3	343,628	365,390
Total non-current assets		343,628	365,390
Current assets			
Trade and other receivables	4	19,438	13,451
Cash and cash equivalents	5	831,124	666,836
Total current assets		850,562	680,287
Total assets		1,194,190	1,045,677
RESERVED AND LIABILITIES			
Reserves			
Retained Funds		844,905	747,175
Total reserves		844,905	747,175
Non-current liabilities			
Amounts falling due after one year	6	91,875	232,942
Current liabilities			
Trade and other payables	7	257,410	65,560
Total liabilities		349,285	298,502
Total reserves and liabilities		1,194,190	1,045,677

The notes on pages 8 to 19 are an integral part of these financial statements.

The financial statements on pages 5 to 19 were approved by the Local Council on 24.09.2020 and were signed on its behalf by:

Mr. David Michael Schembri
Mayor



(Signature)
Mr. Christopher Falzon
Executive Secretary

Statement of comprehensive income

	Notes	Year ended 31 December	
		2019 €	2018 €
Income			
Funds received from Central Government	8	390,406	375,262
Income raised under Local Enforcement System	9	-	1,977
Investment income	10	604	426
General income	11	19,725	19,381
		410,735	397,046
Expenditure			
Staff salaries	13	90,698	86,142
Operations and maintenance	14	102,849	106,752
Administrative and other expenditure	15	119,458	561,592
		313,005	754,486
Profit/(loss) for the year		97,730	(357,440)
Total comprehensive income/(expense)		97,730	(357,440)

The notes on pages 8 to 19 are an integral part of these financial statements.

Statement of changes in equity

	Retained Funds €	Total €
Balance at 1 st January 2018	980,977	980,977
Loss for the year	(357,440)	(357,440)
Net effects of correction of errors	123,638	123,638
Balance at 31st December 2018	747,175	747,175
Balance at 1 st January 2019	747,175	747,175
Profit for the year	97,730	97,730
Balance at 31st December 2019	844,905	844,905

The notes on pages 8 to 19 are an integral part of these financial statements.

Cash and cash equivalents at beginning of year

Cash and cash equivalents at end of year

The notes on pages 8 to 19 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December	
		2019 €	2018 €
Cash flows from operating activities			
Cash generated from operations	16	146,881	50,818
Net cash generated from operating activities		<u>146,881</u>	<u>50,818</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(72)	(79,457)
Grant received		16,875	286,867
Interest received	10	604	426
Net cash generated from investing activities		<u>17,407</u>	<u>207,837</u>
Net movement in cash and cash equivalents		164,288	258,654
Cash and cash equivalents at beginning of year		666,836	408,182
Cash and cash equivalents at end of year	5	831,124	666,836

The notes on pages 8 to 19 are an integral part of these financial statements.

- Financial years beginning on or after 1 January 2019
- IFRS 15 - Revenue from contracts with customers (effective for financial years beginning on or after 1 January 2018)
- Amendments to IAS 28 - Long-term interests in associates and joint ventures (effective for financial years beginning on or after 1 January 2018)
- Annual improvements to IFRS standards 2015 - 2017 Cycle (effective for financial years beginning on or after 1 January 2018)
- Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement (effective for financial years beginning on or after 1 January 2018)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Local Council:

At the date of the authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not been adopted early by the Local Council.

- Amendments to IAS 1 and IAS 8 - Definition of Material (effective for financial years beginning on or after 1 January 2020)
- Amendments to IAS 8 - IAS 39 and IFRS 7 - Interest Rate Benchmark Reform (effective for financial years beginning on or after 1 January 2020)
- Amendments to references to the Conceptual Framework in IFRS Standards (effective for financial years beginning on or after 1 January 2020)
- Amendments to IAS 12 - Deferred Tax Assets and Liabilities (effective for financial years beginning on or after 1 January 2020)

Notes to the financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

The 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 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 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 (IFRSs) and comply with the Local Councils Act Cap 363, the Financial Regulations issued by the terms of the Act and the Local Councils (Financial) Procedures 1996.

New and amended IFRS Standards that are effective for the current year

In the current year, the Local Council has applied new and amended IFRS Standards issued by the International Accounting Standards Board (IASB) and adopted by the EU that are mandatorily effective in EU for an accounting period that begins on or after 1 January 2018. The adoption of new and amended standards did not have a material impact on the Local Council's financial statements.

- IFRS 16 – Leases (effective for financial years beginning on or after 1 January 2019)
- Amendment to IFRS 9: Prepayment features with negative compensation (effective for financial years beginning on or after 1 January 2019)
- IFRIC 23—Uncertainty over income tax treatment (effective for financial years beginning on or after 1 January 2019)
- Amendments to IAS 28: Long-term interests in associates and joint ventures (effective for financial years beginning on or after 1 January 2019)
- Annual improvements to IFRS standards 2015 – 2017 Cycle (effective for financial years beginning on or after 1 January 2019)
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective for financial years beginning on or after 1 January 2019)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Local Council

At the date of the authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not been adopted early by the Local Council.

- Amendments to IAS 1 and IAS 8: Definition of Material (effective for financial years beginning on or after 1 January 2020)
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective for financial years beginning on or after 1 January 2020)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for financial years beginning on or after 1 January 2020)
- Amendments to IFRS 3 Business Combinations (effective for financial years beginning on or after 1 January 2020)

1. Summary of significant accounting policies – continued

1.1 Basis of preparation - continued

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Local Council - continued

Management anticipates that all the relevant pronouncements will be adopted in the Local Council's accounting policies for the first period beginning after the effective date of the pronouncement. Certain new standards and interpretations have been issued and expected to have a material impact on the Local Council's financial statements.

Standards, amendments and interpretations to existing standards that are not yet endorsed by the EU

- IFRS 17 Insurance contracts; including Amendments to IFRS 17 (effective for financial years beginning on or after 1 January 2023)
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current (effective for financial years beginning on or after 1 January 2023)
- Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipments, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual improvements 2018 - 2020 (effective for financial years beginning on or after 1 January 2022)
- Amendments to IFRS 16 Leases Covid 19 – Related Rent Concessions (effective for financial years beginning on or after 1 June 2020)
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (effective for financial years beginning on or after 1 January 2021)

1.2 Foreign currency translation

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

1.3 Property, plant and equipment

Property, plant and equipment, is stated at cost less accumulated depreciation and impairment loss to date. Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

	%
Land	0
Trees	0
Buildings	1
Office furniture and fittings	7.5
Construction works	10
Urban Improvements (Street Furniture)	10
Office Equipment	20
Motor Vehicles	20
Plant and Machinery	20

1. Summary of significant accounting policies – continued

1.3 Property, plant and equipment - continued

Computer Equipment	25
Plants	100
Playground Furniture	100
Street Lights	100
New Street Lights	Replacement Basis
Litter Bins	Replacement Basis
Street Mirrors	Replacement Basis

1.4 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 assets exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the assets less the costs to sell value in use. Impairment losses are immediately as an expense in the Statement of Comprehensive Income.

1.5 Amounts receivable

Amounts receivable are recognised initially at fair value and subsequently measures at amortised cost using the effective rate interest, 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 provision is the difference between the carrying amounts of the asset in the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the Statement of Comprehensive Income.

1.6 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.

1.7 Payables

Payables comprise obligations to pay for 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.

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

1. Summary of significant accounting policies – continued

1.8 Profits and losses

Only profits that were realised at the date of the Financial Position are recognised in the 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.

2. Financial risk management – continued

2.2 Liquidity risk

Liquidity risk is the risk that the Local Council will not be able to meet its financial obligations as they fall due.

The Local Council's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Generally, the Local Council ensures that it has sufficient cash on demand to meet expected operational expenditure, including the servicing of financial obligations.

At 31 December 2019 and 31 December 2018, the contractual maturities on the financial liabilities of the company were as summarised below. Contractual maturities reflect gross cash flows, which may differ from the carrying values of financial liabilities at the date of the Statement of Comprehensive Income.

	2019 €	2018 €
Tender Obligations:		
Less than 6 months	78,057	50,108
6 to 12 months	50,108	50,108
1 to 5 years	501,078	501,078
	629,243	601,294

2.3 Capital management

It is the policy of the Executive Secretary to maintain an adequate capital base in order to sustain the future development of the Local Council and safeguard the ability of the Local Council to continue as a going concern. In this respect, the Executive Secretary monitors the operations and results of the Local Council.

2.4 Fair value estimation

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

3. Property, plant and equipment

	Office furniture & fittings €	Office equipment €	Urban improvements €	Construction works €	Street signs €	Total €
COST						
Balance as at 1 January 2018	21,945	40,218	251,775	1,569,033	5,280	1,888,251
Additions	-	566	-	78,891	-	79,457
Grant received for the year	-	(566)	-	(78,892)	-	(79,457)
At 31 December 2018	21,945	40,218	251,775	1,569,033	5,280	1,888,251
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2018	12,458	34,749	155,029	955,926	5,280	1,163,442
Charge for the year	8,774	1,811	33,274	389,730	-	433,589
Correction of errors	(5,282)	2,735	3,400	(75,023)	-	(74,170)
At 31 December 2018	15,950	39,295	191,703	1,270,633	5,280	1,522,861
NET BOOK VALUE						
At 31 December 2018	5,995	923	60,072	298,400	-	365,390

3. Property, plant and equipment - continued

	Office furniture & fittings €	Office equipment €	Urban improvements €	Construction works €	Street signs €	Total €
COST						
Balance as at 1 January 2019	21,945	40,218	251,775	1,569,033	5,280	1,888,251
Additions	-	72	-	-	-	72
At 31 December 2019	21,945	40,290	251,775	1,569,033	5,280	1,888,323
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2019	15,950	39,295	191,703	1,270,633	5,280	1,522,861
Charge for the year	1,543	323	11,117	8,851	-	21,834
At 31 December 2019	17,493	39,618	202,820	1,279,484	5,280	1,544,695
NET BOOK VALUE						
At 31 December 2019	4,452	672	48,955	289,549	-	343,628

4. Receivables

	2019	2018
	€	€
Current		
Local enforcement system & trade debtors	92,351	86,413
Provision for doubtful debts	(80,602)	(80,602)
Accrued income	6,835	6,835
Prepayments	854	805
	19,438	13,451

5. Cash and cash equivalents

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

	2019	2018
	€	€
Cash in hand	170	170
Bank balances:		
Current accounts	786,438	621,886
Savings accounts	28,666	28,937
Fixed accounts	15,850	15,843
	831,124	666,836

6. Amounts falling due after one year

	2019	2018
	€	€
Deferred income:		
Repayable between one and two years	75,000	232,942
Repayable between two and five years	16,875	-
More than five years	-	-
	91,875	232,942

7. Payables

	2019	2018
	€	€
Current		
Trade creditors	51,142	55,175
Accruals	20,377	10,385
Deferred income	157,942	-
Other payables	27,949	-
	257,410	66,560

8. Funds received from central government

	2019	2018
	€	€
In terms of Section 55 of the Local Council Act	390,406	370,643
Other Government Income	-	4,619
	390,406	375,262

9. Local enforcement system

	2019	2018
	€	€
Contraventions	-	1,977

10. Investment income

	2019	2018
	€	€
Bank interest receivable	604	426

11. General income

	2019	2018
	€	€
Other income net of contraventions and library services	19,725	19,381

12. Profit/(loss) for the year

	2019	2018
	€	€
Loss for the year stating after charging:		
Staff salaries (Note 13)	90,698	86,142
Depreciation on tangible assets	21,834	433,589
	112,532	519,731

13. Staff salaries

	2019	2018
	€	€
Personal emoluments include, inter alia:		
Mayor's allowance	8,800	7,648
Vice Mayor's allowance	3,129	900
Councillors' allowances	3,360	2,880
Executive Secretary's salary and allowances	23,035	22,935
Employees' salaries	28,002	25,695
Social security contributions	24,372	26,084
	90,698	86,142

14. Operations and maintenance

	2019	2018
	€	€
Repair and upkeep:		
Road markings	2,949	-
Street signs	803	-
Bins	9,500	17,036
Other repairs and upkeep	50	50
	13,302	17,086
Contractual Services:		
Refuse collection	41,889	37,747
Bulky refuse collection	5,171	3,905
Cleaning and maintenance of public conveniences	18,202	17,833
Cleaning and maintenance of parks and gardens	9,679	16,690
Cleaning and maintenance – non-urban	9,979	8,417
Cleaning and maintenance – council premises	-	214
Street lighting	4,627	4,860
	89,547	89,666
	102,849	106,752

15. Administrative and other expenses

	2019	2018
	€	€
Utilities	8,970	5,750
Material and supplies	3,951	3,829
Office services	8,633	6,066
Rent	4,824	4,840
Advertising	7,227	5,178
National and international memberships	685	143
Transport	379	1,118
Information services	2,004	2,796
Other contractual services	11,716	19,625
Professional services	6,987	8,973
Community services & events	8,743	27,404
Depreciation on tangible assets	21,834	433,589
General expenses	33,505	42,281
	119,458	561,592

16. Cash generated from operations

Reconciliation of profit/(loss) for the year to cash generated from operations:

	2019	2018
	€	€
Profit/(loss) for the year	97,730	(357,440)
Adjustments for:		
Depreciation of property, plant and equipment (Note 3)	21,834	433,589
Interest received	(604)	(426)
Changes in working capital:		
Receivables	(9,802)	(466)
Payables	37,723	(24,439)
Cash generated from operations	146,881	50,818

17. Related party transactions

During the year the Local Council effected transactions with related parties mainly in connection with income and expenditure transactions as disclosed in Notes 3, 8, 9, 11, 14 and 15 to these financial statements. The following material transactions were carried out with related parties:

	2019	2018
	€	€
Funds received from central government	390,406	375,262

18. Events after the reporting period

Subsequent to year end, the World Health Organisation declared the spread of Coronavirus Disease (COVID-19), a worldwide pandemic. COVID-19 is having significant effects on global markets, supply chains, businesses and communities. The Local Council Members' and Executive Secretary are monitoring the situation and taking action to safeguard the interests of the Local Council. To date, the Local Council is operating as normal. The full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

19. Statutory information

Qrendi Local Council is the local authority of Qrendi set up with the Local Councils Act. The office of the Local Council situated at 7, Triq il-Knisja, Qrendi QRD 1103, Malta.

19.1

FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2019

During the year for the years ended 31 December 2019 and 31 December 2018, we have audited the accounting records and procedures operated by the Council. We have also reviewed the operations of the Council and its subsidiary companies for the Local Councils Act 1993, the Financial Regulations 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and the Supplementary Financial Regulations. We have also reviewed the financial statements prepared for the purpose of an audit.

1. Financial Management Letter

1.1 Council meetings

No issues were encountered with regard to attendance to Council meetings held during 2019 and 2018.

1.2 Fixed assets

As reported in 2017, the Council had performed a thorough exercise during the year under review and the fixed assets register is now reconciling with the accounts. However, the 2018 accounts report is qualified due to the existence of errors relating to the Department of Transport in respect of 41,124.00 and relates to the acquisition of land in fixed assets (refer to note 2.10).

1.3 Debt

During 2019, the Local Council has not yet commenced to prepare monthly bank reconciliations (refer to note 2.11).



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Vat no: MT10591627

The Mayor
Qrendi Local Council
7, Church Street
Qrendi QRD 1103
Malta

18th September 2020

Dear Sir,

FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2019

During our audit for the years ended 31 December 2018 and 31 December 2019, we have reviewed the accounting systems and procedures operated by the Council. We have also reviewed the operations of the Council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1. Previous Management Letter

1.1 Council meetings

No issues were encountered with respect to absence in Council meetings held during 2018 and 2019.

1.2 Fixed assets

As opposed to 2017, the Council has performed a thorough exercise during the years under review and the fixed assets register is now reconciling with the accounts. However, the 2018 auditors report is qualified due to 'net correction of errors' entry in the Statement of Changes in Equity amounting to €123,638 that relates to a correction of error in fixed assets (refer to note 2.10).

1.3 Bank

Similarly to 2017, the Local Council has not yet commenced to prepare monthly bank reconciliations (refer to note 2.1).

1.4 LES Debtors

With respect to LES debtors, we found a discrepancy between balances in 2018 and 2019 accounts and reports issued from the Local Enforcement System (refer to note 2.2).

1.5 Trade receivables

While testing trade receivables, we again noted that WasteServ Malta Ltd had a balance in both debtors' and balance creditors' lists in 2018 and 2019 (refer to note 2.3).

1.6 Trade creditors

While testing trade creditors, we noted that the balance owed to Cleansing Services Department of €34,273 as at 31 December 2017 has been paid. Moreover, no discrepancies with respect to particular trade creditors were found during the years under review. However, we found a discrepancy between 2019 creditors' list and the accounts (refer to note 2.4).

1.7 Salaries

During our testing, we noted that there were discrepancies between FSSs, FS7 and salaries expense for 2018 and 2019 (refer to note 2.5).

1.8 Deposits

We noted that the Council is still not depositing its general income and the custodial receipts at the required frequency (refer to note 2.6).

1.9 Accrued income

Similarly to previous year, we noted that the Local Council did not account for accrued bank interest income (refer to note 2.7).

1.10 Budgeted figures

No issues were encountered with respect to budgeted expenditure for 2018 and 2019.

1.11 Financial allocation

Income from central Government as per accounts agreed with Government budget in 2018 and 2019.

1.12 Accrual

No audit fee was accrued for in 2018 and 2019.

1.13 Tipping fees

The Council did not account for tipping fees in line with approved amounts from DLG (refer to note 2.7).

1.14 Deferred income

No discrepancies were found when testing deferred income as at 2018 and 2019 year-ends.

1.15 Accounting function

No audit adjustments were passed during 2018 and 2019 audits. However, the 2018 auditors report is qualified due to 'net correction of errors' entry in the Statement of Changes in Equity amounting to €123,638 (refer to note 2.10).

2. Management letter points for the years under review

2.1. Bank

The Local Council does not prepare bank reconciliations on a monthly basis, but prepares them on a quarterly basis. We reiterate that bank reconciliations should be prepared on a monthly basis in accordance with the requirements of the Local Councils (Financial) Regulations.

2.2. LES debtors

While 2018 and 2019 unaudited financial statements included a receivable balance of LES debtors of €80,602, LES report showed that balance should have been to €80,194 as at both year-ends. Since such differences are not material, audit adjustments were not passed (refer to note 2.12).

We recommend that the Council performs this reconciliation and passes the necessary adjustments before the unaudited financial statements are passed for audit.

2.3. Trade receivables

While testing trade receivables, we noted that WasteServ Malta Ltd had a balance in both debtors' and creditors' lists in 2018 and 2019. Reclassifications were passed in this respect (refer to note 2.11). Moreover, when testing 2019 receivable balance from WasteServ Malta Ltd, we found an extrapolated error of €7,465. Given that amount was immaterial, no audit adjustment was passed (refer to note 2.12).

2.4. Trade payables

During 2019 testing on trade payables, we noted that there was a discrepancy of €763 between creditors' list and balance in accounts. Given that amount was immaterial, no audit adjustment was passed (refer to note 2.12).

We recommend that the Council ensures that the creditors' list and accounts are in agreement before the unaudited financial statements are passed for audit.

2.5. Salaries

In 2018, a difference of €48 resulted in the reconciliation between salaries in the FS5s and salaries in the FS7, and a discrepancy of €1,551 was noted between salaries in accounts and salaries in FS7, as per below:

	€
Gross Wage as per FS5s	79,921
1/2 the total social security as per FS5s	<u>4,622</u>
Total wage for year as per FS5s	<u>84,543</u>
	€
Gross Wage as per FS7	79,966
1/2 the total social security as per FS7	<u>4,625</u>
Total as per FS7	<u>84,591</u>
Difference (between FS5s and FS7)	<u>(48)</u>
	€
Councillors' allowances	2,880
Employee's salaries	25,695
Executive secretary's salary and allowances	22,935
Mayor's remuneration	7,648
Social security contributions	<u>26,084</u>
Total as per accounts	<u>86,142</u>
Difference (between accounts and FS7)	<u>1,551</u>

Total salaries as per 2018 accounts amounted to €86,142, and this is not in agreement with neither FS5s nor the FS7. We recommend that the FS7 is reconciled to the accounts and FS5 forms before this form is submitted.

In 2019, a difference of €11 resulted in the reconciliation between salaries in the FS5s and salaries in the FS7, and a discrepancy of €219 was noted between salaries in accounts and salaries in FS7, as per below:

	€
Gross Wage as per FS5s	86,250
1/2 the total social security as per FS5s	<u>4,656</u>
Total wage for year as per FS5s	<u>90,906</u>

	€
Gross Wage as per FS7	86,257
1/2 the total social security as per FS7	<u>4,660</u>
Total as per FS7	<u>90,917</u>
Difference (between FS5s and FS7)	<u>(11)</u>

	€
Councillors' allowances	3,360
Employee's salaries	28,002
Executive secretary's salary and allowances	23,035
Mayor's remuneration	8,800
Social security contributions	<u>24,372</u>
Total as per accounts	<u>90,698</u>
Difference (between accounts and FS7)	<u>219</u>

Total salaries as per 2019 accounts amounted to €90,698, and this is not in agreement with neither FS5s nor the FS7. We recommend that the FS7 is reconciled to the accounts and FS5 forms before this form is submitted.

2.6. Deposits

During our audits, we noticed that the Council is still not always depositing its general income daily or twice weekly, as required by the Local Councils (Financial) Procedures, 1996 and LN 28/2000 respectively. While we take note of the fact that at times the amount of money to be deposited is minimal, we are still required to recommend that the Council deposits cash from custodial receipts twice weekly, primarily to comply with the Local Councils Procedures Regulations. In this regard, we point out that amounts in hand were not material.

2.7. Accrued income

During our testing of accrued income, we noted that the Local Council did not account for accrued bank interest income, which according to the bank letters, stood at €15 at 2018 year-end and at €17 as at 2019 year-end. Since these amounts are not material, no adjustments were passed (refer to note 2.12).

Moreover, we found a discrepancy of €2,741 in 2018 and a discrepancy of €6,835 when testing accrued income in relation to tipping fees. Since these amounts are not material, no adjustments were not passed (refer to note 2.12).

We recommend that the Council obtains the approved amount from the DLG and accounts for it before the financial statements are passed for the audit.

2.8. Income

When testing the Local Council's financial allocation received from Central Government vis-à-vis the expenditure incurred during 2018, we noted that the Local Council did not manage to obtain a positive result equal to 10% of the financial allocation, as required by Section 4c of the Local Council (Financial) Regulations, 1993. The Executive Secretary is bound by Section 4(1)(c) of the Local Council (Financial) Regulations, 1993 to maintain a positive balance in terms of section 55 of the Local Councils Act.

2.9 IFRS 16 – new adoption

IFRS 16, which became effective for periods that begin on or after 1 January 2019, introduced the single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The Council did not calculate and account for this 'Single lessee accounting model'. Since the departure from IFRS 16 is not material, the audit report is not qualified in this respect. No adjustment was proposed, and this was included in the list of unadjusted errors (refer to note 2.12).

2.10. Correction of errors in Statement of Changes in Equity

The 2018 Statement of Changes in Equity included a movement of 'Net effects of correction of error' amounting to €123,638. This movement is a material misstatement, as there could never be a correction of errors in the Statement of Changes in Equity in the year that the financial statements are being presented.

These prior year adjustments and entries were discussed numerous times with the accountant, and with respect to such entry in SOCIE, we were only provided with the journal entries he passed, and he commented that, quoting "Unfortunately, cannot identify further accounts to adjust with entries, thus is the only way we can find to match the figures of equity as all these differences are coming from prior years with the misstatements between TB and NCA".

Moreover, we were not provided with explanations behind the fact that the 2018 Fixed Assets Schedule in the 2018 financial statements includes a movement of 'Correction of error' of €74,170, which amount does not agree to the disclosure made in the Statement of Changes in Equity. As a result of the above, the 2018 auditor's report is being qualified, as we could not verify such transactions.

We reiterate once again that before financial statements is approved by the Local Council and passed to the auditors, all issues are tackled by the Council and all accounting transactions are examined so that the financial statements show a true and fair view of the financial position of the Council.

2.11. Reclassifications list

RECL A/18	Dr Debtors Control account	€4,006
	Cr Trade creditors posting account	€4,006
	<i>Being reclassification of set-off amount of WasteServ Malta Ltd as per 2018 debtors' and creditors' list (refer to note 2.3)</i>	
RECL A/19	Dr Debtors Control account	€190
	Cr Trade creditors posting account	€190
	<i>Being reclassification of set-off amount of WasteServ Malta Ltd as per 2019 debtors' and creditors' list (refer to note 2.3)</i>	

2.12. List of unadjusted errors

During our audits we encountered the following errors which were at trivial level, for which there was no need to adjust the financial statements.

2018

Dr Income	€408
Cr LES debtors balance	€408
	<i>Being LES debtors receivable balance overstated (refer to note 2.2)</i>
Dr Provision on LES debtors balance receivable – B/S	€408
Cr Provision on LES debtors balance receivable – P/L	€408
	<i>Being overstated provision on LES debtors balance (refer to note 2.2)</i>
Dr Accrued income	€15
Cr Bank interest	€15
	<i>Being accrued bank interest receivable not accounted for (refer to note 2.7)</i>
Dr DLG	€2,741
Cr Accrued income	€2,741
	<i>Being overstatement of accrued income (refer to note 2.7)</i>

2019

Dr Income	€408
Cr LES debtors balance	€408

Being LES debtors receivable balance overstated (refer to note 2.2)

Dr Provision on LES debtors balance receivable – B/S	€408
Cr Provision on LES debtors balance receivable – P/L	€408

Being overstated provision on LES debtors balance (refer to note 2.2)

Dr Income	€7,465
Cr Trade receivables	€7,465

Being extrapolated error in trade receivables (refer to note 2.3)

Dr Purchases	€763
Cr Trade payables	€763

Being overstatement of trade payables in accounts (refer to note 2.4)

Dr Accrued income	€17
Cr Bank interest	€17

Being accrued bank interest receivable not accounted for (refer to note 2.7)

Dr DLG	€6,835
Cr Accrued income	€6,835

Being overstatement of accrued income (refer to note 2.7)

Dr Right of use Asset (B/S)	€4,892
Dr Interest (P/L)	€264
Dr Depreciation (P/L)	€815
Cr Retained Earnings	€205
Cr Lease Liability	€5,766

Being lease workings as per IFRS 16 not accounted for (refer to note 2.9)

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Local Council. In consequence, our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcations or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.



Local Council

We would also like to take this opportunity to thank the Mayor, Executive Secretary and Local Council staff for their help during the course of our audit.

Mr Manuel Castagna CPA
For and on behalf of Nexia BT

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of your committee and officials of the local council, the following representations given to you in connection with our audit of the financial statements for the years ended 31 December 2011 and 31 December 2012:

- 1. We acknowledge as directors, officers and executive secretary our responsibilities for preparing financial statements which present a true and fair view and for ensuring adequate internal controls to assist us to discharge these responsibilities. All the accounting records and supporting documentation have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. Sufficient year papers exist in making accounting estimates as available.
- 2. All minutes of meetings have been made available to you.
- 3. We have acknowledged our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- 4. There have been no irregularities involving management, officials who have a significant role in internal control or others where the irregularity could have a material effect on the financial statements.
- 5. The financial statements are free from material misstatements, including omissions.
- 6. We have fully disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. There have been no allegations of fraud or suspected fraud affecting the financial statements communicated to us by employees or others.
- 7. There have been no communications from regulatory authorities concerning non-compliance with, for example, the financial reporting provisions.
- 8. In your view, the local council had no liabilities or contingent liabilities other than those disclosed in the accounts. In this regard, any disputes and claims against the local council have been communicated to you.
- 9. Management:
 - (a) We believe it is unlikely that any of the matters which should be disclosed in the financial statements as a result of management's best practice has been disclosed.
 - (b) Management's rights of compensation that are recoverable are disclosed as the product of speculation and have not been disclosed.

**Qrendi Local Council
7, Church Street
Qrendi QRD 1103
Malta**

Nexia BT
Certified Public Accountants
The Penthouse, Suite 2
Capital Business Centre, Entrance C
Triq taz-Zwejt
San Gwann SGN 3000
Malta

18th September 2020

Dear Sirs,

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other councillors and officials of the local council, the following representations given to you in connection with your audit of the financial statements for the years ended 31 December 2018 and 31 December 2019.

- 1 We acknowledge as mayor, councillors and executive secretary our responsibilities for preparing financial statements which give a true and fair view and for making accurate representations to you. We confirm that we have fulfilled these responsibilities. All the accounting records and supporting documentation have been made available to you for the purpose of your audit and all the transactions undertaken by the company have been properly reflected and recorded in the accounting records. Significant assumptions used in making accounting estimates are reasonable.
- 2 All minutes of meetings have been made available to you.
- 3 We also acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- 4 There have been no irregularities involving management, employees who have a significant role in internal control, or others where the irregularity could have a material effect on the financial statements.
- 5 The financial statements are free from material misstatements, including omissions.
- 6 We have fully disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. There have been no allegations of fraud or suspected fraud affecting the financial statements communicated to us by employees or others.
- 7 There have been no communications from regulatory authorities concerning non-compliance with, or deficiencies in, financial reporting practices.
- 8 At year-ends, the local council had no liabilities or contingent liabilities other than those disclosed in the accounts. In this respect, any litigations and claims against the local council have been communicated to you.
- 9 There are no:
 - (a) Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - (b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and that must be disclosed.

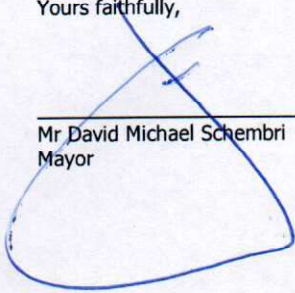
- 10 FSS has, where applicable, been correctly deducted and accounted for on all relevant payments made by the local council to its employees.
- 11 All loans receivable and amounts due from debtors are collectible except for those amounts for which full provision has been made in the financial statements.
- 12 There have been no events subsequent to the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto, other than those already disclosed or included in the accounts.
- 13 The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:
- (a) losses arising from sale and purchase commitments;
 - (b) agreements and options to buy back assets previously sold; and
 - (c) assets pledged as collateral.
- 14 Related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees have been properly recorded or disclosed in the financial statements. We have disclosed to you the identity of all related parties and transactions with them relevant to the local council; and that we are not aware of any further related party matters that require disclosure.
- 15 The local council has not contracted for, nor authorised, any capital expenditure other than as disclosed in the financial statements.
- 16 We confirm that there has been no possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the local council conducts its business.
- 17 We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- 18 The local council has satisfactory title to all assets and there are no liens or encumbrances on the local council's assets which have not been disclosed to you.
- 19 We confirm that the local council had bank accounts with Bank of Valletta p.l.c., HSBC Bank Malta p.l.c. and Central Bank of Malta only.
- 20 We hereby confirm that the audit adjustment listed below were communicated to us during course of the 2019 audit and that we do not want to adjust for them in this year's financial statements on grounds that they are not material:

A.	DR	Income	€7,465
	CR	Debtors' control account	€7,465
		Being extrapolated potential overstatement of trade receivables.	

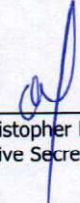
We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where relevant, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

This letter is signed on behalf of the council members.

Yours faithfully,


Mr David Michael Schembri
Mayor




Mr Christopher Falzon
Executive Secretary