

**LOCAL COUNCIL RABAT (GOZO)**

Notes to the financial statements (continued)  
for the year ended 31 December 2019

**12 a. Property, Plant and Equipment**

	Construction Works	Office Furn. & fittings	New Street Signs	Trees	Urban improv	Office equip	Plant & Mach.	Special programmes	Total
<u>Cost</u>	€	€	€	€	€	€	€	€	€
At 01 January 2019	3,236,502	44,146	11,784	33,145	604,857	29,753	12,744	252,614	4,225,545
Additions	14,978	885	-	-	1,901	-	-	-	17,764
At 31 December 2019	3,251,480	45,031	11,784	33,145	606,758	29,753	12,744	252,614	4,243,309
<u>Grants and other reimbursements</u>									
At 01 January 2019	1,833,608	-	-	33,145	6,115	5,000	-	162,879	2,040,747
Movements	-	-	-	-	-	-	-	-	-
At 31 December 2019	1,833,608	-	-	33,145	6,115	5,000	-	162,879	2,040,747
<u>Depreciation</u>									
At 01 January 2019	837,500	27,267	11,784	-	477,577	24,753	2,721	89,735	1,471,337
Charge for the year	141,908	3,317	-	-	59,953	-	2,727	-	207,905
At 31 December 2019	979,408	30,584	11,784	-	537,530	24,753	5,448	89,735	1,679,242
<u>Net book value</u>									
At 31 December 2019	€ 438,464	14,447	-	-	63,113	-	7,296	-	523,320
At 31 December 2018	€ 565,394	16,879	-	-	121,165	-	10,023	-	713,461

**LOCAL COUNCIL RABAT (GOZO)**

Notes to the financial statements (continued)  
for the year ended 31 December 2018

**12 b. Property, Plant and Equipment**

<u>Cost</u>	Construction Works	Office Furn. & fittings	New Street Signs	Trees	Urban improv	Office equip	Plant & Mach.	Special programmes	Total
	€	€	€	€	€	€	€	€	€
At 01 January 2018	3,199,137	41,847	11,784	33,145	592,434	29,753	4,446	252,614	4,165,160
Additions	37,365	2,299	-	-	12,423	-	8,298	-	60,385
At 31 December 2018	3,236,502	44,146	11,784	33,145	604,857	29,753	12,744	252,614	4,225,545
<u>Grants and other reimbursements</u>									
At 01 January 2018	1,833,608	-	-	33,145	6,115	5,000	-	162,879	2,040,747
Movements	-	-	-	-	-	-	-	-	-
At 31 December 2018	1,833,608	-	-	33,145	6,115	5,000	-	162,879	2,040,747
<u>Depreciation</u>									
At 01 January 2018	698,989	23,988	11,784	-	417,914	19,669	1,538	89,735	1,263,617
Charge for the year	138,511	3,279	-	-	59,663	5,084	1,183	-	207,720
At 31 December 2018	837,500	27,267	11,784	-	477,577	24,753	2,721	89,735	1,471,337
<u>Net book value</u>									
At 31 December 2018	€ 565,394	16,879	-	-	121,165	-	10,023	-	713,461
At 31 December 2017	€ 666,540	17,859	-	-	168,405	5,084	2,908	-	860,796

## LOCAL COUNCIL RABAT (GOZO)

### Notes to the financial statement for the year ended 31 December 2019

#### 13. Intangible assets

	Web-site	Software	Total
<i>Gross carrying amount</i>	€	€	€
Balance at 01 January 2019	8236	-	8,236
Additions	0	1,821	1,821
Balance at 31 December 2019	8236	1,821	10,057
Balance at 01 January 2019	6515	-	6,515
Amortisation	1721	38	1,759
Balance at 31 December 2019	8236	38	8,274
Carrying amount at 31 December 2019	€ -	1,783	1,783
		<b>2019</b>	<b>2018</b>
		€	€

#### 14 Inventories

Books and other publications	€	25,731	€	26,344
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#### 15. Receivables

		2019	2018
LES receivables	note	-	-
Trade receivables		33,774	21,414
Other receivables		14,076	14,076
Prepayments and accrued income		135,027	137,533
		€ 182,877	€ 173,023

LES receivables are stated after a specific provision for doubtful debts:

#### *Provision for bad debts*

		€	€
Balance brought forward		97,761	97,866
Movement		-	(105)
Balance carried forward	€	97,761	€ 97,761

#### Receivables are analysed as follows:

		€	€
Within credit limit		47,795	37,466
Exceeded credit period but not impaired		135,082	135,557
	€	182,877	€ 173,023

**LOCAL COUNCIL RABAT (GOZO)**

**Notes to the financial statement  
for the year ended 31 December 2019**

**16. Cash and Equivalents**

Cash and cash equivalents included in the statement of cash flows comprise the following amounts in the Local Council Statement of Financial Position:

	<b>2019</b>	<b>2018</b>
	€	€
Bank balances Savings and term Cash in hand	154,712 172	129,789 123
	<u>154,884</u>	<u>129,912</u>
Overdrawn bank balance	(47,963)	(7,395)
	<u>€ 106,921</u>	<u>€ 122,517</u>

**17. Deferred income**

	<b>2019</b>	<b>2018</b>
	€	€
Balance brought forward	106,413	28,500
Movement for the year	5,075	77,913
	<u>111,488</u>	<u>106,413</u>
Released during the year	-	-
Balance carried forward	<u>€ 111,488</u>	<u>€ 106,413</u>
<i>Current deferred income</i>	<u>€ 111,488</u>	<u>€ 106,413</u>

**18. Payables and accruals**

	Note	<b>2019</b>	<b>2018</b>
		€	€
Accounts payable		405,629	430,064
Accruals and other payables		304,711	348,801
Deferred income (current portion)	17	111,488	106,413
Overdrawn bank balance		47,963	7,395
		<u>€ 869,791</u>	<u>€ 892,673</u>



## LOCAL COUNCIL RABAT (GOZO)

### Notes to the financial statement for the year ended 31 December 2019

18. Payables and accruals (continued)	2019	2018
Payables are analysed as follows :	€	€
(i) Current portion	648,545	661,427
(ii) Non current portion		
Payables between 1 and 2 years	91,870	91,870
Payables between 2 and 5 years	129,376	139,376
Payables in 5 years or more	-	-
	€ 221,246	€ 231,246

19. Capital Commitments	2019	2018
	€	€
(i) Details of capital commitments are as follows:		
Approved but not yet contracted for (ii)	114,487	120,151
(ii) Approved but not yet contracted for:		
Safety fence at Victoria Playing Field	8,074	8,074
Gazebo at Victoria Playing Field	-	5,664
Resurfacing of Triq Gorg Pisani	98,913	98,913
Trees in Pjazza Indipendenza	7,500	7,500
	€ 114,487	€ 120,151

### 20. Contingent liabilities

- i) The Council is in dispute with a local contractor who had caused damages to a third party. The third party who suffered the damages was paid directly by the council the amount of Eur 14,076. The council is claiming the amount of Eur 14,076, plus Eur 5,335 in legal fees from the contractor. Hence the amount of Eur 14,076 is currently shown as other receivables in these financial statements.
- ii) The Water Services Corporation is objecting an amount of about Eur 66,000 which the Local Council is claiming from it, since according to the Corporation no works requiring road re-instatement was carried out in the roads listed by the Council while some other jobs were not even carried out.
- iii) Invoices of WasteServ Malta Limited amounting to Euro 13,007 are not accounted for because they are in dispute. Similarly there is an invoice of Euro 5,575 of Gatt Contractor which is being contested.
- iv) Two legal cases are being held against the Council, one regarding the movement of the 'Monti' from Pjazza Indipendenza and the other by the residents regarding the works done in Pjazza San Gorg. No provisions for these disputes were accounted for.

## LOCAL COUNCIL RABAT (GOZO)

### Notes to the financial statement for the year ended 31 December 2019

#### 21. Financial instruments

The Council's activities expose it to credit risk and liquidity risk through its use of financial instruments which result from its operating activities. The Council is not exposed to any market risk. The Council's risk management is coordinated by the Council members and focuses on actively securing the Council's short to medium term cash flow by minimising exposure to financial risks.

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

##### *Credit risk*

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

<i>Class of financial assets - carrying amounts</i>	<b>2019</b>	<b>2018</b>
	€	€
Trade and other receivables	182,877	173,023
Cash and Cash Equivalents	154,884	129,912
	<u>€ 337,761</u>	<u>€ 302,935</u>

The Council continuously monitors defaults of counterparties, identified either individually or by group and incorporates this information into its credit risk controls. The Council's policy is to deal with only creditworthy counterparties.

The Council considers that the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the Council's financial assets is secured by collateral or other credit enhancements

The credit risk for liquid funds is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

##### *Liquidity risk*

The Council's exposure to liquidity risk arises from its obligations to meet its financial liabilities which comprise payables. Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities to ensure the availability of an adequate amount of funds to meet the Council's obligations when they become due.

The Council manages its liquidity needs through yearly budgets and business plans by carefully monitoring expected cash inflows and outflows on a daily basis.

## LOCAL COUNCIL RABAT (GOZO)

### Notes to the financial statement for the year ended 31 December 2019

#### 21. Financial instruments (continued)

	2019	2018
Payables	€ 758,303	€ 786,260

#### *Other risks*

The Council's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Council to cash flow interest rate risk. In general, the Council's exposure to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financing position and cash flows are not deemed to be substantial by the Councillors and Executive Secretary in view of the nature of the assets and liabilities.

#### 22. Related party transactions and disclosures

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

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Councils	Significant control
Gozo Regional Committee	Joint Control
Central Regional Committee	No Control
Regional Committees	No Control
Water Services Corporation	No Control
Enemalta Corporation	No Control
Wasteserv Malta Limited	No Control
Malta Environment and Planning Authority	No Control
Department of Lands	No Control
Director General - Works Division	No Control
Police General Headquarters	No Control
Office of the Prime Minister	No Control
Office of the Commissioner for Data Protection	No Control
Association of Local Councils' Secretaries	No Control
Ministry for Resources and Rural Affairs	No Control

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

	2019	2018
Income		
Annual financial allocation	€ 579,332	€ 549,237

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



**LOCAL COUNCIL RABAT (GOZO)**

**Notes to the financial statement  
for the year ended 31 December 2019**

**22. Related party transactions and disclosures (continued)**

The Council also receives revenue from other Government entities such as Water Services Corporation for trenching works carried out in the locality, and for the reinstatement of roads as a result of the trenching works.

**Key management compensation**

Transactions with key management personnel are disclosed in note 7.

**23. Fair value estimation**

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

**24. Going Concern**

The Statement of Financial Position suggests that the going concern assumption used in the preparation of these financial statements is dependent on support from its creditors and other sources of funds. Any adverse change in either of these assumptions above, would not let the Council be able to meet its financial obligations as they fall due without curtailing its future commitments.



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F +356 2149 3318[www.rsm.com.mt](http://www.rsm.com.mt)**LOCAL COUNCIL RABAT (GOZO)****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 Local Council Rabat (Gozo), which comprise the statement of financial position as at 31 December 2019, and 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 information set out on pages 3 – 21.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the financial statements give a true and fair view of the financial position of the Local Council as of 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 European Union.

**Basis for Qualified Opinion**

The cost of the property, plant and equipment shown in these financial statements is understated by around €50,000 being construction works on roads which have been carried out in previous years but have never been invoiced due to unsolved disputes. These costs have not been accrued for and therefore the accruals are understated by the same amount. Depreciation at the rate of 10% should have been calculated and accounted for on such costs. Therefore, the accumulated depreciation of property, plant and equipment is understated while the retained earnings are overstated by approximately €45,000.

No fixed assets register was provided to us during our audit and consequently, we could not carry out satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the property, plant and equipment shown in the statement of financial position with a carrying value of €523,320.

Included in the amount shown under prepayments and accrued income is an amount of €65,550 receivable from Water Services Corporation. This amount has been due for years and it is being objected by the Corporation on the basis that they have been overcharged since they were charged for roads in which works have not been carried out as is being claimed by the Local Council. A note on this matter has been included in the contingent liabilities note 20. Furthermore, included under prepayments and accrued income are €9,690 relating to funds under the 'Greening the Community' Scheme for trees that were planted back in 2015 and €13,560 relating to administrative fees for contraventions paid at the Local Council that have been pending for a number of years. No provision for doubtful debts has been provided for in respect of the disputed amount and the long outstanding balances despite their recoverability is seriously doubtful.

## **REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued**

### **Basis for Qualified Opinion - continued**

In the statement of financial position on page 4, part of the accruals amounting to €221,246 have been classified as non-current liabilities. These accruals relate to road resurfacing works carried out in prior years. We were not provided with any appropriate audit evidence that shows that new payment terms were agreed with the supplier. We could therefore not satisfy ourselves as to the correctness of the classification of this amount as non-current. Furthermore, the non-current liability has not been accounted for at the amortized cost using the effective interest method in accordance with IFRS 9: Financial Instruments.

When testing the accounts payable, just three confirmations were received out of the samples chosen. This means that the correctness of the other accounts payable chosen, amounting to €155,025, could not be confirmed. There were no practical alternative audit procedures that we could apply to confirm the correctness and completeness of the accounts payable. We would also like to make reference to the contingent liabilities note 20 (iii) which states that invoices amounting to €18,582 have not been accounted for as the Local Council is contesting these invoices.

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 Local 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.

### **Material Uncertainty Related to Going Concern**

We draw attention to the Local Council's Statement of Financial Position on page 4 which shows that as at 31<sup>st</sup> December 2019, the current liabilities of the Local Council exceeded its current assets by €285,053. This condition indicates that a material uncertainty exists that may cast significant doubt as to whether the Local Council will be able to meet its liabilities as and when they fall due. Our opinion is not modified in respect of this matter.

### **Other Information**

The Executive Secretary and the Local Council Members are responsible for the other information. The other information comprises the Statement of Local Council Members' and Executive Secretary's Responsibilities. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## **REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued**

### **Council Responsibilities for the Financial Statements**

As described on page 2, the Executive Secretary and the Local Council Members are 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 European Union, and for such internal control as the Executive Secretary and the Local Council Members 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 Executive Secretary and the Local Council Members are responsible for assessing the Local 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 it is inappropriate to presume that the Local Council will continue as a going concern.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 skepticism 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 Local Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Secretary and the Local Council Members.
- Conclude on the appropriateness of the Executive Secretary's and the Local Council Members' 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 Local 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 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 auditor's report. However, future events or conditions may cause the Local Council to cease to continue as a going concern.

## REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued


### Auditor's Responsibilities for the Audit of the Financial Statements - continued

- 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 and the Local Council Members 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 Other Legal and Regulatory Requirements

In our opinion, the financial statements have been properly prepared in accordance with the Local Councils Act (Cap. 363), the Financial Regulations issued in terms of the said Act and the Local Councils (Financial) Procedures.



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

RSM Malta  
Certified Public Accountants

Date: 20<sup>th</sup> May 2020