



GOZO REGIONAL COMMITTEE

**Annual Report
and
Financial Statements**

for the year ended 31 December 2018



Prepared by

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ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2018

| <i>CONTENTS</i> | <i>PAGES</i> |
|--|--------------|
| Statement of Regional Committee's and Executive Secretary's responsibilities | 3 |
| Statement of Comprehensive Income | 4 |
| Statement of Financial Position | 5 |
| Statement of Changes in Equity | 6 |
| Statement of Cash Flows | 7 |
| Notes to Financial Statements | 8 - 19 |
| Report of the Local Government Auditor to the Auditor General | 20 - 23 |

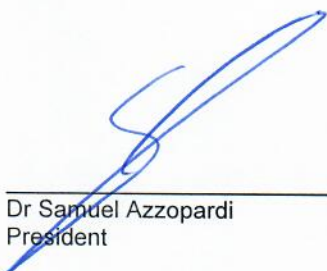
Financial Statements for the year ended 31 December 2018

Statement of Regional Committee's Members' and Executive Secretary's Responsibilities


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

This statement was approved by the Gozo Regional Committee on the 28th February 2020 and was signed on its behalf by:



Dr Samuel Azzopardi
President



George Refalo
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | | 2018 € | 2017 € |
|---|--------------|------------------|------------------|
| INCOME | <i>Notes</i> | | |
| Funds received from Central Government | 4 | 60,000 | 60,000 |
| Funds raised under Local Enforcement System | 5 | 185 | 1,529 |
| General Income | 6 | 80,532 | 58,573 |
| | | <u>140,717</u> | <u>120,102</u> |
| EXPENDITURE | | | |
| Personal emoluments | 8 | (38,636) | (23,626) |
| Operations and maintenance | 9 | (60,874) | (76,610) |
| Administration and other expenditure | 10 | (32,838) | (66,879) |
| | | <u>(132,348)</u> | <u>(167,115)</u> |
| TOTAL COMPREHENSIVE SURPLUS /(LOSS) FOR THE YEAR | | <u>8,369</u> | <u>(47,013)</u> |


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

STATEMENT OF FINANCIAL POSITION


As at 31 December 2018

| | <i>Note</i> | 2018 € | 2017 € |
|-------------------------------------|-------------|-----------------------|-----------------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, plant and equipment | 11 | <u>9,359</u> | <u>1,982</u> |
| | | <u>9,359</u> | <u>1,982</u> |
| Current Assets | | | |
| Receivables | 12 | 153,667 | 86,387 |
| Cash and Cash Equivalents | 13 | <u>120,129</u> | <u>195,465</u> |
| | | <u>273,796</u> | <u>281,852</u> |
| Total Assets | | <u><u>283,155</u></u> | <u><u>283,834</u></u> |
| EQUITY AND LIABILITIES | | | |
| Reserves | | | |
| Accumulated losses | | <u>(201,715)</u> | <u>(210,084)</u> |
| | | <u>(201,715)</u> | <u>(210,084)</u> |
| Non-Current Liabilities | | | |
| Long term borrowings | 15 | <u>201,599</u> | <u>201,599</u> |
| Current Liabilities | | | |
| Payables | 14 | 161,360 | 102,594 |
| Deferred income | 14 | <u>121,911</u> | <u>189,725</u> |
| | | <u>283,271</u> | <u>292,319</u> |
| Total Equity and Liabilities | | <u><u>283,155</u></u> | <u><u>283,834</u></u> |

These Financial Statements were approved by the Regional Committee on the 28th February 2020 and signed on its behalf by:



Dr Samuel Azzopardi
President



George Refalo
Executive Secretary

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

| | Accumulated Losses € |
|--|-------------------------------------|
| At 1 January 2017 | (163,071) |
| Total comprehensive loss or the year | (47,013) |
| At 31 December 2017 | (210,084) |
| At 1 January 2018 | (210,084) |
| Total comprehensive surplus for the year | 8,369 |
| At 31 December 2018 | (201,715) |

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

| | 2018 € | 2017 € |
|---|-------------------|------------------|
| | Note | |
| Cash flows from Operating Activities | | |
| Total comprehensive surplus/(loss) for the year | 8,369 | (47,013) |
| Adjustments for: | | |
| Provision for bad debts | 4,373 | 39,176 |
| Reduction in value of PPE in line with Directive 1/2017 | 191 | - |
| Depreciation | 1,125 | 275 |
| Operating surplus/(loss) before working capital changes | <u>14,058</u> | <u>(7,562)</u> |
| Increase in Receivables | (61,653) | (54,605) |
| Decrease in Payables | <u>(57,048)</u> | <u>(101,026)</u> |
| Net Cash outflows from Operating Activities | <u>(104,643)</u> | <u>(163,193)</u> |
| Cash flows from Investing Activities | | |
| Purchase of Tangible Fixed Assets | <u>(8,693)</u> | <u>(385)</u> |
| Cash flows from Financing Activities | | |
| Loan from third party | 48,000 | 201,599 |
| Loan to related party | <u>(10,000)</u> | <u>-</u> |
| Cash generated from financing activities | <u>38,000</u> | <u>201,599</u> |
| Net (decrease)/increase in Cash and Cash Equivalents | (75,336) | 38,021 |
| Cash and Cash Equivalents at the Beginning of the Year | <u>195,465</u> | <u>157,444</u> |
| Cash and Cash Equivalents at the End of the Year | 12 <u>120,129</u> | <u>195,465</u> |

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

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

1. General Information

Gozo Regional Committee is the Regional Authority of Gozo setup in accordance with the Local Councils Act, 1993 and legal Notices 91 and 92 of 1993. The Gozo Regional Committee has been established under the provisions of Art 37A (1) of the Act in accordance with Legal Notice 320 of 2012 dated 5th August 2012.

The office of the Gozo Regional Committee is situated at Office B, The Duke Business Centre, 10th June 1887 Street, Victoria, Gozo, VCT1017, Malta.

These financial statements were approved for issue by the Region Members on the 28th February 2020. The Regional Committee's presentation as well as functional currency is denominated in €.

2. Accounting Policies and Reporting Procedures

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

Accounting convention

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

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

New and amended standards adopted by the Regional Committee

In the current year, Regional Committee has applied a number of amendments to IFRS issued by the International Accounting Standards Boards (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

IFRS 9 Financial Instruments

The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI').

Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

Notes to the Financial Statements for the year ended 31 December 2018**2. Accounting Policies and Reporting Procedures (cont.)**

IFRS 15 Revenue from Contracts with Customers

The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

New Standards and amendments not yet effective:

A number of new International Financial Reporting Standards and amendments and revisions thereto were in issue but not yet effective during the financial period under review. These include the following:

IFRS 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset and an interest expense on the recognised lease liability. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

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

Property, plant and equipment

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

| | |
|-------------------------------|-----|
| | % |
| Office Furniture and Fittings | 7.5 |
| Office Equipment | 20 |
| Computer Equipment | 25 |

The change in the deprecation method from reducing balance to straight line method took place as of January 2018 and has been effected according to the instructions in the DLG Directive 1/2017.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each statement of financial position date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

2. Accounting Policies and Reporting Procedures (cont.)

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Regional Committee and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Leases

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

Impairment of Assets

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

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 Regional Committee 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.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds and the redemption value is recognised in the income and expenditure account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Regional Committee has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Other payables

Other payables are classified with current liabilities and are stated at their nominal value unless the effect of discounting is material in which case other payables are measured at amortised cost using the effective interest method.

Financial instruments

Financial assets and financial liabilities are recognised when the Regional Committee becomes a party to the contractual provisions of a financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs. They are measured subsequently as described below.

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

2. Accounting Policies and Reporting Procedures (cont.)

Financial assets

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

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

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

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

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

Financial liabilities

The Regional Committee's financial liabilities include other payables. These are stated at their nominal amount which is a reasonable approximation of fair value.

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

Related parties

Related parties are those persons or bodies of persons having relationships with the Regional Committee as defined in International Accounting Standard No. 24.

Revenue

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs and it can be measured reliably. Interest income is recognised in the statement of comprehensive income as it accrues.

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

Local Enforcement Income

Local Enforcement income represents the income as it accrues from contraventions as controlled by the Local Enforcement System Agency. The amount receivable from the Local Enforcement System is disclosed in the statement of financial position.

Government grants

Government grants relating to operating expenditure are recognized in the statement of Comprehensive Income in the same period that the related expenditure is incurred.

Government grants relating to the purchase of property, plant and equipment are accounted for using the capital approach, and are thus deducted from the carrying amount of the relative non-current asset.

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

2. Accounting Policies and Reporting Procedures (cont.)

Up to year ended 31st December 2017, government grants were accounted for using the income approach according to IAS20 *Accounting for Government Grants and Disclosure of Government Assistance*. On 1st January 2018, the capital approach, according to IAS20, has been adopted, in line with the Directive No. 1/2017 issued by the Department for Local Government. This is a change in accounting policy, and according to IAS8 *Accounting Policies, Changes in Accounting Estimates and Errors*, it has been accounted for retrospectively.

Foreign currencies

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

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

Borrowing costs

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

Profits and losses

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

Cash and cash equivalents

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

Capital Management

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

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

To achieve the above, the Regional Committee carries out a quarterly review of the working capital ratio ("Financial Situation Indicator"). This ratio was negative at the reporting date. The Regional Committee also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

3. Judgments in applying accounting policies and key sources of estimation

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

In the opinion of the Regional Committee, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

4. Income received from Central Government

| | 2018 € | 2017 € |
|----------------------------|---------------|---------------|
| Street Lighting Devolution | <u>60,000</u> | <u>60,000</u> |

5. Income raised from Local Enforcement System

| | 2018 € | 2017 € |
|----------------------------|------------|--------------|
| Income from Contraventions | <u>185</u> | <u>1,529</u> |

6. General Income

| | 2018 € | 2017 € |
|------------------------------------|---------------|---------------|
| Reimbursement of Payroll from LESA | 79,972 | 58,573 |
| Sponsorship | 560 | - |
| | <u>80,532</u> | <u>58,573</u> |

7. Surplus / (Loss) for the year

| | 2018 € | 2017 € |
|---|-----------|-----------|
| Surplus / (Loss) for the year is stated after charging: | | |
| Staff salaries | 38,636 | 23,626 |
| Depreciation of property plant & equipment | 1,125 | 276 |
| Movement in provision for doubtful debts | 4,373 | 39,176 |

8. Personal Emoluments

| | 2018 € | 2017 € |
|--|-----------------|-----------------|
| Personal emoluments include, inter alia: | | |
| President's Honoraria | 7,389 | 7,272 |
| Executive Secretary salary and allowances | 31,314 | 30,241 |
| Employee's Salaries | 35,773 | 17,431 |
| Social Security Contributions | 5,496 | 3,629 |
| | <u>79,972</u> | <u>58,573</u> |
| Reclassification of payroll costs to EU Projects | <u>(41,336)</u> | <u>(34,947)</u> |
| | <u>38,636</u> | <u>23,626</u> |

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**9. Operations and Maintenance****Contractual Services:**

| | 2018 € | 2017 € |
|-------------------------------------|---------------|---------------|
| Street Lighting | 46,728 | 46,728 |
| Local Enforcement System - expenses | 14,146 | 29,882 |
| | <u>60,874</u> | <u>76,610</u> |

The Gozo Regional Committee was served with a decision in October 2018 from the Malta Arbitration Centre by which they were found liable to pay a liquidated amount of Eur23,000 excluding VAT to the previous Authorised Officer of the LES System, which amount was accrued for in 2017. Furthermore, the Regional Committee also accounted for legal and court expenses and bank interest which the Committee incurred on this case in 2018. The Regional Committee made a request to the Ministry of Finance through Department for Local Government to be reimbursed for these expenses, for which the Council was awaiting a reply by year end.

10. Administration and other expenditure

| | 2018 € | 2017 € |
|---|---------------|---------------|
| Utilities | 1,849 | 4,263 |
| Rent | 9,488 | 5,294 |
| Office Services | 3,620 | 2,087 |
| Travel | 1,162 | 1,463 |
| Transport | 910 | 859 |
| Information services | - | 19 |
| Other contractual services | 11 | 1,518 |
| Professional Services | 2,999 | 5,032 |
| Public relations | 1,396 | 3,956 |
| Community and Hospitality | 5,714 | 2,936 |
| Movement in provision for bad debts | 4,373 | 39,176 |
| Reduction in value of PPE in line with Directive 1/2017 | 191 | - |
| Depreciation | 1,125 | 276 |
| | <u>32,838</u> | <u>66,879</u> |

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

11. Property, Plant and Equipment

| | Office Equipment | Computer Equipment | Furniture & Fittings | Total |
|---------------------------------|---------------------|-----------------------|-------------------------|--------|
| | € | € | € | € |
| Cost | | | | |
| At 1 January 2018 | 35 | 1,881 | 1,360 | 3,276 |
| Additions for the year | 256 | 1,370 | 7,067 | 8,693 |
| At 31 December 2018 | 291 | 3,251 | 8,427 | 11,969 |
| Depreciation | | | | |
| At 1 January 2018 | 27 | 1,145 | 122 | 1,294 |
| Charge for the year | 40 | 545 | 540 | 1,125 |
| Adjustment Directive 1/2017 | 8 | 183 | - | 191 |
| At 31 December 2018 | 75 | 1,873 | 662 | 2,610 |
| Net Book values | | | | |
| At 31 December 2018 | 216 | 1,378 | 7,765 | 9,359 |
| 2017 | | | | |
| | Office Equipment | Computer Equipment | Furniture & Fittings | Total |
| | € | € | € | € |
| Cost | | | | |
| At 1 January 2017 | 35 | 1,881 | 975 | 2,891 |
| Additions for the year | - | - | 385 | 385 |
| At 31 December 2017 | 35 | 1,881 | 1,360 | 3,276 |
| Accumulated Depreciation | | | | |
| At 1 January 2017 | 25 | 944 | 50 | 1,019 |
| Charge for the year | 2 | 201 | 72 | 275 |
| At 31 December 2017 | 27 | 1,145 | 122 | 1,294 |
| Net Book Value | | | | |
| At 31 December 2017 | 8 | 736 | 1,238 | 1,982 |

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**12. Receivables**

| | 2018 € | 2017 € |
|--------------------------------|----------------|---------------|
| Other receivables | 32,079 | 22,874 |
| EU Funds receivables | 113,574 | 45,660 |
| Prepayments and accrued income | 8,014 | 17,853 |
| | <u>153,667</u> | <u>86,387</u> |

Receivables

General receivables are analysed as follows:

| | 2018 € | 2017 € |
|---|----------------|---------------|
| Within credit period | 145,057 | 78,671 |
| Exceeded credit period but not impaired | 8,610 | 7,716 |
| Impaired and provided for | 103,234 | 98,860 |
| Provision for doubtful debts | (103,234) | (98,860) |
| | <u>153,667</u> | <u>86,387</u> |

Accrued income consists of amounts receivable for contraventions which were unpaid as at year end. Contraventions which were unpaid as at year end on which the tribunal has issued a decision by December 2016 were considered doubtful and a provision for these amounts was recorded in the financial statements. These amounts which were considered as irrecoverable totalled to Euro 103,234 (2017 - Euro 98,860).

13. Cash and Cash Equivalents

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

| | 2018 € | 2017 € |
|--------------|----------------|----------------|
| Bank Balance | 120,112 | 195,448 |
| Cash in hand | 17 | 17 |
| | <u>120,129</u> | <u>195,465</u> |

14. Liabilities

| | 2018 € | 2017 € |
|------------------------------|----------------|----------------|
| Other payables | 111,857 | 63,718 |
| Accruals and deferred income | 49,503 | 38,876 |
| Deferred income | 121,911 | 189,725 |
| | <u>283,271</u> | <u>292,319</u> |

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**15. Non-Current Liabilities**

| | 2018 | 2017 |
|--------------------------------------|----------------|----------------|
| | € | € |
| Non-current | | |
| Related party borrowings | <u>201,599</u> | <u>201,599</u> |
| Borrowings | | |
| Repayable between one and two years | - | - |
| Repayable between two and five years | - | - |
| Repayable in five years or more | <u>201,599</u> | <u>201,599</u> |
| | <u>201,599</u> | <u>201,599</u> |

Loan from related party represents the transfer of debt which was pending with the main contractors of the Local Enforcement System from the Gozo Regional Committee to Local Enforcement System Agency. No repayment terms have been agreed with LESA for the payment of this balance.

16. Related Party Disclosures and Transactions

The Government of Malta, specifically the Department of Local Government, is considered to be the ultimate controlling party.

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

| <i>Name of Entity</i> | <i>Nature of relationship</i> |
|--|-------------------------------|
| Local Enforcement System Agency | No control |
| Local Councils of Malta and Gozo | No control |
| Water Services Corporation | No control |
| Enemalta Corporation | No control |
| Arms Limited | No control |
| Police General Headquarters | No control |
| Airmalta plc | No control |
| Bank of Valletta plc | No control |
| Office of the Prime Minister | No control |
| Housing Authority | No control |
| Local Councils' Association | 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 |

Transactions were carried out with Central Government for the payment of Street Lighting Devolution for the amount of €60,000 (2017: €60,000)

Transactions were carried out with other Local Councils and Government entities that do not have control over the Region. These mainly include various Local Councils in Malta and Gozo and amount to €11 (2017: €837), representing administration fees on contraventions paid.

17. Fair value of financial assets and financial liabilities

At 31 December 2018 and at 31 December 2017, the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively, approximated their fair values due to the short term maturities of these assets and liabilities. The fair values of non-current financial assets and non-current financial liabilities are not materially different from their carrying amount.

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)**18. Financial Risk Management**

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

Credit risk

Financial assets which potentially subject the Regional Committee to concentrations of credit risk consist principally of cash at bank and receivables. The Regional Committee's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution.

It is the policy of the Regional Committee as guided by the National Audit Office to provide for balances from receivables which are aged two years or more. In the year under review, the Regional Committee provided for the receivables which are more than 2 years. These amounted to €103,234 and its effect is included in the committee's statement of comprehensive income.

The maximum exposure to credit risk for amounts receivable at the reporting date, net of impairment losses, by type of customer is as follows:

| | |
|-------------------------------------|-----------|
| - Receivables from Related Parties: | € 22,079 |
| - Receivables from Third Parties: | € 131,588 |

Liquidity Risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the Regional Committee's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Regional Committee monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. In fact at year end, the Regional Committee has as cash and cash equivalents the amount of Euro 120,129 (2017: Euro 195,465). This should ensure an ongoing working capital of the Regional Committee for the next 12 months.

Going Concern Risk

The Regional Committee registered a profit of €8,369 (2017: loss of €47,013) during the year ended 31 December 2018, and as at that date, the Regional Committee had a net current asset position of €9,475 (2017: negative net current asset position of €10,467). These financial statements have been prepared on a going concern basis in view of the fact that it is understood that the ultimate controlling party will provide adequate funds for the Regional Committee to cover present liabilities as well as short term obligations and commitments arising.

Summary of financial assets and liabilities by category:

| | 2018 | 2017 |
|--|----------------|----------------|
| | € | € |
| Current Assets | | |
| Loans and receivables: | | |
| Accounts and other receivables | 153,667 | 86,387 |
| Cash and Cash Equivalents | 120,129 | 195,465 |
| | <u>273,796</u> | <u>281,852</u> |
| Current Liabilities | | |
| Financial liabilities measured at amortised costs: | | |
| Payables | 111,857 | 63,718 |
| | <u>111,857</u> | <u>63,718</u> |

Notes to the Financial Statements for the year ended 31 December 2018 (cont.)

18. Financial Risk Management (cont.)

Foreign Currency Risk

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

Interest Rate Risk

The Regional Committee operates bank accounts without any financing facilities. As a result, the Regional Committee is not exposed to cash flow interest rate risk on bank balances.

Market risks

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. The Regional Committee is not exposed to Market Risks.

Other risks

The Regional Committee's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Regional Committee to cash flow interest rate risk. In general, the Regional Committee is not exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financing position and cash flows in view of the nature of the assets and liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of credit facilities and the ability to close out market positions.

19. Prior year figures

The comparative figures in these financial statements have been changed as per the instructions of DLG Directive 1/2017

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We have audited the accompanying financial statements of the Gozo Regional Committee, which comprise the statement of financial position as at 31 December 2018, 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 4 - 19.

In our opinion, except for the effects of the matter 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 Regional Committee as of 31 December 2017, 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

During the year ended 31 December 2017, an amount of €201,599 which was payable to the main contractors of the Local Enforcement System, was transferred from other payables under the current liabilities to amounts due to a related party under the non-current liabilities. This balance remained unchanged as at 31 December 2018. The related party represents the Local Enforcement System Agency (LESA). By the date of issuing this report, we were not provided by any agreement that shows that all the parties involved have agreed on such assignment of debts, nor did we receive a confirmation from LESA of the above-mentioned balance. Due to the lack of such documents, we could not even confirm whether the classification of the liability as non-current is correct. If the classification is correct, the Regional Committee still did not account for the non-current liability in line with IAS 39 - Financial Instruments: Recognition and Measurement. The financial liability should have been measured initially at its fair value and subsequently measured at amortized cost using the effective interest method.

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 Regional Committee 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.

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

Material Uncertainty Related to Going Concern

We draw attention to the Regional Committee's Statement of Financial Position on page 5 which shows that as at 31 December 2018, the total liabilities of the Regional Committee, exceeded its total assets by €201,715. This condition indicates that a material uncertainty exists that may cast significant doubt as to whether the Regional Committee 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 Regional Committee's Members are responsible for the other information. The other information comprises the Statement of Regional Committee's 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.

Executive Secretary and Regional Committee's Members Responsibilities for the Financial Statements

As described on page 3, the Executive Secretary and the Regional Committee's 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 Regional Committee's 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 Regional Committee's Members are responsible for assessing the Regional Committee'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 Regional Committee will continue as a going concern.

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

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

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 Regional Committee'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 Regional Committee's Members.
- Conclude on the appropriateness of the Executive Secretary's and the Regional Committee's 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 Regional Committee'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 Regional Committee 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 and the Regional Committee's 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 OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued

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.

A handwritten signature in blue ink, appearing to be 'Conrad Borg', is written over a faint, circular stamp or watermark.

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

RSM Malta
Certified Public Accountants

Date: 28th February 2020