



GOZO REGIONAL COUNCIL

**Annual Report
and
Financial Statements**

for the year ended 31 December 2020



Prepared by

Daniel Galea B. Accty. (Hons.) CPA

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2020

<i>CONTENTS</i>	<i>PAGES</i>
Statement of Regional Council Members' 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 - 20
Report of the Local Government Auditor to the Auditor General	21 - 23

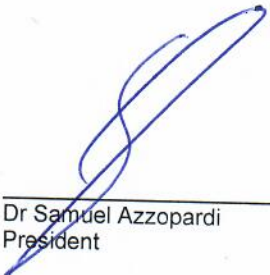
Statement of Regional Council Members' and Executive Secretary's Responsibilities

for the year ended 31 December 2020


The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes the Regional Council's statement of comprehensive income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the Regional 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 Regional Councils, the income and expenditure of the Regional Council 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 Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Regional Council on the 1st October 2021 and signed on its behalf by



Dr Samuel Azzopardi
President



George Refalo
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020


		2020	2019
		€	€
INCOME	<i>Notes</i>		
Funds received from Central Government	4	700,000	680,000
Funds raised under Local Enforcement System	5	530	676
General Income	6	<u>23,629</u>	<u>112,002</u>
		<u>724,159</u>	<u>792,678</u>
 EXPENDITURE			
Personal emoluments	8	(51,207)	(23,276)
Operations and maintenance	9	(45,116)	(47,332)
Administration and other expenditure	10	<u>(127,947)</u>	<u>(48,962)</u>
		<u>(224,270)</u>	<u>(119,570)</u>
 TOTAL COMPREHENSIVE SURPLUS FOR THE YEAR		 <u>499,889</u>	 <u>673,108</u>

STATEMENT OF FINANCIAL POSITION


As at 31 December 2020

		2020 €	2019 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	11	<u>20,756</u>	<u>15,387</u>
		<u>20,756</u>	<u>15,387</u>
Current Assets			
Receivables	12	274,273	494,532
Cash and Cash Equivalents	13	<u>1,964,000</u>	<u>365,942</u>
		<u>2,238,273</u>	<u>860,474</u>
Total Assets		<u><u>2,259,029</u></u>	<u><u>875,861</u></u>
EQUITY AND LIABILITIES			
Reserves			
Retained funds		<u>971,282</u>	<u>471,393</u>
		<u>971,282</u>	<u>471,393</u>
Non-Current Liabilities			
Long term borrowings	15	<u>201,599</u>	<u>201,599</u>
Current Liabilities			
Payables	14	172,379	161,590
Deferred income	14	<u>913,769</u>	<u>41,279</u>
		<u>1,086,148</u>	<u>202,869</u>
Total Equity and Liabilities		<u><u>2,259,029</u></u>	<u><u>875,861</u></u>

These financial statements were approved by the Regional Council on 1st October 2021 and signed on its behalf by:



Dr Samuel Azzopardi
President



George Refalo
Executive Secretary

The notes on pages 8 to 20 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Retained Funds €
At 1 January 2019	(201,715)
Total comprehensive surplus for the year	673,108
	<hr/>
At 31 December 2019	471,393
	<hr/> <hr/>
At 1 January 2020	471,393
Total comprehensive surplus for the year	499,889
	<hr/>
At 31 December 2020	971,282
	<hr/> <hr/>

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 €	2019 €
Cash flows from Operating Activities			
Total comprehensive surplus for the year		499,889	673,108
Adjustments for:			
Provision for bad debts		8,376	5,422
Depreciation		2,287	1,520
Operating Surplus before Working Capital Changes		<u>510,552</u>	680,050
Decrease/(increase) in Receivables		211,883	(346,287)
Increase/(decrease) in Payables		<u>883,280</u>	<u>(80,402)</u>
Cash generated from operating activities		<u>1,605,715</u>	253,361
Cash flows from Investing Activities			
Purchase of Property, plant and equipment		<u>(25,283)</u>	<u>(7,548)</u>
Cash flows from Financing Activities			
Receipt of grant		<u>17,626</u>	-
Cash generated from financing activities		<u>17,626</u>	-
Net Increase in Cash and Cash Equivalents		1,598,058	245,813
Cash and Cash Equivalents at the Beginning of the Year		<u>365,942</u>	<u>120,129</u>
Cash and Cash Equivalents at the End of the Year	12	<u><u>1,964,000</u></u>	<u><u>365,942</u></u>

Notes to the Financial Statements for the year ended 31 December 2020

1. General Information

Gozo Regional Council 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 Council 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 Council 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 Regional Council Members on the 1st October 2021. The Regional Council'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 Council

In the current year, the Regional Council has applied a number of new standards and 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 2020.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements.

New Standards and amendments not yet effective:

At the end of the reporting period, certain new standards, interpretations or amendments thereto, were in issue and endorsed by the EU, but not yet effective for the current financial period. There have been no instances of early adoption of standards, interpretations or amendments ahead of their effective date.

Notes to the Financial Statements for the period ended 31 December 2020 (cont.)**Accounting Policies and Reporting Procedures (cont.)**

The Executive Council Members and Executive Secretary anticipate that the adoption of the 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

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.

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 Council 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.

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 Council will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income.

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 Council 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.

Notes to the Financial Statements for the period ended 31 December 2020 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Financial instruments

Financial assets and financial liabilities are recognised when the Regional Council 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.

Financial assets

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

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

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

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

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

Financial liabilities

The Regional Council'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 Council as defined in International Accounting Standard No. 24.

Notes to the Financial Statements for the period ended 31 December 2020 (cont.)

Accounting Policies and Reporting Procedures (cont.)

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 Council will comply with any conditions attached to it, and that the income will be received. The received income is to be recorded gross and any deductions made for non-compliance are to be disclosed separately with expenses.

Local Enforcement System

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.

Foreign currencies

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

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

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 Statement of Cash Flows, cash and cash equivalents comprise cash in hand and balances held with banks.

Notes to the Financial Statements for the period ended 31 December 2020 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Capital Management

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

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

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

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 Council, 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.

4. Funds received from central government

	2020	2019
	€	€
In terms of section 55 of the Local Councils Act	650,000	630,000
Street Lighting Devolution	50,000	50,000
	<u>700,000</u>	<u>680,000</u>

5. Local Enforcement system

	2020	2019
	€	€
Income from Contraventions	<u>530</u>	<u>676</u>

6. General Income

	2020	2019
	€	€
Reimbursement of Payroll from LESA	-	69,306
Reimbursement of Arbitration cost from DLG	23,629	42,696
	<u>23,629</u>	<u>112,002</u>

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)**7. Operating surplus for the year**

	2020	2019
	€	€
Profit for the year is stated after charging:		
Staff salaries	51,207	23,276
Depreciation of property plant & equipment	2,287	1,520
Movement in provision for doubtful debts	8,376	5,422
	<u>8,376</u>	<u>5,422</u>

8. Personal Emoluments

	2020	2019
	€	€
Personal emoluments include, inter alia:		
President's Honoraria	20,807	13,992
Executive Secretary salary and allowances	32,201	31,386
Employee's Salaries	25,217	22,049
Social Security Contributions	4,399	4,375
	<u>82,624</u>	<u>71,802</u>
Reclassification of payroll costs to EU Projects	(31,417)	(48,526)
	<u>51,207</u>	<u>23,276</u>

9. Operations and Maintenance**Contractual Services:**

	2020	2019
	€	€
Street Lighting	43,808	46,728
Local Enforcement System - expenses	1,308	604
	<u>45,116</u>	<u>47,332</u>

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)**10. Administrative and other expenditure**

	2020	2019
	€	€
Utilities	2,232	2,789
Rent	10,128	9,756
National and International Memberships	576	299
Office Services	5,239	2,807
Travel	210	2,483
Transport	540	1,609
Information services	10	2,413
Other contractual services	6,118	760
Professional Services	5,488	12,456
Public relations	2,809	600
Community and Hospitality	13,935	6,048
Movement in provision for bad debts	8,376	5,422
Reimbursement of Arbitration cost to DLG	69,999	-
Depreciation	2,287	1,520
	<u>127,947</u>	<u>48,962</u>

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

11. Property, plant and equipment

	Office Equipment €	Computer Equipment €	Furniture & Fittings €	Assets not yet Capitalized €	Total €
Cost					
At 1 January 2020	291	3,251	15,975	-	19,517
Additions for the year	1,429	2,738	-	21,116	25,283
At 31 December 2020	1,720	5,989	15,975	21,116	44,800
Depreciation					
At 1 January 2020	126	2,419	1,585	-	4,130
Charge for the year	205	884	1,199	-	2,288
At 31 December 2020	331	3,303	2,784	-	6,418
Grants					
At 1 January 2020	-	-	-	-	-
Received	-	-	-	17,626	17,626
At 31 December 2020	-	-	-	17,626	17,626
Net Book values					
At 31 December 2020	1,389	2,686	13,191	3,490	20,756

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

11. Property, plant and equipment (cont.)

	Office Equipment	Computer Equipment	Furniture & Fittings	Total
	€	€	€	€
Cost				
At 1 January 2019	291	3,251	8,427	11,969
Additions for the year	-	-	7,548	7,548
At 31 December 2019	291	3,251	15,975	19,517
Accumulated Depreciation				
At 1 January 2019	75	1,873	662	2,610
Charge for the year	51	546	923	1,520
At 31 December 2019	126	2,419	1,585	4,130
Net Book Value				
At 31 December 2019	165	832	14,390	15,387

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)

12. Receivables

	2020	2019
	€	€
Other receivables	91,953	97,466
EU Funds receivables	137,054	342,021
Prepayments and accrued income	45,266	55,045
	<u>274,273</u>	<u>494,532</u>

Receivables

General receivables are analysed as follows:

	2020	2019
	€	€
Within credit period	265,897	486,004
Exceeded credit period but not impaired	8,376	8,528
Impaired and provided for	110,458	102,698
Provision for doubtful debts	(110,458)	(102,698)
	<u>274,273</u>	<u>494,532</u>

Accrued income includes 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 2018 were considered doubtful and a provision for these amounts was recorded in the financial statements. These amounts which were considered as irrecoverable totalled to €110,458 (2019 - €102,698).

Included in the accounts receivable are amounts due from related parties amounting to €24,875 (2019 : €20,719). These amounts are unsecured, interest free and repayable on demand.

13. Cash & cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts.

	2020	2019
	€	€
Bank Balance	1,964,000	365,942
	<u>1,964,000</u>	<u>365,942</u>

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)**14. Payables**

	2020	2019
	€	€
Other payables	104,903	148,179
Accruals and deferred income	67,476	13,411
Deferred income	913,769	41,279
	<u>1,086,148</u>	<u>202,869</u>

Included in the accounts payable are amounts due to related parties amounting to €74,574 (2019 : €66,782). These amounts are unsecured, interest free and repayable on demand.

15. Borrowings

	2020	2019
	€	€
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	201,599	201,599
	<u>201,599</u>	<u>201,599</u>

16. Ultimate controlling party

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

17. Financial Risk Management

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

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

Credit risk

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

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)**17. Financial Risk Management (conf.)****Summary of financial assets and liabilities by category:**

	2020	2019
	€	€
Current Assets		
Loans and receivables:		
Accounts and other receivables	274,273	494,532
Cash and Cash Equivalents	1,964,000	365,942
	<u>2,238,273</u>	<u>860,474</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>104,903</u>	<u>148,179</u>

Liquidity Risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the Regional Council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Regional Council 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 Council has as cash and cash equivalents the amount of €1,964,000. This should ensure an ongoing working capital of the Regional Council for the next 12 months. The Regional Council had a net surplus of €499,889 (2019: €673,108) during the year ended 31 December 2020, and as at that date, the Regional Council had a net current asset position of €1,152,125 (2019: €657,605).

Foreign Currency Risk

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

Interest Rate Risk

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

Other risks

Borrowings issued at variable rates expose the Regional Council to cash flow interest rate risk. In general, the Regional 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 Executive Council Members and Executive Secretary 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.

Notes to the Financial Statements for the year ended 31 December 2020 (cont.)**18. Related party transactions**

During the year under review, the Regional Council 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 the Government Allocation amounting to €650,000 (2019: €630,000) and Street Lighting Devolution for the amount of €50,000 (2019: €50,000)

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 €3,951 (2019: €578), representing administration fees on contraventions paid.

The amounts due from / to related parties at year-end are disclosed in notes 12 and 14. The terms and conditions do not specify the nature of the consideration to be provided in settlement. These amounts are unsecured, interest free and repayable on demand.

19. Fair values estimation

At 31 December 2020 and at 31 December 2019, 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.

GOZO REGIONAL COUNCIL

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 the Gozo Regional Council, which comprise the statement of financial position as at 31 December 2020, 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 - 20.

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 Regional Council as of 31 December 2020, 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 2020. 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 Council 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.

When testing the accounts payable, confirmations were only received from half of the samples chosen, despite the various chasing that was carried out. Accounts with balances amounting to €69,732 remained unconfirmed. We could not satisfy ourselves through alternative audit procedures as to the correctness and completeness of the accounts payable.

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 Council in accordance with the ethical requirements of both the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Code of Ethics for Warrant Holders in Malta. 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

Other Information

The Executive Secretary and the Regional Council's Members are responsible for the other information. The other information comprises the Statement of Regional Council'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 Council's Members Responsibilities for the Financial Statements

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

The Executive Secretary and the Regional Council's Members are responsible for overseeing the Regional 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 Regional Council's internal control.

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

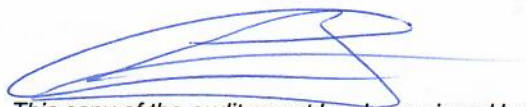
Auditor's Responsibilities for the Audit of the Financial Statements - continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Secretary and the Regional Council's Members.
- Conclude on the appropriateness of the Executive Secretary's and the Regional Council'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 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 Regional Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Executive Secretary and the Regional Council'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 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 (Principal)
for and on behalf of*

RSM Malta
Certified Public Accountants

Date: 1st October 2021