

LOCAL COUNCILS' ASSOCIATION

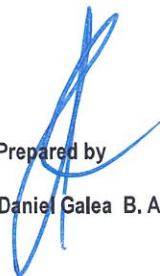
**Annual Report
and
Financial Statements**

for the year ended 31 December 2022



Prepared by

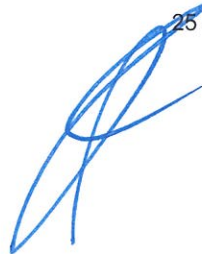
Daniel Galea B. Accty. (Hons.) CPA



ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2022

<i>CONTENTS</i>	<i>PAGES</i>
Statement of Executive Committee 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 the financial statements	8 – 24
Report of the Independent Auditor to the Auditor General	25 – 27



Financial Statements for the year ended 31 December 2022

Statement of Executive Committee 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 Association's statement of comprehensive income for the year and a statement of the Association'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 Association 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, Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Local Councils' Association on the 21st February 2023 and was signed on its behalf by:



Mario Fava
President



Lianne Cassar
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

		2022 €	2021 €
	<i>Notes</i>		
Income			
Funds received from Central Government	4	475,000	240,000
General Income	5	1,631,271	554,618
		<u>2,106,271</u>	<u>794,618</u>
Expenditure			
Personal emoluments	7	(200,783)	(165,643)
Administrative and other expenditure	8	(1,713,051)	(376,256)
		<u>(1,913,834)</u>	<u>(541,899)</u>
Operating surplus for the year		192,437	252,719
Finance income	9	4,317	4,513
Finance cost	10	(3,934)	(5,295)
Total comprehensive surplus for the year		<u><u>192,820</u></u>	<u><u>251,937</u></u>

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

		2022 €	2021 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	11	301,018	194,181
Intangible assets	12	8,136	6,667
Right of use assets	21	38,472	67,669
		<u>347,626</u>	<u>268,517</u>
Current Assets			
Receivables	13	769,986	624,874
Cash and Cash Equivalents	14	2,445,917	2,249,488
		<u>3,215,903</u>	<u>2,874,362</u>
Total Assets		<u><u>3,563,529</u></u>	<u><u>3,142,879</u></u>
RESERVES AND LIABILITIES			
Reserves			
Retained Fund		<u>1,632,394</u>	1,439,574
Non-Current Liabilities			
Lease liabilities	16,22	<u>6,168</u>	<u>38,764</u>
Current Liabilities			
Lease liabilities	16,22	30,878	30,878
Payables	15	1,894,089	1,633,663
		<u>1,924,967</u>	<u>1,664,541</u>
Total Equity and Liabilities		<u><u>3,563,529</u></u>	<u><u>3,142,879</u></u>

These Financial Statements were approved by the Local Councils' Association on the 21st February 2023 and signed on its behalf by:

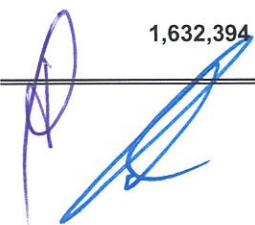
Mario Fava
President

Lianne Cassar
Executive Secretary

The notes on pages 8 to 24 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Retained Funds €
At 1 January 2021	1,187,637
Total comprehensive surplus for the year 2021	251,937
	<hr/>
At 31 December 2021	1,439,574
	<hr/> <hr/>
At 1 January 2022	1,439,574
Total comprehensive surplus for the year 2022	192,820
	<hr/>
At 31 December 2022	1,632,394
	<hr/> 

The notes on pages 8 to 24 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 €	2021 €
	<i>Note</i>	
Cash flows from Operating Activities		
Total comprehensive surplus for the year	192,820	251,937
Reconciliation to cash generated from operations:		
Depreciation and amortisation	30,535	21,456
Depreciation on Right-of-use asset	29,197	29,824
Profit on disposal of asset	(980)	(127)
Interest receivable	(4,317)	(4,513)
Finance cost	3,934	5,295
Operating Profit before Working Capital Changes	<u>251,189</u>	303,872
Increase in receivables	(146,012)	(124,088)
Increase in payables	<u>260,426</u>	1,027,480
Cash generated from operating activities	<u>365,603</u>	1,207,264
Cash flows from Investing Activities		
Interest received	4,317	4,513
Proceeds from disposal of property, plant & equipment	-	1,049
Cash received as a result of Government Grant	-	15,099
Purchase of property, plant & equipment	(135,744)	(75,002)
Purchase of intangible assets	(3,217)	(6,357)
Cash used in investing activities	<u>(134,644)</u>	(60,698)
Cash flows from Financing Activities		
Lease payments	(34,530)	(36,604)
Cash used in investing activities	<u>(34,530)</u>	(36,604)
Net increase in Cash and Cash Equivalents	196,429	1,109,962
Cash and Cash Equivalents at the Beginning of the year	<u>2,249,488</u>	1,139,526
Cash and Cash Equivalents at the End of the year	<u>14</u> <u>2,445,917</u>	<u>2,249,488</u>

The notes on pages 8 to 24 are an integral part of the financial statements.

Notes to the Financial Statements for the year ended 31 December 2022

1. General Information

Local Councils' Association is a local and regional authority set up in accordance with the Local Councils Act, (Cap 363) and the Local Councils (Association) Regulations (Cap 363.06). The office of the Local Councils' Association is situated at Local Government Building, Local Government Road, Marsa Industrial Estate, Marsa, Malta. These financial statements were approved for issue by the Association's Members on the 21st February 2023. The Association'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 standards adopted as at 1 January 2022

Some accounting pronouncements which have become effective from 1 January 2022 and have therefore been adopted do not have a significant impact on the Association's financial results or position.

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

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

Management anticipates that all of the relevant pronouncements will be adopted in the Association's accounting policies for the first period beginning after the effective date of the pronouncement. No new standards, amendments and interpretations are expected to be relevant to the Association's financial statements.

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	20.0
Computer Equipment	25.0

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 Association 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.

Notes to the Financial Statements for the year ended 31 December 2022

Accounting Policies and Reporting Procedures

Assets not yet capitalised represents costs incurred on projects of the Association which are still not finalised and is stated at cost. These include landscaping and a custom made Customer Care IT system. Costs included under assets not yet capitalised will be transferred to Computer Software and Special Programmes upon completion. The account is not depreciated until such time that the asset is completed and available for use.

Intangible assets

Intangible assets include acquired computer software. It is accounted for using the cost model whereby capitalised cost is amortised on a straight-line basis over its estimated useful life, as this asset is considered finite. Residual value and useful life are reviewed at each reporting date. In addition, it is subject to impairment testing.

The following rate is applied:

	%
Computer Software	25

Acquired computer software is capitalised on the basis of the costs incurred to acquire and install the specific software. Fully amortised asset is retained in the accounts until these are no longer in use and no further charge for amortisation is made in respect of those asset.

Leases

The Association as a lessee

At inception of a contract, the Association assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Association assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Association has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Association has the right to direct the use of the asset. The Association has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Association has the right to direct the use of the asset if either:
 - The Association has the right to operate the asset; or
 - The Association designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Association allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Association has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Association recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Association's incremental borrowing rate. Generally, the Association uses its incremental borrowing rate as the discount rate.

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Leases (cont.)

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Association is reasonably certain to exercise, lease payments in an optional renewal period if the Association is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Association is reasonably certain not to terminate early

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Association's estimate of the amount expected to be payable under a residual value guarantee or if the Association changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Association presents separately right-of-use assets in the statement of financial position

Short-term leases and leases of low-value assets

The Association has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Association recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Association as a lessor

As a lessor, the Association classifies its leases as either operating or finance leases. The Association assessed whether it transfers substantially all the risks and rewards of ownership. Those assets that do not transfer substantially all the risks and rewards are classified as operating leases.

Rental income is accounted for on a straight-line basis over the lease term and is recognised as an income in the Statement of Comprehensive Income.

Impairment of non financial assets

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 Association 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.

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Government Grants

Government grants relating to administrative and other 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.

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 trade and other payables are measured at amortised cost using the effective interest method.

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 Association has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Financial instruments

Recognition and derecognition

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

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The Association does not have any financial assets categorised as FVTPL and FVOCI in the periods presented.

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within 'finance costs', 'finance income' or 'other financial items'.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Financial assets at amortised cost (cont.)

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Association's cash and cash equivalents, and most receivables fall into this category of financial instruments.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Association first identifying a credit loss event. Instead, the Association considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date. '12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Classification and measurement of financial liabilities

The Association's financial liabilities include lease liabilities and payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Association designates a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'finance costs' or 'finance income'.

Related parties

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

Income recognition

Income is recognised at the fair value of the amount received or receivable, to the extent that it is probable that future economic benefits will flow to the Association and these can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

Accounting Policies and Reporting Procedures (cont.)

Income recognition (cont.)

Government grants are recognised when there is reasonable assurance that all conditions attaching to them are complied with and the grants will be received. Government grants related to income are recognised in profit or loss over the periods necessary to match them with the related costs which are intended to compensate, on a systematic basis. Such grants are presented as an income in the statement of comprehensive income.

Local Enforcement Income

Local Enforcement Income represents the income as it accrues from contraventions as controlled by the Local Enforcement System (L.E.S.). The Local Councils' Association does not form part of any Joint Committee. The function of the Association within the system is to manage the bank account in which the LES Online receipts are deposited and then distribute the paid contraventions to the various Local Councils. The amounts disclosed in the financial statements under Local Enforcement payables is the net of the cash held at the bank, into which the LES Online deposits are credited and the amount of contravention receipts, so credited, that were not yet distributed by year end. The notes within the cash and cash equivalents and payables further illustrate the situation.

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.

Capital Management

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

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

To achieve the above, the Association 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 Association 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

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the Association to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Use of available information and application of judgement are inherent in making estimates. Actual results in future could differ from such estimates and the differences may be material to the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In the opinion of the Association, 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 2022 (cont.)**4. Funds received from Central Government**

	2022 €	2021 €
In terms of Section 55 of the Local Councils Act, 1993 (Cap 363)	<u>475,000</u>	<u>240,000</u>

5. General Income

	2022 €	2021 €
Reimbursement of travel expenses	34,639	18,798
Reimbursement of insurance expenses	135,675	109,235
Registration fees from local conferences	21,300	-
Organic waste collection income	1,040,551	-
LES management fees	261,576	266,407
Other management fees	50,000	50,000
Other income	87,530	110,178
	<u>1,631,271</u>	<u>554,618</u>

6. Surplus for the year

	2022 €	2021 €
Surplus for the year is stated after charging		
Staff salaries	200,783	165,643
Depreciation and amortization	30,535	21,456
Depreciation on right-of-use asset	<u>29,197</u>	<u>29,824</u>

7. Personal Emoluments

	2022 €	2021 €
President's Allowance	21,484	21,143
Elected Officers' Allowances	31,510	23,257
Executive Secretary Salary and Allowances	45,731	41,569
Employees' Salaries	96,720	78,671
Social Security Contributions	11,150	10,412
	<u>206,595</u>	<u>175,052</u>
Reclassification of payroll costs to EU Projects	<u>(5,812)</u>	<u>(9,409)</u>
	<u>200,783</u>	<u>165,643</u>

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

8. Administration and other expenditure

	2022	2021
	€	€
Utilities	6,445	7,948
Repair and Upkeep	4,708	12,851
National and International Memberships	7,470	9,634
Office Services	21,038	13,999
Travelling Costs	19,856	5,188
Refundable Tickets	34,640	18,798
Transport	4,819	7,558
Information Services	32,507	18,194
Organic waste collection	1,022,836	-
Other Contractual Service	132,609	114,974
Bank charges	2,061	1,902
Training	138	1,555
Conferences	129,891	-
Community & Hospitality	235,283	112,502
(Profit)/loss on disposal of property, plant & equipment	(980)	(127)
Depreciation on right of use assets	29,197	29,824
Depreciation and amortisation	30,535	21,456
	<u>1,713,051</u>	<u>376,256</u>

9. Investment Income

	2022	2021
	€	€
Bank Interest	<u>4,317</u>	<u>4,513</u>

10. Finance costs

	2022	2021
	€	€
Lease interest	<u>3,934</u>	<u>5,295</u>

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)**11. Property, Plant and Equipment**

	Office Furniture & fittings €	Office Equipment €	Computer Equipment €	Assets Not Yet Capitalised €	Total €
Cost					
At 1 January 2022	140,370	73,356	34,368	65,476	313,570
Additions	118,549	11,075	6,120	-	135,744
Disposal	-	-	(1,150)	-	(1,150)
Reclassification	21,236	-	-	(22,309)	(1,073)
At 31 December 2022	280,155	84,431	39,338	43,167	447,091
Depreciation					
At 1 January 2022	28,697	45,359	30,234	-	104,290
Charge for the year	12,537	11,678	3,499	-	27,714
Released on disposal	-	-	(1,030)	-	(1,030)
At 31 December 2022	41,234	57,037	32,703	-	130,974
Grants					
At 1 January 2022	-	-	-	15,099	15,099
At 31 December 2022	-	-	-	15,099	15,099
Net Book values					
At 31 December 2022	238,921	27,394	6,635	28,068	301,018
Cost					
At 1 January 2021	97,221	62,932	33,937	45,957	240,047
Additions	44,103	10,554	826	19,519	75,002
Disposal	(954)	(130)	(395)	-	(1,479)
At 31 December 2021	140,370	73,356	34,368	65,476	313,570
Depreciation					
At 1 January 2021	20,884	36,799	26,409	-	84,092
Charge for the year	8,051	8,592	4,112	-	20,755
Released on disposal	(238)	(32)	(287)	-	(557)
At 31 December 2021	28,697	45,359	30,234	-	104,290
Grants					
Additions	-	-	-	15,099	15,099
At 31 December 2021	-	-	-	15,099	15,099
Net Book values					
At 31 December 2021	111,673	27,997	4,134	50,377	194,181

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

12. Intangible assets

	Computer software
	€
Cost	
At 1 January 2022	9,799
Additions	3,217
Reclassification from Assets not yet capitalised	1,073
	<hr/>
At 31 December 2022	14,089
	<hr/>
Depreciation	
At 1 January 2022	3,132
Charge for the year	2,821
	<hr/>
At 31 December 2022	5,953
	<hr/>
Net Book value	
At 31 December 2022	8,136
	<hr/> <hr/>
Cost	
At 1 January 2021	3,442
Additions	6,357
	<hr/>
At 31 December 2021	9,799
	<hr/>
Depreciation	
At 1 January 2021	2,431
Charge for the year	701
	<hr/>
At 31 December 2021	3,132
	<hr/>
Net Book value	
At 31 December 2021	6,667
	<hr/> <hr/>

Amortisation of intangible assets is recognised in administrative expenses.

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)**13. Receivables**

	2022	2021
	€	€
Current		
Other receivables	21,935	3,631
Prepayments	22,848	22,163
Accrued income	86,021	79,180
Refundable expenditure in respect to EU and other Projects	633,675	498,603
Law Enforcement Receivable - Note 13.1	5,507	21,297
	<u>769,986</u>	<u>624,874</u>

Receivables

Other receivables are analysed as follows:

Within credit period	<u>21,935</u>	<u>3,631</u>
	<u>21,935</u>	<u>3,631</u>

Included in the accounts receivable are amounts due from related parties amounting to €21,935 (2021 : €2,783). These amounts are unsecured, interest free and repayable on demand.

Refundable expenditure is stated net of provision for bad debts of €52,482 (2021: €52,482)

14. Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and at bank. Cash and cash equivalents in the statement of Cash Flows comprise of the following amounts in the Association's Statement of Financial Position:

	2022	2021
	€	€
Cash at Bank		
Current and savings accounts	2,497,383	2,338,107
LES Savings accounts	1,412,726	1,356,881
Cash in Hand	6	5
	<u>3,910,115</u>	<u>3,694,993</u>
(less) LES Savings account transferred to payables	(1,412,726)	(1,356,881)
(less) Regional Committees/Local Councils funds transferred to payables	(51,472)	(88,624)
Local Councils' Association's cash & cash equivalents	<u>2,445,917</u>	<u>2,249,488</u>

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)**15. Payables**

	2022	2021
	€	€
Current		
Accounts payable	243,221	18,810
Other payables	6,574	6,089
Accruals	78,035	19,934
Deferred income	1,557,926	1,580,497
Deferred rental income	8,333	8,333
	<u>1,894,089</u>	<u>1,633,663</u>

Included in the accounts payable are €5,862 (2021: €5,862) due to related parties. These amounts are unsecured, interest free and repayable on demand.

15.1 Law Enforcement System Receivable

	2022	2021
	€	€
LES Savings Account	1,412,726	1,356,881
Amount distributable to Law Enforcement	<u>(1,407,219)</u>	<u>(1,335,584)</u>
	<u>5,507</u>	<u>21,297</u>

15.2 Regional Committees/Local Councils Funds

	2022	2021
	€	€
Regional Committees/Local Councils Bank Accounts	51,472	88,624
Amount distributable to Regional Committees/Local Councils	<u>(51,472)</u>	<u>(88,624)</u>
	<u>-</u>	<u>-</u>

16. Lease Liabilities

	2022	2021
	€	€
Lease Liabilities - Note 22	37,046	69,642
	<u>37,046</u>	<u>69,642</u>

17. Ultimate controlling party

The ultimate controlling party is the Department of Local Government within the Ministry for National Heritage, Culture and Local Government. The individual financial statements of the Association are included with the consolidated financial statements of the Government of Malta.

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

18. Capital commitments

	2022	2021
	€	€
Details of capital commitments at the accounting date are as follows:		
- Approved but not yet contracted for	<u>685,000</u>	<u>690,000</u>
(i) Approved but not yet contracted for:		
Office Furniture and fittings	30,000	35,000
Computer Equipment	5,000	5,000
Office equipment	5,000	5,000
Lift	45,000	45,000
Parking Area	<u>600,000</u>	<u>600,000</u>
	<u>685,000</u>	<u>690,000</u>

These will be financed from the Association's Own Funds.

19. Contingent Liability

Proceedings have been filed by Ms Isabella Testaferrata De Noto against the Association, which are currently being heard before the Industrial Tribunal with reference 3664/JD.

A court case filed by 356 Holdings Limited against Local Councils' Association, various Local Councils and Faces Consultants Limited with number 1018/2019/AF before the First Hall Civil Courts, relative to public procurement regulations. The case is currently adjourned for the 8th February 2023 for evidence to be put forward by 356 Holdings Ltd.

Similar proceedings have been filed by 356 Holdings Limited against the Association, various Local Councils and Faces Consultants Limited before the Public Contracts Review Board. Case is currently adjourned sine die.

The Association is subject to a judicial letter filed by Mr John Mary sive Jimmy Magro, filed on the 7th of August 2017. No further action was taken to date.

The Association is subject to a case in front of the PCRB in which the PCRB is requested to declare that a contract signed by the Government of Malta, Enemalta plc and the Association is ineffective. At this stage, no request for damages has been made.

20. Related Party Transactions

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

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Government	Significant control
Airmalta plc	No control
Bank of Valletta plc	No control
Office of the Prime Minister	No control
Data Commissioner	No control
Malta Industrial Parks	No control

During the course of the year, the Association entered into transactions with related parties which are related through common ultimate controlling party.

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)**20. Related Party Transactions (cont.)**

The amounts due from / to related parties at year-end are disclosed in notes 13 and 15. 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.

Key Management compensation

The Association considers the President, Elected Officers and the Executive Secretary to be Key Management Personnel.

Transactions with key management personnel are disclosed in note 7

	2022		2021			
	Related party activity	Total activity	%	Related party activity	Total activity	%
	€	€		€	€	
<i>Income</i>						
Transactions with central government	475,000			240,000		
Transactions with government entities	284,051			376,585		
Transactions with local councils	212,231			109,235		
	971,282	2,115,270	46	725,820	816,454	89
<i>Expenditure</i>						
Transactions with central government	18,875			13,484		
Transactions with government entities	59,882			52,944		
Key personnel remuneration	102,391			88,465		
	181,148	1,937,573	9	154,893	566,543	27

21. Fair value of financial assets and financial liabilities

At 31 December 2022 and at 31 December 2021, 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.

22. Leases

The Association sub-leased parts of its premises to two related parties during this year for €20,000 and €24,600 each per annum respectively and expires on 1 June 2023 and 16 April 2023. Rental income recognised in 2022 amount to €44,600 (2022: €40,329).

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)**22. Leases (cont.)**

'Property, plant and equipment' comprises owned and leased assets that do not meet the definition of investment property. The Association leases assets, including land and buildings and motor vehicles. Information about leases for which the Association is a lessee is presented below.

	2022	2021
	€	€
Property, plant and equipment owned	301,018	194,181
Right-of-use assets, except for investment property	38,472	67,669
	<u>339,490</u>	<u>261,850</u>
Right-of-use assets		
2022	Property	Vehicles
Balance at 1 January	47,483	20,186
Depreciation charge for the year	(19,900)	(9,297)
Balance at 31 December	<u>27,583</u>	<u>10,889</u>
2021	Property	Vehicles
Balance at 1 January	67,383	30,110
Depreciation charge for the year	(19,900)	(9,924)
Balance at 31 December	<u>47,483</u>	<u>20,186</u>
	2022	2021
	€	€
Lease liabilities		
Maturity analysis - contractual undiscounted cash flows		
Less than one year	34,270	34,269
One to five years	12,176	46,509
Total undiscounted lease liabilities at 31 December	<u>46,446</u>	<u>80,778</u>
Lease liabilities included in the statement of financial position at 31 December	<u>37,046</u>	<u>69,642</u>
Current	30,878	30,878
Non-current	<u>6,168</u>	<u>38,764</u>
Amounts recognised in profit or loss		
Interest on lease liabilities	(3,934)	(5,295)
Income from sub-leasing right-of-use assets	44,600	40,329
Amounts recognised in the statement of cash flows		
Total cash outflow for lease	(34,530)	(36,604)

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)**23. Financial Risk Management**

The contracted maturity of financial liabilities is as follows:

2022	0-90 days	91-180 days	180-365 days	Total
	€	€	€	€
Payables	243,221	-	-	243,221
Accruals	78,035	-	-	78,035
Lease liabilities	37,046	-	-	37,046
Other payables	6,574	-	-	6,574
	<u>364,876</u>	<u>-</u>	<u>-</u>	<u>364,876</u>

2021	0-90 days	91-180 days	180-365 days	Total
	€	€	€	€
Payables	18,810	-	-	18,810
Accruals	19,934	-	-	19,934
Lease liabilities	69,642	-	-	69,642
Other payables	6,089	-	-	6,089
	<u>114,475</u>	<u>-</u>	<u>-</u>	<u>114,475</u>

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

Where applicable, any significant changes in the Association's exposure to financial risks or manner in which the Association manages and measures these risks are disclosed below.

Where possible, the Association aims to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of the risk exposure associated with financial instruments sharing similar characteristics is disclosed in more details in the notes to the financial statements.

*Categories of Financial Instruments**Financial assets at amortized costs*

Cash and bank balances	2,445,917	2,249,488
Receivables	747,138	602,711

Financial liabilities at amortized costs

Payables	364,876	107,013
----------	----------------	---------

Credit risk

Financial assets which potentially subject the Local Councils' Association to concentrations of credit risk consist principally of cash at bank and receivables. The Local Councils' Association's cash is placed with quality financial institutions as well as it limits the amount of credit exposure with any one financial institution. The Local Councils' Association has appropriate policies to ensure that income is received from sources with appropriate credit history. In this respect, credit risk with respect to receivables is monitored continuously and the Local Councils' Association places a provision on any debt on which there is doubt of recoverability.

Notes to the Financial Statements for the year ended 31 December 2022 (cont.)

23. Financial Risk Management (cont.)

The Association does not have any receivables which are past due at the end of the reporting period.

Liquidity Risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the Local Councils' Association'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 Local Councils' Association 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 Local Councils' Association has as cash and cash equivalents the amount of €2,445,917. This should ensure an ongoing working capital of the Local Councils' Association for the next 12 months. The Association also maintains a positive current net asset position of €1,290,936 (2021: €1,209,821) ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

Foreign Currency Risk

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

Interest Rate Risk

The Local Councils' Association operates bank accounts without any financing facilities. As a result, the Local Councils' Association 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 Local Councils' Association is not exposed to Market Risks.

Other risks

The Local Councils' Association's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Local Councils' Association to cash flow interest rate risk. In general, the Local Councils' Association 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.

