



National
Audit
Office

MALTA

Our Ref: NAO 107/2021/46
Your Ref:

11 May 2026

The Mayor and Executive Secretary
Pembroke Local Council
Pembroke

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2025**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2025.

After seeking the Council's approval, you are kindly requested to submit your response to this Office, to the Director (Monitoring & Support) Local Government Division and the Local Government Auditor, as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,

Tanya Mercieca
Consultant, Local Government Auditing



**Pembroke
Local Council**

13 MAY 2026

RECEIVED

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Encls.

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The Mayor
Pembroke Local Council
Triq Alamein
Pembroke PBK 1776
Malta

Our ref: AB/mc/130026

29 April 2026

Dear Sir,

Financial statements for the year ended 31 December 2025

During the course of our financial statements audit for the year ended 31 December 2025, we have reviewed the accounting system and procedures operated by Pembroke Local Council (the 'local council' or 'council'). We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Fixed assets

We are pleased to note that the council has rectified the issues on its fixed assets register.

1.2 Presentation of revenue

We noted revenue was still accounted for in the incorrect classification of income (see point 2).

1.3 Revenue recognition

We are pleased to note that the council has rectified the issue relating to revenue recognition for the year.

1.4 Payables

We identified that the same issue relating to payables was also noted in the current year (see point 3).

2 Presentation of revenue

2.1 During our review of the revenue accounts, we noted that the council recorded several transactions amounting to €5,212 as "Funds received from Central Government". These amounts were mainly received from the Malta Tourism Authority and the Eastern Regional Council and relate to sponsorships and other income.

REGISTRY

- 8 MAY 2026

NATIONAL AUDIT OFFICE



- 2.2 The classification of sponsorship and other income under 'Funds received from Central Government' may result in inappropriate presentation and disclosure of revenue in the financial statements. This may reduce the clarity and transparency of the council's revenue streams and may not accurately reflect the nature and source of income received during the year.
- 2.2 We recommend that the council maintains consistency in recording its transactions to present a more accurate financial statements.

3 Payables

- 3.1 During our audit of the council's payables as of 31 December 2025, we requested direct confirmation of payables from third parties. Out of a sample of seven creditors, we were unable to send a request for direct confirmation to Jake Borg, for whom the council has an outstanding liability of € 32,185.
- 3.2 Management have informed us that these could not be sent due to on-going dispute with such third party. From the opening balance of €86,659, the Council settled amounts of €53,888 directly to Jake Borg and €787 to its legal counsel during the year.
- 3.3 We recommend that council follows up on the status of such claims and attempt to resolve any outstanding matters with the creditor. The balances should be either subsequently confirmed, or if not due, adjusted or reversed.
- 3.4 We further noted that during the creditor confirmation process, one creditor did not agree with the balance as recorded in the council's accounting records. The variance identified amounted to €1,903.
- 3.5 Discrepancies between creditor confirmations and the council's accounting records may indicate errors in the recording, reconciliation, or cut-off of payables. If left unresolved, such differences may result in misstatements of liabilities and affect the reliability of the council's financial information.
- 3.6 We recommend that the council investigates and reconciles the difference identified with the creditor to determine its underlying cause and ensure that the payables balance is accurately stated. Furthermore, we suggest that management strengthens its procedures for the timely reconciliation of creditor balances and the resolution of discrepancies identified through the confirmation process.

4 Receivable

- 4.1 During our audit of receivable, we noted two debtors which did not agree with the balances of the council.

Debtor	Per books €	Per confirmation €	Variance €
Water Services Corporation	4,200	-	4,200

- 4.3 Water Services Corporation receivable balance was fully provided for. We proposed to write off both the balances of the receivable and the provision made.



- 4.4 Unreconciled differences between debtor confirmations and the council's accounting records may result in misstatements in the presentation and classification of receivables. In addition, retaining long-outstanding or fully provided balances may overstate gross receivables and reduce the clarity of the council's financial position.
- 4.5 We recommend that the council performs timely reconciliations of receivable balances with third parties, ensures that balances are appropriately classified between trade receivables and accrued income based on their nature and periodically reviews receivables for recoverability and writes off balances that are no longer considered recoverable, together with any related provisions, to ensure accurate financial reporting.
- 4.6 We further noted that one debtor has not responded to the council's correspondence in relation to a long-outstanding balance amounting to €1,732, despite the council's continued follow-up efforts. The continued non-responsiveness of the debtor may indicate that the balance is doubtful. If not appropriately assessed, this may result in an overstatement of receivables and may not reflect the recoverable value of the asset.
- 4.7 We recommend that the council periodically reviews long-outstanding receivable balances to assess their recoverability. Where balances are considered doubtful, appropriate provisions should be recognised in line with the council's accounting policies to ensure that receivables are stated at their recoverable amounts.
- 5 Grant received in relation to asset already in progress**
- 5.1 We noted that the council recorded a grant amounting to €29,016 as a deferred liability. This grant relates to an asset that is already in progress. In line with the capital asset method, grants related to the acquisition or construction of capital assets should be recognised as a contra-asset account that reduces the carrying amount of the related asset. Recording the grant as a liability may affect depreciation calculations in the future and the matching of costs over the asset's useful life.
- 5.2 We recommend that management monitor the classification of grants related to fixed assets, including those still in progress, to ensure they are correctly recognised and to avoid misclassifications when the grant is realised.

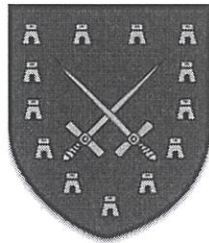
Conclusion

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

We would like to take this opportunity to thank Mr Kevin Borg and his staff for their co-operation and assistance during the course of the audit.

Yours faithfully,





PEMBROKE LOCAL COUNCIL
REPORT & FINANCIAL STATEMENTS
For the year ended 31st December 2025

REGISTRY

- 8 MAY 2026

NATIONAL AUDIT OFFICE

TABLE OF CONTENTS

<i>SECTION</i>	<i>PAGE</i>
Statement of Local Council Members' and Executive Secretary's Responsibilities	2
Statement of Profit or Loss	3
Statement of Financial Position	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 22
Report of the Local Government Auditor	23 - 25

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

The Local Councils (Financial) Regulations 1993 require the Executive Secretary to prepare a detailed annual administrative report which includes the Local Council's statement of profit or loss for the year and of the Council's retained funds at the end of the year. By virtue of the same regulations, it is the duty of the Local Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with the accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local Council (Financial) Regulations, and the Local Council (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 1993, Local Council (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Local Council on 29th April 2026 and signed on its behalf by:



Dr. Kaylon Zammit
(Mayor)



Mr. Kevin Borg M.Sc (Gov & Mngt)
(Executive Secretary)

Statement of Profit or Loss
For the year ended 31st December 2025

	Notes	Year Ended 2025	Year Ended 2024
		€	€
Income			
Funds received from Central Government	3	497,258	529,983
Income raised under Local Council Bye-Laws	4	33,171	26,407
Income raised under Law Enforcement System	5	2,811	2,929
General income	6	398,538	770,637
		<u>931,778</u>	<u>1,329,956</u>
Expenditure			
Personal emoluments	7	129,891	119,544
Operations and maintenance	8	540,475	1,246,499
Administrative and other expenditure	9	59,660	68,113
		<u>730,026</u>	<u>1,434,156</u>
Operating profit/ (loss) for the year		<u>201,752</u>	<u>(104,200)</u>
Profit/ (loss) for the year		<u>201,752</u>	<u>(104,200)</u>

The notes on pages 7 to 22 form an integral part of these financial statements.

**Statement of Financial Position
As at 31st December 2025**

	Notes	Year Ended 2025	Year Ended 2024
		€	€
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	10	89,246	101,440
Total non-current assets		89,246	101,440
<i>Current assets</i>			
Inventories	11	1,349	1,393
Trade and other receivables	12	83,778	303,842
Cash and cash equivalents	13	1,234,819	641,954
Total current assets		1,319,946	947,189
Total assets		1,409,192	1,048,629
RESERVES AND LIABILITIES			
<i>Reserves</i>			
Retained earnings		773,697	571,945
Total Reserves		773,697	571,945
<i>Current liabilities</i>			
Trade and other payables	14	635,495	476,684
Total current liabilities		635,495	476,684
Total reserves and liabilities		1,409,192	1,048,629

The notes on pages 7 to 22 form an integral part of these financial statements.

These financial statements were approved by the Local Council on 29th April 2026 and are signed by:



Dr. Kaylon Zammit
(Mayor)



Mr. Kevin Borg M.Sc (Gov & Mngt)
(Executive Secretary)

Statement of Changes in Equity
For the year ended 31st December 2025

	Retained earnings €
At 1 January 2024	676,145
Loss for the year	(104,200)
At 31 December 2024	<u>571,945</u>
At 1 January 2025	571,945
Profit for the year	201,752
At 31 December 2025	<u>773,697</u>

Statement of Cash Flows
For the year ended 31st December 2025

	Notes	2025	2024
		€	€
Cash flows from operating activities			
Profit/(loss) for the year		201,752	(104,200)
<u>Adjustments for:</u>			
Depreciation	10	26,333	27,595
Bad debts expense		1,732	-
Operating loss before working capital changes		229,817	(76,605)
Movements in working capital:			
Movement in inventories		44	22
Movement in trade and other receivables		218,332	(267,219)
Movement in trade and other payables		158,811	308,352
Net cash generated from/(used in) operating activities		607,004	(35,450)
Cashflows from investing activities			
Payment to acquire property, plant and equipment	10	(43,155)	(7,872)
Grants received in relation to property, plant and equipment		29,016	-
Cash used in investing activities		(14,139)	(7,872)
Net movement in cash and cash equivalents in the year		592,865	(43,322)
Cash and cash equivalents at beginning of year	13	641,954	685,276
Cash and equivalents at end of year	13	1,234,819	641,954
Cash and equivalents – cash at bank and on hand		1,234,819	641,954

The notes on pages 7 to 22 form an integral part of these financial statements.

Notes to the Financial Statements for the year ended 31st December 2025

1. General Information

Pembroke Local Council ("the Local Council") is the local authority of Pembroke set up in accordance with the Local Councils Act 1993. The office of the Local Council is situated at Triq Alamein, Pembroke, Malta. These financial statements were approved for issue by the Local Council Members on 28th January 2026.

The Local Council's presentation as well as functional currency is Euro (€). Its ultimate controlling party is the Department for Local Government.

2. Material Accounting Policies and Reporting Procedures

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, 1993 (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 or revised standards or interpretations

New standards adopted as at 1 January 2025

Some accounting pronouncements which have become effective from 1 January 2025 and have therefore been adopted do not have a significant impact on Council's financial results or position.

One amendment that is effective for the first time in 2025 and could be applicable to the Local Council is:

- Lack of exchangeability (amendments to IAS 21).

This amendment does not have a significant impact on these financial statements and therefore no additional disclosures have been made.

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

At the date of authorisation of these financial statements, several new, but not yet effective, standards and amendments to existing standards, and interpretations have been published by the IASB or IFRIC. None of these standards or amendments to existing standards have been adopted early by the Council and no interpretations have been issued that are applicable and need to be taken into consideration by the Council. Standards and amendments that are not yet effective and have not been adopted early by the Council include:

- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7);
- Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7);
- Subsidiaries without Public Accountability: Disclosures (IFRS 19);
- Amendments to IFRS 19 'Subsidiaries without Public Accountability: Disclosures';
- Annual improvements to IFRS Accounting Standards – Volume 11.

Notes to the Financial Statements for the year ended 31st December 2025

2. Material Accounting Policies and Reporting Procedures - continued

These Standards and amendments are not expected to have a significant impact on the financial statements in the period of initial application and therefore no disclosures have been made.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement.

In April 2024, the IASB issued IFRS 18, which replaces IAS 1 'Presentation of Financial Statements'. The adoption of IFRS 18 'Presentation and Disclosure in financial statements', effective for periods commencing on or after 1 January 2027, is expected to have a material impact on the presentation of the financial statements, and therefore relevant disclosures are included below.

Although IFRS 18 includes many of the requirements of IAS 1, it introduces new requirements to better structure financial statements and to provide more detailed and useful information to investors, including:

- two new subtotals defined in the statement of profit or loss, namely (1) operating profit and (2) profit or loss before financing and income taxes
- the classification of all income and expenses within the statement of profit or loss in one of five categories
- a new requirement to disclose performance measures defined by management, and
- an improvement in the principles related to the aggregation and disaggregation of information in the financial statements and accompanying notes.

IFRS 18 will be applied retrospectively with specific transitional provisions.

The Council is currently working to identify all of the impacts that IFRS 18 will have on the primary financial statements and notes to the financial statements.

New standards, amendments and interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Council's financial statements.

The material 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.

Income Recognition

Income in general is stated when there is reasonable certainty that the income would be receivable and thus can be accrued for. Other income such as that derived from the organisation of courses, cultural, sporting and social activities is only recognised when it is probable that economic benefits will flow to the entity. Income from investment activities is recognised when the rights of receipt have been established. Interest income from financial assets is recognised when it is probable that the economic benefits will flow to the Council and the amount of income 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 asset to that asset's net carrying amount on initial recognition.

Local Enforcement System

Local Enforcement Income represents the income as it accrues from contraventions as controlled by the Local Enforcement System (L.E.S). The amount receivable from the Local Enforcement System is disclosed in the statement of financial position. A full provision for bad debts is accounted for receivables aged over two years. As from the 1st September 2011, the Council forms part of the North Regional Committee, which is responsible for the L.E.S income of the locality. The contract provides for a 10% administration fee payable to the Council for contraventions collected by the Council and remitted to the respective Regional Committees. During the year the L.E.S. undergone changes with the introduction of the LESA which has taken over the functions previously undertaken by the Regional Committees.

Notes to the Financial Statements for the year ended 31st December 2025**2. Material Accounting Policies and Reporting Procedures - continued****Property, Plant and Equipment**

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses to date. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The present values of property, plant and equipment do not differ materially from those that would be determined by using fair values at the end of each reporting period. Subsequent costs are included in the asset's carrying amount 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 Local Council.

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:

Category	%
Trees	0
Office Furniture and Fittings	7.5 / 20
Construction Works / Special Projects / Urban Improvements (Street Furniture)	10
Office Equipment / Motor Vehicles / Plant and Machinery / Air conditioners	20
Computer Equipment / Computer software	25
Plants / Litter Bins / Playground furniture	100
Traffic / Road Signs / Street Mirrors / Lights	replacement basis

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 surplus. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each year end. 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 Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Profit or Loss during the financial year in which they are incurred.

Assets not yet capitalised represent costs incurred on projects of which are still not finalised and is stated at cost. These include renovation and upgrading specific area which will be transferred to urban improvements upon completion. The account is not depreciated until such time that the asset is completed and available for use.

Impairment of property, plant and equipment

At the end of each reporting period, the Local Council reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Council estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Notes to the Financial Statements for the year ended 31st December 2025**2. Material Accounting Policies and Reporting Procedures - continued****Impairment of property, plant and equipment - continued**

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments**Recognition and derecognition**

Financial assets and financial liabilities are recognised when the Local Council 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 Local Council does not have any financial assets categorised as FVTPL 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 statement of comprehensive income are presented within 'finance costs', 'finance income' or 'other financial items'.

Notes to the Financial Statements for the year ended 31st December 2025

2. Material Accounting Policies and Reporting Procedures - continued

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.

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 Local council's cash and cash equivalents, and trade 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 requirements include 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.

The Local Council considers a broad 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 Local Council's financial liabilities include trade and other payables.

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

Notes to the Financial Statements for the year ended 31st December 2025**2. Material Accounting Policies and Reporting Procedures - continued****Classification and measurement of financial liabilities - continued**

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 Statement of comprehensive income (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 statement of comprehensive income are included within 'finance costs' or 'finance income'.

Related Parties

Related parties are those persons or bodies of persons having relationships with the Council as defined in International Accounting Standard No. 24. The paragraphs adopted from IAS 24 are paragraph 25 – 27, being amendments to government related entities disclosures.

Leases

Leases in which a significant portion of the risk 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.

Government Grants

Government grants relating to operating expenditure are recognised 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.

Up to the year ended 31st December 2017, government grants were accounted for using the income approach according to IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance." On 1st January 2018, the capital approach, according to IAS 20, 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 IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors," it has been accounted for retrospectively.

Inventories

Inventories are valued at lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the costs to be incurred in selling.

Profits and Losses

Only profits that were realised at the reporting date 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 year ended 31st December 2025**2. Material Accounting Policies and Reporting Procedures - continued****Critical accounting estimates and judgments**

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 Executive Secretary, the accounting estimates and judgements made in the preparation of the Financial Statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirement of IAS1 – 'Presentation of Financial Statements'.

Capital Management Policies and Procedures

The Local Council's capital consists of its net assets, including working capital, represented by its retained funds. The Council's management objective is to ensure that the Local Council's ability to continue as a going concern is still valid and that the Local Council maintains a positive working capital ratio. To achieve this, the Local Council carries out a quarterly review of the working capital ratio (Financial Situation Indicator). This ratio was positive at the reporting date. The Local 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.

Notes to the Financial Statements for the year ended 31st December 2025**3. Funds received from Central Government**

	2025	2024
	€	€
In terms of section 55 of the Local Councils Act (Cap. 363)	491,003	529,983
Other government income	6,255	-
	<u>497,258</u>	<u>529,983</u>

4. Income raised under Local Council Bye-Laws

	2025	2024
	€	€
Income raised under Local Council Bye-Laws	<u>33,171</u>	<u>26,407</u>

5. Income raised under Law Enforcement System

	2025	2024
	€	€
Fines, penalties and fees	<u>2,811</u>	<u>2,929</u>

6. General income

	2025	2024
	€	€
Donations and sponsorships	10,900	13,695
Other income	387,638	756,942
	<u>398,538</u>	<u>770,637</u>

Notes to the Financial Statements for the year ended 31st December 2025**7. Personal Emoluments**

	2025	2024
	€	€
Mayor's allowance	11,503	11,330
Councillors' allowances	18,000	12,663
Executive Secretary's salary and allowances	43,126	40,727
Employees' salaries	50,272	48,112
Social security contributions	6,990	6,712
	<u>129,891</u>	<u>119,544</u>

	2025	2024
	No.	No.
<i>Average number of people employed</i>		
Employees	3	3
Mayor and Councillors	5	5
	<u>8</u>	<u>8</u>

8. Operations and Maintenance

	2025	2024
	€	€
Repairs and upkeep:		
Road and street pavements	273,550	659,923
Public property	5,742	23,763
Street signs and road markings	24,906	5,293
Other repairs and upkeep	-	3,641
	<u>304,198</u>	<u>692,620</u>

Contractual Services:

Refuse collection	-	53,811
Bulky refuse collection	10,776	10,017
Road and Street Cleaning & premises	38,962	39,085
Cleaning and Maintenance of non-urban roads	23,787	23,478
Cleaning and Maintenance of Parks and Gardens	17,063	17,063
Cleaning and Maintenance of verges	29,890	28,384
Cleaning and Maintenance of Council Property	3,353	4,084
Cleaning and Maintenance of Public Conveniences	4,306	4,751
Local Enforcement System (L.E.S) Expenses	720	581
Street lighting expenses	58,525	321,430
Other contractual services	6,687	29,048
	<u>194,069</u>	<u>531,732</u>

Notes to the Financial Statements for the year ended 31st December 2025

8. Operations and Maintenance - continued

	2025	2024
	€	€
Other Expenditure:		
Water, electricity and telecommunications	5,812	5,658
Bank charges	830	1,008
Insurance	2,130	4,166
Community and hospitality	33,436	11,315
	<u>42,208</u>	<u>22,147</u>
Total Operations and Maintenance Expenses	<u>540,475</u>	<u>1,246,499</u>

9. Administration and other expenditure

	2025	2024
	€	€
Depreciation	26,333	27,595
Water, electricity and telecommunications	1,937	1,754
Rent	337	1,319
Office services	9,762	5,181
Library expenses	1,862	1,675
Transport	540	196
Advertising and public relations	410	1,334
Professional services	16,747	28,705
Sundry minor expenses	-	354
Bad debts	1,732	-
Total Administration and other expenditure	<u>59,660</u>	<u>68,113</u>

Notes to the Financial Statements for the year ended 31st December 2025

10. Property, plant and equipment

	Office Furniture & Fittings	Office Equipment	Urban Improvements	Constructions	Trees	Plant & Machinery	Special Programmes	New street Signs	Assets not yet capitalised	Total
Cost	€	€	€	€	€	€	€	€	€	€
At 1 January 2024	25,293	49,247	1,310,594	621,223	17,307	4,225	653,660	11,787	-	2,693,336
Additions	3,099	4,773	-	-	-	-	-	-	-	7,872
At 31 December 2024	28,392	54,020	1,310,594	621,223	17,307	4,225	653,660	11,787	-	2,701,208
Grants										
At 1 January 2024/ 31 Dec 2024	-	(10,258)	(774,513)	(51,423)	-	-	(653,660)	-	-	(1,489,854)
Depreciation										
At 1 January 2024	(24,051)	(27,473)	(444,986)	(569,800)	-	(4,222)	-	(11,787)	-	(1,082,319)
Charge for the year	(295)	(2,567)	(24,730)	-	-	(3)	-	-	-	(27,595)
At 31 December 2024	(24,346)	(30,040)	(469,716)	(569,800)	-	(4,225)	-	(11,787)	-	(1,109,914)
Net book value at 31 December 2024	4,046	13,722	66,365	-	17,307	-	-	-	-	101,440

Notes to the Financial Statements for the year ended 31st December 2025

10. Property, plant and equipment – continued

	Office Furniture & Fittings	Office Equipment	Urban Improvements	Constructions	Trees	Plant & Machinery	Special Programmes	New Street Signs	Assets not yet capitalised	Total
Cost	€	€	€	€	€	€	€	€	€	€
At 1 January 2025	28,392	54,020	1,310,594	621,223	17,307	4,225	653,660	11,787	-	2,701,208
Additions	7,055	-	-	-	-	-	-	-	36,100	43,155
Disposals	(4,213)	(15,555)	(7,733)	(40,087)	-	-	-	(11,787)	-	(79,375)
At 31 December 2025	31,234	38,465	1,302,861	581,136	17,307	4,225	653,660	-	36,100	2,664,988
Grants										
At 1 January 2025	-	(10,258)	(774,513)	(51,423)	-	-	(653,660)	-	-	(1,489,854)
Additions	-	-	-	-	-	-	-	-	(29,016)	(29,016)
At 31 December 2025	-	(10,258)	(774,513)	(51,423)	-	-	(653,660)	-	(29,016)	(1,518,870)
Depreciation										
At 1 January 2025	(24,346)	(30,040)	(469,716)	(569,800)	-	(4,225)	-	(11,787)	-	(1,109,914)
Charge for the year	(550)	(2,337)	(23,446)	-	-	-	-	-	-	(26,333)
Disposals	4,213	15,555	7,733	40,087	-	-	-	11,787	-	79,375
At 31 December 2025	(20,683)	(16,822)	(485,429)	(529,713)	-	(4,225)	-	-	-	(1,056,872)
Net book value at 31 December 2025	10,551	11,385	42,919	-	17,307	-	-	-	7,084	89,246

Notes to the Financial Statements for the year ended 31st December 2025**11. Inventories**

	2025	2024
	€	€
Books and other publications	1,349	1,393

12. Trade and other receivables

	2025	2024
	€	€
Amount invoiced but not yet settled (Note 12.1)	73,703	8,772
Allowance for doubtful debts	(1,732)	(4,200)
Pre-pooling LES Debtors	86,860	87,012
Provision for LES Debtors	(86,860)	(87,012)
Accrued income	9,235	297,125
Financial assets at amortised cost	81,206	301,697
Prepayments	2,572	2,145
Total trade and other receivables	83,778	303,842

Note 12.1

Receivables within credit period	71,971	4,572
Receivables with provision	1,732	4,200
	73,703	8,772

None of the receivables are at impaired status.

The credit period on receivables (Note 12.1) is of 90 days. No interest is charged on receivables for the first 90 days from the date of request of payment. Thereafter, the Local Council may consider imposing an interest charge of 2% per annum on the outstanding balance. Allowances for doubtful debts are recognised against receivables after 730 days (two years). Receivables disclosed in (Note 12.1) include amounts that are past due at the end of the reporting date for which the Council has not recognised an allowance for doubtful debts, as these are still considered recoverable.

13. Cash and cash equivalents

	2025	2024
	€	€
Cash in hand	732	720
Cash at bank	1,234,087	641,234
	1,234,819	641,954

Notes to the Financial Statements for the year ended 31st December 2025**14. Trade and other payables**

	2025	2024
	€	€
Trade payables	60,800	142,186
Accruals and deferred income	565,557	325,860
Other payables	500	-
Financial liabilities at amortised cost	626,857	468,046
Government grants not yet utilised	8,638	8,638
Total trade and other payables	635,495	476,684

Accruals include estimated goods and services received prior to 31 December 2025 for which invoices have not yet been received by the Local Council. Deferred income includes €500,000 of funds received which will be utilised for capital projects.

15. Fair Values Estimation

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

16. Related party transactions

The Pembroke Local Council has the following related parties, exercising:

- i. Significant Control – The Department of Local Government
- ii. No Control - Arms Ltd., Water Services Corporation, Enemalta Corporation, WasteServ Malta Ltd., Malta Information Technology Agency, Northern Harbour District Joint Committee, Malta Tourism Authority, Bank of Valletta plc., South Regional Committee, Gozo Regional Committee, South-eastern Regional Committee, Central Regional Committee, LESA, Police General Head Quarters, Malta Environment and Planning Authority, Department of Lands and the Department of Information.

In the ordinary course of its operations, the Council received funds and income from the related parties. The Council's income reflected in the statement of profit or loss comprises funds received from the Central Government amounting to €497,258 (2024: €529,983).

In the opinion of the Local Council's members, disclosure of related party transactions, which are generally carried out, is only necessary when the transactions effected have a material impact on the operating results and financial position of the Council.

Notes to the Financial Statements for the year ended 31st December 2025**17. Financial Risk Management**

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

Market Risk

The Local Council's interest rate risk arises from its deposits with financial institutions. The Local Council does not have any long-term borrowings. In general, the Local Council's exposure to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financing position and cash flows are not deemed to be substantial by the Councillors and Executive Secretary in view of the nature of the assets and liabilities.

Credit Risk

Financial assets which potentially subject the Local Council to concentrations of credit risk which are principally made up of cash at bank and debtors. The Local Council's cash is placed with a quality financial institution. The Local 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 Local Council places a provision on any debt on which there is doubt of recoverability. Furthermore, credit risk is limited due to the fact that government-owned customers comprise a high percentage of the council's debtor base. LES Debtor balance has been provided for fully with an allowance for bad debts.

The Local Council's exposure to credit risk is limited to the carrying amount of financial assets recognized at the date of the Statement of Financial Position (as disclosed in Notes 12 and 13, and as referred to here under), which arises from cash and cash equivalents and credit exposures from receivables as follows:

	2025	2024
	€	€
Trade and other receivables (Note 12)	81,206	301,697
Cash and cash equivalents (Note 13)	1,234,819	641,954
	<u>1,316,025</u>	<u>943,651</u>

LES debtors relate to sentenced cases arising from contraventions which are legally due to the Local Council. The credit risk exposure is high on LES debtors as the Local Council has no control on such collectables. The Council considers that the above financial assets that are not impaired for each reporting dates under review are of good quality, including these past due accounts. See note 12.1 for further information on impairment of financial assets.

Cash at bank relates to balances held as savings accounts placed with a local reliable financial institution. The credit risk exposure in this respect is considered low.

Notes to the Financial Statements for the year ended 31st December 2025**17. Financial Risk Management - continued***Foreign currency risk*

Most of the Local Council's transactions are carried out in Euro. Exposure to foreign currency exchange rates arise from the Local Council's transactions in foreign currency. There were no figures translates from foreign currency to Euro as at the date of the Statement of the Financial Position, thus putting the foreign currency risk at nil.

Interest Rate Risk

Interest rate risk mainly arises through interest bearing liabilities and assets. The objective of interest rate risk management is to optimize the balance between minimizing uncertainty caused by fluctuations in interest rates and maximizing the net interest income and expense. The local council is not exposed to interest rate risk since it does not have variable interest rate borrowing.

Liquidity Risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the Local Council's present commitments arising due to shortage of funds. The objective of liquidity risks management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order to not create financial distress and curtail current obligations as well as future short-term commitments. The Local 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 Local Council has as cash and cash equivalents the amount of €1,234,819. This should ensure an ongoing working capital of the Local Council for the next 12 months. The Local Council also maintains a positive net asset position ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

18. Events after the reporting date

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of approval of the financial statements by the council members.

19. Summary of financial assets and liabilities

The carrying amounts of the Local Council's financial assets and liabilities as recognized at the reporting dates under review are categorised as follows:

	2025	2024
	€	€
Current Assets		
Financial assets at amortised cost:		
Trade and other receivables (Note 12)	81,206	301,697
Cash and cash equivalents (Note 13)	1,234,819	641,954
	<u>1,316,025</u>	<u>943,651</u>
Current Liabilities		
Financial liabilities measured at amortised cost:		
Trade and other payables (Note 14)	626,857	468,046
	<u>626,857</u>	<u>468,046</u>

Report of the Local Government Auditor

To the Auditor General

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Pembroke Local Council ('the council') set out on pages 3 to 22 which comprise the statement of financial position as at 31 December 2025, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the council as at 31 December 2025, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act, the Local Councils (Financial) Procedures 1996 ('the legislation').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the council in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of those charged with governance for the financial statements

As described on page 2 the Executive Secretary and the members of the council are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and are properly prepared in accordance with the provisions of the Legislation, and for such internal control as they 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 members of the council are responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is the intention to liquidate the council or to cease operations, or have no realistic alternative but to do so.

The Executive Secretary and the members of the council are responsible for overseeing the 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 auditor's 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 ISA 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 the ISA, we exercise professional judgement and maintain professional scepticism 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 council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditor's 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 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 those charged with governance 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.

The Principal on the audit resulting in this independent auditor's report is Alex Brincat.

A handwritten signature in blue ink, consisting of a large, sweeping loop followed by several horizontal strokes.

Alex Brincat (Principal) for and on behalf of

Grant Thornton
Certified Public Accountants

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Triq L-Intornjatur, Zone 1
Central Business District
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Malta

29 April 2026