

National Audit Office  
Notre Dame Ravelin  
Floriana FRN 1600  
Malta

Phone: (+356) 22055555  
Fax: (+356) 21220708  
E-mail: [nao.malta@gov.mt](mailto:nao.malta@gov.mt)  
Website: [www.nao.gov.mt](http://www.nao.gov.mt)

Our Ref: NAO 107/2010/5  
Your Ref:

6<sup>th</sup> May 2013

The Mayor and Executive Secretary  
Bormla Local Council  
Bormla

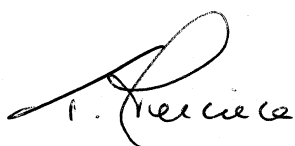
Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS  
YEAR ENDING 31 DECEMBER 2012**

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 2012.

After seeking the Council's approval, you are kindly requested to submit your response to the Director (Local Government), the Local Government Auditor, and to this Office 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**  
Asst. Auditor General

Encls.

<b>RECEIVED</b>
06 MAY 2013
Reg: 05/1364131
CONFIRMED SEEN
MAYOR:
EXEC. SEC.:
OTHER:

**Registration Number**

**BORMLA LOCAL COUNCIL**

**Report and Financial Statements**

**for the year ended 31 December 2012**



# **BORMLA LOCAL COUNCIL**

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## BORMLA LOCAL COUNCIL

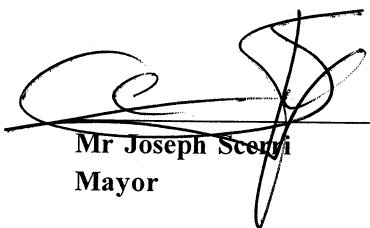
### Statement of Council Members' and Executive Secretary's Responsibilities for the year ended 31 December 2012

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The Local Councils (Financial) Regulations 1993 require the Secretary to prepare a detailed Annual Administrative Report which includes a statement of the Council's income and expenditure 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 Council and the Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with accounting policies applicable to Local Councils, the income and expenditure of the Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local Councils (Financial) Regulations, 1993, and the Local Council (Financial) Procedures, 1996 issued in terms of the said Act.

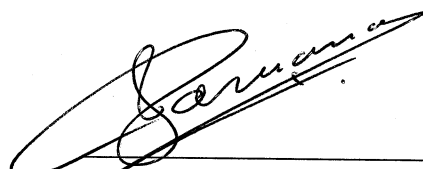
This entails, inter alia, responsibility for ensuring that an appropriate system of internal control is in operation to provide them with reasonable assurance that the assets of the Council are properly safeguarded, that fraud and other irregularities will be detected and that the operations of the Council are properly conducted in accordance with the Local Councils Act, 1993, the Local Council (Financial) Regulations, 1993, and the policies, systems and time scales referred to in the Local Council (Financial) Procedures, 1996.

The financial statements were approved by the Council on 25th March, 2013 and signed on its behalf by:



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Mr Joseph Scerri  
Mayor



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Mr Joseph Caruana  
Executive Secretary

## BORMLA LOCAL COUNCIL

### Statement of Comprehensive Income for the year ended 31 December 2012

	Notes	2012 €	2011 €
<b>Revenue</b>	<b>2</b>		
Funds received from Central Government	5	429,483	406,207
Income raised from Council Bye-Laws	6	2,671	2,872
Income from Law Enforcement System	7	3,592	52,044
Investment income	8	331	234
General income	9	74,202	47,169
		<u>510,279</u>	<u>508,526</u>
<b>Expenditure</b>			
Personal emoluments	10	104,426	108,368
Operations and maintenance	11	294,559	252,201
Administrative and other expenditure	12	148,417	162,043
		<u>547,402</u>	<u>522,612</u>
<b>Net (Loss) for the year</b>		<u>(37,123)</u>	<u>(14,086)</u>

The notes on pages 6 to 23 form an integral part of these financial statements.

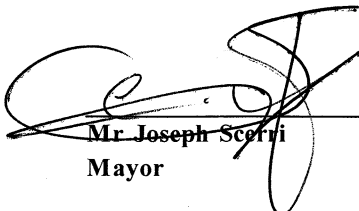
# BORMLA LOCAL COUNCIL

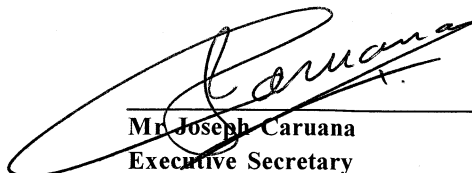
## Statement of Financial Position

at 31 December 2012

	Notes	2012 €	2011 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	13	383	-
Property, plant and equipment	14	392,800	401,182
		<u>393,183</u>	<u>401,182</u>
<b>Current assets</b>			
Trade and other receivables	15	180,689	250,566
Cash at bank and in hand	16	54,187	16,583
		<u>234,876</u>	<u>267,149</u>
<b>Total assets</b>		<u>628,059</u>	<u>668,331</u>
<b>RESERVES AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Retained earnings		290,292	327,415
<b>Total Reserves</b>		<u>290,292</u>	<u>327,415</u>
<b>Non-current liabilities</b>			
Deferred income	18	38,049	11,984
<b>Current liabilities</b>			
Overdrawn bank balance	17	17,540	4,758
Trade and other payables	19	282,178	324,174
		<u>299,718</u>	<u>328,932</u>
<b>Total liabilities</b>		<u>337,767</u>	<u>340,916</u>
<b>Total Reserves and liabilities</b>		<u>628,059</u>	<u>668,331</u>

The financial statements were approved by the Council on 25th March 2013 and signed on its behalf by:

  
Mr. Joseph Scerri  
Mayor

  
Mr. Joseph Caruana  
Executive Secretary

The notes on pages 6 to 23 form an integral part of these financial statements.

## BORMLA LOCAL COUNCIL

### Statement of Changes in Equity for the year ended 31 December 2012

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	Retained earnings €
At 1 January 2011	341,501
Net deficit for the year	(14,086)
At 31 December 2011	327,415
Net deficit for the year	(37,123)
At 31 December 2012	290,292

# BORMLA LOCAL COUNCIL

## Statement of Cash Flows

for the year ended 31 December 2012

	2012 €	2011 €
<b>Cash flows from operating activities</b>		
Deficit for the year	(37,123)	(14,086)
Adjustments for:		
Depreciation	38,562	40,149
Government advancement deemed interest	127	-
Loss on disposal of property, plant and equipment	-	(379)
Interest received	(331)	(234)
Interest paid	-	-
Deferred Income Increase	38,049	(516)
	<u>39,284</u>	<u>24,934</u>
Working capital changes:		
Decrease in trade and other receivables	69,877	(6,086)
(Decrease) in trade and other payables	(41,996)	(14,979)
Net cash flows from operating activities	<u>67,165</u>	<u>3,869</u>
<b>Cash flows from investing activities</b>		
Acquisition of intangible assets	(510)	-
Proceeds from disposal of intangible assets	1,838	-
Acquisition of property, plant and equipment	(32,017)	(21,767)
Hire purchase obligations		429
Interest received	331	234
Net cash flows from investing activities	<u>(30,358)</u>	<u>(21,104)</u>
<b>Cash flows from financing activities</b>		
Funds received	(11,984)	7,500
Net cash flows from financing activities	<u>(11,984)</u>	<u>7,500</u>
<b>Movement in cash and cash equivalents</b>	<u>24,823</u>	<u>(9,735)</u>
<b>Reconciliation of net cash flow to movement in net funds</b>		
Movement in cash and cash equivalents	24,823	(9,735)
New finance leases		(429)
<b>Movement in net debt in the year</b>	<u>24,823</u>	<u>(10,164)</u>
Cash and cash equivalents at start of year	11,825	21,989
Cash and cash equivalents at end of year	<u>36,648</u>	<u>11,825</u>
<b>Cash and cash equivalents</b>		
Cash at bank and in hand	16 54,188	6,311
Bank balance overdrawn	17 (17,540)	5,514
	<u>36,648</u>	<u>11,825</u>



# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

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### 1. General information

The Bormla Local Council is a local government set up by the Local Council Act, 1993. Its ultimate controlling party is the Local Councils Department within the Office of the Prime Minister.

### 2. Accounting policies

#### *Accounting convention and basis of preparation*

These financial statements are presented using the Euro, being the currency that reflects the economic substance of the underlying events and circumstances relevant to the company. They are prepared under the historical cost convention as modified by the fair valuation convention where required by International Financial Reporting Standards, and the requirements of International Financial Reporting Standards as adopted by the EU. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies (see Note 3 - Critical accounting estimates and judgements).

#### *Standards and amendments to existing standards effective 1 January 2011*

The amendment to IAS 24, 'Related party disclosures', clarifies the definitions of a related party. The new definition clarifies in which circumstances persons and key management personnel affect related party relationships of an entity. The amendment also introduces an exemption from the general related-party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

IFRS 7 (amendment) 'Financial instruments: Disclosures'. This amendment was part of the IASB's annual improvement project published in May 2010. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

There are no other standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the Council.

#### *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted*

IFRS 12, 'Disclosures of interests in other entities', effective for annual periods beginning on or after 1 January 2013, includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The new standard is not expected to have any impact on the Council's financial position or performance.

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

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IFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2015, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The application of the new standard will not have a significant impact on amounts reported in the Council's financial assets and liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Council.

### *Intangible assets*

Intangible assets are initially recorded at cost. They are subsequently stated at cost less accumulated amortisation and impairment losses. Intangible assets are amortised at 25% per annum, using the straight line method.

### *Property, plant and equipment*

Land and buildings held for use in the production or supply of goods or services, or for administration purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

A revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reserves a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserves relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Furniture and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

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Freehold land is not depreciated.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the reducing balance method. The estimated useful lives, residual values and depreciation method are renewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in profit or loss.

### *Impairment of property, plant and equipment*

At the end of each reporting period, the Council reviews the carrying amounts of its property, plant and equipment 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 (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of comprehensive income, 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, but 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 the statement of comprehensive income, 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.

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

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Property, plant and equipment are stated at cost less accumulated depreciation and grants received for specific projects. Depreciation is calculated on a monthly basis using the reducing balance method at rates estimated to write down the cost of all tangible fixed assets, other than land and trees over their expected useful lives as follows:

Buildings	- 1%
Furniture & fittings	- 7.5%
Construction works	- 10%
New street signs	- 100%
Urban improvements (street furniture)	- 10%
Special programmes (projects)	- 10%
Office equipment	- 10%
Motor vehicle	- 20%
Plant and machinery	- 20%
Computer equipment	- 25%
Trees	- 0%
Litter bins	- 100%
Playground equipment	- 100%
Street lighting	- 100%

Certain depreciation rates such as those of plants, litter bins, playground equipment, street lighting and street signs had their depreciation rate changed from 10% to 100% in October 2002 by virtue of Legal Notice 323 of 2002.

### *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for the intended use or sale.

Investment income on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

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### *Provisions*

Provisions are recognised when the Council has a present obligation (legal or constructive) as a result of a past event, it is probable that the Council will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### *Foreign currencies*

In preparing the financial statements of the Council, transactions in currencies other than the Council's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated.

### *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 on a cash basis.

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.

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

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### *Construction contracts*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the state of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs, except where this would not be representative of the state of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

### *Cash and cash equivalents*

Cash and cash equivalents consist of cash in hand and balances with banks less bank overdrafts. Bank overdrafts that are repayable on demand and form part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

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### 3. Critical accounting estimates and judgements

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.

#### *Critical judgements in applying accounting policies*

The following are the critical judgements, apart from those involving estimations (see below), that the Members have made in the process of applying the Council's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### Revenue recognition

In making their judgement, the Council Members considered the detailed criteria for the recognition of revenue from the Law Enforcement System.

#### *Key sources of estimation uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Useful lives of property, plant and equipment

The useful lives of property, plant and equipment is determined by the Local Government Department, within the Office of the Prime Minister and the Council reviews the fixed assets register items at the end of each accounting period with a view to identify any obsolete items.

### 4. Going concern

The statement of financial position suggests that the going concern assumption used in the preparation of these financial statements is dependent on further sources of funds. This factor indicates that the Council may be unable to continue as a going concern, unless with the continued support of its related parties.

### 5. Funds received from Central Government

	2012	2011
	€	€
In terms of section 55 of the Local Councils Act, 1993	<u>429,483</u>	<u>406,207</u>

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

### 6. Income raised from Council Bye-Laws

	2012	2011
	€	€
Permits related to construction	<u>2,671</u>	<u>2,872</u>

### 7. Income from Law Enforcement System

	2012	2011
	€	€
Contraventions received	6,292	17,278
Contraventions accrued	(6,387)	34,411
LES commissions	<u>3,687</u>	<u>355</u>
	<u>3,592</u>	<u>52,044</u>

In accordance with the Law Enforcement System (LES) issued by the Ministry by virtue of Section 72 of the Local Councils Act, 1993, the income relating to contraventions was delegated to the local councils through Legal Notice 32 of 2000.

The recording of income from contraventions for offences was based on reports generated by the contractor entrusted with the system by the Ministry.

### 8. Investment income

	2012	2011
	€	€
Bank interest	<u>331</u>	<u>234</u>



# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

### 9. General income

	2012	2011
	€	€
Discounts received	-	220
Cultural activities	1,590	1,806
Sponsorships	-	1,000
Adverts in council magazine	-	35
Contributions	7,862	35,780
Tender document fees	210	1,820
Receivables - water and electricity	7,765	6,421
Amortisation of Government Grants	56,775	87
	<u>74,202</u>	<u>47,169</u>

### 10. Personal emoluments

	2012	2011
	€	€
Personal emoluments include, inter alia:		
Mayor's honoraria and allowance	9,726	9,546
Council members' allowance	8,822	8,800
Executive salary and allowance	25,929	28,799
Employees' salaries	53,673	54,900
Social security costs	6,276	6,323
	<u>104,426</u>	<u>108,368</u>

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

### 11. Operations and maintenance

	2012 €	2011 €
<b>Repairs and upkeep</b>		
Road and street pavements	934	634
Patching	538	357
Office furniture and equipment	75	967
Public Property	40,754	-
Plant and equipment	165	92
Street signs	871	77
Other repairs and upkeep	4,724	1,756
Street markings	1,391	990
	<u>49,452</u>	<u>4,873</u>
<b>Contractual services</b>		
Waste disposal	-	-
Refuse collection	82,438	76,843
Bulky refuse collection	14,373	22,675
Hire of open skips	401	3,773
Tipping fees	40,900	37,754
Cleaning services	1,057	1,225
Road and street cleaning	35,500	36,150
Cleaning and maintenance - Public Conveniences	922	3,412
Cleaning council premises	4,846	5,242
Deceased animals	-	-
Cleaning and maintenance Soft areas	38,574	29,710
Sewerage Charges	1,330	-
Telephone charges	2,158	2,060
Street lighting	22,608	12,617
Law enforcement system	-	15,867
	<u>245,107</u>	<u>247,328</u>
<b>Total operations and maintenance expenses</b>	<u>294,559</u>	<u>252,201</u>

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements for the year ended 31 December 2012

### 12. Administrative and other expenses

	2012 €	2011 €
Utilities	663	16,942
Operating materials and supplies	2,129	2,021
Cleaning materials and supplies	258	198
Uniforms	464	1,570
Rents	2,232	2,454
Participation fee national meetings	247	673
Printing	271	-
Stationery	2,467	3,026
Postages	164	172
Library expenses	1,804	302
Maintenance of vehicles	1,105	1,657
Fuel	1,141	933
Transport to Gozo/Malta	250	1,166
Travelling expenses	-	723
E-government and web space rental	446	50
Advertising	805	1,197
Publications and newsletters	7,720	6,970
Insurance coverage	-	2,357
Bank charges	183	351
Librarian Services	2,595	2,460
IT Development services	2,081	2,006
Town planning consultancy	3,320	2,396
Accountancy services	3,995	7,001
Re-imbursement to council staff	547	466
Other support services	2,679	-
Balance brought forward to next page	<u>37,566</u>	<u>57,091</u>

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements for the year ended 31 December 2012

### 12. Administrative and other expenses

	2012 €	2011 €
Balance brought forward from previous page	34,930	54,599
Other hospitality costs	2,562	3,253
Legal Services	3,202	-
Contract Works	2,306	-
Social events	-	4,042
Jum il-Kunsill	2,563	2,519
Cultural events	14,890	13,054
EU projects	-	-
Donations	-	725
Sundry minor expenses	3,488	1,912
Asset disposal account	-	379
Provision for bad debts	43,151	34,803
Penalties and fines	-	4,874
Amortisation	127	-
Depreciation	38,562	40,149
	<u>145,781</u>	<u>159,551</u>

### 13. Intangible assets

	Development costs €	Total €
<b>Cost</b>		
Additions	<u>510</u>	<u>510</u>
At 31 December 2012	<u>510</u>	<u>510</u>
<b>Amortisation</b>		
Charge for the year	<u>127</u>	<u>254</u>
At 31 December 2012	<u>127</u>	<u>254</u>
<b>Net book value</b>		
At 31 December 2012	<u>383</u>	<u>256</u>

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements for the year ended 31 December 2012

### 14. Property, plant and equipment

	Trees €	Motor vehicles €	Office equipment €	Urban improvements €	Plant and machinery €	Furniture and fittings €	New street signs €	Construction works €	Assets not yet capitalised €	Total €
<b>Cost</b>										
At 1 January 2012	13,019	8,269	26,635	192,267	5,408	60,441	21,693	690,460	11,447	1,029,639
Additions	590	-	-	1,963	122	-	-	29,342	-	32,017
Disposals	-	-	-	-	-	-	-	-	1,838	(1,838)
At 31 December 2012	13,609	8,269	26,635	194,230	5,530	60,441	21,693	719,802	9,609	1,059,818
<b>Government grants</b>										
At 1 January 2012	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-
At 31 December 2012	-	-	-	-	-	-	-	-	-	-
<b>Depreciation</b>										
At 1 January 2012	-	5,518	16,630	148,304	3,775	24,911	21,693	407,626	-	628,457
Charge for the year	-	550	2,282	4,408	351	2,665	-	28,305	-	38,561
At 31 December 2012	-	6,068	18,912	152,712	4,126	27,576	21,693	435,931	-	667,018
<b>Net book value</b>										
At 31 December 2012	13,609	2,201	7,723	41,518	1,404	32,865	-	283,871	9,609	392,800

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements for the year ended 31 December 2012

### 14. Property, plant and equipment

	Trees €	Motor vehicles €	Office equipment €	Urban improvements €	Plant and machinery €	Furniture and fittings €	New street signs €	Construction works €	Assets not yet capitalised €	Others €	Total €
<b>Cost</b>											
At 1 January 2011	13,019	8,269	24,083	190,117	4,009	51,258	21,693	682,375	14,388	-	1,009,211
Additions	-	-	2,552	2,150	1,399	9,183	-	113,906	6,483	-	135,673
Reclassifications	-	-	-	-	-	-	-	9,424	(9,424)	-	-
Disposals	-	-	-	-	-	-	-	115,245	-	-	(115,245)
At 31 December 2011	13,019	8,269	26,635	192,267	5,408	60,441	21,693	690,460	11,447	-	1,029,639
<b>Government grants</b>											
At 1 January/31 December 2010	-	-	-	-	-	-	-	113,906	-	-	113,906
Disposals	-	-	-	-	-	-	-	-	-	-	-
<b>Depreciation</b>											
At 1 January 2011	-	4,856	15,000	143,190	3,444	22,663	21,693	265,274	-	-	476,120
Revaluation	-	-	-	-	-	-	-	-	-	-	-
Charge for the year	-	662	1,630	5,114	331	2,248	-	30,164	-	-	40,149
On disposals	-	-	-	-	-	-	-	1,718	-	-	(1,718)
At 31 December 2011	-	5,518	16,630	148,304	3,775	24,911	21,693	293,720	-	-	514,551
<b>Net book value</b>											
At 31 December 2011	13,019	2,751	10,005	43,963	1,633	35,530	-	282,834	11,447	-	401,182
At 31 December 2010	13,019	3,413	9,083	46,927	565	28,595	-	417,101	14,388	-	101,602

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

### 15. Trade and other receivables

	2012 €	2011 €
Trade receivables	15,151	24,419
Provision for doubtful debts	(6,276)	(6,276)
Law enforcement system	330,144	336,113
Provision for LES doubtful debts	(301,068)	(257,917)
Other receivables	1,500	1,875
Prepayments and accrued income	141,238	152,352
	<u>180,689</u>	<u>250,566</u>

### 16. Cash at bank and in hand

Cash and cash equivalents consist of cash in hand and balances with banks. Cash and cash equivalents in the cash flow statement comprise the following amounts in the Council's Statement of Affairs.

	€	€
Cash in hand	429	891
Petty cash	141	152
Bank balances: current	11,350	8,047
Bank balances: savings	42,267	7,493
	<u>54,187</u>	<u>16,583</u>

### 17. Borrowings

	2012 €	2011 €
Bank balance overdrawn	17,540	4,758
Third party loan	-	429
	<u>17,540</u>	<u>5,187</u>

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

### 18. Deferred income

	2012 €	2011 €
At 1 January 2012	11,984	5,000
Increase	11,984	7,500
Released to income	38,049	(516)
At 31 December 2012	<u>38,049</u>	<u>11,984</u>

Deferred Income represents agreements signed with the Malta Environment and Planning Authority up to the end of the year under review. The funds are released to income in line with the depreciation charge on the projects that were capitalised up the end of the year under review.

### 19. Trade and other payables

	2012 €	2011 €
Trade payables	131,297	173,080
Law enforcement unidentified deposits	291	291
Amounts owed to other councils	-	838
Amounts owed to related parties	Note 122,516	122,516
Amounts owed to other related parties	-	-
Other payables	(1,071)	429
Accruals and deferred income	29,145	27,020
	<u>282,178</u>	<u>324,174</u>

#### *Amounts owed to related parties*

The amount refers to an advancement of cash by the Ministry of Justice and Internal Affairs on the 17 December 2007 for the sole purpose of financing the eMed-IT project. The Council is to refund the amount when it receives the re-inbursement of expenses from the EU.

### 20. Events after the reporting date

There were no particular important events affecting the company which occurred since the end of the reporting period.



# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

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### 21. Risk management objectives and policies

The council is exposed to credit risk, liquidity risk and market risk through its use of financial instruments which result from its operating and investing activities. The company's risk management is coordinated by the council members and focuses on actively securing the council's short to medium term cash flows by minimising the exposure to financial risks.

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

#### *Credit risk*

The council's credit risk is limited to the carrying amount of financial assets recognised at the date of the Statement of Financial Position, which are disclosed in Notes 15 and 16.

The company continuously monitors defaults of customers and other counterparts, and incorporates this information into its credit risk controls. The company's policy is to deal only with creditworthy counterparties.

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

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

#### *Liquidity risk*

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

At 31 December 2012 and 31 December 2011, there were no contractual maturities on the financial liabilities of the council. Contractual maturities reflect gross cash flows, which may differ from the carrying values of financial liabilities at the date of the Statement of Financial Position.

#### *Foreign currency risk*

Most of the council's transactions are carried out in Euro. Exposure to currency exchange rates arises from the council's transactions in foreign currencies.

The company's financial assets face minimal foreign currency risk since all sales are made receivable in Euro.

#### *Interest rate risk*

The council's exposure to interest rate risk is limited as it does not have any borrowings bearing variable interest rates.

# BORMLA LOCAL COUNCIL

## Notes to the Financial Statements

for the year ended 31 December 2012

### 22. Related parties

The Central Government, all the Authorities set up by Government and all the entities which are Government owned are considered to be related parties to Local Council Bormla . The Joint Committee, to which the Local Council Bormla is a member, falls also to be a related party.

*Transactions and balances with related parties :*

	2012	2011
	€	€
Funds from Central Government	-	408,007
Services provided by Executive Management	-	44,574
LES cash collected by, on behalf of Council	-	14,189
Purchases	-	49,245
Invoiced to WSC for re-instatement of roads	-	9,000

The related parties exercise control on the Council as follows:

The Executive Management team (Council Members and Executive Secretary)	Total control
The Local Councils' Department	Significant control
The Fgura joint committee	Joint control
Other government departments	No control

### 23. Capital management policies and procedures

The Council manages its capital to ensure that it will be able to continue as going concerns while maximising the return through the optimisation of the debt and equity balance. The Council's overall strategy remains unchanged from 2010.

## **LOCAL COUNCIL BORMLA**

### **Report of the Local Government Auditors to the Auditor General**

We have audited the accompanying financial statements of LOCAL COUNCIL BORMLA, which comprise the statement of financial position on page 3 as of 31<sup>st</sup> December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### ***Council's Responsibility for the Financial Statements***

The Council Members and the Executive Secretary are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council Members and the Executive Secretary, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

#### **Basis for Qualified Opinion**

The information and evidence provided by the Local Council with respect to funds receivable for the E-MED IT project amounting to €107,990 and the equivalent payable advanced by the Ministry of Justice and Internal Affairs in relation to such project was not sufficient for us to determine whether the accounting treatment of both the receivables and the equivalent payable was correctly accounted for in the financial statements in line with the requirements of International Financial Reporting Standards.

The Council maintains a fixed asset register to record fixed assets acquired by it. However a number of assets have been incorrectly categorized with the consequence that an incorrect depreciation rate has been applied and recognised in the financial statements. Whilst we are of the opinion that there are material misstatements in the depreciation provision and charge for the year, there were no practicable procedures to arrive to the exact amount of misstatement in the depreciation provision and depreciation charge for the year.

The Council has failed to recognise an investment in Joint Venture in line with IAS 31– Interests in Joint Ventures. In the absence of an audited annual report as at 31<sup>st</sup> December 2012, we could not rely on the financial information as provided by the Council to obtain reasonable assurance on the amount of assets and liabilities recorded in this joint venture.

International Financial Reporting Standards require that all applicable standards and their disclosure requirements are complied with in the preparation of financial statements. These financial statements lack certain disclosure requirements arising from IAS 24- Related Party Disclosures, IFRS 7- Financial Instruments: Disclosures and IAS 37- Provisions, Contingent Liabilities and Contingent Assets.

#### **Qualified Opinion**

In our opinion, except for the effect on the financial statements of the matters referred to in the Basis for Qualified Opinion paragraphs, the financial statements give a true and fair view of the financial position of the Council as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

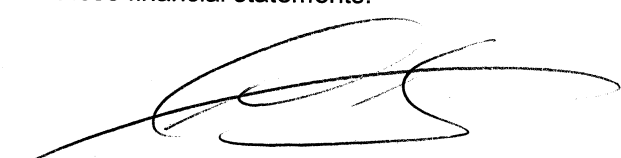
#### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 4 in the financial statements which indicates that the going concern assumption used in the preparation of these financial statements is dependent on further sources of funds other than the annual financial allocation received by Central Government; on the collection of debts due to the Council and on the continued support of the Council's creditors. Any adverse change in either of these assumptions would not allow the Council to be able to meet its financial obligations as they fall due without curtailing its future commitments. The Council incurred a net loss of €37,123, during the year ended 31<sup>st</sup> December 2012 and, as of that date the Council's current liabilities exceeded its total assets by €64,842. These conditions indicate the existence of a material uncertainty that may cast significant doubts on the Council's ability to continue as a going concern without curtailing its commitments. Furthermore, in view of the Local Councils Financial Procedures, the Council should maintain a positive working capital balance of not less than 10% of its annual financial allocation.

#### **Opinion on Other Legal and Regulatory Requirements**

These financial statements do not comply fully with the Local Council (Financial) Procedures, 1996.

According to the Financial Procedures supplementing the Financial Regulations issued in terms with the Local Councils Act 1993, the financial statements should include the budget for the year. In line with Local Councils' generally accepted reporting procedures, the budget has been excluded from these financial statements.



This copy of the report has been signed by  
Neville Cutajar (Partner) on its behalf

**3a**

Certified Public Accountants  
Level 2  
Palazzo Ca' Brugnera  
Valley Road  
Birkirkara BKR9024  
Malta

**Date: 25<sup>th</sup> March 2013**