



IKLIN LOCAL COUNCIL

**Annual Report and
Financial Statements**

For the year ended 31 December 2016

REGISTRY

16 MAY 2017

NATIONAL AUDIT OFFICE

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On behalf of Parker Randall Turner
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ANNUAL REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2016

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Financial Statements for the year ended 31 December 2016

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 Comprehensive Income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the 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 Councils (Financial) Regulations 1993, and the Local Councils (Financial) Procedures 1996, issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, Local Councils (Financial) Regulations 1993, and the Local Councils (Financial) Procedures 1996. 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.

Approved by the Council and signed on its behalf on 25 April 2017 by:



Anthony Dalli
Mayor

Etienne Montfort
Executive Secretary


STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 €	2015 €
ASSETS			
Non-current assets			
Property, plant and equipment	3	627,051	660,965
Current Assets			
Receivables	4	21,461	13,561
Cash and Cash Equivalents	5	213,183	224,166
Total current assets		234,644	237,727
Total Assets		861,695	898,692
RESERVES AND LIABILITIES			
Reserves			
Retained Fund		439,202	429,984
Non-current Liabilities			
Deferred income	6	316,337	343,565
Non-current payables	7	15,975	20,628
		332,312	364,193
Current Liabilities			
Payables	7	90,181	104,515
Total liabilities		422,493	468,708
Total reserves and liabilities		861,695	898,692

The notes on pages 8 to 27 are an integral part of the financial statements.

These Financial Statements were approved by the Local Council on the 25 April 2017 and signed on its behalf by:



 Anthony Dalli
 Mayor



 Etienne Montfort
 Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Notes	2016 €	2015 €
REVENUE			
Funds received from central government	8	285,301	279,156
Income from Law Enforcement System	9	3,592	4,290
General Income	11	15,521	14,232
		<u>304,414</u>	<u>297,678</u>
EXPENDITURE			
Personal emoluments	12	(73,727)	(72,023)
Operations and maintenance	13	(98,131)	(78,940)
Administration and other expenditure	14	(123,410)	(112,294)
		<u>(295,268)</u>	<u>(263,257)</u>
Operating surplus for the year		<u>9,146</u>	<u>34,421</u>
Interest income	10	72	173
Total Comprehensive Income for the year		<u>9,218</u>	<u>34,594</u>

The notes on pages 8 to 27 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Retained Funds 2016 €	Retained Funds 2015 €
At 1 January	429,984	395,390
Total Comprehensive Income for the year	9,218	34,594
At 31 December	439,202	429,984

The notes on pages 8 to 27 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 €	2015 €
Cash Flows from Operating Activities			
Total Comprehensive Income for the year		9,218	34,594
Adjustments for:			
Depreciation		64,521	62,351
Interest Income		(72)	(173)
Bad debt written off		314	-
Impairment of assets		649	-
Deferred income released		(32,428)	(30,376)
Net cash generated before working capital changes		42,202	66,396
Increase in receivables		(8,214)	(4,136)
Decrease in payables		(9,753)	(14,901)
Net Cash generated from operating Activities		24,235	47,359
Cash flows from Investing Activities			
Purchase of property, plant and equipment		(49,474)	(72,934)
Interest Income		72	136
New Grants received		14,184	102,047
Net Cash used in/ generated from Investing Activities		(35,218)	29,249
Net movement in Cash and Cash Equivalents		(10,983)	76,608
Cash and Cash Equivalents at the beginning of Year		224,166	147,558
Cash and Cash Equivalents at the end of year	5	213,183	224,166

The notes on pages 8 to 27 are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. General Information

Iklin Local Council is the local authority of Iklin setup in accordance with the Local Councils Act. The office of the Local Council is situated at "Three Vilages", Triq ir-Rumanzieri, Iklin,

The financial statements were authorised for issue by the Council on the 25 April 2017

2. Accounting Policies and Reporting Procedures

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

(a) Accounting convention

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).

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

(b) Standards, amendments and interpretations to existing standards

New and amended standards adopted by the council

Information on new standards, amendments and interpretations that are relevant to the Council's financial statements is provided below. Certain other new standards and interpretations not listed below have been issued but are not relevant and therefore are not expected to have any impact on the council's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

(b) Standards, amendments and interpretations to existing standards - continued

New standards and amendments not yet effective and not yet adopted by the Local Council

The following standards and amendments to existing standards have been published and are mandatory (as applicable) for the Council accounting periods beginning on or after 1 January 2016 or later periods, but the Council has not early adopted them:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The Council is yet to address the full impact of IFRS 9 and intends to adopt IFRS 9 subject to endorsement by the EU, no later than the accounting period beginning on or after 1 January 2018.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS18 'Revenue' and IAS11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted, subject to endorsement by the EU. The Council is assessing the impact of IFRS 15.

The amendments to IFRS 11, 'Joint Arrangements', provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in IFRS 3 'Business Combinations' and other IFRSs except where those principles conflict with IFRS 11. Acquisitions of interests in joint ventures are not impacted by this new guidance. The amendments are effective for reporting periods beginning on or after 1 January 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

(b) Standards, amendments and interpretations to existing standards - continued

IFRS 16 presents new requirements for the recognition of leases replacing IAS 17 'Leases, and some lease-related Interpretations'. The new standard requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value leases. The standard also provides new guidelines on the application of the definition of lease and on sale and lease back accounting. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The council has started to assess the impact of IFRS 16 but is not yet in a position to provide quantified information.

On 27 January 2017, the Department for Local Government has issued Directive 1-2017 whereas from 1 January 2018 Government Grants will start to be accounted for using the Capital Approach detailed in IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' instead of the Income Approach, as detailed in IAS 20, currently applied by Local Councils.

On 27 January 2017, the Department for Local Government has issued Directive 1-2017 whereas from 1 January 2018 depreciation will start to be accounted for using the straight line method of depreciation on a monthly basis instead of the current reducing line method of depreciation.

The Department for Local Government in Directive 1-2017 has issued guidelines on how to apply the above changes.

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

(c) Revenue recognition

Revenue is recognised when the amount of revenue and the associated costs can be measured reliably. Interest income is recognised in the statement of comprehensive income as it accrues.

(d) Local Enforcement System

During 2015 the amount disclosed in the financial statements under Local Enforcement Income represents the administrative fee of 10% that is chargeable to the various Regional Committees/ LESA for contraventions paid at the Council.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

(e) Property, Plant and Equipment

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

	%
Land	0
Trees	0
Buildings	1
Office Furniture and Fittings	7.5
Construction Works	10
Urban Improvements (Street Furniture)	10
Special Projects	10
Office Equipment	20
Motor Vehicles	20
Plant and Machinery	20
Computer Equipment	25
Plants	100
Litter Bins	replacement basis
Playground furniture	100
Road and traffic Signs	replacement basis
Street Mirrors	replacement basis
Street Lights	100

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

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

(f) Government Grants

Government grants are accounted for on the Income Approach according to IAS 20. They are accounted for on a systematic basis in the Statement of Comprehensive Income over the years necessary to match them with the related costs which they are intended to compensate. If such costs have already been incurred when the grant is made, or if there are no related cost, then the grant is accounted for when it becomes receivable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

(g) Impairment of Assets

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

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments 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.

(i) Amounts Receivable

Amounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of amounts receivable is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amounts of the asset in the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

(j) Foreign Currencies

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Local Council operates. These Financial Statements are presented in Euro, which is the Council's functional and presentation currency.

(k) Surplus and deficits

Only surpluses that were realised at the date of the Statement of Financial Position are recognised in these Financial Statements. All foreseeable liabilities and potential deficits 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

(l) Cash and 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.

(m) Related parties

Related parties are those persons or bodies of persons having relationships with the Council as defined in IAS 24.

During the year under review, the Local Council's related party that exercises a significant control was the Department for Local Government. The parties that exercise no control were Water Services Corporation and Malta Environment and Planning Authority whereas there was joint control with the Gozo Joint Committee.

(n) Payables

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not they are presented as non-current liabilities.

Amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the council.

(o) Financial Instruments

Financial assets and financial liabilities are recognised when the 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.

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

Financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

(o) Financial Instruments – continued

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

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

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

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not

considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Financial liabilities

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

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

(p) Capital management policies and procedures

The council's capital consists of its net assets, including working capital, presented by its retained funds. The Council's management objective are to ensure that the Council's ability to continue as a going concern is still valid and that the Council maintains a positive working capital ratio. To achieve this, the Council carries out a quarterly review of the working capital ratio (Financial Situation Indicator). This ratio was positive at the reporting date. The 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 31 December 2016 – continued

(p) Critical accounting estimates and judgements

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

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

IKLIN LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2016 – continued

3. PROPERTY, PLANT AND EQUIPMENT

	Construction €	Office Furniture & Fittings €	New Street Signs & Lights €	Urban Improvements €	Office Equipment €	Plant and Machinery €	Special Programmes €	Motor Vehicle €	Projects Under Construction €	Total €
Cost										
At 1 Jan 2016	521,287	23,354	37,078	53,169	33,275	1,085	759,430	-	18,287	1,456,865
Additions	-	750	-	-	-	-	15,075	13,411	2,020	31,256
Disposals	-	(1,862)	-	-	(15,834)	-	-	-	-	(17,596)
At 31 Dec 2016	521,287	22,142	37,078	53,169	17,441	1,085	774,505	13,411	20,307	1,470,626
Grants and other reimbursements										
At 1 Jan 2016 & At 31 Dec 2016	15,551	-	-	-	2,544	-	264,578	-	-	282,881
Depreciation										
At 1 Jan 2016	289,682	16,542	37,078	46,275	24,180	806	88,558	-	-	513,119
Charge for the year	19,586	482	-	1,614	1,108	84	39,568	1,979	-	64,521
Released on disposal	-	(1,749)	-	-	(15,188)	-	-	-	-	(16,947)
At 31 Dec 2016	319,358	15,275	37,078	47,889	10,090	690	128,224	1,979	-	560,693
Net Book Value										
At 31 Dec 2016	189,358	6,767	-	15,280	4,907	395	381,595	11,432	20,307	827,051

IKLIN LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2016 – continued

3. PROPERTY, PLANT AND EQUIPMENT – Continued

	Construction €	Office Furniture & Fittings €	New Street Signs €	Urban Improvements €	Office Equipment €	Plant and Machinery €	Special Programmes €	Street Lights €	Projects Under Construction €	Total €
Cost										
At 1 Jan 2015	469,996	23,354	30,281	63,169	32,320	900	703,349	6,797	18,287	1,378,453
Additions	21,291	-	-	-	955	185	56,081	-	-	78,512
At 31 Dec 2015	521,287	23,354	30,281	63,169	33,275	1,085	759,430	6,797	18,287	1,456,965
Grants and other reimbursements										
At 1 Jan 2015 & At 31 Dec 2015	15,581	-	-	-	2,644	-	264,576	-	-	282,881
Depreciation										
At 1 Jan 2015	276,628	16,102	30,281	44,481	22,793	510	51,169	6,797	-	450,768
Charge for the year	21,054	540	-	1,784	1,367	98	37,490	-	-	62,351
At 31 Dec 2015	299,682	16,642	30,281	46,275	24,160	608	88,659	6,797	-	513,119
Net Book Value										
At 31 Dec 2015	208,044	6,712	-	16,894	6,451	479	406,096	-	18,287	660,965

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

4. Receivables	2016	2015
	€	€
Amounts invoices but not yet settled	912	2,872
Prepayments	7,080	-
Accrued income	13,469	10,689
	21,461	13,561

Amounts invoiced but not yet settled are analysed as follows:	2016	2015
	€	€
Within the current period	697	631
Exceeded credit period but not yet impaired	215	2,241
	912	2,872

Prepayment include prepayments of Local council property rental and insurance premium and payment in advance to suppliers.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and balance with banks. Cash and cash equivalents included in the statement of cash flow comprise the following amounts in the Local Council statement of financial position:

	2016	2015
	€	€
Bank Balances:		
Ordinary funds	213,119	205,794
Special needs fund	-	18,308
Cash in hand	64	64
Cash at bank and in hand	213,183	224,166

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

	2016 €	2015 €
6. Deferred Income		
Between 1 and 2 years	26,536	29,272
Between 2 and 5 years	65,304	72,079
Over 5 years	224,497	242,214
	<u>316,337</u>	<u>343,565</u>
	2016 €	2015 €
Opening balance	375,929	371,515
Increase in grants	14,184	34,790
Decrease in grants	(71)	-
Release of grants	(32,357)	(30,376)
Closing balance	<u>357,685</u>	<u>375,929</u>
Less Current portion	<u>(41,348)</u>	<u>(32,364)</u>
Non-current portion	<u>316,337</u>	<u>343,565</u>
	2016 €	2015 €
7. Payables		
Trade creditors	47,607	52,293
Other creditors	-	18,220
Accruals	17,201	22,266
Deferred income within 1 year	41,348	32,364
	<u>106,156</u>	<u>125,143</u>
Less non-current payables	<u>(15,975)</u>	<u>(20,628)</u>
	<u>90,181</u>	<u>104,515</u>
	2016 €	2015 €
Non-current payables		
Between 1 and 2 years	4,653	4,653
Between 2 and 5 years	11,322	12,641
Over 5 years	-	3,334
Closing balance	<u>15,975</u>	<u>20,628</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

8. Funds received from Central Government	2016	2015
	€	€
In terms of section 55 of the Local Councils Act (CAP 363)	234,704	227,377
Supplementary Government Income	13,469	20,404
Other Government Income	37,128	31,375
	<u>285,301</u>	<u>279,156</u>
9. Income raised from Local Enforcement System	2016	2015
	€	€
Income from Regional administration fee	2,956	3,347
Income from Joint Committee	636	943
	<u>3,592</u>	<u>4,290</u>
10. Interest income	2016	2015
	€	€
Bank Interest Receivable	72	173
	<u></u>	<u></u>
11. General Income	2016	2015
	€	€
Income from permits	7,762	7,002
Income from tender documents	100	648
Other income	7,634	738
Contributions and donations	25	5,844
	<u>15,521</u>	<u>€ 14,232</u>
12. Personal Emoluments	2016	2015
	€	€
Personal emoluments include, inter alia:		
Mayor's Allowance	7,228	7,047
Councillors' Allowance	6,400	6,400
Executive Secretary salary and allowances	28,267	27,765
Employees' Salaries	27,200	26,289
Social Security Contributions	4,632	4,522
Total	<u>73,727</u>	<u>€ 72,023</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

13. Operations and Maintenance

Operations and maintenance includes, inter alia	2016	2015
Repairs and Upkeep:	€	€
Road and street maintenance	17,689	5,095
Road and street pavements	-	1,806
Office furniture and equipment	125	351
Other repairs and upkeep	635	2,042
	<u>18,449</u>	<u>9,294</u>
Contractual Services:	2016	2015
	€	€
Refuse Collection	22,540	22,149
Bulky Refuse Collection	5,713	5,937
Waste disposal	27,513	22,553
Road and street cleaning	9,771	10,480
Cleaning and maintenance of parks and gardens	2,891	1,372
Cleaning and maintenance council premises	1,314	929
Other contractual services	5,407	4,069
Street Lighting	3,033	1,665
LES related expenditure	1,500	492
	<u>79,682</u>	<u>69,646</u>
Total Operations and Maintenance Expenses	<u>98,131</u>	<u>78,940</u>

IKLIN LOCAL COUNCIL**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2016 – continued

14. Administrative and other Expenses	2016	2015
	€	€
Depreciation	64,521	62,351
Water and electricity	1,691	3,117
Telecommunications	2,849	2,806
Meetings and conventions – Overseas	1,651	3,765
Rent	13,409	13,023
Printing and stationery	4,720	3,433
Postages	232	228
Subscriptions	43	143
Publications	-	267
Bad debts written off	314	-
Advertising	1,150	886
Office services	5	756
Sundry minor expenses	344	-
Professional services	8,935	7,758
Transport expenses	3,931	3,871
Community and hospitality	18,966	9,890
Impairment of assets	649	-
	123,410	112,294

15. Contingent liabilities

As at 31 December 2016, there were no claims against the Local Council, that have not been provided in the financial statements.

16. Capital Commitments

At the end of the financial year there was one capital projects approved but not yet contracted for. This related to the construction of council premises.

Details of capital commitments are as follows	2016	2015
	€	€
Approved but not contracted for	141,277	91,200
Contracted for but not provided for:		
Construction of Council premises	27,000	41,541
Street paving works	60,000	32,459
Urban improvements	43,777	3,500
Furniture and equipment	10,500	500
Motor vehicle	-	13,200
	141,277	91,200

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

17. Related Parties Disclosures

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

Name of entity	Nature of relationship
Department of Local Councils	Significant control
Birkirkara Joint Committee for Local Enforcement	Joint control
Central Regional Committee for Local Enforcement	Joint control
Malta Environment and Planning Authority	
Arms Limited, Water Service Corporation, Enemalta Corporation, Inland Revenue Department, Director General Works Division, WasteServ Malta Ltd, Cleansing Services Department, Gozo Regional Committee, North Regional Committee, South Eastern Regional Committee, Police General Head Quarters, Bank of Valletta Plc and the Department of Lands	No control

The following were the significant transactions carried out by the Council with related parties having:

	2016 €	2015 €
Significant control		
Revenue:		
Annual financial allocation	234,704	227,377

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

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Local Council, directly or indirectly. The main key management personnel are the Mayor, Councillors and the Executive Secretary.

The significant transactions carried out with key management personnel are:

	2016	2015
Personal emoluments include, inter alia:		
Mayor's Allowance	7,228	7,047
Councillors' Allowance	6,400	6,400
Executive Secretary salary and allowances	31,094	30,542

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

18. LEASE COMMITMENTS

The local council has the following commitments in relation to property under operating lease.

	2016	2015
	€	€
Charge for the year	13,409	13,023
Commitments with one year	13,804	13,409
Commitments within two to five years	59,743	57,424

19. Risk management objectives and policies

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

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

19.1 Credit risk

The council's exposure to credit risk is limited to the carrying amount of financial assets recognised at the end of the reporting period, as summarised below.

	2016	2015
	€	€
Class of financial assets – carrying amounts		
Trade and other receivables	14,381	13,561
Cash and Cash Equivalents	213,183	224,166
	<u>227,564</u>	<u>237,727</u>

The council continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The council's policy is to deal with only creditworthy counterparties.

The council considers that the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See note 4 for further information on impairment or financial assets that are past due.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

19. Risk management objectives and policies - continued

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

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

19.2 Liquidity risk

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

The council manage its liquidity needs through yearly budgets and business plans by carefully monitoring expected cash inflows and outflows on a daily basis. The council's liquidity is deemed to be sufficient in view of an excess of financial assets.

At 31 December 2016, the Council's financial liabilities have contractual maturities which are summarised as follows:

	Current Within 1 year	Non – Current 1 to 5 years	More than 5 years
	€	€	€
Payables	31,632	15,975	-
Accruals	17,201	-	-

This compares to the maturity of the Council's financial liabilities in the previous reporting period as follows:

	Current Within 1 year	Non – Current 1 to 5 years	More than 5 years
	€	€	€
Payables	31,665	17,294	3,334
Accruals	22,266	-	-
Other payables	18,220	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

19. Risk management objectives and policies - continued

19.3 Interest rate risk

The Council has no significant interest-bearing assets other than cash and cash equivalents (Note 5), issued at variable rates. Cash and cash equivalents issued at variable rates expose the Council to cash flow interest rate risk. Management monitors the level of floating rate bank balances as a measure of cash flow risk taken on. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial.

19.4 Summary of the financial assets and liabilities by category

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

Current Assets	2016 €	2015 €
Loans and receivables:		
Trade and other receivables	14,381	13,561
Cash and Cash Equivalents	213,183	224,166
	<u>227,564</u>	<u>237,727</u>
Current Liabilities	2016 €	2015 €
Financial liabilities measured at amortised costs:		
Payables	47,607	52,293
Accruals	17,201	22,266
Other payables	-	18,220
	<u>64,808</u>	<u>92,779</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

19. Risk management objectives and policies - continued

19.5 Capital risk management

The Council's objectives when managing capital are to safeguard the Council's ability to continue as a going concern so that it can continue to provide a service to the residents of the Local Council by maintaining an optimal capital structure to reduce cost of capital.

The Council's equity, as disclosed in the statement of financial position, constitutes its capital. The Council's capital structure is monitored by the Executive Secretary and the Council with appropriate reference to its financial obligations and commitments arising from operational requirements. In view of the nature of the Council's activities, the capital level as at the end of the reporting period is deemed adequate by the Council.

20. Fair value estimation

At 31 December 2016 and 31 December 2015, the carrying amounts of cash at bank, receivables and payables reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

21. Events after the statement of financial position date

There have been no events whether favourable or unfavourable which occurred between the end of the reporting period and the date the financial statements have been authorised for issue.

Financial statements for the year ended 31 December 2016

Report of the Local Government auditor to the Auditor General

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of Iklin Local Council which comprise the statement of financial position as at 31 December 2016, 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.

Qualified opinion

In our opinion, except for the effects of the matters described in paragraphs 1, 2, 3 and 4 below, the financial statements give a true and fair view of the financial position of Iklin Local Council as of 31 December 2016 and of the results of its operations, changes in net assets/equity and its cash flows for the period then ended in accordance with the accounting policies set out on pages 8 to 15.

These financial statements comply in all material respect with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 but because of the matters set out in paragraph 1, 2, 3 & 4 below these financial statements have not been prepared in accordance with International Financial Reporting Standards as adopted by the E.U.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

1. As from 1 January 2000, all income and expenditure from the Local Enforcement System (LES) were centralised through the Birkikara Joint Committee and LES debtors at that date were transferred to the Joint Committee as well. The Birkikara Joint Committee ceased operations on 31 August 2011 and LES was centralised through the Central Regional Committee as from 1 September 2011. The Council has reported income of EUR636 from Pre-Regional tickets in the current period. We were unable to determine the amount of any additional income the Council is entitled to receive from Birkikara Joint Committee since the audited financial statements as at 31 December 2015 of the Joint Committee are qualified on the basis that amounts receivable could not be reconciled to the IT system and financial statements at period end were not available. All LES receivables of the Joint Committee have been provided for.

Financial statements for the year ended 31 December 2016

Report of the Local Government auditor to the Auditor General (continued)

Basis for Opinion (continued)

2. The financial statements do not disclose a brief description of the lease agreement as required by IAS 17, *Leases*.
3. The Council's interest free non-current payable arising on the PPP project is accounted for at historical cost rather than amortised cost as required by IAS 39, *Financial Instruments*.
4. The information disclosed in note 2 in relation to new standards adopted by the council and other standards in issue but not yet effective does not capture all the changes since 31 December 2015 and as such, does not meet the requirements on IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other Information

The Councillors and the Executive Secretary are responsible for the other information. The other information comprises the Statement of Local Council Members' and Executive Secretary's Responsibility. Our opinion on the financial statements does not cover this information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of the Local Council Members' and Executive Secretary

The Councillors and the Executive Secretary are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS as adopted by the E.U. and for such internal control as the Councillors and Executive Secretary 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 Councillors and the Executive Secretary are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Councillors and the Executive Secretary has no realistic alternative but to do so.

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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Financial statements for the year ended 31 December 2016**Report of the Local Government auditor to the Auditor General (continued)****Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

As part of an audit in accordance with ISAs, we exercise professional judgment 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 the Councillors and the Executive Secretary.
- Conclude on the appropriateness of the Councillors and the Executive Secretary 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 the Councillors and the Executive Secretary 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.



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

Mazars Malta
Certified Public Accountants
Attard,
Malta
25 April 2017