

Local Council Ta' Kercem
Annual Audit Report
for the year ended 31 December 2011

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Statement of Local Council Members' and Executive Secretary's Responsibilities
for the year ended 31 December 2011

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of 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 Council (Financial) Regulations, and the Local Council (Financial) Procedures issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, Local Council (Financial) Regulations, and the Local Councils (Financial) Procedures. The Executive Secretary is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Council on 30 April 2012 and signed on its behalf by:



Mario Azzopardi
Mayor



Marianne Sagona
Executive Secretary

Statement of Comprehensive Income
for the year ended 31 December 2011

	Notes	2011 €	2010 €
Revenue			
Funds received from Central Government	3	245,237	238,183
Income raised under Local Enforcement System	4	38	11
General Income	5	63,875	20,242
		<u>309,150</u>	<u>258,436</u>
Expenditure			
Personal Emoluments	6	(64,567)	(57,825)
Operations and maintenance	7	(113,559)	(87,041)
Administration and other expenditure	8	(93,859)	(80,098)
		<u>(271,985)</u>	<u>(224,964)</u>
Operating profit for the year		37,165	33,472
Finance income	9	404	233
		<u>37,569</u>	<u>33,705</u>
Total comprehensive income for the year		<u>37,569</u>	<u>33,705</u>

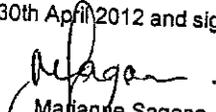
The notes on pages 6 to 23 form an integral part of these financial statements.

Statement of Financial Position
as at 31 December 2011

	Notes	2011 €	2010 €
ASSETS			
Non-Current Assets			
Property, plant and equipment	11	829,972	609,461
		<u>829,972</u>	<u>609,461</u>
Current Assets			
Inventories	12	1,611	1,977
Receivables	13	113,621	20,204
Cash and cash equivalents	14	61,150	155,318
		<u>176,382</u>	<u>177,499</u>
Total Assets		<u><u>1,006,354</u></u>	<u><u>786,960</u></u>
RESERVES AND LIABILITIES			
Reserves			
Retained earnings		495,485	457,916
Total Reserves		<u>495,485</u>	<u>457,916</u>
Non-Current Liabilities			
Long-term borrowings	16	151,125	150,462
Deferred income	17	190,107	91,960
		<u>341,232</u>	<u>242,422</u>
Current Liabilities			
Payables	15	148,350	65,335
Short-term borrowings	16	21,287	21,287
		<u>169,637</u>	<u>86,622</u>
Total Liabilities		<u><u>510,869</u></u>	<u><u>329,044</u></u>
Total Reserves and Liabilities		<u><u>1,006,354</u></u>	<u><u>786,960</u></u>

These financial statements were approved by the Local Council on 30th April 2012 and signed on its behalf by:


Mario Azzopardi
Mayor


Marianne Sagona
Executive Secretary

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

Statement of Changes in Reserves
for the year ended 31 December 2011

	Retained Funds	Total
	€	€
At 1 January 2010		
Total Comprehensive Income for the year	424,211	424,211
	33,705	33,705
At 31 December 2010	<u>457,916</u>	<u>457,916</u>
At 1 January 2011		
Total Comprehensive Income for the year	457,916	457,916
	37,569	37,569
At 31 December 2011	<u>495,485</u>	<u>495,485</u>

Statement of Cash Flows
for the year ended 31 December 2011

	2011		2010	
	€	€	€	€
Net profit for the year	37,569		33,705	
Reconciliation to cash generated from operations:				
Depreciation	41,336		35,726	
Interest receivable	(404)		(233)	
Operating profit before working capital changes	<u>78,501</u>		<u>69,198</u>	
Decrease/(Increase) in inventories	366		(1,977)	
Decrease/(Increase) in receivables	(38)		(18,259)	
(Increase) in other receivables	(93,379)		(3,099)	
Increase in payables	1,850		2,220	
Increase in other payables	55,926			
Government grant released	(22,610)			
Cash generated from operating activities		<u>20,616</u>		<u>25,210</u>
Cash flow from investing activities				
Interest received	404		233	
Purchase of property, plant & equipment	(261,847)		(27,323)	
Receipt of grant	123,993		55,960	
Cash generated/(used in) from investing activities		<u>(137,450)</u>		<u>(71,130)</u>
Cash from financing activities				
New long term bank borrowings	21,950		14,606	
Repayment of short term bank borrowings	(21,287)		(21,287)	
Cash generated/(used in) from financing activities		<u>663</u>		<u>(6,968)</u>
Net Decrease in cash in the year		<u>(116,171)</u>		<u>(52,888)</u>
Cash and equivalents at beginning of year		<u>140,952</u>		<u>93,482</u>
Cash and equivalents at end of year		<u>24,781</u>		<u>40,594</u>

1. General information

The Local Council Ta' Kercem is the local authority of Malta set up in accordance with the Local Councils Act(1993). The office of the Local Council is situated at Orvieto Square, Kercem, Gozo. As from September 2011, the Local Council started forming part of the Gozo Regional Committee. These financial statements were approved for issue by the Council Members on 30 April 2012. The Local Council's presentation as well as functional currency are denominated in €.

2. Accounting Policies and Reporting Procedures

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

Accounting convention

These financial statements are prepared under the historical cost convention, as modified to include fair values where it is stated in the accounting policies below. These financial statements are prepared in accordance with the provisions of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 enacted in Malta and with the requirements of the International Financial Reporting Standards.

These financial statements have been drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of section 67 of the Local Councils Act (Cap. 363).

New and amended standards adopted by the Local Council

The Council has adopted the following new and amended standards as of 1 January 2011:

On 6 May 2010, the IASB completed its annual improvements project, entitled Improvements to IFRS. This project incorporates amendments to a number of IFRSs, including IFRS 7 Financial Instruments: Disclosures, IAS 1 Presentation of Financial Statements and IAS 34 Interim Financial Reporting. The IFRS 7 Amendment addresses a perceived lack of clarity in the intended interaction between the qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments and clarifies the required level of disclosure in connection with credit risk. The IAS 1 Amendment clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The IAS 34 Amendment emphasises the principle in IAS 34 that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report and clarifies how to apply this principle in respect of financial instruments and their fair value. The Amendments, which have been endorsed by the European Union, are applicable for annual periods beginning on or after 1 January 2011, with earlier application being permitted:

- IAS 24 - Related party disclosures (effective 1 January 2011) Amendments simplified the definition of a related party, clarified its intended meaning and eliminating inconsistencies from the definition. It also provided for a partial exemption from the disclosure requirements for government-related entities.

New important standards and amendments not yet adopted

On 7 October 2010, the IASB issued amendments to IFRS 7, which amendments are entitled Disclosures-Transfers of Financial Assets. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets. The amendments also require certain additional disclosures. The Amendments are applicable for annual periods beginning on or after 1 July 2011.

New important standards and amendments not yet adopted by EU

A number of new International Financial Reporting Standards and amendments and revisions thereto were in issue but not yet effective during the financial year under review. These include the following:

- IFRS 9 Financial Instruments is applicable for annual periods beginning on or after 1 January 2013, with earlier application being permitted. This Standard represents the completion of the classification and measurement part of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This Standard addresses the classification and measurement of certain financial assets and financial liabilities. IFRS 9 requires financial assets that fall within its scope to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Standard requires financial assets to be subsequently measured at amortised cost or at fair value. The new requirements in relation to financial liabilities address the problem of volatility in profit or loss arising from an issuer to measure its own debt at fair value. With the new requirements, any entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income rather than within profit or loss. This Standard had not yet been adopted by the EU at the date of authorisation of these financial statements.

- On 12 May 2011, the IASB also issued IFRS 13 Fair Value Measurement. This Standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not require fair value measurements in addition to those already required or permitted by other IFRS. The Standard is applicable for annual periods beginning on or after 1 January 2013, with earlier application being permitted. IFRS 13 has not yet been endorsed by the European Union at the date of authorisation of these financial statements.

- On 16 June 2011, the IASB issued amendments to IAS 1, which amendments are entitled Presentation of Items of Other Comprehensive Income. These Amendments will require Local Councils to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. These amendments are effective for financial years beginning on or after 1 July 2012. The Amendments have not yet been endorsed by the European Union at the date of authorisation of these financial statements.

- On 16 June 2011, the IASB issued an amended version of IAS 19 Employee Benefits. This represents the completion of the IASB's project to improve the accounting for pensions and other post-employment benefits. The amended version of IAS 19 comes into effect for financial years beginning on or after 1 January 2013. Earlier application is permitted. The Amendment has not yet been endorsed by the European Union at the date of authorisation of these financial statements.

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 Councillors and Executive Secretary anticipate 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.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses to date. Depreciation is calculated on a monthly basis using the 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	%
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
Traffic Signs	Replacement Basis
Road 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 Statement of Financial Position date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

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

Impairment of Assets

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

Inventories

Inventories are valued at the lower of cost and net realisable value.

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 amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Income and Expenditure.

Related parties

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

During the year under review the Local Council has opted to early adopt the partial exemptions as provided by IAS 24, effective from periods starting 1 January 2011. The paragraphs adopted from IAS 24 are paragraphs 25 - 27, being amendments to government related entities' disclosures.

Revenue

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. Interest income is recognised in the statement of comprehensive income as it accrues.

Government grants

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement over the expected lives of the related assets.

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 €, which is the Council's functional and presentation currency.

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

Profits and losses

Only profits that were realised at the date of the Statement of Financial Position are recognised in these financial statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the financial statements are approved.

Cash and 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.

Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and based on historic experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. In the opinion of the Executive Secretary, the accounting estimates and judgements made in the preparation of the Financial Statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirements of IAS 1 (revised) - 'Presentation of Financial Statement'.

Capital Management

The Council's capital consists of its net assets, including working capital, represented by its retained funds. The Council's management objectives 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 the above, the Council carries out a quarterly review of the working capital ratio ('Financial Situation Indicator'). This ratio was positive at the reporting date and has not changed significantly from the previous year. The 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.

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 transaction 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.

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 a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Financial Liabilities

The Council's financial liabilities included other payables. These are stated at their nominal account which is a reasonable approximation of fair value.

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

3. Funds received from central government

	2011 €	2010 €
In terms of section 55 of the Local Councils Act	231,857	232,628
Other Government Income	13,380	5,555
	<u>245,237</u>	<u>238,183</u>

4. Local Enforcement System

	2011 €	2010 €
Income raised under Local Enforcement System	38	11
	<u>38</u>	<u>11</u>

5. General Income

	2011 €	2010 €
Library Services	-	466
Cultural Events	6,338	2,350
Sponsorships	850	
General Income	7,617	
Other Income	9,280	
Contributions and Donations	2,280	3,579
Contributions from WSC Reinstatement Works	14,900	13,749
Grants released	22,610	
Income from Permits	-	98
	<u>63,875</u>	<u>20,242</u>

6. Profit for the year

	2011 €	2010 €
Profit for the year is stated after charging:		
Staff salaries	64,567	57,825
Depreciation of property, plant and equipment	41,336	35,726
	<u>64,567</u>	<u>57,825</u>

Staff salaries

	2011 €	2010 €
Mayor's Remuneration	6,364	6,945
Councillors' Allowances	6,400	5,013
Executive Secretary Salary and Allowances	20,365	21,804
Employees' Salaries	24,717	20,635
Social Security Contributions	3,537	3,428
Previous years Social Security Contributions / PAYE	3,184	-
	<u>64,567</u>	<u>57,825</u>

7. Operations and Maintenance

	2011	2010
	€	€
<i>Repairs and Upkeep:</i>		
Road/Street Pavements	15,299	1,872
Walkways	7,677	924
Signs	570	2,352
Road Markings	516	24
Office Furniture and Equipment	-	871
Sundry Repairs	-	161
Other repairs and Upkeep	10,815	2,250
	<u>34,877</u>	<u>8,454</u>
<i>Contractual Services:</i>		
Waste Disposal	9,980	10,966
Refuse Collection	16,026	19,274
Bulky Refuse Collection	279	190
Hiring of Skips - Bins on Wheels	-	564
Open Skips	14,318	7,315
Road & Street Cleaning	3,418	3,479
Cleaning - Public Conveniences	-	4,600
Cleaning - Council Premises	800	764
Clean. & Maint. Parks & Gardens	3,270	2,269
Clean & Maint. Country - Non Urban	28,109	27,166
Street Lighting	2,249	2,000
Local Enforcement Expenses	233	-
	<u>78,682</u>	<u>78,587</u>
Total Operations and Maintenance Costs	<u>113,559</u>	<u>87,041</u>

8. Administration and other expenditure

	2011 €	2010 €
Utilities	2,394	884
Other repairs and upkeep	1,579	970
Rent	1,600	576
National and International Memberships	328	1,273
Office Services	5,121	4,611
Transport	273	1,491
Travel	2,549	-
Information Services	1,112	2,433
Lease of Equipment	-	708
Insurance Coverage	1,492	1,119
Penalties - Department of Local Councils	1,067	-
Professional Services	13,324	11,837
Other Hospitality Costs	1,837	184
Social Events	6,377	7,825
Cultural Events	12,705	9,976
Community Services	545	387
Depreciation	41,336	35,726
	<u>93,638</u>	<u>79,997</u>

9. Finance Income

	2011 €	2010 €
Bank Interest Receivable	404	233
	<u>404</u>	<u>233</u>

10. Finance Costs

	2011 €	2010 €
Bank Charges	220	98
	<u>220</u>	<u>98</u>

11. Property, plant and equipment	Assets under construction	New Street Signs	Urban Improvements	Computer & Office equipment	Office Furniture & fittings	Special Programmes & Construction	Total
Cost	€	€	€	€	€	€	€
At 1 January 2010	248,048	4,554	470,043	13,261	10,290	301,243	1,047,439
Additions	14,696	-	1,376	324	-	10,927	27,323
At 31 December 2010	262,744	4,554	471,419	13,585	10,290	312,170	1,074,762
Depreciation							
At 1 January 2010	-	4,554	204,116	11,558	6,126	111,956	338,310
Charge for the year	-	-	23,303	379	302	11,742	35,726
At 31 December 2010	-	4,554	227,419	11,937	6,428	123,698	374,036
Grants							
At 1 January 2010	-	-	-	-	-	68,433	68,433
At 31 December 2010	-	-	22,832	-	-	-	22,832
Net book values							
At 31 December 2010	262,744	-	221,168	1,648	3,862	120,039	609,461

Notes to the Financial Statements
for the year ended 31 December 2011.

11. Property, plant and equipment

	Assets under construction €	New Street Signs €	Urban Improvements €	Computer & Office equipment €	Office Furniture & fittings €	Special Programmes & Construction €	Total €
Cost							
At 1 January 2011	262,744	4,554	471,419	13,585	10,290	312,170	1,074,762
Additions	77,851	-	76,887	728	-	106,381	261,847
Reclassifications	8,479	-	-	-	-	(8,479)	
At 31 December 2011	349,074	4,554	548,306	14,313	10,290	410,072	1,336,609
Depreciation							
At 1 January 2011	-	4,554	227,419	11,937	6,428	123,698	374,036
Charge for the year	-	-	23,005	429	280	17,622	41,336
At 31 December 2011	-	4,554	250,424	12,366	6,708	141,320	415,372
Grants							
At 1 January 2011	-	-	-	-	-	68,433	68,433
At 31 December 2011	-	-	22,832	-	-	-	22,832
Net book values							
At 31 December 2011	349,074	-	275,050	1,947	3,582	200,319	829,972

12. Inventories

	2011 €	2010 €
Stock of Stamps	1,611	1,977
	<u>1,611</u>	<u>1,977</u>

13. Receivables

	2011 €	2010 €
Receivables	38	
Other receivables	6,311	6,000
Prepayments and Accrued income	107,272	15,204
	<u>113,621</u>	<u>20,204</u>

Receivables

General receivables are analysed as follows:

	2011 €	2010 €
Within credit period	<u>38</u>	

14. Notes to the Statement of Cashflow

Cash & cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following Statement of Financial Position amounts:

	2011 €	2010 €
Bank Balances	60,895	154,523
Cash in Hand	255	795
Overdrafts	(36,369)	(14,366)
Cash at bank and in hand	<u>24,781</u>	<u>140,952</u>
Transfer to payables	36,369	14,366
Cash at bank and in hand	<u>61,150</u>	<u>155,318</u>

15. Payables

	2011 €	2010 €
Payables	23,313	21,463
Other taxes and social security costs	3,538	
Accruals and deferred income	85,130	29,506
Bank overdrawn balance	36,369	14,366
	<u>148,350</u>	<u>65,335</u>

16. Borrowings

		2011	2010
		€	€
Non-current			
Bank borrowings	Note	151,125	150,462
Current			
Bank borrowings	Note	21,287	21,287
Borrowings			
Repayable between one and two years		21,287	12,840
Repayable between two and five years		63,860	52,892
Repayable in five years or more		65,978	84,730
		<u>151,125</u>	<u>150,462</u>
Repayable after five years or more:			
Bank loan		<u>65,978</u>	<u>84,730</u>

Bank loan

Long term borrowings consists of two bank loans borrowed by the Council with the approval of the Minister responsible for the Local Government to be repaid over a period of twenty years.

The bank loan's repayments for the current year amounts to Eur 21,287 at Eur 5,322 quarterly installments inclusive of interest.

17. Deferred income	2011 €	2010 €
Government grants		
At 1 January 2011	96,733	40,773
Increase in year	123,993	55,960
	<u>220,726</u>	<u>96,733</u>
Released in year	(22,610)	
At 31 December 2011	<u>198,116</u>	<u>96,733</u>
Current Deferred Income	<u>8,008</u>	<u>4,773</u>
Non-Current Deferred Income	<u>190,108</u>	<u>91,960</u>
Deferred Government Grants		
Deferred between one and two years	14,312	8,786
Deferred between two and five years	45,322	21,635
Deferred in five years or more	130,474	61,539
	<u>190,108</u>	<u>91,960</u>
Deferred after five years or more:		
Government Grants	<u>130,474</u>	<u>61,539</u>

18. Capital commitments

	2011 €	2010 €
(i) Approved but not yet contracted for:		
Urban Improvements	328,000	76,400
	<u>328,000</u>	<u>76,400</u>
(ii) Contracted for but not provided in the Financial Statements:		
Road Resurfacing	142,000	20,333
Plastering and Electrical works of new council premises	84,000	
	<u>226,000</u>	<u>20,333</u>

Note

The council will be financing 40% of the road resurfacing due to the PPP scheme as approved by the department for local councils as per Memo 45 of 2010.

19. Contingent liabilities

The Council has a bank guarantee in favour of the Malta Environment and Planning Authority amounting to Eur 5,000.

20. Fair values estimation

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

21. Comparative Figures

Certain amounts have been re-classified to conform with the current year's presentation.

22. Financial Risk Management

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

Credit risk

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

The maximum exposure to credit risk for amounts receivable at the reporting date, net of impairment losses, by type of customer is as follows:

- Receivables from Related parties	€ 38
	<u> </u>

Liquidity risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. In fact, at year end, the Council has as cash and cash equivalents the amount of € 215,508. This should ensure an ongoing working capital of the Council for the next 12 months. The Council also maintains a positive net asset position of € 828,955 ensuring that adequate headroom is available to cover present liabilities as well as short term obligations and commitments arising.

Foreign currency risk

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

Interest rate risk

Interest rate risk mainly arises through interest bearing liabilities and assets. The objective of interest rate risk management is to optimise the balance between minimizing uncertainty caused by fluctuations in interest rates and maximizing the net interest income and expense.

23. Related party transactions

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

<i>Name of Entity</i>	<i>Nature of relationship</i>
Department of Local Councils	Significant control
Gozo Regional Committee	Joint Control
Central Regional Committee	No control
North Regional Committee	No control
South Eastern Regional Committee	No control
Police General Head Quarters	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Department of Agriculture	No control
Director General - Works Division	No control
Department of Lands	No control
Airmalta plc	No control
Bank of Valletta plc	No control
Wasteserv Malta Limited	No control

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

	2011	2010
	€	€
Annual Financial Allocation	231,857	232,628

Key management compensation

Transactions with key management personnel are disclosed in note 6.

Ultimate controlling party

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.



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LOCAL COUNCIL KERCEM

Report of the Local Government Auditor to the Auditor General

We have audited the accompanying financial statements of Local Council Kercem set out on pages 2 to 23, which comprise the statement of financial position as at 31st December 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows of the Local Council for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Council Responsibilities for the Financial Statements

As described on page 3, the Executive Secretary and the Council are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU and for such internal control as the Council determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Local Government Auditor's 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 judgement, 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 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 internal control of the Local Council. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of the accounting estimates made by the Executive Secretary and the Council, 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.



Spiteri Bailey & Co.

Accountancy Audit Advisory

Basis for Qualified Opinion

Included in the revenue for the year, under the heading General Income, there is an amount of Euro 14,900 (refer to note 5 to the financial statements) representing invoices issued to the Water Services Corporation for road reinstatement works. This income should not have been recognized in these financial statements since the works on the roads have not yet been carried out by the Local Council. Consequently, the income for the year, the total comprehensive income for the year, the receivables and the retained earnings are all overstated by Euro 14,900.

It is to be noted that although the finance costs are shown separately in note 10 to the financial statements, these are included in the line item 'Administration and other expenditure' on the face of the statement of comprehensive income. In fact, this line item does not tally with the note to which it is being cross-referenced (note 8).

Qualified opinion

In our opinion, except for the matters mentioned in the preceding paragraphs, the financial statements give a true and fair view of the financial position of the Council as of 31 December 2011 and of the Council's financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

In our opinion, except as set out in the preceding paragraphs, the financial statements have been properly prepared in accordance with the Local Councils Act, (CAP 363); the Financial Regulations issued in terms of the said Act; and the Local Councils (Financial) Procedures.

This copy of the audit report has been signed by
William Spiteri Bailey FIA MIM CSA CPA (Partner) for and on behalf of
Spiteri Bailey & Co.

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30/04/12