

Kirkop Local Council

**Annual Audit Report
31st December 2012**

Christopher Spiteri 29/4/2013

Prepared by:

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Kirkop Local Council

Financial Statements
Year ended 31st December 2012

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Kirkop Local Council

Statement of Local Council Members' and Executive Secretary's Responsibilities Year ended 31st December 2012

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 comprehensive income for the year and of the Local Council's financial position at the end of the year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the Financial Statements forming part of the report present fairly, in accordance with accounting policies applicable to Local Councils, the comprehensive income of the Local Council for the year and its financial position as at the year end, and that they comply with the Local Councils Act, the Local Councils (Financial) Regulations, and the Local Councils (Financial) Procedures issued in terms of the said Act.

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


Mayor

Date: 24.04.13


Executive Secretary



Kunsill Lokali Hal Kirkop
31 Triq San Benedittu
Kirkop 1243

Financial Statements for the year ended 31 December 2012

Report of the Local Government auditor to the Auditor General

We have audited the accompanying financial statements of Kirkop Local Council which comprise the statement of financial position as at 31 December 2012, 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.

Respective responsibilities of the Local Council and Local Government auditor

As described in page 1, these financial statements are the responsibility of the Executive Secretary and the Local Council members.

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 of 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 our 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, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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, 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 audit opinion.

Basis for qualified opinion

1. Up to 31 August 2011, the Council operated the Local Enforcement System (LES). The Council did not prepare a reconciliation between the LES reports generated from the IT system and actual cash received, debtors outstanding at the end of the period, cash received on behalf of other councils and amounts owed to other councils. We could not perform any audit procedures to satisfy ourselves as to the existence and completeness of LES debtors and LES creditors, and the valuation of LES debtors at 31 December 2012.
2. Included with creditors at balance sheet date is an amount of € 8,651 representing accruals brought forward from the previous year and an amount in debit of € 2,000 which arose in the current year. The Council did not provide us with supporting evidence relating to these figures and there were no practicable alternative procedures that we could apply to satisfy ourselves as to the existence of these amounts.
3. Included with fixed asset additions and creditors is an amount of € 9,013 relating to a lift installed at the new council premises. This amount is the result of the cost of the new lift (€ 21,806) less the cost of the lift (€ 12,793) that was installed in the council's old premises and which the council maintains will be recovered from the new tenants of its old office. The council did not provide us with supporting evidence to confirm that the cost of the old lift will be recovered. As a result, we could not satisfy ourselves as to the completeness of the reported figure for creditors at balance sheet date.
4. An unreconciled difference of € 7,301 was identified between the council's books and a supplier's statement at year end. This variance is mainly due to an amount of € 7,819 recognised in the council's books but not shown in the supplier's statement, and a charge of € 1,081 not recognised in the books of the council. We could not satisfy ourselves as to the existence of the reported figures for fixed assets and creditors at balance sheet date.

Financial Statements for the year ended 31 December 2012

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

5. During the period under review the council incurred € 576 on travelling expenses and € 5,755 on wages and salaries with respect to the LitusGo project. The council did not provide us with supporting evidence for travelling expenses and the basis upon which wages/allowances were calculated and paid. As a result, we could not satisfy ourselves as to whether the reported figure for expenditure is overstated.
6. We were not provided with proper bank reconciliation statements for three bank accounts held in the name of the council. Consequently we were unable to confirm the existence and completeness of the council's bank balances at balance sheet date.
7. Our testing on wages and salaries for the year ended 31 December 2012 revealed that an amount of € 4,307 shown in the accounting records was not reported in the FSS forms submitted to the Inland Revenue Department. The council did not provide us with satisfactory explanations for this difference.
8. The Local Councils (Audit) Procedures, 2006 contain a specimen of the financial statements which Local Councils should adhere to. It further stipulates that in the case where this specimen is not in conformity with International Financial Reporting Standards (IFRSs), the latter should prevail.

The Council's financial statements for the year under review have not been prepared in accordance with the specimen referred to above and do not take into consideration all the additional requirements that emerge from the applicable IFRSs. This contravenes the requirements of the Local Councils (Audit) Procedures, 2006.

9. Excluded from these financial statements are the budgeted figures for the year. This is not in accordance with the Local Councils (Financial) Procedures, 1996.


Qualified Opinion

In our opinion, except for the effects of the matters described in paragraphs 1 to 8 under Basis for qualified opinion paragraph, the financial statements give a true and fair view of the financial position of Kirkop Local Council as at 31 December 2012, 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 and 9.

Because of the matters set out in paragraph 9 under Basis for qualified opinion paragraph, these financial statements do not comply fully with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 and because of the matters set out in paragraph 8 these financial statements have not been prepared in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to the Council's Statement of Financial Position on page 5 which shows that at 31 December 2012 the Council's current liabilities (excluding deferred income) exceeded current assets (excluding prepayments of € 6,463 and € 407,212 representing bank balances which can only be used to fund specific projects) by € 129,108. The significance of this deficiency casts doubt as to whether the Council will be able to meet its liabilities as they fall due.



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24 April 2013

Kirkop Local Council

Statement of Comprehensive Income
 Year ended 31st December 2012

	<i>Note</i>	2012 Eur	2011 Eur
Income			
Funds received from central government	3	221,629	226,928
Income raised under Local Enforcement System	4	1,446	54,906
General income	5	26,861	49,798
		<u>249,936</u>	<u>331,632</u>
Expenditure			
Personal emoluments	6	69,349	79,661
Operations and maintenance	7	67,985	112,920
Administration and other expenditure	8	136,230	202,769
		<u>273,564</u>	<u>395,350</u>
Loss for the year		<u>(23,628)</u>	<u>(63,718)</u>

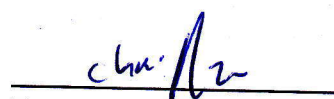
Kirkop Local Council

Statement of Financial Position
31st December 2012

	Note	2012 Eur	2011 Eur
Assets			
Non-current Assets			
Property, plant and equipment	9	705,080	687,024
		<u>705,080</u>	<u>687,024</u>
Current Assets			
Receivables	10	440,400	487,194
Cash and cash equivalents	11	455,389	435,083
		<u>895,789</u>	<u>922,277</u>
Total Assets		<u>1,600,869</u>	<u>1,609,301</u>
Reserves and Liabilities			
Reserves			
Retained Fund		<u>376,779</u>	<u>400,407</u>
Non-current Liabilities			
Amounts falling due after one year	12	<u>991,320</u>	<u>1,009,794</u>
Current Liabilities			
Payables	13	<u>232,770</u>	<u>199,100</u>
		<u>232,770</u>	<u>199,100</u>
Total Reserves and Liabilities		<u>1,600,869</u>	<u>1,609,301</u>

These Financial Statements were approved by the Local Council and are signed on its behalf by :


Mayor


Executive Secretary

Date: 24.04.13



Kunsill Lokali Hal Kirkop
31 Triq San Benedittu
Kirkop 1243

Kirkop Local Council

Statement of changes in equity
Year ended 31st December 2012

	Retained fund Eur
At 31st December 2010	
Loss for the year	464,125
	(63,718)
At 31st December 2011	
Loss for the year	400,407
	(23,628)
At 31st December 2012	
	376,779

Kirkop Local Council

Statement of Cash Flows

Year ended 31st December 2012

	<i>Note</i>	2012 Eur	2011 Eur
Cash flows from operating activities			
Loss for the year		(23,628)	(63,718)
Adjustments for:			
Depreciation		70,694	54,412
Government grant released		(21,315)	(7,850)
Increase in provision for doubtful LES debtors		18,152	20,287
Proceeds from disposal of property, plant & equipment		12,793	0
Profit on disposal of property, plant & equipment		(3,005)	0
Investment income		(73)	0
Profit for the year before working capital movements		53,618	3,131
Movement in receivables		(1,552)	(40,922)
Movement in payables		32,712	143,193
Net cash generated from operating activities		84,778	105,402
Cash flows from investing activities			
Payment to acquire property, plant and equipment		(98,538)	(285,131)
Investment income		73	0
Net cash used in investing activities		(98,465)	(285,131)
Cash flows from financing activities			
Grants received during the year		32,263	499,669
Net cash flows from financing activities		32,263	499,669
Movement in cash and cash equivalents		18,576	319,940
Cash and cash equivalents at the beginning of the year		426,052	106,112
Cash and cash equivalents at the end of the year	11,13	444,628	426,052

Kirkop Local Council

Notes to the financial statements

31st December 2012

Note

1 General information

Kirkop Local Council is the local authority of Kirkop set up in accordance with the Local Councils Act. The office of the Local Council is situated at 31, Triq San Benedittu, Kirkop.

As from 1st September 2011 the Local Council started to form part of the Southern Regional Committee.

2 Accounting policies and reporting procedures

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 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.

The principal accounting policies and reporting procedures used by Local Councils are as follows :

a) Revenue recognition

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. All revenue - funds received from central government, local enforcement system income, investment income and general income, is accounted for in the statement of comprehensive income as it accrues.

b) 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 :

	%
Trees	0
Land	0
Buildings	1
Office furniture and fittings	7.5
Construction works	10
Special programmes	10
Urban improvements (Street Furniture)	10
Office equipment	20
Plant & Machinery	20
Motor vehicles	20
Computer equipment	25
Plants	100
New street signs	100
Litter bins	100
Playground furniture	100
Street lights	100
Street mirrors	100

Kirkop Local Council

Notes to the financial statements

31st December 2012

Note

c) Government Grants

Government grants are accounted for on a systematic basis in the Statement of Comprehensive Income over the periods 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 costs, then the grant is accounted for when it becomes receivable.

d) 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.

e) 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 Local 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 Comprehensive Income.

f) 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 Local Council's functional and present currency.

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

g) 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.

h) Cash and cash equivalents

Cash and cash equivalents are carried in the Statement of Financial Position at face value. For the purposes of the Statment of Cash Flows, cash and cash equivalents comprise cash in hand and balances held with banks.

Kirkop Local Council

Notes to the financial statements

31st December 2012

Note

3 Funds received from central government

	2012	2011
	Eur	Eur
In terms of section 55 of the Local Councils Act (Cap 363)	187,917	180,863
Other government income	33,712	46,065
	221,629	226,928

4 Local enforcement system income

	2012	2011
	Eur	Eur
Contraventions	1,446	54,906
	1,446	54,906

5 General Income

	2012	2011
	Eur	Eur
General income	21,525	36,432
Investment income	73	0
ESF income	5,263	13,366
	26,861	49,798

6 Personal emoluments

	2012	2011
	Eur	Eur
Personal emoluments include, inter alia :		
Mayor's allowance	10,213	6,364
Councillors' allowances	7,100	6,230
Employees' salaries	38,137	37,487
Executive secretary's salary	13,899	29,580
	69,349	79,661

Kirkop Local Council

Notes to the financial statements Year ended 31st December 2012

Note

7 Operations and maintenance

	2012 Eur	2011 Eur
Repairs and upkeep:		
Road markings	0	1,820
Signs	41	369
Other	5,911	13,620
	<u>5,952</u>	<u>15,809</u>
 Contractual services:		
Refuse collection	17,959	18,058
Bulky refuse collection	2,300	2,300
Road and street cleaning	11,256	11,285
Waste disposal	14,904	18,197
Hire of skips	0	130
Cleaning and maintenance - public conveniences	4,414	4,362
Cleaning and maintenance - parks and gardens	3,765	5,127
Cleaning and maintenance - council premises	1,787	1,217
Local enforcement system expenses	1,979	31,397
Street lighting	2,176	2,012
Other	1,493	3,026
	<u>62,033</u>	<u>97,111</u>
	 <u>67,985</u>	 <u>112,920</u>

Kirkop Local Council

Notes to the financial statements

Year ended 31st December 2012

Note

8 Administration and other expenditure

	2012	2011
	Eur	Eur
Utilities	5,776	5,622
Materials & supplies	4,380	8,305
Transport	1,423	1,540
Information services	1,624	2,032
Participation National meetings	208	180
Hospitality costs	388	1,713
Rent	2,227	572
Office services	3,197	6,329
Professional services	21,828	32,545
Uniforms	0	747
ESF expenses	0	29,942
Community services & events	9,338	37,568
Depreciation	70,694	54,412
Increase in provision for doubtful LES debtors	18,152	20,287
Penalties	0	975
Profit on disposal of property, plant & equipment	(3,005)	0
	<u>136,230</u>	<u>202,769</u>

Kirkop Local Council

Notes to the financial statements

31st December 2012

Note

9a Property, Plant and Equipment

	Office furniture & fittings	Plant & machinery	Computer equipment	Motor vehicles	Urban improvements	Construction works	Total
	Eur	Eur	Eur	Eur	Eur	Eur	Eur
Cost - as at 1st January 2012	42,042	2,707	24,097	4,600	88,957	1,351,943	1,514,346
Additions new this year	2,042	240	2,897	0	983	92,376	98,538
Released on disposal	0	0	0	0	0	(12,793)	(12,793)
Cost - as at 31st December 2012	44,084	2,947	26,994	4,600	89,940	1,431,526	1,600,091
Grants - as at 1st January 2012	0	0	0	0	0	543,714	543,714
Transferred during the year	0	0	0	0	0	0	0
Grants - as at 31st December 2012	0	0	0	0	0	543,714	543,714
Acc.depreciation - as at 1st January 2012	15,615	2,225	18,323	920	32,264	214,261	283,608
Charge for the year	2,421	593	1,594	736	5,721	59,629	70,694
Released on disposal	0	0	0	0	0	(3,005)	(3,005)
Acc.depreciation - as at 31st December 2012	18,036	2,818	19,917	1,656	37,985	270,885	351,297
Net book value - as at 31st December 2012	26,048	129	7,077	2,944	51,955	616,927	705,080

Kirkop Local Council

Notes to the financial statements
31st December 2012

Note

9b Property, Plant and Equipment

	Office furniture & fittings Eur	Plant & machinery Eur	Computer equipment Eur	Motor vechicles Eur	Urban improvements Eur	Construction works Eur	Total Eur
Cost - as at 1st January 2011	29,219	2,707	21,904	0	62,820	1,112,565	1,229,215
Additions new this period	12,823	0	2,193	4,600	26,137	239,378	285,131
Cost - as at 31st December 2011	42,042	2,707	24,097	4,600	88,957	1,351,943	1,514,346
Grants - as at 1st January 2011	0	0	0	0	0	543,714	543,714
Transferred during the period	0	0	0	0	0	0	0
Grants - as at 31st December 2011	0	0	0	0	0	543,714	543,714
Acc.depreciation - as at 1st January 2011	11,100	2,104	16,880	0	25,909	173,203	229,196
Charge for the period	4,515	121	1,443	920	6,355	41,058	54,412
Acc.depreciation - as at 31st December 2011	15,615	2,225	18,323	920	32,264	214,261	283,608
Net book value - as at 31st December 2011	26,427	482	5,774	3,680	56,693	593,968	687,024

Kirkop Local Council

Notes to the financial statements 31st December 2012

Note

10 Receivables

	2012	2011
	Eur	Eur
Debtors	8,797	8,942
Local enforcement system debtors	15,421	33,573
Accrued income	409,719	439,913
Prepayments	6,463	4,766
	<u>440,400</u>	<u>487,194</u>

LES debtors are stated net of a provision for doubtful debts of Eur 149,594 (31st December 2011 Eur 131,442).

11 Cash and cash equivalents

	2012	2011
	Eur	Eur
Cash in hand	226	226
Bank balances :		
Savings accounts	447,248	434,590
Current accounts	7,915	267
	<u>455,389</u>	<u>435,083</u>

12 Amounts falling due after one year

	2012	2011
	Eur	Eur
Deferred income	991,320	1,009,794
	<u>991,320</u>	<u>1,009,794</u>

13 Payables

	2012	2011
	Eur	Eur
Creditors	153,059	100,444
Accruals	48,087	67,990
Local enforcement creditors	629	629
Deferred income	20,234	21,006
Bank balances :		
Current accounts	10,761	9,031
	<u>232,770</u>	<u>199,100</u>

14 Capital commitments

	2012	2011
	Eur	Eur
Authorised and contracted for:		
Road resurfacing	40,000	40,000
Measure 323 and 313 project	90,000	90,000
Council finishings	28,430	28,430
	<u>158,430</u>	<u>158,430</u>

15 Related party transactions

During the year the Local Council effected transactions with related parties mainly in connection with income and expenditure transactions as disclosed in notes 3, 4, 5, 7 and 8 to these financial statements. The following material transactions were carried out with related parties:

	2012	2011
	Eur	Eur
Funds received from central government	221,629	226,928
	<u>221,629</u>	<u>226,928</u>

Kirkop Local Council

Notes to the financial statements

31st December 2012

Note

16 Financial instruments

The Local Council has an exposure to the following risks arising from the use of financial instruments within its activities:

Credit risk

Market risk

This note presents information about the Local Council's exposure to each of the above risks, policies and processes for measuring and managing risk, and the Local Council's management of capital. Further quantitative disclosures are included in these financial statements.

The responsibility for the management of risk is vested in the Executive Secretary. Accordingly, it is the Executive Secretary who has the overall responsibility for establishing an appropriate risk management framework.

Credit risk

Credit risk is the risk of financial loss to the Local Council if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Local Council's receivables and bank balances.

The Local Council's cash is placed with prime financial institutions.

Receivables are presented net of impairment charges for bad and doubtful debts. However, in the opinion of the Executive Secretary, credit risk with respect to receivables is limited in view of the reputable nature of the Local Council's debtor base for whom there is no history of default.

Capital management

It is the policy of the Executive Secretary to maintain an adequate capital base in order to sustain the future development of the Local Council and safeguard the ability of the Local Council to continue as a going concern. In this respect, the Executive Secretary monitors the operations and results of the Local Council.

Fair values

At 31st December 2012 and 2011 the carrying amounts of cash at bank, receivables, payables and amounts falling due after one year reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments and the relatively short period of time between the organisation of the instruments and their expected realisation.