

Sannat Local Council

**Annual Report
and
Financial Statements**

1 January – 31 December 2012

**Prepared by
JCA Limited**

**ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2012**

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

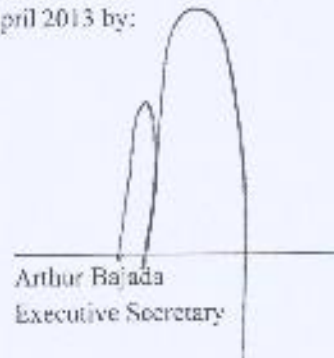
The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes the Local Council's Statement of Comprehensive Income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it 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, 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 company 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 2013 by:



Philip Vella
Mayor



Arthur Bajada
Executive Secretary

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	31 December 2012 €	31 December 2011 €
Assets			
Non-current assets			
Property, plant and equipment	3	482,659	318,758
		<u>482,659</u>	<u>318,758</u>
Current Assets			
Receivables	4	33,623	19,128
Cash and Cash Equivalents	5	141,213	188,752
		<u>174,836</u>	<u>207,880</u>
Total Assets		<u><u>657,495</u></u>	<u><u>526,638</u></u>
Reserves and Liabilities			
Reserves			
Retained Fund		203,122	220,554
Non-current Liabilities			
Long term borrowings	6	110,427	96,887
Deferred Income grants	7	144,948	111,223
Current Liabilities			
Payables	8	198,998	97,974
Total reserves and liabilities		<u><u>657,495</u></u>	<u><u>526,638</u></u>

The notes on pages 8 to 21 are an integral part of the financial statements.

These Financial Statements were approved by the Local Council on 25 April 2013
and signed on its behalf by:

Philip Vella
Mayor

Arthur Bajada
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 €	2011 €
Revenue			
Funds received from central government	9	236,359	205,516
Funds raised from Local Enforcement System	10	989	113
General income	12	4,697	4,006
		<u>242,045</u>	<u>209,635</u>
Expenditure			
Personal emoluments	13	(68,498)	(64,322)
Operations and maintenance	14	(77,331)	(64,177)
Administration and other expenditure	15	(108,945)	(85,946)
Finance costs	16	(5,022)	(4,465)
		<u>(259,796)</u>	<u>(218,910)</u>
Operating (Loss) for the year		(17,751)	(9,275)
Investment income	11	319	367
Total Comprehensive(Loss) for the year		(17,432)	(8,908)

The notes on pages 8 to 21 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Retained Funds 2012 €	Retained Funds 2011 €
At 1 January	220,554	229,462
Total Comprehensive (Loss) for the year	(17,432)	(8,908)
	<hr/>	<hr/>
At 31 December	<u>203,122</u>	<u>220,554</u>

The notes on pages 8 to 21 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS
 Year ended 31 December 2012

	Note	2012 €	2011 €
Cash Flows from Operating Activities			
Total Comprehensive (Loss) for the year		(17,432)	(8,908)
Adjustments for:			
Depreciation		49,039	27,818
Investment Income		(319)	(367)
Interest on loan		4,920	4,226
Deferred income released		(26,511)	(478)
Operating Profit before Working Capital Changes		9,697	22,291
(Increase)/Decrease in Receivables		(14,495)	16,972
Increase/(Decrease) in Payables		93,909	(20,488)
Net Cash inflow from operating Activities		89,111	18,775
Cash flows from Investing Activities			
Purchase of property, plant and equipment		(212,940)	(89,193)
New grants received		67,351	65,090
Interest received		319	367
Interest on loan		(4,920)	(4,226)
Cash Flow (used in) Investing Activities		(150,190)	(27,962)
Cash flows from financing activities			
Movement in bank loan		13,540	35,258
Net (Decrease)/Increase in Cash and Cash Equivalents		(47,539)	26,071
Cash and Cash Equivalents at the Beginning of year		188,752	162,681
Cash and Cash Equivalents at the End of year	5	141,213	188,752

The notes on pages 8 to 21 are an integral part of the financial statements.

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

1. General Information

Sannat Local Council is the local authority of Sannat setup in accordance with the Local Councils Act. The office of the Local Council is situated at Sannat Road, Sannat Gozo. Sannat Local Council forms part of the Gozo Regional Committee.

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

Annual Improvements: 2012 made several minor amendments to a number of IFRSs. None of the changes to IFRSs and interpretations has had, or is expected to have, a material impact on the council's financial statements.

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the council.

Council members anticipate that all of the relevant pronouncements will be adopted in the council's accounting policies for the first period beginning after the effective date of the pronouncement.

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

IFRS 9 Financial Instruments (effective from 1 January 2013)

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Council members have yet to assess the impact that this amendment is likely to have on the financial statements of the council. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

Notes to the Financial Statements for the year ended 31 December 2012 – continued

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

Sannat Local Council formed part of Gozo Joint Committee until the 30th September 2011. After this date the Local Enforcement System was taken over by the Gozo Regional committee. During 2012 the amount disclosed in the financial statements under Local Enforcement Income represents the administrative fee of 10% that is now chargeable to the Regional Committees for contraventions paid at the Council as well as any share of profit derived from the Joint Committee after deducting the related expenses.

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 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.

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 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 cost, then the grant is accounted for when it becomes receivable.

Notes to the Financial Statements for the year ended 31 December 2012 (cont)

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. 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.

i. 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 present currency.

j. 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.

k. 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.

l. 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.

m. 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.

Notes to the Financial Statements for the year ended 31 December 2012 – continued

n. 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.

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'.

Notes to the Financial Statements for the year ended 31 December 2012 – continued

o. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS 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).

p. Borrowings

Borrowings are initially recognised at cost, being the fair value of the consideration received and including acquisition charges associated with the borrowing.

Subsequent to initial recognition, all interest-bearing borrowings, other than liabilities held for trading, are subsequently measured at amortised cost, using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on settlement. Liabilities which are held for trading are subsequently measured at fair value.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Notes to the Financial Statements for the year ended 31 December 2012 (cont.)

3a Property, Plant and Equipment

	Construction	Office Furniture / fittings	New Street Signs	Urban Improvements	Office Equipment	Plant & Machinery	Computer Equipment	Special Programmes	Asset Under Construction	Total
Cost										
As at 1 January 2012	436,175	17,736	9,735	37,968	7,724	1,415	6,574	152,740	28,861	698,928
Additions	37,663	13,217	-	7,670	215	96	-	58,427	95,652	221,940
Reclassification	-	-	-	-	-	-	-	28,861	(28,861)	-
As at 31 December 2012	473,838	30,953	9,735	45,638	7,939	1,511	6,574	240,028	95,652	911,868
Grants and other reimbursements										
As at 1 January 2012	(107,100)	-	-	(19,553)	-	-	-	(35,065)	-	(161,718)
Reclassification	-	-	-	-	-	-	-	-	-	-
As at 31 December 2012	(107,100)	-	-	(19,553)	-	-	-	(35,065)	-	(161,718)
Accumulated Depreciation										
As at 1 January 2012	(136,041)	(10,472)	(9,735)	(16,442)	(5,790)	(1,076)	(4,874)	(34,022)	-	(218,452)
Charge for the year	(19,412)	(1,915)	-	(268)	(417)	(20)	(397)	(27,509)	-	(49,039)
As at 31 December 2012	(155,454)	(11,487)	(9,735)	(16,710)	(6,207)	(1,096)	(5,271)	(61,531)	-	(267,491)
Net Book Value										
As at 31 December 2012	211,284	19,466	-	9,375	1,732	415	1,303	143,432	95,652	482,659

Notes to the Financial Statements for the year ended 31 December 2012 (cont.)**3b. Property, Plant and Equipment**

	Construction	Office Furniture / fittings	New Street Signs	Urban Improvements	Office Equipment	Plant & Machinery	Computer Equipment	Special Programmes	Asset Under Construction	Total
Cost										
As at 1 January 2011	380,983	17,096	9,735	37,968	7,724	1,415	6,492	152,740	-	614,153
Additions	55,192	640	-	-	-	-	82	-	28,861	84,775
As at 31 December 2011	436,175	17,736	9,735	37,968	7,724	1,415	6,574	152,740	28,861	698,928
Grants and other reimbursements										
As at 1 January 2011	(107,100)	-	-	(19,553)	-	-	-	(39,484)	-	(166,137)
Reclassification	-	-	-	-	-	-	-	4,419	-	4,419
As at 31 December 2011	(107,100)	-	-	(19,553)	-	-	-	(35,065)	-	(161,718)
Accumulated Depreciation										
As at 1 January 2011	(118,499)	(9,929)	(9,735)	(16,229)	(5,338)	(1,058)	(4,368)	(25,478)	-	(190,634)
Charge for the year	(17,542)	(543)	-	(213)	(452)	(18)	(506)	(8,544)	-	(27,818)
As at 31 December 2011	(136,041)	(10,472)	(9,735)	(16,442)	(5,790)	(1,076)	(4,874)	(34,022)	-	(218,452)
Net Book Value										
As at 31 December 2011	193,034	7,264	-	1,973	1,934	339	1,700	83,653	28,861	318,758

Notes to the Financial Statements for the year ended 31 December 2012 (cont.)

4 Receivables	2012	2011
	€	€
Accounts receivable	3,046	2,598
Prepayments and accrued income	30,127	7,092
Other receivables	450	9,438
	<u>33,623</u>	<u>19,128</u>

Receivables

Within the current period	31,091	9,883
Exceeded credit period but not yet impaired	2,532	9,245
	<u>33,623</u>	<u>19,128</u>

5 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks. Cash and cash equivalents included in the statement of cash flows comprise of the following amounts in the Statement of Financial Position:

	2012	2011
	€	€
Bank Balances:		
Ordinary funds	58,478	106,015
Fixed term accounts	10,005	9,979
Measure 313 and 323 bank account	72,562	72,676
Cash in hand	168	82
Cash at bank and in hand	<u>141,213</u>	<u>188,752</u>

6 Bank Loan	2012	2011
	€	€
Borrowings	110,427	96,887
	<u>110,427</u>	<u>96,887</u>

The loan taken out by Sannat Local Council, with the approval of the Ministry of Finance carried an interest rate of 4.95% per annum during 2012. The duration of the loan is for a period of 20 years. The bank loan is secured by a 1st General Hypothec over the assets of Sannat Local Council for Loan I & Loan II total of €149,080, by a pledge dated 31st December 2007 on Savings Name Account number 17400287018 held with BOV plc Sannat for €9,317 given by Sannat Local Council and by a letter of undertaking dated 01/02/2008 by the council that (i) funds received from Government shall be channeled to an account held with the Bank (ii) to authorize the bank to settle loan installment, fees & costs which may be due (iii) to retain at all times sufficient funds in account.

***Notes to the Financial Statements for the year ended 31 December 2012 (cont.)**

7 Deferred Income Grants	2012	2011
	€	€
Deferred Income 1 to 2 years	13,855	4,319
Deferred Income 2 to 5 years	34,173	26,444
Deferred Income over 5 years	96,920	80,460
	<u>144,948</u>	<u>111,223</u>
	2012	2011
	€	€
Opening Balance	113,235	48,625
Increase in grants	67,351	65,090
Release of grants	26,511	478
Closing balance	<u>154,075</u>	<u>113,235</u>
Less Current portion	<u>9,127</u>	<u>2,012</u>
Non-current portion	<u>144,948</u>	<u>111,223</u>
	2012	2011
	€	€
8 Payables		
Payables	24,371	32,065
Accruals	153,675	52,072
Deferred income within one year	9,127	2,012
Loan payable within one year	11,825	11,825
	<u>198,998</u>	<u>97,974</u>
	2012	2011
	€	€
9 Funds received from Central Government		
In terms of section 55 of the Local Councils Act (CAP 363)	207,382	200,208
Other Government Income	28,977	5,308
	<u>236,359</u>	<u>205,516</u>
	2012	2011
	€	€
10 Income raised under Local Enforcement System		
Income from contraventions	989	113
	<u>989</u>	<u>113</u>
	2012	2011
	€	€
11 Investment income		
Bank Interest Receivable	319	367
	<u>319</u>	<u>367</u>

Notes to the Financial Statements for the year ended 31 December 2012 (cont.)

12 General Income	2012	2011
	€	€
Income from permits	1,342	1,620
Income from tender documents	1,550	1,050
Income for library service	-	466
Income from cultural activities	1,027	500
Contributions and donations	778	370
	<u>4,697</u>	<u>4,006</u>
13 Personal Emoluments	2012	2011
Personal emoluments include, inter alia:	€	€
Mayor's Allowance	6,539	4,390
Councillor's allowance	6,231	5,787
Executive Secretary salary and allowances	24,964	24,634
Employees' Salaries	26,375	25,292
Social Security Contributions	4,389	4,219
	<u>68,498</u>	<u>64,322</u>
14 Operations and Maintenance	2012	2011
Operations and maintenance includes, inter alia:	€	€
Repairs and Upkeep:		
Road and Street Pavements (patching works)	7,118	9,215
Walkways	264	125
Street signs	3,840	391
Road markings	530	751
Restoration of rubble walls	9,036	-
Public Property	360	188
Total	<u>21,148</u>	<u>10,670</u>
Contractual Services:	2012	2011
	€	€
Refuse Collection (including bins on wheels)	21,467	20,657
Bring-in sites and tipping fees	11,940	11,940
Bulky Refuse Collection (including open skips)	763	484
Road and Street Cleaning (mechanical and manual)	9,582	7,241
Cleaning and Maintenance of Public Conveniences	1,668	1,434
Cleaning and Maintenance of non-urban	243	1,574
Cleaning and Maintenance of parks & gardens	2,085	493
Cleaning and Maintenance of soft areas	1,011	404
Local enforcement expenses	216	174
Street Lighting	7,208	9,106
	<u>56,183</u>	<u>53,507</u>
Total Operations and Maintenance Expenses	<u>77,331</u>	<u>64,177</u>

• **Notes to the Financial Statements for the year ended 31 December 2012 (cont.)**

15 Administration and other expenditure	2012	2011
	€	€
Utilities	5,325	4,327
Materials and supplies	3,385	2,895
Other repairs and upkeep	2,505	2,752
Rent	1,089	1,028
National and International Memberships	266	312
Office Services	2,762	2,588
Transport	114	213
Overseas travel	-	316
Information services	668	1,318
Other contractual services	4,168	4,124
Professional Services	17,152	13,348
Community and Hospitality	22,279	15,213
Depreciation	49,039	27,818
Lease of equipment	193	13
Fines and penalties	-	9,681
	<u>108,945</u>	<u>85,946</u>

16 Finance costs	2012	2011
	€	€
Interest payable	4,920	4,226
Bank charges	102	239
	<u>5,022</u>	<u>4,465</u>

17 Contingent Liability

The Council has an amount of Euro 7,670 not accounted for being technical consultancy and project management fees following issues brought up by the Paying Agency.

18 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
Regional committees	No control
Ministry for Gozo	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control

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

	2012	2011
Significant control:		
Revenue:	€	€
Annual financial allocation	<u>207,382</u>	<u>200,208</u>

Notes to the Financial Statements for the year ended 31 December 2012 (cont.)**18 Related Parties Disclosures (cont.)**

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.

The Council also receives revenue from other Government entities such as Water Services Corporation for trenching works carried out in the locality, and for the reinstatement of roads as a result of the trenching works.

19 Capital Commitments

	2012 €	2011 €
(i) Details of Capital expenditure are as follows:		
Approved but not yet contracted for (ii)	103,558	76,100
Contracted for but not provided in Financial Statements(iii)	282,360	55,389
	<u>385,918</u>	<u>131,489</u>

These could be analysed as follows:

(ii) Approved but not yet contracted for:		
Tal-Bidwi Park - Measure 313	103,558	-
Mgarr ix-Xini Excavation & Public convenience	-	66,500
New administrative offices equipment	-	9,600
	<u>103,558</u>	<u>76,100</u>

Contracted for but not provided in Financial Statements

New administrative offices	-	28,834
Street lanterns	-	5,120
Road resurfacing	-	21,435
Street resurfacing - PPP scheme Triq Farkun	38,767	-
Construction and finishing - Tal-Bidwi Park	228,135	-
Playing field	8,471	-
Pedestrian open space Triq Skerka	6,987	-
	<u>282,360</u>	<u>55,389</u>

20 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

Notes to the Financial Statements for the year ended 31 December 2012 (cont)**20.1 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:

	2012	2011
	€	€
Class of financial assets – carrying amounts		
Trade and other receivables	33,623	19,128
Cash and Cash Equivalents	141,213	188,752
	<u>174,836</u>	<u>207,880</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 notes 4 and 5 for further information on impairment of financial assets that are past due.

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.

20.2 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.

	2012	2011
	€	€
Payables	<u>198,998</u>	<u>97,974</u>
	<u>198,998</u>	<u>97,974</u>

Notes to the Financial Statements for the year ended 31 December 2012 (cont)

20.3 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:

	2012 €	2011 €
Current Assets		
Loans and receivables:		
Trade and other receivables	33,623	19,128
Cash and Cash Equivalents	141,213	188,752
	<u>174,836</u>	<u>207,880</u>
Non-current Liabilities		
Financial liabilities measured at amortised costs:		
Borrowings	110,427	96,887
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	187,173	86,149
Borrowings	11,825	11,825
	<u>198,998</u>	<u>97,974</u>



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LOCAL COUNCIL SANNAT

Report of the Local Government Auditor to the Auditor General

We have audited the accompanying financial statements of Local Council Sannat set out on pages 4 to 21, which comprise the statement of financial position as at 31st December 2012, 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.

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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.

Basis for Qualified Opinion

International Accounting Standard 23 – Borrowing Costs, states that an entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The bank interest payable of Euro 4,920 (2011: Euro 4,226) shown within the finance costs, refer to borrowings taken specifically for the construction of the new premises of the Local Council which assets fall under the definition of qualifying assets. Consequently these costs up till the date when substantially all the activities necessary to prepare the qualifying asset for its intended use were complete, that is late in May 2012, should have been capitalized and not written off in the statement of comprehensive income. The interest that should have been capitalized this year amounted to Euro 2,050.



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An amount of Euro 196,327 (2011: Euro 157,444), shown within the property, plant and equipment category 'Construction', relates to works that was being carried out on the new premises of the Local Council which project was only finished late in May 2012. Since the project was still in progress till that date, no depreciation should have been calculated thereon in accordance with International Accounting Standard 16 – Property, Plant and Equipment. This means that the depreciation charge for the year is overstated by approximately Euro 7,015 (2011: Euro 15,173). The total accumulated depreciation on these assets is therefore also overstated by approximately Euro 34,991 (2011: Euro 27,976).

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 2012 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.

Emphasis of Matter

Without further qualifying our audit opinion, we would like to bring your attention to the fact that as at 31st December 2012, the current liabilities of the Local Council exceeded its current assets by Euro 24,162 indicating possible liquidity problems.

This copy of the audit report has been signed by
Conrad Borg FCCA FIA DipIFR CPA (Partner) for and on behalf of
Spiteri Bailey & Co.
Certified Public Accountants
Members of PrimeGlobal
Dun Karm Street,
Birkirkara By-pass,
Birkirkara BKR 9038,
Malta.

25/04/13