

Notes to the Financial Statements for the year ended 31 December 2011 – 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 2011 – 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 2011 (cont)

## 3a Property, Plant and Equipment

Cost	Trees & Plants	Office Furniture /fittings	Office & Computer Equipment	Plant & Machinery	Urban Improvements	New Street Signs	Construction	Special Programmes	Council Premises	Assets under construction	Total
At 1 January 2011	5,840	28,182	16,132	27,617	418,532	13,942	1,027,636	136,328	138,150	27,769	1,840,128
Additions this year	-	563	617	337	25,453	-	605,275	-	-	-	632,245
Reclassifications	-	-	-	-	-	-	27,769	-	-	(27,769)	-
At 31 December 2011	5,840	28,745	16,749	27,954	443,985	13,942	1,660,680	136,328	138,150	-	2,472,373
<b>Grants and other reimbursements</b>											
At 1 January 2011	-	-	-	-	-	-	(229,616)	(68,341)	-	-	(297,957)
Additions this year	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2011	-	-	-	-	-	-	(229,616)	(68,341)	-	-	(297,957)
<b>Accumulated Depreciation</b>											
At 1 January 2011	-	(14,690)	(14,432)	(24,066)	(200,685)	(13,942)	(444,533)	(43,953)	(3,282)	-	(759,583)
Charge this year	-	(1,712)	(1,109)	(1,348)	(14,772)	-	(66,149)	(3,607)	(132)	-	(88,829)
At 31 December 2011	-	(16,402)	(15,541)	(25,414)	(215,457)	(13,942)	(510,682)	(47,560)	(3,414)	-	(848,412)
<b>Net book value</b>											
At 31 December 2011	5,840	12,343	1,208	2,540	228,528	-	920,382	20,427	134,736	-	1,326,004

Notes to the Financial Statements for the year ended 31 December 2011 (cont)

3b Property, Plant and Equipment

Tangible Assets Cost	Trees & Plants	Office Furniture	Office & Computer Equipment	Plant & Machinery	Urban Improvements	New Street Signs	Construction	Special Programmes	Council Premises	Assets under construction	Total
At 1 January 2010	5,732	27,540	16,132	26,294	415,417	13,942	982,578	131,415	138,150	-	1,757,200
Additions this year	108	642	-	1,323	3,115	-	45,058	4,913	-	27,769	82,928
At 31 December 2010	5,840	28,182	16,132	27,617	418,532	13,942	1,027,636	136,328	138,150	27,769	1,840,128
<b>Grants and other reimbursements</b>											
At 1 January 2010	-	-	-	-	-	-	(229,616)	(68,341)	-	-	(297,957)
Additions this year	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2010	-	-	-	-	-	-	-	-	-	-	-
<b>Accumulated Depreciation</b>											
At 1 January 2010	-	(12,874)	(13,888)	(23,601)	(187,475)	(13,942)	(391,816)	(39,946)	(3,149)	-	(686,691)
Additions this year	-	(1,815)	(544)	(465)	(13,210)	-	(52,717)	(4,007)	(134)	-	(72,892)
At 31 December 2010	-	(14,689)	(14,432)	(24,066)	(200,685)	(13,942)	(444,533)	(43,953)	(3,283)	-	(759,583)
<b>Net book value</b>											
At 31 December 2010	5,840	13,493	1,700	3,551	217,847	-	353,487	24,034	134,867	27,769	782,588

Notes to the Financial Statements for the year ended 31 December 2011 (cont)

4 Receivables	2011 €	2010 €
Receivables	4,136	3,175
Accrued income	62,736	72,580
Prepayments	6,240	7,440
	<u>73,112</u>	<u>83,195</u>
<b>Trade receivables</b>		
Within the current period	67,779	78,361
Exceeded credit period but not yet impaired	5,333	4,834
	<u>73,112</u>	<u>83,195</u>

**5 Cash and Cash Equivalents**

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

	2011 €	2010 €
Bank Balances:		
Ordinary funds	159,759	198,845
Cash in hand	20	83
Overdrawn balances	(11,308)	(3,409)
	<u>148,471</u>	<u>195,519</u>
Transfer to payables	11,308	3,409
	<u>159,779</u>	<u>198,928</u>
Cash at bank and in hand		

**6 Long term payables**

	2011 €	2010 €
Borrowings	76,204	81,996
Non-current payables - PPP scheme	209,612	-
	<u>285,816</u>	<u>81,996</u>

The Council has a loan facility of Euro 91,444 with APS Bank Limited, in connection with the construction and finishing costs of the new premises to house the administrative offices of the Council and a public convenience at North Street, Nadur. This loan is repayable in monthly instalments of Euro 787.33, bears interest of 1.75% over the Central Bank Intervention rate, currently 3.75% per annum and is repayable in full by June 2026.

The facility is secured by:

- (a) First General Hypothec over the Council's assets for Euro 116,469.
- (b) First Special Hypothec for Euro 116,469 on a piece of land covering an area of 3,372 sq.mts situated at Our Lady of Fatima Street, Nadur.

The instalments falling due within one year are being disclosed with Current Liabilities while the balance is separately disclosed as falling due after one year.

## Notes to the Financial Statements for the year ended 31 December 2011 (cont)

## 6 Long term payables (cont)

Non-current liabilities may be analysed as follows:	2011	2010
	€	€
Due between 1 to 2 years	61,851	9,448
Due between 2 to 5 years	106,948	28,344
Due after 5 years	117,017	44,204
	<u>285,816</u>	<u>81,996</u>

## 7 Deferred Income Grants

	2011	2010
	€	€
Deferred Income 1 to 2 years	11,095	10,344
Deferred Income 2 to 5 years	26,879	25,472
Deferred Income over 5 years	78,153	72,457
	<u>116,127</u>	<u>108,273</u>

	2011	2010
	€	€
Opening balance	114,471	-
Increase in grants	20,830	114,471
Release of grants	4,564	-
Closing balance	130,737	114,471
Less Current portion	14,610	6,198
Non-current portion	<u>116,127</u>	<u>108,273</u>

## 8 Payables

	2011	2010
	€	€
Payables	66,949	38,001
Unspent Funds	1,301	1,231
Accruals	247,534	55,350
Deferred income grants within one year	14,610	6,198
Borrowings	9,448	9,448
Overdrawn balances	11,308	3,409
	<u>351,150</u>	<u>113,637</u>

## 9 Funds received from Central Government

	2011	2010
	€	€
In terms of section 55 of the Local Councils Act (CAP 363)	396,679	398,540
Other Government Income	32,173	24,496
	<u>428,852</u>	<u>423,036</u>

## 10 Income raised from Local Enforcement System

	2011	2010
	€	€
Income from Contraventions	295	-
	<u>295</u>	<u>-</u>

## Notes to the Financial Statements for the year ended 31 December 2011 (cont)

## 11 General Income

	2011	2010
	€	€
Cultural activities	7,544	9,613
Community services	4,994	3,930
Contributions and donations	7,340	5,582
Income from tender documents	1,458	961
Income from reinstatement of roads	-	10,620
Income from permits	1,888	1,603
Other income	9,763	171
	<u>32,987</u>	<u>32,480</u>

## 12 Personal Emoluments

	2011	2010
	€	€
Personal emoluments include, inter alia:		
Mayor's Allowance	3,804	8,924
Councillors' Allowance	6,400	6,400
Executive Secretary salary and allowances	25,012	26,610
Employees' Salaries	29,204	20,890
Social Security Contributions	4,535	3,690
	<u>68,955</u>	<u>66,514</u>

## 13 Operations and Maintenance

	2011	2010
	€	€
Operations and maintenance includes, inter alia:		
Repairs and Upkeep:		
Road and street pavements	10,712	18,914
Street signs and road markings	1,513	1,672
Public property	5,966	4,909
Other	17,703	1,563
Total	<u>35,894</u>	<u>27,057</u>

## Contractual Services:

Refuse Collection (including bins on wheels)	48,554	57,104
Bulky Refuse Collection (incl open skips)	11,038	16,838
Road and Street Cleaning (mechanical and manual)	16,014	16,654
Cleaning and Maintenance of Public Conveniences	3,094	2,989
Cleaning and maintenance - parks and gardens	6,287	6,822
Cleaning and maintenance - non- urban	1,182	2,609
Clean.&Maint-Beaches and coastal areas	312	494
Local Enforcement System - expenses	1,051	1,204
Street lighting	10,738	17,270
Other	13,177	17,454
	<u>111,447</u>	<u>139,438</u>
Total Operations and Maintenance Expenses	<u>147,341</u>	<u>166,495</u>

Notes to the Financial Statements for the year ended 31 December 2011 (cont)

<b>14 Administration and other expenditure</b>	2011	2010
	€	€
Utilities	13,224	12,636
Other repairs and upkeep	5,604	15,342
National and International Memberships	10,528	856
Rent	1,913	2,402
Office Services	3,338	3,296
Travel	3,884	76
Transport	3,713	2,145
Information services	15,358	15,929
Other contractual services	3,964	2,508
Professional Services	21,678	21,373
Community and Hospitality	24,087	26,917
Penalty	1,626	-
Provision for bad and doubtful debts	-	(2,527)
Depreciation	88,829	72,892
	<u>197,746</u>	<u>173,845</u>
<b>15 Investment income</b>	2011	2010
	€	€
Bank Interest Receivable	561	450
	<u>561</u>	<u>450</u>
<b>16 Finance cost</b>	2011	2010
	€	€
Interest on bank loan	3,656	3,890
	<u>3,656</u>	<u>3,890</u>
<b>17 Capital Commitments</b>	2011	2010
	€	€
Capital expenditure contracted but not provided for in the financial statements	-	80,710
Capital expenditure approved but not yet contracted for	7,000	7,000
Further analysis as follows:		
Approved and contracted for:		
Construction	-	80,710
Approved but not yet contracted for:		
Acquisition of property	7,000	7,000
	<u>7,000</u>	<u>7,000</u>
<b>18 Contingent gain</b>		

The Council forms part of a Local Enforcement Pooling System, profits or losses generated from which system cannot be quantified at year end and have been excluded from these financial statements.

Notes to the Financial Statements for the year ended 31 December 2011 (cont)**19 Contingent Liability**

- i) The Council has a case still pending before Criminal Court and the Council is negotiating with the party to try to avoid civil court litigation. The claim is for a broken windscreen and the claim amounts to Euro 274.
- ii) The Council has an amount due to a supplier amounting to Euro 10,816 which amount is not included as a liability in the accounts. The Council is not recognizing the liability since it is claiming that there were works which have not been carried out correctly and amounts charged which are not approved. Furthermore, there is an amount which the Local Council is objecting since rates charged were not as per contract.
- iii) The Council has an outstanding balance with a supplier amounting to Euro 10,901 which is not included as a liability in the accounts. The Council has instruction from the Local Councils Association not to pay this amount since it exceeds the government allocation for this expense. There are discussions between the Local Councils Association, Department for Local Government and the Contractor regarding this issue which is common to all the Local Councils.
- iv) The Council has a bank guarantees in favour of MEPA amounting to € 5,333 in respect of permits for capital projects undertaken by the council. These will be released on completion of the projects.

**20 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
Gozo Joint Committee (Local Enforcement)	Joint control
Gozo Regional Committee	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:

	2011	2010
Significant control:		
Revenue	€	€
Annual financial allocation	<u>396,679</u>	<u>398,540</u>

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.

Notes to the Financial Statements for the year ended 31 December 2011 (cont)

## 21 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.

### 21.1 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:

	2011	2010
Class of financial assets – carrying amounts	€	€
Trade and other receivables	73,112	83,196
Cash and Cash Equivalents	159,779	198,928
	<u>232,891</u>	<u>282,124</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 or 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.

### 21.2 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.

	2011	2010
	€	€
Payables	351,150	113,637
	<u>351,150</u>	<u>113,637</u>

Notes to the Financial Statements for the year ended 31 December 2011 (cont)

**21.3 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:

	2011	2010
	€	€
<b>Current Assets</b>		
Loans and receivables:		
Trade and other receivables	73,112	83,196
Cash and Cash Equivalents	<u>159,779</u>	<u>198,928</u>
	<u>232,891</u>	<u>282,124</u>
<b>Non-current Liabilities</b>		
Financial liabilities measured at amortised costs:		
Borrowings	76,204	81,996
<b>Current Liabilities</b>		
Financial liabilities measured at amortised costs:		
Payables	66,949	38,001
Borrowings	<u>9,448</u>	<u>9,448</u>
	<u>76,397</u>	<u>47,449</u>



**Spiteri Bailey & Co.**

Accountancy Audit Advisory

## **LOCAL COUNCIL NADUR**

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

We have audited the accompanying financial statements of Local Council Nadur set out on pages 4 to 21, which comprise the statement of financial position as at 31<sup>st</sup> 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.

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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

The government grants that were being accounted for in the past using the capital approach method, have not been reflected in the fixed assets register that is being used to calculate the depreciation charge for the year. Consequently, the depreciation charge for the year is estimated to be overstated by approximately Euro 10,400. The effect of this error is an understatement of the net book value of the property, plant and equipment and an understatement of the retained funds.

No disclosure has been made in these financial statements of the fact that the Local Council's current liabilities exceeded the current assets by Euro 118,259 as at 31<sup>st</sup> December 2011 indicating possible liquidity problems.

### Qualified opinion

In our opinion, except for the non-disclosures and 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.

Certified Public Accountants  
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27/04/12