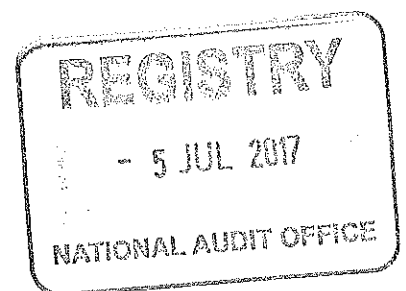


GHAJNSIELEM LOCAL COUNCIL

**Annual Report and
Financial Statements**

For the year ended 31 December 2016



Prepared by: Laurence Manicaró
Certified Public Accountant
On behalf of Parker Randall Turner
Chartered Certified Accountants & Auditors
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ANNUAL REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2016

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Financial Statements for the year ended 31 December 2016

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

The Local Councils (Financial) Regulations 1993, require the Executive Secretary to prepare a detailed annual administrative report which includes the Local Council's Statement of Comprehensive Income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with the accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local Councils (Financial) Regulations 1993, and the Local Councils (Financial) Procedures 1996, issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, the Local Councils (Financial) Regulations 1993, and the Local Councils (Financial) Procedures 1996. The Executive Secretary is also responsible for safeguarding the assets of the Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Council and signed on its behalf on the 21 June 2017 by:



Franco Ciangura
Mayor



Lucienne Haber
Executive Secretary


STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 €	2015 €
ASSETS			
Non-current assets			
Intangible asset	3	346	423
Property, plant and equipment	4	863,431	870,429
		<u>863,777</u>	<u>870,852</u>
Current Assets			
Receivables	5	144,267	162,149
Cash and Cash Equivalents	6	122,789	195,568
Total current assets		<u>267,056</u>	<u>357,717</u>
Total Assets		<u>€ 1,130,833</u>	<u>€ 1,228,569</u>
RESERVES AND LIABILITIES			
Reserves			
Retained Fund		727,956	721,463
Non-current Liabilities			
Deferred income	7	258,558	289,052
Current Liabilities			
Payables	8	144,319	218,054
Total reserves and liabilities		<u>€ 1,130,833</u>	<u>€ 1,228,569</u>

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

These Financial Statements were approved by the Local Council on the 21 June 2017 and signed on its behalf by:


 Franco Ciangura
 Mayor


 Lucienne Haber
 Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 €	2015 €
REVENUE			
Funds received from central government	9	357,264	366,769
Income from Law Enforcement System	10	2,130	14,507
General Income	11	15,602	6,041
		<u>€ 374,996</u>	<u>€ 387,317</u>
EXPENDITURE			
Personal emoluments	13	(86,091)	(84,506)
Operations and maintenance	14	(109,298)	(100,957)
Administration and other expenditure	15	(173,167)	(168,094)
		<u>(368,556)</u>	<u>(353,557)</u>
Operating surplus for the year		<u>6,440</u>	<u>33,760</u>
Investment income	12	53	173
Total Comprehensive Income for the year		<u>€ 6,493</u>	<u>€ 33,933</u>

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Retained Funds 2015 €	Retained Funds 2015 €
At 1 January	721,463	687,530
Total Comprehensive Income for the year	6,493	33,933
At 31 December	<u>€ 727,956</u>	<u>€ 721,463</u>

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 €	2015 €
Cash Flows from Operating Activities			
Total Comprehensive Income for the year		6,493	33,933
Adjustments for:			
Depreciation		67,453	41,106
Amortisation		77	105
Investment Income		(53)	(173)
Deferred income released		(32,514)	(12,548)
Operating Profit before working capital changes		41,456	62,423
Decrease/ (increase) in receivables		17,882	(115,324)
(Decrease)/ increase in payables		(94,804)	133,829
Net Cash (used in)/ generated from Operating Activities		(35,466)	80,928
Cash flows from Investing Activities			
Purchase of property, plant and equipment		(60,455)	(287,087)
Investment Income		53	173
New grants received		-	220,286
Grants refunded back		(1,590)	-
Net Cash used in Investing Activities		(61,992)	(66,628)
Net movement in Cash and Cash Equivalents		(97,458)	14,300
Cash and Cash Equivalents at the beginning of Year		195,568	181,268
Cash and Cash Equivalents at the end of year	5	€ 98,110	€ 195,568

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. General Information

Ghajnsielem Local Council is the local authority of Ghajnsielem setup in accordance with the Local Councils Act. The office of the Local Council is situated at J.F. De Chambray, Ghajnsielem, Gozo. As from September 2011, the Local Council started forming part of the Gozo Regional Committee.

The financial statements were authorised for issue by the Council on the ____ June 2017.

2. Accounting Policies and Reporting Procedures

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

(a) Accounting convention

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

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

(b) Standards, amendments and interpretations to existing standards

New and amended standards adopted by the council

The new and revised standards that became effective for annual periods beginning on or after 1 January 2016 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

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

Standards, amendments and interpretations to existing standards that are not yet effective and not yet adopted by the Local 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. These include the following.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

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

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

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

(c) Revenue recognition

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

(d) Local Enforcement System

During 2016 the amount disclosed in the financial statements under Local Enforcement Income represents the administrative fee of 10% that is chargeable to the various Regional Committees and LESA for contraventions paid at the Council.

(e) Intangible asset

Computer software is valued at cost less accumulated depreciation and impairment losses to date. Depreciation to write off the cost is calculated on a monthly basis using the reducing balance method at 20% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

(f) Property, Plant and Equipment

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

(g) Government Grants

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

(h) 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.

(i) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

(j) 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.

(k) Foreign Currencies

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

(l) 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.

(m) 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.

(n) Related parties

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

(o) 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.

(p) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

(p) Financial Instruments – continued

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 2016 – continued

(q) Capital management policies and procedures

The council's capital consists of its net assets, including working capital, presented by its retained funds. The Council's management objective are to ensure that the Council's ability to continue as a going concern is still valid and that the Council maintains a positive working capital ratio. To achieve this, the Council carries out a quarterly review of the working capital ratio (Financial Situation Indicator). This ratio was positive at the reporting date. The council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

(r) Critical accounting estimates and judgements

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

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

3. Intangible asset

Computer
Software
€

Cost

At 1 January 2016 and 31 December 2016

€ 1,342

Amortisation

At 1 January 2016

919

Charge for the year

77

At 31 December 2016

€ 996

Net Book Value

At 31 December 2016

€ 346

At 31 December 2015

€ 423

GHAJNSIELEM LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

4. PROPERTY, PLANT AND EQUIPMENT

	Buildings €	Office Furniture & Fittings €	New Street Signs €	Urban Improvements €	Computer & Office Equipment €	Motor Vehicles €	Special Programmes €	Assets Under Construction €	Total €
Cost									
At 1 Jan 2016	236,750	27,227	13,246	223,007	54,505	24,426	838,230	30,488	1,447,879
Additions	-	3,232	-	18,769	354	-	38,100	-	60,455
At 31 Dec 2016	€ 236,750	€ 30,459	€ 13,246	€ 241,776	€ 54,859	€ 24,426	€ 876,330	€ 30,488	€ 1,508,334
Grants									
At 1 Jan 2016 and 31 Dec 2016	€ -	€ -	€ -	€ -	€ -	€ -	€ 45,612	€ -	€ 45,612
Depreciation									
At 1 Jan 2016	9,179	7,154	13,246	154,281	33,166	14,233	300,579	-	531,838
Charge for the year	2,265	1,571	-	7,068	4,825	1,862	49,862	-	67,453
At 31 Dec 2016	€ 11,444	€ 8,725	€ 13,246	€ 161,349	€ 37,991	€ 16,095	€ 350,441	€ -	599,291
Net Book Value									
At 31 Dec 2016	€ 225,306	€ 21,734	€ -	€ 80,427	€ 16,868	€ 8,331	€ 480,277	€ 30,488	€ 863,431

GHAJNSIELEM LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

4. PROPERTY, PLANT AND EQUIPMENT – Continued

	Buildings €	Office Furniture & Fittings €	New Street Signs €	Urban Improvements €	Computer & Office Equipment €	Motor Vehicles €	Special Programmes €	Assets Under Construction €	Total €
Cost									
At 1 Jan 2015	236,750	27,227	13,246	221,655	54,505	24,426	441,135	141,848	1,160,792
Additions	-	-	-	1,352	-	-	285,735	-	287,087
Reclassifications	-	-	-	-	-	-	111,360	(111,360)	-
At 31 Dec 2015	€ 236,750	€ 27,227	€ 13,246	€ 223,007	€ 54,505	€ 24,426	€ 838,230	€ 30,488	€ 1,447,879
Grants									
At 1 Jan 2015 and 31 Dec 2015	€ -	€ -	€ -	€ -	€ -	€ -	€ 45,612	€ -	€ 45,612
Depreciation									
At 1 Jan 2015	6,880	5,527	13,246	146,795	27,669	11,685	278,930	-	490,732
Charge for the year	2,299	1,627	-	7,486	5,497	2,548	21,649	-	41,106
At 31 Dec 2015	€ 9,179	€ 7,154	€ 13,246	€ 154,281	€ 33,166	€ 14,233	€ 300,579	€ -	€ 531,838
Net Book Value									
At 31 Dec 2015	€ 227,571	€ 20,073	€ -	€ 68,726	€ 21,339	€ 10,193	€ 492,039	€ 30,488	€ 870,429

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

5. Receivables	2016	2015
	€	€
Amounts receivables	7,474	7,576
Accrued income	122,734	140,014
	<u>130,208</u>	<u>147,590</u>
Financial assets		
Prepayments	14,059	14,559
	<u>€ 144,267</u>	<u>€ 162,149</u>
Amounts invoiced but not yet settled are analysed as follows:	2016	2015
	€	€
Within the current period	-	-
Exceeded credit period but not yet impaired	7,474	7,576
	<u>€ 7,474</u>	<u>€ 7,576</u>

6. Cash and Cash Equivalents

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

	2016	2015
	€	€
Bank Balances:		
Ordinary funds	122,713	195,507
Cash in hand	76	61
Bank balance overdrawn	(24,679)	-
	<u>98,110</u>	<u>195,568</u>
Cash at cash equivalents		
Bank balance overdrawn (note 8)	24,679	-
	<u>€ 122,789</u>	<u>€ 195,568</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

	2016 €	2015 €
7. Deferred Income		
Between 1 and 2 years	25,992	29,192
Between 2 and 5 years	62,837	71,702
Over 5 years	169,729	188,158
	<u>€ 258,558</u>	<u>€ 289,052</u>

	2016 €	2015 €
Opening balance	321,718	113,980
Increase in grants		220,286
Decrease in grants	(1,590)	-
Release of grants	(32,514)	(12,548)
Closing balance	<u>287,614</u>	<u>321,718</u>
Less Current portion	<u>(29,056)</u>	<u>(32,666)</u>
Non-current portion	<u>€ 258,558</u>	<u>€ 289,052</u>

	2016 €	2015 €
8. Payables		
Bank balance overdrawn	24,679	-
Accounts payable	80,977	155,516
Accruals	9,607	29,872
Deferred income within 1 year	29,056	32,666
	<u>€ 144,319</u>	<u>€ 218,054</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

9. Funds received from Central Government	2016	2015
	€	€
In terms of section 55 of the Local Councils Act (CAP 363)	317,170	306,825
Supplementary Government Income	32,514	47,396
Other Government Income	7,580	12,548
	<u>€ 357,264</u>	<u>€ 366,769</u>
10. Income raised from Local Enforcement System	2016	2015
	€	€
Administrative income from contraventions	2,130	2,235
Income received from Joint Committee under the pooling system	-	12,272
	<u>€ 2,130</u>	<u>14,507</u>
11. General Income	2016	2015
	€	€
Income from permits	9,312	4,403
Income from tender documents	-	700
Other income	6,290	938
Contributions and donations	-	-
Community and cultural services	-	-
	<u>€ 15,602</u>	<u>€ 6,041</u>
12. Investment income	2016	2015
Investment income	<u>€ 53</u>	<u>€ 173</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

13. Personal Emoluments	2016 €	2015 €
Personal emoluments include, inter alia:		
Mayor's Honoraria and Allowance	8,829	8,648
Councillors' Allowance	4,800	4,800
Executive Secretary salary and allowances	28,594	27,019
Employees' Salaries	38,250	38,338
Social Security Contributions	5,618	5,701
Total	€ 86,091	€ 84,506
14. Operations and Maintenance		
Operations and maintenance includes, inter alia:	2016	2015
Repairs and Upkeep:	€	€
Signs	3,132	1,729
Road markings	697	-
Plant and equipment	-	934
Other repairs and upkeep	10,961	10,918
Total	€ 14,790	€ 13,581
Contractual Services:	2016 €	2015 €
Refuse Collection	48,261	45,670
Bulky Refuse Collection	2,237	812
Cleaning services	1,482	1,141
Road and street cleaning	22,792	21,605
Cleaning and maintenance of public conveniences	10,591	10,081
Cleaning and maintenance council premises	711	-
Other contractual services	2,505	-
Cleaning and maintenance of parks and gardens	2,697	291
Street Lighting	2,082	7,647
Les related expenditure	1,150	129
	€ 94,508	€ 87,376
Total Operations and Maintenance Expenses	€ 109,298	€ 100,957

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

15. Administrative and other Expenses

	2016 €	2015 €
Utilities	8,616	7,341
Other repairs and upkeep	7,647	15,866
Rent	750	1,156
National and International memberships	540	836
Office services	4,618	4,790
Transport	5,818	3,743
Travel	4,139	5,869
Information services	1,467	1,805
Lease of equipment	7,620	5,031
Insurance coverage	625	1,960
Bank charges	42	32
Professional services	9,540	16,921
Training	389	1,459
Social events	26,001	28,476
Cultural events	27,825	31,598
Depreciation	67,453	41,106
Amortisation	77	105
	<u>€ 173,167</u>	<u>€ 168,094</u>

16. Contingent liabilities

The Council has a claim of € 738 which is being disputed by Gasan Mamo Insurance since a resident's car was damaged by a fallen tree during a thunderstorm. The outcome of this liability is still uncertain.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

17. Capital Commitments

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

Details of capital commitments are as follows	2016	2015
Approved but not yet contracted for	100,000	60,000
Contracted for but not provided for	-	10,491
	<u>100,000</u>	<u>70,491</u>
Contracted for but not provided for: Urban improvements	€ -	€ 10,491
Urban improvements	-	10,000
Resurfacing	100,000	50,000
	<u>€ 100,000</u>	<u>€ 60,000</u>

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
Gozo Regional Committee	Joint control
Central Regional Committee	No control
North Regional Committee	No control
South Eastern Regional Committee	No control
South Regional Committee	No control
Police General Head Quarters	No control
Malta Environment and Planning Authority	No control
Arms Limited	No control
Water Service Corporation	No control
Enemalta	No control
Department of Agriculture	No control
Direcorr General Works Division	No control
Department of Lands	No control
Department of Inland Revenue Department	No control
Airmalta PLC	No control
WasteServ Malta Ltd	No control
Kunsill Malti għall Isports	No control

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

18. Related Parties Disclosures - continued

Bank of Valletta Plc	No control
Mitts Limited	No control
Ministry of family	No control
Malta Communications Authority	No control
Green MT	No control

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

	2016	2015
Significant control Revenue:		
Annual financial allocation	€ 317,170	€ 306,825

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.

19. Risk management objectives and policies

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

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

19.1 Credit risk

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

	2016 €	2015 €
Class of financial assets – carrying amounts		
Trade and other receivables	144,267	162,149
Cash and Cash Equivalentents	122,789	195,568
	<u>€ 267,056</u>	<u>€ 357,717</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

19. Risk management objectives and policies - continued

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.

19.2 Liquidity risk

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

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

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

	Current Within 1 year €	Non – Current 1 to 5 years €	Non – Current More than 5 years €
Payables	80,977	-	-
Accruals and deferred income	38,663	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

19. Risk management objectives and policies - continued

	Current Within 1 year €	Non – Current 1 to 5 years €	More than 5 years €
Payables	155,516	-	-
Accruals and deferred income	62,538	-	-

19.3 Interest rate risk

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

19.4 Summary of the financial assets and liabilities by category

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

Current Assets	2016 €	2015 €
Loans and receivables:		
Trade and other receivables	144,267	162,149
Cash and Cash Equivalents	122,789	195,568
	<u>€ 267,056</u>	<u>€ 357,717</u>
Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	80,977	155,514
Accruals and deferred income	38,663	62,538
	<u>€ 119,640</u>	<u>€ 218,052</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016 – continued

19. Risk management objectives and policies - continued

19.5 Capital risk management

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

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

20. Fair value estimation

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

21. Events after the statement of financial position date

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

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We have audited the accompanying financial statements of Ghajnsielem Local Council, which comprise the statement of financial position as at 31 December 2016, and 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 information set out on pages 4 - 27.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the financial statements give a true and fair view of the financial position of the Local Council as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Qualified Opinion

During 2012, a prior year adjustment amounting to Euro 52,808 was passed following an exercise that was carried out on the fixed assets register of the Local Council. After the exercise was finalized, Euro 156,229 was written off from the costs of property, plant and equipment and Euro 103,421 was written off from the accumulated depreciation of these assets. We were unable to obtain sufficient audit evidence to confirm the correctness of such adjustments. Furthermore, we were not satisfied by the procedure that was followed while carrying out the exercise of rebuilding the fixed assets register as it could have easily resulted in assets not being included in the new register, in assets capitalized using the wrong cost amounts and in depreciation being started on incorrect dates. This situation remained the same up till 31st December 2016 and therefore we could not verify the correctness of the opening balances of the property, plant and equipment.

Included in the accrued income as at 31st December 2016 there is an amount of €119,825 relating to the Belvedere in Soil Street project which has been brought forward from the previous year. No audit evidence was obtained during the performance of our audit to confirm the correctness and recoverability of such accrued income. We were only provided with the agreement entered into back in 2014 whereby the terms and conditions were established and the unsigned letter claiming the costs incurred. One of the conditions stipulated in the agreement was that the project had to be completed by 28th February 2015 which was not the case. No evidence was made available that the claim was eventually accepted.

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REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued

Basis for Qualified Opinion - continued

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Local Council in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

The Executive Secretary and the Local Council Members are responsible for the other information. The other information comprises the Statement of Local Council Members' and Executive Secretary's Responsibilities. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Council Responsibilities for the Financial Statements

As described on page 3, the Executive Secretary and the Local Council Members are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Executive Secretary and the Local Council Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued

Council Responsibilities for the Financial Statements - continued

In preparing the financial statements, the Executive Secretary and the Local Council Members are responsible for assessing the Local Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to presume that the Local Council will continue as a going concern.

The Executive Secretary and the Local Council Members are responsible for overseeing the Local Council's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Local Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Secretary and the Local Council Members.
- Conclude on the appropriateness of the Executive Secretary's and the Local Council Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Local Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Local Council to cease to continue as a going concern.

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REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE AUDITOR GENERAL - continued

Auditor's Responsibilities for the Audit of the Financial Statements - continued

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Executive Secretary and the Local Council Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In our opinion, 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.

A handwritten signature in blue ink, appearing to read 'Conrad Borg', with a horizontal line extending to the right.

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

RSM Malta
Certified Public Accountants

Date: 21st June 2017