

Ghajnsielem Local Council

**Annual Report
and
Financial Statements**

1 January – 31 December 2010



ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2010

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Financial Statements for the period ended 31 December 2010


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

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

Approved by the Council on 12 May 2011 and signed on its behalf by:


Mr. Francis Cauchi
Mayor


Ms. Amanda Cauchi
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	Notes	Year ended 31 Dec 2010	Period from 01 Apr to 31 Dec 2009
		€	€
INCOME			
Funds received from central government	4	300,562	207,241
Income raised under Local Enforcement System	5	574	7,150
Investment Income	6	2,246	1,718
General Income	7	20,093	13,310
		<u>323,475</u>	<u>229,419</u>
EXPENDITURE			
Personal emoluments	8	59,064	16,974
Operations and maintenance	9	107,967	88,435
Administration and other expenditure	10	152,838	110,820
		<u>(319,869)</u>	<u>(216,229)</u>
Total Comprehensive Income for the year/period		<u><u>3,606</u></u>	<u><u>13,190</u></u>

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

STATEMENT OF FINANCIAL POSITION
as at 31 December 2010

		2010	2009
ASSETS	Notes	€	€
Non-Current Assets			
Property, plant and equipment	11	<u>390,339</u>	<u>284,193</u>
		<u>390,339</u>	<u>284,193</u>
Current Assets			
Receivables	12	87,537	16,240
Cash and cash equivalents	13	<u>290,450</u>	<u>308,450</u>
		<u>377,987</u>	<u>324,690</u>
Total assets		<u><u>768,326</u></u>	<u><u>608,883</u></u>
RESERVES AND LIABILITIES			
Reserves			
Retained funds		599,869	560,334
Current Liabilities			
Payables	14	<u>168,457</u>	<u>48,549</u>
TOTAL RESERVES AND LIABILITIES		<u><u>768,326</u></u>	<u><u>608,883</u></u>

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

The financial statements on the following were approved by the Council on the 12 May 2011
and were signed on its behalf by:


Mr. Francis Cauchi
Mayor


Ms. Amanda Cauchi
Executive Secretary

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2010

	Retained Earnings
	€
At 31 March 2009	547,144
Total Comprehensive Income for the period	13,190
At 31 December 2009	560,334
Total Comprehensive Income for the year	3,606
Prior Year Adjustment	35,929
	<hr/>
At 31 December 2010	<u>599,869</u>

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

STATEMENT OF CASH FLOWS
Year ended 31 December 2010

		2010	2009
	Note	€	€
Cash flows from operating activities			
Total Comprehensive Income for the Year/period		3,606	13,190
Adjustments for:			
Depreciation		59,878	42,622
Interest receivable		(2,246)	(1,718)
Operating Profit before Working Capital Changes		<u>61,238</u>	<u>54,094</u>
Increase in payables		109,648	40,375
(Increase) in receivables		<u>(71,297)</u>	<u>(11,336)</u>
Net Cash Flow generated from Operating Activities		<u>99,589</u>	<u>83,133</u>
Cash flows from Investing activities			
Purchase of property, plant and equipment		(130,095)	(22,065)
Interest received		<u>2,246</u>	<u>1,718</u>
Net Cash Flow used in Investing Activities		<u>(127,849)</u>	<u>(20,347)</u>
Net (decrease)/increase in cash and cash equivalents		(28,260)	62,786
Cash and cash equivalents at beginning of year/period		<u>308,450</u>	<u>245,664</u>
Cash and cash equivalents at end of year/period	13	<u><u>280,190</u></u>	<u><u>308,450</u></u>

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 2010

1. General Information

The Ghajnsielem Local Council is a local government set up by the Local Councils Act, 1993. Its ultimate controlling party is the Local Councils Department within the Office of the Prime Minister. The office of the Local Council is situated at No. 11, Bernardina House, Pjazza Tad-Dehra, Ghajnsielem Gozo.

2. Significant accounting policies

a. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at re-valued amounts or fair values, as explained in the accounting policies below where applicable.

The principal accounting policies are set out below.

c. Revenue Recognition

Income in general is stated when there is reasonable certainty that the income would be receivable and thus can be accrued for. Other income such as that derived from the organisation of courses, cultural, sporting and social activities is only recognised on a cash basis.

d. Local Enforcement System

Ghajnsielem Local Council forms part of Gozo Joint Committee. The amount disclosed in the financial statements under Local Enforcement Income represents the share of profit derived from the Joint Committee after deducting the related expenses.

e. Receivables

Receivables are recognised initially at the transaction price, less provision for impairment. A provision for impairment of general receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

A provision for impairment is established when there is objective evidence that the Council will not be able to collect all amounts receivable. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount to be received is impaired. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Notes to the Financial Statements for the year ended 31 December 2010 - continued

f. Impairment of financial assets

At the end of each reporting period, the carrying amount of assets is reviewed to determine whether there is any indication or objective evidence of impairment, as appropriate, and if any such indication or objective evidence exists, the recoverable amount of the asset is estimated.

In the case of financial assets that are carried at amortised cost, objective evidence of impairment includes observable data about the following loss events - significant difficulty of the issuer (or counterparty) and/or breach of contract.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

For loans, and receivables or, if there is objective evidence that an impairment loss has been incurred, the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

In the case of other assets tested for impairment, the recoverable amount is the higher of fair value less costs to sell (which is the amount obtainable from sale at arm's length transaction between knowledgeable, willing parties, less the costs of disposal) and value in use (which is the present value of the future cash flows expected to be derived, discounted using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

Impairment losses are recognised immediately in the statement of comprehensive income, unless the asset is carried at a re-valued amount, in which case, the impairment loss is recognised directly against the asset's revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for the asset.

For loans and receivables, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised; the previously recognised impairment loss is reversed directly.

In the case of assets tested for impairment, an impairment loss recognised in a prior period is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but in a manner that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

Impairment reversals are recognised immediately in the comprehensive income statement, unless the asset is carried at a re-valued amount, in which case, the impairment reversal is recognized directly in reserves, unless an impairment loss on the same asset was previously recognised in the comprehensive income statement.

g. General Payables

Payables and accrued expenditure are recognised initially at the transaction price and subsequently measured at amortised cost. The difference between the proceeds and the amount payable is recognised over the period of the payable using the effective interest method.

Notes to the Financial Statements for the year ended 31 December 2010 - continued

h. Judgements in applying accounting policies and key sources of estimating uncertainty

In the process of applying the Council's accounting policies, the Council Members have made no judgments which can significantly affect the amounts recognized in the financial statements.

At the end of the reporting period, except as disclosed in note 20, there were no key assumptions concerning the future, or any other key sources of estimating uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for the intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

j. Government grants

Government grants are not recognised until there is reasonable assurance that the Council will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Council recognises as expenses the related costs for which the grants are intended to compensate, in line with the Office Local Council Department based on IAS20.

Specifically, government grants whose primary condition is that the Council should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Council with no future related costs are recognized in profit or loss in the period in which they become receivable.

k. Financial Instruments

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Financial Statements for the year ended 31 December 2010 - continued**I. Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and grants received for specific projects. Depreciation is calculated on a monthly basis using the reducing balance method at rates estimated to write down the cost of all tangible fixed assets, other than land and trees over their expected useful lives as follows:

	Rates in %
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	100
Playground furniture	100
Traffic Signs	100
Road Signs	100
Street Mirrors	100
Street Lights	100

Certain depreciation rates such as those of plants, litter bins, playground equipment, street lighting and street signs had their depreciation rate changed from 10% to 100% in October 2002 by virtue of Legal Notice 323 of 2002.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Council's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Furniture and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the reducing balance method. The estimated useful lives, residual values and depreciation method are renewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in profit or loss.

Notes to the Financial Statements for the year ended 31 December 2010 - continued

l. Property, plant and equipment (cont.)

During the month of December 2009, the Council started works on the construction phase of the new administrative offices. The process which started nearly four years back, had to await the necessary permits and the devolution of the land by Central Government.

The total cost for the construction and finishing of the new council premises, in line with all health and safety requirements as imposed by the various agencies involved in endorsing the permit, is estimate to reach €230,000.

The financing of the administrative office will be through the council's reserves, which had been put aside over the last four years.

m. Related parties

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

n. Profit and Losses

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

o. 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.

3. New and Revised International Financial Reporting Standards and International Financial Reporting Standards in Issue but not yet Effective

a. Application of new International Financial Reporting Standards as adopted by the EU

The revised (in 2008) International Financial Reporting Standard 3 is applied to Business Combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after the 1 July 2009. This standard does not apply to the Local Council.

b. International Financial Reporting Standards, as adopted by the EU, in issue but not yet effective

The Council Members anticipate that the adoption of IFRS, as adopted by the EU, 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 of the Council in the period of initial application.

Notes to the Financial Statements for the year ended 31 December 2010 - continued

	2010	2009
	€	€
4. Funds received from central government		
In terms of section 55 of the Local Councils Act (Cap 363)	290,596	200,455
Other Government Income	9,966	6,786
	<u>300,562</u>	<u>207,241</u>
	2010	2009
	€	€
5. Local Enforcement Income		
Income raised under Local Council Bye-Laws	574	7,150
	<u>574</u>	<u>7,150</u>
	2010	2009
	€	€
6. Investment Income		
Bank interest	2,246	1,718
	<u>2,246</u>	<u>1,718</u>
	2010	2009
	€	€
7. General Income		
Income from other activities	3,891	11,714
Income from permits	2,008	1,636
Sponsorships & Contributions	2,300	500
Contributions towards re-instatements of roads	11,894	-
	<u>20,093</u>	<u>13,310</u>
	2010	2009
	€	€
8. Personal Emoluments		
Mayor's allowance	7,964	4,500
Executive Secretary salary, other emoluments and allowances	47,697	11,493
Social Security Contributions	3,403	981
	<u>59,064</u>	<u>16,974</u>

Notes to the Financial Statements for the year ended 31 December 2010 - continued

	2010 €	2009 €
9. Operations and Maintenance		
Operations and Maintenance includes, inter alia:		
<i>Repairs and upkeep:</i>		
Road and street pavements (Patching works)	5,690	12,341
Street signs & Road markings	7,088	4,369
	<u>12,778</u>	<u>16,710</u>
 Contractual Services:		
Refuse collection (including bins on wheels)	44,602	27,064
Bulky refuse collection (including open skips)	244	418
Road and Street Cleaning (mechanical and manual)	20,178	14,340
Cleaning and Maintenance of Public Conveniences	6,361	5,544
Cleaning and Maintenance of Parks and Gardens	7,146	5,085
Other contractual services	2,348	12,368
Street Lighting	14,094	6,558
Local Enforcement Expenses	216	348
	<u>95,189</u>	<u>71,725</u>
	<u>107,967</u>	<u>88,435</u>

Notes to the Financial Statements for the year ended 31 December 2010 - continued

	2010	2009
	€	€
10. Administration and other expenditure		
Utilities	4,578	2,896
Other repairs and upkeep	3,530	7,000
Rent	9,107	6,065
National and International Memberships	1,580	356
Office Services	5,372	2,013
Travel	2,225	-
Transport	2,084	319
Information Services	1,286	978
Professional services	24,711	10,743
Training	447	-
Community and hospitality	2,135	3,639
Social events	3,299	12,085
Cultural events	30,741	21,768
Donations	-	336
Community and Minor Expenses	1,865	0
Depreciation	59,878	42,622
	<u>152,838</u>	<u>110,820</u>

Notes to the Financial Statements for the year ended 31 December 2010 - continued**11A. Tangible assets**

	Office Furniture & Fittings Euro	Computer Equipment Euro	Outside Furniture Euro	Office Equipment Euro	Urban Improvements Euro	New Street Signs Euro	Construction Works Euro	Total Euro
Cost								
At 1 January 2010	19,307	5,627	37,629	10,738	64,513	5,793	575,301	718,908
Additions	415	899	26,777	11,321	16,415	-	74,268	130,095
Adjustments	(4,494)	(2,295)	(15,104)	(6,878)	6,934	23,435	38,235	39,833
At 31 December 2010	<u>15,228</u>	<u>4,231</u>	<u>49,302</u>	<u>15,181</u>	<u>87,862</u>	<u>29,228</u>	<u>687,804</u>	<u>888,836</u>
Grants and other reimbursements								
At 1 January 2010							45,612	45,612
10							-	-
At 31 December 2009							45,612	45,612
Depreciation provision								
At 1 January 2010	10,744	3,962	27,242	6,352	50,525	5,793	284,485	389,103
Charge on Additions	682	692	17,787	1,043	6,524	-	33,150	59,878
Adjustments	(4,640)	(2,942)	(16,093)	3,369	(46,724)	23,435	47,499	3,904
At 31 December 2010	<u>6,786</u>	<u>1,712</u>	<u>28,936</u>	<u>10,764</u>	<u>10,325</u>	<u>29,228</u>	<u>365,134</u>	<u>452,885</u>
Net book value								
At 31 December 2010	<u>8,442</u>	<u>2,519</u>	<u>20,366</u>	<u>4,417</u>	<u>77,537</u>	<u>-</u>	<u>277,058</u>	<u>390,339</u>

Notes to the Financial Statements for the year ended 31 December 2010 - continued**11B. Tangible assets**

	Office Furniture & Fittings Euro	Computer Equipment Euro	Outside Furniture Euro	Office Equipment Euro	Urban Improvements Euro	New Street Signs Euro	Construction Works Euro	Total Euro
Cost								
At 1 April 2009	19,307	4,542	26,003	8,155	64,513	5,793	568,530	696,843
Additions	-	1,085	11,626	2,583	-	-	6,771	22,065
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	19,307	5,627	37,629	10,738	64,513	5,793	575,301	718,908
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Grants and other reimbursements								
At 1 April 2009 and	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	-	-	-	-	-	-	45,612	45,612
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation provision								
At 1 April 2009	9,995	3,488	14,462	5,781	48,971	5,793	257,991	346,481
Charge for the year	749	474	12,780	571	1,554	-	26,494	42,622
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	10,744	3,962	27,242	6,352	50,525	5,793	284,485	389,103
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value								
At 31 December 2009	8,563	1,665	10,388	4,386	13,988	-	245,204	284,193
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the Financial Statements for the year ended 31 December 2010 - continued

	2010 €	2009 €
12. Receivables		
Accounts Receivable	173	454
Prepayments and accrued income	87,364	15,786
	<u>87,537</u>	<u>16,240</u>

13. Cash and 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 statement of affairs:

	2010 €	2009 €
Bank balances:		
Ordinary Funds	288,043	308,390
Cash in Hand	2,407	60
Overdrawn Balances	(10,260)	0
Cash at Bank and in Hand	280,190	308,450
Transfer to Payables	10,260	0
	<u>290,450</u>	<u>308,450</u>

	2010 €	2009 €
14. Payables		
Accounts Payable	54,826	20,929
Deferred Income	80,000	5,000
Accruals	23,252	22,620
Other payables	119	0
Bank Overdraft	10,260	0
	<u>168,457</u>	<u>48,549</u>

Notes to the Financial Statements for the year ended 31 December 2010 - continued

	2010 €	2009 €
Deferred Income		
Balance at the beginning of the year/period	5,000	-
Increase	75,000	5,000
Released	-	-
Balance at the end of the year/period	<u>80,000</u>	<u>5,000</u>
Amount to be released within one year	8,000	500
Amount to be released between one and two years	8,000	500
Amount to be released between two and five years	24,000	1,500
Amount to be released beyond five years	40,000	2,500

	2010 €	2009 €
15. Capital Commitments		
Details of Capital commitments are as follows:		
Contracted for but not provided in financial statements -		
Finishing works of council administrative offices	187,000	110,000
Re-Surfacing works	20,000	-
Approved but not yet contracted for -		
Equipment	8,000	6,000
Improvements	14,000	-

16. Contingent Liabilities

At the end of the year, the Council did not have any contingent liabilities.

17. Post Balance Sheet event

There were no particular important events affecting the operations of the Council since the end of the accounting period.

Notes to the Financial Statements for the year ended 31 December 2010 - continued

18. Financial Risk Management

The Council is exposed to a variety of financial risks: market risk, credit risk and liquidity risk. The Council's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Council's financial performance.

The Council adopts an overall risk management to maintain and control its exposures.

i) Price risk

The Council is exposed to commodity price risk since its main services are related and/or dependent on commodities such as fuels, gas and electricity.

ii) Cash flow and fair value interest rate risk

As the Council has no interest-bearing assets, the Council's income and operating cash flows are independent of changes in market interest rates. Although the Council has borrowings issued at fixed rates, the exposure to fair value interest rate risk is limited and ultimately endorsed by Central Government.

iii) Credit Risk

Credit risk on amounts receivable is limited through the systematic monitoring of outstanding balances and the presentation of debtors net of allowances for doubtful debts, where applicable. Cash is placed with reputable banks.

Credit risk arises ever increasing variances between the main council's income, that provided by Central Government, and the cost of its outsourced services which are mostly exposed to commodity risks. Furthermore the huge reduction of other revenue from LES, following its restructuring through central government, and Permits could well expose the Council even more to credit issues unless this shortfall is recovered from other sources.

The maximum exposure to credit risk at the reporting date in respect of the financial assets mentioned above is disclosed in the respective notes to the financial statements.

iv) Fair Values

As at 31st December 2010, the carrying amounts of financial assets and liabilities were not materially different from the carrying amounts.

v) Liquidity risk

Management monitors liquidity risk by means of cash flow forecasts on the basis of expected cash flows over a twelve month period and ensures that no additional financing facilities are expected to be required over the coming year.

Notes to the Financial Statements for the year ended 31 December 2010 - continued

19. Related Party Transactions

Identity of Related Parties

Central Government- as per Local Councils Act 1993, is the major and ultimate controlling related party.

All the Authorities set up by Central Government and all the entities which are owned by Central Government are considered to be related parties to the Ghajnsielem Local Council.

The Joint Committee, to which the Ghajnsielem Local Council is a member, is also considered to be a related party

Transactions with Related Parties

	Central Government		WSC	
	Year ended 31 Dec '10 EUR	Period from 01 Apr '09 to 31 Dec 09 EUR	Year ended 31 Dec '10 EUR	Period from 01 Apr '09 to 31 Dec 09 EUR
Income	(290,596)	(200,455)		
Amount Receivable			11,894	37,000



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LOCAL COUNCIL, GHAIJSIELEM

Report of the Local Government Auditor to the Auditor General

We have audited the accompanying financial statements of Local Council Ghajnsielem set out on pages 4 to 21, which comprise the statement of financial position as at 31st December 2010, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the schedule of special needs of the Local Council for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Council Responsibilities for the Financial Statements

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

Local Government Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Local Council. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of the accounting estimates made by the Executive Secretary and the Council, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Partners:

William Spiteri Bailey
F.I.A., M.I.M., C.S.A., C.P.A.
Registered Auditor

Karen Spiteri Bailey
B.A. Hon. (Accty.), F.I.A., A.M.I.T., C.P.A.
Registered Auditor



Basis for Qualified Opinion

During the year ended 31st December 2010, the Local Council carried out an exercise to build a Fixed Assets Register. Once the exercise was completed, an adjustment was passed in the accounts to bring the different property, plant and equipment accounts to match with the Fixed Assets Register totals. The cost of the property, plant and equipment was increased by Euro 39,833 while the accumulated depreciation was increased by Euro 3,904. We were unable to obtain sufficient appropriate audit evidence to identify and verify the items forming part of the adjustment passed and consequently we could not determine the correctness of the amount of property, plant and equipment shown in the statement of financial position as far as this adjustment is concerned. Furthermore, the depreciation charge in the Fixed Assets Register for the periods up to the 31st December 2009 has been worked out on a yearly basis and not in accordance with the Council's accounting policy which states that that depreciation is calculated on a monthly basis.

International Accounting Standard 8 – Accounting Policies, changes in Accounting Estimates and Errors, requires an entity to correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for the prior period presented in which the error occurred. The Standard also requires the entity to disclose a) the nature of the prior period error; b) for each prior period presented, the amount of the correction for each financial statement line item affected; and c) the amount of the correction at the beginning of the earliest prior period presented. For the prior year adjustment passed with respect to the matter described in the preceding paragraph, the Council just corrected the opening retained earnings for the year ended 31st December 2010 and did not re-instate the comparative amounts and neither disclosed the necessary information in a note to the financial statements as required by the Standard.

Disclosures have not been correctly made in these financial statements in accordance with International Accounting Standard 24 – Related Party Disclosures. This Standard requires an entity to disclose key management personnel compensations, information about transactions undertaken with related parties during the periods covered by the financial statements and information about outstanding balances with related parties including their terms and conditions. The amount of income from related parties is only disclosing the amount received from Central Government in terms of Section 55. Note 4 to the financial statements already shows that there was further income received from Central Government. Also during the year there was income amounting to Euro 11,894 from the Water Services Corporation. These were the most material transactions with related parties apart from the key management emoluments. The gross emoluments of the Executive Secretary for the year ended 31st December 2010 was Euro 22,127, while the gross emoluments of the Mayor are disclosed in Note 8. Related party balances within the accounts payable amount to Euro 10,568.

The accounting for government grants was not fully carried out in accordance with International Accounting Standard 20 – Accounting for Government Grants and Disclosure of Government Assistance. An amount of Euro 2,216 should have been released from the deferred income and written off to the statement of comprehensive income to be matched with the depreciation charged during the year on the items of property, plant and equipment which the grants intended to cover.



International Accounting Standard 1 – Presentation of Financial Statements, requires the separate classification in the statement of financial position of current and non-current liabilities. The deferred income with respect to government grants in accordance with International Accounting Standard 20 – Accounting for Government Grants and Disclosure of Government Assistance, has not been properly split between current and non-current. The amount that should have been shown under current liabilities is Euro 17,337, while the remaining balance should have been classified as non-current liabilities. Furthermore, the split of the deferred income by the different years in which it is to be released to the statement of comprehensive income as shown in note 14 is incorrect.

The Schedule of Special Needs required in terms of the Local Councils (Audit) Procedures, 2006, has not been prepared. The three sections of the Schedule should give information about 'Funds Received and Expended', 'Capital Creditors' and 'Commitments' in the prescribed order. This Schedule is however not required by the International Financial Reporting Standards as adopted by the EU.

Qualified opinion

In our opinion, except for the non-disclosures and the effects of the matters mentioned in the Basis for Qualified Opinion paragraphs, the financial statements give a true and fair view of the financial position of the Council as of 31 December 2010 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
Members of IGAF Worldwide
Dun Karm Street,
Birkirkara By-pass,
Birkirkara,
Malta.

12/05/11