

San Lawrenz Local Council

Annual Report
and
Financial Statements

1 January – 31 December 2011

Prepared by JCA Limited



**ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2011**

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Financial Statements for the year ended 31 December 2011

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

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

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

Approved by the Council and signed on its behalf on 8th May 2012 by:


Anthony Formosa
Mayor


Lorraine Haber
Executive Secretary

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	31 December 2011 €	31 December 2010 €
ASSETS			
Non-current assets			
Property, plant and equipment	3	176,074	191,359
		<u>176,074</u>	<u>191,359</u>
Current Assets			
Inventory	4	375	-
Receivables	5	27,324	12,620
Cash and Cash Equivalents	6	396,165	399,612
		<u>423,864</u>	<u>412,232</u>
Total Assets		<u>599,938</u>	<u>603,591</u>
RESERVES AND LIABILITIES			
Reserves			
Retained Fund		193,229	158,634
Non-current Liabilities			
Deferred income - grants	7	342,882	365,135
Liabilities			
Payables	8	63,827	79,822
Total reserves and liabilities		<u>599,938</u>	<u>603,591</u>

The notes on pages 8 to 20 are an integral part of the financial statements.

These Financial Statements were approved by the Local Council on 8th May 2012 and signed on its behalf by:


Anthony Formosa
Mayor


Lucienne Haber
Executive Secretary

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 €	2010 €
REVENUE			
Funds received from central government	9	209,250	154,078
General Income	10	40,364	26,176
		<u>249,614</u>	<u>180,254</u>
EXPENDITURE			
Personal emoluments	11	(50,881)	(56,134)
Operations and maintenance	12	(85,072)	(39,016)
Administration and other expenditure	13	(88,515)	(93,090)
		<u>(224,468)</u>	<u>(188,240)</u>
Operating Surplus/(Loss) for the year		25,146	(7,986)
Investment income	14	169	139
Total Comprehensive Income/(Loss) for the year		<u>25,315</u>	<u>(7,847)</u>

The notes on pages 8 to 20 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2011

	Retained Funds 2011 €	Retained Funds 2010 €
At 1 January	158,634	166,481
Total comprehensive Income/(Loss) for the year	25,315	(7,847)
Prior year adjustment	9,280	-
At 31 December	<u>193,229</u>	<u>158,634</u>

The notes on pages 8 to 20 are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Note	2011 €	2010 €
Cash Flows from Operating Activities			
Total Comprehensive Income/(Loss) for the year		25,315	(7,847)
Adjustments for:			
Depreciation		18,998	20,831
Previous year adjustments		9,280	(28,490)
Deferred income released		(39,246)	
Interest receivable		(169)	(139)
Operating Profit/(Loss) before Working Capital Changes		14,178	(15,645)
(Increase) in inventories		(375)	-
(Increase)/Decrease in receivables		(14,704)	35,546
Increase/(Decrease) in payables		9,289	(22,709)
Net Cash inflow from operating activities		8,388	(2,808)
Cash flows from Investing Activities			
Purchase of plant, property and equipment		(3,713)	(17,572)
New grants received		26,511	346,893
Interest received		169	139
Cash Flow from Investing Activities		22,967	329,460
Net Increase in Cash and Cash Equivalents		31,355	326,652
Cash and Cash Equivalents at the Beginning of Year		364,810	38,158
Cash and Cash Equivalents at the End of Year	5	396,165	364,810

The notes on pages 8 to 20 are an integral part of the financial statements.

Notes to the Financial Statements for the Year ended 31 December 2011

1. General Information

San Lawrenz Local Council is the local authority of San Lawrenz setup in accordance with the Local Councils Act. The office of the Local Council is situated at Triq id-Duluri, San Lawrenz. San Lawrenz Local Council started to form part of the Gozo Regional Committee in September 2011.

2. Accounting Policies and Reporting Procedures

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

a. Accounting convention

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

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

b. Standards, amendments and interpretations to existing standards

Annual Improvements: 2010 made several minor amendments to a number of IFRSs. None of the changes to IFRSs and interpretations has had, or is expected to have, a material impact on the council's financial statements.

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

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

Council members anticipate that all of the relevant pronouncements will be adopted in the council's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Council's financial statements is provided below. Certain other new standards and interpretations have been issued but are not relevant and therefore are not expected to have a material impact on the council's financial statements.

IFRS 9 Financial Instruments (effective from 1 January 2013)

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

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

Notes to the Financial Statements for the year ended 31 December 2011 – continued

c. Revenue recognition

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

d. Local Enforcement System

San Lawrenz Local Council formed part of Gozo Joint Committee until the 30th September 2011. After this date the Local Enforcement System was taken over by the Gozo Regional committee. During 2011 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 as well as the administrative fee of 10% that is now chargeable to the Gozo Regional Committee for contraventions paid at the Council.

e. Property, Plant and Equipment

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

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

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

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

f. Government Grants

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

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

g. Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less cost to sell and the value in use. Impairment losses are immediately recognised as an expense in the Statement of Income and Expenditure.

h. Amounts Receivable

Amounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of amounts receivable is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amounts of the asset in the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Income and Expenditure.

i. Foreign Currencies

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

j. Surplus and deficits

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

k. Cash and Equivalents

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

l. Related parties

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

During the year under review, the Local Council's related party that exercises a significant control was the Department for Local Government. The parties that exercise no control were Water Services Corporation and Malta Environment and Planning Authority whereas there was joint control with the Gozo Joint Committee.

m. Payables

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not they are presented as non-current liabilities.

Amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the council.

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

Notes to the Financial Statements for the Year ended 31 December 2011 (cont)**3a Property, Plant and Equipment**

Cost	Property (Land)	Office Furniture /fittings	Plant & Machinery	Computer Equipment	Office Equipment	Urban Improvements	New Street Signs	Construction	Special Programmes	Total
€	€	€	€	€	€	€	€	€	€	€
At 1 January 2011	2,583	20,881	947	8,584	11,875	30,659	4,072	426,776	50,434	556,811
Additions this year	-	694	311	135	153	2,248	-	172	-	3,713
At 31 December 2011	2,583	21,575	1,258	8,719	12,028	32,907	4,072	426,948	50,434	560,524
Grants and other reimbursements										
At 1 January 2011	-	-	-	-	-	-	-	(141,041)	(13,375)	(154,416)
Received this year	-	-	-	-	-	-	-	-	-	-
At 31 December 2011	-	-	-	-	-	-	-	(141,041)	(13,375)	(154,416)
Accumulated Depreciation										
At 1 January 2011	-	(12,018)	(588)	(8,093)	(8,982)	(20,620)	(4,072)	(145,718)	(10,945)	(211,036)
Charge for the year	-	(687)	(98)	(156)	(601)	(838)	-	(13,909)	(2,709)	(18,998)
At 31 December 2011	-	(12,705)	(686)	(8,249)	(9,583)	(21,458)	(4,072)	(159,627)	(13,654)	(230,034)
Net Book Value										
At 31 December 2011	2,583	8,870	572	470	2,445	11,449	-	126,280	23,405	176,074

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

3b Property, Plant and Equipment

Cost	Property (Land)	Office Furniture & fittings	Plant & Machinery	Computer Equipment	Office Equipment	Urban Improvements	New Street Signs	Construction	Special Programmes	Total
At 1 January 2010	€ 2,583	€ 20,881	€ 947	€ 8,584	€ 11,474	€ 26,971	€ 4,072	€ 414,947	€ 48,780	€ 539,239
Additions this year	-	-	-	-	401	3,688	-	11,829	1,654	17,572
At 31 December 2010	2,583	20,881	947	8,584	11,875	30,659	4,072	426,776	50,434	556,811
Grants and other reimbursements										
At 1 January 2010	-	-	-	-	-	-	-	(141,041)	(13,375)	(154,416)
Received this year	-	-	-	-	-	-	-	-	-	-
At 31 December 2010	-	-	-	-	-	-	-	(141,041)	(13,375)	(154,416)
Accumulated Depreciation										
At 1 January 2010	-	(11,299)	(498)	(7,930)	(8,305)	(19,845)	(4,072)	(130,308)	(7,948)	(190,205)
Charge for the year	-	(719)	(90)	(163)	(677)	(775)	-	(15,410)	(2,997)	(20,831)
At 31 December 2010	-	(12,018)	(588)	(8,093)	(8,982)	(20,620)	(4,072)	(145,718)	(10,945)	(211,036)
Net Book Value										
At 31 December 2010	2,583	8,863	359	491	2,893	10,039	-	140,017	26,114	191,359

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

	2011	2010
	€	€
4 Inventories		
Stock of gift vouchers	375	-
5 Receivables		
	2011	2010
	€	€
Receivables	650	437
LES receivables	-	96
Prepayments and accrued income	26,674	12,087
	<u>27,324</u>	<u>12,620</u>
Trade receivables		
Within the current period	26,674	12,087
Exceeded credit period but not yet impaired	650	533
	<u>27,324</u>	<u>12,620</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 flows comprise the following amounts in the Local Council's statement of financial position:

	2011	2010
	€	€
Bank Balances:		
Current Accounts	5,230	(31,729)
Savings Accounts	389,767	391,570
Fixed account	1,165	1,165
Cash in hand	3	3,804
Cash at bank and in hand	<u>396,165</u>	<u>364,810</u>
Overdrawn bank balance	-	34,802
	<u>396,165</u>	<u>399,612</u>
7 Deferred income grants		
	2011	2010
	€	€
Deferred income:		
Between 1 and 2 years	30,372	2,866
Between 2 and 5 years	74,788	77,061
Over 5 years	237,722	285,208
	<u>342,882</u>	<u>365,135</u>
	2011	2010
	€	€
Opening balance	371,893	-
Increase in grants	26,511	371,893
Release of grants	39,246	-
Closing balance	<u>359,158</u>	<u>371,893</u>
Less Current portion	16,276	6,758
Non-current portion	<u>342,882</u>	<u>365,135</u>

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

8 Payables	2011	2010
	€	€
Accounts payable	32,212	25,678
Other payables	1,605	-
Accruals	13,734	8,381
Overdrawn bank balance	-	34,802
Special needs funds unutilised	-	4,203
Short term deferred income	16,276	6,758
	<u>63,827</u>	<u>79,822</u>

9 Funds received from Central Government	2011	2010
	€	€
In terms of section 55 of the Local Councils Act (CAP 363)	141,622	141,924
Other Government Income	67,628	12,154
	<u>209,250</u>	<u>154,078</u>

10 General Income	2011	2010
	€	€
Income from Tender documents	750	100
Income from twinning & youth exchange	7,258	1,793
Income from 3D Dwejra festival	19,000	1,734
Sundry contributions and donations	13,356	22,549
	<u>40,364</u>	<u>26,176</u>

11 Personal Emoluments	2011	2010
	€	€
Personal emoluments include, inter alia:		
Mayor's Allowance	3,378	9,843
Councillors' allowance	6,400	5,480
Executive Secretary salary and allowances	24,499	24,389
Employees' Salaries	13,487	13,347
Social Security Contributions	3,117	3,075
	<u>50,881</u>	<u>56,134</u>

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

12 Operations and Maintenance	2011	2010
Operations and maintenance includes, inter alia:	€	€
Repairs and Upkeep:		
Road and Street Pavements (patching works)	4,439	2,946
Signs and markings	1,493	-
Office furniture and Equipment	219	293
Other	175	1,949
Total	6,326	5,188
Contractual Services:	2011	2010
	€	€
Refuse Collection (including bins on wheels)	13,804	10,731
Bring-in sites and tipping fees	4,064	5,780
Bulky Refuse Collection (including open skips)	67	67
Open skips	1,269	1,484
Cleaning and Maintenance of Public Conveniences	6,360	4,039
Cleaning and Maintenance of soft areas	350	410
Cleaning and Maintenance of council premises	350	47
Street Lighting	4,397	8,477
Studies & Consultations	46023	-
Other	2,062	2,793
	78,746	33,828
Total Operations and Maintenance Expenses	85,072	39,016
13 Administration and other expenditure	2011	2010
	€	€
Utilities	3,913	4,912
Materials and supplies	842	2,135
Rent	966	1,211
National and International Memberships	60	-
Office Services	1,926	3,692
Overseas Travel - youth exchanges	3,963	427
Transport	2,193	2,424
Information services	1,658	876
Professional Services	18,536	24,916
Community and Hospitality	8,494	23,803
Twinning / d-link Int Conference	23,709	5,180
Penalties	1,881	-
Lease of equipment	1,280	1,019
Bad debts	96	1,664
Depreciation	18,998	20,831
	88,515	93,090
14 Investment income	2011	2010
	€	€
Bank Interest Receivable	169	139
	169	139

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

15 Contingencies

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.

The Council has a bank guarantee issued in favour of MEPA amounting to Euro 2,330.

16 Related Parties Disclosure

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>141,622</u>	<u>141,924</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.

17 Capital Commitments

Details of Capital commitments are as follows:

	2011	2010
	€	€
Approved but not yet contracted for	<u>382,500</u>	<u>20,000</u>
These could be analysed as follows:		
Approved but not yet contracted for:		
Dwejra Project	-	10,000
Culvert in main Square	60,000	-
Urban Improvement	-	10,000
Project under Measure 313	26,500	-
Project under Measure 313	<u>296,000</u>	<u>-</u>
	<u>382,500</u>	<u>20,000</u>

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

18 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.

18.1 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	27,324	12,620
Cash and Cash Equivalents	396,165	399,612
	<u>423,489</u>	<u>412,232</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.

18.2 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	63,827	79,822
	<u>63,827</u>	<u>79,822</u>

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

18.3 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
	€	€
Current Assets		
Loans and receivables:		
Trade and other receivables	27,324	12,620
Cash and Cash Equivalents	<u>396,165</u>	<u>399,612</u>
	<u>423,489</u>	<u>412,232</u>
 Current Liabilities		
Financial liabilities measured at amortised costs:		
Payables	<u>63,827</u>	<u>79,822</u>
	<u>63,827</u>	<u>79,822</u>



LOCAL COUNCIL SAN LAWRENZ

Report of the Local Government Auditor to the Auditor General

We have audited the accompanying financial statements of Local Council San Lawrenz set out on pages 4 to 20, which comprise the statement of financial position as at 31st 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

During the year ended 31st December 2011, a prior year adjustment of Euro 9,280 has been passed to correct prior periods' errors. The Euro 9,280 represented two separate errors that related to the year 2009. The first error was that invoices relating to maintenance works on street lighting, amounting to Euro 5,077, were posted twice. The second error was that funds received amounting to Euro 4,203 which had not been spent on the project to which they were originally received, were expended on another project following the approval from the Department. This project was expensed during 2009, but the deferred income was not written off to the statement of comprehensive income. The prior year adjustment was just shown in the



statement of changes in equity on page 6 and has not been accounted for in accordance with International Accounting Standard 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The Standard states that an entity shall 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 or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. The comparative figures in these financial statements have not been restated accordingly. The comparative figures should have been restated as follows: the opening retained funds should have increased by Euro 9,280 while the current payables should have decreased by the same amount. Furthermore, the disclosure requirements of paragraph 49 of the said Standard have not been made. The Council should have disclosed the nature of the prior period error, for each period presented, the amount of the correction for each financial statement line item affected and the amount of the correction at the beginning of the earliest prior period presented.

The prior year adjustment mentioned in the previous paragraph was not correctly presented in the Statement of Changes in Equity in accordance with International Accounting Standard 1 – Presentation of Financial Statements. The adjustment was just passed as one whole amount, as being a movement during the year ended 31st December 2011. The statement of changes in equity should have shown separately the opening balance as previously reported, the prior year adjustment affecting the opening balance and the opening balance as restated.

Qualified opinion

In our opinion, except for 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.

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