

ANNUAL REPORT AND FINANCIAL STATEMENTS  
for 2011

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Prepared by  
JCA Limited

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

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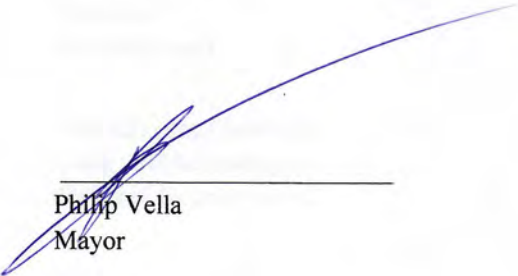
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

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

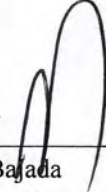
The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes the Local Council's Statement of Comprehensive Income for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it 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 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 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 30/4/2012 by:



Philip Vella  
Mayor



Arthur Bajada  
Executive Secretary

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	31 December 2011 €	31 December 2010 €
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	318,758	257,382
		<u>318,758</u>	<u>257,382</u>
<b>Current Assets</b>			
Receivables	4	19,128	36,100
Cash and Cash Equivalents	5	188,752	162,681
		<u>207,880</u>	<u>198,781</u>
<b>Total Assets</b>		<u>526,638</u>	<u>456,163</u>
<b>Reserves and Liabilities</b>			
<b>Reserves</b>			
Retained Fund		220,554	229,462
<b>Non-current Liabilities</b>			
Long term borrowings	6	96,887	61,629
Deferred Income grants	7	111,223	45,505
<b>Current Liabilities</b>			
Payables	8	97,974	119,567
<b>Total reserves and liabilities</b>		<u>526,638</u>	<u>456,163</u>

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

These Financial Statements were approved by the Local Council on 30/4/2012 and signed on its behalf by:

Philip Vella  
Mayor

Arthur Bajada  
Executive Secretary

# STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 €	2010 €
<b>Revenue</b>			
Funds received from central government	9	205,516	205,059
Funds raised from Local Enforcement System	10	113	38
General Income	12	4,006	18,276
		<u>209,635</u>	<u>223,373</u>
<b>Expenditure</b>			
Personal emoluments	13	(64,322)	(63,347)
Operations and maintenance	14	(64,177)	(58,394)
Administration and other expenditure	15	(85,946)	(82,576)
Finance costs	16	(4,465)	(3,136)
		<u>(218,910)</u>	<u>(207,453)</u>
<b>Operating (Loss)/Surplus for the year</b>		(9,275)	15,920
Investment income	11	367	330
<b>Total Comprehensive (Loss)/Income for the year</b>		<u>(8,908)</u>	<u>16,250</u>

The notes on pages 8 to 21 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	229,462	213,212
Total Comprehensive (Loss) for the year	(8,908)	16,250
At 31 December	220,554	229,462

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

**STATEMENT OF CASH FLOWS**  
Year ended 31 December 2011

	Note	2011 €	2010 €
<b>Cash Flows from Operating Activities</b>			
Total Comprehensive (Loss)/Income for the year		(8,908)	16,250
Adjustments for:			
Depreciation		27,818	25,355
Investment Income		(367)	(330)
Interest on loan		4,226	2,967
Deferred income released		(478)	-
Operating Profit before Working Capital Changes		22,291	44,242
Decrease in Receivables		16,972	10,275
(Decrease) in Payables		(20,488)	(8,632)
Net Cash inflow from operating Activities		18,775	45,885
<b>Cash flows from Investing Activities</b>			
Purchase of property, plant and equipment		(89,193)	(24,552)
New grants received		65,090	45,505
Interest received		367	330
Interest on loan		(4,226)	(2,967)
Net Cash (used in)/generated from Investing Activities		(27,962)	18,316
<b>Cash flows from financing activities</b>			
Movement in bank loan	6	35,258	22,938
Net Increase in Cash and Cash Equivalents		26,071	87,139
Cash and Cash Equivalents at the Beginning of year		162,681	75,542
Cash and Cash Equivalents at the End of year	5	188,752	162,681

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 2011**

**1. General Information**

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

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**

Sannat Local Council formed part of Gozo Joint Committee until the 30<sup>th</sup> 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.

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**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.

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**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'.

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

**o. Critical accounting estimates and judgements**

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

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

**p. Borrowings**

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

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

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

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

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

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

**3b Property, Plant and Equipment**

<b>Cost</b>	<b>Construction</b>	<b>Office Furniture /fittings</b>	<b>New Street Signs</b>	<b>Urban Improvements</b>	<b>Office Equipment</b>	<b>Plant &amp; Machinery</b>	<b>Computer Equipment</b>	<b>Special Programmes</b>	<b>Total</b>
As at 1 January 2010	358,559	16,506	9,735	37,968	6,324	1,415	6,354	152,740	589,601
Additions	22,424	590	-	-	1,400	-	138	-	24,552
As at 31 December 2010	380,983	17,096	9,735	37,968	7,724	1,415	6,492	152,740	614,153
<b>Grants and other reimbursements</b>									
As at 1 January 2010	(107,100)	-	-	(19,553)	-	-	-	(39,484)	(166,137)
Additions	-	-	-	-	-	-	-	-	-
As at 31 December 2010	(107,100)	-	-	(19,553)	-	-	-	(39,484)	(166,137)
<b>Accumulated Depreciation</b>									
As at 1 January 2010	(101,760)	(9,404)	(9,735)	(15,461)	(5,051)	(969)	(3,711)	(19,188)	(165,279)
Charge for the year	(16,739)	(525)	-	(768)	(287)	(89)	(657)	(6,290)	(25,355)
As at 31 December 2010	(118,499)	(9,929)	(9,735)	(16,229)	(5,338)	(1,058)	(4,368)	(25,478)	(190,634)
<b>Net Book Value</b>									
As at 31 December 2010	155,384	7,167	-	2,186	2,386	357	2,124	87,778	257,382

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

<b>4 Receivables</b>	2011	2010
	€	€
Accounts receivable	2,598	6,386
Amounts due by other local councils	-	23
Prepayments and accrued income	7,092	20,253
Other receivables	9,438	9,438
	<u>19,128</u>	<u>36,100</u>

**Trade receivables**

Within the current period	9,883	26,855
Exceeded credit period but not yet impaired	9,245	9,245
	<u>19,128</u>	<u>36,100</u>

**5 Cash and Cash Equivalents**

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

	2011	2010
	€	€
Bank Balances:		
Ordinary funds	106,015	131,051
Special needs funds	9,979	9,954
Measure 323 bank account	72,676	21,524
Cash in hand	82	152
Cash at bank and in hand	<u>188,752</u>	<u>162,681</u>

<b>6 Bank Loan</b>	2011	2010
	€	€
Borrowings	96,887	61,629
	<u>96,887</u>	<u>61,629</u>

The loan taken out by Sannat Local Council, with the approval of the Ministry of Finance carried an interest rate of 4.95% per annum during 2011. The duration of the loan is for a period of 20 years. The bank loan is secured by a 1<sup>st</sup> General Hypothec over the assets of Sannat Local Council for Loan I & Loan II total of €149,080, by a pledge dated 31<sup>st</sup> December 2007 on Savings Name Account number 17400287018 held with BOV plc Sannat for €9,317 given by Sannat Local Council and by a letter of undertaking dated 01/02/2008 by the council that (i) funds received from Government shall be channeled to an account held with the Bank (ii) to authorize the bank to settle loan installment, fees & costs which may be due (iii) to retain at all times sufficient funds in account.

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

<b>7 Deferred Income Grants</b>	2011	2010
	€	€
Deferred Income 1 to 2 years	4,319	2,290
Deferred Income 2 to 5 years	26,444	11,241
Deferred Income over 5 years	80,460	31,974
	<u>111,223</u>	<u>45,505</u>

	2011	2010
	€	€
Opening Balance	48,623	-
Increase in grants	65,090	48,623
Release of grants	478	-
Closing balance	113,235	48,623
Less Current portion	2,012	3,118
Non-current portion	<u>111,223</u>	<u>45,505</u>

<b>8 Payables</b>	2011	2010
	€	€
Payables	32,065	33,956
Accruals	52,072	72,516
Deferred income within one year	2,012	3,118
Loan payable within one year	11,825	9,977
	<u>97,974</u>	<u>119,567</u>

*Accruals*

Included in the accruals figure is an amount of € 9,317 which has been accrued for since 2005 for works to be carried out in relation to a water retention problem in 'Triq Santa Marija'.

<b>9 Funds received from Central Government</b>	2011	2010
	€	€
In terms of section 55 of the Local Councils Act (CAP 363)	200,208	200,901
Other Government Income	5,308	4,158
	<u>205,516</u>	<u>205,059</u>

<b>10 Income raised under Local Enforcement System</b>	2011	2010
	€	€
Income from contraventions	113	38
	<u>113</u>	<u>38</u>

<b>11 Investment income</b>	2011	2010
	€	€
Bank Interest Receivable	367	330
	<u>367</u>	<u>330</u>

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

<b>12 General Income</b>	2011	2010
	€	€
Income from permits	1,620	1,530
Income from tender documents	1,050	450
Income for library service	466	0
Income from cultural activities	500	7,500
Income from Reinstatements		
WSC	-	8,200
Contributions and donations	370	596
	<u>4,006</u>	<u>18,276</u>
<b>13 Personal Emoluments</b>	2011	2010
	€	€
Personal emoluments include, inter alia:		
Mayor's Allowance	4,390	10,524
Councillor's allowance	5,787	4,650
Executive Secretary salary and allowances	24,634	23,095
Employees' Salaries	25,292	21,548
Social Security Contributions	4,219	3,530
	<u>64,322</u>	<u>63,347</u>
<b>14 Operations and Maintenance</b>		
Operations and maintenance includes, inter alia:	2011	2010
	€	€
Repairs and Upkeep:		
Road and Street Pavements (patching works)	9,215	2,611
Walkways	125	752
Street signs	391	2,837
Road markings	751	269
Public Property	188	1,403
Total	<u>10,670</u>	<u>7,872</u>
<b>Contractual Services:</b>	2011	2010
	€	€
Refuse Collection (including bins on wheels)	20,657	23,776
Bring-in sites and tipping fees	11,940	12,107
Bulky Refuse Collection (including open skips)	484	515
Road and Street Cleaning (mechanical and manual)	7,241	5,916
Cleaning and Maintenance of Public Conveniences	1,434	1,413
Cleaning and Maintenance of non-urban	1,574	384
Cleaning and Maintenance of parks & gardens	493	521
Cleaning and Maintenance of soft areas	404	854
Local enforcement expenses	174	93
Street Lighting	9,106	4,943
	<u>53,507</u>	<u>50,522</u>
<b>Total Operations and Maintenance Expenses</b>	<u>64,177</u>	<u>58,394</u>

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

<b>15 Administration and other expenditure</b>	<b>2011</b>	<b>2010</b>
	€	€
Utilities	4,327	5,264
Materials and supplies	2,895	2,503
Other repairs and upkeep	2,752	473
Rent	1,028	1,029
National and International Memberships	312	555
Office Services	2,588	2,872
Transport	213	228
Overseas travel	316	-
Information services	1,318	1,116
Other contractual services	4,124	4,494
Professional Services	13,348	9,519
Sponsorships and donations	-	12
Community and Hospitality	15,213	28,899
Depreciation	27,818	25,355
Lease of equipment	13	257
Fines and penalties	9,681	-
	<u>85,946</u>	<u>82,576</u>

<b>16 Finance costs</b>	<b>2011</b>	<b>2010</b>
	€	€
Interest payable	4,226	2,967
Bank charges	239	169
	<u>4,465</u>	<u>3,136</u>

**17 Contingent Liability**

The Council has a bank guarantees in favour of the Malta Environment and Planning Authority amounting to €8,988.

**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 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:

	<b>2011</b>	<b>2010</b>
Significant control:		
Revenue:	€	€
Annual financial allocation	<u>200,208</u>	<u>200,901</u>

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

**18 Related Parties Disclosures (cont.)**

The ultimate controlling party of the Local Council is Central Government since the Council's main revenue is from the Government allocation received every quarter. Apart from the normal funds received from Government, Councils also receive funds relating to specific projects as well as other funds for the improvement and betterment of the locality.

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

	2012 €	2010 €
<b>19 Capital Commitments</b>		
(i) Details of Capital expenditure are as follows:		
Approved but not yet contracted for (ii)	76,100	71,657
Contracted for but not provided in Financial Statements(iii)	55,389	55,453
	<u>131,489</u>	<u>127,110</u>
These could be analysed as follows:		
(ii) Approved but not yet contracted for:		
Street Lanterns	-	13,870
Construction Administrative office	-	26,925
New administrative offices equipment	9,600	11,600
Mgarr ix-Xini - Excavation & Public Convenience	66,500	19,262
	<u>76,100</u>	<u>71,657</u>
Contracted for but not provided in Financial Statements		
Road resurfacing	21,435	-
New administrative offices	28,834	55,453
Street lanterns	5,120	-
	<u>55,389</u>	<u>55,453</u>

In order to finance the capital commitments on the Administrative offices the Council has utilised the remaining part of the loan amounting to €63,109.

**20 Risk management objectives and policies**

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

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

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

**21.1 Credit risk**

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

	2011	2010
	€	€
Class of financial assets – carrying amounts		
Trade and other receivables	19,128	36,100
Cash and Cash Equivalents	188,752	162,681
	<u>207,880</u>	<u>198,781</u>

The council continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The council's policy is to deal with only creditworthy counterparties.

The council considers that the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. See notes 4 and 5 for further information on impairment or financial assets that are past due.

None of the council's financial assets is secured by collateral or other credit enhancements

The credit risk for liquid funds is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

**21.2 Liquidity risk**

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

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

	2011	2010
	€	€
Payables	97,974	119,567
	<u>97,974</u>	<u>119,567</u>



**Spiteri Bailey & Co.**

Accountancy Audit Advisory

## **LOCAL COUNCIL SANNAT**

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

We have audited the accompanying financial statements of Local Council Sannat set out on pages 4 to 21, which comprise the statement of financial position as at 31<sup>st</sup> December 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows of the Local Council for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Spiteri Bailey & Co.**

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### **Council Responsibilities for the Financial Statements**

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

### **Local Government Auditor's Responsibility**

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

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

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

### **Basis for Qualified Opinion**

International Accounting Standard 23 – Borrowing Costs, states that an entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The bank interest payable of Euro 4,226 (2010: Euro 2,967) shown within the finance costs (refer to note 16) refer to borrowings taken specifically for the construction of the new premises of the Local Council which assets fall under the definition of qualifying assets. Consequently these costs should have been capitalized and not written off in the statement of comprehensive income.

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An amount of Euro 157,444 (2010: Euro 102,252), shown within the property, plant and equipment category 'Construction', relates to works being carried out on the new premises of the Local Council which project is still underway. This means that these costs should have been recorded under the category 'Assets Under Construction' within the property, plant and equipment schedule. Furthermore, no depreciation should have been calculated thereon in accordance with International Accounting Standard 16 – Property, Plant and Equipment. This means that the depreciation charge for the year is overstated by Euro 15,173 (2010: Euro 6,972). The total accumulated depreciation on these assets as at 31<sup>st</sup> December 2011 amounted to Euro 29,976 (2010: Euro 14,803).

### **Qualified Opinion**

In our opinion, except for the matters mentioned in the preceding paragraphs, the financial statements give a true and fair view of the financial position of the Council as of 31 December 2011 and of the Council's financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

### **Report on Other Legal and Regulatory Requirements**

In our opinion, except as set out in the preceding paragraphs, the financial statements have been properly prepared in accordance with the Local Councils Act, (CAP 363); the Financial Regulations issued in terms of the said Act; and the Local Councils (Financial) Procedures.

**This copy of the audit report has been signed by  
William Spiteri Bailey FIA MIM CSA CPA (Partner) for and on behalf of  
Spiteri Bailey & Co.**

Certified Public Accountants  
Members of IGAF Worldwide  
Dun Karm Street,  
Birkirkara By-pass,  
Birkirkara,  
Malta.

30/04/12