

Hal Lija Local Council

Financial Statements

for the year ended 31st December 2011

Hal Lija Local Council

Annual Audit Report 31st December 2011

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Hal Lija Local Council

Financial Statements
for the year ended 31st December 2011

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Hal Lija Local Council

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 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 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.

Hal Lija Local Council

Statement of comprehensive income
for the year ended 31st December 2011

	Note	Year ended 31 December 2011 Eur	Year ended 31 December 2010 Eur
Funds received from Central Government	3	246,261	232,278
Revenue	3	<u>11,817</u>	<u>7,975</u>
		258,078	240,253
Expenditure			
Personal emoluments	4	(97,297)	(90,137)
Operations and maintenance	5	(89,433)	(84,685)
Administration and other expenditure	6	<u>(89,798)</u>	<u>(86,211)</u>
Operating surplus for the year		(18,450)	(20,760)
Investment income	7	<u>516</u>	<u>472</u>
Deficit for the year		<u>(17,934)</u>	<u>(20,308)</u>

Hal Lija Local Council

Statement of financial position
at 31st December 2011

	Note	2011 Eur	2010 Eur
Assets			
Non-current Assets			
Property, plant and equipment	8a-b	389,224	394,959
		<u>389,224</u>	<u>394,959</u>
Current Assets			
Trade and other receivables	9	37,268	34,122
Cash and bank balances	10	71,653	85,843
		<u>108,921</u>	<u>119,965</u>
Total Assets		<u>498,145</u>	<u>514,924</u>
Reserves and Liabilities			
Reserves			
Retained Fund		287,728	305,662
		<u>287,728</u>	<u>305,662</u>
Non-Current Liabilities			
Trade and other payables	11	60,642	80,788
		<u>60,642</u>	<u>80,788</u>
Current Liabilities			
Trade and other payables	11	149,775	128,474
		<u>149,775</u>	<u>128,474</u>
Total Reserves and Liabilities		<u>498,145</u>	<u>514,924</u>

These Financial Statements were approved by the Local Council and are signed on its behalf by:

Mayor

Executive Secretary

Date: 30/04/2012

Hal Lija Local Council

Statement of changes in equity
for the year ended 31st December 2011

	Retained fund Eur
At 1st January 2010	325,970
Deficit for the year	<u>(20,308)</u>
At 31st December 2010	305,662
Deficit for the year	<u>(17,934)</u>
At 31st December 2011	<u>287,728</u>

Hal Lija Local Council

Statement of cash flows
for the year ended 31st December 2011

	<i>Note</i>	Year ended 31 December 2011 Eur	Year ended 31 December 2010 Eur
Cash flows from operating activities			
Deficit for the year		(17,934)	(20,308)
<i>Adjustments for:</i>			
Depreciation		41,001	39,895
Interest receivable		(516)	(472)
Surplus for the year before working capital movements		22,551	19,115
Movement in receivables		(1,738)	(2,120)
Movement in payables		(15,857)	10,094
Net cash generated from operating activities		5,156	27,089
Cash flows from investing activities			
Payment to acquire property, plant and equipment		(21,535)	(82,883)
Receipts from Government to acquire fixed assets		4,500	30,366
Interest received		512	578
Net cash used in investing activities		(16,523)	(51,939)
Movement in cash and cash equivalents		(11,367)	(24,850)
Cash and cash equivalents at the beginning of the year		45,800	70,650
Cash and cash equivalents at the end of the year	12	<u>34,433</u>	<u>45,800</u>

The notes on pages 6 to 16 form an integral part of these financial statements

Hal Lija Local Council

Notes to the financial statements for the year ended 31st December 2011

Note

1 General information

Lija Local Council is the local authority of Lija set up in accordance with the Local Councils Act. The office of the Local Council is situated at Triq Robert Mifsud Bonnici, Lija.

2 Accounting policies and reporting procedures

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 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.

The principal accounting policies and reporting procedures used by Local Councils are as follows :

a) 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.

b) Local Enforcement System

Lija Local Council formed part of Birikikara Joint Committee - Group C until the 31st August 2011. As from the 1st September 2011 the Balzan Local Council started to form part of the Central Regional Committee. The amount disclosed in the financial statements under Local Enforcement System Income represents the share of profit derived from the Joint Committee and the Central Regional Committee after deducting the related expenses.

c) 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 :

Trees	0
Land	0
Buildings	1
Office furniture and fittings	7.5
Construction works	10
Special programmes	10
Urban improvements (Street Furniture)	10
Office equipment	20
Plant & Machinery	20
Motor Vehicles	20
Computer equipment	25
Plants	100
New street signs	100
Litter Bins	100
Playground Furniture	100
Street Lights	100
Street Mirrors	100

Hal Lija Local Council**Notes to the financial statements
for the year ended 31st December 2011****Note****d) Government Grants**

Government grants are accounted for on a systematic basis in the Income and Expenditure Account 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 costs, then the grant is accounted for when it becomes receivable.

Government grants relating to property, plant and equipment are included as deferred grants and treated as a component of total funds and equity. Grants are credited to the Statement of Comprehensive Income over the expected useful lives of the related assets.

e) 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.

f) 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 Local 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 amount of the asset and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income.

g) 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 Local Council's functional and presentation currency.

Transactions denominated in foreign currencies are translated into Euro at rates of exchange in operation on the dates of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into Euro at the rates of exchange prevailing at the date of the Statement.

h) Profits 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.

i) Cash and cash 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.

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Notes to the financial statements
for the year ended 31st December 2011

Note

j) Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. 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.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

k) Financial instruments

All financial assets are measured at cost and accounted for using settlement accounting.

A credit risk provision for financial asset impairment is established if there is objective evidence that the Council will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts receivable from collateral, discounted based on the interest rate at inception.

The Council's financial liabilities, other than those referred to in the accounting policies above, are classified as liabilities which are not held for trading ("other liabilities") under IAS 39, and are measured at cost, that is, the face value of such liabilities.

Hal Lija Local Council

Notes to the financial statements
for the year ended 31st December 2011

Note

	Year ended 31 December 2011 Eur	Year ended 31 December 2010 Eur
3 Revenue		
Government income		
In terms of section 55 of the Local Councils Act (Cap 363)	226,313	227,312
Other Government Income	19,948	4,966
	<u>246,261</u>	<u>232,278</u>
General income		
Income from tender documents	769	1,250
Income from permits	1,979	4,868
Income from Local Enforcement System	5,824	0
Sundry contributions & donations	3,245	1,857
	<u>11,817</u>	<u>7,975</u>
Total revenue	<u>258,078</u>	<u>240,253</u>
	Year ended 31 December 2011 Eur	Year ended 31 December 2010 Eur
4 Personal emoluments		
Personal emoluments include, inter alia :		
Mayor's allowance	7,964	7,964
Executive Secretary's salary and allowances	25,707	26,947
Employees' salaries	52,864	44,753
Social security contributions	5,962	5,673
Councillors' Allowance	4,800	4,800
	<u>97,297</u>	<u>90,137</u>

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Notes to the financial statements
for the year ended 31st December 2011

Note

5 <u>Operations and maintenance</u>	Year ended 31 December 2011 <u>Eur</u>	Year ended 31 December 2010 <u>Eur</u>
Repairs and upkeep:		
Road and street pavements	1,768	7,874
Public property	8,821	1,456
Signs	2,357	861
Road markings	2,887	232
Other repairs and upkeep	1,561	831
	<u>15,394</u>	<u>11,274</u>
Contractual services:		
Refuse collection	45,420	41,686
Bulky refuse collection	4,014	4,550
Road and street cleaning	9,122	7,139
Cleaning and maintenance - public conveniences	1,142	3,905
Cleaning and maintenance - parks and gardens	9,725	9,507
Street lighting	2,028	4,288
Other	2,588	2,336
	<u>74,039</u>	<u>73,411</u>
	<u>89,433</u>	<u>84,685</u>

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Notes to the financial statements
for the year ended 31st December 2011

Note

	Year ended 31 December 2011 Eur	Year ended 31 December 2010 Eur
6 Administration and other expenditure		
Utilities	5,298	7,426
Materials & supplies	158	70
Office services	5,251	3,864
Transport	862	836
Information services	2,036	1,314
Rent	8,692	8,600
Professional services	12,730	11,364
Penalties	747	0
Donations	0	350
Community services & events	12,473	12,272
National and international memberships	752	420
Depreciation	41,001	39,895
	<u>89,798</u>	<u>86,211</u>
7 Investment income		
Bank interest receivable	516	472

Hal Lija Local Council

Notes to the financial statements
for the year ended 31st December 2011

Note

8b Property, Plant and Equipment

Cost - as at 1st January 2010

Additions new this year

Adjustments

Cost - as at 31st December 2010

Grants - as at 1st January 2010

Transferred during this year

Grants - as at 31st December 2010

Acc.depreciation - as at 1st January 2010

Charge for the year

Acc.depreciation - as at 31st December 2010

Net book value - as at 31st December 2010

	Office furniture & fittings		Plant and Machinery		Office equipment		Urban improvements		New street signs		Construction works		Total	
	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur	Eur
Cost - as at 1st January 2010	16,749	3,986	31,127	108,194	29,804	508,878	688,738							
Additions new this year	0	0	661	0	6,791	202,151	209,603							
Adjustments	0	0	0	1,478	0	(1,478)	0							
Cost - as at 31st December 2010	16,749	3,986	31,788	109,672	36,595	709,551	908,341							
Grants - as at 1st January 2010	0	0	2,644	0	7,687	86,935	97,266							
Transferred during this year	0	0	0	0	0	60,645	60,645							
Grants - as at 31st December 2010	0	0	2,644	0	7,687	147,580	157,911							
Acc.depreciation - as at 1st January 2010	9,108	3,684	19,547	54,333	22,117	206,787	315,576							
Charge for the year	293	123	2,814	(4,475)	6,791	34,349	39,895							
Acc.depreciation - as at 31st December 2010	9,401	3,807	22,361	49,858	28,908	241,136	355,471							
Net book value - as at 31st December 2010	7,348	179	6,783	59,814	0	320,835	394,959							

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Notes to the financial statements
for the year ended 31st December 2011

Note

9 <u>Amounts receivable</u>	<u>2011</u> <u>Eur</u>	<u>2010</u> <u>Eur</u>
Current		
Amounts owed by Central Government (Note 13)	27,183	30,279
Amounts owed by Councilors	2,560	2,560
Prepayments and accrued income	7,525	1,283
	<u>37,268</u>	<u>34,122</u>

10 <u>Cash and bank balances</u>	<u>2011</u> <u>Eur</u>	<u>2010</u> <u>Eur</u>
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For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise the following:

Cash in hand	5	25
Bank balances		
Current accounts	11	11
Savings accounts	54,060	68,537
Fixed account	17,577	17,270
	<u>71,653</u>	<u>85,843</u>

11 <u>Trade and other payables</u>	<u>2011</u> <u>Eur</u>	<u>2010</u> <u>Eur</u>
Current		
Overdrawn bank balances	26,252	40,043
Creditors	43,652	5,505
Accruals	79,871	71,978
Special needs funds yet unspent	0	10,948
	<u>149,775</u>	<u>128,474</u>
Non-Current		
Accruals	60,642	80,788

Creditors include an amount of €7,060 (2010: €5,363) which is in dispute.

During 2010, the Council availed itself of the Government scheme to reconstruct three roads whereby, Government finances 30% of the cost and the Council the rest. Through this scheme the Council is obliged to pay the contractors 40% on completion of works, 20% after one year from completion date, 10% after two years from date of completion and the remaining 30% spread on the following six years. An accrual has been taken to cover the non-invoiced portion of the works.

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Notes to the financial statements for the year ended 31st December 2011

Note

	2011 Eur	2010 Eur
12 Cash and cash equivalents		
Cash in hand	5	25
Bank balances:		
Current accounts	(26,241)	(40,032)
Savings accounts	54,060	68,537
Fixed account	17,577	17,270
	<u>45,401</u>	<u>45,800</u>
13 Capital commitments		
Authorised and contracted for (i)	<u>80,000</u>	<u>112,625</u>
Analysed as follows:		
(i) Authorised and contracted for		
Water Culverts	0	10,948
Road resurfacing	<u>80,000</u>	<u>101,677</u>
	<u>80,000</u>	<u>112,625</u>

14 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Central Government is the main related party of the Local Council. In 2011 the Local Council received Eur 230,813 (2010: Eur292,031) in funding from Central Government. Payments to Central Government for services received amounted to Eur 967 (2009: Eur 280).

15 Financial risk management

15.1 Financial risk factors

The Council's activities expose it to both credit risk and liquidity risk. The Council did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

The Council provides principles for overall risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

Hal Lija Local Council

Notes to the financial statements for the year ended 31st December 2011

Note

15 Financial risk management - Continued

a) Credit risk

The Council's credit risk arises from investments and cash and cash equivalents, including deposits with the banks. The Council's exposures to credit risk are analysed as follows:

	2011 Eur	2010 Eur
Amounts receivable	36,061	32,887
Cash and bank balances	45,401	45,800
	<u>81,462</u>	<u>78,687</u>

The maximum exposure to credit risk at the reporting date in respect of the financial assets mentioned above is disclosed above and in Notes 9, 10 and 12 to these financial statements. The Council does not hold any collateral as security in this respect.

The Council banks only with local financial institutions with high quality standing or rating.

The Council's major debtor is the Government, thus, it deems that it does not have any risk of non-recoverability of its dues.

b) Liquidity risk

The Council's exposure to liquidity risk is mainly from its payables as per note 11 above and which are due within one year. Given the requirements at law to maintain a healthy working capital, the Council takes all measures to keep its liquidity risk exposure in check. In fact it maintains sufficient cash to ensure the availability of an adequate amount of funding to meet the Council's obligations. The Council's exposure to liquidity risk is as follows:

	2011 Eur	2010 Eur
Creditors	43,652	5,505
Accruals	79,871	71,978
	<u>123,523</u>	<u>77,483</u>

15.2 Fair values of financial instruments

At 31 December 2011 and 2010, the carrying amounts of cash at bank, receivables, payables and accrued expenses in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

Financial Statements for the year ended 31 December 2011

Report of the Local Government auditor to the Auditor General

We have audited the accompanying financial statements of Lija Local Council which comprise the statement of financial position as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of the Local Council and Local Government auditors

As described in page 1, these financial statements are the responsibility of the Executive Secretary and the Local Council members.

Auditors' 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 of 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 our 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, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 audit opinion.

Basis for qualified opinion

1. As from 1 January 2000, all income and expenditure from the Local Enforcement System (LES) were centralised through the Birkirkara Joint Committee and LES debtors at that date were transferred to the Joint Committee as well. The Birkirkara Joint Committee ceased operations on 31 August 2011 and LES was centralised through the Central Regional Committee as from 1 September 2011. Included in LES income of € 5,824 is an amount of € 5,579 received during the year from Birkirkara Joint Committee. We were unable to determine the amount of further income the Council is entitled to receive from Birkirkara Joint Committee since its audited financial statements for the year ended 31 December 2011 were not made available to us.
2. Grants received are not presented in the statement of financial position as deferred income and recognised as income on a systematic and rational basis over the useful life of the asset, as required by the directives given in memo 150/2010 and as stated in the accounting policy on page 7.
3. The Local Councils (Audit) Procedures, 2006 contain a specimen of the financial statements which Local Councils should adhere to. It further stipulates that in the case where this specimen is not in conformity with International Financial Reporting Standards (IFRSs), the latter should prevail.

The Council's financial statements for the year under review have been prepared in accordance with the specimen referred to above but do not take into consideration all of the additional requirements that emerge from the applicable IFRSs. This contravenes the requirements of the Local Councils (Audit) Procedures, 2006.

4. Excluded from these financial statements are the budgeted figures for the year. This is not in accordance with the Local Councils (Financial) Procedures, 1996.

Local Council Lija

Financial Statements for the year ended 31 December 2011

Report of the Local Government auditor to the Auditor General (continued)

Qualified Opinion

Except for the effects of the matters described in paragraphs 1 and 2 above under basis qualified opinion paragraph, the financial statements give a true and fair view of the financial position of Lija Local Council as of 31 December 2011, and of the results of its operations, changes in net assets/equity and its cash flows for the period then ended in accordance with the accounting policies set out on pages 6 to 8.

Because of the matters set out in paragraphs 2 and 3 above, these financial statements do not comply fully with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 and because of the matter set out in paragraph 2 above these financial statements have not been prepared in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to the Council's Statement of Financial Position on page 3 which shows that at 31 December 2011 the Council's current liabilities exceeded current assets by € 40,854. The significance of this deficiency casts doubt as to whether the Council will be able to meet its liabilities as they fall due and the capital commitments amounting to € 80,000 which as explained in note 13 were contracted for at balance sheet date.



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30 April 2012