



LOCAL COUNCIL VALLETTA  
Report and Financial Statements  
for the year ended 31 December 2014



**VALLETTA LOCAL COUNCIL**  
**FINANCIAL STATEMENTS**  
For the year ended 31 December 2014

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## VALLETTA 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 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 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 Local Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the council on 6 September 2016 and signed on its behalf by:



**Prof. Alexiei Dingli**  
Mayor



**Gabriella Agius**  
Executive Secretary

## VALLETTA LOCAL COUNCIL

### STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes:	2014 €	2013 €
<b>Revenue</b>			
Funds received from the Central Government	3	707,245	723,743
Income Raised under Local Enforcement System	4	13,009	8,418
General Income	5	181,871	159,199
		<hr/>	<hr/>
		902,125	891,360
<b>Expenditure</b>			
Personnel Emoluments	6	(167,612)	(138,127)
Operations and maintenance	7	(543,516)	(560,182)
Administration and other expenditure	8	(356,511)	(409,161)
		<hr/>	<hr/>
		(1,067,639)	(1,107,470)
		<hr/>	<hr/>
Operating loss for the year		(165,514)	(216,110)
		<hr/>	<hr/>
Finance income		36	138
		<hr/>	<hr/>
<b>Loss for the year</b>		<b>€ (165,478)</b>	<b>€ (215,972)</b>
		<hr/>	<hr/>

## VALLETTA LOCAL COUNCIL

### STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 €	2013 €
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	1,297,699	1,381,090
Intangible assets	10	333	388
		<u>1,298,032</u>	<u>1,381,478</u>
<b>Current assets</b>			
Receivables	11	127,077	144,082
Cash and cash equivalents	12	534	26,573
		<u>127,611</u>	<u>170,655</u>
<b>Total assets</b>		<u>€ 1,425,643</u>	<u>€ 1,552,133</u>
<b>Reserves</b>			
Retained earnings		424,356	589,834
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income	13	157,709	165,484
<b>Current liabilities</b>			
Trade and other payables	13	843,578	796,815
<b>Total reserves and liabilities</b>		<u>€ 1,425,643</u>	<u>€ 1,552,133</u>

These financial statements were approved by the Local Council on 6 September 2016 and signed on its behalf by:

  
\_\_\_\_\_  
**Prof. Alexiei Dingli**  
Mayor

  
\_\_\_\_\_  
**Gabriella Agius**  
Executive Secretary

**VALLETTA LOCAL COUNCIL**

**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2014

	<b>RETAINED FUNDS</b>
	€
At 1 January 2012	835,703
Loss for the year	(29,897)
At 31 December 2012	<u>805,806</u>
At 1 January 2013	<u>805,806</u>
Loss for the year	(215,972)
At 31 December 2013	<u>589,834</u>
At 1 January 2014	<u>589,834</u>
Loss for the year	(165,478)
At 31 December 2014	<u>€ 424,356</u>

## VALLETTA LOCAL COUNCIL

### STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 €	2013 €
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss for the year	(165,478)	(215,972)
Depreciation	130,782	131,336
Amortisation	55	55
Movement in provision for doubtful debts	-	33,270
Interest receivable	(36)	(138)
	<hr/>	<hr/>
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>	(34,677)	(51,449)
Decrease in receivables	17,005	82,782
Increase in other payables	82,618	325,909
Government grant released	(95,682)	(88,153)
	<hr/>	<hr/>
Cash (used in) / generated from operating activities	(30,736)	269,089
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	36	138
Purchase of property, plant and equipment	(47,391)	(435,286)
Purchase of intangible asset	-	(224)
Receipt of grant	52,052	58,278
	<hr/>	<hr/>
<b>CASH GENERATED FROM / (USED IN) INVESTING ACTIVITIES</b>	4,697	(377,094)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(26,039)	(108,005)
Cash and equivalents at beginning of year	26,573	134,578
	<hr/>	<hr/>
Cash and equivalents at end of year	€ 534	€ 26,573
	<hr/>	<hr/>

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 1 GENERAL INFORMATION

The Valletta Local Council is the local authority of Malta set up in accordance with the Local Councils Act (1993). The office of the council is situated at 31, South Street, Valletta. These financial statements were approved for issue by the council members on 6 September 2016. The council's financial statements are presented in euro which is the functional currency of the council.

#### 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 are prepared under the historical cost convention except as disclosed below. These financial statements are prepared in accordance with the provisions of the Local Councils Act Cap. 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996 enacted in Malta and with the requirements of International Financial Reporting Standards as adopted by the European Union.

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).

##### (b) New and revised standards that are effective for annual periods beginning on or after 1 January 2014

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2014. Information on these new standards is presented below.

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.



## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

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 2015)**

The IASB aims to replace *IAS 39 Financial Instruments: Recognition and Measurement* in its entirety with IFRS9. 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 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues.

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 the standard has been adopted by the European Union.

##### **Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement systems may be considered equivalent to net settlement.

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

##### **Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)**

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively. The council members do not anticipate a material impact on the council's financial statements from these amendments.

##### **IFRS 11 - Joint Arrangements**

IFRS 11 classifies joint arrangements on the basis of their substance by focusing on the rights and obligations of the arrangement, rather than its legal form. Under IFRS 11, joint arrangements are classified as joint ventures or as joint operations. Joint ventures are accounted for using the equity method of consolidation since the use of proportionate consolidation for such arrangements has been eliminated. Joint operations are accounted for in a manner that is similar to the current accounting treatment applicable for jointly controlled assets and jointly controlled operations. The standard is effective for annual periods beginning on or after 1 January 2014.

##### **Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets**

These amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014.

The Amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. The council members do not anticipate a material impact on the council's financial statements from these amendments.

##### **(c) Intangible fixed assets**

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

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

##### (d) Property, plant and equipment

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

	%
Land	-
Trees	-
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 signs	replacement basis
Street mirrors	replacement basis
Street lights	100
Traffic signs	replacement basis

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.

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

##### (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 costs to sell and the value in use. Impairment losses are immediately recognised as an expense in the statement of comprehensive income.

##### (f) Operating leases

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

##### (g) 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 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.

##### (h) Related parties

Related parties are those persons or bodies of persons having relationships with the council as defined in IAS 24. See note 16 for a list of related parties with which the council carried out transactions during the year under review.

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

##### (i) Revenue

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. Interest income is recognised in the statement of comprehensive income as it accrues.

Income from Central Government is not recognised until there is a reasonable assurance that the council will comply with any conditions attached to it, and that the income will be received. The received income is to be recorded gross and any deductions made for non compliance are to be disclosed separately with expenses.

##### (j) LES income

LES income is accounted for in the statement of comprehensive income as it accrues.

##### (k) Government grants

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred Government grants and are credited to the statement of comprehensive income over the expected lives of the related assets.

##### (l) Profit and losses

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

##### (m) Cash and equivalents

In the statement of financial position and the statement of cash flows, cash and cash equivalents comprise cash in hand and at bank.

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (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 substantially all 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 a 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.

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

##### 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'.

##### (o) Capital management policies and procedures

The council's capital consists of its net assets, including working capital, represented by its retained funds. The council's management objectives are to ensure:

- that the council's ability to continue as a going concern is still valid and
- that the council maintains a positive working capital rate.

To achieve the above, the council carries out a quarterly review of the working capital ratio ("Financial Situation Indicator"). This ratio was negative at the reporting date and the council is working to improve the situation. The council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

##### (p) Significant judgements, estimates and assumptions

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).

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 3 FUNDS RECEIVED FROM CENTRAL GOVERNMENT

	2014	2013
	€	€
In terms of section 55 of the Local Council Act	677,497	678,395
Other Government income	-	9,015
Other supplementary Government Income	29,748	36,333
	<u>€ 707,245</u>	<u>€ 723,743</u>

#### 4 LOCAL ENFORCEMENT INCOME

	2014	2013
	€	€
Sentenced cases - accrued income	-	(1,596)
Administrative charges to regional committees	13,009	10,014
	<u>€ 13,009</u>	<u>€ 8,418</u>



## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 5 GENERAL INCOME

	2014	2013
	€	€
Community Services Income	-	3,348
Contributions	-	(4,260)
Creditors written back	-	360
CVA Income	18,501	25,817
Grant released - EU Youth Project	77,601	39,585
Grant released - Mattia Preti Square	6,238	10,997
Grant released - niches	1,430	672
Grant released - PPP Scheme	10,413	11,570
Income form European Walled Towns presidency	-	8,909
Income from permits	67,688	45,820
Other income	-	13,806
Sponsorship income	-	500
Tender Documents / Info Charges	-	2,075
	<u>€ 181,871</u>	<u>€ 159,199</u>

#### 6 PERSONNEL EMOLUMENTS

	2014	2013
	€	€
Mayor's Allowance	13,658	9,025
Councillors' allowance	6,800	3,430
Executive secretary salary and allowance	28,881	34,594
Employees' salaries	95,836	82,621
Social Security Contributions	22,437	8,457
	<u>€ 167,612</u>	<u>€ 138,127</u>

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 7 OPERATIONS AND MAINTENANCE

	2014	2013
	€	€
<b>Repairs and upkeep:</b>		
Road/ street pavements	6,765	28,947
Signs	5,786	7,547
Road Markings	3,317	4,066
Office Furniture and equipment	1,356	2,474
Plant and equipment	-	77
Sundry repairs	7,253	1,009
Council property	842	1,737
	<hr/>	<hr/>
	25,319	45,857
<b>Contractual Services:</b>		
Refuse Collection	193,320	163,734
Bulky Refuse Collection	14,700	14,470
Tipping fees	66,590	42,390
Road and street cleaning	211,749	243,803
Cleaning - public conveniences	-	13,055
Cleaning - council premises	1,520	2,296
Cleaning and maintenance - parks & gardens	30,318	32,486
Local Enforcement expenses	-	2,091
	<hr/>	<hr/>
	518,197	514,325
Total operations and maintenance costs	<hr/>	<hr/>
	€ 543,516	€ 560,182
	<hr/>	<hr/>

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 8 ADMINISTRATION AND OTHER EXPENDITURE

	2014	2013
	€	€
Amortisation	55	55
Amounts written off (note)	-	23
Bank charges	1,377	1,096
Community Services	2,345	6,991
Consumables	467	-
Cultural Events	38,287	30,138
Depreciation	130,783	131,336
EU Youth Project	50,523	39,585
Increase in provision for bad debts	198	33,270
Information Services	3,324	12,285
Insurance coverage	2,420	4,720
Leasing of equipment	2,037	1,538
Library costs	940	-
Maintenance of vehicle	-	2,158
Office services	13,901	13,539
Other hospitality costs	5,712	5,015
Other repairs and upkeep	1,845	1,070
Participation fees - International Meeting	300	1,562
Participation fees - National meeting	92	463
Professional services	39,879	55,385
Rent	3,766	6,258
Science in the city	-	850
Security services	1,746	-
Social Events	11,060	14,348
Subcontracting costs	5,407	-
Sundry expenses	2,268	391
Subscriptions	97	-
Summons expenses	278	-
Traffic Management	773	-
Training	3,700	59
Transport	224	1,684
Travel	11,701	22,814
Utilities	21,006	22,528
	<u>€ 356,511</u>	<u>€ 409,161</u>

VALLETTA LOCAL COUNCIL

NOTES TO THE MANAGEMENT ACCOUNTS

For the year ended 31 December 2014

9. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicle €	Assets under Construction €	New Street Signs €	Urban Improvements €	Plant & Machinery €	Office Furniture €	Special Programmes €	Total €
<u>Cost</u>								
As at 01/01/14	8,000	132,607	8,900	1,790,967	44,860	40,937	194,601	2,220,872
Additions	-	7,763	-	34,896	2,298	2,434	-	47,391
As at 31/12/14	€ 8,000	€ 140,370	€ 8,900	€ 1,825,863	€ 47,158	€ 43,371	€ 194,601	€ 2,268,263
<u>Depreciation</u>								
As at 01/01/14	2,283	-	8,900	587,913	27,145	18,940	194,601	839,782
Charge for the year	1,143	-	-	123,804	4,003	1,832	-	130,782
As at 31/12/14	€ 3,426	€ -	€ 8,900	€ 711,717	€ 31,148	€ 20,772	€ 194,601	€ 970,564
<u>Net Book Value</u>								
As at 31/12/14	€ 4,574	€ 140,370	€ -	€ 1,114,146	€ 16,010	€ 22,599	€ -	€ 1,297,699
As at 31/12/13	€ 5,717	€ 132,607	€ -	€ 1,203,054	€ 17,715	€ 21,997	€ -	€ 1,381,090

VALLETTA LOCAL COUNCIL

NOTES TO THE MANAGEMENT ACCOUNTS

For the year ended 31 December 2014

9. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles €	Assets under construction €	New street signs €	Urban Improvements €	Plant & Machinery €	Office Furniture €	Special Programmes €	Total €
<u>Cost</u>								
As at 01/01/13	8,000	140,411	8,900	1,350,167	43,059	40,448	194,601	1,785,586
Additions	-	85,658	-	347,338	1,801	489	-	435,286
Reclassification	-	(93,462)	-	93,462	-	-	-	-
As at 31/12/13	€ 8,000	€ 132,607	€ 8,900	€ 1,790,967	€ 44,860	€ 40,937	€ 194,601	€ 2,220,872
<u>Depreciation</u>								
As at 01/01/13	1,006	-	8,900	463,407	23,285	17,247	194,601	708,446
Charge for the year	1,277	-	-	124,506	3,860	1,693	-	131,336
As at 31/12/13	€ 2,283	€ -	€ 8,900	€ 587,913	€ 27,145	€ 18,940	€ 194,601	€ 839,782
<u>Net Book Value</u>								
As at 31/12/13	€ 5,717	€ 132,607	€ -	€ 1,203,054	€ 17,715	€ 21,997	€ -	€ 1,381,090
As at 31/12/12	€ 8,000	€ 140,411	€ 8,900	€ 1,350,167	€ 43,059	€ 40,448	€ 194,601	€ 1,785,586

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

10 INTANGIBLE FIXED ASSET

	Computer Software €
<u>Cost</u>	
As at 01/01/14	2,822
Additions	-
As at 31/12/14	<u>€ 2,822</u>
<u>Depreciation</u>	
As at 01/01/14	2,434
Charge for the year	55
As at 31/12/14	<u>€ 2,489</u>
<u>Net Book Value</u>	
As at 31/12/14	<u>€ 333</u>
As at 31/12/13	<u>€ 388</u>

11 RECEIVABLES

	2014 €	2013 €
Receivables	57,114	26,675
LES Debtors	-	7,346
Other receivables	15,159	15,159
Advance payments to creditors	-	9,446
Prepayments and accrued income	54,804	85,456
	<u>€ 127,077</u>	<u>€ 144,082</u>

The carrying value of short-term receivables is considered a reasonable approximation of fair value.

In determining the recoverability of receivables the council considers any change in the credit quality of each receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the debtor base being large and unrelated.

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 11 RECEIVABLES (continued)

Included in receivables are debtors with a carrying amount of € 57,114 (2013: € 21,986) which are past due at the reporting date for which the council has not provided as there has not been significant change in credit quality and the amounts are still considered recoverable. The age of financial assets past due but not impaired is as follows:

	2014 €	2013 €
Not more than 3 months	-	2,051
More than 3 months but not more than 6 months	-	1,727
More than 6 months	57,114	18,208
	<u>€ 57,114</u>	<u>€ 21,986</u>

The movement in the provision for doubtful debts is as follows:

	2014 €	2013 €
Balance at 1 January	448,876	415,606
Increase in provision for LES debtors	-	33,270
Balance at 31 December	<u>€ 448,876</u>	<u>€ 448,876</u>

#### 12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	2014 €	2013 €
Bank balances	534	26,530
Cash in hand	-	43
	<u>€ 534</u>	<u>€ 26,573</u>

The council did not have any restrictions on its cash balances at year end.

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

13 PAYABLES

	2014 €	2013 €
Payables	638,587	561,187
Accruals	147,067	156,468
Deferred income	177,622	221,252
Other creditors	38,011	23,392
	<u>€ 1,001,287</u>	<u>€ 962,299</u>
<u>Comprising:</u>		
Long term payables		
Deferred income	157,709	165,484
Payables - current	843,578	796,815
	<u>€ 1,001,287</u>	<u>€ 962,299</u>

The movement in deferred income is as follows:

	2014 €	2013 €
Balance at 1 January	221,252	251,127
Received during the year	52,052	58,278
Released to income	(95,682)	(88,153)
At 31 December	<u>177,622</u>	<u>€ 221,252</u>
Deferred income		
Current deferred income	€ 19,913	€ 55,768
Non-current deferred income	<u>€ 157,709</u>	<u>€ 165,484</u>

Financial liabilities are carried at their nominal value which is considered a reasonable approximation of fair value.



**VALLETTA LOCAL COUNCIL**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2014

**14 CAPITAL COMMITMENTS**

	2014	2013
	€	€
Details of capital commitments at the reporting date are as follows:		
Contracted for	-	3,000
	<u>€ -</u>	<u>€ 3,000</u>
(i) Contracted for: Mattia Preti bust	-	3,000
	<u>€ -</u>	<u>€ 3,000</u>
(ii) Approved but not yet contracted for:	<u>€ -</u>	<u>€ -</u>

**15 CONTINGENT LIABILITIES**

	2014	2013
	€	€
Guarantees in favour of third parties	1,600	1,600
Garnishee order	-	38,998
Claims by suppliers	42,100	176,582
	<u>€ 43,700</u>	<u>€ 217,180</u>

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 16 RELATED PARTY TRANSACTIONS

During the year under review, the council carried out transactions with the following related parties:

<b>Name of entity</b>	<b>Nature of relationship</b>
Department of Local Councils	Significant control
Central Joint Committee (Local Enforcement)	Joint control
South Eastern Regional Committee	Joint control
Gozo Regional Committee	No control
North Regional Committee	No control
Southern Regional Committee	No control
Central Regional Committee	No control
Police General Head Quarters	No control
Local Councils Association	No control
Malta Environment and Planning Authority	No control
Water Services Corporation	No control
Enemalta Corporation	No control
Cleansing Services Department	No control
Ministry for the Family and Social Solidarity	No control
Malta Communications Authority	No control
Malta Council for Culture and Arts	No control
Department of Lands	No control
Bank of Valletta plc	No control
Wasteserv Malta Limited	No control
Transport Malta	No control
The Commissioner for Inland Revenue	No control
Malta Information Technology Agency	No control
ARMS Limited	No control

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

	2014	2013
	€	€
Annual financial allocation	€ 677,497	€ 678,395

The ultimate controlling party 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.

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 17 RISK MANAGEMENT OBJECTIVES AND POLICIES

The council is exposed 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 flows by minimising the exposure to financial risks.

The most significant financial risks to which the council is exposed are described below. See also note 17.3 for a summary of the council's financial assets and liabilities by category.

##### 17.1 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:

	Notes	2014 €	2013 €
Classes of financial assets – carrying amounts			
Trade and other receivables	11	127,077	129,077
Cash and cash equivalents	12	534	26,573
		<u>€ 127,611</u>	<u>€ 155,650</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 only with 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 note 11 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.

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 17 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### 17.2 LIQUIDITY RISK

The council's exposure to liquidity risk arises from its obligations to meet its financial liabilities, which comprise payables (see note 13). Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities to ensure the availability of an adequate amount of funding to meet the council's obligations when they become due.

The council manages 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 risk is not deemed to be significant in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments, as well as the council's committed borrowing facilities that it can access to meet liquidity needs.

At 31 December 2014 the council's financial liabilities have contractual maturities which are summarised below:

##### Current within 1 year:

	2014 €	2013 €
Payables	676,598	561,187
Accruals	147,067	156,468
	<u>€ 823,665</u>	<u>€ 717,655</u>

##### 17.3 SUMMARY OF 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:

	2014 €	2013 €
<b>Current assets</b>		
Loans and receivables:		
Trade and other receivables	127,077	129,077
Cash and cash equivalents	534	26,573
	<u>€ 127,611</u>	<u>€ 155,650</u>

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

#### 17.3 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

	2014	2013
	€	€
<b>Current liabilities</b>		
Financial liabilities measured at amortised cost:		
Payables	676,598	561,187
Accruals	147,067	156,468
	<u>€ 823,665</u>	<u>€ 717,655</u>

#### 18 FAIR VALUES ESTIMATION

The nominal values less estimated credit adjustments of receivables and payables are assumed to approximate their fair values, otherwise, these have been adjusted to approximate their fair values.

#### 19 GOING CONCERN

The statement of financial position on page 5 and the notes thereto, with special reference to capital commitments, suggest that the going concern assumption used in the preparation of these financial statements is dependent on further sources of funds other than the annual financial allocation by Central Government, on the collection of debts due to the Council and on the continued support of the Council's creditors. Any adverse change in either of these assumptions above, would not let the Council able to meet its financial obligations as they fall due without curtailing its future commitments.

## LOCAL COUNCIL VALLETTA

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

We have audited the accompanying financial statements of LOCAL COUNCIL VALLETTA, which comprise the statement of financial position on page 5 as of 31<sup>st</sup> December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### ***Council's Responsibility for the Financial Statements***

The Council Members and Executive Secretary are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit in accordance with International Standards on Auditing. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

#### ***Basis for Disclaimer of Opinion***

In the statement of comprehensive income for the year ended 2014, the Council recognized €18,501 as income from the CVA system, €10,413 being deferred income released in relation to the grant from the PPP scheme and €6,238 being deferred income released in relation to the grant received in relation to the Mattia Preti Square project. The information and evidence provided by the Council with respect to these items of income was not sufficient for us to obtain reasonable assurance on the amounts being recorded.

The annual government income as reported by the Council amounted to less than the allocation letter issued by the Department of Local Councils by € 19,399 which difference was not supported by the Council with proper documentary evidence to provide us with reasonable assurance that funds received from central government are not understated by the said amount.

The Council does not maintain a fixed asset register to record fixed assets acquired by it. Furthermore during the year under review, the Council failed to recognize capital expenditure of €575,333 for Peacock Garden refurbishment in contravention of the requirements of IAS 16- Plant, Property and Equipment. The Committee has also failed to provide for its depreciation in line with its accounting policy. Due to this reason, we could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the fixed assets (including assets under construction) recorded in the financial statements, having a net book value of €1,297, 699 as well as on the completeness of the depreciation charged thereupon.

As at 31<sup>st</sup> December 2014, the Council has recognised LES amounts due from other Local Councils of €6,753, an amount due from Local Councils' Association of €7,923, other receivables of €26,215 and accrued income of €18,501 with respect to CVA fees receivable for 2014. The information and evidence provided by the Council with respect to these receivables was not sufficient for us to obtain reasonable assurance on the amounts being recorded.

Throughout our testing of the trade payables and accruals of the Council, which amount to €638,587 and €147,067 respectively, we encountered a significant number of misstatements arising out of the lack of proper accounting and recording of payables, including accruals. Moreover, a negative cash balance of € 44,293 was reallocated against trade payables during the year under review. Whilst this and other misstatements noted lead us to the opinion that these constitute a material misstatement of the liabilities of the Council as at year end, there were no practicable procedures to determine the exact amount of misstatement within the liabilities recognized by the Council.

The Council received a number of government grants in previous years in respect of capital projects. However a grant of €489,033 received from the 'European Regional Development Fund' for Peacock Garden refurbishment was not accounted by the Council in the financial statements. Consequently deferred income has been understated by the said amount.

IFRS require that all applicable standards and their disclosure requirements are adhered to. These financial statements lack appropriate disclosure in respect to new and revised standards as per the requirements of IAS 1- Presentation of Financial Statements and disclosure requirements arising from IAS 24- Related Party Disclosures, Parties in view that note 16 to the financial statements does not reflect the requirement of articles 18, 25 and 26 of the said standard. Moreover the disclosures, recognition and measurement in relation to the amounts due under the PPP scheme are not in accordance with the requirements of IAS 39- Financial Instruments: Recognition & Measurement.

#### ***Disclaimer of Opinion***

Because of the significance of the matters referred to in the preceding paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion whether the financial statements give a true and fair view of the financial position of Local Council Valletta as at 31<sup>st</sup> December, 2014, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards. Accordingly, we do not express an opinion on the financial statements.

#### ***Emphasis of Matter***

As of 31 December 2014, the Council's statement of financial position shows a net current liability position of €715,967, when the Council should maintain a positive working capital balance as required by the Local Councils Procedures. The financial statements in their entirety and as noted in Note 19 to the Financial Statements further suggest that the going concern assumption used in the preparation of these financial statements is dependent on further sources of funds other than the annual financial allocation received by Central Government; on the collection of debts due to the Council and on the continued support of the Council's creditors. Any adverse change in either of these assumptions would not allow the Council to be able to meet its financial obligations as they fall due without curtailing its future commitments.

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

These financial statements do not comply fully with the Local Council (Financial) Procedures, 1996.

According to the Financial Procedures supplementing the Financial Regulations issued in terms with the Local Councils Act 1993, the financial statements should include the budget for the year. In line with Local Councils' generally accepted reporting procedures, the budget has been excluded from these financial statements.

The Local Council (Financial) Procedures, 1996, require that the financial statements should be prepared in accordance with the International Financial Reporting Standards. These financial statements have not been prepared in line with the requirements of International Financial Reporting Standards.

According to memo 37/2002, Legal Notices 323 and 324 of 2002, the Council should have a net current asset value (as adjusted in line with the guidelines) of not less than 10% of the annual financial allocation. As of 31 December 2014, the Council's minimum net current asset value (after certain adjustments) should have amounted to at least €67,750 being 10% of the annual allocation. Nonetheless, the actual financial indicator at 31<sup>st</sup> December 2014 stood at a negative 100.54%.



This copy of the report has been signed by  
Neville Cutajar (Partner) on its behalf

**3a**

Certified Public Accountants

Level 2

Palazzo Ca' Brugnera

Valley Road

Birkirkara BKR9024

Malta

**Date 6<sup>th</sup> September 2016**