



LOCAL COUNCIL VALLETTA  
Report and Financial Statements  
for the year ended 31 December 2017



**VALLETTA LOCAL COUNCIL**  
**FINANCIAL STATEMENTS**  
For the year ended 31 December 2017

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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 3<sup>rd</sup> December 2018 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 2017

	Notes:	2017 €	2016 €
<b>Revenue</b>			
Funds received from the Central Government	3	926,294	850,357
Income Raised under Local Enforcement System	4	23,670	17,453
General Income	5	364,855	266,914
		<u>1,314,819</u>	<u>1,134,724</u>
<b>Expenditure</b>			
Personnel Emoluments	6	(188,888)	(160,771)
Operations and maintenance	7	(751,621)	(652,618)
Administration and other expenditure	8	(482,779)	(393,959)
		<u>(1,423,288)</u>	<u>(1,207,348)</u>
Operating (loss) for the year		<u>(108,469)</u>	<u>(72,624)</u>
Finance income		26	-
<b>(Loss) for the year</b>		<u>€ (108,443)</u>	<u>€ (72,624)</u>

## VALLETTA LOCAL COUNCIL

### STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 €	2016 €
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	1,600,029	1,764,182
Intangible assets	10	27,770	26,460
		<u>1,627,799</u>	<u>1,790,642</u>
<b>Current assets</b>			
Receivables	11	124,244	136,114
Cash and cash equivalents	12	44,456	153,390
		<u>168,700</u>	<u>289,504</u>
<b>Total assets</b>		<u>€ 1,796,499</u>	<u>€ 2,080,146</u>
<b>Reserves</b>			
Retained earnings		257,898	366,341
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income	13	819,412	897,552
<b>Current liabilities</b>			
Trade and other payables	13	719,189	816,253
<b>Total reserves and liabilities</b>		<u>€ 1,796,499</u>	<u>€ 2,080,146</u>

These financial statements were approved by the Local Council on 22 February 2018 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 2017

	Retained Funds 2016 €
At 1 January 2016	438,965
Defecit for the year	(72,624)
At 31 December 2016	<u>€ 366,341</u>
At 1 January 2017	366,341
Defecit for the year	(108,443)
At 31 December 2017	<u>€ 257,898</u>

## VALLETTA LOCAL COUNCIL

### STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 €	2016 €
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss for the year	(108,443)	(72,624)
Depreciation	170,094	187,004
Amortisation	313	103
	<hr/>	<hr/>
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>	61,964	114,483
Decrease/ (increase) in receivables	9,632	(52,679)
Decrease in other payables	(119,411)	(16,400)
Government grant released	(68,944)	(75,098)
	<hr/>	<hr/>
Cash (used in)/ generated from operating activities	(116,759)	(29,694)
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(5,941)	(62,519)
Purchase of intangible assets	(1,593)	(26,000)
Receipt of grant	-	252,049
	<hr/>	<hr/>
Cash (used in)/ generated from investing activities	(7,534)	163,530
	<hr/>	<hr/>
Net movement in cash and cash equivalents	(124,293)	133,836
Cash and equivalents at beginning of year	153,390	19,554
	<hr/>	<hr/>
Cash and equivalents at end of year	€ 29,097	€ 153,390
	<hr/>	<hr/>

## **VALLETTA LOCAL COUNCIL**

### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

#### **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 3<sup>rd</sup> December 2018. 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) Standards, amendments and interpretations to existing standards**

###### **New and amended standards adopted by the council**

Information on new standards, amendments and interpretations that are relevant to the Council's financial statements is provided below. Certain other new standards and interpretations not listed below have been issued but are not relevant and therefore are not expected to have any impact on the council's financial statements.



## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

#### **(b) Standards, amendments and interpretations to existing standards - continued**

##### **New standards and amendments not yet effective and not yet adopted by the Local Council**

The following standards and amendments to existing standards have been published and are mandatory (as applicable) for the Council accounting periods beginning on or after 1 January 2016 or later periods, but the Council has not early adopted them:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The Council is yet to address the full impact of IFRS 9 and intends to adopt IFRS 9 subject to endorsement by the EU, no later than the accounting period beginning on or after 1 January 2018.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS18 "Revenue: and IAS11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted, subject to endorsement by the EU. The Council is assessing the impact of IFRS 15.

IFRS 16 presents new requirements for the recognition of leases replacing IAS 17 'Leases, and some lease-related Interpretations. The new standard requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value leases. The standard also provides new guidelines on the application of the definition of lease and on sale and lease back accounting. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The council has started to assess the impact of IFRS 16 but is not yet in a position to provide quantified information.

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

#### **(b) Standards, amendments and interpretations to existing standards - continued**

The Councillors and Executive Secretary are assessing the impact that the adoption of these International Financial Reporting Standards will have on the financial statements in the period of initial application. The Council anticipates that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements in the period of initial application.

#### **(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.

#### **(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

## **VALLETTA LOCAL COUNCIL**

### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

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

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

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.

### **(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.

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

##### (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.

##### (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.

## **VALLETTA LOCAL COUNCIL**

### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

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

##### **(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 cash equivalents**

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

##### **(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.

## **VALLETTA LOCAL COUNCIL**

### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

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

### **(n) Financial instruments (continued)**

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.

### **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.

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

##### 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).**

#### 3 FUNDS RECEIVED FROM CENTRAL GOVERNMENT

	2017	2016
	€	€
In terms of section 55 of the Local Council Act	822,931	721,380
Other supplementary Government Income	103,363	128,977
	<u>€ 926,294</u>	<u>€ 850,357</u>

#### 4 LOCAL ENFORCEMENT INCOME

	2017	2016
Administrative charges to regional committees	<u>€ 23,670</u>	<u>€ 17,453</u>

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

#### 5 GENERAL INCOME

	2017	2016
	€	€
CVA Income	27,000	27,000
Grant released - Mattia Preti Square	4,367	4,828
Grant released - niches	1,001	1,107
Grant released - PPP Scheme	7,288	6,933
Grant released – Peacock Garden	55,502	61,361
Grant released – City Lights	786	869
Income from permits	157,244	158,934
Income from hire of premises	-	4,140
Reimbushments of travelling expenses	5,186	1,432
Miscellaneous income	2,570	57,354
Income from Conferences	103,911	-
	<u>€ 364,855</u>	<u>€ 266,914</u>

#### 6 PERSONNEL EMOLUMENTS

	2017	2016
	€	€
Mayor's Allowance	12,678	12,571
Councillors' allowance	7,200	7,200
Executive secretary salary and allowance	31,845	30,342
Employees' salaries	124,496	95,091
Social Security Contributions	12,669	9,605
Additional NI for late payments	-	5,962
	<u>€ 188,888</u>	<u>€ 160,771</u>
Average number of employees	<u>9</u>	<u>8</u>



## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

#### 7 OPERATIONS AND MAINTENANCE

	2017	2016
	€	€
<b>Repairs and upkeep:</b>		
Road/ street pavements	1,538	5,924
Signs	4,567	7,008
Road Markings	4,289	1,904
Council property	470	327
Urban Green project	22,898	-
	<hr/>	<hr/>
	33,762	15,163
	<hr/>	<hr/>
<b>Contractual Services:</b>		
Refuse Collection	312,108	165,598
Bulky Refuse Collection	18,410	17,415
Tipping fees	104,786	95,728
Road and street cleaning	235,332	324,139
Cleaning – council premises	3,326	2,553
Cleaning and maintenance - parks & gardens	43,897	32,022
	<hr/>	<hr/>
	717,859	637,455
	<hr/>	<hr/>
Total operations and maintenance costs	€ 751,621	€ 652,618
	<hr/>	<hr/>

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

#### 8 ADMINISTRATION AND OTHER EXPENDITURE

	2017	2016
	€	€
Amortisation	313	103
Bank interest and charges	992	2,045
City lights	3,886	-
Conference expenses	94,898	-
Consumables	461	124
Cultural Events	20,664	17,160
Depreciation	170,094	187,004
Donations	200	675
Hire of equipment	2,186	8,729
Increase/ (decrease) in bad debts provision	2,208	(397)
Information Services	11,180	3,762
Insurance coverage	10,983	415
Maintenance of vehicle	-	1,790
Office services	13,967	11,559
Other hospitality costs	4,375	8,293
Materials and supplies	15,820	4,575
Permits		719
Professional services	64,786	58,566
Rent	12,472	9,230
Social events	7,967	20,142
Sundry expenses	1,943	2,547
Subscriptions	3,956	2,950
Training	-	5,256
Transport	9,924	-
Travel	7,137	12,700
Utilities	21,147	36,012
Uniforms	1,220	-
	<u>€ 482,779</u>	<u>€ 393,959</u>

**VALLETTA LOCAL COUNCIL**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**9 TANGIBLE FIXED ASSET**

	Motor Vehicle	Assets under construction	New Street Signs	Urban Improvements	Plant & Machinery	Office Furniture	Special Programmes	Total
	€	€	€	€	€	€	€	€
<u>Cost</u>								
As at 01/01/17	8,000	2,815	8,900	2,730,317	51,661	45,672	194,601	3,041,966
Additions	-	-	-	-	5,082	859	-	5,941
As at 31/12/17	8,000	2,815	8,900	2,730,317	56,743	46,531	194,601	3,047,907
<u>Depreciation</u>								
As at 01/01/17	4,944	-	8,900	1,008,096	37,167	24,076	194,601	1,277,784
Charge for the year	558	-	-	164,544	3,378	1,614	-	170,094
As at 31/12/17	5,502	-	8,900	1,172,640	40,545	25,690	194,601	1,447,878
<u>Net Book Value</u>								
As at 31/12/17	€ 2,498	€ 2,815	€ -	€ 1,557,677	€ 16,198	€ 20,841	€ -	€ 1,600,029
As at 31/12/16	€ 3,056	€ 2,815	€ -	€ 1,722,221	€ 14,494	€ 21,596	€ -	€ 1,764,182

**VALLETTA LOCAL COUNCIL**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2017

**9 TANGIBLE FIXED ASSET**

	Motor Vehicle	Assets under construction	New Street Signs	Urban Improvements	Plant & Machinery	Office Furniture	Special Programmes	Total
	€	€	€	€	€	€	€	€
<u>Cost</u>								
As at 01/01/16	8,000	763,559	8,900	1,911,994	48,086	44,307	194,601	2,979,447
Reclassification	-	(760,744)	-	760,744	-	-	-	-
Additions	-	-	-	57,579	3,575	1,365	-	62,519
As at 31/12/16	8,000	2,815	8,900	2,730,317	51,661	45,672	194,601	3,041,966
<u>Depreciation</u>								
As at 01/01/16	4,261	-	8,900	826,335	34,220	22,463	194,601	1,090,780
Charge for the year	683	-	-	181,761	2,947	1,613	-	187,004
As at 31/12/16	4,944	-	8,900	1,008,096	37,167	24,076	194,601	1,277,784
<u>Net Book Value</u>								
As at 31/12/16	€ 3,056	€ 2,815	€ -	€ 1,722,221	€ 14,494	€ 21,596	€ -	€ 1,764,182
As at 31/12/15	€ 3,739	€ 763,559	€ -	€ 1,085,659	€ 13,866	€ 21,844	€ -	€ 1,888,667

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

#### 10 INTANGIBLE FIXED ASSET

	Assets under Construction	Computer software	Total €
<u>Cost</u>			
As at 01/01/17	26,000	3,144	29,144
Additions	-	1,593	1,593
As at 31/12/17	<u>€ 26,000</u>	<u>€ 4,737</u>	<u>€ 30,737</u>
<u>Depreciation</u>			
As at 01/01/17	-	2,654	2,654
Charge for the year	-	313	313
As at 31/12/17	<u>€ -</u>	<u>€ 2,967</u>	<u>€ 2,967</u>
<u>Net Book Value</u>			
As at 31/12/17	<u>€ 26,000</u>	<u>€ 1,770</u>	<u>€ 27,770</u>
As at 31/12/16	<u>€ 26,000</u>	<u>€ 490</u>	<u>€ 26,490</u>

#### 11 RECEIVABLES

	2017 €	2016 €
Receivables	26,075	43,766
Prepayments and accrued income	98,169	92,348
	<u>€ 124,244</u>	<u>€ 136,114</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 2017

#### 11 RECEIVABLES (continued)

Included in receivables are debtors with a carrying amount of € 21,773 (2016: € 30,703) 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:

	2017 €	2016 €
Not more than 3 months	-	5,444
More than 3 months but not more than 6 months	-	-
More than 6 months	21,773	25,263
	<u>€ 21,773</u>	<u>€ 30,707</u>

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

	2017 €	2016 €
Balance at 1 January	443,534	443,534
Increase in provision for LES debtors	2,509	-
Balance at 31 December	<u>€ 446,043</u>	<u>€ 443,534</u>

#### 12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	2017 €	2016 €
Bank balances	44,456	153,390
Bank balances overdrawn	(15,359)	-
	<u>29,097</u>	<u>153,390</u>
Transfer to current liabilities	15,359	-
	<u>€ 44,456</u>	<u>€ 153,390</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 2017

#### 13 PAYABLES

	2017	2016
	€	€
<b>CURRENT PAYABLES</b>		
Payables	514,192	564,788
Accruals	65,082	118,965
National insurance contributions	38,118	55,258
Bank balances overdrawn	15,359	-
Financial liabilities	<u>632,751</u>	<u>739,011</u>
Deferred income - current	86,438	77,242
Total current payables	<u>€ 719,189</u>	<u>€ 816,253</u>
<b>NON-CURRENT PAYABLES</b>		
Deferred income	905,850	974,794
Less: Current portion	(86,438)	(77,242)
	<u>€ 819,412</u>	<u>€ 897,552</u>

#### LONG TERM PAYABLES

The movement in deferred income is as follows:

	2017	2016
	€	€
Balance at 1 January	974,794	797,843
Received during the year	-	252,049
Released to income	(68,944)	(75,098)
At 31 December	<u>905,850</u>	<u>974,794</u>
Deferred income		
Current deferred income	86,438	€ 77,242
Non-current deferred income		
Between one and two years	78,180	85,646
Between three and five years	192,515	210,897
After more than five years	548,717	610,009
	<u>€ 819,412</u>	<u>€ 897,552</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 2017

#### 14 CAPITAL COMMITMENTS

There are no capital commitments as at 31 December 2017 and 31 December 2016.

#### 15 CONTINGENT LIABILITIES

	2017 €	2016 €
Guarantees in favour of third parties	1,600	1,600
Claims by third parties	49,510	49,200
	<u>€ 51,110</u>	<u>€ 50,800</u>



## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

#### 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
LESA	No control
Air Malta plc	No control
Malta Communications Authority	No control
Department of Lands	No control
Civil Protection	No control
Bank of Valletta plc	No control
Maltapost	No control
Qrati tal-Gustizzja	No control
Environmental Landscape Consortium	No control
Wasteserv Malta Limited	No control
Transport Malta	No control
The Commissioner for Inland Revenue	No control
ARMS Limited	No control
Government Property Division	No control

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

	2017	2016
	€	€
Annual financial allocation	€ 822,931	€ 721,380

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

#### 16 RELATED PARTY TRANSACTIONS (continued)

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.

#### 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	2017 €	2016 €
Classes of financial assets – carrying amounts			
Trade and other receivables	11	124,244	136,114
Cash and cash equivalents	12	44,456	153,390
		<u>€ 168,700</u>	<u>€ 289,504</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.

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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.

#### 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 2017 the council's financial liabilities have contractual maturities which are summarised below:

#### Current within 1 year:

	2017	2016
	€	€
Payables	514,192	564,788
Accruals	65,082	118,965
National insurance outstanding	38,118	55,258
Bank balances overdrawn	15,359	-
	<u>€ 632,751</u>	<u>€ 739,011</u>

## VALLETTA LOCAL COUNCIL

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

#### 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:

	2017 €	2016 €
<b>Current assets</b>		
Loans and receivables:		
Trade and other receivables	124,244	136,114
Cash and cash equivalents	44,456	153,390
	<u>€ 168,700</u>	<u>€ 289,504</u>
	2017 €	2016 €
<b>Current liabilities</b>		
Financial liabilities measured at amortised cost:		
Payables	514,192	564,788
Accruals	65,082	118,965
National insurance contributions	38,118	55,258
Bank balance overdawn	15,359	-
	<u>€ 632,751</u>	<u>€ 739,011</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 3 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 4 as of 31<sup>st</sup> December 2017, 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.

#### **Disclaimer of Opinion**

We do not express an opinion on the accompanying financial statements of the Local Council Valletta. Because of the significance of the matters referred to in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion whether these financial statements give a true and fair view of the financial position of the Local Council Valletta as of 31<sup>st</sup> December 2017 and of its financial performance and its cash flows for the period then ended.

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

The Council does not maintain a fixed asset register to record fixed assets acquired by it. Furthermore, the recognition of tangible fixed assets and calculation of depreciation is not being undertaken in line with the stipulated accounting policy as disclosed in note 2(d) to these financial statements. Due to these reasons, we could not perform practical satisfactory audit procedures to obtain reasonable assurance on the existence and completeness of the balance of tangible fixed assets recorded in the financial statements, having a net book value of €1,600,029 as well as on the completeness of the depreciation charged thereupon.

Throughout our testing of the receivables of the Council, which amount to € 26,075, we encountered a significant number of misstatements arising out of the lack of proper accounting and reconciliation of receivables. For example, invoices issued to Transport Malta and CVA during year under review which related to the previous year, and whereby these were correctly accounted for as accrued income in 2016, were not accounted for in the respective supplier accounts during year under review, thereby understating the amounts due by these suppliers. Whilst this and other misstatements noted lead us to the opinion that these constitute a material misstatement of the receivables of the Council as at year end, there were no practicable procedures to determine the exact amount of misstatement within the trade receivables recognized by the Council.

As at 31<sup>st</sup> December 2017, the Council has recognised LES amounts due from other Local Councils of € 6,753. The information and evidence provided by the Council with respect to this receivable was not sufficient for us to obtain reasonable assurance on the amount being recorded.

Whilst testing cash and bank balances, which amount to €29,097 (asset of €44,456 and liability of €15,359), we identified variances between balances as per bank statements and that as per reconciliations. Furthermore, no list of un-presented cheques was provided whereby these amounted to €31,547, and some of the reconciliations provided were not done by means of the accounting software. There is also an account having a balance of €6,152 named as 'Garnishee Orders', for which no information was provided. The information and evidence provided by the Council with respect to bank balances as at 31 December 2017 was not sufficient for us to obtain reasonable assurance on the amount being recorded.

Throughout our testing of the trade payables and accruals of the Council, which amount to €514,192 and €65,082 respectively, we encountered a significant number of misstatements arising out of the lack of proper accounting and recording of payables, including accruals. For example, adjustment passed by the Council of €89,596 in 2016 with respect to V & C Contractors against 'Mispostings account', resulting in an overstatement of this payable by €66,319 as at 31 December 2017. 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.

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, in view that note 15 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.

### **Material Uncertainty Related to Going Concern**

We draw attention to Note 19 in the financial statements-Going Concern which indicates that, as of 31<sup>st</sup> December 2017, the Council's net current liability position amounted to € 552,300. 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.

### **Other Information**

The Council is responsible for the other information. The other information comprises the Statement of Local Council Members' and Executive Secretary's Responsibilities. Our opinion on the financial statements does not cover this information, including the Statement of Local Council Members' and Executive Secretary's Responsibilities. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We have nothing to report in this regard.

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

The Council Members and the Executive Secretary are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU 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.

In preparing the financial statements, the management are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intend to cease operations, or has no realistic alternative but to do so.

### ***Auditors' Responsibility for the Audit of the Financial Statements***

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


We are independent of the Council in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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

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 fully prepared in line with the requirements of International Financial Reporting Standards.

According to Memo 37/2002 and 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 2017, the Council's minimum net current asset value (after certain adjustments) should have amounted to at least €82,293 being 10% of the annual allocation. Nonetheless, the actual financial indicator at 31<sup>st</sup> December 2017 stood at a negative 56%.



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

**3a**  
Certified Public Accountants  
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Birkirkara BKR9024  
Malta

**Date 3<sup>rd</sup> December 2018**