



LOCAL COUNCIL VALLETTA
Report and Financial Statements
for the year ended 31 December 2018

VALLETTA LOCAL COUNCIL
FINANCIAL STATEMENTS
For the year ended 31 December 2018

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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 13 May 2019 and signed on its behalf by:



Christian Micallef
Mayor



Gabriella Agius
Executive Secretary

VALLETTA LOCAL COUNCIL

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes:	2018 €	2017 €
Revenue			
Funds received from the Central Government	3	1,162,622	926,294
Income Raised under Local Enforcement System	4	12,741	23,670
General Income	5	154,649	295,911
		<u>1,330,012</u>	<u>1,245,875</u>
Expenditure			
Personnel Emoluments	6	(169,091)	(188,888)
Operations and maintenance	7	(750,746)	(751,621)
Administration and other expenditure	8	(193,517)	(309,437)
Depreciation and amortization and loss on disposal	9	(178,496)	(101,463)
		<u>(1,291,850)</u>	<u>(1,351,409)</u>
Operating profit/ (loss) for the year		<u>38,162</u>	<u>(105,534)</u>
Finance income		37	26
Impairment losses	9	(382,471)	-
(Loss) for the year		<u>€ (344,272)</u>	<u>€ (105,508)</u>

VALLETTA LOCAL COUNCIL

STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 €	2017 (As restated) €	2017 €
Assets				
Non-current assets				
Property, plant and equipment	10	419,021	946,228	1,600,029
Intangible assets	11	18,942	27,770	27,770
		<u>437,963</u>	<u>973,998</u>	<u>1,627,799</u>
Current assets				
Receivables	12	142,219	127,179	124,244
Cash in hand and at bank	13	6,850	44,456	44,456
		<u>149,069</u>	<u>171,635</u>	<u>168,700</u>
Total assets		<u>€ 587,032</u>	<u>€ 1,145,633</u>	<u>€ 1,796,499</u>
Reserves				
Retained earnings		(83,439)	260,833	257,898
Non-current liabilities				
Deferred income	14	-	-	819,412
Current liabilities				
Trade and other payables	14	670,471	884,800	719,189
Total reserves and liabilities		<u>€ 587,032</u>	<u>€ 1,145,633</u>	<u>€ 1,796,499</u>

These financial statements were approved by the Local Council on 13 May 2019 and signed on its behalf by:



Christian Micallef
Mayor



Gabriella Agius
Executive Secretary

VALLETTA LOCAL COUNCIL

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Retained Funds 2018 €
At 1 January 2017	366,341
Defecit for the year	(105,508)
At 31 December 2017	<u>€ 260,833</u>
At 1 January 2018	260,833
Defecit for the year	(344,272)
At 31 December 2018	<u>€ (83,439)</u>

VALLETTA LOCAL COUNCIL

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 €	2017 €
CASH FLOW FROM OPERATING ACTIVITIES		
Loss for the year	(344,272)	(108,443)
Depreciation	166,801	101,150
Amortisation	9,197	313
Impairment losses	382,471	-
Loss on disposal	2,498	-
	<hr/>	<hr/>
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	216,695	(6,980)
(Increase)/ decrease in receivables	(15,040)	9,632
(Decrease) in payables	(301,148)	(119,411)
Government grant released	-	-
	<hr/>	<hr/>
Cash (used in) operating activities	(99,493)	(116,759)
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(23,988)	(5,941)
Purchase of intangible assets	(944)	(1,593)
	<hr/>	<hr/>
Cash (used in) investing activities	(24,932)	(7,534)
	<hr/>	<hr/>
Net movement in cash and cash equivalents	(124,425)	(124,293)
Cash and equivalents at beginning of year	29,097	153,390
	<hr/>	<hr/>
Cash and equivalents at end of year	€ (95,328)	€ 29,097

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 13 May 2019. 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

The new and revised standards that became effective for annual periods beginning on or after 1 January 2018 made several minor amendments to a number of IFRSs. These include

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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.

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.

During the year the Local Council has changed its accounting policy on Government Grants to comply with Directive 1/2017 issued by the Department of Local Government. The Department for Local Government has instructed Local Councils to adopt the allowed alternative treatment as from 1 January 2018. The effect of this policy change is explained in Note 20 to the financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective.

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 2019 or later periods, but the Council has not early adopted them:

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 2018

(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 amortization and impairment losses to date. Amortisation to write off the cost is calculated on a monthly basis using the straight line method at 25% per annum. During the year the Local Council has change the method of calculating amortization as per Directive 1/2017. Previous amortization was calculated at the rate of 25% on the reducing balance method.

(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 straight line 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 2018

2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

(d) Property, plant and equipment (continued)

During the year the Local Council has changed the method of calculating depreciation as per Directive 1/2017. In previous years depreciation was calculated on the reducing balance method. There were no changes in the depreciation rates.

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 2018

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 are accounted for on the Capital Approach according to IAS 20 as the Council adopted Directive 1/2017 issued by the Department of Local Council. With the Capital Approach, any grants received are netted off against the cost of the asset to which they relate. Depreciation will be accounted on the resulting cost less grant. Up to year ended 31 December 2017, government grants were accounted for using the Income approach. This is a change in accounting policy and according to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, has been accounted for retrospectively.

Grants in relation to operation expenses are included as income in the Statement of Comprehensive Income.

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2018

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 2018

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

	2018 €	2017 €
In terms of section 55 of the Local Council Act	852,613	822,931
Other supplementary Government Income	39,086	103,363
Eu funds and projects	270,923	-
	<u>1,162,622</u>	<u>€ 926,294</u>

4 LOCAL ENFORCEMENT INCOME

	2018	2017
Administrative charges to regional committees	€ 12,741	€ 23,670
	<u>€ 12,741</u>	<u>€ 23,670</u>

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

5 GENERAL INCOME

	2018	2017
	€	€
CVA Income	27,000	27,000
Income from permits	112,889	157,244
Reimbushments of travelling expenses	-	5,186
Miscellaneous income	14,760	2,570
Income from Conferences	-	103,911
	<u>€ 154,649</u>	<u>€ 295,911</u>

6 PERSONNEL EMOLUMENTS

	2018	2017
	€	€
Mayor's Allowance	11,196	12,768
Councillors' allowance	8,800	7,200
Executive secretary salary and allowance	33,388	31,845
Employees' salaries	104,318	124,496
Social Security Contributions	11,389	12,669
	<u>€ 169,091</u>	<u>€ 188,888</u>
Average number of employees	<u>8</u>	<u>9</u>

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

7 OPERATIONS AND MAINTENANCE

	2018	2017
	€	€
Repairs and upkeep:		
Road/ street pavements	7,389	1,538
Signs	3,336	4,567
Road Markings	1,625	4,289
Council property		470
Road and steet repairs	42,739	-
Urban Green project	-	22,898
	<hr/>	<hr/>
	€ 55,089	33,762
Contractual Services:		
Refuse Collection	291,544	312,108
Bulky Refuse Collection	12,750	18,410
Tipping fees	111,897	104,786
Road and street cleaning	232,209	235,332
Cleaning – council premises	1,297	3,326
Cleaning and maintenance - parks & gardens	45,960	43,897
	<hr/>	<hr/>
	695,657	717,859
	<hr/>	<hr/>
Total operations and maintenance costs	€ 750,746	€ 751,621
	<hr/>	<hr/>

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

8 ADMINISTRATION AND OTHER EXPENDITURE

	2018	2017
	€	€
Bank interest and charges	1,424	992
City lights	-	3,886
Conference and event expenses	46,845	94,898
Consumables	-	461
Cultural Events	3,530	20,664
Donations	-	200
Fines	500	-
Hire of equipment	2,857	2,186
Increase/ (decrease) in bad debts provision	-	(727)
Information Services	11,126	11,180
Insurance coverage	6,160	10,983
LES Expenses	1,314	-
Office services	18,401	13,967
Other hospitality costs	6,390	4,375
Materials and supplies	-	15,820
Professional services	46,119	64,786
Rent	5,207	12,472
Social events	7,125	7,967
Sundry expenses	900	1,943
Subscriptions	4,641	3,956
Training	413	-
Transport	8,953	9,924
Travel	6,128	7,137
Utilities	15,484	21,147
Uniforms	-	1,220
	<u>€ 193,517</u>	<u>€ 309,437</u>

9 DEPRECIATION AND IMPAIRMENT

Amortisation	9,197	313
Depreciation	166,801	101,150
Loss on disposal of asset	2,498	-
Impairment loss	382,471	-
	<u>€ 560,967</u>	<u>€ 101,463</u>

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

10 TANGIBLE FIXED ASSET

	Motor Vehicle	Assets under Construction	New Street Signs	Urban Improvements	Plant & Machinery	Office Furniture	Computer Equipment	Special Programmes	Total
	€	€	€	€	€	€	€	€	€
<u>Cost</u>									
As at 01/01/18	8,000	2,815	8,900	2,730,317	56,743	46,531	-	194,601	3,047,907
Additions	-	-	-	4,850	-	8,860	10,278	-	23,988
Disposal	(8,000)								(8,000)
As at 31/12/18	-	2,815	8,900	2,735,167	56,743	55,391	10,278	194,601	3,063,895
<u>Grants</u>									
At 1 Jan & 31 Dec 18	-	-	-	1,154,352	-	-	-	-	1,154,352
<u>Depreciation</u>									
As at 01/01/18	5,502	-	8,900	672,089	40,545	25,690	-	194,601	947,327
Released on disposal	(5,502)								(5,502)
Impairment loss	-	-	-	370,809	9,159	1,928	-	-	381,896
Charge for the year	-	-	-	157,951	2,375	3,906	2,569	-	166,801
As at 31/12/18	-	-	8,900	1,200,849	52,079	31,524	2,569	194,601	1,490,522
<u>Net Book Value</u>									
As at 31/12/18	€ -	€ 2,815	€ -	€ 379,966	€ 4,664	€ 23,867	€ 7,709	€ -	€ 419,021

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

10 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>Grants</u>								
Prior Year adjustment	-	-	-	1,154,352	-	-	-	1,154,352
<u>Depreciation</u>								
As at 01/01/17	4,944	-	8,900	1,008,096	37,167	24,076	194,601	1,277,784
Prior Year adjustment	-	-	-	(431,607)	-	-	-	(431,607)
Charge for the year	558	-	-	95,600	3,378	1,614	-	101,150
As at 31/12/17	5,502	-	8,900	672,089	40,545	25,690	194,601	947,327
<u>Net Book Value</u>								
As at 31/12/17	€ 2,498	€ 2,815	€ -	€ 903,876	€ 16,198	€ 20,841	€ -	€ 946,228

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

11 INTANGIBLE FIXED ASSET

	Application (Vatis)	Computer software	Total €
<u>Cost</u>			
As at 01/01/18	26,000	4,737	30,737
Additions	-	944	944
As at 31/12/18	<u>€ 26,000</u>	<u>€ 5,681</u>	<u>€ 31,681</u>
<u>Amortization</u>			
As at 01/01/17	-	2,967	2,967
Charge for the year	8,667	530	9,197
Impairment loss	-	575	575
As at 31/12/17	<u>€ 8,667</u>	<u>€ 4,072</u>	<u>€ 12,739</u>
<u>Net Book Value</u>			
As at 31/12/18	<u>€ 17,333</u>	<u>€ 1,609</u>	<u>€ 18,942</u>
As at 31/12/17	<u>€ 26,000</u>	<u>€ 1,770</u>	<u>€ 27,770</u>

12 RECEIVABLES

	2018 €	2017 €
Receivables	33,659	29,010
Debit supplier balances	44,399	-
Prepayments and accrued income	64,161	98,169
	<u>€ 142,219</u>	<u>€ 127,179</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 2018

12 RECEIVABLES (continued)

Included in receivables are debtors with a carrying amount of € 12,971 (2017: € 21,773) 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:

	2018 €	2017 €
Not more than 3 months	-	-
More than 3 months but not more than 6 months	-	-
More than 6 months	12,971	21,773
	<u>€ 12,971</u>	<u>€ 21,773</u>

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

	2018 €	2017 €
Balance at 1 January	446,403	443,534
Increase in provision for LES debtors	-	2,509
Balance at 31 December	<u>€ 446,043</u>	<u>€ 446,043</u>

13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	2018 €	2017 €
Bank balances	6,850	44,456
Bank balances overdrawn	(102,178)	(15,359)
Cash and cash equivalents	<u>(95,328)</u>	<u>29,097</u>
Transfer to current liabilities (note 14)	102,178	15,359
Cash at hand and in bank	<u>€ 6,850</u>	<u>€ 44,456</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 2018

14 PAYABLES

	2018	2017
	€	€
CURRENT PAYABLES		
Payables	444,343	514,192
Accruals	93,380	65,082
National insurance contributions	30,570	38,118
Bank balances overdrawn (note 13)	102,178	15,359
Grants received in advance	-	252,049
	<u>670,471</u>	<u>884,800</u>
Deferred Government Grants		
Long term portion	-	567,363
Current portion	-	86,438
	<u>-</u>	<u>653,801</u>
Transfer to property plant and equipment – Note 21	-	(653,801)
	<u>€ -</u>	<u>€ -</u>

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

15 CAPITAL COMMITMENTS

	2018	2017
	€	€
Approved but not contracted for	347,698	-
Approved and contracted for	287,518	-
	<u>€ 635,216</u>	<u>€ -</u>

16 CONTINGENT LIABILITIES

	2018	2017
	€	€
Guarantees in favour of third parties	-	1,600
Claims by third parties	45,510	49,510
	<u>€ 45,510</u>	<u>€ 51,110</u>

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

17 RELATED PARTY TRANSACTIONS

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

Name of entity	Nature of relationship
Department of Local Councils	Significant control
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
Central Bank of Malta	No control
Civil Protection	No control
Bank of Valletta plc	No control
Maltapost	No control
Malta Tourism Authority	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
Performing Rights Society	No control
Government Property Division	No control

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

	2018	2017
	€	€
Annual financial allocation	€ 852,613	€ 822,931

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

17 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.

18 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.

18.1 CREDIT RISK

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

	Notes	2018 €	2017 €
Classes of financial assets – carrying amounts			
Trade and other receivables	11	142,219	127,179
Cash and cash equivalents	12	6,850	44,456
		<u>€ 149,069</u>	<u>€ 171,635</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 2018

18 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.

18.2 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 2018 the council's financial liabilities have contractual maturities which are summarised below:

Current within 1 year:

	2018	2017
	€	€
Payables	444,343	514,192
Accruals	93,380	65,082
National insurance outstanding	30,570	38,118
Bank balances overdrawn	102,177	15,359
	<u>€ 670,470</u>	<u>€ 632,751</u>

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

18.3 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:

	2018 €	2017 €
Current assets		
Loans and receivables:		
Trade and other receivables	142,219	127,179
Cash and cash equivalents		44,456
	<u>€ 149,069</u>	<u>€ 171,635</u>
Current liabilities		
Financial liabilities measured at amortised cost:		
Payables	444,343	514,192
Accruals	93,380	65,082
National insurance contributions	30,570	38,118
Bank balance overdawn	102,177	15,359
	<u>€ 670,470</u>	<u>€ 632,751</u>

19 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.

20 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.

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

21 Prior Year Adjustment

On 1 January 2018, the Local Council applied Directive 1/2017 issued by the Department for Local Government in respect of the Accounting of Grants as per IAS 20 'Government Grants'. The Department for Local Government has instructed Local Councils to adopt the alternative capital approach as from 1 January 2018.

This is a change in accounting policies and, according to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', this has been accounted for retrospectively. The change in accounting policy has effected the Statement of Comprehensive Income and the Statement of Financial Position as follows:

STATEMENT OF FINANCIAL POSITION	Note	Balances before adjustments €	Reinstated Balances €	Variance (Prior year adjustment) €
Non-current assets				
Property plant and equipment	10	1,600,029	946,228	(653,801)
Total assets		<u>€ 1,796,499</u>	<u>€ 1,145,633</u>	<u>(653,801)</u>
Non-current liabilities				
Deferred income	6	819,412	-	(819,412)
Current liabilities				
Payables	7	719,189	884,800	165,611
Total equity and liabilities		<u>€ 1,998,601</u>	<u>€ 884,800</u>	<u>(653,801)</u>

STATEMENT OF CHANGES IN EQUITY

	Retained Funds €
Balance at 31 December 2017 before adjustments	257,898
Adjustment on depreciation for the year ended 31 December 2017	68,944
Adjustment on other government income for the year ended 31 December 2017	(68,944)
Decrease in provision for bad debts not passed	2,935
Balance at 31 December 2017 as restated	<u>€ 260,833</u>

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 31st December 2018, 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 31st December 2018 and of its financial performance and its cash flows for the period then ended.

Basis for Disclaimer of Opinion

The Council has received grants received amounting to €252,049 with respect to 'Civitas Destinations' project which were previously recognised as deferred income and during the year under review have been recognised in the Statement of Other Comprehensive Income. We were not provided with reasonable assurance on the basis of such recognition of this income in the Statement of Other Comprehensive Income as well as on the proper application of the requirements of IAS 20 – Accounting for Government Grants

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 €419,021 as well as on the completeness of the depreciation charged thereupon.

Throughout our testing of the receivables of the Council, which amount to €33,659, we encountered a significant number of misstatements arising out of the lack of proper accounting and reconciliation of receivables. In this respect we believe that this matter 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, but there were no practicable procedures to determine the exact amount of misstatement within the trade receivables recognized by the Council.

Whilst testing cash and bank balances, which amount to a negative of €95,328, we identified variances between balances as per bank statements and that as per reconciliations. Furthermore, no list of unrepresented cheques was provided for most bank accounts held by the Council whereby these amounted to a total of €52,568. In this respect, the information and evidence provided by the Council with respect to bank balances as at 31 December 2018 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 €444,343 and €93,380 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 €39,625 as at 31 December 2018 and an adjustment of €17,562

passed to reduce petty cash balance to €48 which adjustment was undertaken against the accruals balance. 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 20 in the financial statements-Going Concern which indicates that, as of 31st December 2018, the Council's net current liability position amounted to €521,402. The financial statements in their entirety and as noted in Note 20 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 2018, 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 31st December 2018 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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Malta

Date: 13th May 2019