

Our Ref: NAO 107/2015/1
Your Ref:

11 August 2020

The Mayor and Executive Secretary
Valletta Local Council
Valletta

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2019**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2019.

After seeking the Council's approval, you are kindly requested to submit your response to the Director (Monitoring & Support) Local Government Division, the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,

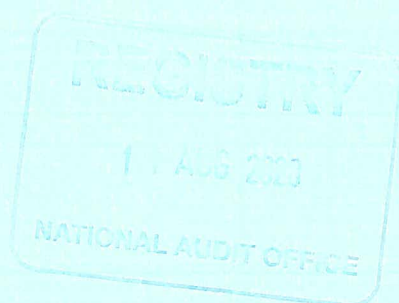


Tanya Mercieca
Asst. Auditor General

Encls.



LOCAL COUNCIL VALLETTA
Report and Financial Statements
for the year ended 31 December 2019



VALLETTA LOCAL COUNCIL
FINANCIAL STATEMENTS
For the year ended 31 December 2019

CONTENTS

PAGES

VALLETTA LOCAL COUNCIL
FINANCIAL STATEMENTS
For the year ended 31 December 2019

CONTENTS	PAGES
Statement Of Local Council Members' And Executive Secretary's Responsibilities	1
Statement of comprehensive income	2
Statement of financial position	3
Statement of changes in equity	4
Statement of cash flows	5
Notes to the financial statements	6 – 26
Statement Of Local Council Members' And Executive Secretary's Responsibilities	1
Statement of comprehensive income	2
Statement of financial position	3
Statement of changes in equity	4
Statement of cash flows	5
Notes to the financial statements	6 – 26

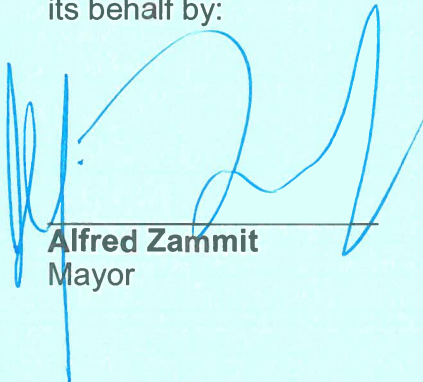
VALLETTA LOCAL COUNCIL

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 20 July 2020 and signed on its behalf by:



Alfred Zammit
Mayor



Gabriella Agius
Executive Secretary

VALLETTA LOCAL COUNCIL

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes:	2019	2018
		€	€
Revenue			
Funds received from the Central Government	3	965,179	1,162,622
Income Raised under Local Enforcement System	4	8,896	12,741
General Income	5	424,995	154,649
		<u>1,399,070</u>	<u>1,330,012</u>
Expenditure			
Personnel Emoluments	6	(249,800)	(169,091)
Operations and maintenance	7	(861,099)	(750,746)
Administration and other expenditure	8	(190,431)	(193,517)
Depreciation and amortization and loss on disposal	9	(114,128)	(178,496)
		<u>(1,415,458)</u>	<u>(1,291,850)</u>
Operating(loss)/ profit for the year		<u>(16,388)</u>	<u>38,162</u>
Finance income		19	37
Impairment losses	9	-	(382,471)
(Loss) for the year		<u>€ (16,369)</u>	<u>€ (344,272)</u>


VALLETTA LOCAL COUNCIL

STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 €	2018 As restated €	2018 As original €
Assets				
Non-current assets				
Property, plant and equipment	10	489,070	419,926	419,021
Intangible assets	11	18,376	18,037	18,942
		<u>507,446</u>	<u>437,963</u>	<u>437,963</u>
Current assets				
Receivables	12	223,065	142,219	142,219
Cash and cash equivalents	13	17,049	6,850	6,850
		<u>240,114</u>	<u>149,069</u>	<u>149,069</u>
Total assets		<u>€ 747,560</u>	<u>€ 587,032</u>	<u>€ 587,032</u>
Reserves				
Retained earnings		<u>(34,687)</u>	<u>(18,318)</u>	<u>(83,439)</u>
Current liabilities				
Trade and other payables	14	782,247	605,350	670,471
Total reserves and liabilities		<u>€ 747,560</u>	<u>€ 587,032</u>	<u>€ 587,032</u>

These financial statements were approved by the Local Council on 20 July 2020 and signed on its behalf by:



Alfred Zammit
Mayor



Gabriella Agius
Executive Secretary

VALLETTA LOCAL COUNCIL

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Retained Funds €
At 1 January 2018 (Re-stated)	325,954
Loss for the year	(344,272)
At 31 December 2018	<u>€ (18,318)</u>
At 1 January 2019	(18,318)
Loss for the year	(16,369)
At 31 December 2019	<u>€ (34,687)</u>

VALLETTA LOCAL COUNCIL

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 €	2018 €
CASH FLOW FROM OPERATING ACTIVITIES		
Loss for the year	(16,369)	(344,272)
Depreciation	105,499	166,801
Amortisation	8,629	9,197
Impairment losses	-	382,471
Loss on disposal	-	2,498
	<hr/>	<hr/>
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	97,759	216,695
Increase in receivables	(80,846)	(15,040)
Increase/ (decrease) in payables	164,502	(301,148)
Cash generated from/ (used in) operating activities	<hr/> 181,415	<hr/> (99,493)
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(174,643)	(23,988)
Purchase of intangible assets	(8,968)	(944)
Government grants received	106,484	-
Cash (used in) investing activities	<hr/> (77,127)	<hr/> (24,932)
Net movement in cash and cash equivalents	<hr/> 104,288	<hr/> (124,425)
Cash and cash equivalents at beginning of year	(95,328)	29,097
Cash and cash equivalents at end of year	<hr/> € 8,960	<hr/> € (95,328)

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 33-35, Treasury Street, Republic Valley, Valletta. These financial statements were approved for issue by the council members on 20 July 2020. 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 2019 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 2019

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

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 adoption of IFRS 16 has not had an impact on the financial position and financial performance of the Local Council.

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

At the date of authorisation of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Local Council. The Council anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Local Council financial statements.

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(c) Intangible fixed assets

Intangible assets are 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 previous 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% using 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 2019

2 ACCOUNTING POLICIES AND REPORTING PROCEDURES (continued)

(d) Property, plant and equipment (continued)

During 2018 the Local Council has changed the method of calculating depreciation as per Directive 1/2017. In previous years depreciation was calculated using 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 2019

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 17 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 using 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 2019

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 2019

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 2019

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

	2019	2018
	€	€
In terms of section 55 of the Local Council Act	892,189	852,613
Other supplementary Government Income	16,000	39,086
EU funds and projects	56,990	270,923
	<u>965,179</u>	<u>1,162,622</u>

4 LOCAL ENFORCEMENT INCOME

	2019	2018
	€	€
Administrative charges under LES system	<u>€ 8,896</u>	<u>€ 12,741</u>

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 GENERAL INCOME

	2019	2018
	€	€
CVA Income	27,000	27,000
Income from permits	222,881	112,889
Income from organic waste	149,243	-
Other income	25,871	14,760
	<u>€ 424,995</u>	<u>€ 154,649</u>

6 PERSONNEL EMOLUMENTS

	2019	2018
	€	€
Mayor's Allowance	12,851	11,196
Councillors' allowance	12,900	8,800
Executive secretary salary and allowance	35,005	33,388
Employees' salaries	173,329	104,318
Social Security Contributions	15,715	11,389
	<u>€ 249,800</u>	<u>€ 169,091</u>
Number of employees	8	8
Mayor	1	1
Councillors	6	6
	<u>15</u>	<u>15</u>
Average number of employees		

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

7 OPERATIONS AND MAINTENANCE

	2019	2018
	€	€
Repairs and upkeep:		
Road/ street pavements	2,425	7,389
Signs	5,127	3,336
Road Markings	2,138	1,625
Road and steet repairs	47,058	42,739
	<hr/>	<hr/>
	€ 56,748	€ 55,089
Contractual Services:		
Refuse Collection	402,334	291,544
Bulky Refuse Collection	19,100	12,750
Tipping fees	88,874	111,897
Road and street cleaning	221,237	232,209
Cleaning – council premises	8,683	1,297
Cleaning and maintenance - parks & gardens	51,140	45,960
Street lighting	12,983	-
	<hr/>	<hr/>
	804,351	695,657
	<hr/>	<hr/>
Total operations and maintenance costs	€ 861,099	€ 750,746
	<hr/>	<hr/>

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

8 ADMINISTRATION AND OTHER EXPENDITURE

	2019	2018
	€	€
Bank interest and charges	1,460	1,424
Cultural, conference and social events	68,549	63,890
Donations	2,600	-
Fines	-	500
Information Services	1,270	11,126
Insurance coverage	6,932	6,160
LES Expenses	1,138	1,314
Office services	24,244	21,258
Professional services	32,613	46,119
Rent	12,209	5,207
Sundry expenses	1,547	900
Subscriptions	2,572	4,641
Training	6,195	413
Transport	3,096	8,953
Travel	4,917	6,128
Utilities	21,089	15,484
	<u>€ 190,431</u>	<u>€ 193,517</u>

9 DEPRECIATION AND IMPAIRMENT

Amortisation	8,629	9,197
Depreciation	105,499	166,801
Loss on disposal of asset	-	2,498
Impairment loss	-	382,471
	<u>€ 114,128</u>	<u>€ 560,967</u>

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

10 PROPERTY, PLANT AND EQUIPMENT

	Assets under Construction	New Street Signs	Plants	Urban Improvements	Plant & Machinery	Office Furniture	Computer Equipment	Special Programmes	Total
	€	€	€	€	€	€	€	€	€
<u>Cost</u>									
As at 01/01/19	2,815	8,900	-	2,616,865	56,743	55,391	10,278	194,601	2,945,593
Additions	106,484	-	5,672	43,625	2,491	14,940	1,431	-	174,643
As at 31/12/19	109,299	8,900	5,672	2,660,490	59,234	70,331	11,709	194,601	3,120,236
<u>Grants</u>									
As at 01/01/19	-	-	-	1,154,352	-	-	-	-	1,154,352
Additions	-	-	-	-	-	-	-	-	-
As at 31/12/2019	-	-	-	1,154,352	-	-	-	-	1,154,352
<u>Depreciation</u>									
As at 01/01/19	-	8,900	-	1,082,547	52,079	31,524	1,664	194,601	1,371,315
Charge for the year	-	-	5,672	89,419	2,391	5,228	2,789	-	105,499
As at 31/12/19	-	8,900	5,672	1,171,966	54,470	36,752	4,453	194,601	1,476,814
<u>Net Book Value</u>									
As at 31/12/19	€ 109,299	€ -	€ -	€ 334,172	€ 4,764	€ 33,579	€ 7,256	€ -	€ 489,070

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

10 PROPERTY, PLANT AND EQUIPMENT

	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	2,612,015	56,743	46,531	-	194,601	2,929,605
Additions	-	-	-	4,850	-	8,860	10,278	-	23,988
Disposal	(8,000)								(8,000)
As at 31/12/18	-	2,815	8,900	2,616,865	56,743	55,391	10,278	194,601	2,945,593
<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	553,788	40,545	25,689	-	194,601	829,025
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	1,664	-	165,896
As at 31/12/18	-	-	8,900	1,082,547	52,079	31,524	1,664	194,601	1,371,315
<u>Net Book Value</u>									
As at 31/12/18	€ -	€ 2,815	€ -	€ 379,966	€ 4,664	€ 23,867	€ 8,614	€ -	€ 419,926

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

11 INTANGIBLE FIXED ASSET

	Website Costs €	Application (Vatis) €	Computer software €	Total €
<u>Cost</u>				
As at 01/01/19	-	26,000	5,681	31,681
Additions	8,968	-	-	8,968
As at 31/12/19	<u>€ 8,968</u>	<u>€ 26,000</u>	<u>€ 5,681</u>	<u>€ 40,649</u>
<u>Amortization</u>				
As at 01/01/19	-	8,667	4,977	13,644
Charge for the year	1,495	6,500	634	8,629
As at 31/12/19	<u>€ 1,495</u>	<u>€ 15,167</u>	<u>€ 5,611</u>	<u>€ 22,273</u>
<u>Net Book Value</u>				
As at 31/12/19	<u>€ 7,473</u>	<u>€ 10,833</u>	<u>€ 70</u>	<u>€ 18,376</u>
As at 31/12/18	<u>€ -</u>	<u>€ 17,333</u>	<u>€ 704</u>	<u>€ 18,037</u>

12 RECEIVABLES

	2019 €	2018 €
Receivables	194,389	33,659
Debit supplier balances	2,741	44,399
Prepayments and accrued income	25,935	64,161
	<u>€ 223,065</u>	<u>€ 142,219</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 2019

12 RECEIVABLES (continued)

Included in receivables are debtors with a carrying amount of € 21,866 (2018: € 12,971) 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:

	2019 €	2018 €
Not more than 3 months	-	-
More than 3 months but not more than 6 months	-	-
More than 6 months	21,866	12,971
	<u>€ 21,866</u>	<u>€ 12,971</u>

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

	2019 €	2018 €
Balance at 1 January	446,043	446,043
Decrease in provision for LES debtors	(17,255)	-
Balance at 31 December	<u>€ 428,788</u>	<u>€ 446,043</u>

13 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	2019 €	2018 €
Bank balances	17,049	6,850
Bank balances overdrawn	(8,089)	(102,178)
Cash and cash equivalents	<u>8,960</u>	<u>(95,328)</u>
Transfer to current liabilities (note 14)	8,089	102,178
Cash at hand and in bank	<u>€ 17,049</u>	<u>€ 6,850</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 2019

14 TRADE AND OTHER PAYABLES

	2019	2018
	€	€
CURRENT PAYABLES		
Payables	568,445	379,222
Accruals	22,256	93,380
National insurance contributions	46,407	30,570
Bank balances overdrawn (note 13)	8,089	102,178
Grants received in advance	30,566	-
Deferred income	106,484	-
Financial liabilities	<u>€ 782,247</u>	<u>€ 605,350</u>

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

15 CAPITAL COMMITMENTS

	2019	2018
	€	€
Approved but not contracted for	-	347,698
Approved and contracted for	181,034	287,518
	<u>€ 181,034</u>	<u>€ 635,216</u>

16 CONTINGENT LIABILITIES

	2019	2018
	€	€
Claims by third parties	<u>€ 134,000</u>	<u>€ 45,510</u>

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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:

	2019	2018
	€	€
Annual financial allocation	€ 892,189	€ 852,613

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 18.3 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	2019 €	2018 €
Classes of financial assets – carrying amounts			
Trade and other receivables	12	223,065	142,219
Cash and cash equivalents	13	17,049	6,850
		<u>€ 240,114</u>	<u>€ 149,069</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 12 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 2019

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 14). 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 2019 the council's financial liabilities have contractual maturities which are summarised below:

Current within 1 year:

	2019	2018
	€	€
Payables	568,445	379,223
Accruals	22,256	93,380
National insurance outstanding	46,407	30,570
Bank balances overdrawn	8,089	102,177
Grants received in advance	30,566	-
	<u>€ 675,763</u>	<u>€ 605,350</u>

VALLETTA LOCAL COUNCIL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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:

	2019 €	2018 €
Current assets		
Loans and receivables:		
Trade and other receivables	223,065	142,219
Cash and cash equivalents	17,049	6,850
	<u>€ 240,114</u>	<u>€ 149,069</u>
Current liabilities		
Financial liabilities measured at amortised cost:		
Payables	568,445	379,223
Accruals	22,256	93,380
National insurance contributions	46,407	30,570
Bank balance overdawn	8,089	102,177
Grants received in advance	30,566	-
	<u>€ 675,763</u>	<u>€ 605,350</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 shows a net current liability position amounting to € (542,133) 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 2019

21 Prior Year Adjustment

The Local Council has identified an error whereby invoices of Capital expenditure purchased before 2010 were accounted for twice. These amounted to € 118,302 and were already fully depreciated in the financial statements. A corresponding amount was reflected in creditors.

Another error resulted in respect of invoices of refuse collection of prior years which were not accounted for. These amounted to € 53,181 and have also effected the creditors amounts.

Another error resulted in the accounting of amortisation of software amounting to € 905, being reflected as depreciation of computer equipment in the financial statements.

These errors have been accounted for retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The errors has effected the Statement of Comprehensive Income and the Statement of Financial Position as follows:

	Notes	2018 Prior €	Adjustment	2018 Restated €
Assets				
Non-current assets				
Property, plant and equipment	10	419,021	905	419,926
Intangible assets	11	18,942	(905)	18,037
		<u>437,963</u>	<u>-</u>	<u>437,963</u>
Current assets				
Receivables	12	142,219	-	142,219
Cash in hand and at bank	13	6,850	-	6,850
		<u>149,069</u>	<u>-</u>	<u>149,069</u>
Total assets		<u>€ 587,032</u>	<u>€ -</u>	<u>€ 587,032</u>
Reserves				
Retained earnings		(83,439)	65,121	(18,318)
Current liabilities				
Trade and other payables	14	670,471	(65,121)	605,350
Total reserves and liabilities		<u>587,032</u>	<u>€ -</u>	<u>€ 587,032</u>

STATEMENT OF CHANGES IN EQUITY

	Retained Funds €
Balance at 31 December 2018 before adjustments	(83,439)
Adjustment on depreciation provision in prior years	118,302
Adjustment on refuse collection expenses in prior years	(53,181)
Balance at 31 December 2018 as restated	<u>€ (18,318)</u>

LOCAL COUNCIL VALLETTA

Report of the Local Government Auditors to the Auditor General

Disclaimer of Opinion

We were engaged to audit the financial statements of Local Council Valletta, set out on pages 4 to 28, which comprise the statement of financial position as at 31st December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of 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 on these financial statements.

Basis for Disclaimer of Opinion

The Council has recognised income of €8,896 from administrative fees on LES fines collected. No supporting documentation was forthcoming in relation to such income. In addition, based on the amounts collected as per LES report 483 [LESA], the amount of LES administrative fees recognized as income during the year under review should have amounted to €547, leaving a variance of €8,349. To this effect, income and retained earnings may have been overstated by €8,349.

The Council does not maintain a fixed asset register to record items of property, plant and equipment acquired by it. Furthermore, the recognition of property, plant and equipment 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 property, plant and equipment recorded in the financial statements, having a net book value of €489,070 as well as on the completeness of the depreciation charged thereupon.

Throughout our testing of the receivables and accrued income of the Council, which amount to €194,389 and €18,857 respectively, we encountered a significant number of misstatements arising out of the lack of proper accounting and reconciliation of the receivables and the accrued income. In this respect, we believe that such misstatements noted lead us to the opinion that these constitute a material misstatement of the receivables and accrued income balances of the Council as at year end, and there were no practicable procedures to determine the exact amount of misstatement within the receivables recognised by the Council.

Throughout our testing of the trade payables and accruals of the Council, which amount to €568,445 and €22,256 respectively, we encountered a significant number of misstatements arising out of the lack of proper accounting and recording of payables, including accruals. In this respect, we believe that such misstatements noted lead us to the opinion that these constitute a material misstatement of the liabilities of the Council as at year end, and there were no practicable procedures to determine the exact amount of misstatement within the liabilities recognised 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. Moreover, the disclosures, recognition and measurement in relation to the amounts due under the PPP scheme are not in accordance with the requirements of IFRS 9- Financial Instruments.

Material Uncertainty Related to Going Concern

We draw attention to Note 20 to the financial statements which indicates that, as of 31st December 2019, the Council's net current liability position amounted to €421,628. 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 payables. 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 Responsibilities for the Financial Statements

The Council Members and the Executive Secretary are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the 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 is 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 intends to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Council's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters 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.

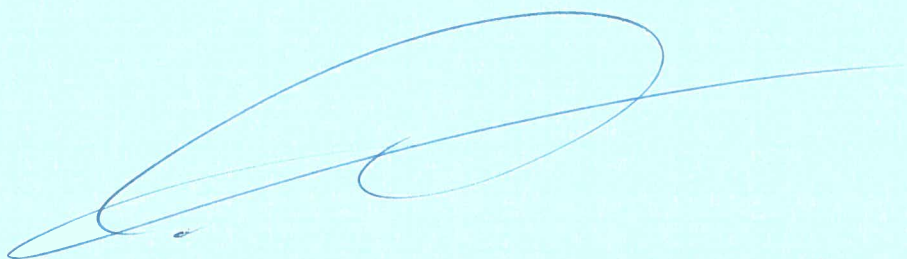
We are independent of the Council in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy 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.

Report on other Legal and Regulatory Requirements

These financial statements do not fully comply 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 2019, the Council's minimum net current asset value (after adjustments) should have amounted to at least €89,219 being 10% of the annual allocation. Nonetheless, the actual financial indicator at 31st December 2019 stood at a negative 44%.



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

3a

Certified Public Accountants

Level 2

Palazzo Ca' Brugnera

Valley Road

Birkirkara BKR9024

Malta

Date: 20th July 2020

