

Estimates  
for the  
Financial Year 2019



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**STATEMENT OF COMPREHENSIVE INCOME**  
for the years ending 31 December 2017, 2018 and 2019

		2017	2018			2019
	Notes	Actual	Approved Estimate	Revised Estimate	Savings/ (Excess)	Proposed Estimate
		€	€	€	€	€
<b>CONTINUING OPERATIONS</b>						
Government subvention	4	3,150,000	3,400,000	3,400,000	-	3,500,000
Other income		4,507	3,400	4,500	1,100	4,500
<b>Total operating revenue</b>		<b>3,154,507</b>	<b>3,403,400</b>	<b>3,404,500</b>	<b>1,100</b>	<b>3,504,500</b>
Salaries and personnel expenses	5	2,504,863	2,591,000	2,520,000	71,000	2,680,000
Audit fees of local councils	5	260,012	260,400	260,400	-	295,000
Administrative and other expenses	5	282,217	349,908	329,338	20,570	318,738
Depreciation	6	65,265	86,191	86,000	191	106,000
<b>Total operating expenses</b>		<b>3,112,357</b>	<b>3,287,499</b>	<b>3,195,738</b>	<b>91,761</b>	<b>3,399,738</b>
<b>Results from operating activities</b>		<b>42,150</b>	<b>115,901</b>	<b>208,762</b>	<b>92,861</b>	<b>104,762</b>
Provision for service pensions and gratuities	7	(109)	(67,395)	(19,695)	47,700	(19,695)
Bank interest receivable		119	100	100	-	100
<b>Surplus for the year</b>		<b>42,160</b>	<b>48,606</b>	<b>189,167</b>	<b>140,561</b>	<b>85,167</b>

## SUPPLEMENTARY STATEMENT

for the years ending 31 December 2017, 2018 and 2019

	2017 Actual €	Approved Estimate €	2018 Revised Estimate €	Savings/ Excess €	2019 Proposed Estimate €
<b>SALARIES AND PERSONNEL EXPENSES</b>					
Salaries	1,630,253	1,710,000	1,646,000	64,000	1,745,000
Bonuses	30,383	31,000	29,000	2,000	30,000
Social security contributions	130,386	140,000	135,000	5,000	140,000
Allowances	689,948	690,000	690,000	-	745,000
Overtime	23,893	20,000	20,000	-	20,000
	<b>2,504,863</b>	<b>2,591,000</b>	<b>2,520,000</b>	<b>71,000</b>	<b>2,680,000</b>
<i>Average Number of Employees</i>	63	65	59	6	61
<b>ADMINISTRATIVE AND OTHER EXPENSES</b>					
Utilities	22,749	26,000	26,000	-	26,000
Materials and supplies	3,636	4,000	4,200	(200)	4,200
Repairs and upkeep	20,527	20,000	20,000	-	20,000
Rent	13,138	13,308	13,138	170	13,138
International memberships	1,040	1,000	1,000	-	1,000
Office services	30,423	35,000	30,000	5,000	30,000
Transport	21,810	27,000	20,000	7,000	20,000
Travel	34,031	30,000	40,000	(10,000)	40,000
Information services	3,830	4,000	4,000	-	4,000
Contractual services	53,140	69,100	69,600	(500)	70,000
Professional fees	45,331	80,000	45,000	35,000	50,000
Training	20,578	30,000	45,000	(15,000)	34,000
Hospitality	5,906	5,000	6,000	(1,000)	6,000
Hosting of Events	5,677	5,000	5,000	-	-
Incidental expenses	401	500	400	100	400
Loss on disposal of assets	-	-	-	-	-
	<b>282,217</b>	<b>349,908</b>	<b>329,338</b>	<b>20,570</b>	<b>318,738</b>

**STATEMENT OF FINANCIAL POSITION**  
as at 31 December 2017, 2018 and 2019

	Notes	Actual 2017 €	Revised Estimate 2018 €	Proposed Estimate 2019 €
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property and equipment	6	<u>326,184</u>	<u>340,184</u>	<u>402,184</u>
<b>Current Assets</b>				
Debtors and prepayments		9,972	7,000	7,000
Cash and cash equivalents		57,062	40,844	45,011
		<u>67,034</u>	<u>47,844</u>	<u>52,011</u>
<b>Total Assets</b>		<u><b>393,218</b></u>	<u><b>388,028</b></u>	<u><b>454,195</b></u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Provision for service pensions and gratuities	7	<u>425,251</u>	<u>383,251</u>	<u>341,251</u>
<b>Current Liabilities</b>				
Payables	8	489,357	337,000	360,000
Provision for service pensions and gratuities	7	61,023	61,023	61,023
		<u>550,380</u>	<u>398,023</u>	<u>421,023</u>
<b>Total Liabilities</b>		<u><b>975,631</b></u>	<u><b>781,274</b></u>	<u><b>762,274</b></u>
<b>Net Liabilities</b>		<u><b>(582,413)</b></u>	<u><b>(393,246)</b></u>	<u><b>(308,079)</b></u>
Represented by:				
Accumulated deficit		<u><b>(582,413)</b></u>	<u><b>(393,246)</b></u>	<u><b>(308,079)</b></u>

**STATEMENT OF CHANGES IN NET LIABILITIES**  
**for the years ending 31 December 2017, 2018 and 2019**

	Accumulated deficit €
Balance at 1 January 2017	(624,573)
Surplus for the year	42,160
<b>Balance at 31 December 2017</b>	<b><u>(582,413)</u></b>
Balance at 1 January 2018	(582,413)
Estimated surplus for the year	189,167
<b>Balance at 31 December 2018</b>	<b><u>(393,246)</u></b>
Balance at 1 January 2019	(393,246)
Estimated surplus for the year	85,167
<b>Balance at 31 December 2019</b>	<b><u>(308,079)</u></b>



## STATEMENT OF CASH FLOWS

for the years ending 31 December 2017, 2018 and 2019

	Actual 2017	Revised Estimate 2018	Proposed Estimate 2019
	€	€	€
<b>Cash flows from operating activities</b>			
Surplus for the year	42,160	189,167	85,167
Non-cash Adjustments to reconcile surplus to net cash flows:			
Depreciation	65,265	86,000	106,000
Bank interest receivable	(119)	(100)	(100)
Provision for service pensions and gratuities	109	19,695	19,695
	<u>107,415</u>	<u>294,762</u>	<u>210,762</u>
Movement in debtors and prepayments	(2,949)	2,972	-
Movement in payables	119,820	(152,357)	23,000
Movement in provision for service pensions and gratuities	(102,544)	(61,695)	(61,695)
Cash generated from operating activities	<u>121,742</u>	<u>83,682</u>	<u>172,067</u>
Bank interest received	119	100	100
<b>Net cash from operating activities</b>	<u>121,861</u>	<u>83,782</u>	<u>172,167</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	(76,763)	(100,000)	(168,000)
<b>Cash used in investing activities</b>	<u>(76,763)</u>	<u>(100,000)</u>	<u>(168,000)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	45,098	(16,218)	4,167
Cash and cash equivalents at 1 January	<u>11,964</u>	<u>57,062</u>	<u>40,844</u>
<b>Cash and cash equivalents at 31 December</b>	<u><u>57,062</u></u>	<u><u>40,844</u></u>	<u><u>45,011</u></u>

## Notes to the Estimates for the years ending 31 December 2017, 2018 and 2019

### 1. REPORTING ENTITY

The National Audit Office (the “Office”) has been set up to:

- give more prominence to the role of the State audit function in Malta;
- ensure accountability in the utilisation of public funds; and
- contribute towards the better management of public funds and resources.

### 2. BASIS OF PREPARATION

The Estimates have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU. Assets and liabilities are measured at cost, except for the provision for service pensions and gratuities, which is measured according to accounting policy detailed in note 3.7.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these estimates.

#### 3.1 Government of Malta subventions

Subventions received from Government which constitute the main source of revenue for the National Audit Office are taken directly to the statement of profit or loss and other comprehensive income upon approval of the allocated amount by the Ministry for Finance.

#### 3.2 Finance income

Finance income comprises interest receivable on bank balances and is recognised as it accrues.

#### 3.3 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash in hand and deposits at bank.

#### 3.4 Other payables

Liabilities for other accounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services rendered, whether or not billed to the office.

### 3.5 Property and equipment

#### *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within “other income” in profit or loss.

#### *Subsequent costs*

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the entity and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss.

#### *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative years are as follows:

- |                                   |          |
|-----------------------------------|----------|
| • Building improvements           | 10 years |
| • Office equipment                | 5 years  |
| • Computer equipment and software | 3 years  |
| • Motor vehicles                  | 5 years  |
| • Fixtures and fittings           | 10 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### 3.6 Provisions

A provision is recognised if, as a result of a past event, the Office has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The provision for service pensions and gratuities is calculated at the present value of the post-employment benefit obligations towards the present and retired employees of the Office. The present value is arrived at by using a risk free rate of the local Government bond which will mature on a date equivalent to the average number of years during which the Office is expected to affect pensions and gratuities payments.

## 4. GOVERNMENT SUBVENTION

### 4.1 Government Subvention for 2018

The National Audit Office Accounts Committee unanimously approved the 2018 Estimates of the National Audit Office on the 24th October 2017. The Estimates which requested an amount of € 3,400,000 for 2018 were subsequently approved by Motion 69 during parliamentary session number 56 held on the 22nd of November 2017.

**Table 1: The Financial Picture**

Year	Amount authorized by Parliament	Amount allocated in budgetary estimates	Amount actually withdrawn	Surplus/ (Deficit) for the Year	Number of Reports Published	Average Staff Complement
	€	€	€	€		
2008	2,100,000	1,864,000	1,500,000	(113,298)	3	51
2009	2,100,000	1,864,000	1,864,000	(81,725)	11	57
2010	2,400,000	1,950,000	2,400,000	145,044	9	55
2011	2,400,000	2,200,000	2,200,000	(11,579)	11	56
2012	2,400,000	2,185,000	2,185,000	(143,140)	15	59
2013	2,500,000	2,250,000	2,265,000	(162,247)	13	57
2014	2,600,000	2,280,000	2,600,000	29,002	16	58
2015	2,800,000	2,700,000	2,700,000	(84,482)	15	62
2016	3,000,000	2,900,000	3,000,000	6,666	16	65
2017	3,150,000	3,150,000	3,150,000	42,160	14	63
2018	3,400,000	3,400,000	3,400,000*	189,167*	18*	59

\*Estimate

**NAO Publications in 2018****Published during 1 January 2018 to 31st August 2018**

1. IT Audit: The use of IT systems to identify skills and professional development needs within the Public Service
2. Performance Audit: The Designation and Effective management of protected areas with Maltese waters
3. Performance Audit: Evaluation of Feed-In Tariff Schemes for Photovoltaics
4. Report on the Work and Activities of the National Audit Office - 2017
5. An Investigation of an anonymous allegation on a Home Ownership Scheme property in Santa Lucija
6. An Investigation of the Mater Dei Hospital Project
7. An Investigation of allegations on Dingli Interpretation Centre
8. An Investigation into the Findings of the Local Governance Board: St. Paul's Bay Local Council
9. A Review of the Pension due to a former Member of Parliament
10. Performance Audit: A strategic Overview of Mount Carmel Hospital

**Further expected publications by year end**

11. Performance Audit: An evaluation of Government's deal to design, build and operate the Malta National Aquarium
12. Performance Audit : An Analysis on the Department of Fisheries and Aquaculture
13. Performance Audit: An Analysis on Mount Carmel Hospital's Outsourcing Agreements
14. An Investigation of matters relating to the Contract Awarded to ElectroGas Malta Ltd by Enemalta Corporation
15. An Investigation regarding Visas issued by the Maltese Consulate in Algiers
16. Report by the Auditor General Public Accounts 2017
17. Annual Report on the Auditor General - Local Government 2017
18. Follow Up Reports by the National Audit Office 2018

#### 4.2 Proposed Government Subvention for 2019

The National Audit Office Estimates for 2019 provide for a financial resource requirement of € 3,500,000 to maintain a planned staff complement of 61 persons and to cover the present and future operational and capital costs commitments.

The amount requested has also been submitted to the Ministry for Finance in the Business and Financial Plan 2019-2021 and agreed upon.

#### 5. Operating Costs

	2014	2015	2016	2017	2018	2019
	Actual	Actual	Actual	Actual	Estimate	Estimate
	€	€	€	€	€	€
Salaries	1,920,114	2,130,916	2,329,165	2,504,863	2,520,000	2,680,000
Local Council Audit	239,342	233,832	254,458	260,012	260,400	295,000
Administrative	315,257	299,403	274,916	282,217	329,338	318,738
Depreciation	38,858	48,619	56,421	65,265	86,000	106,000
<b>Total</b>	<b>2,513,571</b>	<b>2,712,770</b>	<b>2,917,808</b>	<b>3,112,357</b>	<b>3,195,738</b>	<b>3,399,738</b>

- The average staff complement for 2018 is expected to decline to fifty nine (59) persons for 2018 from an average staff complement of 63 persons in 2017.

This can be further explained as follows:

<i>Number of Staff on December 2017 payroll</i>	63 employees
Retirement of two employees at end of year 2017	(2) employees
Resignation of Officer during 2018	(1) employee
Officers availing of unpaid leave	(2) employees
	-----

<i>Number of Staff on August 2018 payroll</i>	58 employees
Officers availing of unpaid leave from September 2018	(2) employees
Staff to be recruited in October-December 2018	3 employees
	-----

<i>Expected number of staff on December 2018 payroll</i>	59 employees
	-----

<i>Expected full time equivalent on December 2018 payroll</i>	55 employees
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- In line with the Collective Agreement, basic salaries in all grades have increased in 2018 by an average of 2.5% over the preceding salaries in 2017. These increases are inclusive of the cost of living increase adjustment (COLA).
- The audit fee of local councils are governed by agreements signed separately with five external audit firm to conduct the audit of the financial statements of sixty eight local councils, five regional committees and the local council association for financial years ending 2014 to 2018. The contracts are subject to review and renewal on an annual basis. A new tender is expected to be issued in late 2018 relating to the audits of the local councils financial statements for financial year ending 31<sup>st</sup> December 2019.
- The administrative overheads of the NAO are mostly of a fixed nature and tend to level at €300,000 each financial year.

## 6. PROPERTY AND EQUIPMENT

	Building Improvements	Equipment	Computer Equipment & Software	Motor Vehicles	Furniture and Fittings	Total
	€	€	€	€	€	€
<b>Cost or valuation</b>						
At 1 January 2017	488,490	113,550	145,687	70,541	156,208	974,476
Additions	104,591	7,004	2,955	-	1,172	115,722
Write-Offs	-	-	(5,883)	-	-	(5,883)
Disposals	-	-	-	-	-	-
At 31 December 2017 (actual)	593,081	120,554	142,759	70,541	157,380	1,084,315
Estimated Additions for 2018	9,000	20,000	50,000	18,000	3,000	100,000
At 31 December 2018 (Estimate)	602,081	140,554	192,759	88,541	160,380	1,184,315
Estimated Additions for 2019	100,000	10,000	20,000	18,000	20,000	168,000
<b>At 31 December 2019 (Estimate)</b>	<b>702,081</b>	<b>150,554</b>	<b>212,759</b>	<b>106,541</b>	<b>180,380</b>	<b>1,352,315</b>
<b>Depreciation and impairment</b>						
At 1 January 2017	249,716	101,998	137,443	70,541	139,051	698,749
Depreciation charge for 2017	48,441	5,816	7,327	-	3,681	65,265
Released upon write-off	-	-	(5,883)	-	-	(5,883)
At 31 December 2017 (actual)	298,157	107,814	138,887	70,541	142,732	758,131
Estimated depreciaton charge for 2018	49,341	9,100	19,977	3,600	3,982	86,000
At 31 December 2018 (estimate)	347,498	116,914	158,864	74,141	146,714	844,131
Estimated depreciaton charge for 2019	59,233	9,806	24,319	7,200	5,442	106,000
<b>At 31 December 2019 (estimate)</b>	<b>406,731</b>	<b>126,720</b>	<b>183,183</b>	<b>81,341</b>	<b>152,156</b>	<b>950,131</b>
<b>Carrying amounts</b>						
At 31 December 2017 (Actual)	294,924	12,740	3,872	-	14,648	326,184
At 31 December 2018 (Estimate)	254,583	23,640	33,895	14,400	13,666	340,184
At 31 December 2019 (Estimate)	295,350	23,834	29,576	25,200	28,224	402,184

## 7. PROVISION FOR SERVICE PENSIONS AND GRATUITIES

The provision for service pension and gratuities is made up as follows:

	2017 (Actual)	2018 (Estimate)	2019 (Estimate)
	€	€	€
Non-Current	425,251	383,251	341,251
Current	61,023	61,023	61,023
	<b>486,274</b>	<b>444,274</b>	<b>402,274</b>

The movement in this provision is as follows:

	2017 (Actual)	2018 (Estimate)	2019 (Estimate)
	€	€	€
Pensions and gratuities as at 1 January	588,709	486,274	444,274
Provisions made during the year	109	19,695	19,695
Provisions used during the year	(102,544)	(61,695)	(61,695)
Pensions and gratuities as at 31 December	<b>486,274</b>	<b>444,274</b>	<b>402,274</b>

The Office provides for the obligation in terms of Article 8A of the Pensions Ordinance, Cap 93 of the Laws of Malta, whereby those ex-government employees who joined the Civil Service prior to 1979 and opted to become full-time employees of the Office when it was set up as an independent government entity, are entitled to receive the same pension and gratuity rights as provided for by the Ordinance.

There are a total of eleven persons who joined the Civil Service prior to 1979 but retired as full time employees from from the National Audit Office. There are no further persons eligible to a pension and gratuity rights as provided by the Pensions Ordinance.

In accordance with the Pensions Ordinance, the contribution sharing of the pensions and gratuities with the Treasury Department is based on the difference between the pensions and gratuities as worked out on the employee's salary upon retirement from the Office and the pensions and gratuities as worked out on their salaries at the time they terminated government service to join the Office.

The provision for service pensions and gratuities for 2017 to 2019 is arrived at by discounting the post-employment benefit obligations of the Office using the year end yield to maturity of 1.1 % on 7% 2026 I Government bonds

The provision for service pensions and gratuities for 2017 to 2019 is based on average life expectancy of 80 years for males and 84 years for females, based on the published data of the National Statistics Office.



## 8. PAYABLES

	2017 (Actual)	2018 (Estimate)	2019 (Estimate)
	€	€	€
Operational and capital payables	13,326	15,000	18,000
Taxes and social security	53,438	55,000	55,000
Accrued expenses	268,016	205,305	225,305
Amount due to Treasury for pension contributions	154,577	61,695	61,695
	<b>489,357</b>	<b>337,000</b>	<b>360,000</b>

**Annex 1: Actual Statement of Comprehensive Income  
for the Year Ending 31 December 2017  
Compared to 2017 Estimates**

	Actual 2017	Approved Estimate 2017	Variance
	€	€	€
<b>CONTINUING OPERATIONS</b>			
Government subvention	3,150,000	3,150,000	-
<b>Total operating revenue</b>	<b>3,150,000</b>	<b>3,150,000</b>	<b>-</b>
Salaries and personnel expenses	(2,504,863)	(2,404,000)	(100,863)
Audit fees of local councils	(260,012)	(260,400)	388
Administrative and other expenses	(282,217)	(292,208)	9,991
Depreciation	(65,265)	(68,100)	2,835
<b>Total operating expenses</b>	<b>(3,112,357)</b>	<b>(3,024,708)</b>	<b>(87,649)</b>
Results from operating activities	37,643	125,292	(87,649)
Other Income	4,507	3,200	1,307
Service pensions and gratuities (Treasury Charge)	(102,544)	(51,892)	(50,652)
Service pensions and gratuities (Provision Used)	102,435	(15,512)	117,947
Bank interest receivable	119	300	(181)
<b>Surplus for the year</b>	<b>42,160</b>	<b>61,388</b>	<b>(19,228)</b>

Annex 2 : Actual Statement of Comprehensive Income  
for the Period Ending 31 July 2018  
Reconciled to Revised Estimate for 2018

	Actual Jan - Jul (7 Month Period)	Monthly Average	Monthly Average extrapolated to 12 months for Jan - Dec 2018	Adjustments	Revised Estimate Jan - Dec 2018
	€	€	€	€	€
<b>CONTINUING OPERATIONS</b>					
Government subvention	1,983,333	283,333	3,400,000	-	3,400,000
<b>Total operating revenue</b>	<b>1,983,333</b>	<b>283,333</b>	<b>3,400,000</b>	<b>-</b>	<b>3,400,000</b>
Salaries and personnel expenses	(1,445,655)	(206,522)	(2,478,264)	(41,736)	(2,520,000)
Audit fees of local councils	(151,900)	(21,700)	(260,400)	-	(260,400)
Administrative and other expenses	(221,311)	(31,616)	(379,392)	50,054	(329,338)
Depreciation	<b>(40,991)</b>	(5,856)	(70,272)	(15,728)	(86,000)
<b>Total operating expenses</b>	<b>(1,859,857)</b>	<b>(265,694)</b>	<b>(3,188,328)</b>	<b>(7,410)</b>	<b>(3,195,738)</b>
<b>Results from operating activities</b>	123,476	<b>17,639</b>	<b>211,672</b>	<b>(7,410)</b>	<b>204,262</b>
<b>Other Income</b>	3,000				4,500
Service pensions and gratuities (Treasury Charge)	(35,989)				(61,695)
Service pensions and gratuities (Provision Used)	-				42,000
Bank interest receivable	<b>39</b>				100
<b>Surplus for the year</b>	<b>90,526</b>				<b>189,167</b>