NATIONAL AUDIT OFFICE

Annual Report
and
Financial Statements

31 December 2019

CONTENTS

GENERAL INFORMATION

Description

The National Audit Office is established under Article 108 of the Constitution of Malta.

Auditor General

Carmel Deguara

Deputy Auditor General

Noel Camilleri

Office

National Audit Office
Notre Dame Ravelin
Floriana FRN 1601
MALTA

Bankers

APS Bank Ltd
APS Centre
Tower Street
Birkirkara BKR 4012
MALTA

Auditors

Ernst & Young Malta Limited
Regional Business Centre
Achille Ferris Street
Msida MSD 1751
MALTA

REPORT OF THE AUDITOR GENERAL OF THE NATIONAL AUDIT OFFICE

The Auditor General presents his annual report, together with the financial statements of the National Audit Office (the "Office" or "NAO"), for the year ended 31 December 2019.

Principal Activities

The National Audit Office conducts audits of all Ministries, Departments and Offices of the Government of Malta, and of such other public authorities or other entities, including NGOs, administering, holding or using funds belonging directly or indirectly to the Government of Malta as may be prescribed by or under any law for the time being enforced in Malta.

Review of Results

The National Audit Office published a total of 11 reports with an average staff complement of 61 persons (equivalent to 57 full-timers). The reports consisted of four performance audit reports, two special audit reports, one IT audit report, an annual report on the public accounts of 2018 (which includes another performance audit report), an annual report on the audited financial statements of the local councils for year ending 2018, a follow-up report, and the annual work and activities report.

Year	Amount approved by NAO Accounts Committee and authorised by the House of Representatives €	Amount allocated in Budgetary Estimates by Ministry of Finance €	Amount actually withdrawn €	Surplus/ (Deficit) €	Number of Audit Reports Published	Average Staff Complement
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	(163,247)	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	221,428	17	60
2019	3,500,000	3,500,000	3,500,000	119,862	11	61

Financial and Compliance Audits:

i. Report by the Auditor General on the Public Accounts for the year 2018; and
ii. Report by the Auditor General on the Workings of Local Government for the year 2018.

Performance Audits:

i. A review on the contract for Mount Carmel Hospital's clerical services
ii. An evaluation of the Community Work Scheme
iii. An analysis of issues concerning the Co-operative Movement in Malta
iv. Co-operative Audit: Are adequate mechanisms in place for the designation and effective management of Marine Protected Areas (MPAs) within the Mediterranean Sea?

Special Audits and Investigations:

i. An investigation of visas issued by the Maltese Consulate in Algiers
ii. An investigation of contracts awarded by the Ministry for Home Affairs and National Security to Infinite Fusion Technologies Ltd.

Information Technology Audits:

i. The effective use of tablets in State, Church and Independent Primary Schools.

Other

i. Follow up reports by the National Audit Office for the year 2019;
ii. Annual Report and Financial Statements 2018 – Work and Activities

The Office was involved in 2019 in quite a number of international capacity building initiatives that included the use of data analytics, the audit of sustainable development goals, participation in the European Stability Mechanism following the appointment of our Deputy Auditor General as a Member of the ESM Audit Board and the hosting of an EUROSAI IT working group meeting in Malta. The NAO also organised in Malta an international conference in collaboration with the INTOSAI Development Initiative (IDI), as well as the annual NAO – ECA Joint Conference, which focused on the theme *Supreme Audit Institutions: How Can They Influence Governments to Address Citizens' Concerns*. These initiatives provided valuable benefits to participating staff in terms of improved skills, knowledge and competence.

This increased activity has taken place notwithstanding the international commitments of the Office as undertaken in the previous years.

Throughout 2019, the effort of the Office's Special Audits section was taken up by two complex inquiries related to contractual legal agreements that were still ongoing as at financial statement date. It is expected that they will be concluded in 2020.

The National Audit Office was also assigned in 2019 to follow up an investigation of Mater Dei Hospital, as requested by the Minister for Finance.

The Annual Audit report on the Public Accounts of 2018 featured nine more audits than last year's report.

Financial Review

The National Audit Office achieved a surplus of €119,862 for the year ending 2019, as compared to a surplus of €221,428 achieved in the previous financial year.

The average number of employees stabilised at 61 for 2019, just registering an additional increase of one employee over 2018. Full-time equivalents of these 61 employees (28% of which work on a reduced hours schedule) amounted to 57 employees. After taking into account the cost of one additional employee, salaries increased in 2019 by only 3%, which is in line with that provided in the Collective Agreement 2017-2024.

The cash and cash equivalent balances improved by €27,510 at the end of financial year 2019.

Capital expenditure amounted to a total of €198,225, with slightly more than half of the amount being incurred on the refurbishment of the secretarial office and two other offices in its vicinity, as well as the offices situated in the lower right wing of the main building. The refurbishment of the other offices in the other lower left wing of the main building continued in 2020 and the offices in the upper wing are intended to be refurbished in 2021. The capital expenditure included also the purchase of two new motor-vehicles and the replacement of 10 staff laptops.

Training costs amounted to €36,029, which included the average provision of 47 hours of training to every employee. Training activities consisted mainly of the delivery of the Financial Crime Investigation and Case Management module to two separate cohorts in line with the NAO-CIPFA project schedule, a first aid and mental health training course, a course on report writing to all staff, the annual NAO-ECA seminar and a team-building activity. Other employees were given the opportunity to attend overseas seminars, take part in an exchange visit on work practices and also to attend local seminars and conferences.

Capital Commitments

On 20 August 2019, the National Audit Office submitted a business case to the Ministry for Finance to construct a new annex adjacent to the present office to provide training and meeting facilities for all staff, as well as additional office space for new recruits. The architect appointed by the Office has proposed a project of three levels at a cost of circa €2.2 million.

Following discussions with the Ministry for Finance, an amount of €200,000 (in addition to the €3.6 million costs allocated for recurrent costs and other capital expenditure) has been allocated by the Ministry in 2020 to undertake the initial phase of the project, which consists of permitting, design, geological studies and surveying.

Further discussions are to follow with the NAO Accounts Committee and the Ministry for Finance after the initial stages of the project have been concluded.

Reserves

After deducting the surplus of €119,862 from the balance of accumulated deficit as at the beginning of the year, the total accumulated deficit at the end of 2019 amounting to €241,123 is being carried forward to the next financial period. The accumulated deficit, as shown in the statement of financial position, would be converted into a surplus had the provision for pensions and gratuities over an approximate 30-year period not been accounted for as per requirements of IAS 19.

CARMEL DEGUARA	**NOEL CAMILLERI**
Auditor General of the	*Deputy Auditor General of the*
National Audit Office	*National Audit Office*

Notre Dame Ravelin
Floriana FRN 1600
Malta

27 April 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	**2019** €	2018 €
Government subvention	6	**3,500,000**	3,400,000
Other income	7	**19,195**	43,360
Operating expenditure			
Salaries and personnel expenses	8	**(2,614,672)**	(2,481,985)
Administrative and other expenses	9	**(481,659)**	(464,363)
Sub-contracted audit fees of local councils		**(260,012)**	(260,012)
		(3,356,343)	(3,206,360)
Results from operating activities before pension costs		**162,852**	237,000
Provision for service pensions and gratuities	11	**(43,118)**	(15,675)
Results from operating activities		**119,734**	221,325
Bank interest receivable		**128**	103
Surplus for the year		**119,862**	221,428
Total comprehensive income for the year		**119,862**	221,428

The accounting policies and explanatory notes on pages 10 to 19 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Notes	2019 €	2018 €
ASSETS			
Non-current assets			
Property and equipment	10	**389,447**	293,657
Current assets			
Debtors and prepayments		**7,653**	25,251
Cash and cash equivalents	13	**140,801**	113,291
		148,454	138,542
Total assets		**537,901**	432,199
LIABILITIES			
Non-current liabilities			
Provision for service pensions and gratuities	11	**360,367**	379,417
Current liabilities			
Payables	12	**357,347**	352,930
Provision for service pensions and gratuities	11	**61,310**	60,837
		418,657	413,767
Total liabilities		**779,024**	793,184
Accumulated deficit		**(241,123)**	(360,985)
Total liabilities and accumulated deficit		**537,901**	432,199

The accounting policies and explanatory notes on pages 10 to 19 form an integral part of the financial statements.

The financial statements on pages 6 to 19 have been authorised for issue on 27 April 2020 by:

CARMEL DEGUARA
Auditor General of the
National Audit Office

NOEL CAMILLERI
Deputy Auditor General of the
National Audit Office

STATEMENT OF CHANGES IN NET LIABILITIES
for the year ended 31 December 2019

	Accumulated deficit €
Balance at 1 January 2018	(582,413)
Total comprehensive income for the year	
Surplus for the year	221,428
Balance at 31 December 2018	**(360,985)**
Balance at 1 January 2019	(360,985)
Total comprehensive income for the year	
Surplus for the year	119,862
Balance at 31 December 2019	**(241,123)**

The accounting policies and explanatory notes on pages 10 to 19 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Note	2019 €	2018 €
Cash flows from operating activities			
Surplus for the year		**119,862**	221,428
Non-cash adjustments to reconcile surplus to net cash flows:			
Depreciation		**102,435**	71,676
Bank interest receivable		**(128)**	(103)
Provision for service pensions and gratuities		**43,118**	15,675
Gain on disposal of property, plant and equipment		**(1,838)**	-
		263,449	308,676
Movement in debtors and prepayments		**17,598**	(15,279)
Movement in payables		**4,417**	(136,427)
Movement in provision for service pensions and gratuities		**(61,695)**	(61,695)
Cash generated from operating activities		**223,769**	95,275
Bank interest received		**128**	103
Net cash from operating activities		**223,897**	95,378
Cash flows from investing activities			
Purchase of property and equipment		**(196,387)**	(39,149)
Cash used in investing activities		**(196,387)**	(39,149)
Net increase in cash and cash equivalents		**27,510**	56,229
Cash and cash equivalents at 1 January		**113,291**	57,062
Cash and cash equivalents at 31 December	13	**140,801**	113,291

The accounting policies and explanatory notes on pages 10 to 19 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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 use of public funds; and
- contribute towards the better management of public funds and resources.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards, as adopted by the EU. All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU.

2.2 Basis of measurement

Assets and liabilities are measured at historical cost, except for the provision for service pensions and gratuities, which is measured according to the accounting policy disclosed in note 3.8.

2.2.1 Going Concern

As at 31 December 2019, the Office had net liabilities of €241,123 (2018: €360,985).

The Office’s accumulated deficit arises principally from the provision for service pensions and gratuities that is provided over a 30-year period to cover the annual obligatory charge to the Treasury arising from the Pensions Ordinance, Cap 93 in respect of certain ex-employees who joined the Civil Service prior to 1979.

The going concern of the Office is safeguarded since the Constitution of Malta and the Auditor General and National Audit Office Act guarantee the set-up and continuous operations of a state audit institution that is funded by government, while allowing it to remain autonomous and independent from any government authority.

The National Audit Office includes the annual charge due to the Treasury for every forthcoming year in its budgetary request and pays the amount due as it arises.

The budgetary request of the National Audit Office is approved by the House of Representatives following the endorsement of a parliamentary committee, the National Audit Office Accounts Committee.

Furthermore, the operations of a state audit institution have become a fundamental international requirement for any country to safeguard its system of public finances; so much so that, as of the present date, the International Organisation of Supreme Audit Institutions (INTOSAI) has full membership of state audit institutions from 194 countries (including Malta).

2.3 Functional and presentation currency

These financial statements are presented in euro, which is the Office’s functional currency.

2. BASIS OF PREPARATION – continued

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenditure. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 11 – Provision for service pensions and gratuities.

2.5 Standards, interpretations and amendments to published standards as endorsed by the EU and effective in current year

The accounting policies adopted are consistent with those of the previous financial year, except for the new standards and amendment to IFRS effective as of 1 January 2019. The adoption of these standards or interpretations did not have a material impact on the financial statements or performance of the Office.

IFRS 16 Leases

With effect from 1 January 2019 the National Audit Office adopted IFRS 16 *Leases*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet. The Office elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). The Office rents its main building and other offices from the Government's Lands' Department with the leases being renewable on an annual basis. As a result, the adoption of IFRS 16 did not have any material impact on the financial statements of the Office.

2.6 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020 and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the Office's financial statements, on initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied to all periods presented in these financial statements.

3.1 Government of Malta subventions

Government subventions are taken directly to profit or loss on approval of the allocated amount in the Budgetary Estimates by the Ministry of Finance.

3.2 Finance income

Finance income comprises interest receivable on bank balances. Interest is recognised as it accrues in profit or loss, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.3 Financial instruments

Non-derivative financial assets – recognition and derecognition

The Office initially recognises non-derivative financial assets on the date that they are originated.

The Office derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Office is recognised as a separate asset or liability.

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Office has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Office classifies its non-derivative financial assets in the debt instruments at amortised cost category, which includes cash and cash equivalents.

Non-derivative financial liabilities – recognition and derecognition

Financial liabilities are recognised initially on the trade date, which is the date that the Office becomes a party to the contractual provisions of the instrument.

The Office derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Office classifies its financial liabilities in the other financial liabilities category, which comprises payables.

Non-derivative financial assets – measurement

Debt instruments at amortised cost are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these receivables are measured at amortised cost using the effective interest method.

Non-derivative financial liabilities – measurement

Non-derivative financial liabilities classified in the other financial liabilities category are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

3.4 Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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" or "other expenses" 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 that 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
• Equipment	5 years
• Computer equipment and software	3 years
• Motor vehicles	5 years
• Furniture and fittings	10 years

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

3.6 Impairment

Non-derivative financial assets

The Office recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Office expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.6 Impairment – continued

Non-financial assets

The carrying amounts of the Office's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

3.7 Employee benefits

The Office contributes towards the State pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions are recognised as employee benefits expense in profit or loss in the periods during which services are rendered by employees.

3.8 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 Office's present and retired employees. The present value is arrived at by using a risk-free rate based on the local Government bond that matures on a date equivalent to the average number of years during which the Office is expected to effect pensions and gratuities payments.

4. DETERMINATION OF FAIR VALUES

A number of the Office's accounting policies and disclosures requires the determination of fair value for financial assets and liabilities. For receivables and payables with a remaining useful life of less than one year, the carrying amount is deemed to reflect their fair value. Fair value is determined for disclosure purposes based on the following methods:

Receivables

The fair value of receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date.

4. DETERMINATION OF FAIR VALUES - continued

Payables

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

5. FINANCIAL RISK MANAGEMENT

This note presents information about the Office's exposure to financial risks (credit risk, liquidity risk and market risk) arising from financial instruments, and the management of these risks. The Office does not have components of equity.

The Auditor General has responsibility for the establishment and oversight of the Office's risk management framework.

The Office does not enter into any transactions in derivative financial instruments to manage risks.

Credit risk

Credit risk is the risk of financial loss to the Office if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial assets, which potentially subject the Office to a concentration of credit risk, consist principally of cash at bank. The Office's cash at bank is placed with quality financial institutions.

Liquidity risk

Liquidity risk is the risk that the Office will not be able to meet its financial obligations as they fall due and is principally represented by current liabilities that are payable on demand.

The liquidity risk is mitigated by the fact that the Office is financially supported by the Government of Malta.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Office's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Office is not subject to currency risk since all its monetary financial assets and liabilities are denominated in the Office's functional currency. The Office is exposed to interest rate risk on its bank balances. In view of the low interest rates in the market, a change in current market interest rates as at the reporting date would not have a material effect on profit or loss.

6. GOVERNMENT SUBVENTION

	2019	2018
	€	€
Authorised by the House of Representatives	**3,500,000**	3,400,000
Amount allocated by the Ministry for Finance in Budget Estimates	**3,500,000**	3,400,000
Amounts actually withdrawn	**3,500,000**	3,400,000

NOTES TO THE FINANCIAL STATEMENTS – continued

7. OTHER INCOME

	2019	2018
	€	€
Audit fee of Non-Government Organisation	**3,000**	3,000
Penalty Refund	**5,043**	-
EU Funding – Training Project	**-**	32,112
EU Funding – Travel	-	8,248
Reimbursements	**11,152**	-
	19,195	43,360

8. SALARIES AND PERSONNEL EXPENSES

	2019	2018
	€	€
Salaries	**2,480,711**	2,350,701
Social security contributions	**133,961**	131,284
	2,614,672	2,481,985

The average number of persons employed by the Office during the year was as follows:

	2019	2018
	No.	No.
Senior management	**6**	6
Operating	**41**	40
Administration and IT	**9**	9
Messenger staff	**5**	5
	61	60
Equivalent number of full-time employees	**57**	55

During the year a total of 17 persons (2018: 18) worked on a reduced hour basis.

9. EXPENSES BY NATURE

	2019	2018
	€	€
Auditors' remuneration	**4,750**	4,750
Professional fees	**61,013**	47,729
Depreciation of property and equipment	**102,435**	71,676
Net cost of hosting international events	**7,360**	15,798
Learning and Professional Development	**36,029**	68,500
Other administrative expenses	**270,072**	255,910
Total administrative and other expenses	**481,659**	464,363

NOTES TO THE FINANCIAL STATEMENTS – continued

10. PROPERTY AND EQUIPMENT

	Building improvements €	Equipment €	Computer equipment and software €	Motor vehicles €	Furniture and fittings €	Total €
Cost						
At 1 January 2018	593,081	120,554	142,759	70,541	157,380	1,084,315
Additions	-	6,748	31,008	-	1,393	39,149
Write-offs	-	-	(7,764)	-	-	(7,764)
At 31 December 2018	593,081	127,302	166,003	70,541	158,773	1,115,700
Additions	104,589	8,550	41,925	39,793	3,368	198,225
Write-offs / disposals	-	(11,181)	(10,548)	(13,976)	(8,310)	(44,015)
At 31 December 2019	**697,670**	**124,671**	**197,380**	**96,358**	**153,831**	**1,269,910**
Depreciation						
At 1 January 2018	298,157	107,814	138,887	70,541	142,732	758,131
Depreciation charge for the year	48,441	6,447	13,221	-	3,567	71,676
Released upon write-off	-	-	(7,764)	-	-	(7,764)
At 31 December 2018	346,598	114,261	144,344	70,541	146,299	822,043
Depreciation charge for the year	58,696	6,865	25,297	7,959	3,618	102,435
Released upon write-off / disposal	-	(11,181)	(10,548)	(13,976)	(8,310)	(44,015)
At 31 December 2019	**405,294**	**109,945**	**159,093**	**64,524**	**141,607**	**880,463**
Carrying amount						
At 31 December 2019	**292,376**	**14,726**	**38,287**	**31,834**	**12,224**	**389,447**
At 31 December 2018	246,483	13,041	21,659	-	12,474	293,657

11. PROVISION FOR SERVICE PENSIONS AND GRATUITIES

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

	2019 €	2018 €
Non-current	**360,367**	379,417
Current	**61,310**	60,837
	421,677	440,254

11. PROVISION FOR SERVICE PENSIONS AND GRATUITIES – continued

Of the non-current portion of the provision, an amount of €192,090 (2018: €207,881) refers to payments to be made after more than 5 years from the reporting date. The movement in this provision for the current and comparative year is as follows:

	2019	2018
	€	€
Service pensions and gratuities as at 1 January	**440,254**	486,274
Provisions made during the year	**43,118**	15,675
Provisions used during the year	**(61,695)**	(61,695)
Service pensions and gratuities as at 31 December	**421,677**	440,254

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 10 persons who joined the Civil Service prior to 1979 but retired as full-time employees from the NAO. There are no further persons eligible to 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 on 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 as at 31 December 2018 is arrived at by discounting the post-employment benefit obligations of the Office using the year-end yield to maturity of 0.48% on 5.25% 2030 I Government bonds (2018: 1.41% on 5.1% 2029 I Government bonds). The post-employment benefit obligations are computed after taking into consideration the following assumptions:

Average life expectancy of males and females is 80 years and 85 years, respectively (2018: males and females of 80 and 85 years, respectively), based on the published data of the National Statistics Office Demographic Review.

12. PAYABLES

	2019	2018
	€	€
Operational and capital payables	**16,630**	19,590
Taxes and social security	**58,759**	55,568
Accrued expenses	**220,263**	216,077
Amount due to Treasury for pension contributions	**61,695**	61,695
	357,347	352,930

NOTES TO THE FINANCIAL STATEMENTS – continued

13. CASH AND CASH EQUIVALENTS

	2019 €	2018 €
Cash at bank	**140,634**	113,223
Cash in hand	**167**	68
	140,801	113,291

14. SUBSEQUENT EVENTS

Amidst the COVID-19 and the economic implications that it might have, the Auditor General is of the opinion that with the current scenario, the impact on the National Audit Office's finances is limited. The Office is able to manage its expenditure levels such that expenditure is fully funded on its ability to secure sufficient subvention from the government.

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INDEPENDENT AUDITOR'S REPORT
TO THE NATIONAL AUDIT OFFICE ACCOUNTS COMMITTEE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the National Audit Office (the "Office") which comprise the statement of financial position as at 31 December 2019 and the statement of profit or loss and comprehensive income, the statement of changes in net liabilities and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Office as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Office in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board of 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 of the Laws of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Auditor General is responsible for the other information. The other information, which we obtained at the date of the auditor's report comprises the General Information and the Report of the Auditor General of the National Audit Office, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than our reporting on other legal and regulatory requirements.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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INDEPENDENT AUDITOR'S REPORT
TO THE NATIONAL AUDIT OFFICE ACCOUNTS COMMITTEE – continued

Responsibilities of the Auditor General for the financial statements

The Auditor General is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as the Auditor General determine 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 Auditor General is responsible for assessing the Office'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 Office is in the process of being terminated in accordance with national law.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auditor General.

- conclude on the appropriateness of the Auditor General's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Office to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT
TO THE NATIONAL AUDIT OFFICE ACCOUNTS COMMITTEE – continued

Auditor's responsibilities for the audit of the financial statements – continued

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Auditor General regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The partner of the audit resulting in this independent auditor's report is
Christopher Balzan for and on behalf of

Ernst & Young Malta Limited
Certified Public Accountants

27 April 2020