

Financial Estimates  
for the  
Financial Year 2023

5 October 2022



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## STATEMENT OF COMPREHENSIVE INCOME

### for the years ending 31 December 2021, 2022 and 2023

	Notes	2021		2022		2023
		Actual	Approved	Revised	Savings/	Proposed
		€	Estimate	Estimate	Excess	Estimate
Government subvention	4	3,750,000	3,900,000	3,900,000	-	4,200,000
Grant receivable		3,333	3,333	3,333	-	-
Other income		21,160	3,000	3,000	-	3,000
<b>Total operating income</b>		<b>3,774,493</b>	<b>3,906,333</b>	<b>3,906,333</b>	<b>-</b>	<b>4,203,000</b>
Salaries and personnel expenses	5	2,865,998	3,008,000	2,966,000	42,000	3,227,000
Audit fees of local councils	6	322,864	380,000	313,000	67,000	313,000
Administrative and other expenses		213,543	358,488	375,488	(17,000)	322,554
Depreciation	7	108,146	126,000	105,000	21,000	145,000
<b>Total operating expenditure</b>		<b>3,510,551</b>	<b>3,872,488</b>	<b>3,759,488</b>	<b>113,000</b>	<b>4,007,554</b>
<b>Results from operating activities</b>		<b>263,942</b>	<b>33,845</b>	<b>146,845</b>	<b>113,000</b>	<b>195,446</b>
Provision for service pensions and gratuities	8	27,423	(19,600)	(19,600)	-	(25,824)
Bank interest receivable		175	100	100	-	100
<b>Surplus for the year</b>		<b>291,540</b>	<b>14,345</b>	<b>127,345</b>	<b>113,000</b>	<b>169,722</b>

**SUPPLEMENTARY STATEMENT**  
for the years ending 31 December 2021, 2022 and 2023

	2021		2022		2023
	Actual	Approved Estimate	Revised Estimate	Savings /Excess	Proposed Estimate
	€	€	€	€	€
<b>SALARIES AND PERSONNEL EXPENSES</b>					
Salaries	1,872,180	2,000,000	1,950,000	50,000	2,155,000
Bonuses	30,042	30,000	30,000	-	30,000
Social security contributions	148,751	158,000	151,000	7,000	162,000
Allowances	801,030	800,000	815,000	(15,000)	860,000
Overtime	13,995	20,000	20,000	-	20,000
	<b>2,865,998</b>	<b>3,008,000</b>	<b>2,966,000</b>	<b>42,000</b>	<b>3,227,000</b>
<i>Average Number of Employees</i>	<i>58</i>	<i>60</i>	<i>58</i>	<i>2</i>	<i>61</i>
<b>ADMINISTRATIVE AND OTHER EXPENSES</b>					
Utilities	18,611	23,000	21,000	2,000	21,000
Materials and supplies	2,856	4,000	4,000	-	4,000
Repairs and upkeep	48,139	55,000	55,000	-	55,000
Rent	13,138	13,138	13,138	-	13,138
International memberships	494	1,000	1,000	-	1,000
Office services	32,887	40,000	35,000	5,000	35,000
Transport	16,464	15,000	15,000	-	15,000
Travel	2,888	20,000	40,000	(20,000)	40,000
Information services	33	2,000	2,000	-	2,000
Contractual services	55,883	70,000	69,000	1,000	71,066
Professional fees	17,580	75,000	80,000	(5,000)	30,000
Training	2,261	25,000	25,000	-	30,000
Hospitality	2,000	15,000	15,000	-	5,000
Incidental expenses	309	350	350	-	350
	<b>213,543</b>	<b>358,488</b>	<b>375,488</b>	<b>(17,000)</b>	<b>322,554</b>

## STATEMENT OF FINANCIAL POSITION

### as at 31 December 2021, 2022 and 2023

	Note	Actual 2021 €	Revised Estimate 2022 €	Proposed Estimate 2023 €
<b>ASSETS</b>				
Property and equipment	7	354,526	324,526	429,526
<b>Current Assets</b>				
Debtors and prepayments		109,079	110,000	450,000
Cash and cash equivalents		466,915	543,375	221,387
		575,994	653,375	671,387
<b>Total Assets</b>		<b>930,520</b>	<b>977,901</b>	<b>1,100,913</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Provision for service pensions and gratuities	8	272,640	231,574	194,864
		272,640	231,574	194,864
<b>Current liabilities</b>				
Payables	9	458,898	420,000	410,000
Provision for service pensions and gratuities	8	61,261	61,261	61,261
		520,159	481,261	471,261
<b>Total liabilities</b>		<b>792,799</b>	<b>712,835</b>	<b>666,125</b>
<b>Reserves</b>				
Profit and Loss Account		137,721	265,066	434,788
<b>Total Reserves</b>		<b>137,721</b>	<b>265,066</b>	<b>434,788</b>
<b>Total Liabilities and Reserves</b>		<b>930,520</b>	<b>977,901</b>	<b>1,100,913</b>

STATEMENT OF CHANGES IN RESERVES  
for the years ending 31 December 2021, 2022 and 2023

	Profit and Loss Account €
Balance at 1 January 2021	(153,819)
Surplus for the year	291,540
<b>Balance at 31 December 2021</b>	<b><u>137,721</u></b>
Balance at 1 January 2022	137,721
Estimated surplus for the year	127,345
<b>Balance at 31 December 2022</b>	<b><u>265,066</u></b>
Balance at 1 January 2023	265,066
Estimated surplus for the year	169,722
<b>Balance at 31 December 2023</b>	<b><u>434,788</u></b>

## STATEMENT OF CASH FLOWS

### for the years ending 31 December 2021, 2022 and 2023

	Actual	Revised	Proposed
	2021	Estimate	Estimate
	2021	2022	2023
	€	€	€
<b>Cash flows from operating activities</b>			
Surplus for the year	291,540	127,345	169,722
<i>Non-cash Adjustments to reconcile surplus to net cash flows:</i>			
Depreciation	108,147	105,000	145,000
Bank interest receivable	(175)	(100)	(100)
Provision for service pensions and gratuities	(27,423)	19,600	25,824
Amortisation of grant for ICT expenditure	(3,333)	(3,333)	-
	368,756	248,512	340,446
Movement in debtors and prepayments	(89,396)	(921)	(340,000)
Movement in payables	(17,588)	(35,565)	(10,000)
Movement in provision for service pensions and gratuities	(61,768)	(60,666)	(62,534)
Cash generated from operating activities	200,004	151,360	(72,088)
Bank interest received	175	100	100
<b>Net cash from operating activities</b>	<b>200,179</b>	<b>151,460</b>	<b>(71,988)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	(24,320)	(75,000)	(250,000)
<b>Cash used in investing activities</b>	<b>(24,320)</b>	<b>(75,000)</b>	<b>(250,000)</b>
<b>Cash flows from financing activities</b>			
Capital allocation from Government subvention	100,000	-	-
<b>Cash from financing activities</b>	<b>100,000</b>	<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>275,859</b>	<b>76,460</b>	<b>(321,988)</b>
Cash and cash equivalents at 1 January	191,056	466,915	543,375
<b>Cash and cash equivalents at 31 December</b>	<b>466,915</b>	<b>543,375</b>	<b>221,387</b>

## Notes to the Estimates for the years ending 31 December 2021, 2022 and 2023

### 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.

## Notes to the Estimates

### for the years ending 31 December 2021, 2022 and 2023 ... *continued*

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.

## Notes to the Estimates

for the years ending 31 December 2021, 2022 and 2023 ... continued

### 4. GOVERNMENT SUBVENTION

#### 4.1 Summary of Government subventions throughout the years

Table 1: The financial picture

Year	Amount approved by NAO Accounts Committee and authorised by Parliament	Amounts withdrawn	Surplus for the year	Number of audit reports published	Average staff complement
	€	€	€	€	€
2017	3,150,000	3,150,000	42,160	14	63
2018	3,400,000	3,400,000	221,428	17	60
2019	3,500,000	3,500,000	119,862	11	61
2020	3,800,000	3,600,000	87,304	19	64
2021	3,850,000	3,850,000	291,540	15	64
2022	3,900,000	3,900,000	167,722	*15	*64

\*Estimate

#### 4.2 Proposed Government subvention for 2023

The National Audit Office Estimates for 2023 provide for a financial resource requirement of € 4,200,000 to maintain a planned staff complement of 67 staff (61 full time equivalents) and to cover the present and future operational and capital costs commitments.

### 5. SALARIES AND PERSONNEL EXPENSES

The average staff complement for 2022 is expected to remain the same as last year, i.e. at 64 persons (58 full-time equivalents). In line with the provisions for basic salaries and allowances as defined by the Collective Agreement (2017-2024) , salaries in all grades are expected to increase by 1.7% over the preceding year. The increases are inclusive of the cost of living adjustment increases (COLA).

For 2023, the Office has provided for a 2.5% increase in salaries as per Collective Agreement (2017-2024) and recruitment of an additional three full-time personnel in the grades of Senior Auditor. The average staff complement for 2023 is targeted to reach 67 persons ( 61 full-time equivalents) at a total cost of € 3,227,000 – 77% of the budgeted Government Subvention.

### 6. LOCAL COUNCILS

The subcontracted audits for local councils relating to financial statements 2021-2023 have been awarded to two private audit firms by means of a public tendering process that was finalised in January 2022. The subcontracted audit local council costs for 2022 and 2023 have seen a marginal decline from the previous year.

## Notes to the Estimates for the years ending 31 December 2021, 2022 and 2023 ... continued

### 7. PROPERTY AND EQUIPMENT

	Building Improvements	Equipment	Computer equipment and software	Motor Vehicles	Furniture & fittings	Total
	€	€	€	€	€	€
<b>Cost</b>						
At 1 January 2021	803,509	121,835	205,925	116,358	160,857	1,408,484
Additions	-	8,445	15,179	-	696	24,320
<b>At 31 December 2021</b>	<b>803,509</b>	<b>130,280</b>	<b>221,104</b>	<b>116,358</b>	<b>161,553</b>	<b>1,432,804</b>
At 1 January 2022	803,509	130,280	221,104	116,358	161,553	1,432,804
Additions	25,000	10,000	35,000	-	5,000	75,000
<b>At 31 December 2022</b>	<b>828,509</b>	<b>140,280</b>	<b>256,104</b>	<b>116,358</b>	<b>166,553</b>	<b>1,507,804</b>
At 1 January 2023	828,509	140,280	256,104	116,358	166,553	1,507,804
Additions	100,000	10,000	130,000	-	10,000	250,000
<b>At 31 December 2023</b>	<b>928,509</b>	<b>150,280</b>	<b>386,104</b>	<b>116,358</b>	<b>176,553</b>	<b>1,757,804</b>
<b>Depreciation</b>						
At 1 January 2021	474,499	107,509	165,805	76,483	145,835	970,131
Depreciation charge for the year	53,788	7,423	32,108	11,959	2,869	108,147
<b>At 31 December 2021</b>	<b>528,287</b>	<b>114,932</b>	<b>197,913</b>	<b>88,442</b>	<b>148,704</b>	<b>1,078,278</b>
At 1 January 2022	528,287	114,932	197,913	88,442	148,704	1,078,278
Depreciation charge for the year	52,252	8,022	29,800	11,959	2,967	105,000
<b>At 31 December 2022</b>	<b>580,539</b>	<b>122,954</b>	<b>227,713</b>	<b>100,401</b>	<b>151,671</b>	<b>1,183,278</b>
At 1 January 2023	580,539	122,954	227,713	100,401	151,671	1,183,278
Depreciation charge for the year	60,432	8,673	60,393	11,959	3,543	145,000
<b>At 31 December 2023</b>	<b>640,971</b>	<b>131,627</b>	<b>288,106</b>	<b>112,360</b>	<b>155,214</b>	<b>1,328,278</b>
<b>Carrying Amounts</b>						
<b>At 31 December 2023</b>	<b>287,538</b>	<b>18,653</b>	<b>97,998</b>	<b>3,998</b>	<b>21,339</b>	<b>429,526</b>
<b>At 31 December 2022</b>	<b>247,970</b>	<b>17,326</b>	<b>28,391</b>	<b>15,957</b>	<b>14,882</b>	<b>324,526</b>
At 31 December 2021	275,222	15,348	23,191	27,916	12,849	354,526

## Notes to the Estimates

for the years ending 31 December 2021, 2022 and 2023 ... continued

### 8. PROVISION FOR SERVICE PENSIONS AND GRATUITIES

	2020	2021	2022
	Active	Estimate	Estimate
	€	€	€
<b>Provision for Service and Gratuities</b>			
<i>a) Balance Sheet Provision</i>			
Non-Current	272,640	231,574	194,864
Current	61,261	61,261	61,261
	<b>333,901</b>	<b>292,835</b>	<b>256,125</b>
<i>b) Movement in Provision</i>			
Service pensions and gratuities as at beginning of year	423,092	333,901	291,901
Provision made during year	(27,423)	19,600	25,824
Provision used during Year	(61,768)	(61,600)	(61,600)
	<b>333,901</b>	<b>291,901</b>	<b>256,125</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 eleven persons who retired from the National Audit Office and receive a Treasury pension. There are no further persons eligible to pensions 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 as at 31 December 2021 is arrived at by discounting the post-employment benefit obligations of the Office using the year end maturity of 0.56 % on 5.25% 2030 I Government bonds.

The post-employment benefits obligations are computed after taking into consideration the average life expectancy which is 80 years for males and 85 for females based on data published in the National Statistics Office Demographic review.

The same assumptions were held for the workings of the provision for service pensions and gratuities for years ending 31 December 2022 and 2023.

## Notes to the Estimates

### for the years ending 31 December 2021, 2022 and 2023 ... *continued*

#### 9. PAYABLES

	2021	2022	2023
	Actual	Estimate	Estimate
	€	€	€
<b>Due within 1 Year</b>			
Operational and capital payables	10,891	18,400	45,000
Grant Received	3,333	-	-
Accrued expenses	282,906	240,000	265,000
Treasury Pension	61,768	61,600	-
Deferred Government subvention on capital expenditure	100,000	100,000	100,000
	<b>458,898</b>	<b>420,000</b>	<b>410,000</b>

#### 10. CAPITAL PROJECT

As from 2019, the National Audit Office has been proposing a capital building project through a contracted architect that provides for a human resource centre, additional office space and multi-purpose meeting rooms for its staff. Following discussions with the Ministry of Finance and Employment (MFE), the government subvention allocations have been increased in 2020 and 2021 to enable the Office carry out the necessary research and permitting. In September 2021, the Office submitted the designs to the Planning Authority (PA) at a cost estimate of €1.87 million. Following initial feedback from interested third parties in the project, the architect in consultation with the Office felt the need to revise the design and take account of concerns and objections raised during the PA consultation process. The designs are to be re-submitted to PA before end of year at an estimated revised cost of € 1.45 million. Discussions with the MFE on the funding of the capital project will resume once the permits for the project have been approved by the PA.

## Annex 1: NAO Publications in 2022

### Published between 1 January 2022 till 1 October 2022

- Performance Audit: Assisting Individuals with Dementia and their Caregivers within the Community
- Joint Report on Management of Plastic Waste in Europe
- Report by the Auditor General on the Ministry for Finance and Employment: Analysis on Revenue Collection
- An evaluation of performance audits in the public sector: Common audit findings (2017 – 2020)
- Follow-up Audit Report Vol I issued by the National Audit Office - 2022
- Performance Audit: Procuring the Public Transportation Service
- NAO Annual Report and Financial Statements

### To be published between 1 October 2022 till 31 December 2022

- Performance Audit: Business Continuity following Covid-19 related measures
- Performance Audit: Follow-Up on Mount Carmel Hospital
- Information Technology Audit: Census of Population and Housing
- Follow-Up Audit Report Volume 2 issued by the National Audit Office - 2022
- NAO Annual Report Public Accounts 2021
- Performance Audit: Elderly Homes in Gozo
- Information Technology Audit: Elderly Services
- NAO Annual Report on Local Government 2021