

**NATIONAL AUDIT OFFICE**

**Annual Report  
and  
Financial Statements**

**31 December 2021**

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## **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 2021.

## 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 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 15 reports with an average staff complement of 64 persons (equivalent to 58 full-timers). The reports consisted of six performance audit reports, including a preliminary report on the NAO’s role in reviewing Government’s measures relating to the COVID-19 pandemic, two special audit and investigative reports, two IT audit reports, an annual report on the public accounts of 2020, an annual report on the audited financial statements of the local councils for year ending 2020, and the annual report and financial statements of the Office for 2020.

Year	Amount approved by NAO Accounts Committee and authorised by the House of Representatives €	Amount withdrawn €	Surplus €	Number of Audit Reports Published	Average Staff Complement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

## Published Reports:

### Financial and Compliance Audits:

- i. Report by the Auditor General on the Public Accounts for the year 2020; and
- ii. Report by the Auditor General on the Workings of Local Government for the year 2020.

### Performance Audits:

- i. Is LESA suitably geared to perform its traffic enforcement function adequately?;
- ii. The effectiveness of plastic waste management in Malta;
- iii. Fulfilling obligations in relation to asylum seekers;
- iv. Smart and RF meters’ contribution to more accurate and timely utilities billing;

- v. A Strategic Overview on the Correctional Services Agency's operations at the Corradino Correctional Facility; and
- vi. Preliminary review: NAO's role in reviewing Government's measures relating to the COVID-19 pandemic.

#### **Special Audits and Investigations:**

- i. The contract awarded to the JCL and MHC Consortium by the St Vincent de Paul Residence for the management of four residential blocks through a negotiated procedure; and
- ii. An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 2 | A review of the contractual framework.

#### **Information Technology Audits:**

- i. IT Audit – Department of Examinations; and
- ii. IT Asset Management across Government Ministries and Departments.

#### **Other**

- i. Annual Report and Financial Statements of the National Audit Office – 2020;
- ii. Follow-up Audits Reports by the National Audit Office – 2021 Volume I; and
- iii. Follow up Audits Reports by NAO – 2021 Volume II.

#### **Financial Review**

The National Audit Office achieved a surplus of €291,540 for the year ending 2021, as compared to a surplus of €87,304 achieved in the previous financial year.

The average number of employees for the year remained static to that of the previous year at 64 wholesome persons. The full-time equivalents of these 64 employees (30% of whom work on a reduced hours schedule) translates to 58 employees. The overall salary increases for the year amounted to 3.8%, which is in line with the average increase of all salary scales for 2021 as provided in the NAO Collective Agreement 2017-2024.

The audit fees of local councils are governed by agreements signed separately with five external audit firms to conduct the audit of the financial statements of 68 local councils, five regional committees and the local council association in accordance with the offers submitted for the tender issued in 2013 over a five-year period (2013-2017). For the third consecutive time, the contracts for local council audits for financial year ending 2020 have been renewed for an additional year. The audit fees have remained fixed at the negotiated rates of last year at 12% over the original tender fees. The increase in the subcontracted local council audit fees, amounting to €28,979, is attributed to a change in the subcontracted audits of two regions.

Administrative expenses dropped by a further €91,510 during the year and were mainly attributed to decreases in office services, travel expenses, contractual services, professional fees, hospitality expenses and depreciation. All the expenses bar professional fees and depreciation declined due to the impact of Covid-19. Professional fees were higher in the comparative year due to the use of a consultancy on an investigative audit. Depreciation was lower than the comparative year due to a significant lower amount of capital expenditure in 2021.

The cash and cash equivalent balances increased by €275,859 during the 2021 financial year to reach €466,915 at year end. The excess cash surplus, which resulted from the full withdrawal of the government subvention allocation of €3.85 million, is being held in reserve to meet the initial expenses of the capital project in the event of it being approved by the Planning Authority and the National Audit Office Accounts Committee.

Capital expenditure amounted to a total of €24,320, with the bulk of the expenditure being attributed to the replacement of laptops for staff.

### **Capital Commitments**

On 20 August 2019, the National Audit Office submitted a business plan to the Ministry for Finance and Employment (MFE) to construct a new annex adjacent to the present office to serve as a resource centre and provide additional office space. The Architect appointed by the Office proposed a project on three levels at a cost estimate of €2.2 million.

For 2020, MFE allocated €200,000, in addition to the €3.6 million recurrent allocation, to enable the Office to undertake the initial phase of the project that consisted of design, research and permitting.

The Office only utilised €11,206 in 2020, which were spent on geological and survey studies. This cost was financed from the €3.6 million recurrent allocation. The €200,000 allocation for the specific project was not utilised and hence not withdrawn.

For 2021, an amount of €100,000 was allocated by the MFE, in addition to the 2021 recurrent allocation of €3.75 million, to finance the required permitting of the project. The Architect revised the project downwards to €1.87 million inclusive of VAT during the year, while retaining the same conceptual project design that included a resource centre and additional office space. The permitting designs were submitted to the Planning Authority (PA) on the 24<sup>th</sup> of September 2021. Following feedback received from relevant authorities and NGOs with an interest in the environment, the Architect, in consultation with the Office, agreed to revise the design and submit new designs to the PA.

The total cost incurred on the project, which includes the architects' design fees and the permitting fees of PA, amounted to €94,524 at balance sheet date.

### **Reserves**

After adding the surplus of €291,540 from the balance of accumulated deficit as at the beginning of the year, the surplus balance in the profit or loss account at the end of 2021, amounting to €137,721, is being carried forward to the next financial period.



**CARMEL DEGUARA**

*Auditor General*



**NOEL CAMILLERI**

*Deputy Auditor General*

National Audit Office  
Notre Dame Ravelin  
Floriana FRN 1601  
Malta

20 May 2022

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**for the year ended 31 December 2021**

	Notes	2021 €	2020 €
Government subvention	6	3,750,000	3,600,000
Other income	7	24,493	18,216
<b>Operating expenditure</b>			
Salaries and personnel expenses	8	(2,865,998)	(2,760,918)
Administrative and other expenses	9	(321,689)	(413,199)
Sub-contracted audit fees of local councils		(322,864)	(293,885)
		<b>(3,510,551)</b>	<b>(3,468,002)</b>
<b>Results from operating activities before pension costs</b>		<b>263,942</b>	<b>150,214</b>
Provision for service pensions and gratuities	11	27,423	(63,019)
<b>Results from operating activities</b>		<b>291,365</b>	<b>87,195</b>
Bank interest receivable		175	109
<b>Surplus for the year</b>		<b>291,540</b>	<b>87,304</b>
<b>Total comprehensive income for the year</b>		<b>291,540</b>	<b>87,304</b>

*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 2021**

	Notes	2021 €	2020 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	10	354,526	438,353
<b>Current assets</b>			
Debtors and prepayments		109,079	19,683
Cash and cash equivalents	13	466,915	191,056
		575,994	210,739
<b>Total assets</b>		<b>930,520</b>	<b>649,092</b>
<b>RESERVES AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provision for service pensions and gratuities	11	272,640	361,629
Payables	12	-	3,333
		272,640	364,962
<b>Current liabilities</b>			
Payables	12	458,898	376,486
Provision for service pensions and gratuities	11	61,261	61,463
		520,159	437,949
<b>Total liabilities</b>		<b>792,799</b>	<b>802,911</b>
<b>Reserves</b>			
Profit and Loss Account		137,721	(153,819)
<b>Total reserves</b>		<b>137,721</b>	<b>(153,819)</b>
<b>Total liabilities and reserves</b>		<b>930,520</b>	<b>649,092</b>

*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 20 May 2022 by:*

  
**CARMEL DEGUARA**  
*Auditor General of the  
National Audit Office*

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

**STATEMENT OF CHANGES IN RESERVES**  
**for the year ended 31 December 2021**

	€
Balance at 1 January 2020	(241,123)
<b>Total comprehensive income for the year</b>	
Surplus for the year	87,304
<b>Balance at 31 December 2020</b>	<u><u>(153,819)</u></u>
Balance at 1 January 2021	(153,819)
<b>Total comprehensive income for the year</b>	
Surplus for the year	291,540
<b>Balance at 31 December 2021</b>	<u><u>137,721</u></u>

*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 2021**

	Note	2021 €	2020 €
<b>Cash flows from operating activities</b>			
Surplus for the year		291,540	87,304
<i>Non-cash adjustments to reconcile surplus to net cash flows:</i>			
Depreciation		108,147	129,547
Bank interest receivable		(175)	(109)
Provision for service pensions and gratuities		(27,423)	63,019
Amortisation of grant for ICT expenditure		(3,333)	(3,334)
		<hr/> 368,756	<hr/> 276,427
Movement in debtors and prepayments		(89,396)	(12,030)
Movement in payables		(17,588)	15,806
Movement in provision for service pensions and gratuities		(61,768)	(61,604)
		<hr/> 200,004	<hr/> 218,599
Cash generated from operating activities		200,004	218,599
Bank interest received		175	109
		<hr/> 200,179	<hr/> 218,708
<b>Net cash from operating activities</b>			
<b>Cash flows from investing activities</b>			
Building improvements and purchase of equipment		(24,320)	(178,453)
		<hr/> (24,320)	<hr/> (178,453)
<b>Cash used in investing activities</b>			
<b>Cash flows from financing activities</b>			
Capital allocation from Government subvention		100,000	–
Grant for ICT expenditure		–	10,000
		<hr/> 100,000	<hr/> 10,000
<b>Cash from financing activities</b>			
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at 1 January		275,859	50,255
		<hr/> 191,056	<hr/> 140,801
Cash and cash equivalents at 31 December	13	<hr/> 466,915	<hr/> 191,056

*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

These 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

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 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, state audit institutions from 194 countries (including Malta) are full members of the International Organisation of Supreme Audit Institutions (INTOSAI).

### 2.3 Functional and presentation currency

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

### 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 are included in note 11 – Provision for service pensions and gratuities.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 2.5 Standards, interpretations and amendments to published standards as endorsed by the EU and effective in the 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 2021. The adoption of these standards or interpretations did not have a material impact on the Office's financial statements or performance.

### 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 2022 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 allocated to the office for recurrent expenditure are taken directly to profit or loss on approval of the allocated amount in the Budgetary Estimates by the Ministry for 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.

### 3.3 Financial instruments

#### *Non-derivative financial assets – recognition and derecognition*

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

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 3. SIGNIFICANT ACCOUNTING POLICIES – continued

#### *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.

### 3.5 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.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 3. SIGNIFICANT ACCOUNTING POLICIES – continued

#### *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).

#### *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 cost 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 generate 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.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 3. SIGNIFICANT ACCOUNTING POLICIES – continued

#### 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.

#### 3.9 Leases

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.

### 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.

#### *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.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 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.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 6. GOVERNMENT SUBVENTION

	2021 €	2020 €
Authorised by the House of Representatives	<b>3,850,000</b>	3,800,000
Amounts withdrawn	<b>3,850,000</b>	3,600,000
Amount to cover operations recognised in Profit or Loss Account	<b>3,750,000</b>	3,600,000
Subvention to cover capital expenditure (Note 12)	<b>100,000</b>	-
	<b>3,850,000</b>	3,600,000

### 7. OTHER INCOME

	2021 €	2020 €
Audit fee of a Non-Government Organisation	<b>3,000</b>	3,000
Reimbursements	<b>10,507</b>	11,882
Amortisation of INTOSAI grant received (Note 12)	<b>3,333</b>	3,334
EU Funding on training project	<b>7,653</b>	-
	<b>24,493</b>	18,216

### 8. SALARIES AND PERSONNEL EXPENSES

	2021 €	2022 €
Salaries	<b>2,717,247</b>	2,615,536
Social security contributions	<b>148,751</b>	145,382
	<b>2,865,998</b>	2,760,918

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

	2021 No.	2020 No.
Senior management	<b>5</b>	5
Operating	<b>47</b>	47
Administration and IT	<b>9</b>	9
Messenger staff	<b>3</b>	3
	<b>64</b>	64
Equivalent number of full-time employees	<b>58</b>	58

During the year, a total of 19 persons (2020: 19) worked on a reduced hours basis. This is equivalent to 30% of the workforce.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 9. EXPENSES BY NATURE

	2021	2020
	€	€
Auditors' remuneration	4,750	4,750
Professional fees	17,580	68,311
Depreciation of property and equipment	108,147	129,547
Learning and professional development	2,261	621
Other administrative expenses	188,951	209,970
<b>Total administrative and other expenses</b>	<b>321,689</b>	<b>413,199</b>

### 10. PROPERTY AND EQUIPMENT

	Building Improvements €	Equipment €	Computer equipment and software €	Motor vehicles €	Furniture and fittings €	Total €
<b>Cost</b>						
At 1 January 2020	697,670	124,671	197,380	96,358	153,831	1,269,910
Additions	105,839	6,370	39,218	20,000	7,026	178,453
Write-offs/disposals	–	(9,206)	(30,673)	–	–	(39,879)
At 31 December 2020	803,509	121,835	205,925	116,358	160,857	1,408,484
Additions	–	8,445	15,179	–	696	24,320
Write-offs/disposals	–	–	–	–	–	–
<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>
<b>Depreciation</b>						
At 1 January 2020	405,294	109,945	159,093	64,524	141,607	880,463
Depreciation charge for the year	69,205	6,770	37,385	11,959	4,228	129,547
Released upon write-off/disposal	–	(9,206)	(30,673)	–	–	(39,879)
At 31 December 2020	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
Released upon write-off/disposal	–	–	–	–	–	–
<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>
<b>Carrying amount</b>						
<b>At 31 December 2021</b>	<b>275,222</b>	<b>15,348</b>	<b>23,191</b>	<b>27,916</b>	<b>12,849</b>	<b>354,526</b>
At 31 December 2020	329,010	14,326	40,120	39,875	15,022	438,353

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 11. PROVISION FOR SERVICE PENSIONS AND GRATUITIES

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

	2021 €	2020 €
Non-current	272,640	361,629
Current	61,261	61,463
	<u>333,901</u>	<u>423,092</u>

Of the non-current portion of the provision, an amount of €131,311 (2020: €192,078) refers to payments to be made after more than five (5) years from the reporting date. The movement in this provision for the current and comparative year is as follows:

	2021 €	2020 €
Service pensions and gratuities as at 1 January	423,092	421,677
Provisions made during the year	(27,423)	63,019
Provisions used during the year	(61,768)	(61,604)
	<u>333,901</u>	<u>423,092</u>

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 2021 is arrived at by discounting the post-employment benefit obligations of the Office using the year-end yield to maturity of 0.56% on 5.25% 2030 I Government bonds (2020: 0.23% on 5.25% 2030 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 (2020: males and females of 81 and 85 years, respectively), based on data published in the National Statistics Office Demographic Review.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 12. PAYABLES

<i>Due within one Year</i>	<b>2021</b>	2020
	€	€
Operational and capital payables	<b>10,891</b>	20,396
Grant received (i)	<b>3,333</b>	3,333
Taxes and social security	–	57,617
Accrued expenses	<b>282,906</b>	233,536
Amount due to Treasury for pension contributions	<b>61,768</b>	61,604
Deferred Government subvention on capital expenditure	<b>100,000</b>	–
	<b>458,898</b>	376,486
	<b>€</b>	<b>€</b>
<i>Due after more than Year</i>		
Grant received (i)	–	3,333
	–	3,333

- (i) In December 2020, NAO received a grant of €10,000 from the International Organisation of Supreme Audit Institutions (INTOSAI) to provide short-term support through ICT solutions to enable continuity of operations impacted by Covid-19. The grant was used to purchase an additional server for VPN access to staff and to migrate the payroll system to a cloud-based platform.

The grant is recognised as an income in the profit and loss account and amortised over a three-year period to match the useful life of the assets purchased through this grant.

### 13. CASH AND CASH EQUIVALENTS

	<b>2021</b>	2020
	€	€
Cash at bank	<b>466,258</b>	190,481
Cash in hand	<b>657</b>	575
	<b>466,915</b>	191,056



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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 2021 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 2021, 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.



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## **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

20 May 2022