



Work and Activities of the
National Audit Office

2016



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of the
National Audit Office

2016

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List of Abbreviations

DMS	Document Management System
ECA	European Court of Auditors
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
ICT	Information and Communications Technology
IFAC	International Federation of Accountants
INCOSAI	International Congress of Supreme Audit Institutions
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISS	Institute for Security Studies
IT	Information Technology
JASPERS	Joint Assistance to Support Projects in the European Regions
MF	Ministry for Finance
MFEI	Ministry of Finance, the Economy and Investment
MOU	Memorandum of Understanding
NAO	National Audit Office
OPM	Office of the Prime Minister
PAC	Public Accounts Committee
SAI	Supreme Audit Institution

FOREWORD ...

Auditor General's Overview



Charles Deguara
Auditor General

It is an honour to present the first annual report after my appointment as Auditor General on 30 March 2016, after having served as Deputy Auditor General for the previous 8 years. Noel Camilleri, who for the last 14 years served as Accountant General, and who thus possesses extensive experience and knowledge in the area of public finance management, was appointed as the new Deputy Auditor General on the same date. I would like to wholeheartedly thank my predecessor, Anthony C. Mifsud, for the notable results and developments undertaken by this Office under his leadership since 2008.

Undoubtedly, 2016 has been a challenging year for the National Audit Office. We published a total of 16 reports, equal to the record achieved in 2014. These consisted of one annual audit report on public accounts for 2015, an audit report on the workings of local government for 2015, seven performance audit reports, five special audits and investigations, one IT Audit Report, and one Annual Report on the Work and Activities of NAO for 2015. These reports, some of which have been undertaken on the NAO's initiative while the others have been mandated to us by the Public Accounts Committee or the Minister for Finance, have covered a variety of critical areas such as health, education and social issues, and have received extensive media coverage.

Our Office continuously strives to achieve higher impacts from our reports. Since ultimately our principal objective is to promote better governance, leading to an enhanced service delivery within the public sector, NAO is concerned that some of its recommendations are not taken on board with the result that some findings tend to be repetitive year after year. These findings deal mainly with procurement issues, insufficient internal controls, deficiencies in contract provisions regulating public services, shortcomings in contract management, absence of value for money and lack of transparency and accountability. The Office thus intends to strengthen its follow up process to ensure, as far as possible, the timely and efficient implementation of its recommendations.

Nonetheless, we welcomed as an important step forward the Administration's report on the status of implementation of our recommendations made in the Annual Audit Report on Public Accounts for 2014. This analysis could provide the necessary stimulus for the authorities concerned in undertaking the necessary action to address administrative shortcomings identified by this Office.

As a state audit institution, we would also like to strengthen our public relations capabilities. In particular, we would like to further improve upon our communication of audit findings. In so doing, it is our aim to further enhance the structure and format of our reports to render them more readable and user friendly. It is our intention to simplify our reporting of the results and recommendations arising from our work. In this way, audit reports would be more accessible to the public, who would be able to further appreciate the extent and relevance of our work.

We will also strive to continue strengthening our audit capacities as well as duly safeguarding the excellent reputation, based on a fair and objective analysis of facts and evidence in hand, which our constitutional Office enjoys. For this reason, as from the second half of 2016, a number of corporate

policies have been issued by the Auditor General and his Deputy to regulate our audit work and to further enhance integrity and ethical behaviour. Moreover, in our audit plans, we are increasingly employing a risk based audit methodology, and incorporating issues of public interest and areas which may be susceptible to serious irregularities and inadequate performance. We also aim to communicate audit findings and recommendations more effectively particularly through the consolidation of the use of social media.

An IT audit self-assessment is also to be undertaken by NAO with the assistance of a reputable foreign national auditing institution. Acknowledging that our human resources constitute our most valuable and essential resource, we will also be providing extensive training to our staff to develop both their management, audit and other technical skills. To enhance our internal workflows and processes relating to the tracking, storage and control of documents, during 2017 we plan to introduce a new Document Management System.

The Office is also keeping track of the Administration's gradual transition to accruals based public sector financial statements. Once fully introduced, accrual accounting will entail major changes in the NAO's processes of financial and compliance auditing.

Maintaining excellent relations with Parliament is given the highest priority by our Office. Thus, the NAO endeavours, as much as possible, to undertake special audits and investigations requested by Public

Accounts Committee in a timely manner, taking into account the current level of resources and workload. We acknowledge that the PAC provides extensive value added to our reports particularly in terms of governance, accountability, transparency, value for money and sound financial management.

NAO would also like to further enhance its own accountability. Indeed, for the first time, the audited financial statements of the Office are included with this report. In this annual report, we have also incorporated both the total number of recommendations generated by each Audit Section as well as a summary of the key findings of our audit reports for this year.

A special thanks goes to my Deputy, Noel Camilleri, who has shown a most commendable sense of initiative, commitment and dedication since his first day at the Office. Leading a small but professional NAO team he was instrumental in this annual publication's revamp. My appreciation also goes to the management and all NAO staff whose sense of professionalism and commitment are reflected in the excellent results obtained by our Office during 2016. To them all, I extend my heartfelt gratitude and look forward to further consolidate our audit work so as to continue providing the necessary assurance to Parliament and to the Maltese taxpayers that public funds are being used in the most effective and efficient manner possible and in line with prevailing financial rules and regulations. Hence, consolidating our creditable reputation as rightful 'guardians of the public purse'.

Charles Deguara
Auditor General

1st February, 2017

PART ONE ...

Highlights of 2016

Changes in Headship Positions ...

The year 2016 brought about important changes in the headship positions of the National Audit Office (NAO). Former Auditor General, Anthony C. Mifsud, was appointed Parliamentary Ombudsman. The former Deputy Auditor General, Charles Deguara, was appointed Auditor General on 30 March 2016 while Noel Camilleri, former Accountant General, was appointed Deputy Auditor General on the same day.



Cooperation agreement with the National Statistics Office ...

On 22 February 2016, the NAO signed a cooperation agreement with the National Statistics Office (NSO). The main objective of this MoU was to formalize and enhance the excellent working relationship prevailing between these two entities. Anthony C. Mifsud, the Auditor General at the time, signed on behalf of the NAO whilst Reuben Fenech, Director General, signed on behalf of the NSO.



Presentation of publication by the Principal Permanent Secretary of the Public Service ...

On 9 May 2016, Mario Cutajar, Principal Permanent Secretary of the Public Service visited the NAO and presented the publication *Governance – Action on the NAO's Annual Report 2014* to the Auditor General. Mr Cutajar stated that the report was part of the Public Administration's drive to promote good governance and accountability in the public sector.

The report was published in reply to the *Annual Audit Report by the Auditor General for the year 2014* and detailed the status of implementation of those recommendations accepted by the Administration and provided reasons for those that were not fully acknowledged.

Mr Deguara, Auditor General, commended the initiative and stated that the publication was a first of its kind and added value to the NAO's work towards more transparency and accountability in the Public Service, in the interest of the Maltese citizens.



Visit by the Maltese ECA Member ...

The Maltese Member within ECA (Chamber V), Leo Brincat visited the Office on 14 December 2016. Mr Brincat met the Auditor General, the Deputy Auditor General, the senior management team and all NAO staff.

During his presentation, Mr Brincat stated that more value added could be attained from ECA Audit Reports if the latter were disseminated to the relevant Government Ministries, Departments and entities of each EU Member State, irrespective of whether such reports made reference to individual Member States. He encouraged further cooperation between ECA and NAO, and invited NAO to propose practical recommendations on how the audit of EU corporate governance could be strengthened. Mr Brincat stated that the NAO had a key role to play in assisting ECA to disseminate its reports to a wider range of stakeholders. He also recommended that conferences on audit best practices be held and these could be held jointly by ECA and NAO, targeting public sector employees and other stakeholders.



Our participation in Parliament ...

The Auditor General and NAO officials attended all 17 Public Accounts Committee meetings held in 2016. Sittings held during the year related to the following NAO Reports and requests made to the PAC:

- *Winding up of the discussion on the Performance Audit Report: An Analysis of the Effectiveness of the EneMalta Corporation's Fuel Procurement*
- *Report by the Auditor General – Public Accounts 2014*
- *An Investigation of Government's Expropriation of Two One-Fourth Undivided Shares of the Property at 36 Old Mint Street, Valletta*
- *A Request by Union Haddiema Magħqudin – Voice of the Workers and the Medical Association of Malta to PAC to Potentially Investigate Agreements signed with Vitals Global Healthcare regarding the management of operations at St Luke's Hospital, Karen Grech Hospital and Gozo General Hospital*

The *Annual Report on the Work and Activities of NAO* was submitted to the National Audit Office Accounts Committee on 14 March 2016.

On the other hand, the Office's audited Financial Statements for year ending 31 December 2015 and Estimates for 2017 were discussed and approved by the National Audit Office Accounts Committee on 18 July 2016.



Our participation in domestic Working Groups...



Government Finance Statistics (GFS) Committee...

The Government Finance Statistics (GFS) Committee, set up in 2006 and chaired by the National Statistics Office (NSO), includes members from the NSO, Budget Office, the Treasury, Financial Management and Monitoring Unit, the Central Bank of Malta and the Economic Policy Division. The NAO is represented in the Committee by Noel Camilleri (Deputy Auditor General) who attends meetings in an observer capacity.

Apart from the Notification of Debt and Deficit Levels of General Government under the Fiscal Surveillance Procedure compiled and endorsed by the NSO and the Ministry for Finance (MF), the terms of reference of the Committee include, amongst others:

- The provision of input towards the compilation of public finance statistics of General Government, based on ESA 2010 methodology, for use in reports which are necessary in fulfilment of EU obligations;
- The participation in discussions during visits by Eurostat representatives and EU Directorates on matters connected with the work of the Government Finance Committee;
- The provision of expert advice, in terms of *ESA2010* methodology treatment, in respect of financial transactions and operations; and
- The examination, discussion and interpretation of any EU documentation issued and related to public finance (working documents, regulations, directives etc), in respect of which it may be in receipt, and the identification of the interested stakeholders to which the contents of such documentation are to be disseminated for their guidance.



Local Government Good Governance Working Group...

During 2016, the Auditor General and one of our Assistant Auditors General (Financial and Compliance Audit Section), Tanya Mercieca, participated in meetings of the Local Government Good Governance Working Group.

The Working Group includes all major stakeholders involved in the area of Local Government including the Local Government Department, the Local Government Association and the Local Councils Executive Secretaries Association. The primary objective of this Working Group is to address in a coordinated manner the main issues raised by the Auditor General in the Local Government Annual Audit Report.



Financial Legislation Working Group...

Established in early 2016, the purpose of this Committee is to review the General Financial Regulations, 1966 and propose amendments thereto in line with changes in the procedures and systems in Government Departments, and in conformity with the requirements of the Fiscal Responsibility Act.

Our two Assistant Auditors General, Financial and Compliance, namely Vanessa Tonna and Tanya Mercieca, participated in this Working Group in an observer capacity.

During 2016, the Committee went through the main clauses of the Regulation of 1966 and submitted changes for the consideration of authorities.



IPSAS Implementation Project Board...

The NAO participates in the IPSAS Implementation Project Board in an observer capacity. The Project Board is responsible for the strategic direction and overall management of IPSAS implementation across Government Ministries and Departments. It provides guidance and assigns project work to the Project Team, as well as discusses and approves recommendations presented by the latter. It is also responsible to monitor the related risks and address quality and timeliness issues that may arise from time to time. This Board has held regular meetings to discuss 'IPSASs as adopted by the Maltese Government' since June 2014.

The NAO's representative on the Project Board is Tanya Mercieca.

Our participation in international fora...



EU Contact Committee ...

Cooperation between the Supreme Audit Institutions (SAIs) of the European Union, including the European Court of Auditors (ECA) mainly takes place within the framework of the Contact Committee structure. This structure consists of the Contact Committee itself, composed of the Heads of the EU SAIs and the ECA; the Liaison Officers, who discuss new EU audit related developments and activities for consideration by the Contact Committee during their annual meetings; as well as working groups, networks and task forces on specific audit topics.

NAO participates in Contact Committee and Liaison Officers' Meetings and is active in a number of Working Groups.

During 2016, the NAO started preparations in connection with the hosting of a two back-to-back Seminars, one in respect of the Fiscal Policy Audit Network and the other for the Europe 2020 Network. These two Seminars, which will be organised within the framework of Malta's EU presidency, will be held in May 2017. Moreover, the Working Group on Structural Funds, of which our Office (Special Audits and Investigations Section) is a member of the core group coordinating the audit, undertook a parallel audit on the Contribution of the Structural Funds to the Europe 2020 Strategy in the areas of Employment and/or Education. The parallel audit in respect of the domestic context was published in February 2017.



INTOSAI ...

NAO is an active member in INTOSAI, the international organisation of Supreme Audit Institutions worldwide. NAO officers attend a number of INTOSAI Meetings on an annual basis, the most important of which, the INCOSAI, namely the INTOSAI Congress, which is held every three years. The last Congress took place in December 2016 in Abu Dhabi, United Arab Emirates and was attended by the Auditor General and his Deputy.



EUROSAI ...

The NAO participates in the European Organisation of Supreme Audit Institutions (EUROSAI), which is INTOSAI's regional arm in Europe. A number of our senior officers are active members of EUROSAI Working Groups and Task Forces namely, the Working Group on Information Technology, the Working Group on Environmental Audit and the Task Force on Audit and Ethics.

Our office is currently actively participating in a parallel audit by the EUROSAI Working Group on Environmental Audit on Marine Protected Areas and is coordinating this audit together with the Cypriot Audit Institution.



ECA Audit Missions in Malta ...

As part of its functions, the European Court of Audit carries out audits on EU funds granted to Maltese entities. The relationship between ECA and Audit Institutions of EU Member States is regulated by Article 287 of the Treaty on the Functioning of the EU.

The NAO provides assistance by making the necessary arrangements with the audited body as well as ensuring that all information requested by the ECA is duly submitted.

In May, the ECA undertook an Audit Mission in Malta regarding the Joint Assistance to Support Projects in the European Regions (JASPERS). During the Audit Mission, Oskar Herics, ECA Member paid a courtesy visit to NAO on 1 June 2016.

Subsequently, the ECA carried out another Audit Mission in respect of a number of infrastructural projects concerning the Statement of Assurance for 2016 - Cohesion Fund (CF) programming period 2007-2013 (Investing in Competitiveness for a Better Quality Life).



EU Institute for Security Studies (ISS) Audit ...

As part of the small team forming the College of Auditors, Tanya Mercieca - Assistant Auditor General, together with other two members from the Supreme Audit Offices of Poland and Italy respectively, carried out the annual audit of the accounts of the EU Institute for Security Studies (ISS) for financial year 2015. The Audit Report was presented to the EU ISS Board on 25 October 2016.

Investing in our staff...

The NAO is committed to ensuring that all staff have access to learning, professional development and training opportunities which enable them to be suitably qualified and appropriately skilled to conduct their role within the office, and to develop their abilities such that these fit with the office's commitment to meet its strategic objectives.

Our policy on Learning and Professional Development

- ensures that employees are supported and enabled to meet the changing demands of the NAO and its service users, enhances the quality of the NAO's output and contributes toward the achievement of the Office's strategic objectives
- facilitates its employees' professional development through assisting them to broaden, deepen and thereby enhancing their existing skill base; and
- provides a working environment where continuous learning and development takes place thereby helping staff to gain more fulfilment from their roles, increase motivation and enhance staff retention.

Through its training policy coupled with the sense of shared knowledge, meaning and understanding amongst its employees, the NAO aims to become a truly learning organisation.

During 2016, NAO auditors attended various short courses organised by the Malta Institute of Accountants and other professional institutions. In June, a course on *The New Public Procurement Regulations* was organised by the NAO in conjunction with the Contracts Department.

In the third quarter of the year under review, the NAO together with the Centre for Development, Research and Training at the Office of the Prime Minister offered training/information sessions on a number of key issues critical to the operation of the public sector. These included the Public Administration Act, Freedom of Information, Data Protection, Budgeting and Malta's Fiscal Framework, the Public Service management Code, Risk Management, Government Accounting and Treasury Management.

In 2016, two of our employees namely Elton Camilleri and Marlene Zammit (Principal Auditors) obtained a post-graduate qualification (Masters) in Sustainable Development and Forensic Accounting respectively.

NAO adopted its Learning and Professional Development Policy in June 2016. In December, a draft NAO Training Plan for 2017, an initiative spearheaded by Deputy Auditor General, was presented to Management. This was subsequently approved in January 2017.

Social Activities...

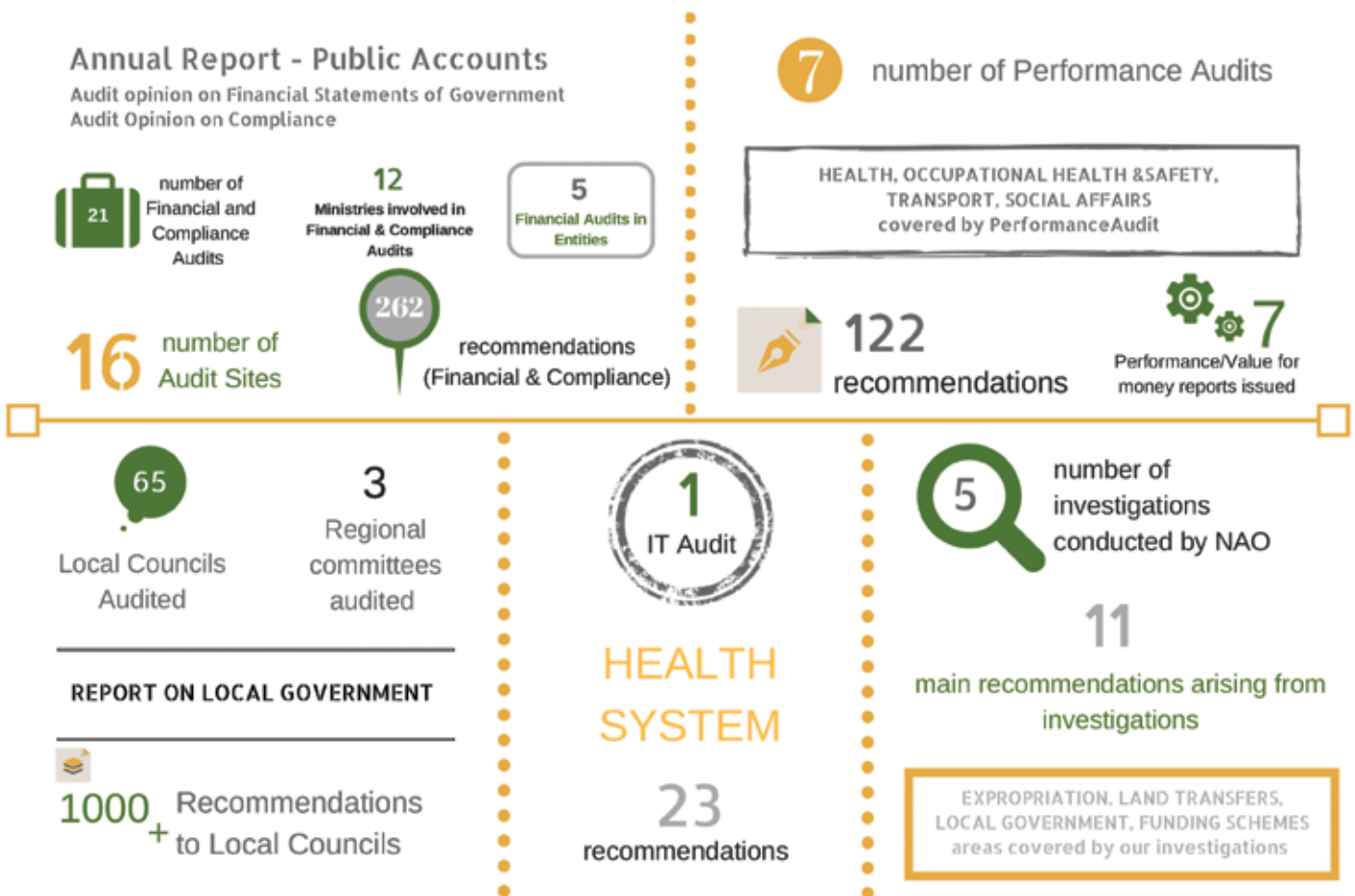
During the year, our Social Committee organises events aimed at fostering a sense of belonging within the organisation and amity amongst NAO staff. Spending quality time with one's colleagues in an informal and relaxed environment, away from Office, is truly an enriching experience both professionally as well as socially. There is always an encouraging response from staff to such social activities. Whilst it is a challenge to come up with innovative ideas for our activities, there are some traditional calendar events such as those at Christmastime, which have become fixed annual appointments.



The highlight of 2016 was a successful (and keenly contested) teambuilding activity in the form of a 'Treasure Hunt' in Mдина on 20 May. Apart from this event, the NAO Social Committee organised a host of other social activities including a 'bowling and dining' event, a 5-a-side football event, dinner gatherings and a New Year's Eve Brunch.

PART TWO ...

Our 2016 performance at a glance



Financial and Compliance Audits...

Financial and compliance audits aim to ensure that all Government entities including Ministries, Departments, public entities and local government, properly account for the money authorised by Parliament and that such funds were appropriately spent in compliance with the relevant laws, rules and regulations. They also provide an independent assurance about the reliability of public sector financial statements and that the latter are fairly presented in accordance with Government's accounting policies.

Following the conclusion of financial and compliance audits, NAO provides an audit opinion on the reliability of the financial statements and a separate opinion on the compliance aspect of our work.

Main key findings for 2015 included...

- Non-adherence to standing Procurement Regulations
- Weaknesses in internal controls
- Budget overruns
- Capacity issues
- Limitation on scope: required information not made available for audit purposes

Main control findings for 2015 included...

- Misallocation of expenditure
- Shortcomings relating to the Payment Cycle
- Lack of segregation of duties
- Insufficient monitoring over fuel consumption, stock management and travel, and
- Discrepancies and weaknesses in payroll systems and payment of emoluments

Main compliance findings for 2015 included...

- Lack of compliance with MF Circulars No 14/1999 – Inventory Control, 5/2002 and MFEI Circular 2/2012 regarding Fiscal Obligations, Treasury Circulars No 5/2008 and 9/2015 on Authorised Signatories, standing travel regulations, the General Financial Regulations 1966 and provisions of the Public Service Management Code.

Main issues in respect of Local Government included...

- Audited financial statements of three local councils and those of two Regional Committees were not submitted to NAO by mid-October 2016
- Local Government Auditors could not express an opinion on the financial statements of four local councils
- The audit reports on another 43 Local Councils, three Regional Committees, as well as that of the Local Councils Association, were qualified with an 'Except For' Audit Opinion
- 23 Local Councils recorded a negative working capital in the Statement of Financial Position
- 28 Local Councils registered a Financial Situation Indicator below the established benchmark of 10%
- 24 Local Councils, as well as the Central Regional Committee, registered a deficit in the Statement of Comprehensive Income

Other findings in respect of Local Government included...

- Budget overruns
- Non-adherence to Procurement Regulations
- Accounting records not properly updated
- Instances where expenditure was accounted for on a cash basis rather than accruals
- Shortcomings in the maintenance of a Fixed Asset Register

Performance/Value for Money Audits...

The primary objective of Performance Audit work is to provide Parliament with independent assurance and opinion about the economy, efficiency and effectiveness of public-sector related activities. Another objective is to encourage audited bodies to improve their performance and achieve greater value for money from the use of resources.



Key audit findings in respect of performance audits conducted in 2016 included...

- Issues relating to the contractual arrangements and non-adherence to contractual provisions
- Concerns regarding lack of communication and coordination between departments leading to sub-optimal service harmonisation and customisation
- Communication problems between government departments and service providers
- Weaknesses in monitoring and reporting systems due to fragmented information, inadequate IT processes, lack of performance indicators or lack of appropriate documentation of service delivery
- Inadequate risk management processes;
- Capacity issues in some operational and managerial areas
- Non achievement of cost efficiency in resource utilisation
- Compliance issues (especially in procurement)
- Weak enforcement mechanisms due to sub-optimal governance structures.

Special Audits and Investigations...

The NAO's Special Audits and Investigations Section carries out audits on any matter relating to Government finances, property or funds administered or under the control of any Government Department or entity. Such audits also address issues relating to mismanagement and misconduct, inefficient and ineffective use of resources, as well as abuse of authority.

Special Audits and Investigations may be undertaken on the Auditor General's initiative, or following a request by at least three members of the Public Accounts Committee or by the Minister responsible for Finance.



Main findings in respect of investigations carried out in 2016 included...

- Good Governance issues in terms of lack of transparency, unethical behaviour, shortcomings in the expected levels of competence of key officials and failure by public officials to properly analyse alternative options and recommend courses of action
- Absence of value for money in public sector operations
- Lack of control and systemic risks emanating from poor record keeping, lack of documentation, failure to obtain pertinent authorisations or legal advice and inadequate management of information
- Communication and coordination shortcomings
- Compliance issues.

Information Technology Audits...

IT Audits include a general review of the management of the IT systems at sites comprising an assessment of the auditees' IT management setup, software applications, current security measures maintaining the integrity, confidentiality and availability of data and IT related business continuity and disaster recovery plans used by the auditee.



Key audit findings in respect of the IT Audit conducted in 2016 related to...

- IT Organisational Set-up issues in terms of insufficient resources to man IT systems
- Software application issues related to the use of old hardware with outdated operating systems, uncontrolled installation of software, disabling of audit trail functionality, high dependency on manual input and absence of input controls
- Lack of an internal policies for the secure disposal of any confidential data stored electronically and non-adherence to best practice for password management
- Absence of formalised IT Business Continuity and Disaster Recovery plans.

Our Publications...

Table 1 below provides an overview of the number of reports published by our Office over the past four years.

Table 1: Number of reports published between 2013 and 2016

	2013	2014	2015	2016
Performance Audit Reports	6	2	3	7
Special Audits and Investigations	2	5	7	5
IT Audits	2	2	2	1
Macro-Economic Forecasts	1	4	0*	0*
Statutory Audit Report	1	1	1	1
Local Government Audits Report	0	1	1	1
Work and Activities of the NAO Report	1	1	1	1
Total Number of Publications	13	16	15	16

**Reports compiled by the Malta Fiscal Advisory Council*

PART THREE...

Our Audited Financial Statements...

NATIONAL AUDIT OFFICE Annual Report and Financial Statements for the year ended 31 December 2016

GENERAL INFORMATION

Description

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

Auditor General

Carmel Deguara (appointed 30 March 2016)
Anthony C. Mifsud (up till 29 March 2016)

Deputy Auditor General

Noel Camilleri (appointed 30 March 2016)
Carmel Deguara (up till 29 March 2016)

Office

National Audit Office
Notre Dame Ravelin
Floriana FRN 1600
MALTA

Bankers

APS Bank Ltd
APS Centre
Tower Street
Birkirkara BKR 4012
MALTA

Auditors

KPMG
Portico Building
Marina Street
Pietà' PTA 9044
MALTA

NATIONAL AUDIT OFFICE
Annual Report and Financial Statements for the year ended 31 December 2016

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 2016.

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.

Appointment of New Auditor General and Deputy Auditor General

On 16 March 2016, the House of Representatives in parliamentary session number 370 unanimously approved that;

- Mr Anthony C.Mifsud who has been serving in the capacity of Auditor General since 28 July 2008 be appointed Parliamentary Ombudsman
- Mr Carmel Deguara who has been serving in the capacity of Deputy Auditor General since 3 November 2008 be appointed Auditor General
- Mr Noel Camilleri, former Accountant General of the Treasury, be appointed Deputy Auditor General.

Review of Results

The National Audit Office published a total of fifteen reports with an average staff complement of sixty five persons – seven performance audit reports, five special audits and investigations, one IT audit report, one annual audit report on public accounts of 2015 and another report on the audit of local councils.

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
2008	2,100,000	1,864,000	1,500,000	(113,298)	2	51
2009	2,100,000	1,864,000	1,864,000	(81,725)	10	57
2010	2,400,000	1,950,000	2,400,000	145,044	8	55
2011	2,400,000	2,200,000	2,200,000	(11,579)	10	56
2012	2,400,000	2,185,000	2,185,000	(143,140)	14	59
2013	2,500,000	2,250,000	2,265,000	(163,247)	12	57
2014	2,600,000	2,280,000	2,600,000	29,002	15	58
2015	2,800,000	2,700,000	2,700,000	(84,482)	14	62
2016	3,000,000	2,900,000	3,000,000	6,666	15	65

NATIONAL AUDIT OFFICE

Annual Report and Financial Statements for the year ended 31 December 2016

Financial and Compliance:

- i. Report by the Auditor General on the Public Accounts for year 2015
- ii. Report by the Auditor General on the Workings of Local Government for year 2015

Performance Audits:

- i. An Analysis on OHSA's Operations - A Case Study on the Construction Industry
- ii. The General Practitioner function - The core of primary health care
- iii. Agreements between Government and YMCA Valletta
- iv. Service Agreements between Government and Richmond Foundation Malta
- v. Service Agreements with Inspire Foundation
- vi. Agreements between Government and Conservatorio Vincenzo Bugeja on Jeanne Antide and Fejda Homes
- vii. Managing and Monitoring the State Schools' Transport Service

Special Audits and Investigations:

- i. An investigation of Government's Expropriation of Two One-Fourth Undivided Shares of the Property at 36 Old Mint Street, Valletta
- ii. An investigation of Local Councils Funding Schemes launched between 2008 and 2013
- iii. An investigation of the 2015 Local Councils' Capital Projects Fund
- iv. An investigation of Property Transfers between 2006 and 2013: The Transfer of Land at Ta' L-Istabal, Qormi
- v. An investigation of Property Transfers between 2006 and 2013: The Acquisition of 233, 236 and 237 Republic Street, Valletta

Information Technology Audits:

- i. Mater Dei Hospital

In 2016, the Public Administration published for the first time a report entitled 'Governance – Action on the NAO's Annual Report 2014' in a bid to address the identified shortcomings and recommendations proposed by the NAO report. Out of a total of 259 recommendations incorporated in the NAO Report, 241 recommendations were accepted by Government Ministries and Departments. The status of implementation of the accepted recommendations was indicated in the report while the reasons for non-acceptance were also given. The National Audit Office welcomes this development as a step forward in the right direction and believes that such action could provide the necessary stimulus for the authorities concerned in undertaking the necessary action to address the shortcomings identified in the NAO's Annual Report.

Financial Review

The National Audit Office achieved a surplus of €6,666 as compared to a deficit of €84,482 sustained in the previous financial year.

The operating surplus for 2016 amounts to €88,460 (2015: deficit of €9,283) when the provision for pensions amounting to €81,882 (2015 : €75,735) is excluded from consideration.

NATIONAL AUDIT OFFICE

Annual Report and Financial Statements for the year ended 31 December 2016

Although the total operating expenditure of the Office reached €2.9 million, the Office felt that the amount of €3 million as approved by the NAO Accounts Committee and the House of Representatives on the 15th of December 2015 had to be fully withdrawn in order to sustain its liquidity position at end of year 2016. Following the €3 million withdrawal, the total cash reserves of the Office stood at €11,964 at year end 2016 while the amount payable at end of year 2016 for creditors and accruals amounted to €71,242 and €259,336 respectively. The accruals at year end include the 2016 performance bonus payable in March 2017 to NAO employees and the Treasury pension charge for 2016 which in total amounted to 89% of the total amount accrued at end of year.

As from 2016 the National Audit Office has reached agreement with the Ministry for Finance that the budgetary request as presented in the Financial Plan submitted to the Ministry for all public sector entities should be of the same amount to the budgetary estimate that is requested and approved later by the National Audit Office Accounts Committee and the House of Representatives. It was also agreed to have budgetary estimates approved by the NAO Accounts Committee and the House of Representatives before the end of the summer recess so that the Ministry would be able to incorporate the allocation agreed to by all parties in its own budgetary preparations. These two measures should in the future avoid the problem of discrepancies that were arising between the different amounts of government subvention as approved by the NAO Accounts Committee and the Ministry for Finance. As can be seen from the analysis in the table on page 3, the National Audit Office always sustained a deficit in its operations whenever it abided with the lower amount that was allocated by the Ministry of Finance in the Government budgetary estimates.

The operating expenditure for 2016 has increased by €202,190 to reach slightly over the €2.9 million threshold. This increase as analysed from the Income Statement can be attributed to the increase in salaries amounting to €198,249 over the two comparative periods.

The expenditure for local council audits has increased by €20,626 due to a change in the private auditors contracted for a particular region. On the other hand administrative expenditure dropped by €16,685.

Capital expenditure for 2016 has reached the amount of €116,933, with 87% of the said expenditure consisting of building improvements to the facade and roof of the main buildings. No such works had been carried out in the previous 30 years and thus these works were urgently required.

Events

The National Audit Office has consolidated its participation in international fora through continued membership of a number of EU Contact Committee and EUROSAI working groups. The Office has also attended a number of important meetings held by the EU Members States SAIs Contact Committee as well as the XXII INCOSAI Congress held in Dubai. Through these events the Office manages to keep abreast of current EU and international developments relevant to public sector auditing.

NATIONAL AUDIT OFFICE

Annual Report and Financial Statements for the year ended 31 December 2016

The National Audit Office through collaboration with the Department of Contracts and Institute of Public Services has provided during the year under review twenty three hours of Continued Professional Development to every employee. The Office remains committed to investing in the professionalism of its human resources.

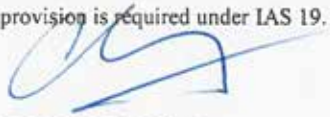
Challenges

As outlined in the Auditor General's speech that was delivered to the Members of the National Audit Office Committee for the approval of the 2017 Estimates on the 18th of July 2016, there are the main challenges that the Office will be addressing in the years ahead, namely

- The extension of the Office premises facilities at Notre Dame Ravelin Floriana
- Investment in the use of IT Audit software to strengthen our audit methodology
- The further strengthening of our public relations capabilities to improve the communication of our audit findings
- adopting a wider range of performance measures to improve our accountability
- The introduction of a fully fledged IT document management system
- Making the audit reports more readable and user friendly
- Development of a more comprehensive training programme for the National Audit Office staff

Reserves

After deducting the surplus for the year from the balance of accumulated deficit as at the beginning of the year, the total accumulated deficit amounting to €624,573 at end of year 2016 is being carried forward to the next financial period. The accumulated deficit as shown in the statement of financial position can be attributed to the amount of €588,709 as provided at year end 2016 for the future Treasury pensions and gratuities that the Office is obliged to pay over the approximate future thirty year period under the Pensions Ordinance Cap 93. This provision is required under IAS 19.



CARMEL DEGUARA
*Auditor General of the
National Audit Office*

Notre Dame Ravelin
Floriana FRN 1600
Malta

16 March 2017



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

NATIONAL AUDIT OFFICE
Annual Report and Financial Statements for the year ended 31 December 2016

STATEMENT OF RESPONSIBILITIES OF THE AUDITOR GENERAL

Under the Auditor General and National Audit Office Act, Cap. 396 of the Laws of Malta, the accounts of the National Audit Office must be audited by an external auditor appointed by the National Audit Office Accounts Committee. The external auditor must present the audit report to the National Audit Office Accounts Committee which is then submitted to the House of Representatives.

The said Act implies that the National Audit Office is required to prepare the accounts for each financial year. The Auditor General is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Office.

The Auditor General also takes responsibility for safeguarding the assets of the Office and taking reasonable steps for the prevention and detection of fraud and other irregularities.

Management, is also responsible, with oversight from the Auditor General, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Office's business.



CARMEL DEGUARA
*Auditor General of the
National Audit Office*



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

NATIONAL AUDIT OFFICE**Annual Report and Financial Statements for the year ended 31 December 2016****STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2016**

	Notes	2016 €	2015 €
CONTINUING OPERATIONS			
Government subvention	6	3,000,000	2,700,000
Other income	7	3,420	3,487
Operating expenditure			
Salaries and personnel expenses	8	(2,329,165)	(2,130,916)
Administrative and other expenses	9	(331,337)	(348,022)
Sub-contracted audit fees of local councils		(254,458)	(233,832)
		(2,914,960)	(2,712,770)
Results from operating activities before pension costs		88,460	(9,283)
Provision for service pensions and gratuities	11	(81,882)	(75,735)
Results from operating activities		6,578	(85,018)
Bank interest receivable		88	536
Surplus/(deficit) for the year		6,666	(84,482)
Total comprehensive income		6,666	(84,482)

The accounting policies and explanatory notes form an integral part of the financial statements.

NATIONAL AUDIT OFFICE
Annual Report and Financial Statements for the year ended 31 December 2016

STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	2016 €	2015 €
ASSETS			
Non-current assets			
Property and equipment	10	275,727	215,669
Current assets			
Prepayments		7,023	20,779
Cash and cash equivalents	13	11,964	27,308
		18,987	48,087
Total assets		294,714	263,756
LIABILITIES			
Non-current liabilities			
Provision for service pensions and gratuities	11	486,741	507,746
Current liabilities			
Payables	12	330,578	336,135
Provision for service pensions and gratuities	11	101,968	51,114
		432,546	387,249
Total liabilities		919,287	894,995
Net liabilities		(624,573)	(631,239)
Represented by:			
Accumulated deficit		(624,573)	(631,239)

The accounting policies and explanatory notes form an integral part of the financial statements.

The financial statements on pages 30 to 43 have been authorised for issue on 16 March 2017 by:

CARMEL DEGUARA
*Auditor General of the
National Audit Office*

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

NATIONAL AUDIT OFFICE
Annual Report and Financial Statements for the year ended 31 December 2016

STATEMENT OF CHANGES IN NET LIABILITIES
for the year ended 31 December 2016

	Accumulated deficit €
Balance at 1 January 2015	(546,757)
Total comprehensive income for the year Deficit for the year	<u>(84,482)</u>
Balance at 31 December 2015	<u>(631,239)</u>
Balance at 1 January 2016	(631,239)
Total comprehensive income for the year Surplus for the year	<u>6,666</u>
Balance at 31 December 2016	<u>(624,573)</u>

The accounting policies and explanatory notes form an integral part of the financial statements.

NATIONAL AUDIT OFFICE**Annual Report and Financial Statements for the year ended 31 December 2016****STATEMENT OF CASH FLOWS
for the year ended 31 December 2016**

	Note	2016 €	2015 €
Cash flows from operating activities			
Surplus/(deficit) for the year		6,666	(84,482)
<i>Non-cash adjustments to reconcile deficit to net cash flows:</i>			
Depreciation		56,421	48,619
Loss on disposal of fixed assets		454	-
Bank interest receivable		(88)	(536)
Provision for service pensions and gratuities		81,882	75,735
		<u>145,335</u>	<u>39,336</u>
Movement in prepayments		13,756	(1,779)
Movement in payables		(5,557)	(30,329)
Movement in provision for service pensions and gratuities		(52,033)	(52,025)
		<u>101,501</u>	<u>(44,797)</u>
Cash generated from operating activities		101,501	(44,797)
Bank interest received		88	536
		<u>101,589</u>	<u>(44,261)</u>
Net cash from/(used in) operating activities			
Cash flows from investing activities			
Purchase of property and equipment		(116,933)	(100,128)
		<u>(116,933)</u>	<u>(100,128)</u>
Cash used in investing activities			
		<u>(116,933)</u>	<u>(100,128)</u>
Net decrease in cash and cash equivalents			
Cash and cash equivalents at 1 January		(15,344)	(144,389)
		<u>27,308</u>	<u>171,697</u>
Cash and cash equivalents at 31 December	13	<u>11,964</u>	<u>27,308</u>

The accounting policies and explanatory notes form an integral part of the financial statements.

NATIONAL AUDIT OFFICE

Annual Report and Financial Statements for the year ended 31 December 2016

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 utilisation 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 2016, the Office had a net current liabilities of €413,559 (2015: €339,162) and an accumulated deficit of €624,573 (2015: €631,239).

The accumulated deficit of the Office 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 as 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 at the same time 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 known as the National Audit Office Accounts Committee.

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

2.3 Functional and presentation currency

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

NATIONAL AUDIT OFFICE**Annual Report and Financial Statements for the year ended 31 December 2016****NOTES TO THE FINANCIAL STATEMENTS - continued****2. BASIS OF PREPARATION – continued****2.4 Use of estimates and judgements**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 judgements 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 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 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Office, upon 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 upon approval of the allocated amount in 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.

3.3 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 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 loans and receivables category which comprises cash and cash equivalents.

NATIONAL AUDIT OFFICE

Annual Report and Financial Statements for the year ended 31 December 2016

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES – continued

3.3 Financial instruments – continued

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

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and 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 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 the part will flow to the entity and

NATIONAL AUDIT OFFICE**Annual Report and Financial Statements for the year ended 31 December 2016****NOTES TO THE FINANCIAL STATEMENTS - continued****3. SIGNIFICANT ACCOUNTING POLICIES - continued****3.5 Property and equipment – continued**

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*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in profit or loss. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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.

NATIONAL AUDIT OFFICE

Annual Report and Financial Statements for the year ended 31 December 2016

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

4. DETERMINATION OF FAIR VALUES

A number of the Office's accounting policies and disclosures require 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.

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.

No transactions in derivative financial instruments are entered into by the Office to manage risks.

NATIONAL AUDIT OFFICE**Annual Report and Financial Statements for the year ended 31 December 2016****NOTES TO THE FINANCIAL STATEMENTS - continued****5. FINANCIAL RISK MANAGEMENT – continued****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 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 entity 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 market interest rates, 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

	2016 €	2015 €
Authorised by the House of Representatives	3,000,000	2,800,000
Amounts not withdrawn	-	(100,000)
Amounts actually withdrawn	<u>3,000,000</u>	<u>2,700,000</u>
Amount allocated by the Ministry for Finance in Estimates	2,900,000	2,700,000
Revisions by the Ministry for Finance during the year	100,000	-
	<u>3,000,000</u>	<u>2,700,000</u>

7. OTHER INCOME

	2016 €	2015 €
Audit fee of NGO	3,000	3,000
Social Security refund	420	324
Sale of publications	-	163
	<u>3,420</u>	<u>3,487</u>

NATIONAL AUDIT OFFICE
Annual Report and Financial Statements for the year ended 31 December 2016

NOTES TO THE FINANCIAL STATEMENTS - continued

8. SALARIES AND PERSONNEL EXPENSES

	2016 €	2015 €
Salaries	2,200,524	2,014,921
Social security contributions	128,641	115,995
	<u>2,329,165</u>	<u>2,130,916</u>

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

	2016 No.	2015 No.
Senior management	6	6
Operating	44	42
Administration and IT	10	10
Messenger staff	5	4
	<u>65</u>	<u>62</u>
Equivalent number of full time employees	<u>60</u>	<u>56</u>

During the year a total of 16 persons (2015: 17) worked on a reduced hour basis.

9. EXPENSES BY NATURE

	2016 €	2015 €
Auditors' remuneration	4,366	4,366
Professional fees	49,874	53,174
Depreciation of property and equipment	56,421	48,619
Loss on disposal of fixed assets	454	-
Net cost of hosting international events	-	9,312
Other administrative expenses	220,222	232,551
Total administrative and other expenses	<u>331,337</u>	<u>348,022</u>

NATIONAL AUDIT OFFICE**Annual Report and Financial Statements for the year ended 31 December 2016**

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 2015	309,061	141,409	218,973	94,160	197,685	961,288
Additions	77,543	6,845	14,136	-	2,121	100,645
Write-offs	-	(39,381)	(84,488)	-	(45,110)	(168,979)
At 31 December 2015	386,604	108,873	148,621	94,160	154,696	892,954
Additions	101,886	5,181	5,707	-	4,159	116,933
Write-offs	-	(504)	(4,452)	-	(2,647)	(7,603)
Disposals	-	-	(4,189)	(23,619)	-	(27,808)
At 31 December 2016	488,490	113,550	145,687	70,541	156,208	974,476
Depreciation						
At 1 January 2015	183,799	128,644	215,130	90,404	179,668	797,645
Depreciation charge for the year	27,935	6,825	6,634	3,756	3,469	48,619
Released upon write-off	-	(39,381)	(84,488)	-	(45,110)	(168,979)
At 31 December 2015	211,734	96,088	137,276	94,160	138,027	677,285
Depreciation charge for the year	37,982	6,414	8,354	-	3,671	56,421
Released upon write-off	-	(504)	(4,452)	-	(2,647)	(7,603)
Released upon disposals	-	-	(3,735)	(23,619)	-	(27,354)
At 31 December 2016	249,716	101,998	137,443	70,541	139,051	698,749
Carrying amount						
At 31 December 2016	238,774	11,552	8,244	-	17,157	275,727
At 31 December 2015	174,870	12,785	11,345	-	16,669	215,669

11. PROVISION FOR SERVICE PENSIONS AND GRATUITIES

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

	2016 €	2015 €
Non-current	486,741	507,746
Current	101,968	51,114
	588,709	558,860

NATIONAL AUDIT OFFICE**Annual Report and Financial Statements for the year ended 31 December 2016**

NOTES TO THE FINANCIAL STATEMENTS - continued

11. PROVISION FOR SERVICE PENSIONS AND GRATUITIES - continued

Of the non-current portion of the provision, an amount of €289,960 (2015: €288,100) 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:

	2016 EUR	2015 EUR
Service pensions and gratuities as at 1 January	558,860	535,150
Provisions made during the year	81,882	75,735
Provisions used during the year	(52,033)	(52,025)
Service pensions and gratuities as at 31 December	<u>588,709</u>	<u>558,860</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.

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 2016 is arrived at by discounting the post-employment benefit obligations of the Office using the year-end yield to maturity of 0.94% on 7% 2025 I Government bonds. The post-employment benefit obligations are computed after taking into consideration the following assumptions:

Average life of males and females is 80 years and 84 years respectively as per published data of the National Statistic Office Demographic Review.

12. PAYABLES

	2016 €	2015 €
Operational and capital payables	23,959	7,991
Taxes and social security	47,283	44,338
Accrued expenses	207,303	180,026
Amount due to Treasury for pension contributions	52,033	103,780
	<u>330,578</u>	<u>336,135</u>

NATIONAL AUDIT OFFICE
Annual Report and Financial Statements for the year ended 31 December 2016

NOTES TO THE FINANCIAL STATEMENTS - continued

13. CASH AND CASH EQUIVALENTS

	2016	2015
	€	€
Cash at bank	11,777	27,230
Cash in hand	187	78
	11,964	27,308



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Independent Auditors' Report

To the Members of National Audit Office Accounts Committee

Opinion

We have audited the financial statements of National Audit Office (the "Office"), which comprise the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in net liabilities and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the financial position of the Office as at 31 December 2016, and of its financial performance and its cash flows for the year then ended as required by the financial reporting provisions of Part V of the Second Schedule of the Auditor General and National Audit Office Act (Chapter 396, Laws of Malta) (the "Act").

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Office in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, together with 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 (Chapter 281, Laws of Malta) ("APA"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG, a Maltese Civil Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

The firm is registered as a partnership of Certified Public Accountants in terms of the Accountancy Profession Act.

A list of partners and directors of the firm is available at Portico Building, Marina Street, Pieta, PTA 9044, Malta.



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Independent Auditors' Report (continued)

To the Members of National Audit Office Accounts Committee

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 the financial reporting provisions of the Act and for such internal control as the Auditor General determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Auditor General is responsible for assessing the Office's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The Auditor General is responsible for overseeing the Office's financial reporting process.

Auditors' 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 auditors' 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 International Standards on Auditing (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.

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Independent Auditors' Report (continued)

To the Members of National Audit Office Accounts Committee

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 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 management'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 auditors' 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.

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Independent Auditors' Report (continued)

To the Members of National Audit Office Accounts Committee

Auditors' 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 those charged with governance 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 Principal authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report is Norbert Bugeja.

KPMG
Registered Auditors

16 March 2017

Annex...

The National Audit Office (NAO)...

Who we are.....

The National Audit Office is an independent institution that reports directly to Parliament. Both the Auditor General and his Deputy are officers of the House of Representatives. The Auditor General and staff (65 people) are independent of government and do not report to a Cabinet Minister.

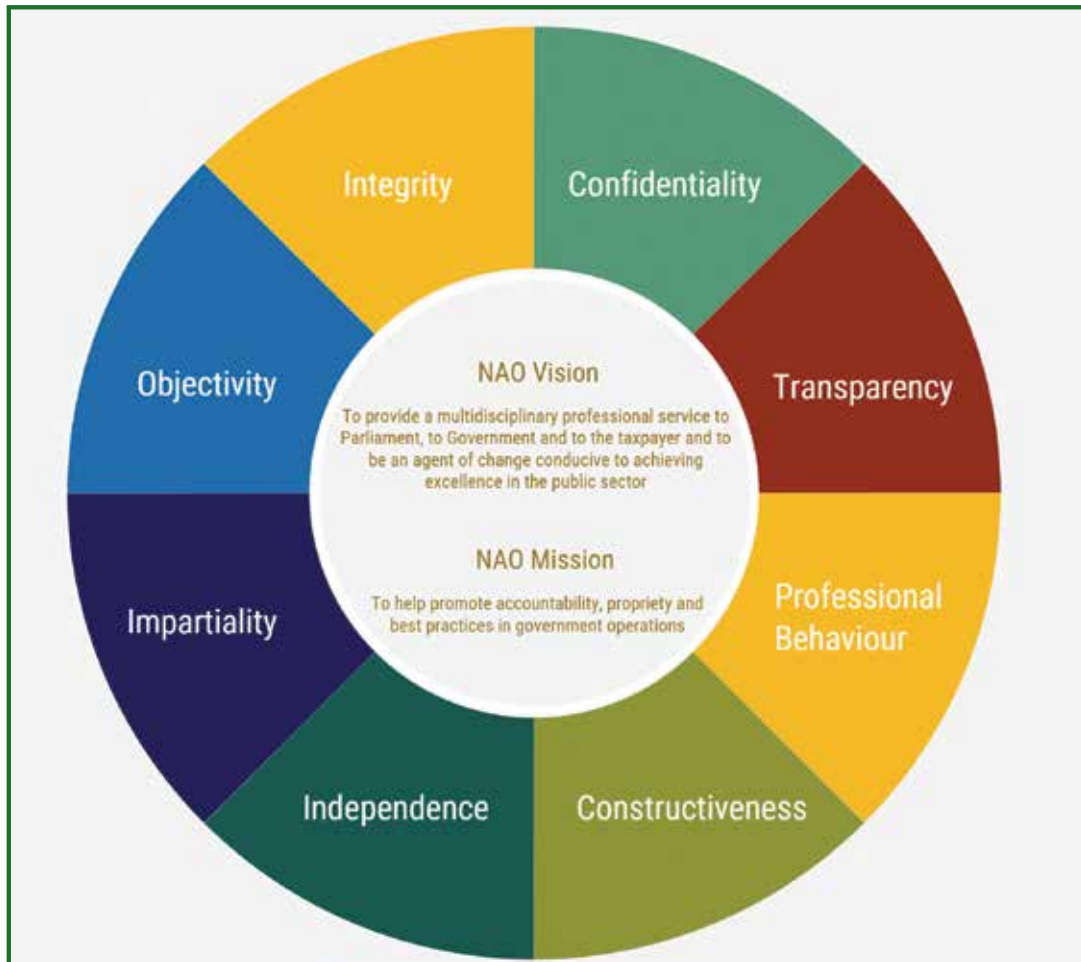
What we do.....

The role of the Auditor General, as defined by Article 108 of the Constitution of Malta and the Auditor General and National Audit Office Act, is to carry out an annual audit examination of the accounts of all departments and offices of the Government of Malta and of public authorities or bodies that administer, hold or use public funds.

By virtue of the Auditor General and National Audit Office Act, the Auditor General is empowered to examine, investigate and advise on financial matters concerning the use of public funds and assess the economy, efficiency and effectiveness of Government Ministries and Departments, Public Entities and Companies where Government holds a majority shareholding of 51% or more.

Another function entrusted to the Auditor General in terms of Local Government legislation is the audit of all Local Councils, the Local Councils Association and five Regional Committees. Furthermore, the Minister responsible for Local Government may from time to time, request from the Auditor General specific investigations in the area of Local Government.

Our Vision, Mission and Values...



How we do our work.....

Public sector oversight involves conducting various types of audit work including Financial and Compliance audits, Performance/Value for Money audits, IT audits, Special Audits and Investigations.

Through our multidisciplinary professional teams, we support Parliament and Administration in attaining a transformation of public services into citizen-centric, economic, efficient and effective public services that achieve policy goals and objectives AND best practice in good governance, accountability, control, legal compliance and financial reporting of Government programmes and operations.

Our audits and investigations are conducted by teams of auditors who abide by professional audit standards to ensure consistency and quality in the work they perform. Our audit teams possess the highest standard of integrity, are independent and free of influence from third parties and hold the necessary qualifications and competencies to perform their assignments. The NAO's Code of Professional Conduct is scrupulously followed at all times.

Audits are meticulously planned and duly scoped. An analysis and assessment of a particular context is carried out using analytical review methods and tools. Due care is taken when gathering and evaluating evidence to ensure objectivity at all times. Our auditors are bound by professional secrecy with regard to all confidential information they receive.

The next stage of the audit cycle involves the compilation of the audit report.

Our teams aim to draw up high quality reports that are factual, fair and constructive to enable stakeholders to determine whether:

- government resources are managed properly and in compliance with laws and regulations,
- government programmes are achieving the intended objectives, and
- government services are being provided efficiently, economically and effectively.

Reports are published and presented to the Hon Speaker, to be laid on the Table of the House of Representatives. Copies are distributed to the Chairperson of the Public Accounts Committee and all Members of Parliament.

From time to time, our auditors conduct 'follow up audits' which aim to assess and provide assurance on the extent of progress made on the recommendations of the original audits.

Our Stakeholders...

While safeguarding the independence of the Office, we seek to be of ongoing relevance to stakeholders by being responsive to the environment affecting the Maltese Public Sector and highlighting potential emerging risks. We aim to be a credible and effective source of insight into crucial (public sector) areas of public interest insofar as the utilisation of public resources is concerned.



Our relations with major Stakeholders...

All our audit reports are presented by the Auditor General to the Hon Speaker of the House of Representatives.

Two Standing Committees of the House of Representatives are primarily concerned with the work of NAO namely, the National Audit Office Accounts Committee and the Public Accounts Committee. In essence, the NAO Accounts Committee reviews the audited financial statements of the NAO and discusses the financial estimates prior to their consideration for approval in Parliament. It also appoints the NAO's external auditors. On the other hand, the PAC, whose function is to examine audit reports and inquire into matters relating to public accounts, periodically tasks the NAO with investigations into specific issues pertaining to the operations of the public sector or public sector entities.

Media



We consider the media as a vital partner in reaching our key audiences. We are open and responsive to information requests from the media as we believe that through this channel the public builds its perceptions of the NAO and the work it performs in the interest of good governance, accountability and efficient and effective use of public funds. Our Office is committed to, as far as possible, answer any media enquiries in a timely and correct manner. However, the NAO reserves the right to turn down media requests which could compromise work that is still in progress or draw the Office into unwarranted public controversies.

Upon submission to Parliament, we publish our audit reports on the NAO's website (<http://www.nao.gov.mt>). We issue Press Releases containing a summary of the main and most crucial findings and conclusions in both Maltese and English. The NAO forwards copies of reports to the media as necessary.

Civil Society and the General Public

We keep the needs of civil society in view when planning and conducting our audits. Thus, our Office ensures that its work remains relevant and addresses the concerns of the general public. Reports are accessible and written in non-technical and jargon-free manner. However, we would like to continue to improve upon our communication of audit findings and further enhance the structure and format of our reports to render them more readable and user friendly.

Auditees

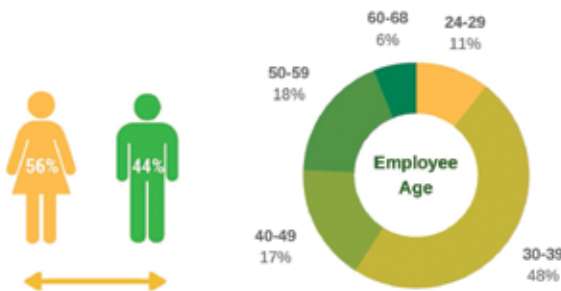
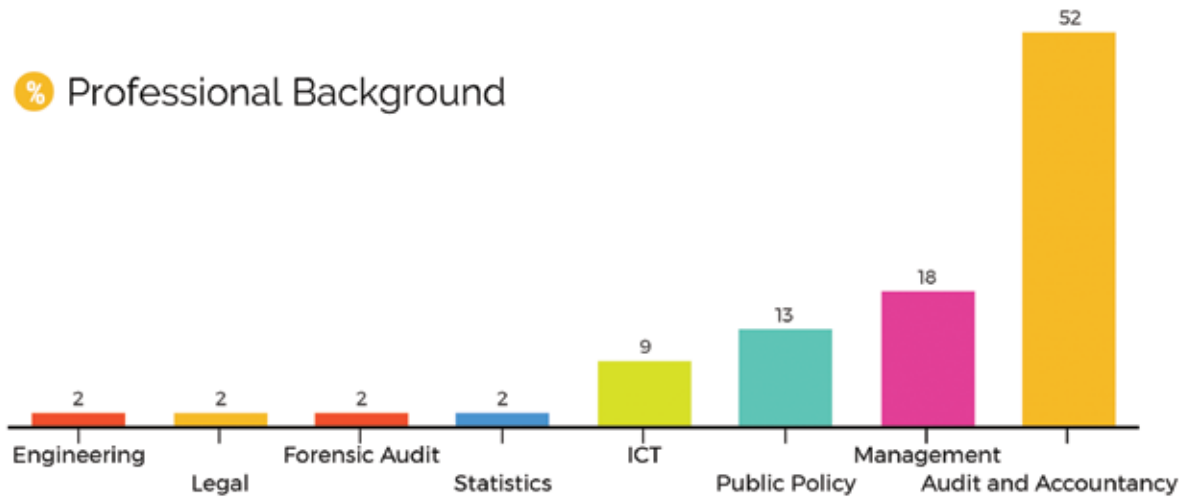
In the interest of effective and productive audits, we do our utmost to maintain a good working relationship with all our auditees. In most cases, auditees acknowledge the NAO's Constitutional mandate and consequently extend full co-operation throughout audit assignments carried out by our staff. This includes cooperation with the NAO auditors so that the audit objectives are reached without delay or disruption, informing their employees of the audit scope and objectives, providing access to facilities and evidential material requested by our auditors, devoting enough time to issues raised during the audit and initiating corrective action based on weaknesses highlighted in the Audit report.

Our Team...

The NAO is a relatively young organisation with 60% of staff under the age of 40.

Our staff constitute a critical resource that is key for the Office to achieve its organisational objectives. The NAO endeavours to have a staff complement with the proper mix of skills, competences and experience to

Professional Background



Employee Gender and Age



NAO Staff

2016-2017 (to date) Reports issued by NAO

NAO Work and Activities Report

March 2016 Work and Activities of the National Audit Office 2015

NAO Audit Reports

February 2016 Performance Audit: Agreements between Government and Conservatorio Vincenzo Bugeja on Jeanne Antide and Fejda Homes

February 2016 Performance Audit: Service Agreements between Government and INSPIRE Foundation

April 2016 Performance Audit: An Analysis on OHSA's Operations - A Case Study on the Construction Industry

May 2016 Information Technology Audit: Mater Dei Hospital

June 2016 The General Practitioner function - The core of primary health care

July 2016 An Investigation of the 2015 Local Councils' Capital Projects Fund

July 2016 An Investigation of Local Councils Funding Schemes launched between 2008 and 2013

September 2016 Performance Audit: Service Agreements between Government and Richmond Foundation Malta

October 2016 Performance Audit: Agreements between Government and YMCA Valletta

November 2016 Performance Audit: Managing and Monitoring the State Schools' Transport Services

December 2016 Annual Audit Report of the Auditor General - Public Accounts 2015

December 2016 Annual Audit Report of the Auditor General - Local Government 2015

December 2016 An Investigation of Property Transfers between 2006 and 2013: The Transfer of Land at Ta' L-Istabal, Qormi

December 2016 An Investigation of Property Transfer between 2006 and 2013: The Acquisition of 233, 236, and 237 Republic Street, Valletta

January 2017 Contribution of the Structural Funds to the Europe 2020 Strategy in the Areas of Employment and Education

February 2017 Information Technology Audit: Cyber Security across Government Entities

