



Work and Activities of the
National Audit Office

2017



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of the
National Audit Office

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Table of Contents

List of Abbreviations	5
Foreword	6
Auditor General's overview	6
Part One	9
Highlights of 2017	9
Our participation in Parliament	16
Our participation in domestic Working Groups	17
Our participation in international fora	18
Investing in our staff	20
Social Activities	21
Part Two	22
Our 2017 performance at a glance	22
Financial and Compliance Audits	24
Performance/Value for Money Audits	26
Special Audits and Investigations	26
Parallel Audit	27
Information Technology Audit	27
Other Audits	28
Our Publications	31
Part Three	32
Annual Report and Financial Statements	32

List of Abbreviations

CIPFA	Chartered Institute of Public Finance and Accountancy
ECA	European Court of Auditors
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISS	Institute for Security Studies
ISSAI	International Standard of Supreme Audit Institutions
IT	Information Technology
NAO	National Audit Office
PAC	Public Accounts Committee
SAI	Supreme Audit Institution
UHM	<i>Union Haddiema Magħqudin</i>
UK	United Kingdom

FOREWORD ...

Auditor General's Overview



Charles Deguara
Auditor General

I am pleased to present the Work and Activities Report for the year 2017, a most memorable year for our National Audit Office (NAO) since we commemorated the twentieth anniversary since the setting up of the Office as an independent audit institution. In 1997, the Constitution of Malta was amended to provide for the Independent Offices of the Auditor General and Deputy Auditor General and the establishment of the NAO in its present format. The Auditor General and National Audit Office Act was enacted to set out the duties of the Auditor General, in particular the publication of audit reports and their presentation to Parliament.

To mark this extremely important milestone in NAO's history, a number of distinguished personalities visited the Office. These included the President of Malta, Her Excellency Ms Marie-Louise Coleiro Preca; the Prime Minister, the Hon. Dr Joseph Muscat; the former Leader of the Opposition, the Hon. Dr Simon Busuttil; the Speaker of the House of Representatives, the Hon Dr Anġlu Farrugia; the President of the European Court of Auditors (ECA), Mr Klaus-Heiner Lehne; and the ECA Maltese Member, Mr Leo Brincat. All these personalities emphasised the important role of NAO as an external audit institution and had words of praise for the professional, independent and objective work being carried out by the Office.

In addition, a number of other important events were also organised. NAO held a half-day seminar for its staff on *the Role and Contribution of NAO in the Implementation of Accrual Accounting across Government*. Two distinguished speakers namely Ian Carruthers (Chair, International Public Sector Accounting Standards Board and Chair, CIPFA standards) and Martin Sinclair (former Assistant Auditor General at the UK National Audit Office) addressed this seminar highlighting their personal first hand experiences in the change to accrual accounting in the UK.

Moreover, within the framework of the Maltese Presidency of the Council of the European Union (EU), NAO hosted the 2017 EU Contact Committee Joint Seminars relating to the Fiscal Policy Audit Network and Europe 2020 Strategy Audit Network held on 30 and 31 May 2017 respectively. In addition, a joint ECA/NAO seminar with the theme *Audit follow-up in the Public Sector: Enhancing Accountability* was held on 12 September 2017. This was also attended by the Principal Permanent Secretary and various Permanent Secretaries and other senior public officials, as well as by the Chair, Public Accounts Committee.

Yet again, NAO published a significant number of reports in 2017, 14 in all, on a number of diverse topics of public interest as well as on a number of special audits and investigations mandated by the Public Accounts Committee (PAC). In such reports, we have endeavoured to present reader friendly reports focusing mainly on key findings and proposing relevant and doable recommendations thereto.

In 2017, NAO issued a stand-alone report titled *Ministry for Finance: An Analysis on Revenue Collection*. In this report, NAO auditors focused on the results achieved by the three main revenue generating departments of the Government of Malta, namely the Inland Revenue Department, the Value Added Tax Department and the Department of Customs.

Moreover, in line with best practices adopted by foreign Supreme Audit Institutions (SAIs), in November 2017, NAO introduced a follow-up report on progress achieved in the implementation of recommendations made in eleven past audits. This follow-up process will be repeated in future on other past audits, thus strengthening NAO's role as the public external auditor, whilst ensuring the continued relevance and effectiveness of the Office.

NAO's initiative to introduce a formal follow-up process has been supplemented by the issue of the second report by Government titled *Governance – Action on the NAO's Annual Report 2015 Public Accounts* in which the status of implementation of recommendations made in the Annual Audit Report on Public Accounts for 2015 is duly reported. In our opinion, this Report is a step in the right direction highlighting the Administration's commitment to implement, as far as possible, NAO's recommendations.

Moreover, we welcome the Administration's efforts in finally deciding on the implementation of the long overdue accrual accounting system across Government. This initiative is deemed to be highly beneficial to the public sector in terms of higher quality reporting for enhanced decision making. It is here pertinent to highlight that NAO has been preparing its financial statements on an accruals basis since 1998. NAO is gearing up for this development

through the provision of the necessary training to its staff.

With respect to information technology, in future, NAO plans to consider adopting an audit management system that would greatly facilitate our audit processes and render our audit work more effective. The Office also intends to explore the application of data analytics to our work so that auditors may start to focus more, where possible, on reviewing the entire data set and identify anomalies, rather than relying on sampling of transactions. In preparation for the introduction of such software, NAO has consolidated its IT hardware and equipment through the purchase of three new computer servers.

During 2017, on the initiative of the Deputy Auditor General, NAO adopted a number of new corporate policies and updated existing ones. In particular, data protection guidelines and IT technology policy were revised to reflect current developments in the respective areas. NAO is also in the process of finalising a materiality policy to further ensure that our audit processes are efficient and effective and that our audit reports remain relevant and serve the public interest.

Acknowledging that the Office's human resources constitute by far its most important asset, retaining and, where necessary, recruiting professionally qualified staff, represents a key priority for the Office. A new Collective Agreement, covering the period 2017 to 2024 and offering competitive remuneration and other enhanced employment conditions, including family friendly initiatives, was signed on 7 November 2017.

Moreover, an agreement was entered into between NAO and the United Kingdom Chartered Institute of Public Finance and Accountancy (CIPFA), whereby the latter are providing a three year training course which commenced in July 2017 on International Public Sector Accounting Standards (IPSAS), audit and assurance, as well as investigations and case management. Notwithstanding the fact that this course was offered to NAO employees on a voluntary basis, the take-up by Office staff was indeed encouraging and practically all staff will be attending at least one module.

NAO also offers its employees various other learning and development opportunities including in-house training, attendance at local and international conferences, as well as course sponsorships. In this regard, an agreement has also been reached with the Court of Accounts of the Republic of Slovenia for a work exchange programme whereby staff from both entities would acquire hands on experience working for a couple of weeks with their foreign counterparts.

Obviously, such a successful year would not have been possible without the dedication and competency of the excellent team we have at the NAO. First and foremost, I would like to express my heartfelt gratitude to my Deputy, Mr Noel Camilleri, whose ongoing support, sense of initiative and previous experience as Accountant General played a key role in the continued consolidation by NAO of

best practices in the auditing field and enhancement of the Office's performance. Moreover, I would like to convey my sincere appreciation for all the hard work and effort put in by senior management and staff without which the excellent results achieved in 2017 could not have been realised.

However, we cannot afford to rest on our laurels. We need to duly prepare ourselves to face our future challenges as well as to exploit new opportunities; thus, we are presently working on a new five-year strategic plan for the NAO, based on extensive consultation, both internally with all NAO staff, as well as externally with all Permanent Secretaries. In essence, we are committed to continue to make our critical contribution to good governance across the public service. Ultimately, this would be in the best interest of our taxpayers.



Charles Deguara
Auditor General

11th April 2018

PART ONE ...

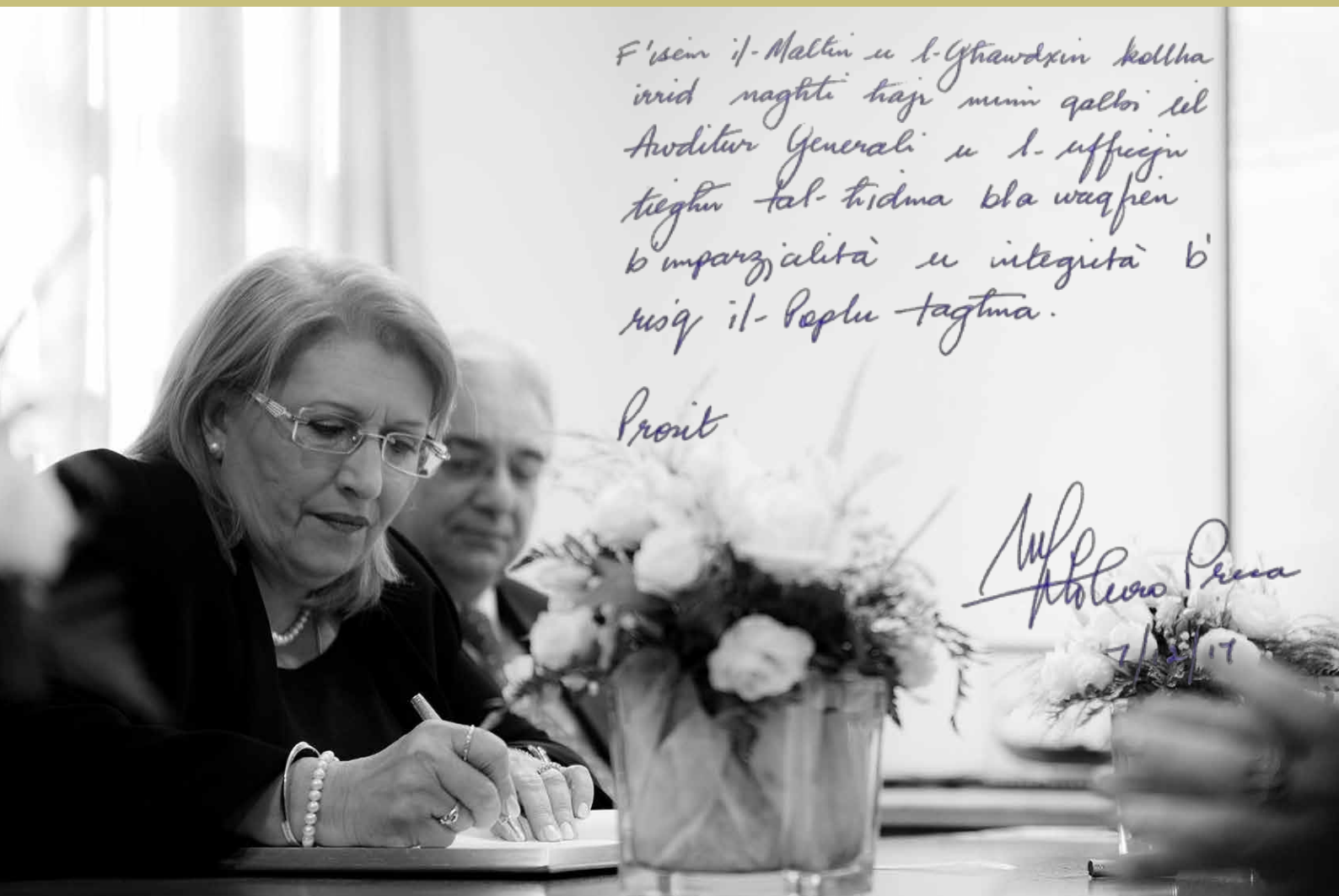
Introduction

In July 1997, Article 108 of the Constitution was amended and the Auditor General and National Audit Office Act (Chapter 396 of the Laws of Malta) was enacted to provide for the Offices of Auditor General and Deputy Auditor General. The current Auditor General is Charles Deguara, whilst his Deputy is Noel Camilleri. These laws also regulated the establishment of the National Audit Office as an independent audit institution carrying out various types of public sector audits.

Highlights of 2017

Commemorating our 20th Anniversary as a National Audit Office

In 2017, the Office celebrated the 20th Anniversary since the setting up of NAO as an independent and fully autonomous national audit institution replacing the hitherto Audit Department forming part of the Ministry responsible for Finance. A programme of activities was thus organised by NAO in 2017 to commemorate such anniversary consisting of a number of visits from distinguished personalities.



Visits by local distinguished personalities to NAO

Her Excellency the President of Malta, Ms Marie-Louise Coleiro Preca, the Hon. Prime Minister, Dr Joseph Muscat, the former Hon. Leader of the Opposition, Dr Simon Busuttil, and the Hon. Speaker of the House of Representatives, Dr Anġlu Farrugia visited the Office on 7 December 2017, 3 August 2017, 17 August 2017 and 13 November 2017 respectively. In their address to NAO senior management and staff, all thanked Office auditors for their impartial and objective audit work performed with integrity and in the public interest, thus acting as a role model to other Government Ministries, Departments and public entities. The Auditor General affirmed during all visits that NAO auditors are duty bound to ensure that their work is always and solely based on the key principles of integrity, justice, professional conduct and due care. Only thus can the autonomy of the Office be duly safeguarded.

Further information related to these visits can be found in the following press releases:

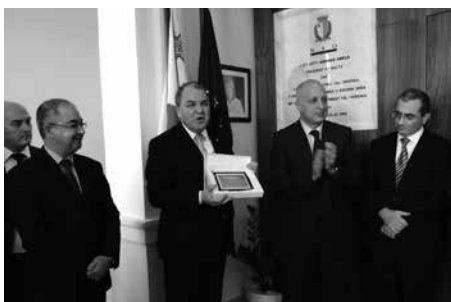


Official Visit to NAO by the Hon. Prime Minister, Dr Joseph Muscat

Link to Department of Information Press Release 171830 dated 3 August 2017
<https://gov.mt/en/Government/Press%20Releases/Pages/2017/August/03/PR171830.aspx>

Official Visit to NAO by former Hon. Leader of the Opposition, Dr Simon Busuttil

Link to NAO Press Release dated 17 August 2017
<https://nao.gov.mt/en/press-releases/4/167/visit-of-the-hon-leader-of-the-opposition-dr>



Official visit to NAO by Hon. Speaker of the House of Representatives, Dr Anġlu Farrugia

Link to Department of Information Press Release 172551 dated 13 November 2017
<https://gov.mt/en/Government/Press%20Releases/Pages/2017/November/13/pr172551en.aspx>

Official visit to NAO by Her Excellency the President of Malta, Ms Marie-Louise Coleiro Preca

Link to Department of Information Press Release 172839 dated 7 December 2017
<https://gov.mt/en/Government/Press%20Releases/Pages/2017/December/07/pr172839.aspx>



Other Visits



Visit by German Members of Parliament

A delegation of four German Members of Parliament forming part of the Budget Committee of the German Bundestag, led by the Hon. Bernhard Schulte-Drüggelte, made an official visit to the National Audit Office in Floriana on 20 April 2017. During this meeting, NAO's senior management gave a comprehensive overview of the work and assignments carried out by the Office, with the principal objective of providing a fair and objective oversight to Parliament as regards the use of public funds. The German delegation conveyed its appreciation to NAO's senior officials for the very informative and cordial meeting.



Visit of European Court of Auditors (ECA) President to NAO

A delegation from the European Court of Auditors (ECA) visited NAO on 26 June 2017. Led by Klaus-Heiner Lehne, ECA President, and accompanied by Leo Brincat, Malta's ECA Member, the officials met with NAO's senior management team including Charles Deguara and Noel Camilleri, to discuss ECA and NAO objectives, roles and support.

Mr Lehne referred to ECA's primary objective as guardian of European Union (EU) funds. He also emphasised the key role of Supreme Audit Institutions (SAIs) in ensuring that citizens regain trust in EU Institutions. Mr Brincat conveyed his appreciation for the professionalism and independence NAO has consistently shown and affirmed ECA's honour in organising a joint seminar with NAO on *Audit Follow Up in the Public Sector: Enhancing Accountability*.

Mr Deguara made reference to NAO's readiness for the continued cultivation and strengthening of ECA relations to include participation in ECA-organised initiatives and providing technical and logistical support during ECA audit assignments in Malta.

*F'laqgħa mal-ogħla uffiċjali tal-NAO, l-I-speaker qal illi l-element ta' trasparenza u kontabilità huma l-valuri li dejjem emmen fihom, u sostna li dawn huma l-pedament ta' dik li dejjem nitkellmu dwarha, id-demokrazija. B'rabta ma' dan, l-I-speaker Anġlu Farrugia tenna li l-impjegati għandhom jibqgħu jagħmlu xogħolhom bla biża', għaliex filwaqt li politiku jiġi elett, dan jista' ma jiġix elett darb'ohra, iżda x-xogħol ta' kull wieħed u waħda mill-ħaddiema tal-Uffiċċju tal-Awditur Ġenerali qiegħed hemm biex jibqa'...
Żjara uffiċjali tal-I-speaker Anġlu Farrugia fl-Uffiċċju Nazzjonali tal-Verifika (L-Orizzont 13.11.2017)*



Official visits by Malta's Member at the European Court of Auditors, Mr Leo Brincat to NAO

An ECA delegation led by Leo Brincat, Maltese member of the Court, and Martin Weber, Director – Directorate of the Presidency, visited NAO on 11 September 2017 for official talks with Charles Deguara, Noel Camilleri and Brian Vella, Assistant Auditor General. The further enhancement of collaboration between the two entities was discussed including recent developments within both entities. Particular emphasis was placed on the fact that promoting the fundamental values of accountability and transparency was of critical importance to both ECA and NAO. In this regard, reference was also made to the seminar being organised jointly by the two entities on *Audit Follow-up in the Public Sector: Enhancing Accountability*, as well as the EU Contact Committee Liaison Officers' Meeting to be held in Malta in May 2018.

Leo Brincat paid another visit to the Office on 19 December 2017. During a meeting with NAO senior officials, Mr Brincat commended the Office for the significant number of performance audits being performed by the Office. He affirmed that undertaking both financial and compliance audits and performance audits is conducive to better audit outcomes in the best interest of all stakeholders. This positive trend also dovetailed perfectly with ECA's new strategy.

The Auditor General made reference to the excellent working relationship, based on collaboration and support, that exists between NAO and ECA. He affirmed that both entities have a similar mission, namely that of promoting accountability and transparency in the use of public funds.

Following the meeting with senior management staff, Mr Brincat gave an extensive and informative presentation to all NAO staff regarding ECA strategy.

Other important events

Auditor General presented with publication listing actions on his recommendations

For the second consecutive year, on 28 April 2017, the publication *Governance – Action on the NAO’s Annual Report 2015* was presented to Charles Deguara and Noel Camilleri by the Acting Principal Permanent Secretary, Joe Camilleri, and the Permanent Secretary for Strategy and Implementation at the Office of the Prime Minister, Joyce Dimech. This Report relates to the rate of implementation of the Auditor General’s recommendations made in his Annual Audit Report on Public Accounts for the year 2015. Further information relating to this visit can be found on the Department of Information Press Release 171106 dated 28 April 2017.



NAO Seminar on the Role and Contribution of NAO in the implementation of Accrual Accounting across Government

NAO organised a half-day seminar for its staff on *the Role and Contribution of NAO in the Implementation of Accrual Accounting across Government*. Charles Deguara and Noel Camilleri addressed the seminar along with two distinguished foreign speakers, namely Ian Carruthers (Chair, International Public Sector Accounting Standards Board and Chair, CIPFA standards) and Martin Sinclair (former Assistant Auditor General at the UK National Audit Office). Both were actively involved in the change to accrual accounting in the UK.

The introductory part of the seminar tackled a wide variety of aspects relating to the adoption and implementation of accrual accounting by the UK public administration in the late nineties, including the consolidation procedure. The second half of the event focused on addressing potential NAO challenges arising from the implementation of accrual accounting by the Administration.

The seminar assisted the Office in strengthening its capacity and expertise and served as an opportunity for its staff to keep abreast of developments taking place in the Maltese and UK public sectors in relation to financial management and financial reporting.



NAO/ECA Joint Seminar

NAO in collaboration with ECA organised a joint seminar with the theme *Audit follow-up in the Public Sector: Enhancing Accountability* on 12 September 2017. This event was attended by the Chair and Members of the Public Accounts Committee, the Permanent Secretaries and senior officials across the public service as well as staff from the National Audit Office and the Internal Audit and Investigations Department.

In his opening address, Charles Deguara, highlighted the importance on the part of every national audit institution of ensuring timely implementation of the recommendations made in its various reports.

In his keynote speech, Maltese Member within the ECA, Leo Brincat, gave an extensive overview of the important role and objectives of the ECA. He recommended that Governments should encourage their Ministries, Departments and entities to implement ECA audit report recommendations in practice so that the latter can provide added value, achieve in a more proactive manner better adherence to EU directives whilst leading to less potential EU infringement cases.

This was followed by a presentation by the Director, Directorate of the Presidency, Martin Weber, on *Maximising our Contribution to Member States' Public Accountability*. He referred to the fundamental role of the ECA in promoting accountability, one of its core values in the use of EU funds by the Member States.

In his speech on *NAO's Report – Government's Follow-Up*, Principal Permanent Secretary, Mario Cutajar, made reference to the Governance Reports issued by his Office during these last two years that analysed the status of implementation of the various recommendations put forward by the NAO during its Annual Audit Report on Public Accounts. The Principal Permanent Secretary emphasised that this exercise duly reflected Government's commitment to promoting the values of accountability and transparency across the Maltese public service.

The seminar was concluded by a presentation made by Noel Camilleri, who delivered a review on the new initiative taken up this year by NAO to issue a Follow-Up Report on a number of audits, undertaken by the Financial and Compliance, Performance and Special Audits and Investigations Sections, during these last years. He also presented a comprehensive analysis of the implementation rate of recommendations reviewed in respect of all the selected follow-up audits included in this year's Report.



NAO hosts EU Contact Committee Joint Seminars

Within the framework of the Maltese Presidency of the Council of the European Union, NAO hosted the 2017 EU Contact Committee joint seminars on the Fiscal Policy Audit Network and Europe 2020 Strategy Audit Network on 30 and 31 May 2017. Thirty-five participants from 18 National Audit Institutions, along with ECA representatives, attended the Fiscal Policy Audit Network seminar designed to improve methodologies and practices in auditing national fiscal policy. The network, chaired by Marko Männikkö from the National Audit Office of Finland, strives to share best practices and knowledge among the network's SAIs.

Charles Deguara welcomed guests and highlighted the network's progress, touching on key issues, including public finance sustainability, tax policy and fiscal reform effectiveness, as well as the international debt crisis. Malta Fiscal Advisory Council's representative, Malcolm Bray offered an engaging presentation on the *Quality of Public Finances* where he highlighted the important roles independent fiscal and national audit institutions play in increasing public finance quality.

The Fiscal Policy Audit Network seminar focused on three themes:

- Fiscal Policy Preparation and Implementation;
- Transparent, True and Fair Views of Central Government Finances; and
- Public Finance Sustainability

The Europe 2020 Strategy Audit Network seminar followed with nearly 40 SAI delegates and ECA representatives in attendance at this forum aimed at sharing experiences and insight in auditing Europe 2020 related topics.

The Portuguese Court of Accounts, Chair of the Europe 2020 Strategy Audit Network, was represented by José Pinto Almeida, who opened the seminar citing the network's achievements since its establishment in 2009.

Jonathan Vassallo from the Office of the Prime Minister's Planning and Priorities Coordination Division delivered an interesting presentation on *Europe 2020 Strategy: Education and Social Cohesion*. Additional seminar topics focused on ongoing parallel audits, national audits and ECA work related to the main theme of the seminar.

Official Visit by the President of the Court of Auditors of the Republic of Slovenia

The President of the Court of Auditors of the Republic of Slovenia, Mr Tomaž Vesel paid an official visit to the NAO in September 2017 during which areas of mutual interest were discussed. As a result of this visit, it was agreed to implement a regular staff exchange programme in our respective SAIs as from May 2018.

*L-Uffiċċju Nazzjonali Malti tal-Verifika - fil-qafas tal-Presidenza Maltija tal-Kunsill tal-Unjoni Ewropea - organizza seminar li laqqa' l-Kumitat ta' Kuntatt tal-UE tan-Network dwar il-Verifika tal-Politika Fiskali. L-iskop ewlieni ta' dan in-network ippresedut mill-Uffiċċju Nazzjonali Finlandiż tal-Verifika, hu li jtejjeb il-metodoloġiji u l-prattiċi tal-verifika tal-politika fiskali nazzjonali permezz tal-użu tal-aqwa fost dawn il-prattiċi u t-tqassim ta' informazzjoni fost l-Istituzzjonijiet Supremi ta' Verifika (SAIs)... **Seminar mill-Uffiċċju Nazzjonali tal-Verifika (L-Orizzont 30.5.2017)***



Our participation in Parliament

NAO interacts with two Parliamentary Standing Committees, the Public Accounts Committee and the National Audit Office Accounts Committee.

The Auditor General, Deputy Auditor General and NAO officials attended all sixteen Public Accounts Committee meetings held in 2017. Ten meetings were held under the thirteenth legislature and six meetings under the twelfth legislature.

Sittings held during 2017 related to the following NAO Reports and requests made by PAC:

- Report by the Auditor General on Public Accounts 2015
- Performance Audit Report *The General Practitioner Function – the Core of Primary Health Care*
- Investigation Report *An Investigation of Property Transfers between 2006 and 2013: the Transfer of the Property at 83 Spinola Road, St Julian's*
- Request by the Opposition for *Investigation on Engagement of Wasteserv Employees from January 2016 to June 2017*

The *Annual Report on the Work and Activities of NAO - 2016* was submitted to the National Audit Office Accounts Committee on 28 March 2017.

The Office's audited Financial Statements for year ending 31 December 2016 and Estimates for 2018 were discussed and approved by the National Audit Office Accounts Committee on 24 October 2017.

In September, NAO organised an introductory meeting for the members of the new Public Accounts Committee prior to its first meeting during the present legislature. A brief overview of the objectives and workings of this important Committee was given.



Our participation in domestic Working Groups

NAO senior officials take part in a number of domestic Working Groups as noted hereunder:

Table 1: NAO Participation in domestic Working Groups

Participant	Title of Working Group	Objectives
Noel Camilleri	Government Finance Statistics Committee	Compilation of public finance statistics of General Government based on ESA 2010 methodology
	CFMS (Corporate Financial Management Solution) implementation Board	Board overseeing the implementation of the Accrual Accounting software solution across Government Departments.
Charles Deguara and Tanya Mercieca	Local Government Good Governance Working Group	To address in a coordinated manner the main issues raised by the Auditor General in the Local Government Annual Audit Report
Vanessa A. Tonna and Tanya Mercieca	Financial Legislation Working Group	Review the General Financial Regulations, 1966 and propose amendments thereto
Tanya Mercieca	IPSAS Implementation Project Board	Strategic direction and overall management of IPSAS implementation across Government Ministries and Departments

An aerial photograph of a modern university campus. The buildings are multi-story, with a mix of dark and light facades. A prominent feature is a large, multi-story building with a dark facade and a grid of windows. In the foreground, there's a large, light-colored building with a flat roof and a grid of windows. The campus is surrounded by trees and a cityscape in the background. A semi-transparent yellow rectangular box is overlaid on the upper part of the image, containing white text.

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. Such structure comprises the Contact Committee itself, composed of the Heads of EU Member State SAIs and ECA; the Liaison Officers; 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.

Charles Deguara, Noel Camilleri and Brian Vella attended the EU Contact Committee Meeting in Luxembourg on 12-13 October 2017. Noel Camilleri attended the Liaison Officers' Meeting held in Stockholm, Sweden on 16-17 May 2017. The 2018 Liaison Officers' Meeting in preparation for the 2018 Contact Committee Meeting will be held in Malta on 10-11 May 2018.

In September 2017, Noel Camilleri attended the meeting of the EU Contact Committee Task Force on Banking Union held in the Hague, the Netherlands. Furthermore, during 2017, NAO together with the SAIs of Germany and the Netherlands, formed part of the Core Group on the Working Group on Structural Funds. The mandate of this Working Group came to an end in 2017 with the finalisation of the parallel audit report titled *Contribution of the Structural Funds to the Europe 2020 Strategy in the Areas of Employment and Education*. This report was presented to the Contact Committee in October 2017.

ECA Audit Mission

Relations between ECA and Audit Institutions of EU Member States are regulated by Article 287 of the Treaty on the Functioning of the EU. In order to fulfil its mandate as the EU external auditor, ECA carries out audits on EU funds granted to Maltese entities referred to as ECA Audit Missions. NAO provides assistance on such missions by making the necessary arrangements with the audited body as well as ensuring that all information requested by ECA is duly submitted.

An ECA Audit Mission on *Statement of Assurance concerning the financial year 2017 – Financial audit of the final payment of €190,401.20 for the project “LIFE11 NAT MT 1070-LIFE+ MIGRATE – Conservation Status and potential Sites of Community Interest for *Tursiops truncatus* and *Caretta caretta* in Malta”* was held in Malta on 2-3 October 2017. An NAO official accompanied the ECA audit team in this Mission.

Participation in other international institutions

NAO participates actively in the International Organisation of Supreme Audit Institutions (INTOSAI) worldwide by attending a number of its Meetings each year. In particular, Noel Camilleri attended the United Nations INTOSAI Symposium in Vienna, Austria. The theme of the symposium was: *Digitalisation, Open Data and Data Mining - Relevance and Implications for the Audit Work of SAIs*.

NAO is also active in the European Organisation of Supreme Audit Institutions (EUROSAI), which is INTOSAI's regional arm in Europe. In May 2017, Charles Deguara and Tanya Mercieca attended the X EUROSAI Congress held in Turkey. The main theme of the Congress was: *Implementation of ISSAIs: Challenges and Solutions for Further Improvement*. In the same month, Charles Deguara attended the joint seminar by European Confederation of Institutes of Internal Auditing and EUROSAI on Cooperation between SAIs and Internal Auditors.

A number of NAO's senior officers are also active members of EUROSAI Working Groups on Information Technology, and Environmental Audit as well as the Task Force on Audit and Ethics. During 2017, this Office

actively participated by delivering presentations in two main EUROSAI Working Group on Environmental Auditing events, namely the Spring Session Seminar on Water Quality and Management and the 15th Annual Meeting on auditing land use and development and on data and analysis in environmental audit, which were held in Ljubljana and Tirana respectively. Moreover, this Office is currently co-leading the cooperative audit *Safeguarding Marine Protected Areas within the Mediterranean Sea*. Six other SAIs are participating in this audit.

Furthermore, NAO participated in the review of the final documents that the EUROSAI Task Force on Audit and Ethics presented to the X EUROSAI Congress. In addition, Charles Deguara and Tanya Mercieca attended the first seminar/meeting on Municipality Audit organised by the EUROSAI Task Force on Municipality Audit in October 2017.

Apart from the above, Noel Camilleri attended the United Nations Conference on Trade and Development Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting 34th session in Geneva, Switzerland in November 2017. The two main agenda items were: (1) *Enhancing comparability of sustainability reporting: Selection of core indicators for company reporting on the contribution towards the attainment of the Sustainable Development Goals*; and (2) *The role of disclosure in risk assessment and enhancing the usefulness of corporate reporting in decision-making*.

Moreover, Tanya Mercieca, Assistant Auditor General, together with another member from the Italian Court of Accounts, formed the College of Auditors at the EU Institute for Security Studies (ISS). Together they carried out the annual audit of the accounts of the EUISS for financial year 2016. In 2017, Tanya Mercieca was also appointed to conduct the audit of the Institute's Cyber Toolkit project funded by the EU Commission.

Investing in our staff

NAO possesses a professionally competent workforce qualified in a number of areas relevant to public sector auditing in order to fulfil its Constitutional and legal mandate. Such qualifications include Accounting, Auditing, Forensic Auditing, Management, Economics, Public Policy, Statistics, Engineering, IT, and Law. Experts are also engaged when required to assist in particular audits.

In order to retain such staff and possibly attract new employees, the Office offers training and development opportunities as well as a competitive remuneration package. A number of social activities aimed at enhancing team building and cooperation between the different Sections and Units are also organised.

This Office also extended assistance to various university students during their dissertation assignments through interviews held with senior NAO staff. A number of staff also provided lecturing services for the Department of Public Policy at the University of Malta.

Professional Development

NAO attaches the highest importance to the professional development of its employees to guarantee the utmost quality in its audit work. Training events consisted in the NAO-CIPFA training programme (see below), sponsorships, overseas and local training and conferences, as well as in-house training.

NAO-CIPFA Professional Development Programme

In 2017, NAO and the Chartered Institute of Public Finance and Accountancy (CIPFA) signed an agreement whereby the latter would be providing a Professional Development Programme to NAO staff in the areas of Audit and Assurance, International Public Sector Accounting Standards (IPSAS), and Investigations and Case Management. In this way, NAO staff would have the opportunity to keep abreast of latest developments in the accounting and auditing fields. A group of NAO staff have already commenced training on the IPSAS Module, whilst another group initiated the Audit and Assurance Module.

Collective Agreement

A new collective agreement covering the period 2017-2024 was entered into on 7 November 2017 between the National Audit Office and UHM – Voice of the Workers, which is the Union representing the majority of NAO employees. The agreement builds upon the previous ones and includes improved working conditions for all NAO staff such as increases in remuneration for all classes of employees; enhanced family friendly measures offering better opportunities for flexi-time working to allow employees to achieve a better work-life balance; and a stronger emphasis on professional development. These measures have been consolidated to attract and retain the right calibre of employees.

Social Activities

The Pink October campaign aims to raise funds and awareness about breast cancer prevention and encourage further research on equipment to help improve the quality of life for cancer patients. NAO organised a dress down day on 30 October 2017 in aid of such campaign. An amount of €180 was raised and donated equally to Malta Hospice Movement and Marigold Foundation.

Moreover, an NAO principal auditor, Chris Micallef, took part in the Swim Aid 2017 Challenge. This was a charity swim organised in order to raise funds for Swim Aid Foundation, whose aim is to introduce more children and adults with physical disabilities to the world of sport as well as offer aqua therapy to children with physical and mental disabilities. Funds raised for this worthy cause amounted to €150.

Furthermore, a donation of €800 was presented to the President of Malta, Her Excellency Marie-Louise Coleiro Preca, during her visit to the Office, for the benefit of the Malta Community Chest Fund.

During the year, the Social Committee underwent changes in its composition. Orland Bonavia, whom we thank for his contribution, resigned, whilst Rebecca Vassallo, Christine Saliba, Chris Micallef and Felicity Trudy Rayner joined in as new members. The Committee organised various social activities throughout the year to enhance social interaction amongst NAO staff.

“Recommendations made by the Auditor General were addressed or being considered by the ministries concerned in the majority of cases although a number of issues remained outstanding.” ...
Most NAO recommendations addressed (Times 14.11.2017)

PART TWO ...

Our 2017 performance at a glance

Annual Report - Public Accounts

Audit opinion on Financial Statements of Government Audit
Opinion on Compliance



Report on Local Government



Local Councils Audited



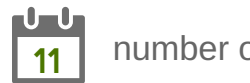
Regional Committees Audited



Recommendations to Local Councils



Health, Environment, International Education, Social, ...



number of ...



Recommendations



Special Audits and Investigations

Disposal of public land and expropriation



5 Performance audits

Infrastructure, transport, education and consumer affairs



49
Recommendations

Follow Up Audit Report

Environment,
Internal Affairs,
Education,
Transport

of follow-up audits

69

actions followed up

1 Parallel Audit

EU Structural Funds



5 Recommendations



1 IT Audit

Public entities supporting the business and commercial sector, culture, regulation, social issues and the environment

168 Recommendations



1 Special Report

Inland Revenue Department, Value Added Tax Department and the Department of Customs

actions

action

Financial and Compliance Audits



The key objective of carrying out financial and compliance audits is to provide assurance on the the extent of fair presentation of public sector financial statements (financial audit) and the degree to which public funds are expended in conformity with the relevant laws, rules and regulations (compliance audit). Such objective is achieved by providing independent audit opinions (on the financial part and on the compliance part) and preparing related reports for the information of Parliament, the Executive and the public. Financial and compliance audits also aim to contribute to improvements in the financial administration of the public sector.

Main key findings for 2016 included...

- Weak internal controls
- Lack of Contract oversight
- Limitation on Scope

Main control findings for 2016 included...

- Retrospective or No Approvals
- Perpetual Extensions to Contracts
- Lack of Audit Trail due to insufficient Supporting Documentation
- Weaknesses in the Collection of Data for Compilation of Creditors' Returns
- Irregularities in the Procurement of Goods and Services
- Inadequate Controls on Inventory and Stock
- Shortcomings related to Personal Emoluments

Main compliance finding for 2016...

- Lack of awareness and/or non-compliance with Pertinent Regulations and Circulars

Main issues in respect of Local Government Audits included...



- Audited financial statements of three local councils and one Regional Committee were not submitted to NAO by end October 2017
- Due to the various shortcomings encountered, Local Government Auditors could not express an opinion on the financial statements as presented by two Local Councils, namely Birgu and Mosta, as well as the Northern Regional Committee
- The audit reports of another 45 Local Councils, two Regional Committees and that of the Local Councils Association, were qualified with an 'Except For' audit opinion
- Seventeen Local Councils (2015: 23) recorded a negative working capital in the Statement of Financial Position
- Nineteen Local Councils (2015: 28) registered a Financial Situation Indicator below the established benchmark of 10%
- Eleven Local Councils and three Regional Committees (2015: 24 Local Councils and one Regional Committee), registered a deficit in the Statement of Comprehensive Income
- Only 48 Local Councils, one Regional Committee as well as the Local Councils Association (2015: 46 Local Councils and two Regional Committees) sent their response to the management letter within the stipulated deadline as set by Article 8(2) of the Local Councils (Audit) Regulations, 1993

Other findings in respect of Local Government included:

- Poor accounting records, resulting in the financial statements not giving a true and fair view of the actual financial situation
- Income and expenditure not always accounted for on an accruals basis
- Payments made not substantiated by a proper fiscal receipt addressed to the Council
- Petty cash expenditure supported solely by unitemised cash register chits
- Fixed Assets Register was either not maintained, or was not in line with best practice, thus hindering the monitoring and control expected to be exerted by Local Councils, over their assets
- Procurement not carried out in line with pertinent regulations
- Budgeted amount for certain categories of expenditure exceeded

Performance/Value for Money Audits

Performance/Value for Money Audits aim to report objectively on the performance of Government Ministries, Departments, public entities and companies where Government Shareholding amounts to 51% or more, and to identify opportunities for improvement. This objective is achieved by providing Parliament with independent assurance about the economy, efficiency and effectiveness of public sector activities and operations. Through undertaking a programme of independent performance audits, and preparing related reports for the information of Parliament, Government Administration and the public, NAO endeavours to promote marked improvements in Government Administration by assisting audited entities to achieve greater value for money from the use of resources and by identifying and promoting best practices in government activities, programmes and operations.

Key audit findings in respect of performance audits conducted in 2017 included:

- Deficiencies in contractual provisions
- Lack of clearly defined objectives in contractual provisions
- Not all procurement processes covered by a formal contractual document
- Inadequate performance safeguards in contractual document
- Weak enforcement of contractual provisions
- Lack of effective reporting and monitoring systems
- Inadequate evidence of project monitoring
- Lack of standards
- Fragmented, inconsistent and incomplete documentation
- Communication and coordination concerns
- Human resources allocation deficiencies
- Insufficient financial resources and lack of specialised human resources to provide specific functions

Special Audits and Investigations

NAO conducts Special Audits and Investigations in cases where concerns are raised pertaining to any matter related to Government finances, property or funds administered or under the control of any Government Department or entity. Such concerns may include breaches of ethical conduct by public officials, service quality failure, misconduct, waste, abuse of authority, misappropriation, fraud and corruption. 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.

Key audit findings in respect of Special Audits and Investigations conducted in 2017 included:

- Lack of document retention relating to important meetings regarding the identification of lands for exchange in respect of an expropriation of private property
- Valuations of lands exchanged for expropriation resulting in a significant adverse variance to Government
- Failure to obtain value for money from Government property sold

Parallel Audit

In 2015, the Contact Committee of the Supreme Audit Institutions (SAIs) mandated the Working Group on Structural Funds to carry out an analysis of the contribution of Structural Funds to the Europe 2020 strategy in the areas of education and employment. In this regard, the National Audit Office (NAO) agreed to undertake this review focusing on contributions in these areas within Operational Programme I (OPI) and Operational Programme II (OPII) during the period 2014 to 2016. This parallel audit was carried out in collaboration with the SAIs of ten Member States, namely, the Czech Republic, Denmark, Finland, Germany, Italy, Latvia, the Netherlands, Poland, Portugal, and the Slovak Republic. The SAIs of Bulgaria and the European Court of Auditors acted as observers. The Core Group consisted of the SAIs of Germany (Chair), the Netherlands and Malta. The parallel audit focused on the audited operational programmes identified by the participating SAIs, as well as approved projects that were directly related to education and employment.

The national report was published in January 2017. The following key audit results emerged:

- The two operational programmes were drawn up following extensive reference to national priorities, risks and challenges and were adequately coordinated
- Output indicators selected for gauging the performance of the operational programmes will contribute to the overall achievement of the Europe 2020 targets
- Interventions proposed in the operational programmes were all directly related to their respective specific objectives and result indicators
- Oversight of the operational programmes and the mechanism in place to monitor output indicators were adequate

Information Technology Audit

An Information Technology (IT) Audit is an examination of an organisation's information technology infrastructure, policies and operations. IT Audits determine whether IT controls protect public sector assets, ensure data integrity and are aligned with the business's overall goals.

The IT Audit Report published consisted of a number of IT audits related to cyber security controls implemented within a number of public entities.

Key Audit Findings for 2017 included:

- Some of the smaller Entities opted to fully outsource their IT services without having the in-house IT resources to manage these outsourced services
- Only one of the ten Entities reviewed had a Data Retention and Storage Policy
- Only one of the Entities had an Information Classification Policy
- Three of the Entities did not have any Internet and e-mail usage policies
- Most of the Entities were not regulating the use of portable storage media devices
- Two of the Entities did not implement any password complexity rules
- Another four Entities opted to implement password complexity rules when logging onto their personal computers and when accessing e-mails, but not in order to access their software applications

Other Audits

The introduction of a regular follow-up process

As from the year 2017, NAO has decided to effectively monitor, on a regular basis, the level of implementation of recommendations included in the various reports falling under the Financial and Compliance, Performance, and Special Audits and Investigations Sections. The results of the first combined report of eleven follow-up audits have been included in the report titled *Follow-up Reports by the National Audit Office 2017*.

The figure below summarises the rate of implementation of 169 recommendations made in the original 11 audit reports subjected to follow up. All but one of these recommendations were accepted by the auditee.



169
recommendations

Rate of Recommendations Implemented in respect of the eleven follow-up audits

50%

number of
recommendations
accepted and
implemented

31%

number of
recommendations
accepted and
partly implemented

18%

number of
recommendations
accepted but not
implemented

1%

number of
recommendations
not accepted

*The NAO considered the setting up of the Inter Ministerial Contact Committee and the subsidiary Sectoral Sub-Committees as a positive development, which served to ensure the maximisation of resources and reduce the risk of overlap or duplication of efforts by providing direction on the demarcation between different funds and programmes ... **NAO presents report on Structural Funds to Europe 2020 Strategy in employment, education (Independent 7.2.2017)***

The publication of a stand-alone report on former Revenue Collection Departments

NAO published a stand-alone report titled *Ministry for Finance: An Analysis on Revenue Collection*. The objective of this analysis, carried out by the Financial and Compliance Audit Section, was to collate and assess the revenue collected during 2016 with respect to the three main revenue-generating Departments within the Ministry for Finance, namely the Inland Revenue Department, the Value Added Tax Department and the Department of Customs. NAO also enquired on the level of enforcement procedures in place in relation to the collection of revenue, as well as the status of the integration between these three Departments, necessary to strengthen and consolidate the Maltese fiscal structure. The implementation date for the merger of the Revenue Departments is set for December 2018.

The following key conclusions emerged:

- The five-year analysis conducted by NAO indicated a €329.5 million increase in absolute terms in Income Tax, an increase of €191 million in Value Added Tax and an increase of €124.1 million in customs duties for the period 2012-2016.
- The analysis found that the most common enforcement tool used by the Inland Revenue Department and the Value Added Tax Department was remission of interest agreements. The Department of Customs handled various Criminal and Civil Court cases, besides issuing Letters to Prosecute, Seizure Notes, and out of Court settlements.
- The Report also took note of the various measures being implemented to support the merger of these Revenue Departments, some of which have already been implemented. These include a consolidated Commissioner for Revenue website, a One Stop Shop, a Joint Enforcement Unit, a Consolidated Debt Collection and a Call Centre.

Our Publications

Table 2 below provides an overview of the number of reports published by our Office over the past four years:

Table 2: Number of reports published in the past four years

	2014	2015	2016	2017
Performance Audit Reports	2	3	7	5
Special Audits and Investigations	5	7	5	2
Parallel Audit Report	0	0	0	1
IT Audits	2	2	1	1
Macro-Economic Forecasts	4	0*	0*	0*
Statutory Audit Report	1	1	1	1
Local Government Audits Report	1	1	1	1
Stand alone report on An Analysis of Revenue Collection	0	0	0	1
Follow-up Audit Report	0	0	0	1
Work and Activities of the NAO Report	1	1	1	1
	16	15	16	14

Source: NAO website

*Reports compiled by the Malta Fiscal Advisory Council

As can be seen from the above table, NAO has issued again a substantial number of audit reports. The stand alone report on An Analysis of Revenue Collection and the Follow-up Audit Report were two innovative reports. NAO plans to issue further follow-up audit reports in future.

“Rapport tal-Awditur Ġenerali juri li waqt li hemm diversi rakkomandazzjonijiet li qed jitwettqu, diversi nuqqasijiet għadhom jippersistu f'ċerti dipartimenti u ministeri tal-Gvern. Fost l-oħrajn isemmi nuqqasijiet fl-osservanza stretta tar-regolamenti tax-xiri tal-Gvern, li n-nefqa tal-Gvern taqbeż kemm-il-darba l-istima tal-baġit u n-nuqqas ta' dokumentazzjoni adegwata biex ikun jista' jagħmel il-verifika meħtieġa ...” **L-Awditur Ġenerali: Titjib sar iżda baqa' ħafna xi jsir (Newsbook 30.11.2017)**

PART THREE...

Annual Report and Financial Statements

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 1600
MALTA

Bankers

APS Bank Ltd
APS Centre
Tower Street
Birkirkara BKR 4012
MALTA

Auditors

KPMG
Portico Building
Marina Street
Pieta' PTA 9044
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 2017.

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.

1997-2017

The year 2017 marked the 20th anniversary from the set-up of the National Audit Office following the enactment of the Auditor General and National Audit Office Act that was unanimously approved by the House of Representatives on the 25th of July 1997. Under this Act, the National Audit Office which took over from the then Department of Audit, became an independent audit institution from Government reporting directly to the House of Representatives. Amongst the various changes introduced by the Act, the most notable were the power of the Auditor General to conduct any investigation, the new concept of value for money audits in addition to financial and compliance audit, the strengthened relationship between the Public Accounts Committee and the Office in the examination of audit reports published and presented to the House of Representatives and the establishment of a new Parliamentary Committee to approve the budget of the Office and the audited financial statements.

The Constitution was also amended in 1997 to ensure that the appointment of the Auditor General and the Deputy Auditor General be carried out by the President in accordance with a resolution of the House of Representatives that has at least two-thirds majority support.

To mark this important milestone in the history of the Office, a number of distinguished personalities visited the Office, including the President of Malta, the Prime Minister, the former Leader of the Opposition, the Speaker of the House of Representatives, the President of the European Court of Audit and the Maltese member of the European Court of Auditors.

Review of Results

The National Audit Office published a total of fourteen reports with an average staff complement of sixty three persons – three financial audit and compliance reports, five performance audit reports, two special audits and investigations, one parallel audit report, one IT audit report, one follow-up report and the annual work and activities report.

Year	Amount approved by NAO Accounts Committee and authorised by the House of Representatives	Amount allocated in Budgetary Estimates by Ministry of Finance	Amount actually withdrawn	Surplus/ (Deficit)	Number of Audit Reports Published	Average Staff Complement
	€	€	€	€		
2008	2,100,000	1,864,000	1,500,000	(113,298)	3	51
2009	2,100,000	1,864,000	1,864,000	(81,725)	11	57
2010	2,400,000	1,950,000	2,400,000	145,044	9	55
2011	2,400,000	2,200,000	2,200,000	(11,579)	11	56
2012	2,400,000	2,185,000	2,185,000	(143,140)	15	59
2013	2,500,000	2,250,000	2,265,000	(163,247)	13	57
2014	2,600,000	2,280,000	2,600,000	29,002	16	58
2015	2,800,000	2,700,000	2,700,000	(84,482)	15	62
2016	3,000,000	2,900,000	3,000,000	6,666	16	65
2017	3,150,000	3,150,000	3,150,000	42,160	14	63

Financial and Compliance Audits:

- i. Report by the Auditor General on the Public Accounts for year 2016
- ii. Report on the workings of Local Government for year 2016 by the Auditor General
- iii. An analysis on revenue collection

Performance Audits:

- i. Protecting consumers through the Market Surveillance Directorate monitoring role
- ii. Procuring the State Schools' Transport Service
- iii. Landscaping maintenance through a Public Private Partnership
- iv. Maintaining and repairing the arterial and distributor road network in Gozo
- v. Outpatient waiting at Mater Dei Hospital

Special Audits and Investigations:

- i. An investigation of property transfers between 2006 and 2013: The Transfer of the property at 83, Spinola Road, Saint Julians
- ii. An investigation of property transfers between 2006 and 2013: The expropriation of the property at Fekruna Bay, Saint Paul's Bay

Parallel Audit:

- i. Contribution of the Structural Funds to the Europe 2020 Strategy in the areas of employment and education

Information Technology Audits:

- i. Cyber Security across Government Entities

Other

- i. Follow up reports by the National Audit Office for the year 2017
- ii. Report on the Work and Activities of the National Audit Office for 2016

The National Audit Office is striving to produce more concise and readable reports that focus on the key findings, conclusions and recommendations.

During the current year, the National Audit Office introduced a formal follow-up process through the publication of a report that analysed the progress achieved in the implementation of recommendations called for from a selection of eleven past audits. This process is to be maintained in the following years to ensure a good and effective follow-up mechanism to our audit work.

Financial Review

The government subvention that was allocated in the 2017 Budgetary estimates and which amounted to €3,150,000 (2016: €3,000,000) was fully withdrawn by the Office during the year to sustain its operations.

The total operating expenditure of the Office in 2017 amounted to €3,112,357 – an increase of €197,397 over the previous year.

The increases in operating expenditure are attributed to salaries (€175,698), training and professional development (€9,256), depreciation (€8,844) and hosting of events and commemoration of anniversary (€5,677).

The increase in salaries follows the signing of the new collective agreement on the 7th November 2017. The salaries negotiated in the recent Collective Agreement were once more based on the salaries of the equivalent grades in the Government service and as defined in the last Government Collective Agreement that came into effect on the 20th of April 2017. The Collective Agreement which covers an eight year period from 2017 to 2024 introduced further flexi-time working schedules, more family friendly measures, better opportunities in achieving work life balance and a stronger emphasis on professional development.

The retention of our present qualified staff in a wide variety of areas – from accountancy and auditing to economics, management, public policy, statistics, information technology and law – remains a key priority of the Office.

The average number of employees has dropped from 65 persons in 2016 to 63 persons in 2017. By the end of the year, four employees had retired from Office and were not replaced. Two employees have also availed of long term unpaid leave during the year under review. There has been no other recruitment or resignations from staff during 2017. By end of December 2017, sixty three employees were actively employed on the payroll.

The National Audit Office achieved a surplus of €42,160 as compared to a surplus of €6,666 achieved in the previous financial year.

Events

A number of important events were organised during the year 2017.

On the 3rd of May 2017 a half day seminar was held on the 'Role and Contribution of the National Audit Office in the Implementation of Accrual Accounting' with the participation of the Chairman of the International Public Sector Accounting Standards Board (IPSAS).

On the 30th and 31st May 2017, the National Audit Office hosted the 2017 EU Contact Committee joint seminars relating to the Fiscal Policy Network and Europe 2020 Strategy audit network.

On the 12th of September 2017, a joint seminar between the National Audit Office and the European Court of Auditors was held on 'Audit Follow-Up in the Public Sector: Enhancing Accountability'.

Furthermore a three year agreement was signed between the National Audit Office and the United Kingdom Chartered Institute of Public Finance and Accountability (CIPFA) to deliver over three years, three training modules in IPSAS, Audit and Assurance and Financial Crime and Case Investigation Management to all staff. The training program which commenced mid-year 2017 with the initiation of two modules to two groups accounts for the major increase in the cost of training for 2017.

The Management has also, late in the year, intensified its efforts to ensure a better measure of the Office performance in quantifiable terms while at the same time improving the accountability and transparency of the Office.

Challenges Ahead

For the future, the Office is looking ahead to launch a strategy for five years based on extensive consultation with all stakeholders, move towards a comprehensive audit management system, explore further the application of data analytics in the auditors' work, extend its present premises facilities, and employ a wider range of performance indicators that measures the productivity and the impact that the Office is having on government finances.

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 €582,413 at end of year 2017 is being carried forward to the next financial period. A substantial amount of the accumulated deficit as shown in the statement of financial position can be attributed to the amount of €486,274 as provided at year end 2017 for the future Treasury pensions and gratuities that the Office is obliged to pay over the approximate future twenty 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



NOEL CAMILLERI
Deputy Auditor General of the
National Audit Office

11 April 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017

	Notes	2017 €	2016 €
CONTINUING OPERATIONS			
Government subvention	6	<u>3,150,000</u>	3,000,000
Other income	7	<u>4,507</u>	3,420
Operating expenditure			
Salaries and personnel expenses	8	<u>(2,504,863)</u>	(2,329,165)
Administrative and other expenses	9	<u>(347,482)</u>	(331,337)
Sub-contracted audit fees of local councils		<u>(260,012)</u>	(254,458)
		<u>(3,112,357)</u>	(2,914,960)
Results from operating activities before pension costs		42,150	88,460
Provision for service pensions and gratuities	11	<u>(109)</u>	(81,882)
Results from operating activities		42,041	6,578
Bank interest receivable		<u>119</u>	88
Surplus for the year		<u>42,160</u>	6,666
Total comprehensive income		<u>42,160</u>	6,666

The accounting policies and explanatory notes on pages 41 to 51 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

	Notes	2017 €	2016 €
ASSETS			
Non-current assets			
Property and equipment	10	326,184	275,727
Current assets			
Debtors and Prepayments		9,972	7,023
Cash and cash equivalents	13	57,062	11,964
		67,034	18,987
Total assets		393,218	294,714
LIABILITIES			
Non-current liabilities			
Provision for service pensions and gratuities	11	425,251	486,741
Current liabilities			
Payables	12	489,357	330,578
Provision for service pensions and gratuities	11	61,023	101,968
		550,380	432,546
Total liabilities		975,631	919,287
Net liabilities		(582,413)	(624,573)
Represented by:			
Accumulated deficit		(582,413)	(624,573)

The accounting policies and explanatory notes on pages 41 to 51 form an integral part of the financial statements.

The financial statements on pages 37 to 51 have been authorised for issue on 11 April 2018 by:



CARMEL DEGUARA
Auditor General of the
National Audit Office



NOEL CAMILLERI
Deputy Auditor General of the
National Audit Office

STATEMENT OF CHANGES IN NET LIABILITIES
for the year ended 31 December 2017

	Accumulated deficit €
Balance at 1 January 2016	(631,239)
Total comprehensive income for the year	
Surplus for the year	6,666
Balance at 31 December 2016	(624,573)
Balance at 1 January 2017	(624,573)
Total comprehensive income for the year	
Surplus for the year	42,160
Balance at 31 December 2017	(582,413)

The accounting policies and explanatory notes on pages 41 to 51 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	Note	2017 €	2016 €
Cash flows from operating activities			
Surplus for the year		42,160	6,666
<i>Non-cash adjustments to reconcile surplus to net cash flows:</i>			
Depreciation		65,265	56,421
Loss on disposal of fixed assets		-	454
Bank interest receivable		(119)	(88)
Provision for service pensions and gratuities		109	81,882
		107,415	145,335
Movement in debtors and prepayments		(2,949)	13,756
Movement in payables		119,820	(5,557)
Movement in provision for service pensions and gratuities		(102,544)	(52,033)
Cash generated from operating activities		121,742	101,501
Bank interest received		119	88
Net cash from operating activities		121,861	101,589
Cash flows from investing activities			
Purchase of property and equipment		(76,763)	(116,933)
Cash used in investing activities		(76,763)	(116,933)
Net increase/(decrease) in cash and cash equivalents		45,098	(15,344)
Cash and cash equivalents at 1 January		11,964	27,308
Cash and cash equivalents at 31 December	13	57,062	11,964

The accounting policies and explanatory notes on pages 41 to 51 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 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 2017, the Office had a net current liabilities of €483,346 (2016: €413,559) and an accumulated deficit of €582,413 (2016: €624,573).

The accumulated deficit of the Office arises principally from the provision for service pensions and gratuities that is provided over a 20-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.

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 2017, 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.

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 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.

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.

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

	2017	2016
	€	€
Authorised by the House of Representatives	3,150,000	3,000,000
Amounts actually withdrawn	3,150,000	3,000,000
Amount allocated by the Ministry for Finance in Estimates	3,150,000	2,900,000
Revisions by the Ministry for Finance during the year	-	100,000
	3,150,000	3,000,000

7. OTHER INCOME

	2017	2016
	€	€
Audit fee of Non Governmental Organisation	3,000	3,000
Social Security refund	1,313	420
Sale of publications	162	-
Reimbursements	32	-
	4,507	3,420

8. SALARIES AND PERSONNEL EXPENSES

	2017	2016
	€	€
Salaries	2,374,477	2,200,524
Social security contributions	130,386	128,641
	2,504,863	2,329,165

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

	2017	2016
	No.	No.
Senior management	6	6
Operating	43	44
Administration and IT	9	10
Messenger staff	5	5
	63	65
	59	60

During the year a total of 19 persons (2016: 16) worked on a reduced hour basis.

9. EXPENSES BY NATURE

	2017	2016
	€	€
Auditors' remuneration	4,366	4,366
Professional fees	45,331	49,874
Depreciation of property and equipment	65,265	56,421
Loss on disposal of fixed assets	-	454
Net cost of hosting international events	5,677	-
Other administrative expenses	226,843	220,222
Total administrative and other expenses	347,482	331,337

10. PROPERTY AND EQUIPMENT

	Building Improvements	Equipment	Computer Equipment and Software	Motor Vehicles	Furniture and Fittings	Total
	€	€	€	€	€	€
Cost						
At 1 January 2016	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
Additions	104,591	7,004	2,955	-	1,172	115,722
Write-offs	-	-	(5,883)	-	-	(5,883)
At 31 December 2017	593,081	120,554	142,759	70,541	157,380	1,084,315
Depreciation						
At 1 January 2016	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
Depreciation charge for the year	48,441	5,816	7,327	-	3,681	65,265
Released upon write-off	-	-	(5,883)	-	-	(5,883)
At 31 December 2017	298,157	107,814	138,887	70,541	142,732	758,131
Carrying amount						
At 31 December 2017	294,924	12,740	3,872	-	14,648	326,184
At 31 December 2016	238,774	11,552	8,244	-	17,157	275,727

11. PROVISION FOR SERVICE PENSIONS AND GRATUITIES

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

	2017	2016
	€	€
Non-current	425,251	486,741
Current	6,1023	101,968
	486,274	588,709

Of the non-current portion of the provision, an amount of €247,748 (2016: €289,960) 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:

	2017	2016
	EUR	EUR
Service pensions and gratuities as at 1 January	588,709	558,860
Provisions made during the year	109	81,882
Provisions used during the year	(102,544)	(52,033)
Service pensions and gratuities as at 31 December	486,274	588,709

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

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

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

The provision for service pensions and gratuities as at 31 December 2017 is arrived at by discounting the post-employment benefit obligations of the Office using the year-end yield to maturity of 1.1% on 7% 2026 I Government bonds. The post-employment benefit obligations are computed after taking into consideration the following assumptions:

Average life of males and females has been assumed to be 80 years and 84 years respectively, based on the published data of the National Statistic Office Demographic Review.

12. PAYABLES

	2017	2016
	€	€
Operational and capital payables	13,326	23,959
Taxes and social security	53,438	47,283
Accrued expenses	268,016	207,303
Amount due to Treasury for pension contributions	154,577	52,033
	489,357	330,578

13. CASH AND CASH EQUIVALENTS

	2017	2016
	€	€
Cash at bank	56,921	11,777
Cash in hand	141	187
	57,062	11,964



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Independent Auditors' Report

To the 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 2017, 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 give a true and fair view of the financial position of the National Audit Office as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

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 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* (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, Pietà, PTA 9044, Malta.



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Independent Auditors' Report

To the National Audit Office Accounts Committee

Other Information

The Auditor General is responsible for the other information. The other information comprises the General Information and the Report of the Auditor General on the National Audit Office, but does not include the financial statements and our auditors' 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.

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.

Responsibilities of the Auditor General for the Financial Statements

The Auditor General is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the EU, 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 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.

The Auditor General is responsible for overseeing the Office's financial reporting process.



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Independent Auditors' Report

To the National Audit Office Accounts Committee

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 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 judgement 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.

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Independent Auditors' Report

To the National Audit Office Accounts Committee

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

- 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 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 auditors' report. However, future events or conditions may cause the Office to cease to continue as a going concern.
- 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 Principal authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report is Norbert Bugeja.

KPMG
Registered Auditors

11 April 2018

2017-2018 (to date) Reports issued by NAO

NAO Audit Reports

May 2017	Performance Audit: Protecting Consumers through the Market Surveillance Directorate's Monitoring Role
June 2017	Performance Audit: Procuring the State Schools' Transport Service
July 2017	An Investigation of Property Transfers between 2006 and 2013: The Transfer of the Property at 83 Spinola Road, St Julian's
July 2017	An Investigation of Property Transfers between 2006 and 2013: The Expropriation of the Property at Fekruna Bay, St Paul's Bay
September 2017	Performance Audit: Landscaping Maintenance through a Public-Private Partnership
October 2017	Performance Audit: Maintaining and Repairing the Arterial and Distributor Road Network in Gozo
November 2017	Follow-up Reports by the National Audit Office 2017
November 2017	Performance Audit: Outpatient Waiting at Mater Dei Hospital
November 2017	Report by the Auditor General Public Accounts 2016
December 2017	Annual Audit Report of the Auditor General - Local Government 2016
December 2017	An Analysis on Revenue Collection
January 2018	The use of IT systems to identify skills and professional development needs within the Public Service
February 2018	Performance Audit: The designation and effective management of protected areas with Maltese waters
March 2018	Performance Audit: Evaluation of Feed-In Tariff Schemes for Photovoltaics