

# NATIONAL AUDIT OFFICE

ANNUAL REPORT & FINANCIAL STATEMENTS **2018**

WORK AND ACTIVITIES

This report has been prepared under sub-para.5 (i) and para.7 of the First Schedule of the Auditor General and National Audit Office Act, 1997 for presentation to the House of Representatives.



**Charles Deguara**  
AUDITOR GENERAL

National Audit Office  
April, 2019

## OUR VISION

To provide a multidisciplinary professional service to Parliament, to Government and the taxpayer and to be an agent of change conducive to achieving excellence in the public sector.

## OUR MISSION

To help promote accountability, propriety and best practices in Government operations.

## ACTIVITIES

The Auditor General is head of the National Audit Office, Malta. He and the National Audit Office are totally independent of Government. He examines the accounts of all Government Ministries and Departments and may also examine other public sector bodies. He also has statutory authority to report to the House of Representatives on the economy, efficiency and effectiveness with which Departments and other bodies have used the resources voted annually to them in the Estimates.

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# CONTENTS

Abbreviations	5
Foreword: Auditor General’s Overview	7
Small improvements every day	10
<b>PART ONE</b>	<b>12</b>
Highlights of 2018	13
Publication of National Audit Office Strategy – 2019-2023	13
2018 Meeting of the Liaison Officers of the Contact Committee of EU Member State Supreme Audit Institutions held in Malta	14
EU Contact Committee meeting in Croatia	15
INTOSAI Capacity Building Committee conference on peer reviews	16
AG addresses Malta Forum for Internal Auditors seminar	17
Participation in PAC Network Event	17
Malta’s Member in the ECA Leo Brincat pays official visit to NAO	18
Joint Seminar organised by NAO and ECA on the theme ‘Public Audit in the Digital Age’	18
Participation of NAO young leader in INTOSAI Development Initiative SAI Young Leaders Programme	20
Implementing #AuditSmart	20
DAG’s appointment on the Board of Auditors of the European Stability Mechanism	20
Another important appointment and extension of mandate for AAG	21
Our participation in Parliament	21
NAO’s participation in Domestic Working Groups	22
NAO interaction with other local stakeholders	23
Our participation in international fora	23
EU Contact Committee	23
ECA Audit Missions	23
Other international activities	24
Investing in our staff	25
NAO-CIPFA Professional Development Programme	27
Training programme on ‘Issue Analysis and Drawing Conclusions Approach’	27
Exchange of employees between NAO and the CoARS	28
Social activities	29

## CONTENTS CONTINUED

<b>PART TWO</b>	<b>30</b>
Our 2018 performance at a glance	30
Section Reports – Financial and Compliance Audits	32
Section Reports – Performance/Value for Money Audits	34
Section Reports – Special Audits and Investigations	36
Section Reports – IT Audits and Operations	38
Section Reports – Finance and Administration	39
<b>PART THREE</b>	<b>42</b>
General Information	42
Report of the Auditor General of the National Audit Office	43
Statement of Profit or Loss and Other Comprehensive Income	47
Statement of Financial Position	48
Statement of Changes in Net Liabilities	49
Statement of Cash Flows	50
Notes to the Financial Statements	51
Independent Auditors’ Report	63
<b>LIST OF TABLES</b>	
Table 1: NAO Participation in Domestic Working Groups	22
Table 2: Training provided to NAO employees in 2018	26

## ABBREVIATIONS

<b>AAG</b>	Assistant Auditor General
<b>AG</b>	Auditor General
<b>CEO</b>	Chief Executive Officer
<b>CFMS</b>	Corporate Financial Management Solution
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>CoARS</b>	Court of Auditors of the Republic of Slovenia
<b>COFOG</b>	Classification of the Functions of Government
<b>DAG</b>	Deputy Auditor General
<b>ECA</b>	European Court of Auditors
<b>ECLs</b>	Expected Credit Losses
<b>EFSI</b>	European Funds for Strategic Investments
<b>EIPA</b>	European Institute of Public Administrators
<b>ESA</b>	European System of Accounts
<b>ESF</b>	European Social Fund
<b>ESM</b>	European Stability Mechanism
<b>EU</b>	European Union
<b>EUROSAI</b>	European Organisation of Supreme Audit Institutions
<b>EY</b>	Ernst and Young
<b>FCICM</b>	Financial Crime Investigation and Case Management
<b>FLRWG</b>	Financial Legislation Reform Working Group
<b>GDPR</b>	General Data Protection Regulation
<b>HR</b>	Human Resources
<b>IADC</b>	Issue Analysis Drawing Conclusions
<b>ICPA</b>	International Certificate in Public Audit
<b>IDI</b>	INTOSAI Development Initiative
<b>IFRS</b>	International Financial Reporting Standard
<b>INTOSAI</b>	International Organisation of Supreme Audit Institutions
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>ISSAI</b>	International Standards of Supreme Audit Institutions
<b>ICT</b>	Information and Communications Technology
<b>IT</b>	Information Technology
<b>ITASA</b>	IT Audit Self-Assessment
<b>ITS</b>	Institute of Tourism Studies

## ABBREVIATIONS CONTINUED

<b>ITSA</b>	IT Self-Assessment
<b>MEP</b>	Member of the European Parliament
<b>MIA</b>	Malta Institute of Accountants
<b>MOOC</b>	Massive Open On-line Course
<b>NAO</b>	National Audit Office
<b>NAOAC</b>	National Audit Office Accounts Committee
<b>NSO</b>	National Statistics Office
<b>OECD</b>	The Organisation for Economic Co-operation and Development
<b>PAC</b>	Public Accounts Committee
<b>PPP</b>	Public-Private Partnership
<b>SAIs</b>	Supreme Audit Institutions
<b>SAI-PMF</b>	SAI Performance Measurement Framework
<b>SIGMA – OECD</b>	Support for Improvement in Governance and Management (a joint initiative of the OECD and the European Union)
<b>SWOT</b>	Strengths, Weaknesses, Opportunities and Threats
<b>UK</b>	United Kingdom
<b>WAO</b>	Wales Audit Office
<b>WGEA</b>	Working Group on Environmental Auditing



## FOREWORD AUDITOR GENERAL'S OVERVIEW



It is with pleasure that on behalf of all our staff I present the results of this Office's activities for 2018. Another extremely eventful year in which NAO maintained and improved on its commendable performance of previous years by issuing 17 reports, and by embarking on a number of internal initiatives deemed critical for the present and future fulfilment of its audit mandate. With the principal objective of enhancing its auditing service thus assisting in the continuous improvement of the public service. Of particular importance was the drafting and launching of its Strategic Plan for the coming five years, an important document that will provide direction to the NAO in its efforts "to contribute towards the improved governance and performance of the public sector".

The published audit reports delved into various issues relating to important sectors like health, energy, education, social policy and maritime affairs, among others, and were prepared by the

various Audit Sections within the NAO. In particular, the Office published a major investigative report, titled *An Investigation of Matters relating to the Contracts Awarded to ElectroGas Malta Ltd by Enemalta Corporation*, that had been requested by the Public Accounts Committee. This report attracted wide media and citizen interest and is expected to be discussed extensively within the Public Accounts Committee over the coming months. Moreover, for the second consecutive year, the Office has published a follow-up audit report that includes an analysis of the extent of implementation of recommendations proposed by the NAO in 12 audits carried out recently.

The formulation of the NAO strategy, titled the *National Audit Office Strategy – Improving Governance and Performance across the Public Sector 2019-2023*, was drafted following a wide consultation process, both internally involving NAO staff as well as externally with a number of stakeholders, including various Permanent Secretaries. The Office identified six strategic goals to be achieved over the next five years to adapt quickly and appropriately to emerging circumstances. Amongst other planned actions, we intend to reach out to our main stakeholders, including the Public Accounts Committee, in a more effective manner. We would like to thank Professor Edward Warrington for guiding management throughout its discernment process to finally decide on these goals as well as our Deputy Auditor General for mentoring this process.

On an international level, the main highlight of 2018 was undoubtedly the organisation of the important EU Contact Committee Liaison Officers' meeting in Malta on 10-11 May. This ►

## FOREWORD AUDITOR GENERAL'S OVERVIEW CONTINUED

◀ meeting attracted 66 participants from the national audit institutions of the 28 EU Member States, the European Court of Auditors (ECA), and EU Candidate and Potential Candidate Country SAIs (the last-mentioned group attended as observers). During this two-day meeting, ably chaired by our own Liaison Officer, Assistant Auditor General Brian Vella, various developments within the EU, deemed of particular interest to EU Member State SAIs, were discussed.

Another key 2018 event was the attendance by the DAG, Noel Camilleri, the AAG dealing with international affairs, Brian Vella, and myself at the 2018 EU Contact Committee meeting, held in Croatia on 11-12 October.

▶ During this event, I was honoured to be nominated as one of the panel speakers together with Klaus-Heiner Lehne, ECA President, and Kay Scheller, the AG of Germany, during the first sub-session on 'Interaction with EU citizens – looking out of the window' as part of the seminar titled 'Interaction with EU citizens – opening SAIs'. In my address, the importance of interacting professionally with citizens while duly maintaining our national audit offices' independence was emphasised.

Once again, the NAO in conjunction with the ECA organised a highly interesting joint seminar on 'Public Audit in the Digital Age'. As highlighted in my opening speech, auditors are required to adapt their audit methodologies in response to rapid developments in modern technology, such as Blockchain, Artificial Intelligence and Data Analytics, and so it was deemed crucial to discuss how new and disruptive technology was driving change in auditing methodologies and practices.

In his keynote speech, 'Technology is Driving Change in Audit', Leo Brincat, the Maltese Member within the ECA, said that technology – including blockchain – is expected to be among the main catalysts of change in the sphere of auditing. He emphasised that innovative auditing will necessitate new tools; in this context, he referred, among others, to the benefits that big data and analytics can offer even to public entities. On his part, the DAG gave an extensive overview of the NAO's new initiative, 'Integrating Data Analytics in Auditing'. He highlighted the various measures undertaken so far to eventually introduce this new methodology within the Office.

▶ At this point, it is noteworthy to observe that NAO is at the forefront of embracing change in emerging technologies. In fact, a data analytics team headed by a young leader has been formed at the Office, with team members drawn from all Audit Sections across the NAO. The objective of this team is to gradually introduce the concept of data analytics in a number of pilot audit projects. A draft Memorandum of Understanding has already been formulated to ensure a clearly defined, professional working relationship with the entities providing this information.

I also actively participated in a number of other conferences, delivering presentations on the diverse aspects of public sector auditing. On 5 June, I delivered a presentation on 'Measuring the Success of the National Audit Office' to the Malta Forum for Internal Auditors. On 21 June, I formed part of a panel discussing the topic 'The Place of Peer Reviews in the Chain of Good Governance' during a conference on Peer Reviews organised by the INTOSAI Capacity Building Committee in Bratislava, Slovakia. ▶



## FOREWORD AUDITOR GENERAL'S OVERVIEW CONTINUED

◀ It would surely not have been such another eventful year without the availability and the continuous support of highly motivated, competent and committed staff members who through their knowledge and expertise contribute to the Office's continued success. Acknowledging that our staff constitute our most valuable resource, the Office stepped up its efforts to provide various quality professional development programmes.

A significant number of employees, including senior management, attended the Chartered Institute of Public Finance and Accountancy (CIPFA) modules on Audit and Assurance, International Public Sector Accounting Standards (IPSAS), and Financial Crime Investigation and Case Management. An extremely interesting training programme on the Issue Analysis and Drawing Conclusions Approach was also delivered to NAO auditors by Wales Audit Office senior staff.

The first exchange of staff between NAO and the Court of Auditors of the Republic of Slovenia (CoARS) took place in 2018 following the signing of an agreement between Tomaž Vesel, President of the CoARS, and myself, entered into in 2017. Rebecca Vassallo, principal auditor, was selected to take part in the INTOSAI Development Initiative (IDI) SAI Young Leader programme.

Once again, I would like to convey my most sincere, heartfelt thanks to my Deputy, without whose enthusiasm, dedication and support all these outcomes would not have been possible. A heartfelt word of gratitude and appreciation also goes to senior management and all staff, including our secretarial and non-auditing support staff, for

their unwavering commitment to the Office and for the excellent performance achieved.

I am confident that together, as one team, we can continue to work towards the improvement of the public service by adopting good practices in audit methodology and reporting, in line with established international auditing standards, communicating better with stakeholders without impairing our independence, and providing a multidisciplinary professional *service* to Parliament, audited entities and, ultimately, our citizens. I emphasise the word "service" since, ultimately we should invariably focus on being a service-oriented organisation. Only thus can we aspire to continue performing our constitutional mandate in the best possible manner.

To conclude, reference is made to a really inspirational quote from the ECA President, Klaus Heiner Lehne, which, I strongly believe, should guide us in our work in the future:

"As EU auditors, we are not here just to complain or to punish. Rather, in a constructive spirit we want to help things improve where we see the need".



**Charles Deguara**  
AUDITOR GENERAL

15 April 2019

## SMALL IMPROVEMENTS EVERY DAY

DEPUTY AUDITOR GENERAL **NOEL CAMILLERI** REFLECTS ON THE NAO'S FOCUS OVER THE NEXT FIVE YEARS TO LOOK EXTERNALLY, HAVING SPENT THE PAST THREE YEARS FOCUSING MAINLY ON INTERNAL PROCESSES, COMPETENCIES, HUMAN RESOURCES AND THE PRODUCT ITSELF.



and further effort to improve communications, including the use of social media.

### REACHING OUT TO STAKEHOLDERS

The NAO wants to examine ways it can establish a better relationship with key stakeholders, including the Public Accounts Committee, other parliamentary bodies, academia, the media, auditees themselves and the general public (society at large).

There needs to be a closer relationship with stakeholders rather than one on a needs only basis on both sides. This can be achieved through holding periodic meetings and open communication channels. Better relationships and communication will improve the overall impact of the NAO's work.

### CONTINUOUS IMPROVEMENT

The overarching goal of the National Audit Office is to continually raise the standards of its audits so that the Public Service can improve. When shortcomings are identified and the right tone of constructive communication is established, not only is this of benefit to the Public Service itself, but to society as a whole.

The five-year strategy plan for 2019-2023, drawn up in 2018, will now be implemented through specific action plan work streams. There will be an organisation-wide performance assessment and a greater push to comply with International Standards of Supreme Audit Institutions (ISSAIs), more emphasis on a risk-based approach to audit,

### REVISING INTERNAL POLICIES

Policies embrace the objectives and acceptable procedures within an organisation. Several new policies have been developed while other unwritten ones within the Office are being codified. These fall into two categories: corporate policies and technical policies. Work in this area is ongoing and among the subjects that have been addressed or are being addressed are:

- ICT and Data Management including Data Protection;
- Materiality;
- Anonymous Letters;
- Learning and Professional Development; ▶

## SMALL IMPROVEMENTS EVERY DAY **CONTINUED**

- Personal Blogs and Social Networks;
- Teleworking; and
- Occupational Health and Safety.

### GREATER BALANCE

New tools have been introduced within the Office to enable us to measure our output and the attendant costs more precisely. We are aware that the complex investigations we are being called upon to conduct, constitute a substantial portion of our time.

Unfortunately the NAO is often associated with investigations but there is more than that – there are Financial and Compliance Audits and Performance Audits, among other initiatives that lead to better governance and performance in the public sector and a positive impact on people’s lives. We want to

conduct audits in areas that are relevant and of greater impact on society as a whole.

### REAPING THE BENEFITS

We will also be reaping the benefits of our past work while proceeding with internal efforts to widen our competencies through further professional development and exposure to the international SAI community and work. This gives our staff the opportunity to appreciate our strengths and also realise the weaknesses we need to address.

Thanks to better audit management, we are confident that there will be further improvements. These are small steps, but if we continue to make these improvements every day, we will be able to look back even in the short term and feel satisfied at the progress being achieved by one and all.





# PART ONE

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## Introduction

The role of the NAO as state auditor is key to ensure proper and legal use of public funds, accurate reporting of financial transactions in Government financial statements, and effective performance management in the public sector. Through the various audits it carries out – financial and compliance, performance, special audits, investigations and IT audits – the NAO safeguards the values of transparency, accountability, good governance, best practice and ethical behaviour in the public sector.



## Highlights of 2018

### PUBLICATION OF NATIONAL AUDIT OFFICE STRATEGY – 2019-2023

NAO launched its strategy for 2019-2023, titled *National Audit Office Strategy – Improving Governance and Performance across the Public Sector*. In this document, the Office has identified six strategic goals to enable it to adapt swiftly and appropriately to emerging situations and circumstances in the matters falling within its remit. The strategic goals are:

1. to contribute to ensure accountability in the use of public resources;
2. to encourage and facilitate improvements in the quality of governance by advocating transparency in decision-making, contributing well-informed reports for Parliamentary and public debate, disseminating good practice, promoting value for money and catalysing changes to administrative practice and procedure;
3. to become a leader in selected fields of public sector audit and to be acknowledged as a centre of excellence and expertise within Maltese public administration;
4. to cultivate mutually beneficial working relationships with auditees, scrutineers and peers, within the constraints set by ethical standards requiring the professional independence of external state auditors;
5. to increase the value for money yielded by state audit; and
6. to formulate audit plans on established criteria, with a particular focus on materiality and risk.



**Management meeting to discuss NAO Strategy.**



**Presentation of NAO Strategy to Hon. Speaker.**

This important document, which will provide strategic direction to the Office for the coming five years, was the result of an extensive consultation process both within the Office, essentially involving all NAO employees, as well as with other stakeholders, including Permanent Secretaries across the public sector. Prof. Edward Warrington guided the extensive and often complex process leading to the formulation of the strategy.

The strategy document was presented by AG Charles Deguara to the Hon. Speaker of the House of Representatives, Dr Anglu Farrugia, during an official visit Dr Farrugia paid to the Office on 8 October. The NAO's strategy document was also discussed in a television interview with Mr Deguara on the discussion programme *Ras Imb Ras*, aired on 10 October.



**2018 MEETING OF THE LIAISON OFFICERS OF THE CONTACT COMMITTEE OF EU MEMBER STATE SUPREME AUDIT INSTITUTIONS HELD IN MALTA**

NAO hosted the Liaison Officers' Meeting of the Contact Committee of the network of SAIs of the EU on 10 and 11 May. The Meeting was attended by 66 participants from the 28 EU Member State SAIs, the ECA, as well as EU Candidate and Potential Candidate Country SAIs (this last group attended the meeting as observers).

This meeting is held annually in preparation for the annual meeting of the EU Contact Committee, which represents the network of the Heads of SAIs of EU Member States. The EU Contact Committee Meeting was held in Croatia in October.

In his welcome address, the AG, Charles Deguara, stated that the work of Liaison Officers is key to ensuring that current changes and developments within the EU, which are of particular interest to EU Member State SAIs, are discussed during the Meeting, brought to the attention of the Heads of SAIs at the Contact Committee Meeting and acted upon.



The opening speech was followed by an address by Leo Brincat, the Maltese Member of the ECA, who referred to the ECA's strategy and its efforts at anticipating emerging issues well in advance and their effects on the Court's audit procedures, methodology and products. He encouraged participants to undertake a similar approach and exchange their experiences with the ECA, while safeguarding their autonomy.

AAG Brian Vella chaired the meeting. Various reports were presented on recent activities and the progress registered of the different Working Groups, Task Forces and Networks that fall under the Contact Committee Framework. Presentations on other Contact Committee activities and initiatives were also delivered. Decisions were taken on the proposed way forward and next steps to be taken.







## EU CONTACT COMMITTEE MEETING IN CROATIA

Charles Deguara, Noel Camilleri and Brian Vella attended the annual EU Contact Committee meeting held in Croatia on 11-12 October. The meeting was chaired and hosted by the State Audit Office of the Republic of Croatia in Dubrovnik. In addition to delegations from the Member States' SAIs and the ECA, the heads of candidate countries' SAIs and representatives of SIGMA attended the meeting as active observers.

The meeting was opened by Ivan Klešić, AG of the Republic of Croatia, and Grozdana Perić, Member of the Croatian Parliament and Chair of its Finance and Budget Committee.



The first day of the meeting was devoted to the seminar on 'Interaction with Citizens – Opening SAIs'. Against the backdrop of current developments at national and supranational level (including Brexit, migration, security and climate change), the seminar theme offered a wide range of topics and the opportunity to discuss relevant challenges and ways SAIs can enhance their efficiency.

The seminar was introduced by Ivica Tolić, Member of the European Parliament (MEP), Karen Hill, Director of SIGMA, and Laetitia Veriter, Director of Citizens for Europe. Mr Tolić presented the state of the EU, Ms Hill provided SIGMA's perspective on and experiences with citizen interaction and Ms Veriter reiterated the need to explore possible ways to engage citizens in public audit.

The ensuing panel discussion, with interventions from AG Charles Deguara, Kay Scheller, President of the SAI of Germany, and Klaus-Heiner Lehne, President of the ECA, revealed positive experiences and limitations on SAI interaction with citizens. The participants agreed that SAIs would have to invest more in building relationships to leverage the full potential of interaction with citizens.



◀ The second day of the meeting was devoted to reporting on ongoing and recently completed Contact Committee activities, as well as EU-related audits carried out by the SAIs of Germany, the Czech Republic, Italy and Poland.

At the end of the meeting, the Contact Committee Chairmanship was handed over to the President of the SAI of Poland, which will host the 2019 Contact Committee meeting in Warsaw.

### INTOSAI CAPACITY BUILDING COMMITTEE CONFERENCE ON PEER REVIEWS

AG Charles Deguara participated in a conference titled ‘Motivating and equipping the SAIs to carry out peer reviews’ on 20-22 June in Bratislava, Slovakia.

Peer review refers to a review of an SAI by one or several partner SAIs. A number of peer review tools were highlighted, including the SAI-PMF, quality assurance review in Institutional Building Framework, IntoSAINT, and IT Self-Assessment and IT Audit Self-Assessment applied in a peer review mode.



**The panel discussion on Seminar sub-theme 1 ‘Interaction with EU citizens – looking out of the window’ during the EU Contact Committee meeting in Dubrovnik: (from left): Kay Scheller, President, SAI Germany; Charles Deguara, Auditor General, NAO Malta; and Klaus-Heiner Lehne, President, ECA**

The conference focused on three themes:

1. SAIs leading by example through carrying out peer reviews;
2. Peer review tools to improve the SAI performance; and
3. Good practices in a peer review

Mr Deguara formed part of a panel discussion on the sub-theme to theme 2 ‘The Place of Peer Reviews in the Chain of Good Governance’. In his intervention, he discussed the following issues:

1. The definition of good governance and the place of the SAI in the good governance chain;
2. Methods adopted by SAIs and peer reviews to uphold good governance;
3. Internal and external risks for SAIs to perform or be subject to a peer review; and
4. What makes a good peer review both in terms of peer reviewing and the peer reviewed SAI.

## AG ADDRESSES MALTA FORUM FOR INTERNAL AUDITORS SEMINAR

AG Charles Deguara was one of the speakers at a local seminar organised by the Malta Forum for Internal Auditors titled ‘Measuring the Success of an Internal Audit Function’. In his presentation on ‘Measuring the Success of the National Audit Office’, Mr Deguara asserted that the success of an audit function carrying out public sector audits can be measured, first and foremost, by its ability to make a difference to the lives of citizens.

He referred to the three key criteria for achieving SAI success, as expressed in INTOSAI International Standard of Supreme Audit Institutions 12: *The Value and Benefits of Supreme Audit Institutions – Making a Difference to the Lives of Citizens*:

- strengthening the accountability, transparency and integrity of government and public sector entities;
- demonstrating ongoing relevance to citizens, Parliament and other stakeholders; and
- being a model organisation through leading by example.

The AG then expanded on the NAO’s experience in fulfilling these key criteria.

## PARTICIPATION IN PAC NETWORK EVENT

AG Charles Deguara, DAG Noel Camilleri, and two honourable members of the Maltese Parliament who are also members of the Maltese Public Accounts Committee and represent both sides of

the House of Representatives, the Hon. Rosianne Cutajar and the Hon. Chris Said, attended the PAC Network Event 2018 with the Theme ‘Making an Impact’.

During the event, held on 14 September on the Isle of Man, a representative from each PAC, including the Hon. Cutajar, delivered a presentation on: ‘How do the remit and powers of the PAC affect its system – the pros and cons of each PAC system’. Round table discussions were also held on the following topics:

- The balance between the audit office and the politician;
- Effective preparation for new PAC members and clerks;
- Preparing for inquiries and evidence sessions;
- Effective media engagement; and
- How to turn recommendations into results.

A number of case studies on the issue ‘What work has the highest impact and why’ were also presented. There was an update on the Commonwealth Parliamentary Association UK’s Commonwealth PAC Programmes, followed by a presentation on the ‘Isle of Man Small Countries Financial Management Programme’.

This event gave the distinguished Maltese participants an excellent opportunity to engage in useful, interesting discussions and exchanges of experiences relating to the event’s important theme.

## MALTA'S MEMBER IN THE ECA LEO BRINCAT PAYS OFFICIAL VISIT TO NAO

Leo Brincat, the Maltese Member in the ECA, paid an official visit to the NAO on 5 November. He was accompanied by a number of ECA officials, including Mark Rogerson, Spokesman for the ECA, and members of his team.

Mr Brincat was welcomed at the NAO by AG Charles Deguara, DAG Noel Camilleri, as well as other senior officials. During their meeting, Mr Brincat conveyed his appreciation to the Maltese NAO for the excellent working relationship that exists between both institutions. He also referred to ongoing initiatives within the Court on which he was currently working, including high priority reports related to key migration issues and an audit on the evaluation of the effectiveness of European Funds for Strategic Investments (EFSI), which is the central pillar of the Juncker Investment Plan for Europe.

On his part, Mr Deguara thanked Mr Brincat for his visit and emphasised that ultimately both institutions had an identical mission and objectives – that of providing assurance that taxpayers' monies were being utilised in the best manner possible and in line with prevailing financial rules and regulations.



## JOINT SEMINAR ORGANISED BY NAO AND ECA ON THE THEME 'PUBLIC AUDIT IN THE DIGITAL AGE'

NAO, in collaboration with ECA, organised their annual Joint Seminar with the theme 'Public Audit in the Digital Age'. In his opening address, AG Charles Deguara highlighted that, due to the considerable, rapid technological changes, particularly in such areas as Blockchain and Artificial Intelligence, auditors are required to adapt, experiment and constantly innovate their audit scope, focus and methodologies in response.

In his keynote speech, 'Technology is Driving Change in Audit', Leo Brincat, Maltese Member in the ECA, said that technology – including Blockchain – is expected to be among the main catalysts of change in the sphere of auditing. He emphasised that innovative auditing will necessitate new tools, such as the use of big data and analytics. The use of these tools can also prove beneficial to public entities. The future of auditing lies in embracing and taking advantage of the digital era, Mr Brincat concluded.

Spyridon Pilos, Principal Manager in the Directorate of Information, Workplace and Innovation in the ECA, then delivered a





◀ presentation titled ‘Preparing for Data-driven Auditing’. He gave concrete examples of how emerging information technologies can expedite the audit process and increase its efficiency and effectiveness.

DAG Noel Camilleri gave an extensive overview of the NAO’s new initiative, ‘Integrating Data Analytics in Auditing’. He highlighted the progress attained so far in piloting and eventually rolling out this new methodology.

Mark Rogerson, Spokesperson for the ECA, gave a presentation on ‘Media in the Digital Age’. He provided practical recommendations of how auditors can communicate with their stakeholders through appropriate use of digital media, including social media.

The seminar was concluded with a presentation by Joyce Dimech, Permanent Secretary (Strategy and Implementation) within the Office of the Prime Minister, on ‘A Digital Public Administration for a Service of Excellence’. She outlined the proposed steps to be taken to achieve the goal outlined in the presentation title (such as the introduction of T-government, and the digital sharing of data) and asserted that these initiatives required extensive funding.

The Seminar was attended by a number of Members of the PAC, Permanent Secretaries and Chief Information Officers from the public service, the CEO and senior officials from the Malta Information Technology Agency, NAO staff and senior officials from the Internal Audit and Investigations Department.

## NAO PRESENTS REPORT REGARDING IT SYSTEMS, SKILLS AND PROFESSIONAL DEVELOPMENT

The report analyses the extent and effectiveness of the use of IT systems in the identification of skills, professional development and training needs across a selected number of ministries, namely the Office of the Prime Minister (OPM), the Ministry for Finance (MFIN), the Ministry for Education and Employment (MEDE) and the Ministry for Justice, Culture and Local Government (MJCL).

16 JANUARY 2018 - INDEPENDENT

## PARTICIPATION OF NAO YOUNG LEADER IN INTOSAI DEVELOPMENT INITIATIVE SAI YOUNG LEADERS PROGRAMME

In September 2017, NAO decided to take part in the SAI Young Leaders Programme, an initiative organised by IDI. The purpose of this programme was to enable the growth of young leaders and development of SAIs through the implementation of specific initiatives within their respective audit institution.

SAIs were invited to nominate an SAI Young Leader, as well as a coach, who were expected to submit a change strategy proposal that would bring about a positive change in their audit institution. NAO considered this programme as an ideal springboard to launch its data analytics project.

Dr Rebecca Vassallo, principal auditor, Special Audits and Investigations Section, was nominated as the NAO's SAI Youth Leader and Keith Mercieca, Head, Special Audits and Investigations, as her mentor. The change strategy proposal put forward by this young leader, titled #AuditSmart, is a project to introduce the data analytics function within the NAO. The key output is an audit report using data analytics as the main audit technique. The audit will be considered as a pilot study and will serve as a proof of concept.

The proposal presented to IDI included interim deliverables, such as the setting up of a data analytics team, training the team, liaison with other SAIs to gain a better understanding of trends in the use of data analytics in public sector audits, exploring the readiness of the NAO's audit environment and determining the type and quality of data available and its accessibility.

The INTOSAI Young Leaders Programme attracted interest from over 90 audit institutions around the globe. Seventy audit institutions applied to have a young leader trained by INTOSAI. The first screening reduced this number to 40 and the second screening brought the number to the final 25 participants. NAO is proud that its nominee and its project formed part of this group that ultimately participated in the programme.

## IMPLEMENTING #AUDITSMART

A data analytics team has been created to implement the #AuditSmart project (*see previous item*). The team is drawing on resources from across NAO, comprised of analysts coming from the various NAO Audit Sections while operating in a functional, decentralised manner.

Data analytics will be used to augment analysis, allowing for population-wide testing and profiling, smarter non-statistical sampling (when full population testing is not possible), as well as the use of automated and repeatable analytical processes. Data analytics is also envisaged to be a useful tool in audit planning since these techniques will assist NAO auditors to focus on risk-based areas of interest and anomaly identification, resulting in more meaningful analysis.

## DAG'S APPOINTMENT ON THE BOARD OF AUDITORS OF THE EUROPEAN STABILITY MECHANISM

AG Charles Deguara nominated DAG Noel Camilleri to sit on the ESM Board of Auditors. This nomination was duly approved by the ESM Board of Governors, which appointed Mr Camilleri as ►

◀ a member of Board during a sitting held at ESM headquarters in Luxembourg on 8 October.

The European Stability Mechanism (ESM) was set up on 27 September 2012 as an international financial institution by the euro area member states to help euro area countries in severe financial distress. The ESM safeguards and provides instant access to financial assistance programmes to eurozone member states that find themselves in financial difficulty, with a maximum lending capacity of €500 billion.

### ANOTHER IMPORTANT APPOINTMENT AND EXTENSION OF MANDATE FOR AAG

The mandate of AAG Tanya Mercieca as member of the EU Institute for Security Studies College of Auditors was extended for another three years from 22 November 2018. In 2018, she was also appointed on the Board of Auditors for Eurocontrol for four years, starting from 1 July 2019.

Eurocontrol helps the Member States run safe, efficient and environmentally-friendly air traffic operations throughout the European Region. The Audit Board usually reports to the Commission via the Provisional Council, where the financial management of the Route Charges System is concerned.

## Our participation in Parliament

Parliament is one of NAO's main stakeholders, with two standing Parliamentary Committees primarily concerned with the NAO's work, the Public Accounts Committee and the National Audit Office Accounts Committee (NAOAC).

The AG, DAG and a number of NAO officials attended all 23 PAC meetings held in 2018 during the 13th legislature.

Sittings held in 2018 related to the following NAO reports:

- *Report by the Auditor General on Public Accounts 2016;*
- *An Investigation of Property Transfers between 2006 and 2013: The Transfer of the Property at 83 Spinola Road, St Julian's; and*
- *An Investigation of Property Transfers between 2006 and 2013: The Expropriation of the Property at Fekruna Bay, St Paul's Bay.*

The *Annual Report on the Work and Activities of NAO – 2017* was submitted to the NAOAC on 23 April. The Office's audited Financial Statements for the year ending 31 December 2017 and Financial Estimates for 2019 were discussed and ▶

### GREEN ENERGY PROGRESS MADE, BUT SOLAR FARMS DELAY – NAO

**Some planning issues are still to be fully resolved** - Progress was made in Malta's bid to meet the EU 2020 renewable energy targets, the National Audit Office found. However, a report tabled in Parliament earlier in the week concludes that reaching the 10 per cent target in two years' time "is not a foregone conclusion", particularly as the implementation of government plans to cover significant areas of the island, mostly disused quarries, with solar farms is far from being implemented.

13 APRIL 2018 – TIMES OF MALTA



◀ approved by the NAOAC on 2 October. The private audit firm EY was appointed as the statutory external auditor of the NAO financial statements for the next five years.

## NAO's participation in Domestic Working Groups

Senior NAO officials sit on a number of Domestic Working Groups (in an observer capacity). This is a full rundown:

**TABLE 1: NAO Participation in Domestic Working Groups**

<b>PARTICIPANT</b>	<b>TITLE OF WORKING GROUP</b>	<b>OBJECTIVES</b>
	Government Finance Statistics Committee	Compilation of public finance statistics of General Government based on ESA 2010 methodology. <i>(Status: Observer)</i>
Noel Camilleri	CFMS (Corporate Financial Management Solution) implementation Board	Board overseeing the implementation of Accrual Accounting software solution across Government Departments. <i>(Status: Observer)</i>
Charles Deguara and Tanya Mercieca	Local Government Good Governance Working Group	Address in a co-ordinated manner the main issues raised by the AG in the Local Government Annual Audit Report. <i>(Status: Observer)</i>
	Financial Legislation Working Group	Review the Financial Administration and Audit Act as well as the General Financial Regulations, 1966 and propose amendments thereto. <i>(Status: Observer)</i>
Tanya Mercieca	IPSAS Implementation Project Board	Strategic direction and overall management of IPSAS implementation across Government Ministries and Departments. <i>(Status: Observer)</i>

## NAO interaction with other local stakeholders

NAO officers had the opportunity to share the results of a number of audits with key stakeholders. William Peplow, Senior Audit Manager, Performance Audit Section, delivered a presentation titled ‘Performance Audit: Landscaping Maintenance through a Public-Private Partnership’ to representatives of the Ministry for Sustainable Development and Climate Change in January 2018.

Maria Azzopardi, Principal Auditor, Performance Audit Section, gave a presentation on the report *Performance Audit: The designation and effective management of protected areas within Maltese waters* to senior officials from the Environment and Resources Authority in February. In June, she delivered another presentation on the report *Performance Audit: Outpatient waiting at Mater Dei Hospital* to the Malta Association of Public Health Medicine.

In October, Sharon Borg Finn and Orland Bonavia, both managers in the Financial and Compliance Audit Section, delivered a brief overview of the AG’s Annual Audit Report on Public Accounts for 2016 to PAC members.

## Our participation in international fora

### EU CONTACT COMMITTEE

Co-operation between the ECA and EU Member State SAIs is primarily attained within the framework of the EU Member State SAIs Contact Committee Structure. Such structure is composed

of the EU Contact Committee itself, the EU Member State SAIs Liaison Officers, and a number of Working Groups, Networks and Task Forces on EU-related issues.

As indicated under ‘Highlights in 2018’, the 2018 Liaison Officers’ Meeting was held in Malta.



### ECA AUDIT MISSIONS

The ECA carries out audits on EU funds granted to individual EU Member States, including Malta. The relationship between the ECA and the SAIs of EU Member States is regulated by Article 287 of the Treaty on the Functioning of the EU.

In instances where the ECA conducts audits of EU funds granted to particular Maltese public entities, the NAO provides assistance by making the necessary arrangements with the audited body, and by ensuring that all information requested by the ECA is submitted by the auditee. NAO examiners participate, as observers, during ECA audit missions.



◀ An ECA Audit Mission on ‘Statement of Assurance for 2017, closure of the 2007-2013 programming period, Operational Programme 2007MT051PO001 Empowering people for more jobs and better quality of life (ESF)’ was conducted in Malta on 20-23 February.

## OTHER INTERNATIONAL ACTIVITIES

Simon Camilleri, IT Manager, attended the 12th EUROSAI IT Working Group meeting in Estonia in April. The meeting heard updates from the various Working Group sub-committees. Mr Camilleri contributed to the presentation of the IT Self-Assessment/IT Audit Self-Assessment (ITSA/ITASA) subcommittee and referred to the experience gained from the ITASA that was conducted at the NAO in 2017 in his address.

During the meeting, he proposed, on behalf of NAO, that the 13th EUROSAI IT Working Group meeting be held in Malta. The proposal was accepted, and the meeting will be held here in April 2019.

In November, Mr Camilleri co-moderated a very well attended ITASA workshop at the ECA in Luxembourg.

William Peplow, Senior Audit Manager, Performance Audit Section, attended the EUROSAI WGEA Annual Meeting in Bratislava, held from 25-28 September. During this meeting, Mr Peplow delivered two presentations, titled:

- The impact of Environmental Audits relating to designating and the management of Protected Marine Areas; and
- Joint Co-operative Audit: Are Mechanisms in place to ascertain the designation and effective management of Marine Protected Areas within the Mediterranean Sea?

In the first presentation, Mr Peplow shared Malta’s experience in conducting the NAO audit of marine protected areas – the approach adopted, the key findings, the audit impact and lessons learned. ▶



◀ The second presentation dealt with the following issues:

- the main reasons for undertaking the joint co-operative audit on marine protected areas in the Mediterranean Sea;
- the major milestones of the audit, the main audit questions, and the methodology used in the audit;
- the robustness of the legal framework for protecting marine areas; and
- the evaluation of the risk assessment, strategy formulation, planning and monitoring functions of the national authorities.

◀ NAO officials also participated in several other overseas events throughout the year, mainly relating to Contact Committee or EUROSAI Working Groups, or as indicated elsewhere in this Report.

## Investing in our staff

NAO employs effective, efficient human resource management practices to attract and retain professionally competent, experienced employees. The NAO is committed to creating and maintaining a work environment that encourages and promotes growth, development and empowerment of all staff.

Investing in the capability of staff to deliver high quality audits is an ongoing priority for the NAO, which is committed to maintaining and further developing staff knowledge, skills and expertise, and to recognise and reward excellent performance. Both objectives are achieved through offering various training opportunities to all staff and the operation of an effective performance management programme, respectively.

A full list of training provided to NAO employees in 2018 can be found in Table 2. ▶





TABLE 2: Training provided to NAO employees in 2018

TRAINING FOR 2018	TRAINING PROVIDER	NUMBER OF PERSONS ATTENDING	PERSON HOURS
<b>LOCAL TRAINING IN 2018</b>			
Audit and Assurance – Cohort 2	CIPFA	18	216.00
Diploma in IPSAS – Cohort 1	CIPFA	11	550.00
Certificate in IPSAS	CIPFA	4	120.00
Audit and Assurance – Cohort 2	CIPFA	15	450.00
Financial Crime Investigation and Case Management – Cohort 3	CIPFA	10	600.00
Financial Crime Investigation and Case Management – Cohort 2	CIPFA	16	480.00
Issue Analysis and Drawing Conclusions	National Audit Office Wales	40	480.00
Audit in the Digital Age	NAO and ECA	50	150.00
Data Analytics	NSO	8	168.00
Data Protection	Data Protection Office	60	120.00
<b>TOTAL NUMBER OF HOURS IN LOCAL TRAINING</b>			<b>3,334.00</b>
<b>TRAINING ABROAD IN 2018</b>			
Seminar on Public Procurement	Greek Court of Audit (Athens)	1	10.00
Training Course on Public Administration: Data Mining and Analytics: What implications for auditing?	ECA and University of Pisa (Pisa)	1	28.00
Ethics	Tribunal de Contas (Lisbon)	1	12.00
Training on SAI-PMF	EUROISAI (Madrid)	1	19.00
Training on European Public Procurement, PPP/Private Finance and Concessions	EIPA (Dubrovnik)	1	9.00
Seminar on Investigations	EUROSAI and UK NAO (UK)	1	6.00
Seminar on Local Government Finance	EUROSAI (Belgrade)	2	10.00
<b>TOTAL NUMBER OF HOURS IN FOREIGN TRAINING</b>			<b>94.00</b>
<b>TOTAL TRAINING HOURS IN 2018</b>			<b>3,428.00</b>



### NAO-CIPFA PROFESSIONAL DEVELOPMENT PROGRAMME

As reported in the 2017 NAO Work and Activities Report, the NAO-CIPFA Professional Development Programme aims to offer training in three modules to NAO audit staff – Audit and Assurance, International Public Sector Accounting Standards (IPSAS), and Financial Crime Investigation and Case Management – over a period of three years from 2017-2020. The modules were to be delivered via blended learning techniques that include face-to-face, online and visual classroom training, supported with online workbooks, tutor support and webinars.

The CIPFA training programme, which is being organised by NAO in collaboration with CIPFA, and partly financed by the European Social Fund under Investment Priority 11i, is on target to be completed as originally envisaged by June 2020.

The NAO held a certificate presentation ceremony on 18 December for those employees who completed modules of the ICFA course – Audit and Assurance, International Public Sector Accounting Standards (IPSAS) and Financial Crime Investigations and Case Management. This event marked an important milestone in the course of the Professional Development Programme, with

46 employees receiving one or more certificates, having successfully completed one or more of the modules offered.

Nicola Campbell, Head of Professional Education, CIPFA, presented the certificates. In her speech, Ms Campbell affirmed that in today’s fast-paced world it was important for organisations, such as the NAO, to continually look to develop new knowledge and skills in the areas of public audit and financial management.

### TRAINING PROGRAMME ON ‘ISSUE ANALYSIS AND DRAWING CONCLUSIONS APPROACH’

In May 2018, Susan Morgan and Anthony Barrett, both senior officials from the Wales Audit Office, delivered a training programme for all NAO auditing staff on the Issue Analysis Drawing Conclusions (IADC) Approach to audit, and on enhanced report drafting through self-editing. The course trainers proposed a number of useful recommendations to consolidate NAO audit methodology and practices.





◀ Following the training programme, the then AG of the WAO, Huw Vaughan Thomas, paid an official visit to the NAO on 30 May to identify further areas of collaboration between the two SAIs, including conducting further training.

### EXCHANGE OF EMPLOYEES BETWEEN NAO AND THE COARS

During an official visit to the NAO, in September 2017, Tomaž Vesel, President of the Court of Auditors of the Republic of Slovenia, and AG Charles Deguara discussed forms of practical co-operation between the two national audit institutions. In view of the similar circumstances prevailing in Malta and Slovenia, two of the smallest EU Member States, as well as their common mission, obligations and objectives, agreement was reached to embark on an employee exchange scheme. The purpose was to enable the exposure of officials from each Office to the auditing practices, methodologies and procedures being adopted in the other organisation.

This co-operation agreement was signed at the NAO’s premises in Floriana on 9 May by Mr Vessel and Mr Deguara, who both highlighted the excellent working relationship prevailing between the two Offices. DAG Noel Camilleri and the Head of International Affairs, AAG Brian Vella, as well as the Slovenian Head of President’s Cabinet, Dr Dijana M. Zupanc, and Head of Public Relations, Helena Lovše, were also present.

Simona Bevk and Michelle Borg Brincat, from the Slovenian and Maltese SAIs, respectively, who were the first auditors to participate in this exchange scheme, were in attendance.







## Social activities

The Social Committee focused on its objective to provide NAO's employees with quality social activities in which staff from different Sections in the Office can meet, share insights and experiences while de-stressing from their daily routine. Many of the social activities organised were held in-house, primarily to enhance team building among staff in an enjoyable atmosphere.

These events were organised almost on a monthly basis, but as in previous years the most awaited events were those held during the festive season, including the Christmas staff lunch and Christmas staff party. The Social Committee welcomed the initiative of the Financial and Compliance Audit Section to donate groceries in support of children under the care of the Ursuline Sisters at Angela House in Guardamangia. NAO staff generously donated various food and personal hygiene items, and these were delivered to the Ursuline sisters over Christmas.



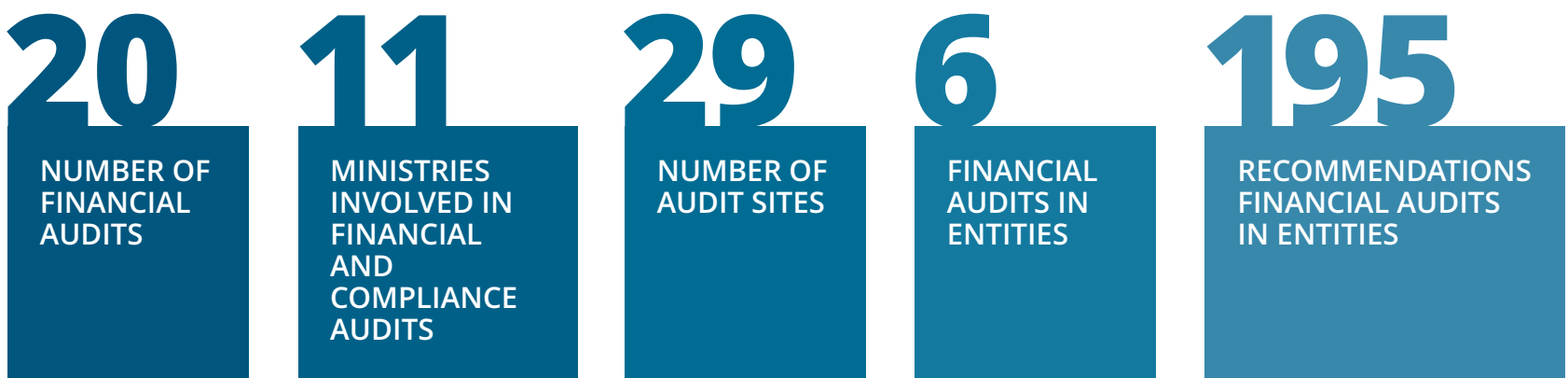
The NAO Social Committee organised its second Pink October activity on 31 October to raise funds for Breast Cancer awareness and encourage further research. All NAO employees were invited to wear pink on the day and to take part in an employee social gathering at the NAO reception area. The total amount collected was €260.00, which was donated to two charities operating in this field, the Malta Hospice Movement and the Marigold Foundation.

# PART TWO

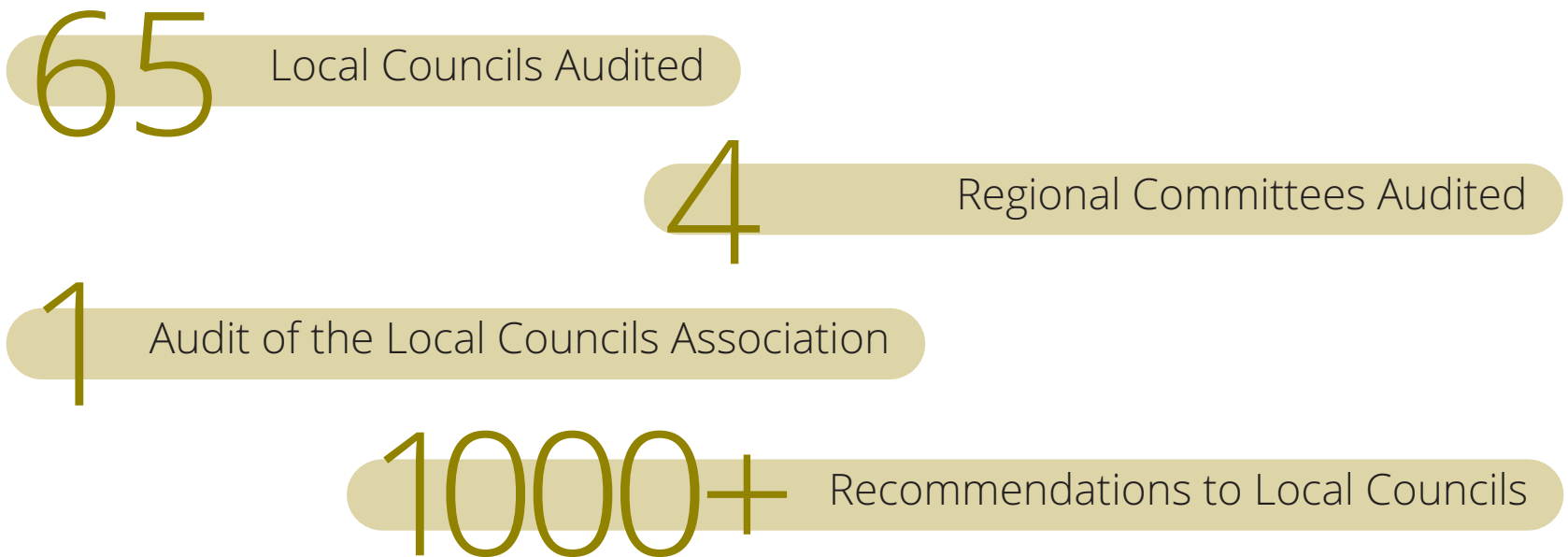
Our 2018 performance at a glance

## ANNUAL REPORT – PUBLIC ACCOUNTS

Audit opinion on Financial Statements of Government Audit opinion on Compliance Audits



## REPORT ON LOCAL GOVERNMENT



## 6 PERFORMANCE AUDITS

**Area of performance audits –**  
Energy, environment, tourism, social policy, health and fisheries

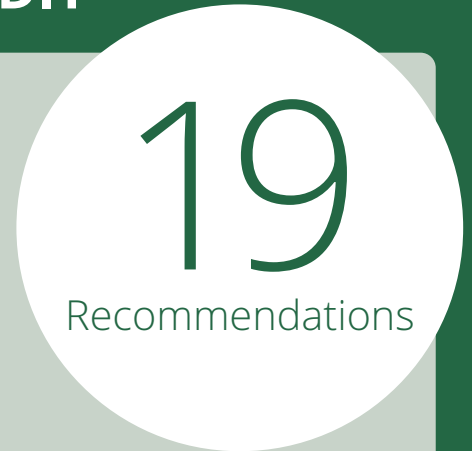


## 6 SPECIAL AUDITS AND INVESTIGATIONS

**Area of special audits and investigations** – energy procurement, disposal of public land and social policy, health and local government

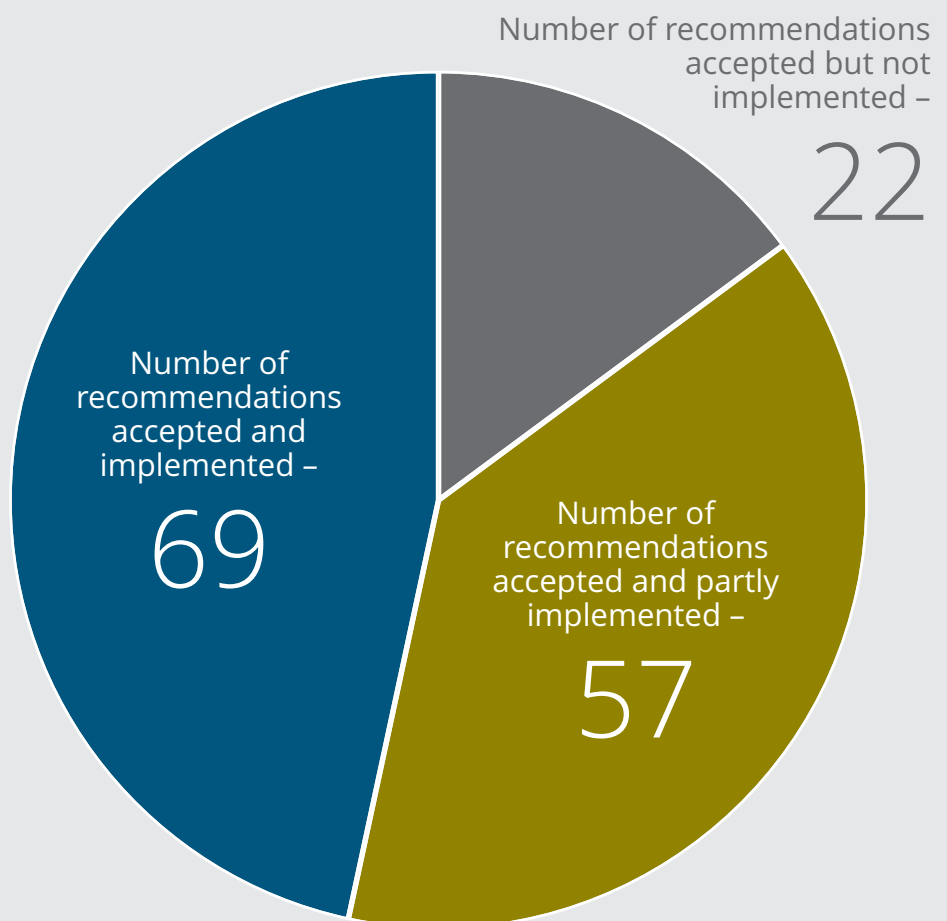


## 1 IT AUDIT



**Areas of IT audit** – human resource management systems at a number of Ministries

The chart on right summarises the rate of implementation of the 148 key recommendations made in the original 10 audit reports subjected to follow-up.





## Section Reports – Financial and Compliance Audits

**The Financial and Compliance Audit Section audits Government departments, ministries and entities, according to a pre-established plan, and oversees the audits of local government, which are outsourced.**

Financial and Compliance audits constitute the core and mandatory work of the NAO. Financial audits aim to ascertain whether the Government Financial Report, including the financial statements of Ministries and Departments, fairly present the financial transactions of Government, and that proper and internal controls are in place to ensure that Government resources are duly safeguarded.

Compliance audits provide independent, reasonable assurance about whether public funds have been expended as approved by Parliament, that these funds have been spent as Parliament intended, and that financial transactions comply with financial rules and regulations.

Following completion of financial and compliance audits, a financial audit opinion representing the NAO's opinion on the reliability of the financial statements, as well as a compliance audit opinion on the extent of compliance of Government financial transactions with financial rules and regulations, are expressed by the AG. Both financial and compliance audit opinions on the 2018 audits relating to 2017 financial transactions were included in the Annual Audit Report by the Auditor General on Public Accounts for 2017.

## CONSOLIDATION

In the middle of 2018, the two units within the Financial and Compliance Audit Section were brought together into a single Audit Section.

The Section, headed by an Assistant Auditor General, has two Audit Managers and fully qualified Principal Auditors, apart from Senior Auditors.



## BREAKING DOWN THE WALL

The major challenge being faced is to encourage a mix among the teams from the two former units, foster better collaboration and promote a uniform style in reporting. This will allow synergies to be created and contribute towards more uniform audit processes and reporting.

A second challenge has been to increase output, with the teams being encouraged to work smarter and approach their tasks more efficiently. In accordance with the NAO strategy, teams are expected to increasingly place their main focus on risk and materiality issues.

This new approach will be fully implemented in the coming years since by the time the two units merged, the 2018 work plan had been largely put in place and the audits were in the final stages.





### LOCAL COUNCILS AUDITS

Five separate audit firms were subcontracted to carry out the audits of the local councils within the five regions across Malta and Gozo.

The NAO analyses the management letters received for each local council, the regional committees and the Local Councils Association, covering the financial year of the preceding year, together with the respective feedback, and summarises its main concerns.

### PARTICIPATION IN LOCAL COMMITTEES

The Financial Legislation Reform Working Group (FLRWG) set up by the Principal Permanent Secretary in 2016, and in which the NAO (AAG F&C) participates in an observer capacity, reviewed and proposed amendments to the Financial Administration and Audit Act, as well as the General Financial Regulations. The proposed

amendments were in line with changes in the procedures and systems in Government Departments, and in conformity with the requirements of the Fiscal Responsibility Act.

Together with the AG, the AAG is a member of the Local Government Good Governance Working Group, which was established to address, in a co-ordinated manner, the main issues raised by the Auditor General in the Local Government Annual Audit Report, as well as other related issues arising from time to time. The AG and AAG also address the annual conference organised by the Local Councils Association.

The AAG also forms part of the IPSAS (International Public Sector Accounting Standards) Implementation Project Board, which is responsible for the strategic direction and overall management of IPSAS implementation across Government Ministries and Departments.

## Section Reports – Performance/ Value for Money Audits

**The Section carries out Performance/Value for Money audits on all areas of government activity with a focus on evaluating whether that activity is being run in an economic, efficient and effective manner. It is also responsible for international relations.**

Performance audits complement financial and compliance audits, and aim to ascertain the extent to which government operations, activities and programmes were carried out in accordance with the principles of sound financial management. More specifically, they provide independent assurance on whether these government operations, activities and programmes were delivered in an economic, efficient and effective manner. One has to keep in mind, however, that NAO legislation precludes the AG and NAO staff from going into the merits of any Government policy.

Performance auditing is intended to lead to enhanced accountability, improved economy and efficiency in the acquisition and utilisation of resources, enhanced effectiveness in achieving public sector programme objectives, higher quality in public sector service delivery and improved management planning and control.

### PERFORMANCE AUDIT WORK

#### *Record Output*

The Performance Audits Section was involved in a record number of reports in 2018, with no fewer than eight audit reports published (including two investigative reports). This is three more than in

the previous year, plus four follow-up audits. The Section co-operated with the Financial and Compliance Audit Section, the Special Audits and Investigations Section, and the IT Audit Unit in carrying out three of its audits.

In line with recently introduced NAO policies, this record output was the result of a more efficient approach to audit methodology, better targeting of audit areas and more focused scoping of audits. During 2018, the Section has seen a marked improvement in the application of International Standards of Supreme Audit Institutions (ISSAIs) on performance auditing.

#### *Approach to selecting audits*

The Section is adopting a more structured approach to selecting its audits, substantially refining the criteria in place. To this end, the Section consulted publications from other SAIs, including the UK NAO, to refine its criteria for developing the performance audit programme. The criteria include a focus on what is perceived to be of high risk in terms of social and/or financial materiality.

Furthermore, subject areas are classified by COFOG (Classification of the Functions of Government) categories and rated in terms of the Section’s strategy to identify audit subject areas. The Europe 2020 Strategy, as well as the United Nations 2030 Strategic Development Goals are also taken into account.

#### *Presentations to stakeholders*

It is becoming common practice that auditees invite NAO officials to deliver presentations on the reports that they would have been involved in. These presentations are made to the Government Ministries or Departments concerned. In one instance, the NAO’s recommendations were ►





◀ actively taken on board and included in the National Mental Health Strategy.

### INTERNATIONAL RELATIONS

Apart from performance audit activities, the Section is also actively involved in co-ordinating international relations for the Office. It helps to coordinate activities with other SAIs, particularly those within EU Member States, the European Court of Auditors (ECA), INTOSAI, and the European Organisation of Supreme Audit Institutions (EUROSAI), as well as related Working Groups, Task Forces and Networks.

The Section is also tasked with communicating with these international institutions, including replying to questionnaires and surveys that it regularly receives from them.

### *Chairing of the EU Contact Committee Liaison Officers' Meeting*

For the first time since Malta became a member of the EU, the Office hosted the Meeting of the Liaison Officers of EU MS SAIs. The AAG of this Section was actively involved in the hosting, technical organisation and chairing of this Meeting.

### *EUROSAI Working Group on Environmental Audit*

Together with SAI Cyprus, the Section's Senior Audit Manager co-chaired a co-operative audit relating to Marine Protected Areas. The main focus of this assignment was to determine the extent to which marine protected areas contributed to the conservation of the marine environment and to blue growth.

SAIs Malta and Cyprus are currently producing a joint report, which aims to amalgamate and analyse the findings, conclusions and recommendations ▶



◀ emerging from the respective national reports, compiled by the seven SAIs mainly pertaining to countries bordering the Mediterranean Sea.

The national audits were undertaken through common objectives, scope and methodology. This co-operative venture was undertaken under the auspices of the EUROSAI Working Group on Environmental Auditing (WGEA).

Following the publication of national reports, which NAO published in January 2018, the consolidated audit report is planned to be issued by mid-2019.

***Contribution to on-Line course in Environmental Auditing***

A Section official, who is experienced in environmental auditing, helped to develop a Massive Open On-line course (MOOC) on auditing water-related issues. This initiative was carried out during 2018 in partnership with the University of Tartu, Estonia, under the auspices of the EUROSAI WGEA. The NAO’s input included the preparation of a video and providing a case study, based on a past performance audit relating to safeguarding Malta’s groundwater.



Section Reports – Special Audits and Investigations

**The Special Audits and Investigations Section conducts audits similar to Performance Audits or Compliance Audits that the Section decides to do on its own initiative and conducts investigations at the request of the Public Accounts Committee, the Minister of Finance or the Minister for Local Government.**

The Office carries out special audits and investigations on any matter relating to Government finances, property or funds administered or under the control of any Government Department or entity, such as alleged infringements of Government rules and regulations as well as of policies, systems and practices, alleged fraud, theft, corruption and irregularities. Issues relating to mismanagement and misconduct, inefficient and ineffective use of resources as well as abuse of authority are also reviewed.

**CURRENT FOCUS**

Investigations mandated by the PAC, both from the government and the opposition, are currently taking up all the Section’s resources at the expense of other audits that it may wish to carry out. Requests have increased exponentially in recent years and, although the staff complement has more than doubled in recent years, a backlog of investigations built up.

The participation of auditors from other Audit Sections in the conduct of investigations has greatly assisted the Special Audits and Investigations Section staff in addressing the situation, while ▶

◀ this served to enhance cohesion between the different audit teams.

The staff have a diverse skills set to enable them to attend to the different investigations requested. Outside consultants are also involved in certain areas of specialisation.

### ELECTROGAS REPORT

The report that provided the major challenge in 2018 was *An Investigation of matters relating to the contracts awarded to ElectroGas Malta Ltd by Enemalta Corporation*.

This was a highly complex and multi-faceted investigation, involving not just staff internally but also outside consultants. There were financial aspects that were examined by accountants; the contract itself that the legal staff and those with a background in contracts looked into; the management of the process; tendering, which the Section has a lot of experience in; and the technical side for which an external consultant, an engineer, was engaged.

### DATA ANALYTICS

A major initiative that has involved many members of the Section was that on Data Analytics.

Data Analytics is seen as a way the NAO can radically improve its work and output. It aims to



enable more efficient and effective use of all data that is retained by Government.

This is a long-term project that will change the way the NAO carries out its audits, focusing on access to larger quantities of data rather than just samples.

### INTERNATIONAL FORA

The Section is taking part in a Task Force on Audit and Ethics, which looks at ethics within the field of auditing both internally, i.e. how the Office should act in an ethical manner; and the audit of ethics, i.e. how government departments should operate in an ethical manner.

One of the managers attended a conference at the UK NAO in London on facts-only investigation reports. These are a comparatively new phenomenon for SAIs and have emerged out of a need to react to events rapidly and remain relevant.

## RAPPORT POŻITTIV DWAR L-IKBAR PROĠETT INFRASTRUTTURALI SAL-LUM

Il-Prim Ministru nnota kif l-Awditur Ġenerali qal mill-bidu nett li l-Ministeri kollha kkonċernati kkoperaw. “Kulhadd ħadem biex jagħti l-informazzjoni kollha lill-Awditur biex tingħata l-informazzjoni li tintalab. Morru ċċekjaw rapporti tal-Awditur Ġenerali tal-passat u tindunaw li dan mhux dejjem kien il-każ,” spjega l-Prim Ministru.

2 DECEMBER 2018 – INEWS

## Section Reports – IT Audits and Operations

**The IT Audits and Operations Section is responsible for the internal IT operations within the NAO, conducts IT audits in various government ministries, departments and agencies, and provides all the graphic design and desktop publishing services required by the Office.**

IT audits aim to assess whether the audited entity's IT systems enhance its objectives and management procedures – especially on planning, execution, monitoring and feedback – and ensure data integrity. They may also try to determine whether IT system outputs meet established quality, service and cost delivery parameters. IT Audits identify deficiencies in information systems and IT controls, and their resultant present and potential effect on the audited entity's performance and achievement of its objectives.

### UPGRADING THE NAO'S ICT INFRASTRUCTURE

Three servers which have been providing invaluable service since 2008 have been replaced with new ones of the latest technology with increased memory capacity and processing power in preparation for

future systems that are to be introduced in the next five years or so. The migration of data was seamless with very minimal impact on operations.

The NAO also intends to update its Office automation software in line with Government once this is implemented. ICT staff assisted in the introduction of new software which supported the internal timesheet management system.

### IT AUDITS

The work plan emerging from the IT Audit Self-Assessment carried out in 2017 extended into 2018. With the NAO's long-term strategy fully adopted, an IT Audit strategy in line with the general strategy can be devised.

### IT COMPONENT IN ALL AUDITS

The IT component of audits has come a long way in the past decade. The self-assessment above suggested that there should be a focus on the IT component of audits in all Sections.

Towards this end, Section members joined the Compliance Audit teams to work on specific audit tasks. This is a different working method, with the ownership of the audit report remaining with the Financial and Compliance Audit team while resources and IT related knowledge comes from Section members.

## TRACKING OF MALTESE FISHERIES BY AUTHORITIES ALMOST INEXISTENT, REPORT REVEALS

**National Audit Office report reveals vast majority of fishing vessels in Malta are not equipped with tracking devices** - "A very real risk exists that those vessels which would not fall within the parameters subjecting them to the installation of a tracking system, could still be very capable of engaging in fishing activity which compares, if not exceeds, both in quantity and species, that of their tracked counterparts."

13 NOVEMBER 2018 – MALTA TODAY



◀ The first report under such an arrangement was titled *Commissioner of Revenue: Environmental Contribution*, issued in 2018 as part of NAO's 2017 Public Accounts Report. Work on a second report has started and will be issued in 2019. In addition, the Section contributed to a Performance Audit titled *Performance Audit: A Strategic Overview on the Department of Fisheries and Aquaculture's Inspectorate Function*.

A stand-alone report was issued early in 2018 titled *The use of IT systems to identify skills and professional development needs within the Public Service*. The report broke new ground as it looked across all sectors of the Public Service.

### GRAPHIC DESIGN AND DESKTOP PUBLISHING SERVICES

Graphic design and desktop publishing are horizontal services offered across the Office. The team is involved in conferences, designs of backdrops, pull-ups and content for the website, and they create or fine tune all the report designs.

Great emphasis is currently being placed on infographics and understanding how best to communicate the information to the various audiences.

### Section Reports – Finance and Administration

**The Finance and Administration Section is responsible for NAO's accounting systems, HR systems and the provision of training to all members of the staff.**

The most important role of the Finance and Administration Section is to ensure that the operational and capital expenditure fall in line with the budget that is presented annually for approval to the NAO Audit Accounts Committee and the House of Representatives.

In 2018, €3.4 million was allocated to the National Audit Office. The Office incurred operating expenditure amounting to €3.26 million for the year and capital expenditure amounting to €39,000. As required by the Auditor General and National Audit Office Act, the Office's financial statements must be audited by an external auditor before they are presented to the NAO Accounts Committee.

After the auditors KPMG served a five-year period (2013-2017), a new tender for the audit services of the Office was issued for the next five-year period (2018-2023) and this was awarded to EY.

### STRATEGIC INPUT

As part of the NAO Strategy formulation process, early in 2018, the Manager of the Finance and Administration Section assisted the DAG in the analysis of the SWOT carried out in December 2017. This management exercise was the basic building block for the management discussions that eventually led to the formulation and launch of the National Audit Office strategy in November 2018. ▶



◀ Last October, the Manager of Finance and Administration took part in an international three-day training course organised by INTOSAI in Madrid that focused on the performance measurement of SAIs. The training was specifically based on a qualitative and quantitative assessment tool designed by INTOSAI for the establishment of a comparative international benchmark of an SAI's performance.

The SAI-Performance Measurement Framework (PMF) tool featured prominently under one of the action points leading to the implementation of the NAO's corporate strategy. A team to be led by three managers, including the Manager of Finance and Administration, has been tasked to

assess the performance of the Office with this SAI-PMF tool.

At the beginning of 2018, a custom-made timesheet system was introduced to enable the Office to measure its performance in conducting its audit tasks.

The successful implementation of this system encouraged Management to move on, later in the year, to a more professional management tool. The system, which captures all the data on a quasi-real time basis and provides instant reporting on all audit jobs in terms of both time and cost, tailored to specific custom requirements, has taken over the previous system developed internally from January 2019.

## CHALLENGES

The major challenge in 2018 was the expanded role given by senior management to the Finance and Administration Section not only in matters relating to corporate strategic input, human resources and finance, but also in other matters that relate to staff professional development, EU funding, data protection (following the introduction of GDPR – the EU’s General Data Protection Regulation), and health and safety.

## PROFESSIONAL DEVELOPMENT

Each employee received 57 hours of training, on average, in 2018. The NAO’s staff continued to benefit from its three-year agreement with London-based CIPFA (Chartered Institute of Public Finance and Accountancy), which is delivering three modules – Audit and Assurance, International Public Sector Accounting Standards (IPSAS) and Financial Crime Investigation and Case Management (FCICM).

## MIA SETS UP PUBLIC SECTOR ACCOUNTS COMMITTEE

An initiative instigated by the Manager of the Finance and Administration Section resulted in a meeting between the AG, the DAG and the newly elected President and Chief Executive Officer of the Malta Institute of Accountants (MIA), where closer ties between the two entities and future collaboration were discussed.

One of the main issues raised during the meeting was the difficulty in finding members from the MIA willing to join its Public Sector Accounts

Committee. To this end, the AG pledged to give full support to staff willing to join.

A meeting was subsequently held by the President and the CEO of the MIA with NAO staff who are also members of the Institute. As a result of this meeting, five members of the NAO expressed their willingness to join the MIA Public Sector Committee with AG’s approval.

The Manager of Finance and Administration was chosen by the MIA to lead the Committee, which, to date, has held two sessions.

## DATA PROTECTION AND HEALTH AND SAFETY

Efforts to implement data protection and health and safety initiatives were ongoing by the end of 2018.

The Finance and Administration Section is setting up a data protection register that will keep track and monitor all personal data being collected and handled during the audits, as well as in the administration of staff personal details.

An independent external entity conducted a health and safety audit. The report was submitted in July 2018, and discussed and analysed in detail with senior management. The implementation of the report’s recommendations is expected to be completed before the end of 2019.

The Finance and Administration Section contributed to the formulation of the ICT and Data Management Policy and the Occupational Health and Safety Policy, which are expected to be finalised and published in 2019.



# PART THREE

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## Annual Report and Financial Statements 31 DECEMBER 2018

### General Information

#### DESCRIPTION

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

#### AUDITOR GENERAL

Carmel Deguara

#### DEPUTY AUDITOR GENERAL

Noel Camilleri

#### OFFICE

National Audit Office  
Notre Dame Ravelin  
Floriana FRN 1601  
MALTA

#### BANKERS

APS Bank Ltd  
APS Centre  
Tower Street  
Birkirkara BKR 4012  
MALTA

#### AUDITORS

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

# REPORT OF THE AUDITOR GENERAL OF THE NATIONAL AUDIT OFFICE

The Auditor General presents his annual report, together with the financial statements of the National Audit Office (the “Office” or “NAO”), for the year ended 31 December 2018.

## PRINCIPAL ACTIVITIES

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

## REVIEW OF RESULTS

The National Audit Office published a total of 17 reports with an average staff complement of 60 persons (equivalent to 55 full-timers). The reports consisted of six performance audit reports, six special audits and investigations reports, one IT audit report, an annual report on the public accounts of 2017 and another on the audited financial statements of the local councils for year ending 2017, a follow-up report and the annual work and activities report.

Year	Amount approved by NAO Accounts Committee and authorised by the House of Representatives €	Amount allocated in Budgetary Estimates by Ministry of Finance €	Amount actually withdrawn €	Surplus/ (Deficit) €	Number of Audit Reports Published	Average Staff Complement
2009	2,100,000	1,864,000	1,864,000	(81,725)	11	57
2010	2,400,000	1,950,000	2,400,000	145,044	9	55
2011	2,400,000	2,200,000	2,200,000	(11,579)	11	56
2012	2,400,000	2,185,000	2,185,000	(143,140)	15	59
2013	2,500,000	2,250,000	2,265,000	(163,247)	13	57
2014	2,600,000	2,280,000	2,600,000	29,002	16	58
2015	2,800,000	2,700,000	2,700,000	(84,482)	15	62
2016	3,000,000	2,900,000	3,000,000	6,666	16	65
2017	3,150,000	3,150,000	3,150,000	42,160	14	63
2018	3,400,000	3,400,000	3,400,000	221,428	17	60

# REPORT OF THE AUDITOR GENERAL OF THE NATIONAL AUDIT OFFICE **CONTINUED**

## FINANCIAL AND COMPLIANCE AUDITS:

- i. Report by the Auditor General on the Public Accounts for the year 2017; and
- ii. Report by the Auditor General on the workings of Local Government for the year 2017.

## PERFORMANCE AUDITS:

- i. The designation and effective management of protected areas within Maltese waters;
- ii. Evaluation of Feed-In Tariff Schemes for Photovoltaics;
- iii. A Strategic Overview of Mount Carmel Hospital;
- iv. An evaluation of Government's deal to design, build and operate the Malta National Aquarium;
- v. A Strategic Overview on the Department of Fisheries and Aquaculture's Inspectorate Function; and
- vi. An evaluation of the regulatory function of the Office of the Commissioner for Voluntary Organisations.

## SPECIAL AUDITS AND INVESTIGATIONS:

- i. An Investigation of the Mater Dei Hospital project;
- ii. An Investigation of allegations on the Dingli Interpretation Centre;
- iii. Saint Paul's Bay Local Council: An Investigation into the Findings of the Local Governance Board; ;
- iv. A Review of the Pension due to a former Member of Parliament;
- v. An Investigation of an anonymous allegation on a Home Ownership Scheme property in Santa Lucija; and
- vi. An investigation of matters relating to the contract awarded to ElectroGas Malta Ltd by Enemalta Corporation.

## INFORMATION TECHNOLOGY AUDITS:

- i. The use of IT systems to identify skills and professional development needs within the Public Service.

## OTHER

- i. Follow up Reports by the National Audit Office, 2018; and
- ii. Report on the Work and Activities of the National Audit Office, 2017.

## FINANCIAL REVIEW

The National Audit Office achieved a surplus of €221,428 for the year ending 2018 as compared to a surplus of €42,160 achieved in the previous financial year.

The cash and cash equivalent balances improved by €56,229 at the end of financial year 2018. The balance sheet has been strengthened further as a result of a significant drop of €136,427 in the value of payables at the end of 2018.



## REPORT OF THE AUDITOR GENERAL OF THE NATIONAL AUDIT OFFICE **CONTINUED**

This financial situation was brought about mainly due to the decline in the average number of employees from 63 persons in 2017 to 60 persons in 2018. During the year, there was one resignation and three persons availed themselves of long-term, unpaid leave.

Recruitment of qualified staff at Bachelors/Masters degree level relating to public auditing continues to remain one of the most challenging tasks for the Office, especially in view of the competition for vacancies with private audit firms and similar auditing/management vacancies in the private and public sectors.

Nevertheless, a recruitment process that commenced in July 2018 managed to identify three new recruits, who joined the Office in the last quarter of the year.

Capital expenditure has also been modest during the year, with the total additions amounting to €39,000 for the year. The main capital expenditure was on the office computer server, which had to replace the preceding one after more than ten years of service.

The National Audit Office financial prudence is underscored by the fact that the total operating expenditure net of reimbursements for travel and training has increased by €77,000.

The main increases in operating expenditure were related to travel (€28,000), contractual costs (€20,000, this year marking a full year of the provision of subcontracted security services) and hosting of international events (€10,000).

The increase in travel and hosting of international events were mainly due to the eventful year that the Office had, particularly in the organisation of the EU Contact Committee Liaison Officers' meeting in Malta on 10-11 May, the annual EU Contact Committee meeting of Heads of Supreme Audit Institutions in Croatia, the first exchange of staff between the NAO and the Court of Auditors of the Republic of Slovenia, and participation in the INTOSAI Development Initiative (IDI) Young Leader programme. These initiatives substantially enhanced the profile of our Office.

Gross training costs amounted to €68,500, which included the average provision of 57 hours of training to every employee. Training activities consisted mainly of the collaboration with the Chartered Institute of Public Finance and Accounting (CIPFA) for the delivery of three training modules over a three-year period running up to June 2020. This training programme has been awarded funding of the actual incurred costs by the European Social Fund under Investment Priority 11i. As at 31 December 2018, the National Audit Office received its first reimbursement from the EU Funds Management Directorate amounting to €32,112.

# REPORT OF THE AUDITOR GENERAL OF THE NATIONAL AUDIT OFFICE **CONTINUED**

Other training activities consisted of a collaboration with the National Audit Office of Wales that delivered an Issue Analysis and Drawing Conclusions programme to all the audit staff of the Office, a joint one-day seminar held with the European Court of Auditors on 'Public audit in the digital age', training in data analytics provided to a team of eight staff by the National Statistics Office and data protection awareness training by the Data Protection Office to all staff. The Office also provided sponsorship for a Masters in Forensic Audit and a short course on Business Intelligence to two of its staff.

The overall satisfaction in the financial review for the year lies in the highest ever registered number of audit reports within a calendar year, 17, with a lower number of staff than in preceding years.

Furthermore, the Office has retained the excess surplus that resulted from the full withdrawal of the allocated government subvention of €3.4 million in the cash and cash equivalents amounting to €113,291 at end of year. These reserves are earmarked for the planned office building expansion in 2019 and 2020.

The Office always strives to abide by the Government budget allocations, conscious of the fact that additional funding requests can be a strain on government-allocated financial resources.

## RESERVES

After deducting the surplus of €221,428 from the balance of accumulated deficit as at the beginning of the year, the total accumulated deficit at end of 2018 is being carried forward to the next financial period. The accumulated deficit, as shown in the statement of financial position, would be converted into a surplus had the provision for pensions and gratuities over an approximate 30-year period not been accounted for as per requirements of IAS 19.



**Carmel Deguara**

AUDITOR GENERAL OF THE  
NATIONAL AUDIT OFFICE



**Noel Camilleri**

DEPUTY AUDITOR GENERAL OF THE  
NATIONAL AUDIT OFFICE

Notre Dame Ravelin  
Floriana FRN 1601  
Malta

4 April 2019

Statement of profit or loss and other comprehensive income  
for the year ended 31 December 2018

	Notes	2018 €	2017 €
<b>CONTINUING OPERATIONS</b>			
Government subvention	6	3,400,000	3,150,000
Other income	7	43,360	4,507
<b>Operating expenditure</b>			
Salaries and personnel expenses	8	(2,481,985)	(2,504,863)
Administrative and other expenses	9	(464,363)	(347,482)
Sub-contracted audit fees of local councils		(260,012)	(260,012)
		(3,206,360)	(3,112,357)
<b>Results from operating activities before pension costs</b>		<b>237,000</b>	42,150
Provision for service pensions and gratuities	11	(15,675)	(109)
<b>Results from operating activities</b>		<b>221,325</b>	42,041
Bank interest receivable		103	119
<b>Surplus for the year</b>		<b>221,428</b>	42,160
<b>Total comprehensive income for the year</b>		<b>221,428</b>	42,160

*The accounting policies and explanatory notes on pages 52 to 63 form an integral part of the financial statements.*



Statement of financial position  
as at 31 December 2018

	Notes	2018 €	2017 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	10	293,657	326,184
<b>Current assets</b>			
Debtors and prepayments		25,251	9,972
Cash and cash equivalents	13	113,291	57,062
		138,542	67,034
<b>Total assets</b>		<b>432,199</b>	<b>393,218</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provision for service pensions and gratuities	11	379,417	425,251
<b>Current liabilities</b>			
Payables	12	352,930	489,357
Provision for service pensions and gratuities	11	60,837	61,023
		413,767	550,380
<b>Total liabilities</b>		<b>793,184</b>	<b>975,631</b>
<b>Net liabilities</b>		<b>(360,985)</b>	<b>(582,413)</b>
Represented by: Accumulated deficit		<b>(360,985)</b>	<b>(582,413)</b>

The accounting policies and explanatory notes on pages 52 to 63 form an integral part of the financial statements. The financial statements on pages 47 to 63 have been authorised for issue on 4 April 2019 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 2018

	<b>Accumulated deficit €</b>
Balance at 1 January 2017	(624,573)
<b>Total comprehensive income for the year</b> Surplus for the year	42,160
<b>Balance at 31 December 2017</b>	<b>(582,413)</b>
Balance at 1 January 2018	(582,413)
<b>Total comprehensive income for the year</b> Surplus for the year	221,428
<b>Balance at 31 December 2018</b>	<b>(360,985)</b>

*The accounting policies and explanatory notes on pages 52 to 63 form an integral part of the financial statements.*

Statement of cash flows  
for the year ended 31 December 2018

	Note	2018 €	2017 €
<b>Cash flows from operating activities</b>			
Surplus for the year		221,428	42,160
<i>Non-cash adjustments to reconcile surplus to net cash flows:</i>			
Depreciation		71,676	65,265
Bank interest receivable		(103)	(119)
Provision for service pensions and gratuities		15,675	109
		<b>308,676</b>	107,415
Movement in debtors and prepayments		(15,279)	(2,949)
Movement in payables		(136,427)	119,820
Movement in provision for service pensions and gratuities		(61,695)	(102,544)
		<b>95,275</b>	121,742
Cash generated from operating activities		95,275	121,742
Bank interest received		103	119
		<b>95,378</b>	121,861
<b>Net cash from operating activities</b>			
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(39,149)	(76,763)
		<b>(39,149)</b>	(76,763)
<b>Cash used in investing activities</b>			
		<b>56,229</b>	45,098
<b>Net increase in cash and cash equivalents</b>		<b>56,229</b>	45,098
Cash and cash equivalents at 1 January		57,062	11,964
		<b>113,291</b>	57,062
<b>Cash and cash equivalents at 31 December</b>	13	<b>113,291</b>	57,062

*The accounting policies and explanatory notes on pages 52 to 63 form an integral part of the financial statements.*



# NOTES TO THE FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

The National Audit Office (the “Office”) has been set up to:

- give more prominence to the role of the state audit function in Malta;
- ensure accountability in the use of public funds; and
- contribute towards the better management of public funds and resources.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

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

### 2.2 Basis of measurement

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

#### 2.2.1 Going Concern

As at 31 December 2018, the Office had net liabilities of €360,985 (2016: €582,413).

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 2. BASIS OF PREPARATION – continued

### 2.2. Basis of measurement – continued

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

### 2.3 Functional and presentation currency

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

### 2.4 Use of estimates and judgments

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

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

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

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

The accounting policies adopted are consistent with those of the previous financial year, except for the new standards and amendment to IFRS effective as of 1 January 2018. The adoption of these standards or interpretations did not have a material impact on the financial statements or performance of the Office.

### 2.6 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the Office's financial statements, on initial application.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Government of Malta subventions

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

### 3.2 Finance income

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

### 3.3 Financial instruments

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

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

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

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

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

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

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

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

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



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.3 Financial instruments – continued

#### ***Non-derivative financial assets – measurement***

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

#### ***Non-derivative financial liabilities – measurement***

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

### 3.4 Cash and cash equivalents

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

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

### 3.5 Property and equipment

#### ***Recognition and measurement***

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within “other income” or “other expenses” in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.5 Property and equipment – continued

#### **Subsequent costs**

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the entity and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss.

#### **Depreciation**

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative years are as follows:

• Building improvements	10 years
• Equipment	5 years
• Computer equipment and software	3 years
• Motor vehicles	5 years
• Furniture and fittings	10 years

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

### 3.6 Impairment

#### **Non-derivative financial assets**

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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 3. SIGNIFICANT ACCOUNTING POLICIES – continued

#### 3.6 Impairment – continued

loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

##### ***Non-financial assets***

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less 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.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### 3.8 Provisions – continued

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

## 4. DETERMINATION OF FAIR VALUES

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

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 5. FINANCIAL RISK MANAGEMENT – continued

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

**Liquidity risk**

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

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

**Market risk**

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

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

## 6. GOVERNMENT SUBVENTION

	2018	2017
	€	€
Authorised by the House of Representatives	<b>3,400,000</b>	3,150,000
Amount allocated by the Ministry for Finance in Budget Estimates	<b>3,400,000</b>	3,150,000
Amounts actually withdrawn	<b>3,400,000</b>	3,150,000

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 7. OTHER INCOME

	2018	2017
	€	€
Audit fee of Non Government Organisation	3,000	3,000
EU Funding – Training Project	32,112	-
EU Funding – Travel	8,248	-
Social Security refund	-	1,313
Sale of publications	-	162
Reimbursements	-	32
	<b>43,360</b>	<b>4,507</b>

### 8. SALARIES AND PERSONNEL EXPENSES

	2018	2017
	€	€
Salaries	2,350,701	2,374,477
Social security contributions	131,284	130,386
	<b>2,481,985</b>	<b>2,504,863</b>

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

	2018	2017
	No.	No.
Senior management	6	6
Operating	40	43
Administration and IT	9	9
Messenger staff	5	5
	<b>60</b>	<b>63</b>
Equivalent number of full-time employees	<b>55</b>	<b>59</b>

During the year a total of 18 persons (2017: 19) worked on a reduced hour basis.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 9. EXPENSES BY NATURE

	2018	2017
	€	€
Auditors' remuneration	4,750	4,366
Professional fees	47,729	45,331
Depreciation of property and equipment	71,676	65,265
Net cost of hosting international events	15,798	5,677
Other administrative expenses	324,410	226,843
<b>Total administrative and other expenses</b>	<b>464,363</b>	<b>347,482</b>

### 10. PROPERTY AND EQUIPMENT

	Building improvements	Equipment	Computer equipment and software	Motor vehicles	Furniture and fittings	Total
	€	€	€	€	€	€
<b>Cost</b>						
At 1 January 2017	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
Additions	-	6,748	31,008	-	1,393	39,149
Write-offs	-	-	(7,764)	-	-	(7,764)
<b>At 31 December 2018</b>	<b>593,081</b>	<b>127,302</b>	<b>166,003</b>	<b>70,541</b>	<b>158,773</b>	<b>1,115,700</b>
<b>Depreciation</b>						
At 1 January 2017	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
Depreciation charge for the year	48,441	6,447	13,221	-	3,567	71,676
Released upon write-off	-	-	(7,764)	-	-	(7,764)
<b>At 31 December 2018</b>	<b>346,598</b>	<b>114,261</b>	<b>144,344</b>	<b>70,541</b>	<b>146,299</b>	<b>822,043</b>
<b>Carrying amount</b>						
<b>At 31 December 2018</b>	<b>246,483</b>	<b>13,041</b>	<b>21,659</b>	<b>-</b>	<b>12,474</b>	<b>293,657</b>
At 31 December 2017	294,924	12,740	3,872	-	14,648	326,184

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 11. PROVISION FOR SERVICE PENSIONS AND GRATUITIES

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

	<b>2018</b>	2017
	€	€
Non-current	<b>379,417</b>	425,251
Current	<b>60,837</b>	61,023
	<b>440,254</b>	486,274

Of the non-current portion of the provision, an amount of €207,881 (2017: €247,748) 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:

	<b>2018</b>	2017
	€	€
Service pensions and gratuities as at 1 January	<b>486,274</b>	588,709
Provisions made during the year	<b>15,675</b>	109
Provisions used during the year	<b>(61,695)</b>	(102,544)
Service pensions and gratuities as at 31 December	<b>440,254</b>	486,274

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

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

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The provision for service pensions and gratuities as at 31 December 2018 is arrived at by discounting the post-employment benefit obligations of the Office using the year-end yield to maturity of 1.41% on 5.10% 2029 I Government bonds (2017: 1.1% on 7% 2026 I Government bonds). The post-employment benefit obligations are computed after taking into consideration the following assumptions:

Average life expectancy of males and females is 80 years and 85 years, respectively (2017: males and females of 80 and 84 years respectively), based on the published data of the National Statistics Office Demographic Review.

### 12. PAYABLES

	2018	2017
	€	€
Operational and capital payables	19,590	13,326
Taxes and social security	55,568	53,438
Accrued expenses	216,077	268,016
Amount due to Treasury for pension contributions	61,695	154,577
	<b>352,930</b>	489,357

### 13. CASH AND CASH EQUIVALENTS

	2018	2017
	€	€
Cash at bank	113,223	56,921
Cash in hand	68	141
	<b>113,291</b>	57,062





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

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of the National Audit Office (the "Office") which comprise the statement of financial position as at 31 December 2018 and the statement of profit or loss and comprehensive income, the statement of changes in net liabilities and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Office as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Office in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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

**Responsibilities of the Auditor General for the financial statements**

The Auditor General is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as the Auditor General determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Auditor General is responsible for assessing the Office’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Office is in the process of being terminated in accordance with national law.

**Auditor’s responsibilities for the audit of the financial statements**

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office’s internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auditor General.
- conclude on the appropriateness of the Auditor General’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Office to cease to continue as a going concern.

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

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

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

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

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

Ernst & Young Malta Limited  
Certified Public Accountants

4 April 2019

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