NATIONAL AUDIT OFFICE

Annual Report
and
Financial Statements

31 December 2023

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GENERAL INFORMATION

Description

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

Auditor General

Carmel Deguara

Deputy Auditor General

Noel Camilleri

Office

National Audit Office
Notre Dame Ravelin
Floriana FRN 1601
MALTA

Bankers

APS Bank Ltd
APS Centre
Tower Street
Birkirkara BKR 4012
MALTA

Auditors

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

REPORT OF THE AUDITOR GENERAL OF THE NATIONAL AUDIT OFFICE

The Auditor General presents his annual report, together with the financial statements of the National Audit Office (the "Office" or "NAO"), for the year ended 31 December 2023.

Principal Activities

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

Review of Results

The National Audit Office published a total of 14 reports with an average staff complement of 62 persons (equivalent to 57 full-timers). The reports consisted of two performance audit reports, three Special Audits and Investigations reports, three IT audit reports, an annual report on the public accounts of 2022, an annual report on the audited financial statements of the local councils for year ending 2022, a report containing a review on fixed assets and stocks, two consolidated follow-up audit reports, and the annual report and financial statements of the Office for 2022.

Year	Amount approved by NAO Accounts Committee and authorised by the House of Representatives €	Amount withdrawn €	Surplus €	Number of Audit Reports Published	Average Staff Complement
2017	3,150,000	3,150,000	42,160	14	63
2018	3,400,000	3,400,000	221,428	17	60
2019	3,500,000	3,500,000	119,862	11	61
2020	3,800,000	3,600,000	87,304	19	64
2021	3,850,000	3,850,000	291,540	15	64
2022	3,900,000	3,900,000	374,936	14	63
2023	4,200,000	4,200,000	452,868	14	62

Published Reports:

Financial and Compliance Audits:

i. Report by the Auditor General on the Public Accounts for the year 2022;
ii. Report by the Auditor General on the Workings of Local Government for the year 2022;
iii. Review by the Auditor General on Fixed Assets and Stocks

Performance Audits:

i. An assessment of capital projects at the University of Malta.
ii. Ensuring fair Non-Contributory Social Benefits and safeguarding against related fraud.

Special Audits and Investigations:

i. An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 3 | Steward Health Care assumes control of the concession.
ii. A review of the implementation of Sustainable Development Goal 2: Addressing pre-obesity and obesity.
iii. A review of the employment agreement of the Consultant to the Chief Executive Officer, Institute of Tourism Studies.

Information Technology Audits:

i. Active Ageing and Community Care – Ministry for Active Ageing.
ii. Malta Food Agency.
iii. A Follow-up on the 2020 IT Audit **-** ICT Across Local Councils.

Other

i. National Audit Office Annual Report and Financial Statements– 2022.
ii. Follow-up Audits Report by the National Audit Office – 2023 Volume I.
iii. Follow-up Audits Report by the National Audit Office – 2023 Volume II.

Financial Review

In 2023, the Office withdrew the full budget allocation of € 4.2 million from Central Government. Funds utilised from this allocation amounted to € 3.72 million distributed as follows: 78% towards salaries 9% towards subcontracted audit fees and 13% towards administrative expenditure.

Salaries experienced a marginal increase of 1.5% over previous year notwithstanding the fact that the average number of employees declined slightly from 63 persons to 62 persons. The average salary for the 57 full time equivalents increased by 1.58% over the comparative period. Notably, only one resignation occurred during the year that was promptly replaced before year-end. Staff turnover remained negligible on the same pattern established during the previous decade.

Subcontracted audit fees for local councils have remained unchanged from the previous year in accordance with the tender awarded last year for financial years ending 2021-2023. The increase in the subcontracted audit fees is attributed to the addition of a new region that necessitated the audit of the regional council.

Administrative expenses recorded an increase of 32% compared to the previous period as the Office faced increases in IT licences and consumables, printing costs of publications, travel, information services, professional fees, and depreciation.

The surplus resulting from the unutilised withdrawal of funds has strengthened further the Office's cash position and the Accumulated Funds Reserves. These surpluses are earmarked for the initial financing of the capital project for a new building annex. Approval from the NAO Accounts Committee and discussions with the Ministry of Finance will nevertheless be sought before proceeding with the project.

Capital expenditure for the year amounted to € 313,592 which consisted mostly in the refurbishment of the upper floor of the main building and the replacement of associated replacement furniture and equipment. The capital expenditure also includes the purchase of an electric vehicle.

Financial management prudence is evident in the current liquidity ratio of 2.2 signifying ample coverage not only for short-term payables such as creditors and accruals but also for the long-term provision of service pension and gratuities.

In response to the surpluses generated over the past three years, the Office has agreed with the Ministry of Finance for a reduction in the original request submitted for the budgetary allocation of 2024. The original budget request for 2024 has been voluntarily reduced from € 4.35 million to € 4 million, a decision welcomed by the Ministry of Finance.

Capital Commitments

In 2023, no further expenditure was incurred on the capital project of a new building annex to the main building The last recorded expenditure on this project occurred in 2021 amounting to € 94,524. The original site plan was revised and submitted to the Planning Authority (PA). It has been approved by PA on 12 January 2024 and signifies an important milestone for the project’s development.

Reserves

After adding the surplus of € 452,868 to the opening balance of the accumulated funds, the closing accumulated funds balance in the statement of financial position at the end of 2023, amounted to € 965,525. This is being carried forward to the next financial period.

CARMEL DEGUARA
Auditor General

NOEL CAMILLERI
Deputy Auditor General

National Audit Office
Notre Dame Ravelin
Floriana FRN 1601
Malta

20 June 2024

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2023

	Notes	2023 €	2022 €
Government subvention	6	**4,200,000**	3,900,000
Other income	7	**14,320**	9,645
Operating expenditure			
Salaries and personnel expenses	8	**(2,918,779)**	(2,873,260)
Administrative and other expenses	9	**(489,285)**	(367,188)
Sub-contracted audit fees of local councils		**(317,378)**	(312,700)
		(3,725,442)	(3,553,148)
Results from operating activities before pension costs		**488,878**	356,497
Provision for service pensions and gratuities	11	**(36,227)**	18,213
Results from operating activities		**452,651**	374,710
Bank interest receivable		**217**	226
Surplus for the year		**452,868**	374,936
Total comprehensive income for the year		**452,868**	374,936

The accounting policies and explanatory notes on pages 10 to 19 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2023

	Notes	**2023**	2022
		€	€
ASSETS			
Non-current assets			
Property and equipment	10	**470,429**	275,900
Current assets			
Debtors and prepayments		**110,041**	150,389
Cash and cash equivalents	13	**1,096,546**	849,083
		1,206,587	999,472
Total assets		**1,677,016**	1,275,372
RESERVES AND LIABILITIES			
Non-current liabilities			
Provision for service pensions and gratuities	11	**168,908**	194,563
Current liabilities			
Payables	12	**482,784**	508,631
Provision for service pensions and gratuities	11	**59,799**	59,521
		542,583	568,152
Total liabilities		**711,491**	762,715
Reserves			
Accumulated funds		**965,525**	512,657
Total reserves		**965,525**	512,657
Total liabilities and reserves		**1,677,016**	1,275,372

The accounting policies and explanatory notes on pages 10 to 19 form an integral part of the financial statements.

The financial statements on pages 6 to 19 have been authorised for issue on 20 June 2024 by:

CARMEL DEGUARA
Auditor General of the
National Audit Office

NOEL CAMILLERI
Deputy Auditor General of the
National Audit Office

STATEMENT OF CHANGES IN RESERVES
for the year ended 31 December 2023

	Accumulated funds
	€
Balance at 1 January 2022	137,721
Total comprehensive income for the year	
Surplus for the year	374,936
Balance at 31 December 2022	**512,657**
Balance at 1 January 2023	512,657
Total comprehensive income for the year	
Surplus for the year	452,868
Balance at 31 December 2023	**965,525**

The accounting policies and explanatory notes on pages 10 to 19 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2023

	Note	2023 €	2022 €
Cash flows from operating activities			
Surplus for the year		**452,868**	374,936
Non-cash adjustments to reconcile surplus to net cash flows:			
Depreciation		**119,063**	91,892
Bank interest receivable		**(217)**	(226)
Provision for service pensions and gratuities		**36,227**	(18,213)
		607,941	448,389
Movement in debtors and prepayments		**40,348**	(41,310)
Movement in payables		**(25,847)**	49,733
Movement in provision for service pensions and gratuities		**(61,604)**	(61,604)
Cash generated from operating activities		**560,838**	395,208
Bank interest received		**217**	226
Net cash from operating activities		**561,055**	395,434
Cash flows used in investing activities			
Building improvements and purchase of equipment		(**313,592)**	(13,266)
Cash used in investing activities		**(313,592)**	(13,266)
Net increase in cash and cash equivalents		**247,463**	382,168
Cash and cash equivalents at 1 January		**849,083**	466,915
Cash and cash equivalents at 31 December	13	**1,096,546**	849,083

The accounting policies and explanatory notes on pages 10 to 19 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

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

2.2.1 Going Concern

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

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

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgments

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

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

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

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

The accounting policies adopted are consistent with those of the previous financial year, except for the new standards and amendment to IFRS effective as of 1 January 2023. The adoption of these standards or interpretations did not have a material impact on the Office's financial statements or performance.

2.6 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2024 and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the Office's financial statements, on initial application.

3. SUMMARY OF ACCOUNTING POLICIES

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

3.1 Government of Malta subventions

Government subventions allocated to the office for recurrent expenditure are taken directly to statement of comprehensive income on approval of the allocated amount in the Budgetary Estimates by the Ministry for Finance.

3.2 Financial instruments

Non-derivative financial assets – recognition and derecognition

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

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

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

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

Non-derivative financial liabilities – recognition and derecognition

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

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

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

3. SUMMARY OF ACCOUNTING POLICIES – continued

3.2 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.

3.3 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.

3.4 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 the statement of comprehensive income.

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 statement of comprehensive income.

3. SUMMARY OF ACCOUNTING POLICIES – continued

3.4 Property and equipment - continued

Depreciation

Depreciation is recognised in the statement of comprehensive income 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.

3.5 Impairment

Non-derivative financial assets

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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value, less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in statement of comprehensive income.

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. SUMMART OF ACCOUNTING POLICIES – continued

3.6 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 the statement of comprehensive income in the periods during which services are rendered by employees.

3.7 Provisions

A provision is recognised if, as a result of a past event, the Office has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

3.8 Leases

The Office elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). The Office rents its main building and other offices from the Government's Lands' Department, with the leases being renewable on an annual basis.

4. DETERMINATION OF FAIR VALUES

A number of the Office's accounting policies and disclosures requires the determination of fair value for financial assets and liabilities. For receivables and payables with a remaining useful life of less than one year, the carrying amount is deemed to reflect their fair value. Fair value is determined for disclosure purposes based on the following methods:

Receivables

The fair value of receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date.

Payables

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

5. FINANCIAL RISK MANAGEMENT

This note presents information about the Office's exposure to financial risks (credit risk, liquidity risk and market risk) arising from financial instruments, and the management of these risks. The Office does not have components of equity.

The Auditor General has responsibility for the establishment and oversight of the Office's risk management framework.

The Office does not enter into any transactions in derivative financial instruments to manage risks.

Credit risk

Credit risk is the risk of financial loss to the Office if a counterparty to a financial instrument fails to meet its contractual obligations.

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

Liquidity risk

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

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

Market risk

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

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

NOTES TO THE FINANCIAL STATEMENTS – continued

6. GOVERNMENT SUBVENTION

	2023 €	2022 €
Authorised by the House of Representatives	**4,200,000**	3,900,000
Amounts withdrawn	**4,200,000**	3,900,000

7. OTHER INCOME

	2023 €	2022 €
Audit fee of a Non-Government Organisation	**3,000**	3,000
Reimbursements	**3,118**	1,883
INTOSAI grant received	**-**	4,762
EU Funding on training project	**8,022**	-
Profit on sale of computer equipment	**180**	-
	14,320	9,645

8. SALARIES AND PERSONNEL EXPENSES

	2023 €	2022 €
Salaries	**2,766,708**	2,724,025
Social security contributions	**152,071**	149,235
	2,918,779	2,873,260

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

	2023 No.	2022 No.
Senior management	**6**	5
Operating	**44**	46
Administration and IT	**9**	9
Messenger staff	**3**	3
	62	63
Equivalent number of full-time employees	**57**	58

During the year, a total of 15 persons (2022: 15) worked on a reduced hours basis. This is equivalent to 24% (2022: 24%) of the workforce.

9. EXPENSES BY NATURE

	2023	2022
	€	€
Auditors' remuneration	**7,080**	4,750
Professional fees	**56,730**	12,146
Depreciation of property and equipment	**119,063**	91,892
Learning and professional development	**11,375**	13,944
Other administrative expenses	**295,037**	244,456
Total administrative and other expenses	**489,285**	367,188

10. PROPERTY AND EQUIPMENT

	Building Improvements	Equipment	Computer equipment and software	Motor vehicles	Furniture and fittings	Total
	€	€	€	€	€	€
Cost						
At 1 January 2022	803,509	130,280	221,104	116,358	161,553	1,432,804
Additions	–	6,953	5,158	–	1,155	13,266
Write-offs/disposals	–	(5,780)	(44,992)	–	–	(50,772)
At 31 December 2022	**803,509**	**131,453**	**181,270**	**116,358**	**162,708**	**1,395,298**
At 1 January 2023	803,509	131,453	181,270	116,358	162,708	1,395,298
Additions	192,706	25,803	16,013	46,000	33,070	313,592
Write-offs/disposals	–	(9,092)	(6,242)	(29,798)	(33,151)	(78,283)
At 31 December 2023	**996,215**	**148,164**	**191,041**	**132,560**	**162,627**	**1,630,607**
Depreciation						
At 1 January 2022	528,287	114,932	197,913	88,442	148,704	1,078,278
Depreciation charge for the year	50,088	7,414	19,850	11,959	2,581	91,892
Released upon write-off/disposal	–	(5,780)	(44,992)	–	–	(50,772)
At 31 December 2022	**578,375**	**116,566**	**172,771**	**100,401**	**151,285**	**1,119,398**
At 1 January 2023	578,375	116,566	172,771	100,401	151,285	1,119,398
Depreciation charge for the year	69,099	11,224	12,117	21,159	5,464	119,063
Released upon write-off/disposal	–	(9,092)	(6,242)	(29,798)	(33,151)	(78,283)
At 31 December 2023	**647,474**	**118,698**	**178,646**	**91,762**	**123,598**	**1,160,178**
Carrying amount						
At 31 December 2023	**348,741**	**29,466**	**12,395**	**40,798**	**39,029**	**470,429**
At 31 December 2022	225,134	14,887	8,499	15,957	11,423	275,900

11. PROVISION FOR SERVICE PENSIONS AND GRATUITIES

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

	2023	2022
	€	€
Non-current	**168,908**	194,563
Current	**59,799**	59,521
	228,707	254,084

Of the non-current portion of the provision, an amount of €77,809 (2022: €90,398) refers to payments to be made after more than five (5) years from the reporting date. The movement in this provision for the current and comparative year is as follows:

	2023	2022
	€	€
Service pensions and gratuities as at 1 January	**254,084**	333,901
Movement in provisions during the year	**36,227**	(18,213)
Provisions used during the year	**(61,604)**	(61,604)
Service pensions and gratuities as at 31 December	**228,707**	254,084

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

There are 10 persons who joined the Civil Service prior to 1979 but retired as full-time employees from the NAO. There are no further persons eligible to pension and gratuity rights as provided by the Pensions Ordinance.

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

The provision for service pensions and gratuities as at 31 December 2023 is arrived at by discounting the post-employment benefit obligations of the Office using the year-end yield to maturity of 3.02% on 1% 2031 II Government bonds (2022: 3.5% on 7% 2027 II 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 (2022: males and females of 80 and 85 years, respectively), based on data published in the National Statistics Office Demographic Review.

NOTES TO THE FINANCIAL STATEMENTS – continued

12. PAYABLES

Due within one Year	**2023**	2022
	€	€
Operational and capital payables	**9,602**	15,349
Accrued expenses	**311,578**	331,678
Amount due to Treasury for pension contributions	**61,604**	61,604
Deferred Government subvention on capital expenditure	**100,000**	100,000
	482,784	508,631

13. CASH AND CASH EQUIVALENTS

	2023	2022
	€	€
Cash at bank	**1,096,045**	848,969
Cash in hand	**501**	114
	1,096,546	849,083

14. Subsequent Events

The Planning Authority has approved the construction of a resource centre on the 24th of January 2024 , that is planned opposite the main building at approximately half its length and in the middle of the open space of the ravelin. The resource centre will house a conference and a training room with sound and visual facilities at ground floor level and provide additional office space and multi-purpose meeting rooms at the first-floor level. Works are expected to commence by mid-2024 and be completed by March 2026 at an estimated cost of € 2 million. The initial cost of the project is to be financed from the accumulated reserves.

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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 2023 and the statement of comprehensive income, the statement of changes in reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Office as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

Basis for opinion

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

Other information

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

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

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

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

Responsibilities of the Auditor General for the financial statements

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

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

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.

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

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

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

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

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

Ernst & Young Malta Limited
Certified Public Accountants

20 June 2024