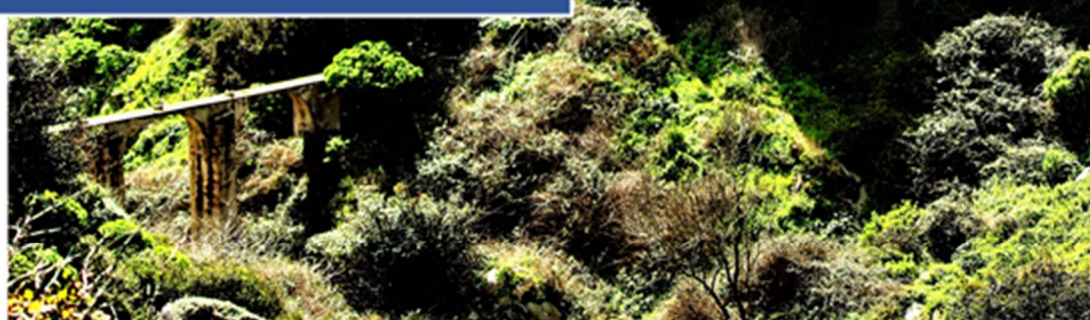




ANNUAL REPORT 2019



Malta Resources Authority



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CHIEF EXECUTIVE OFFICER'S INTRODUCTION

This report was prepared in accordance with the requirements of the MRA Act Chap. 423 Articles 18(1) and 24 and provides an overview of the activities of the Malta Resources Authority for the period 1st January 2019 to the 31st December 2019.

Regulatory framework And Responsibilities.

The MRA continues to fulfil its role of national Greenhouse Gas Inventory Agency, responsible for compiling and submitting Malta's national inventory of greenhouse gas emissions and removals. The MRA also retains responsibility for other national reporting obligations, including the biennial report on emissions mitigation policies and measures and projections, and the Biennial Report under the United Nations Framework on Climate Change (UNFCCC), both reports being submitted in 2019. The quality management system established for the national GHG inventory process has maintained the ISO 9001 certification.

In its capacity as competent authority for the EU Emissions Trading Scheme (EU ETS), the MRA continues to administer local large stationary industrial installations and a number of aircraft operators. During 2019 MRA has also initiated the implementation of the Carbon Offsetting and Reduction System for International Aviation (CORSIA), a market-based mechanism recently adopted by the International Civil Aviation Organisation (ICAO) to facilitate the limitation of growth in greenhouse gas emissions from international aviation activities. During the year under review, the Authority approved the first set of monitoring plans of operators identified as falling within the scope of CORSIA, in time for the start of emissions monitoring in 2020.

Move To New Offices.

Upon the request of the owner of Millenia Building and in line with the rental contract, the Authority transferred its offices from the second floor to the ground floor of Millennia Building in Aldo Moro Road, Marsa. The transfer of the offices took place smoothly at the end of December 2019.

Capacity Building.

The headcount for the Authority at the beginning of 2019 stood at eleven¹, three in the Regulation and Corporate section and the rest, eight, within the Climate Change Unit.

Capacity building has been a major challenge. At the end of 2019, the total head count for the authority was ten employees. The Climate Change Unit had seven employees and Regulation and Corporate Unit has two employees. Internal capacity building assessments, supported by advice provided by foreign experts, indicate a need for a climate change unit of between 13 to 16 officers, depending on the functions that such a unit would be responsible for, in order to allow the good fulfilment of current obligations relating to climate action.

Financial Resources.

During 2019, the Authority received a Government subvention through the Environment and Resources Authority of € 500,000 and had an income of € 637,839 from Licenses and Emission Trading Scheme Administration. The Authority registered a surplus before tax of €141,695.

Outlook 2020

The merger of the MRA with the Environmental and Resources Authority still dominates the 2020 outlook for the Authority. However, the importance and visibility of climate change policy will be much reduced if the merger plans go ahead. An alternative which is still being put forward by the Authority, is the integration of the Climate Change Unit within the Climate Action Board established by the Climate Action Act. Such a change will ensure that the Climate Action Board performs its full range of obligations and responsibilities established by law, thus establishing a tangible commitment to adapt to and mitigate the effects of climate change.

Notwithstanding the way forward, the Authority will continue with its efforts to increase the capacity in the climate change unit for at least two additional employees and the replacement of one employee who resigned.

The authority plans to maintain the ISO 9001 certification for the GHG Inventory quality management system and possibly extending the certification to other areas of responsibility.

¹ includes 2 employees register with other entities.

Appreciation.

I would like to express my gratitude and appreciation to the employees for their continuous support, efforts and understanding throughout 2019.

CORPORATE MATTERS

This section provides a summary of the corporate activities and initiatives undertaken by the of the authority throughout 2019.

Human Resources.

The Authority recruited two employees during 2019. The following changes took place in 2019:

- Two Project Officers resigned.
- One Project Officer remained on unpaid study leave overseas.
- Secondment with MRA was withdrawn for one administrator and returned to the Regulator for Energy and Water Services.

At the end of December 2019, the total number of MRA employees was 9².

Continued professional development of employees of the MRA remains an important objective of the Authority. During 2019, staff benefited from a number of capacity building opportunities.

Of particular mention, a project was undertaken with Aether Ltd, a UK consultancy company with a proven track record in the field of inventories of greenhouse gases and air pollutants. This project was commissioned in 2018, with the main aim being quality improvement. During 2019 the project provided training and technical expert support to staff of the MRA on greenhouse gas inventory issues, support being provided both remotely and during an in-country visit. The scope of the project was extended to also cover aspects relating to air pollutants, and thus allowed staff from the Environment and Resources Authority to also participate actively in the project and to benefit from training and expert advice. The services provided by Aether Ltd comprised of specific training to inventory compilers responsible for the Energy sector, support to all staff involved in the inventory process on improving delivery of inventory reporting, implementation of dedicated tools to enhance the quality of estimation of emissions and removals, and improving efficiency, training on quality assurance and control procedures, best practices in the planning, preparation and management of national inventories and delivery of one-to-one support on sector-specific technical issues.

Staff from the CCU were actively involved in the EU work relating to reporting under the so-called LULUCF Regulation. Apart from capacity building support provided by expert consultants engaged by the Commission to support Member States in the preparation of

² The number of employees does not include employees registered with other entities

National Forest Accounting Plans, one member of staff was Malta's representative in the review of the submitted Accounting Plans.

Another staff member undertook training in internal auditing techniques. The two-day training programme, entitled "*Internal Audits Course - Management Systems*", conducted by the Malta Competition and Consumer Affairs Authority (MCCAA) and based on ISO 19011:2017 provided comprehensive understanding of management system standards and their application when setting, planning and performing internal audits for various ISO management systems. The training provided the trainee with the necessary tools to confidentially report auditing findings and come up with effective corrective actions; this will greatly enhance the management of quality assurance and control processes of the Authority.

During the year, the Authority provided training to one ICT student under the MITA student placement program.

Internal Control.

During, the course of the year two independent internal audits were conducted. The first one related to reimbursement of travel expenses. A risk assessment of the process reviewed was conducted after completing an intensive assignment by our internal auditors RSM. Their review indicated that controls evaluated over MRA provision of subsistence allowance and re-imbursement of expenditure are generally considered as adequate, appropriate, and operating in line with the set policies and procedures. A risk assessment of the process reviewed was conducted after completing their assignment. The review indicated that controls evaluated over MRA provision of subsistence allowance and re-imbursement of expenditure are generally considered as adequate, appropriate, and operating in line with the set policies and procedures.

The second internal audit process related to the Payroll process. A risk assessment of the reviewed process and relevant observations noted were conducted by RSM after completing the assignment. The review indicated that there were no significant issues noted during their assessment and it was noted that the payroll process generally operates in line with the relevant internal procedures.

ICT.

The ICT system continued to be developed and strengthened. The GIS system was strengthened. Multifactor authentication services were enabled for all employees. Online

backup services were rolled out for all employees. An upgraded WIFI system was installed. Online payroll services were procured for 2020. Electronic controlled door access systems were installed.

Litigation.

No new court cases and or appeals were filed against the Authority during 2019.

LEGISLATIVE FRAMEWORK

The following is the legislative framework for the Authority.

During 2019, S.L. 423.50 and S.L. 423.51 were amended to reflect the amended EU ETS Directive.

The current legislation is composed of:

Cap. 423 Malta Resources Authority Act.

- S.L. 423.12 Notification of Groundwater Sources Regulations.
- S.L. 423.32 Borehole Drilling and Excavation Works within the Saturated Zone Regulations.
- S.L. 423.40 Groundwater Abstraction (Metering) Regulations.
- S.L. 423.41 Assessment and Management of Flood Risks Regulations.
- S.L. 423.45 Users of Groundwater Sources (Application) Regulations.
- S.L. 423.48 Lifecycle Greenhouse Emissions from Fuels Regulations.
- S.L. 423.50 European Union Greenhouse Gas Emissions Trading Scheme for Stationary Installations Regulations.
- S.L. 423.51 European Union Greenhouse Gas Emissions Trading Scheme for Aviation Regulations.

REGULATION

This section provides information of activities undertaken by the Regulation unit throughout 2019. It also provides data related to the licensing and permitting undertaken.

TABLE 1: RENEWALS

Renewals Quarries	New	Renewal	Transfers
Hardstone	0	28	0
Soft Stone	0	37	0

TABLE 2: ONE TIME REGISTRATIONS OR NOTIFICATIONS

Registrations / Notifications	Number
Change of users of groundwater sources (individuals)	97
Groundwater Sources added to register (including new sea wells)	44

TABLE 3: PERMITS

Permits	Requested	Accepted	Refused	Pending
Application for the exportation of stone products	0	0	0	0
Application for the closure, sealing and decommissioning of a groundwater source	2	2	0	0
Sea-wells	35	23	13	0
Cleaning of boreholes and replacement boreholes	3	3	0	0
Geological/site investigations	7	7	0	0

Groundwater Sources Database.

During 2019, the Authority continued the process of overhauling the data held for groundwater sources.

Inspections and Enforcement.

During 2019 the Authority continued to take enforcement action as was considered necessary following cases of non-compliance. These cases were brought to the attention of the Authority by the public. In all cases where an alleged illegal drilling activity was taking place, officers from the Authority were present on site within two hours.

The Authority also received reports of abstraction from illegal sources. These reports were first checked against the MRA records of notified sources followed up with an on-site inspection. MRA officials requested the assistance of the Police Force in one investigation.

During the year, the Authority's officers also attended several Court sittings related mainly to enforcement duties in connection with groundwater abstraction, drilling and quarry licensing. Officers also attended sittings of the Administrative Review Tribunal. Officers were called to testify in one civil case.

Consultation Requests from the Environment and Resources Authority.

The Malta Resources Authority continued to give regular consultation services on various permit applications received by the Planning authority and the Environment and Resources Authority (ERA). These permits include both development permits and operational Environmental Permits. The latter include consultations on the Integrated Pollution Prevention and Control (IPPC) Permits. Consultation mainly concerns issues of groundwater protection and the focus was on requests for developments in areas Outside Development Zones and developments which could give rise to environmental pollution especially with regards to groundwater or developments in disused quarries.

The MRA gave feedback within the limits of its remit under the MRA Act.

Inspire Directive.

The Authority continued to collaborate with MITA to upload geo-referenced data related to quarries. Since the MRA does not have the necessary infrastructure to host spatial datasets files on the web server and make them available to the public, the data is provided through

the Malta Spatial Data Infrastructure, a portal that offers web services to the public, public service and public-sector organisations.

The uploading of Spatial data is one of the requirements of the Inspire Directive, formally known as European Directive 2007/2/EC. The Directive establishes an Infrastructure for Spatial Information in the European Union. The intention of INSPIRE is to create a European Union (EU) spatial data infrastructure (SDI) that facilitates the sharing of environmental spatial information across public sector organisations (at a national and international level) and improves public access to spatial information across Europe.

At this point, only point data regarding quarries duly holding a trading licence by the MRA was uploaded. Additional information, including data on groundwater sources, will be uploaded once more information is available and verified.

Participation in projects

The Authority continued its participation in the Cleaner Vehicles Commission during 2019. A representative of the MRA also participates in Sintegram (an EU funded PA project) and is a member of the technical committee of the LIFE16IPE MT008 Project (Optimising the implementation of the 2nd RBMP in the Malta River Basin District) (EWA), and was a member of the Technical Committee (non-Energy) of the Inter-Ministerial Committee on the NECP.

CLIMATE CHANGE

This Section provides an overview of the activities performed by the climate change Unit.

The Climate Change Unit continued fulfil of a number of key reporting obligations of Malta relating to climate change, in accordance with requirements arising from international and European Union law, the administration of the EU's emissions trading system for stationary installations and aircraft operators, and the first steps in the implementation of the Carbon Offsetting and Reduction System for International Aviation (CORSIA) of the International Civil Aviation Organisation (ICAO).

Reporting On National Greenhouse Gas Emissions and Removals.

The national inventory of greenhouse gas emissions from sources and removals by sinks covering the time-series 1990 - 2017 was submitted in the early part of the year: a provisional submission to the European Commission in January, with a final submission in March; submission under the United Nations Framework on Climate Change (UNFCCC) in April. These submissions were subject to the annual reviews whereby the process of preparing national greenhouse gas inventory submissions is scrutinised in detail by expert review teams pursuant to the requirements of the EU's Effort-sharing Decision and the United Nations Framework Convention on Climate Change (UNFCCC). In the case of the Effort-sharing Decision, the review is also crucial in determining compliance with the annual targets of Malta under that legislative instrument.

Other reporting obligations fulfilled by the MRA during the course of 2019 were the biennial report on policies and measures relating to mitigation of greenhouse gas emissions and on projections of greenhouse gases, the Fourth Biennial Report under the UNFCCC and the finalization of Malta's first National Forestry Accounting Plan (NFAP).

Wherever possible, the MRA has ensured that its staff benefit from available capacity building opportunities, in particular those provided under various projects commissioned by the European Commission. The conclusion of the 2019 national GHG inventory submissions and the subsequent commencement of work on the 2020 GHG inventory submission (1990 - 2018) were also complemented by ongoing capacity building support through the project initiated with a UK consultancy company the previous year. This support has been an important driver of continued improvement in reporting work of the Climate Change Unit.

Regulatory Implementation of Market-Based Mechanisms.

The MRA continued its administrative functions in respect of the EU's Emissions Trading System (EU ETS) for stationary installations and for aviation activities and in respect of Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) of the International Civil Aviation Organisation (ICAO). The four public electricity generation plants operating in Malta at present are the local stationary installations covered by the EU ETS. The number of aircraft operators falling within the scope of the EU ETS and of CORSIA sees an increase every year as new operators are issued an operating licence by Malta. 2019 was the first year of CORSIA implementation proper, with the primary focus being on the receipt, review and approval of revised or new monitoring plans of aircraft operators to cover CORSIA. It is worth noting that the monitoring plans of all operators presently confirmed to be within the scope of CORSIA have been approved.

In its quest to ensure good compliance with the obligations of the EU ETS and CORSIA, the MRA organized two one-day workshops for aircraft operators, in conjunction with Transport Malta - Civil Aviation Directorate. These workshops were aimed at providing detailed information on implementation aspects of the two systems, providing training on compliance requirements and offering a networking opportunity for operators. It is the intention of the MRA to continue with such events in future.

In its role as the National Administrator of Malta for the Union Registry, the MRA has processed a number of new applications for the opening of trading accounts, particularly for organisations wishing to move their allowance assets from the UK registry to the Maltese registry.

During the course of 2019, the MRA has also drafted amendments to local subsidiary legislation transposing the EU ETS Directive, with the amending legal notices being published and coming into force in the same year.

Reporting Under The Fuel Quality Directive.

During 2019, the MRA prepared the second national report on lifecycle greenhouse gas emissions for fuels used in road transport. The reporting is pursuant to the EU Fuel Quality Directive and is compiled on the basis of annual reporting by individual fuel suppliers. The national report is then submitted to the European Commission which monitors progress being made towards the agreed objectives for the reduction of lifecycle emissions.

The MRA's Presence in EU Fora.

The MRA's role in the fulfilment of reporting obligations and implementation of mechanisms such as the EU ETS and CORSIA is not limited solely to work done locally. The MRA is actively involved in EU fora related to such obligations: the Climate Change Committee and the Climate Change Expert Group of the European Commission, both being fora that support the European Commission in the preparation of subsidiary EU climate legislation and coordination of implementation of climate legislation. The MRA is also very active in the Compliance Forum, a body established between the European Commission and competent authorities of EU Member States for the EU ETS, dedicated to the implementation of the emissions trading system.

Meeting Malta's Reporting Obligations.

The following list refers to all reports due in 2019 and prepared by the Authority and submitted in accordance with Malta's legal obligations.

- National Inventory of Greenhouse Gas Emissions and Removals 1990-2017, provisional submission to the European Commission (January 2019)
- National Inventory of Greenhouse Gas Emissions and Removals 1990-2017, final submission to the European Commission (March 2019)
- National Inventory of Greenhouse Gas Emissions and Removals 1990-2017, final submission to the UNFCCC (April 2019)
- Approximated National Inventory of Greenhouse Gas Emissions and Removals 2018 (July 2019)
- Report on Greenhouse Gas Policies and Measures and Projections (March 2019)
- Malta's Fourth Biennial Report to the UNFCCC (December 2019)
- Revised National Forestry Accounting Plan containing Malta's Forest Reference Level, 2019 (December 2019)
- Report on the Implementation of Directive 2003/87/EC (June 2019)
- Fuel Quality Directive Article 7a Report (December 2019)

FINANCIAL ESTIMATES 2020

	2018 Actual EURO	2019 Actual EURO	2020 Estimate EURO
TOTAL INCOME³	658,757	637,839	625,000
NET DIRECT EXPENDITURE	3,537	1,476	3,500
STAFF COSTS	384,784	368,021	448,967
OTHER ADMINISTRATIVE EXPENSES	89,160	120,637	101,265
DEPRECIATION	9,884	6,010	5,426
SURPLUS BEFORE TAX	171,392	141,695	65,842

³ Total income includes revenue, subvention and other income.

MALTA RESOURCES AUTHORITY

Annual Report and Financial Statements
31 December 2019

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Chief Executive Officer report

The Chief Executive Officer presents his report and the audited financial statements for the year ended 31 December 2019.

Principal activities

The Malta Resources Authority (MRA) is a public corporate body with regulatory responsibilities relating to water, energy and mineral resources in the Maltese Islands. It was set up by the Maltese Parliament through the Malta Resources Authority Act, Chapter 423. The MRA has a wide range of responsibilities essentially involving regulation of water and energy utilities, quarry operations, the protection of groundwater, the regulation of retailers, operations and tradesmen in the regulated sectors.

Review of the operations

During the year under review the Authority received revenues from licences and contributions of €137,839 (2018: €158,757) and €500,000 (2018: €500,000) as subvention. These revenues are generated in support of the Authority's regulatory responsibilities. The Authority registered a surplus after tax for the year of €92,726 (2018: €111,003).

Results and surplus funds

The statement of comprehensive income is set out on page 7. The surplus for the year amounted to €92,726 (2018: €111,003).

Board members

There were no board members of the Authority who held office during the year.

The minister has authorised the Chief Executive Officer to prepare and to approve these financial statements on behalf of the Authority.

Chief Executive Officer report - continued

Statement of Chief Executive Officer's responsibilities

In preparing the financial statements the Chief Executive Officer is responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU and the Malta Resources Authority Act;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Authority will continue in operation as a going concern.

The Chief Executive Officer is also responsible for designing, implementing and maintaining internal control as the Chief Executive Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Malta Resources Authority Act. The Chief Executive Office is also responsible for safeguarding the assets of the Authority and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Authority for the year ended 31 December 2019 are included in the Annual Report 2019, which is published in hard-copy printed form and may be made available on the Authority's website. The Chief Executive Officer is responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Authority's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed.

On behalf of the Authority



Ing. Anthony Rizzo
Chief Executive Officer

Registered office
Malta Resources Authority
Millennia, 2nd Floor
Aldo Moro Road
Marsa MRS 9065
Malta

2 March 2020



Independent auditor's report

To the Stakeholders of the Malta Resources Authority

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Malta Resources Authority's financial statements give a true and fair view of the authority's financial position as at 31 December 2019, and of the authority's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Malta Resources Authority Act.

What we have audited

The Malta Resources Authority's financial statements, set out on pages 6 to 26, comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the authority in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

Other information

The Chief Executive Officer is responsible for the other information. The other information comprises the annual report and Chief Executive Officer's report, which we obtained prior to the date of this auditor's report. Our opinion on the financial statements does not cover the other information, including the annual report and Chief Executive Officer's report.



Independent auditor's report - continued

To the Stakeholders of the Malta Resources Authority

Report on the audit of the financial statements - continued

Other information - continued

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

With respect to the annual report and Chief Executive Officer's report, we also considered whether the annual report and Chief Executive Officer's report include the disclosures required by the Malta Resources Authority Act.

Based on the work we have performed, in our opinion:

- The information given in the annual report and Chief Executive Officer's report for the financial year for which the financial statements are prepared are consistent with the financial statements; and
- the annual report and Chief Executive Officer's report have been prepared in accordance with the Malta Resources Authority Act.

In addition, in light of the knowledge and understanding of the authority and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the annual report and Chief Executive Officer's report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the Chief Executive Officer for the financial statements

The Chief Executive Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Malta Resources Authority Act, and for such internal control as the board members 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 Chief Executive Officer is responsible for assessing the authority'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 Chief Executive Officer either intend to liquidate the authority or to cease operations, or has no realistic alternative but to do so.

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.



Independent auditor's report - continued

To the Stakeholders of the Malta Resources Authority

Report on the audit of the financial statements - continued

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer.
- Conclude on the appropriateness of the Chief Executive Officer'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 authority'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 authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta

Stefan Bonello
Partner

2 March 2020

Statement of financial position

		As at 31 December	
	Notes	2019 €	2018 €
ASSETS			
Non-current assets			
Property, plant and equipment	4	13,006	19,016
Total non-current assets		13,006	19,016
Current assets			
Trade and other receivables	5	715	6,212
Cash and cash equivalents	6	446,447	403,158
Total current assets		447,162	409,370
Total assets		460,168	428,386
EQUITY AND LIABILITIES			
Capital and reserves			
Accumulated surplus	7	313,271	220,545
Total equity		313,271	220,545
Current liabilities			
Trade and other payables	8	144,026	164,613
Current tax liabilities		2,871	43,228
Total liabilities		146,897	207,841
Total equity and liabilities		460,168	428,386

The notes on pages 10 to 26 are an integral part of these financial statements.

The financial statements on pages 6 to 26 were authorised for issue by the Chief Executive Officer on 2 March 2020:



Ing. Anthony Rizzo
Chief Executive Officer

Statement of comprehensive income

		Year ended 31 December	
	Notes	2019 €	2018 €
Revenue		137,839	147,720
Subvention received	9	500,000	500,000
Direct expenditure	10	(1,476)	(3,537)
Administrative expenses	10	(494,668)	(483,828)
Other income		-	11,037
Surplus before tax		141,695	171,392
Tax expense	13	(48,969)	(60,389)
Surplus for the year - total comprehensive income		92,726	111,003

The notes on pages 10 to 26 are an integral part of these financial statements.

Statement of changes in equity

	Accumulated surplus €
Balance at 1 January 2018	109,542
Comprehensive income	
Surplus for the year	111,003
Balance at 31 December 2018	220,545
Balance at 1 January 2019	220,545
Comprehensive income	
Surplus for the year	92,726
Balance at 31 December 2019	313,271

The notes on pages 10 to 26 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December	
		2019 €	2018 €
Cash flows generated from operating activities			
Cash generated from operations	14	132,615	137,402
Income tax paid		(89,326)	(39,566)
Net cash generated from operating activities		43,289	97,836
Cash flows used in investing activities			
Purchase of property, plant and equipment	4	-	(19,555)
Net cash used in investing activities		-	(19,555)
Net movement in cash and cash equivalents		43,289	78,281
Cash and cash equivalents at beginning of year		403,158	324,877
Cash and cash equivalents at end of year	6	446,447	403,158

The notes on pages 10 to 26 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Malta Resources Authority Act. They have been prepared under the historical cost.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Chief Executive Officer to exercise judgement in the process of applying the Authority's accounting policies (see Note 3 – Critical accounting estimates and judgements).

1.1.1 Changes in accounting policies and disclosures

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain critical accounting estimates. It also requires Chief Executive Officer to exercise its judgement in the process of applying the Authority's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Standards, interpretations and amendments to published standards effective in 2019

Leases

IFRS 16, "Leases" establishes the principles for the recognition, measurement, presentation and disclosure of leases. The new model removes the distinction between operating and finance leases for lessees, and requires the lessee to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts; the only exceptions are short-term leases and leases of low-value assets, for which entities may apply an exemption from the general requirement. Unless the lessee applies one of these exemptions, IFRS 16 also influences the income statement as a result of the replacement of operating lease rental expenditure by amortisation of the right-of-use asset, and by an interest cost on the lease liability.

The Authority has applied IFRS 16 from its financial period commencing on 1 January 2019 and applied the modified retrospective approach; comparative amounts for the prior year are not restated under this approach. At this date, the sole lease arrangement to which the Authority was a party had a remaining lease term of less than 12 months; under the expedients allowed by the standard, the Authority did not recognise a right-of-use asset and lease liability for this arrangement. Accordingly, rental costs on this arrangement continued to be recognised as an expense on a straight-line basis over the remaining lease term. As a result, the adoption of IFRS 16 has not had an effect on the Authority's statement of financial position as at 1 January 2019. The accounting policy applied with effect from this date is disclosed in note 1.13.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

1.1.1 Changes in accounting policies and disclosures - continued

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements that are mandatory for the Authority's accounting periods beginning after 1 January 2019. The Authority has not early adopted these revisions to the requirements of IFRSs as adopted by the EU.

The Chief Executive Officer is of the opinion that there are no requirements that will have a possible significant impact on the Authority's financial statements in the period of initial application.

1.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in euro, which is the Authority's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

All foreign exchange gains or losses are presented in the income statement.

1.3 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Items of property plant and equipment comprise leasehold improvements, computer equipment, computer software, motor vehicles, and furniture, fixtures and other equipment and are initially recognised at acquisition cost. Subsequently they are carried at acquisition cost less subsequent depreciation and impairment losses.

1. Summary of significant accounting policies - continued

1.3 Property, plant and equipment - continued

Depreciation is calculated using the straight-line method to allocate their cost or revalued amount to their residual values over their estimated useful lives, as follows:

	%
Motor vehicles	20
Furniture, fixtures and other equipment	10 - 30

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in profit or loss.

1.4 Financial assets and liabilities

1.4.1 Recognition, initial measurement and derecognition of financial assets

Receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Authority becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

All purchases and sales of investments are recognised on the trade date, which is the date that the Authority commits to purchase or sell the assets. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Authority has also transferred substantially all risks and rewards of ownership.

1.4.2 Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Authority changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Authority classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

1. Summary of significant accounting policies - continued

1.4 Financial assets and liabilities - continued

1.4.2 Classification of financial assets - continued

Investments in debt instruments are classified at fair value through other comprehensive income (FVOCI) only if the contractual cash flows are solely principal and interest and the objective of the Authority's business model is achieved both by collecting contractual cash flows and selling financial assets.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Authority may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Authority makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Authority's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Authority's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

1. Summary of significant accounting policies - continued

1.4 Financial assets and liabilities - continued

1.4.2 Classification of financial assets - continued

In assessing whether the contractual cash flows are solely payments of principal and interest, the Authority considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Authority considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Authority's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

1.4.3 Subsequent measurement of financial assets

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

1.4.4 Impairment of financial assets

The Authority recognises loss allowances for ECLs on financial assets measured at amortised cost and debt investments measured at FVOCI to which the Authority is exposed. It measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

1. Summary of significant accounting policies - continued

1.4 Financial assets and liabilities - continued

1.4.4 Impairment of financial assets - continued

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Authority considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Authority's historical experience and informed credit assessment and including forward-looking information.

The Authority assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, and it considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Authority in full, without recourse by the Authority to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Authority considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally-understood definition of 'investment grade'. The Authority considers this to be Baa3 or higher per Moody's or BBB- or higher per Standard & Poor's or Fitch.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Authority is exposed to credit risk.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Authority expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Authority assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

1. Summary of significant accounting policies - continued

1.4 Financial assets and liabilities - continued

1.4.4 Impairment of financial assets - continued

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Authority on terms that the Authority would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Authority has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For each of its financial assets that subject the Authority to credit risk, it makes an individual assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Authority expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Authority's procedures for recovery of amounts due.

1.4.5 Financial liabilities

Issued financial instruments or their components, which are not designated at FVTPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Authority having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in statement of comprehensive income.

1. Summary of significant accounting policies - continued

1.5 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

1.6 Trade and other receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established in accordance with the accounting policy disclosed in note 1.4.4.

1.7 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include deposits held at call with banks.

1.8 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of operations from suppliers and service providers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.9 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1. Summary of significant accounting policies - continued

1.10 Provisions

Provisions for legal claims are recognised when the Authority has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.11 Revenue recognition

Revenue is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for the Authority's activities has been met.

- (i) Income from licences and reimbursements for expenses to administer various schemes are recognised on an accrual basis.
- (ii) Interest income from investments is reported on an accrual basis using the effective interest method.

1.12 Operating expenses

Operating expenses are recognised in the income statement upon utilisation of the service rendered.

1.13 Leases

Accounting policy applied with effect from 1 January 2019

IFRS 16 requires an entity to assess whether a contract is, or contains, a lease at the inception date. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. Leases are recognised as a right-of-use asset and a corresponding liability at the commencement date, being the date at which the leased asset is available for use by the Authority.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Authority under residual value guarantees;
- the exercise price of a purchase option if the Authority is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Authority exercising that option.

1. Summary of significant accounting policies - continued

1.13 Leases - continued

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for lessees, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are initially measured at 'cost' which, where applicable, comprises the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are subsequently measured at cost, less accumulated depreciation and any accumulated impairment losses. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Accounting policy applied up to 31 December 2018

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Authority as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

1. **Summary of significant accounting policies - continued**

2. **Financial risk management**

2.1 Financial risk factors

The Authority's activities potentially expose it to a variety of financial risks namely market risk (cash flow and fair value interest rate risk), credit risk and liquidity risk. The Authority's risk management is coordinated by the Chief Executive Officer and focuses on actively securing the Authority's short to medium term cash flows by minimising the exposure to financial markets.

The Authority does not actively engage in trading of financial assets for speculative purposes nor does it write options. The most significant financial risks that the Authority is exposed to are described below.

(a) Cash flow and fair value interest rate risk

The Authority has no significant interest-bearing assets and liabilities, and its income and operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

The Authority's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below. The Authority's exposures to credit risk as at the end of the reporting periods are analysed as follows:

	2019 €	2018 €
Financial assets measured at amortised cost		
Cash and cash equivalents (Note 6)	446,447	403,158

The Authority applies the low credit risk simplification for all instruments that are externally rated at a rating of BBB- (or equivalent) or better; and the ECL provision for these instruments is accordingly measured at an amount equivalent to the 12-month ECLs. The Authority thus applies the simplification for its bank deposits.

(c) Liquidity risk

The Authority is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise trade and other payables (Note 8). Prudent liquidity risk management includes maintaining sufficient cash reserves to ensure the availability of an adequate amount of funding to meet the Authority's obligations.

The Authority monitors liquidity risk by reviewing expected cash flows and ensures that no additional financing facilities are expected to be required over the coming year. The Authority's liquidity risk is not deemed material in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments and commitments.

2. Financial risk management

2.2 Capital risk management

The Authority's equity, which constitutes its capital base, is disclosed in the statement of financial position. The Authority's objectives when managing capital are to safeguard the respective entity's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In accordance with section 14(3) of the provisions of the Malta Resources Authority Act, the Authority shall be paid by the Government of Malta out of the Consolidated Fund such sums as Parliament may from time to time authorise to be appropriated to meet any of its expenditure that cannot be met out of its revenue and the costs of specified works to be continued or otherwise carried out by the Authority, being works of infrastructure or a similar capital nature.

2.3 Fair values of financial instruments

At 31 December 2019 and 2018 the carrying amounts of cash at bank, receivables, payables and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Chief Executive Officer, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

4. Property, plant and equipment

	Furniture, fixtures and other equipment €	Motor vehicles €	Total €
Year ended 31 December 2018			
Opening net book amount	9,345	-	9,345
Additions	-	19,555	19,555
Depreciation charge	(5,924)	(3,960)	(9,884)
Closing net book amount	3,421	15,595	19,016
At 1 January 2019			
Cost or valuation	23,744	19,555	43,299
Accumulated depreciation	(20,323)	(3,960)	(24,283)
Net book amount	3,421	15,595	19,016
Year ended 31 December 2019			
Opening net book amount	3,421	15,595	19,016
Depreciation charge	(2,050)	(3,960)	(6,010)
Closing net book amount	1,371	11,635	13,006
At 31 December 2019			
Cost or valuation	23,744	19,555	43,299
Accumulated depreciation	(22,373)	(7,920)	(30,293)
Net book amount	1,371	11,635	13,006

5. Trade and other receivables

	2019 €	2018 €
Current		
Prepayments and accrued income	715	6,212

6. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2019 €	2018 €
Cash and cash equivalents	446,447	403,158

7. Accumulated surplus

	2019 €	2018 €
Balance as at 1 January	220,545	109,542
Surplus for the year	92,726	111,003
As at 31 December	313,271	220,545

8. Trade and other payables

	2019 €	2018 €
Current		
Trade and other payables	8,293	17,209
Amounts owed to related party	72,007	32,691
Accruals and deferred income	63,726	114,713
	144,026	164,613

Amounts owed to related party are unsecured, interest free and repayable within the next year.

9. Revenue

In 2019, the Authority received a subvention amounting to €500,000 (2018: €500,000) from the Government of Malta to cover its operational costs.

10. Expenses by nature

	2019 €	2018 €
Direct expenditure	1,476	3,537
Employee benefit expense (Note 11)	368,021	384,784
Depreciation of property, plant and equipment (Note 4)	6,010	9,884
Rent payable	15,756	15,756
Training costs	40,421	34,696
Travelling expenses	12,295	5,818
Insurance costs	14,531	8,971
Motor vehicle expenses	5,241	4,325
Other expenses	32,393	19,594
Total direct expenditure and administrative expenses	496,144	487,365

Auditor's fees

Fees charged by the auditor for services rendered during the financial periods ended 31 December 2019 and 2018 relate to the following:

	2019 €	2018 €
Annual statutory audit	2,800	2,500

11. Employee benefit expense

	2019 €	2018 €
Wages and salaries	348,734	367,307
Social security costs	19,287	17,477
	368,021	384,784

Average number of persons employed by the Authority during the year:

	2019	2018
Board members	-	5
Board secretary	-	1
Operations	9	9
	9	15

Salary expenses relating to staff seconded from and with Government entities amounting to €57,391 (2018: €64,287) are included above.

12. Board remuneration

	2019 €	2018 €
Board members' honoraria	-	20,642
Board secretary's honoraria	-	2,700
Chief Executive Officer	74,946	73,374
	74,946	96,016

There were no board members of the Authority who held office during the year, hence the Chief Executive Officer is considered a key management personnel.

13. Tax expense

	2019 €	2018 €
Current tax	48,969	60,389

The tax on the Authority's surplus before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2019 €	2018 €
Surplus for the year before tax	141,695	171,392
Tax on surplus at 35%	49,593	59,987
Tax effect of:		
Movement in unrecognised deferred tax assets	(624)	402
Tax expense	48,969	60,389

The authority also had net deductible temporary differences on provisions and property, plant and equipment as at 31 December 2019 amounting to €1,477 (2018: €3,260). The resulting deferred tax asset of €517 (2018: €1,141) has not been recognised in these financial statements due to the uncertainty of the realisation of these tax benefits.

14. Cash generated from operations

Reconciliation of operating surplus generated from operations:

	2019 €	2018 €
Operating surplus	141,695	171,392
Adjustments for:		
Depreciation of property, plant and equipment (Note 4)	6,010	9,884
Changes in working capital:		
Trade and other receivables	5,497	(1,772)
Trade and other payables	(20,587)	(42,102)
Cash generated from operations	<u>132,615</u>	<u>137,402</u>

15. Contingencies

Due to the nature of its functions, the Authority is currently a co-defendant vis-à-vis several cases. Chief Executive Officer notes that the attribution of responsibility, if any, in these court cases is still undetermined. Thus, quantification of any potential liability is premature and hence no provision has been recognised in these financial statements.

16. Related party transactions

The Malta Resources Authority is an autonomous public institution and reports to Parliament on an annual basis. The Chief Executive Officer of the Authority is appointed by the Government of Malta.

During the period under review, the Authority entered into transactions with a number of Government-related entities. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantee was given or received. Outstanding balances are usually settled in cash.

The Regulator for Energy and Water Services (REWS) and the Government of Malta are considered to be related parties. The following transactions were carried out by the Authority with the related parties during the year:

	2019 €	2018 €
Subventions (Note 9)	<u>500,000</u>	<u>500,000</u>

As at 31 December 2019, the Authority had an outstanding balance with the Regulator as disclosed in note 8.

Key management personnel compensation, consisting of Chief Executive Officer's remuneration, has been disclosed in note 12 to the financial statements.