



2019 ANNUAL REPORT

MALTA DIGITAL INNOVATION AUTHORITY

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Foreword by CEO

A new venture, idea, technology and even a new authority like MDIA will go through the process of navigating spaces. Our first full year as the Malta Digital Innovation Authority was about that process, about finding our space – both physically as works on our new offices at Mriehel moved swimmingly, but also metaphorically, in our collaboration with other entities, civil service and the private sector.

Creating these relationships and setting up internally as an authority was an essential part of our work in 2019. However, digital innovation is fast-paced and ever-changing, and last year we also set to task with our primary objective – that of setting up a framework to ensure quality and dependability of DLT-based systems through a technology certification process.

In 2019, MDIA accredited five independent Systems Auditors, amongst which are reputable audit firms such as KPMG, PWC, BDO, STIS group and Fact Technologies Ltd, and gave technical support to various authorities, the civil service and even the private sector in an effort to increase awareness and use of innovative technology. Licensing Systems Auditors was an important step to ensure trustworthy innovative technology arrangements. The Systems Auditors can now act as gatekeepers who guarantee the actual implementations and quality assurance processes of the ITA in question.

Our technology certification process, together with the support of MDIA-approved Systems Auditors gives assurances of quality and dependability of DLT-based systems and AI technology, and we believe it is central to the success of these technologies flourishing in Malta.

Whilst most of the year focused on blockchain technology and developing the accreditation process for Systems Auditors as well as the framework for such technology, MDIA spent the second half of 2019 focused on AI technology.

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Our team of experts will be working to create the right climate to launch innovative and disruptive technologies whilst initiating educational campaigns to prime users and companies for AI adoption.

—
Mr Stephen McCarthy
Chief Executive Officer

MDIA played a significant role in drafting Malta's AI strategy with the aim of shifting our focus in 2020 to monitoring the implementation of the strategy. We look forward to this challenge as we are firm believers in the role that technology plays not only in our day to day lives but also on how it can and will shape our future. Malta's task is to deliver 72 actions in 3 years that will in turn boost investment, foster a culture of innovation and increase public and private sector adoption of AI projects. Malta, together with MDIA, has set its mission to become the Ultimate AI Launchpad by 2030.

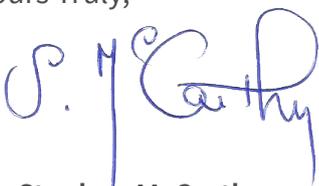
In 2020, MDIA continues to focus on AI technology, looking into what AI means and how it can further improve and impact our lives, our work and thus how we navigate those spaces differently with new emerging technologies. The preparation of the Maltese workforce is a crucial enabler in this strategy, ensuring the right education to create more robust digital competencies to guarantee readiness for Malta to take this leap.

MDIA's role in making this leap happen is to confirm trust in technology and part of Malta's AI Strategy involves building on Malta's Ethical AI Framework Towards Trustworthy AI. This legal framework will support the authority to provide a platform for ethically aligned, transparent and socially responsible AI solutions. However, crucial is the development of the right ecosystem in Malta which is where MDIA intends to turn its attention over the coming year. Our team of experts will be working to create the right climate to launch innovative and disruptive technologies whilst initiating educational campaigns to prime users and companies for AI adoption.

Innovative technology becomes more relevant every day, and our ever-increasing reliance on software means we must ensure that such software matches actual functionality. After this year of work with my team and overcoming the challenges that come with setting up a new authority, I can comfortably say that MDIA is ready and able to ensure quality, safety and efficiency for users and investors.

MDIA is ensuring trust in this field, and we look forward to the journey ahead.

Yours Truly,



Mr Stephen McCarthy
Chief Executive Officer

“ Malta, together with MDIA, has set its mission to become the Ultimate AI Launchpad by 2030. ”



Chairman's Vision

The Malta Digital Innovation Authority (MDIA) is a first of its kind worldwide – an innovative digital technology regulator, policy advisor and promoter. The advent of blockchain, distributed ledger technologies (DLT), smart contracts, and decentralised applications enabled new ways to provide services, but also new challenges for the protection and support of various stakeholders including consumers, operators, governments and regulators.

Implementing a technology regulatory framework involves a careful balancing act to ensure that one neither stifles innovation nor allows for critical operations to run wild. One should not mandate regulation for all technology and define strict limitations as to what can and what cannot be developed and to what extent. Yet, when it comes to critical sectors and applications, it is reasonable, or rather desirable, that the national authority responsible may mandate technology assurances to provide increased safety to users. It is in this spirit that MDIA's Innovative Technology Arrangement (ITA) regulatory framework is a voluntary one.

Innovative Technology Arrangements: Where we are, and where we are heading

Through ITA certification, higher levels of assurances can be provided in technology arrangements including blockchain, DLT, smart contract systems and other innovative technologies deemed relevant. This is achieved through a number of requirements. A rigorous systems audit conducted by a Systems Auditor, and various Subject Matter Experts that have been vetted and scrutinised by the MDIA needs to take place which concludes that indeed the implementation matches the ITA's description. A Technical Administrator is required to be appointed at all times, who can intervene if and when necessary and undertake any remedial actions if required. A Forensic Node must be set up at all times, which keeps an auditable history of the ITA's actions which can be used to conduct any checks or investigation required. Furthermore, the Innovative Technology Arrangements and Services Act states that an English description of the ITA must be available to users, and in the event that the ITA's implementation differs from the English description, then the English description shall prevail.

A rigorous systems audit conducted by a Systems Auditor, and various Subject Matter Experts that have been vetted and scrutinised by the MDIA needs to take place which concludes that indeed the implementation matches the ITA's description.

Dr Joshua Ellul
Chairman of the Board

ITA certification, a means of instilling higher levels of technology assurances as described above, helps to lower risks, increase consumer, investor and other stakeholders' trust, and through legal certainty, provide consumer protection. For sectors requiring technological assurances such as finance, health and critical infrastructure, the respective lead authorities may mandate ITA certification where they deem that such protection is necessary or desirable. This is the fine balance provided through MDIA's regulatory framework.

Within the first year of setting up, the Authority designed such a certification process from the ground up – from guidelines and processes to license Systems Auditors to guidelines on auditing of blockchain, DLT and smart contract ITAs, including their blueprints, forensic node requirements, technical administrators and other ITA service provider guidelines for resident agents. Such innovative technologies continuously evolve. Therefore, as an Authority we sought to develop guidelines in a manner that is not only sector and application agnostic, but also technology agnostic to the extent possible. Still, the Authority will continue to adapt its framework where and when required in order to assure that it is in line with technology being deployed and also to cover any other innovative technologies for which it is deemed that such assurances are required.

The guidelines have provided a basis for various aspects of technology assurances to be instilled within the Malta Financial Services Authority's (MFSA) Virtual Financial Asset (VFA) regulatory framework, and also provided the MFSA with a means to implement higher levels of technology assurances by mandating ITA certification where the MFSA deems it necessary. Similarly, for the Malta Gaming Authority's VFA/DLT Sandbox.

Within the first year of operation, four independent systems audit firms and their associated subject matter experts were vetted, scrutinised and approved by the MDIA. By end of year a total of five systems auditors have been approved.

The degree of assurances provided through a systems audit depends on the coverage of applied control objectives verified within. An ITA certification systems audit is comprised of control objectives covering the various aspects of an ITA comprehensively. The more aspects covered and checks required, the higher levels of assurances instilled, yet the higher a systems audit cost will be.

The current framework may not enable for low-critical systems and systems still under development or in their infancy to feasibly attain ITA certification. There may exist low-critical systems which do not necessarily require certain checks to be undertaken due to low inherent risks. ITAs in development and start-ups may not have the required funding available to undergo certification. Yet, the quality of the certification process should not be sacrificed to increase potential numbers of certified ITAs, as ultimately this would defy the scope of certification, eventually rendering the certification untrustworthy. For this reason, the Authority is looking into various mechanisms to enable such activities to fit within the regulatory framework, however without sacrificing the rigorous processes and higher levels of technology assurances which certification brings.

Malta, Artificial Intelligence and Assurances

The Government of Malta announced a National Artificial Intelligence Strategy, which MDIA contributed to and had a leading role in developing, which was released October 2019. Responsibility for overseeing the implementation of projects proposed within has been bestowed upon the MDIA.

In guiding and monitoring the various national Artificial Intelligence (AI) projects, the Authority will not only consult and work with government agencies, entities and other institutions in implementing their projects but will also initiate educational efforts to ensure that the respective national institutions are as AI-ready as required. AI-related educational efforts do not end there. The Authority will also lead, promote and participate in various educational activities in aim of raising the level of public awareness with respect to AI.

The foundations of AI have been around for decades, and yet, due to the recent strides forward done in the field, we are now being faced with new challenges due to the increase in its deployment in critical domains. A primary challenge is that of providing assurances that AI algorithms really do what they were intended to do. When their use directly or indirectly impacts human life or quality of life, we are concerned that the AI systems, do not only work as expected, but in addition, do not discriminate or bring about unfair outcomes. The Authority aims to instil higher levels of assurances into such AI arrangements by extending the regulatory framework in a manner which can adequately host the various types of forms which they may take.

Nonetheless, AI is not used solely in domains which legally require oversight, but also in other less critical sectors. In line with the ethos that we should not stifle innovation, but promote and embrace it, whilst simultaneously enabling regulatory oversight in critical sectors where required, we are adopting an approach similar to that used in the Blockchain, DLT and Smart Contract regulatory framework – AI-related ITA operators will be able to seek certification to enable legal certainty, consumer protection and raise levels of trust in the technology required by consumers, investors and other stakeholders.

Furthermore, national authorities may mandate AI-related ITA certification where required, for example within FinTech, health or any application that is deemed to be safety-critical.

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Towards Standardisation and Regulatory Harmonisation

Being the first Authority of its kind to address innovative technology assurances, a regulatory framework was designed and implemented. Our intention indeed was to start with local Maltese requirements to enable higher levels of assurances into the DLT area (which we will be extending to AI). In designing the regulatory framework, it was important to be as technology-agnostic and sector-agnostic as possible, through the focus was indeed put on enabling a framework appropriate for providing technology assurances for Virtual Financial Assets, and later on for the DLT iGaming sector.

We aim to not only ensure that the framework is technology agnostic but that the framework can be used for safety-critical technology arrangements within other sectors. Indeed, our approach has focused on Malta, and such assurances should not only be applied within Malta, but we should strive for global harmonisation with regards to innovative technology assurances. In the spirit of blockchain and DLT, technology spans across jurisdictions, cultures and markets, and therefore the Authority will aim to lead the discussion towards regulatory harmonisation of technology-related assurances to ensure that Malta remains at the forefront when it comes to technology assurances within various sectors and more so to ensure that such sectors are in line with international requirements, standards and regulations.

Ethos

Innovative technology questions the status, both concerning existing processes as well as the very nature of how services are provided. The Authority does not intend to straitjacket technology and neither follow technology blindly, but will continue to find the right balance for how new digital innovative technology can both shape and fit into regulatory requirements, institutions and Malta in a manner that embraces and promotes technology which is suitable for society. In doing so, the Authority will also continue to be proactive in fostering innovation in light of any challenges which may arise locally, globally or within the digital sphere.

In line with the ethos that we should not stifle innovation, but promote and embrace it, whilst simultaneously enabling regulatory oversight in critical sectors where required, we are adopting an approach similar to that used in the Blockchain, DLT and Smart Contract regulatory framework – AI-related ITA operators will be able to seek certification to enable legal certainty, consumer protection and raise levels of trust in the technology required by consumers, investors and other stakeholders. Furthermore, national authorities may mandate AI-related ITA certification where required, for example within FinTech, health or any application that is deemed to be safety-critical.

Our Journey

MDIA certification provides assurances to end-users and fosters trust within the market. With this in mind, innovators can rest assured that with MDIA certification of the technologies they deploy, they will be well received by the market and will benefit from regulatory compliance in an ever-evolving environment.

Malta was the first jurisdiction that developed a legal and financial framework dedicated explicitly to DLTs including Blockchain. Different to most other regulatory advances where best practices have long been developed across multiple jurisdictions, Malta has had to develop a framework most have thus far shied away from doing. To do this we have identified few of the best minds in the field and today we can boast of an extensive regulatory framework upon which we can process and certify not just current DLTs but also emerging technologies including Artificial Intelligence.

Whilst the development of this framework was not as straight forward as one would have wished, we did not reinvent the wheel. Malta has long established a very competitive yet robust regulatory environment for both financial services and online gaming technology alike, which coupled with a favourable tax regime have proven to be very attractive to key players in those areas. That same approach has been deployed with regards to DLTs and emerging technologies, and Malta should sure be a key consideration for anyone wishing to deploy new technologies onto the market, giving both end-users and market stakeholders trust and stability, whilst enjoying enough flexibility to support further innovation.

Key to our success is the small size of Malta, not just in geographical terms but also to that of its institutions and governing structures. This allows us to be agile to respond to market exigencies and developments, with our institutions being nimble enough to effect the regulatory changes needed at a fast and determined pace. Crucially whilst the regulatory role of MDIA is paramount, we also understand that we are an important stakeholder in the deployment of these innovative technologies onto the market, and hence are always willing to meet with market operators to assist and give direction as the case may be.

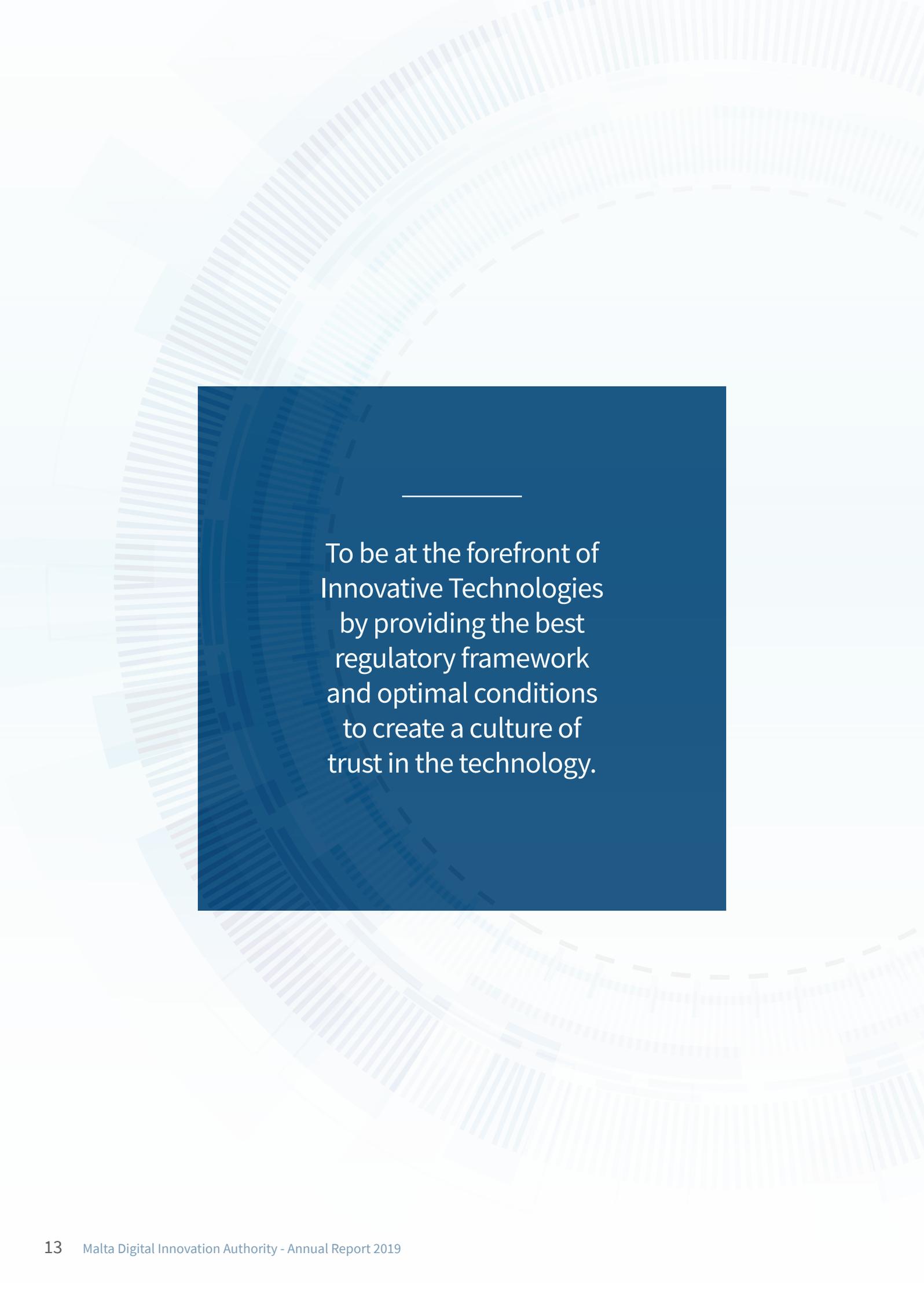


MDIA's role within the wider DLT regulatory framework is to certify the underlying technology upon which the ITA is based, be it blockchain or any other digital innovations. Essentially MDIA's role is to ascertain that the technology does precisely what it declares it can do. Consequently, MDIA certification provides assurances to end-users and fosters trust within the market. With this in mind, innovators can rest assured that with MDIA certification of the technologies they deploy, they will be well received by the market and will benefit from regulatory compliance in an ever-evolving environment.

The regulatory process, whilst depending on relatively novel concepts and mechanisms has been meticulously developed and streamlined through the various guidelines which have been issued by the Authority and which can be found on our website www.mdia.gov.mt.

The framework we have developed is intended to cater for all sorts of ITAs and not just those that operate on the same principles of comparable financial markets and instruments. Our target is much wider than the more popular cryptocurrencies and exchanges which have led the field to date but includes application in all industries such as health, education, shipping, environmental protection and supply chains to mention but a few.

Since its establishment, MDIA has approved 5 Systems Auditors, including one which is based outside of Malta.



To be at the forefront of
Innovative Technologies
by providing the best
regulatory framework
and optimal conditions
to create a culture of
trust in the technology.

Our Vision

MDIA commits itself to becoming an innovative authority and shall seek to implement the following vision.

“To be at the forefront of Innovative Technologies by providing the best regulatory framework and optimal conditions to create a culture of trust in the technology”.

Specifically, in the next three years, the Authority envisions itself to be in a position to undertake the following.

1. Being visible and **leading** in the global market by striving to continue the legacy of **being the first** to certify emerging innovative technologies, such as Artificial Intelligence (‘AI’), allowing other countries and stakeholders to follow suit by providing support through the drafting of regulations as required, and their implementation thereafter.

With this, the move to the wider ITAs shall not only influence the users’ financial security but includes safety-critical issues, such as loss of life, power grids, health, airspace and travel.

2. **Protecting and supporting existing stakeholders** and other users by developing actions that will encourage technological take-up and business innovations in Malta, thereby contributing to the widespread use of ITAs in established entities and strengthening the competitiveness of the national economy in global markets.

Furthermore, the authority commits itself to enable **growth** in the community by protecting, educating and supporting the application of innovation, as well as attracting foreign direct investment in the field.

Harnessing trust from the community by fostering **accountability, transparency and auditability** of workflow, controls and relationships.

The Authority relies on a number of key strengths or corporate drivers that enable it to deliver its action plans and thus give way to the fruition of its mission, vision and strategic objectives. Relative experience, technological know-how and industry expertise is key and is being shaped by giving priority to research, further education and exposure with the DLT market and users. This, is to be supported by available resources such as workforce, information, technology, budgets, as well as active collaborations with other authorities, cooperation agreements and partners.

The MDIA further stresses flexibility in its processes and resources, which allows a lean workflow where strengths are maximised to full potential and weaknesses and wastage are minimised.

In addition, the Authority highlights that its operations are gearing towards long-term fiscal independence from the Central Government and sustainability. This includes analysis of financial risks in the industry which is to be guided by enhanced scrutiny of the DLT market.

Accountability Transparency Auditability



Our Role

The Malta Digital Innovation Authority, which was established in 2018 through the MDIA Act, is the primary authority that deals with certification of technology. This function is exercised on emerging technologies, currently being Distributed Ledger Technologies (better known as Blockchain) and Artificial Intelligence. The regulation of such technology is permitted through the ITAS Act.

The MDIA's regulatory functions lead to the establishment of a certification programme, which is designed in a holistic way so that all aspects of an Innovative Technology Arrangement (ITA) are scrutinised. Amongst the various elements that form part of the certification process is an opinion provided by a Systems Auditor. Since its establishment, **MDIA has approved 5 Systems Auditors, including one which is based outside of Malta.**

Furthermore, a code-review is done to assure that the proposal being presented is in actual terms performing accordingly. During this part of the certification process, the review helps in examining whether the code is creating any form of bias or injustice on the end-users. Furthermore, a cybersecurity assessment is done, since MDIA is designated as the Cybersecurity Certification Authority in Malta.

MDIA is aimed at ensuring trust in the end-user, while giving solid ground to the business owner of the ITA that his software is legitimate. For the time being, such certification can be acquired on a voluntary basis; however, it can be mandated by authorities when issuing tenders for any systems based on Blockchain and Artificial Intelligence.

MDIA personnel frequently attends local and international events and meetings to promote its functions as well as represent the Government of Malta on aspects related to its remit.

Organisational Structure

The Board of Governors is primarily responsible for overseeing the strategic development of the Authority and ensuring that the set policy and strategic objectives are achieved. The Board is responsible for the policy development, overall risk management and is also consulted by Government on policy matters.



Dr Joshua Ellul
Chairman of the Board



Mr Douglas Aquilina
Member



Ms Lara Boffa
Member



Dr Nathaniel Falzon
Member



Mr Sandro Micallef
Member



Mr Nigel Vella
Member



Mr Loui Mercieca
Member



Ms Patricia Busuttil
Member



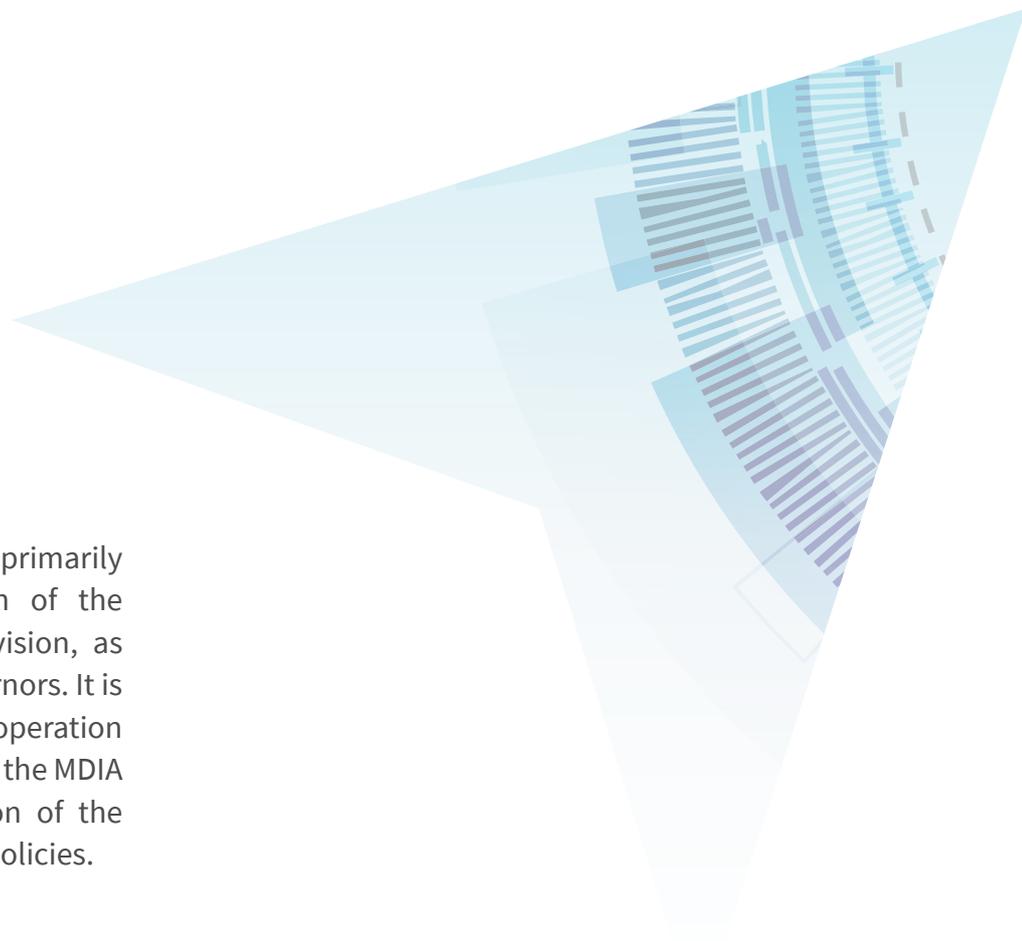
**Ms Charmaine
Tanti Camilleri**
Member



Mr Omar Vella
Member

Executive Team

The Executive Committee is primarily responsible for the execution of the Authority's overall strategic vision, as directed by the Board of Governors. It is responsible for the day-to-day operation and management functions of the MDIA as well as the implementation of the Authority's programmes and policies.



Mr Stephen McCarthy
Chief Executive Officer



Mr Wayne Grixti
Chief Technical Officer



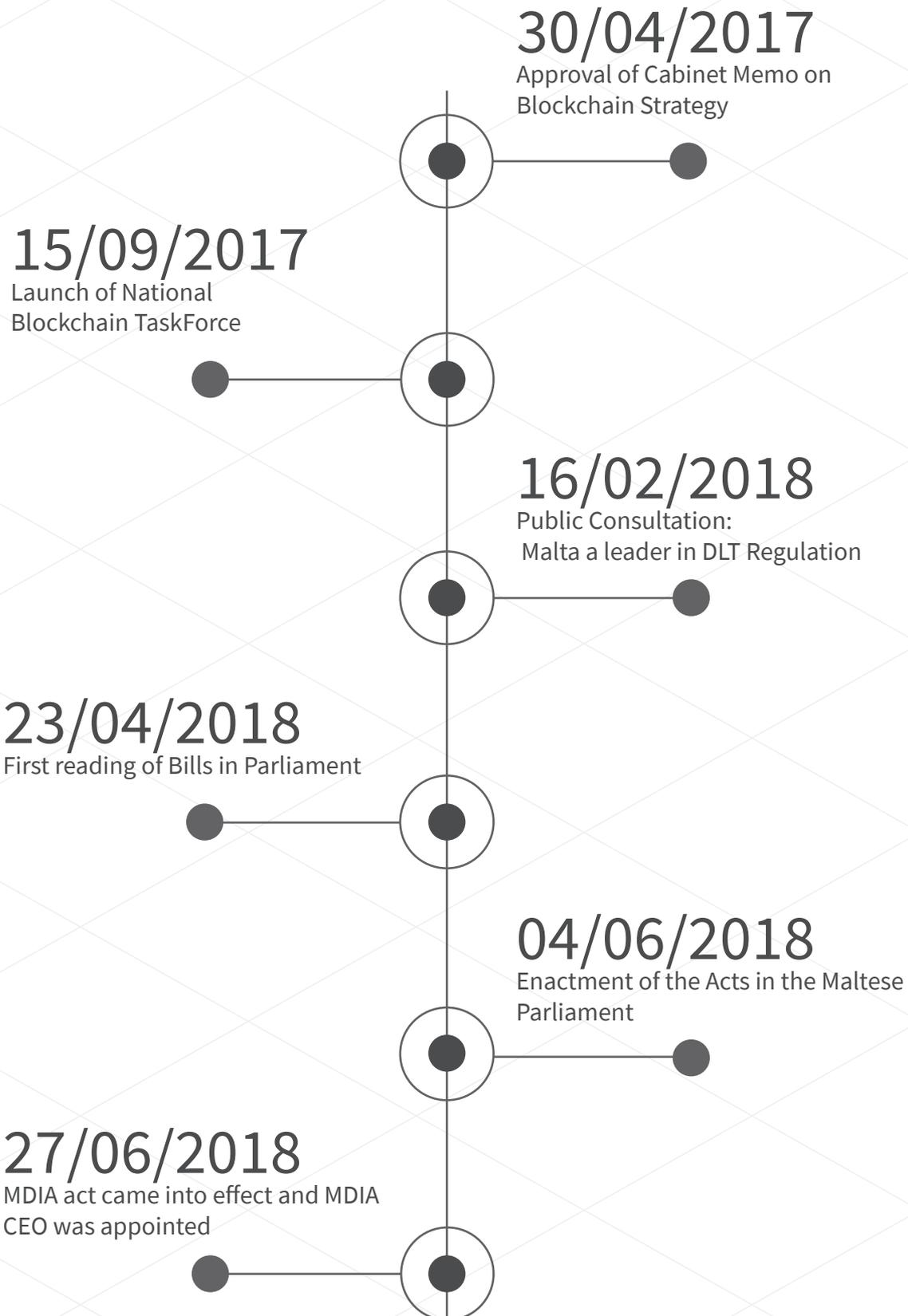
Mr Trevor Sammut
Chief Regulatory Officer



Mr Omar Debono
Chief Operations Officer

Timeline of Events

2017-2018



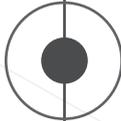
18/09/2018

Systems Auditor Guidelines Consultation



26/09/2018

Innovative Technology Arrangements
Guidelines for Consultation



03/10/2018

Technical Administrator Guidelines
Consultation



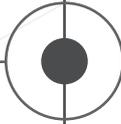
10/10/2018

Technical Administrator
Guidelines Consultation



01/11/2018

ITAS Act came into effect, MDIA started
accepting applications for Systems
Auditors and ITAs



01/11/2018

Creation of AI Taskforce

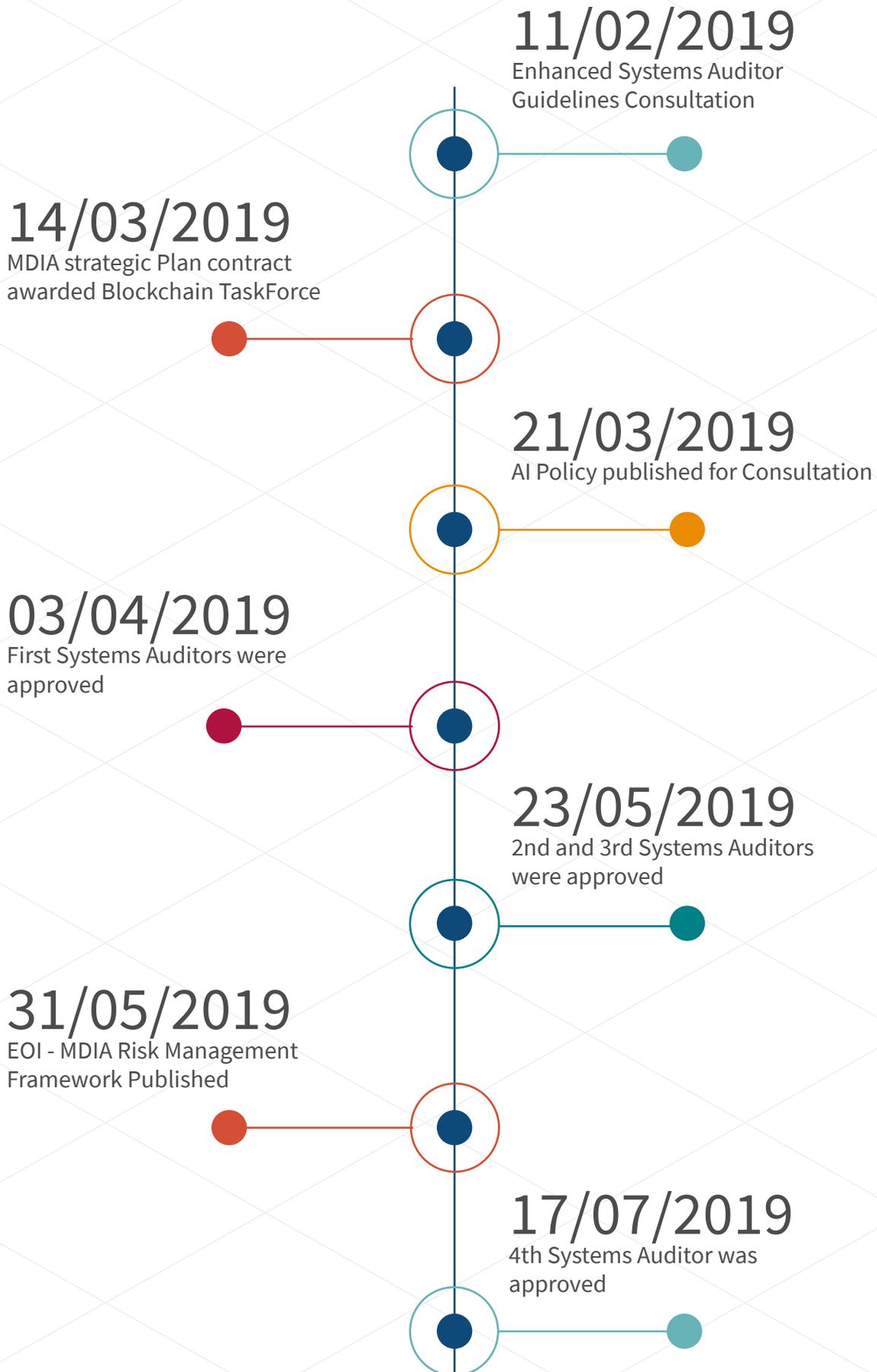


21/12/2018

1st SA application was submitted



Timeline of Events 2019



30/07/2019

EOI - AI Specific Guidelines



09/08/2019

AI Ethical Framework published for consultation



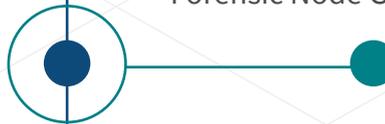
23/08/2019

EOI - AI Specific Guidelines
Awarded



01/09/2019

Forensic Node Guidelines Published



01/10/2019

Consultation for AI Certification
Guidelines



01/10/2019

National AI Strategy Launched



01/10/2019

Publication extended TA Guidelines
for Consultation



17/10/2019

Approval of 5th Systems Auditor



01/11/2019

Publication of AI Specific
Certification Guidelines



Our Objectives

Following its establishment in 2018, MDIA set out the following objectives and policies in accordance with the law enacted by the authority thus highlighting its purpose and direction.

- I. to promote government policies that favour the deployment, within the public administration, of innovative technology arrangements, by the Government where necessary or appropriate
- II. to foster, promote and facilitate the advancement and utilisation of innovative technology arrangements and their design and uses
- III. to promote education on ethical standards and legitimate exploitation of innovative technology arrangements
- IV. to safeguard, maintain and protect the reputation of Malta in the use of innovative technology arrangements
- V. to protect users of innovative technology arrangements, including consumers and the general public and to ensure standards are set that meet their legitimate expectations and protect them against misuse
- VI. to harmonise practices and to facilitate the adoption of standards, on innovative technology arrangements in Malta, to be in line with international norms, standards, rules and/or laws particularly those of the European Union
- VII. to assist the competent Data Protection Authorities in safeguarding the data protection rights of data subjects and assist other competent authorities in the protection of vulnerable persons and the promotion of fair competition and consumer choice
- VIII. to promote, and if required enforce, ethical and legitimate criteria in the design and use of innovative technology arrangements and any application, software or derivative product from it or intrinsically part of or connected to it as well as to ensure quality of services and security therein

- 
- IX. to support the prevention of money laundering, terrorist financing and the commission of any other crime in or through the use of innovative technology arrangements, through collaborations with other regulatory bodies and competent authorities with the same responsibility of preventing money laundering and the financing of terrorism and crime in general
 - X. to promote transparency and auditability in the use of innovative technology arrangements, and any application, software, or derivative product from it or intrinsically part of or connected to it
 - XI. to promote ease of accessibility to the facilities provided by publicly available innovative technology arrangements and the recognition and implementation of the right of exit, withdrawal or termination of participation from any arrangement in the use of innovative technology arrangements
 - XII. to promote legal certainty in the application of laws, in a national and cross-border context, and the development of appropriate legal principles for the effective application of the law to innovative technology arrangements
 - XIII. The Authority shall endeavour to promote the development of innovative technology in as wide a manner and for as many uses as possible, so as to achieve its benefits in as many economic and social sectors as possible, including, but not limited to, in financial services, health and education, voluntary organisations, public administration and transport.
 - XIV. The Authority shall also encourage the development of regulatory processes in relation to innovative technology arrangements to support all national competent authorities regulating different sectors to better administer the laws entrusted to their administration for the public benefit.

Creating a unique framework

It has been a year of firsts. And firsts of the vastly varied kind. From a technological viewpoint, MDIA's mission offers unparalleled challenges in the sphere of innovative technologies and their regulatory assurances.

In its first year, MDIA has created a unique framework addressing the utmost forefront of technology and created software certification programmes that offer the added assurances to offset associated risk of these new technologies. The added risk brought about by code that learns and teaches itself new behaviour (hence AI) and distributed code that is never in one single place, immutable and secured by solid cryptography (if implemented as it should) and other means.

In October 2019, MDIA presented its innovative work in this sphere at the World Summit AI in Amsterdam, generating interest in Malta's unique approach in offering certification for Artificial Intelligence Technology. That meant that as a jurisdiction, we implemented code level review to assure behaviour that is intended in a system blueprint.

During this period, MDIA has approved a total of five systems auditors, certifying, in essence, that these systems auditors are indeed capable at reviewing the blockchain languages, know their associated caveats, are able to extensively test for defects in code and/or code-design. It is easy to mention the number five here, but this meant the culmination of a whole year of work. A year where even the prospective systems auditors themselves faced the MDIA's mandated learning curve as to what our expectations were, especially when presenting us with a Subject Matter Expert for consideration.

We have issued and adjusted the MDIA Guidelines to reflect developments in the innovative technologies that were being dealt with and provided further clarifications where and when needed, effectively utilising the opportunity that our legal framework enables, that of having responsive changes resolved quickly and effectively to reflect fast changes in technological developments.

Meanwhile, participation in numerous forums was sustained, jointly with other authorities dealing with various kinds of technologies in their respective fields such as MFSA and MGA. As time progresses, it is becoming more evident that innovative technologies are no longer within the remit of finance, but growing steadily affecting gaming, communications, implementations of consequence, directly or indirectly to national-security systems and more. The work of the MDIA regulatory department is a continuous one and must be kept as cutting edge as such technology is.

Brief of activities:

Date	Label
30/04/2017	Approval of Cabinet Memo on Blockchain Strategy
15/09/2017	Launch of National Blockchain TaskForce
16/02/2018	Public Consultation: Malta a leader in DLT Regulation
23/04/2018	First reading of Bills in Parliament
04/06/2018	Enactment of the Acts in the Maltese Parliament
27/06/2018	MDIA act came into effect and MDIA CEO was appointed
18/09/2018	Systems Auditor Guidelines Consultation
26/09/2018	Innovative Technology Arrangements Guidelines for Consultation
03/10/2018	Technical Administrator Guidelines Consultation
10/10/2018	Resident Agent Guidelines Consultation
01/11/2018	ITAS Act came into effect, MDIA started accepting applications for Systems Auditors and ITAs
01/11/2018	Creation of AI Taskforce
21/12/2018	1st SA application was submitted
11/02/2019	Enhanced Systems Auditors Guidelines Consultation
14/03/2019	MDIA strategic Plan contract awarded
21/03/2019	AI Policy published for Consultation
03/04/2019	First Systems Auditors were approved
23/05/2019	2nd and 3rd Systems Auditors were approved
31/05/2019	EOI - MDIA Risk Management Framework Published
17/07/2019	4th Systems Auditor Approval
30/07/2019	EOI - AI Specific Guidelines
09/08/2019	AI Ethical Framework published for consultation
23/08/2019	EOI - AI Specific Guidelines Awarded
01/09/2019	Forensic Node Guidelines Published
01/10/2019	Consultation for AI Certification Guidelines
01/10/2019	National AI Strategy Launched
01/10/2019	Publication extended TA Guidelines for Consultation
17/10/2019	5th Systems Auditor approval
01/11/2019	Publish AI Specific Certification Guidelines

Branching out locally and internationally

2019, the first year for the Malta Digital Innovation Authority, was a busy and fruitful year on numerous fronts. MDIA managed to establish itself as the primary Authority responsible for regulating all governmental policies that place Malta as the centre for excellence for technological innovation while setting and enforcing standards that ensure compliance with any other international obligations.

MDIA's certification programme was made available for other competent authorities who wish to obtain the associated trust of having independent parties verify their systems. This includes, but are not limited to MFSA, MGA, MHAS, MITA and several other entities, ministries, as well as private individuals who seek value in the trust through the detailed review that MDIA will provide as part of its robust technology certification programme.

Dialogue with law enforcement, health authorities and other authorities was also sustained. Malta, in this regard, has kept a cutting edge on both AI and Blockchain, and MDIA will seek to continue to promote its position along with Tech.MT and Malta Enterprise.

Throughout 2019 MDIA was consulted frequently on matters pertaining to AI and other innovative technologies by the Government of Malta. This was done by offering support via technical advice, the presentation of our technology certification programme, and providing sound, detailed analyses related to technology.

MDIA in 2020 will also be responsible for the oversight and governance of Malta's AI Strategy, in accordance with the functions vested to it under the MDIA Act. MDIA will work with each stakeholder to agree on key implementation milestones and monitoring mechanisms for areas and actions they are responsible for.

“ Malta will also be contributing to the building up of a European Blockchain Services Infrastructure (EBSI) through MDIA. The EBSI will deliver EU-wide cross-border public services using blockchain. The MDIA is leading the Policy and Technical Groups established under the EBP. ”

Mr Wayne Grixti
Chief Technical Officer

MDIA's certification programme was made available for other competent authorities who wish to obtain the associated trust of having independent parties verify their systems. This includes, but are not limited to MFSA, MGA, MHAS, MITA and several other entities, ministries, as well as private individuals who seek value in the trust through the detailed review that MDIA will provide as part of its robust technology certification programme.

Mr Wayne Grixti
Chief Technical Officer

Malta will also be contributing to the building up of a European Blockchain Services Infrastructure (EBSI) through MDIA. The EBSI will deliver EU-wide cross-border public services using blockchain. The MDIA is leading the Policy and Technical Groups established under the EBP. On an international level the Authority also actively participated in ISO, CEN and CENELEC meetings related to Blockchain and Distributed Ledger

Technologies in collaboration with the Malta Competition and Consumer Affairs Authority, MCCA. The authority is also being represented on the AI Watch group formed between the EU Member States and the European Commission to monitor the implementation of the Coordinated Plan for AI.

In 2019 MDIA represented Malta in the Ad hoc Committee on Artificial Intelligence (CAAI) at the Council of Europe which was set up to assess the feasibility and possibility of AI regulation following broad multi-stakeholder consultations of a legal framework for the development, design and application of AI. Such regulation will be based on the Council of Europe's standards on human rights, democracy and the rule of law. Malta's extensive work in AI and AI certification framework demonstrates a strong understanding of the subject and its associated implications and technological nuances.

2019 also saw MDIA being recognised as the 'Cyber Security Certification Authority', mandated by the EU Agency for Cybersecurity (ENISA). The EU cybersecurity certification framework lays down the procedure for the creation of EU cybersecurity certification schemes, covering ICT products, services and processes. Each scheme will specify one or more level(s) of assurance (basic, substantial or high), based on the level of risk associated with the envisioned use of the product, service or process. To assist in establishing EU cybersecurity certification schemes, Regulation (EU) 2019/881 provides the modalities to set-up ad hoc working groups.

MDIA plays a key role here, and it was identified by the Office of the Prime Minister (OPM) to take on this role during the final quarter of 2019. MDIA is waiting for official enactments / legal notices / written instructions to empower it to fully take-on this task, especially at this tender time when ENISA is trying to devise the standard criteria to bind all member states, relevant technologies and technology sectors. ENISA is also seeking to enable cross-border approval processes to upkeep and maintain such a certification programme. Communication by ENISA on the topic is closely followed by MDIA and OPM.

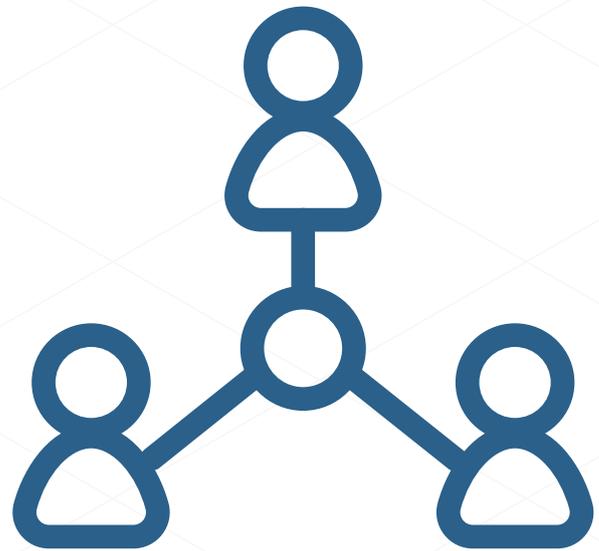
The Authority will oversee the application of the future AI Regulation. The European Commission is considering subjecting AI developers to new legally binding requirements. The new rules are expected to apply to so-called 'high-risk' sectors, such as health or transport, and aim to ensure the ethical development and use of AI. MDIA will be appointed as the Lead Authority in Malta to oversee the application of the future AI rules.

MDIA is also the liaison and focal point in terms of EU's network of Digital Innovation Hubs (DIH) under the Digital Europe Programme and will be playing a pivotal role in the implementation of DIH in Malta. There is potential for a physical space for a DIH very close to the new MDIA premises.

Our Team

The Human Resources Unit was one of our busiest functions in 2019 as it coordinated all the areas pertaining to staff planning and capacity building, succession planning, learning and development, health and safety, and also organised well-being initiatives. As the authority was still in its infancy, the full complement of the MDIA Executive team was recruited in the first half of 2019 followed by the enrolment of other members of staff whom today form the Malta Digital Innovation Authority. A total complement of 12 skilled and highly able employees are the main pillars of the authority covering the authority's three sections: Operations, Technology and Regulatory. The recruitment process was carried out in line with all public regulations covering the engagement of new employees, the Industrial Relations Unit (IRU) and according to the approved Authority organigram. All recruited employees have a strong market background as assessed individually throughout the recruitment process. MDIA encouraged the personal and professional development of all staff members, and throughout 2019 our staff members benefited from training, seminars and conferences held overseas. These took place in Belgium, Germany, Spain, Switzerland and the Netherlands amongst others.

Furthermore, in an effort to assist the younger generation in gaining experience in a real-life working environment, MDIA offered internship placements across the different units at the authority.



The placements offer a 10-week term working 30 hours per week. MDIA also participates in the MITA - Student Placement Programme (SPP) which is an annual, mutually beneficial programme for ICT students, and other students reading ICT-related courses, and employers of all sectors.

Team building activities were an integral part of our broader human resources effort as several events are organised to enable our staff members to convene outside the office environment.

These events improved productivity, increased motivation, enhanced office-wide collaboration, and made staff feel that they are part of a second family. Such events were always received with enthusiasm by the whole team.

“MDIA encouraged the personal and professional development of all staff members, and throughout 2019 our staff members benefited from training, seminars and conferences held overseas. These took place in Belgium, Germany, Spain, Switzerland and the Netherlands amongst others.”

Omar Debono
Chief Operations Officer

New premises

2020 will see MDIA moving to new premises in Mriehel, which meant that in 2019 we went through all the necessary processes to ensure the new offices and facilities are completely furnished and ready to accommodate the needs of the Authority. Evaluations of the work quality and on-site monitoring are conducted regularly by MDIA staff as well as professionals and experts in the field.



Key events and exposure

In 2019 MDIA was present in numerous and various events held both locally and overseas, including trade delegations with other partners across government. MDIA played an active role during a trade delegation to South Korea and Singapore in April led by the Parliamentary Secretary for Financial Services, Digital Economy and Innovation. MDIA officials engaged with key stakeholders and professionals in the Blockchain space.

The final months of 2019 were particularly busy for the authority. MDIA was a gold partner of the Delta Summit held in October 2019. MDIA maintained a strong presence throughout the event, as CEO Stephen McCarthy gave a keynote speech and our CRO and CTO participated in various panels held both on the main stage and also on the Zest stage. MDIA continued to enhance its exposure and engagement as one of the key stakeholders representing the Maltese Government at the World AI Summit held in Amsterdam. This participation led to a substantial promotion of the Maltese blockchain legislation and served as an opportunity for Malta to showcase its strategy and efforts to participants with regards to AI. Whilst the Parliamentary Secretary was part

of a panel, the executive team of the authority enhanced its engagement with attendees by showcasing Maltese legislation and explaining further the benefits of MDIA certification. The concept of one stand for ‘Government of Malta’ in Amsterdam was a success and was replicated at the AI & Blockchain (AIBC) Summit held in Malta in November.

Also, in November, the MDIA was represented at the ‘Blockchain Island meets Crypto Valley’ event organised by CV Labs and held in Zug, Switzerland, where the functions of the Malta Digital Innovation Authority and its role to certify innovative technology arrangements were further promoted. 2019 was indeed a busy year, but it certainly was a fruitful and successful one. MDIA’s internal structure and external exposure were enhanced, and we look forward to a brighter future for the authority.

“2019 was indeed a busy year, but it certainly was a fruitful and successful one. MDIA’s internal structure and external exposure were enhanced, and we look forward to a brighter future for the authority.”

Omar Debono
Chief Operations Officer



2020 and Beyond

After a full year of operations, MDIA garnered enough awareness to be in a position to provide support to the government and business community to bolster Malta into becoming a regulated hub for innovative technologies. Whilst understanding that technological development and digital innovation are fluid and continuously changing, MDIA acknowledges that it needs to continue adapting to these developments.

In line with this, MDIA is currently amplifying its technical capabilities and strengthening its internal operations, to be in a position to direct the country into new technological business opportunities that go beyond the distributed ledger and blockchain technologies. As it creates a sound and fair operating playing field for innovators, MDIA also aspires to become a consultative body to other national competent authorities for the implementation of innovative technologies.

In light of this commitment, the strategic plan herein lays out the objectives for the next three years, which the Authority envisions to implement to the benefit of the relevant stakeholders. The objectives provide direction and extend an invitation to the community to forge an ambitious future together. Our work will be enhanced by a commitment to measure our success rigorously, share information transparently, explore the opportunities and challenges that these assessments reveal and use that information to improve.

By means of this plan, and the achievement of the action plan herein, MDIA shall build on its strengths and values to assume a position of leadership in the sector. This strategic plan will be supported by other entities which operate in the surrounding nucleus to MDIA and include TECH.MT, which is responsible for the promotion of the Malta Digital Innovation Technology Strategy, and the Malta Financial Services Authority amongst others.

Financial Statements

For the year ended 31st December 2019

The members of the Authority Board present their report, together with the audited financial statements of the Authority, for the year ended 31st December 2019.

Authority

The following persons have served on the Board of the Authority during the period under review:

Chairperson

Dr. Joshua Ellul

Members

Ms. Lara Boffa

Mr. Nathaniel Falzon (appointed on: 1 November 2019)

Mr. Nigel Vella

Mr. Omar Vella

Mr. Sandro Micallef

Mr. Loui Mercieca

Ms. Patricia Busuttil

Ms. Charmaine Tanti Camilleri

Mr. David Matrenza (resigned on: 31 October 2019)

Principal Activity

The Malta Digital Innovation Authority (MDIA) is a public corporate body with responsibility to exercise a supervisory and regulatory functions in the field of innovative technology arrangements and innovative technology services as may from time to time be assigned to the Authority by any special law. The Authority was setup through the enactment of the Malta Digital Innovation Authority Act in 2018. The Malta Digital Innovation Authority reports to the Minister responsible for digital innovation and the Authority's statutory audit financial statements are to be tabled in Maltese Parliament as per Article 20 (4) of the said Act.

Review of business development and financial position

The results for the year under review are disclosed on page 41, while the financial position of the Authority as at 31st December 2019 is disclosed on page 42.

Events after the end of the reporting year

No significant events, having an effect on the financial results and position of Authority, have taken place after the end of the reporting year.

Future developments

No changes are envisaged in operations during the forthcoming year

Surplus of Funds

The surplus for the year amounted to €108,542 is being carried forward to the next financial year.

Auditor

The auditor, Mr. Charles Scerri, has intimated his willingness to continue in office. A resolution proposing his re-appointment will be put before the members during the Malta Digital Innovation Authority Board Meeting of the month of April 2020.

Approved by Authority's representatives on 8th April 2020 and signed on its behalf by:



Dr. Joshua Ellul

Chairperson

Registered Address:

Level 2, Fino Buildings,
Triq L-Imdina, Zone 4,
Central Business District,
Birkirkara CBD 4010, Malta

Statement of responsibilities of the Authority

The Authority's responsibility is to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union which give a true and fair view of the state of affairs of the Authority at the end of each financial year and of the gain or loss for the year then ended. In preparing the financial statements, the Authority:

- Selects suitable accounting policies and apply them consistently
- Makes judgements and estimates that are reasonable and prudent; and
- Prepares the financial statements on a going concern basis, unless it is appropriate to presume that the Authority will not continue in business

The Authority is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Act.

The Authority 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 Authority is responsible to ensure that it establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Approved by the Authority on 8th April 2020 and signed on its behalf by:



Dr. Joshua Ellul
Chairperson

Independent Auditor's Report

To the members of the Malta Digital Innovation Authority

I have audited the financial statements of Malta Digital Innovation Authority which comprise the statement of financial position as at 31st December 2019, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statement, including a summary of the significant accounting policies and explanatory notes.

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Authority as at 31st December, 2019 and of its financial performance for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU and have been prepared in accordance with the requirements of the Malta Digital Innovation Act.

Basis for Opinion

I have conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described below in the Auditor's Responsibilities for the Audit of the financial statements section of my report. I am 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 that are relevant to my 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) in Malta, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The representatives of the Authority are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Responsibilities of the representatives of the Authority

The representatives of the Authority are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the representatives of the Authority determines necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. In preparing the financial statements the representatives of the Authority are 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 representatives either intend to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibility for the audit of the financial statements

My objective is 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 my 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, I exercise professional judgment and maintain professional scepticism throughout the audit. I 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 my 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 representatives.
- Conclude on the appropriateness of the representatives' 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.

I communicate with the representatives of the Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Charles Scerri

Certified Public Accountant and Registered Auditor

The Penthouse,
Carolina Court,
Giuseppe Cali Street,
Ta' Xbiex
XBX 1425

Date: 8 April 2020

Statement of comprehensive income
For the year ended 31st December 2019

	Note	2019	Period ended
		€	2018
			€
Income	5	1,637,800	668,860
Direct cost		(40,930)	-
Operating profit		1,596,870	668,860
Administrative expenses		(1,488,328)	(372,787)
Surplus for the year/period	6	108,542	296,073

Statement of financial position

As at 31st December 2019

	Note	2019	2018
Assets		€	€
Non-current assets			
Property, plant and equipment	8	632,968	15,608
Current Assets			
Trade and other receivables	9	171,948	54,745
Cash at bank	10	412,451	336,432
Total Current Assets		584,399	391,177
Total Assets		1,217,367	406,785
Equity and Liabilities			
Accumulated funds		404,615	296,073
Non-current liabilities			
Deferred income	12	693,333	-
Current Liabilities			
Trade and other payables	11	119,419	110,712
Total current liabilities		119,419	110,712
Total liabilities		812,752	110,712
Total equity and liabilities		1,217,367	406,785

The financial statements were approved by the Authority's representatives on 8 April 2020, and signed on its behalf by:



Dr. Joshua Ellul
Chairperson

Statement of changes in equity
For the year ended 31st December 2019

	Accumulated fund €
At 1st January 2019	296,073
Surplus for the year	108,542
At 31st December 2019	404,615
Surplus for the period	296,073
At 31st December 2018	296,073

Statement of cash flows

For the year ended 31st December 2019

		Period ended	
	Note	2019	2018
		€	€
Cash flow from operating activities			
Surplus for the year/period		108,542	296,073
Adjustments for:			
Depreciation		53,731	4,743
Movements in working capital for:			
Trade and other receivables		(117,203)	(54,745)
Trade and other payables		702,040	110,712
Net cash inflow from operating activities		747,110	356,783
Cash flow from investing activities			
Payments to acquire property, plant and equipment		(671,091)	(20,351)
Net cash outflow used in investing activities		(671,091)	(20,351)
Movement in cash and cash equivalents			
		76,019	336,432
Cash and cash equivalents at the beginning of the year/ period		336,432	-
Cash and cash equivalents at the end of the year/period	10	412,451	336,432

Notes to the financial statements

For the year ended 31st December 2019

1 Reporting Authority

The Malta Digital Innovation Authority was set up by the Maltese Parliament through the Malta Digital Innovation Authority Act and the statutory financial statements are tabled to Parliament as per article 20 (4) of the said act.

2 Basis of preparation

2.1. Statement of compliance

The financial statements have been prepared and presented in accordance with the provisions of the International Financial Reporting Standards as adopted by the EU (IFRSs) and the requirements of the Malta Digital Innovation Act.

Standards, interpretations and amendments to published standards effective in 2018

The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Authority's accounting policies.

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 but are mandatory for the Authority. The Authority has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Authority's members are of the opinion that, there are no requirements that will have a possible significant impact on the Authority's financial statements in the year of initial application.

2.2. Basis of measurement

The financial statements are prepared under the historical cost basis. The accounting policies set out below have been applied consistently to all years presented in these financial statements.

2.3. Functional and presentation currency

The financial statements are presented in Euro, which is the Authority's functional currency.

Transactions in foreign currencies are translated to the functional currency of the Authority at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Foreign currency differences arising on retranslation are recognised in profit or loss.

3 Critical accounting estimates and judgments

Estimates and judgments 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 Authority representatives, the accounting estimates and judgments 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 Significant accounting policies

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

4.1 Property, plant and equipment

Property, plant and equipment, are initially recorded at cost and are subsequently stated at cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of 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 group, and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Income, during the financial year in which they are incurred.

Depreciation

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over the expected useful lives of the assets concerned having regard to their residual value. The annual rates used for this purpose, which are applied consistently, are:

	%
Computer equipment	25
Brand & Website Development	20
Land and improvements	6.67
Computer software	25
Furniture, Fixtures and Fittings	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each end of the reporting year.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gains or losses arising on the disposal or retirement of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income within the other income or administrative and other expenses.

4.2 Trade receivables

Trade receivables are classified with current assets and are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

4.3 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

4.4 Trade payables

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

4.5 Revenue

Revenue is measured at the fair value of the consideration received or receivable by the Authority for services provided. Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Authority and these can be measured reliably.

- The following specific recognition criteria must also be met before revenue is recognised:
- The Authority has transferred to the buyer the significant risks and rewards of ownership of the services provided. This is generally when the customer has approved the services that have been provided;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Authority; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Income from government subvention is recognised on an accrual basis.

- Government grants are not recognised until there is a reasonable assurance that the entity will comply with the conditions attaching to them and that the grants will be received.
- Government grants are recognised in the statement of comprehensive income on a systematic basis over the years in which the entity recognises as expenses the related costs for which the grants are intended to compensate.
- Government grants related to assets are presented in the statement of financial position by setting up the grant as deferred income and is recognised in the statement of comprehensive income on a systematic basis over the useful life of the asset.
- Government grants that are receivable as compensation for expenses or losses already incurred or for the purposes of giving immediate financial support to the entity with no future related costs are recognised in the statement of comprehensive income in the year in which they become receivable.

4.6 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Authority becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Authority's contractual rights to the cash flows from the financial assets expire or if the Authority transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Authority commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Authority's obligations specified in the contract expire or are discharged or cancelled.

4.7 Financial assets

For the purpose of subsequent measurement, financial assets of the Authority are classified into loans and receivables upon recognition.

All income and expenses relating to loans and receivables are presented within 'finance cost', 'finance income', or 'other financial items'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Authority's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

4.8 Financial liabilities

The Authority's financial liabilities include trade and other payables. These are stated at their nominal amount which is a reasonable approximation of fair value.

All interest-related charges are included within 'finance costs' or 'finance income'.

4.9 Reserves

The retained fund includes all current and prior period retained surpluses and deficits.

4.10 Going concern

The financial statements have been prepared on the going concern basis, which assume that the Authority will continue in operational existence for the foreseeable future. With reference to the Malta Digital Innovation Authority Act, Part 5 article 13 sub-article 3, the Authority shall be paid by Government out of the Consolidated Fund such sums as Parliament may from time to time authorise to be appropriated to meet the costs of specified works to be continued or otherwise carried out by the Authority.

5 Income

	2019	Period ended 2018
	€	€
Government subvention:		
Direct: paid to MDIA	1,453,333	661,360
Own operations: Systems Auditor Registration Fee	136,750	7,500
Other income – recharges of expenses	47,717	-
	<u>1,637,800</u>	<u>668,860</u>

6 Surplus for the year/ period

6.1 The surplus for the year/ period is stated after charging the following:

	2019	Period ended 2018
	€	€
Audit fee	2,770	1,500
Depreciation (note 8)	53,731	4,743

	2019	Period ended 2018
	€	€
Staff costs:		
Staff wages and salaries	486,087	61,802

The average number of persons employed during the year was 12 (2018: 4).

7 Taxation

With reference to the Malta Digital Innovation Authority Act, Part 5 article 13 sub-article 3, Government subventions are deemed to be exempt from any liability for the payment of income tax and duty on documents. Hence no taxation was recognised in these financial statements given the Authority's main source of income is from Government subventions.

8 Property plant and equipment

	Land & Improvements	Computer Equipment	Furniture, Fixtures & Fittings	Computer Software	Brand & Website Development	Total
	€	€	€	€	€	€
Cost						
At 1st Jan 2019	-	13,449	-	-	6,902	20,351
Additions	644,306	15,440	4,558	6,787	-	671,091
At 31st Dec 2019	644,306	28,889	4,558	6,787	6,902	691,442
Depreciation						
At 1st Jan 2019	-	3,362	-	-	1,381	4,743
Charge for the Year	42,975	7,222	456	1,697	1,381	53,731
At 31st Dec 2019	42,975	10,584	456	1,697	2,762	58,474
Net book value At 31st Dec 2019	601,331	18,305	4,102	5,090	4,140	632,968
Net book value At 31st Dec 2018	-	10,087	-	-	5,521	15,608

9 Trade and other receivables

	2019	2018
	€	€
Trade receivables	7,500	-
Refundable deposits	70,633	45,317
Payments	93,815	9,428
	171,948	54,745

9.1 The Authority does not have any credit terms with its trade receivables. The age of trade receivables is as follows:

	2019	2018
	€	€
More than 1 month	-	-
More than 1 month but not more than 3 months	-	-
More than 3 month but not more than 6 months	7,500	-
	7,500	69,280

10 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2019	2018	Movement
	€	€	€
Cash at Bank and in hand	412,451	336,432	76,019

11 Trade and other payables

	2019	2018
	€	€
Trade payables	57,599	96,206
Accruals	8,486	14,506
Financial liabilities	66,085	110,712
Deferred income from Government grants (note 12)	53,334	-
	119,419	110,712

Short term financial liabilities are carried at their nominal value which is considered a reasonable approximation fair value.

12 Deferred Income

	2019	2018
	€	€
Government grants		
At 1st January	-	-
Additions	800,000	-
Amounts transferred to income and expenditure account	(53,333)	-
	<u>746,667</u>	<u>-</u>
	2019	2018
	€	€
Comprising		
Current deferred income	<u>53,334</u>	<u>-</u>
Non-current deferred income		
Between 2 and 5 years	213,333	-
After more than 5 years	480,000	-
Between 2 and 5 years	<u>693,333</u>	<u>-</u>

This refers to government grants with respect to improvements to premises which are deferred over the assets' useful lives.

13 Related party transactions

Malta Digital Innovation Authority is an autonomous public institution enacted by the Malta Digital Innovation Authority Act. The Authority is the regulator for functions in the field of innovative technology arrangements and innovative technology services in Malta. In accordance with article 20 (4) of the Malta Digital Innovation Authority Act, audited financial statements shall be tabled in Parliament by Authority's line Minister.

The income recognised for the year under review relating to subventions received from the Government of Malta are disclosed in note 5.

14 Financial risk management

The Authority is exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Authority's risk management is coordinated by the Board members and focuses on actively securing the Authority's short to medium term cash flows by minimising the exposure to financial risk.

14.1 Foreign currency risk

The Authority is not significantly exposed to foreign currency risk since its transactions are carried out in Euro.

14.2 Interest risk

The Authority is not exposed to interest risk on its payables since these are all interest free.

14.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets which potentially subject the authority to concentrations of credit risk consist of receivables and cash at bank.

The credit risk relating to cash at bank is considered to be low in view of management's policy of placing it with quality financial institutions.

Carrying amounts for receivables are stated net of the necessary general provisions which would have been prudently made against bad and doubtful debts, had management believed that recoverability was doubtful.

14.4 Liquidity risk

The Authority's exposure to liquidity risk arises from its obligations to meet its financial liabilities, which comprise of trade and other payables. Prudent liquidity risk management includes maintaining sufficient cash and committed credit facilities to ensure the availability of an adequate amount of funding to meet the Authority's obligations when they become due.

The Authority ensures a steady and healthy cash flow through persistent chasing up debtors to ensure that target inflows are received monthly. Targets are set by

the management, who monitors cash flow regularly together with the accountant.

The Authority's financial liabilities at the reporting date under review are all short term and their contractual maturities fall within one year.

15 Statutory information

The Malta Digital Innovation Authority (MDIA) ("the Authority") is the Authority with the purpose to address the development in Malta of all innovative technology arrangements and innovative technology services. The exhaustive list of the Authority's functions and powers of are listed in article 6 of the Malta Digital Innovation Authority Act. The Authority is enacted by the virtue of the Malta Digital Innovation Act.

Detailed income statement

For the year ended 31st December 2019

	2019	Period Ended 2018
	€	€
Income		
Income - own operations	136,750	7,500
Income - Grants and other contributions	1,453,333	661,360
Income - Other income - recharges of expenses	47,717	-
	<u>1,637,800</u>	<u>668,860</u>
Direct Costs	<u>(40,930)</u>	<u>-</u>
Administrative and other expenses		
Audit fee	2,770	1,500
Contractual services	52,434	4,668
Depreciation charge	53,731	4,743
Finance charge	593	97
Hospitality	4,608	907
Incidental expenses	2,252	2,813
Information services	383,350	86,151
Material and supplies	2,513	197
Office services	18,488	363
Other expenditure	1,688	-
Professional, legal and accounting services	219,090	187,158
Rent	153,882	14,787
Repairs and upkeep	2,042	-
Staff costs	486,087	61,802
Transport	19,797	1,578
Travel	74,892	6,023
Training	600	-
Utilities	9,511	-
	<u>(1,488,328)</u>	<u>(372,787)</u>
Surplus for year/period	<u>108,542</u>	<u>296,073</u>