



Work and Activities  
of the  
National Audit Office

2006

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## Work and Activities of the National Audit Office - 2006

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### The Role of the Auditor General and the National Audit Office

The functions and powers of the Auditor General are defined by Section 108 of the Constitution of Malta and the Auditor General and National Audit Office Act of 1997 (hereinafter referred to as the 'Act'). The Constitution sets out the general mandate of the Auditor General to perform financial and compliance audits of central Government. The Act extends this mandate further to include the granting of advisory and investigative powers, as well as performance auditing.

### The State Audit Function

The Constitution and the Act guarantee the functional independence of both the Auditor General and the National Audit Office (NAO) from the public service administration. This independence ensures that the constitutional mandate is met in a more effective way, allowing the Auditor General, as an officer of Parliament, to put forward unbiased opinions in connection with the way with which public funds would have been spent. Independence is facilitated through legislation, stipulating that in the proper exercise of his functions the Auditor General shall not be subject to the authority or control of any person.

The Auditor General is appointed through a resolution of the House of Representatives supported by not less than two-thirds of all members of the House. This ensures that the Auditor General, charged with the carrying out of state audit, enjoys the confidence of all the political parties represented in Parliament. This direct link

with Parliament is maintained – all reports compiled by the Auditor General, be these Mid-Year or Annual Audit Reports, Performance, Investigative or Special, are tabled at the House of Representatives by the Speaker of the House. It is through these instruments that the mandate of the '*Guardian of the Public Purse*' is discharged.

Through these reports, the Auditor General holds the Administration to account on behalf of the Parliament and the taxpayers. Instances of good practice are noted and declared as such – with the aim of their being implemented on a wider scale within the public service. In the same way, deficiencies and flaws are identified, reported upon, and accompanied by recommendations to the auditee management team to help ensure that weaknesses are addressed.

In order to discharge this mandate the Auditor General and other persons authorised by him are empowered to audit all departments and offices of the Government of Malta (the core civil service) and all public authorities and other bodies administering, holding or using funds belonging directly or indirectly to the Government of Malta.

In practice, the audit work consists of the inspection of books, records, returns and other documents relevant to the accounts of the bodies falling within the mandate of the Auditor General. This work is often supported by interviews and the soliciting of explanations with auditee's management and staff. The aim of the audit fieldwork is to ensure that all relevant information is collected. This enables the determination of

findings that reflect reality, and hence conclusions and recommendations that, once implemented, add value to the auditee's operations, thus increasing cost effectiveness, to the ultimate benefit of the citizen. In this respect, the Auditor General's work is facilitated by legislation, which stipulates that any circumstance inhibiting such access of information is to be reported to Parliament. Resort to such measures, however, is hardly ever made in practice.

The NAO portrays an image of professionalism and its services are acknowledged and appreciated by senior management of the core public service and government authorities alike. In rare instances where auditees raise an issue regarding NAO's right to carry out particular audits, the matter is discussed and to date such issues have always been resolved to the satisfaction of all parties involved. Such instances often arise due to some provision in an Act, often concerning the right of access to client data. It is however to be noted that the Auditor General's right of access is entrenched in the Constitution and overrides any provision in any other Act of Parliament. This notwithstanding, the NAO always attempts to arrive at solutions with auditees, in the interest of preserving good relations in the wider work environment.

Audit topics and the audit schedule of work are the prerogative of the Auditor General. However, the Act empowers the Minister responsible for Finance and the Public Accounts Committee to request the Auditor General to "inquire into and report" on their behalf. Similar powers are conferred on the Minister of Local Government through the relevant legislation. The Auditor General and NAO are still committed to carry out such investigations without being influenced by external bodies, thus ensuring that the independence of the Office is maintained.

### Types of Audit

The National Audit Office focuses its work on three distinct categories of audit, namely:

- Financial and Compliance Audit
- Performance/Value for Money Audit
- Special Audit

### Financial and Compliance Audit

The Financial and Compliance Audit of public funds constitute the core and mandatory work of the NAO. These aim at ascertaining whether the Government Financial Report, including the financial statements of Ministries and Departments, properly present the financial transactions of Government, that transactions comply with financial rules and regulations, that proper internal controls are in place, and that Government resources are being properly safeguarded.

Financial and Compliance Audits provide independent reasonable assurance about whether the Treasury, government departments and other bodies properly account for the funds that Parliament has approved and that such funds have been spent as Parliament intended. The audits incorporate both a review of the Government Financial Report, as well as audits of the individual Government Ministries, Departments, cost centres and other public entities (auditees). During 2006, audits were largely issue-based: they were aimed at reviewing specific activities of selected auditees.

Audits are also conducted on government-wide issues of a common nature, or issues of general interest. These include, *inter alia*, such fields as Arrears of Revenue due to Government, EU Travel Refunds and Public Debt.

During Financial and Compliance Audits, internal controls and their effectiveness in the daily operations of the auditees are tested via walk-through tests based on risk assessment. A balance of reliance on such controls and substantive testing is based on the knowledge of the entity and its environment.

In the conduct of such audit work, NAO's 'Comprehensive Audit Manual' is used as a

guideline. This manual includes information related to:

- NAO's organisation;
- Legal basis and policy;
- Types of audits carried out;
- NAO Auditing Standards;
- Planning, Conducting and Reporting processes for audits;
- Audit tools and techniques;
- References to other manuals and guidelines relating to specific subject areas.

Moreover, in all their work, NAO auditors follow the INTOSAI Code of Ethics and Auditing Standards and other international standards as guidelines for their audit work.

### *Audit of Local Government*

The audit of Local Government is also included within the mandate of the NAO as amplified and described in the legislation regulating Local Government. The Office outsources audit assignments relating to Local Government. In terms of Local Government legislation, private sector auditors, known as Local Government Auditors, are engaged by the Auditor General to conduct yearly Financial and Compliance Audits.

The role of the Auditor General is twofold. The first is an administrative role concerned with the appointment and remuneration of the Local Government Auditors. The second role is a technical one, which is intended to lend support to auditors and to ensure that their observations and recommendations are given due consideration and attention by the authorities concerned.

Audits on individual Local Councils are reported upon by the Local Government Auditors within three months following the end of a financial year (ending 31 March).

The Local Councils (Audit) Procedures, 2006 regulate the role and functions of the

Auditor General and other audit requirements where Local Councils are concerned.

The Auditor General consolidates the most serious shortcomings and irregularities identified in these reports into one report, which is then also incorporated into the Annual Audit Report on Public Accounts.

### *Audit of Non-Central Government Organisations*

Each year the Office carries out Financial and Compliance Audits of a number of Public Authorities and Corporations, other Public Entities and Non-Government Organisations benefiting from any Government assistance or subsidies. These entities may be foundations, agencies, private or church entities, voluntary organisations and philanthropic societies.

The main purpose of such audits is to ensure that public funds transferred or donated by Government are used for the specific purpose for which the funds are handed out to the various bodies. The criteria and scope of audit depend to a great extent upon the amounts of subvention or subsidy involved.

Reports on these audits are incorporated in the Mid-Year and Annual Audit Reports on the Public Accounts.

### *EU-related Audits*

During 2006, the NAO was active in the conduct of reviews connected with EU Financial Management. Most notably, the following work was carried out:

- Customs Department – Community Transit (Mid-Year Audit Report for 2005);
- Customs Department – Traditional Own Resources (Mid-Year Audit Report for 2005);
- European Agricultural and Guarantee Fund – Paying Agency (Mid-Year Audit Report for 2005);

- European Agricultural and Guarantee Fund – Integrated Administration and Control System (Mid-Year Audit Report for 2005);
- Paying Agency – EU Travel Refunds (Annual Audit Report for 2005).

The first four exercises were conducted in conjunction with the European Court of Auditors (ECA) through ECA audit missions in Malta. The ECA reported upon these audits in the Annual Report on the Implementation of the (EU) Budget – 2006/ C263/01 – under Chapter 4 (Revenue) and Chapter 5 (Common Agricultural Policy). This report may be accessed on: [http://eca.europa.eu/audit\\_reports/annual\\_reports/docs/2005/ra05\\_en.pdf](http://eca.europa.eu/audit_reports/annual_reports/docs/2005/ra05_en.pdf)

### **Performance/Value for Money Audit**

Performance/Value for Money (VFM) Auditing complements Financial and Compliance Auditing in that it addresses the economy, efficiency and effectiveness of programmes, initiatives and operations of Ministries, Departments and other public entities. This is carried out in compliance with specific legal provisions as laid out in the Auditor General and National Audit Office Act, while realising the Office's mission and vision.

The strategic plan for the Performance/VFM Section, covering the period 2007-2009, highlights the following:

#### **a) Objectives:**

To generate four to six audit reports per annum, prioritising on areas such as Regulatory bodies, the Environment, Education, Economy, Health, Tourism, Social initiatives, Issues across government, and E-Government.

#### **b) Section Policies:**

To enhance the Section's performance and quality of output through the formulation and ongoing maintenance of the Audit Manual (currently in its initial stages) which will draw on best practices and standards

of other State Audit Institutions and organisations working in related fields.

To enhance contents of the online Performance Audit database, available on the NAO Intranet.

To reach full capacity with respect to the work force and to ensure that members of staff are motivated through the provision of adequate and relevant training, both local and foreign, and through the organisation of in-house training Seminars.

To maintain excellent relations with the auditees, based on mutual assistance, with the overall objective of improving public sector operations.

#### **c) Resources:**

Currently, the Performance/VFM Section comprises two audit units, each headed by a manager. Each unit is subdivided into two teams, each intended to be composed of three employees. Given the diverse nature of audits carried out, the Section adopts a policy of flexibility whereby team members may be re-assigned to different teams depending on work exigencies and specialisations required. Outsourcing is resorted to when the necessary expertise is not available in-house.

#### **d) Output:**

Over the past few years, a number of VFM Audit reports have been published and tabled at the House of Representatives, some of which have been taken up and discussed at PAC level.

During 2006, the NAO published the following VFM Audit reports:

- Employment and Training Corporation (ETC)'s Job Matching Service: Meeting the requirements of employers and registered job seekers – published in July 2006;
- The Functions of the Tax Compliance Unit – published in July 2006;
- E-Government – published in

December 2006 in the Annual Audit Report on Public Accounts for 2005;

- Occupational Health and Safety – The Construction Industry: Preliminary Audit Report – published in December 2006 in the Annual Audit Report on Public Accounts for 2005.

### Special Audits

Special Audits are audits and investigations that may be of a financial or a value for money/performance nature. As stipulated in the Auditor General and National Audit Office Act, these audits may be carried out on the initiative of the Auditor General, at the request of at least three members of the Public Accounts Committee or at the request of the Minister responsible for Finance. These Special Audits relate to revenue, expenditure and resources belonging directly to Government, as well as activities, programmes or initiatives that are funded by Government.

Investigations may also be carried out in terms of the Local Councils (Financial) Regulations. In this case the Minister responsible for Local Government would make the request. The ensuing report is submitted simultaneously to the Local Government Minister and to the Speaker of the House of Representatives.

During 2006, the following Special Audits were reported upon, in terms of Section 9 of the First Schedule of the Auditor General and National Audit Office Act:

- Operations of the 'Voice of the Mediterranean' Radio Station – requested by the Public Accounts Committee;
- Procurement of gas cylinders by Enemalta Corporation – requested by the Prime Minister, in his capacity as Minister of Finance.

### Mid-Year and Annual Audit Reports

Audits are reported upon in the Mid-Year and Annual Audit Reports on the Public Accounts following the end of a financial

year (ending 31 December for Central Government and ending 31 March for Local Councils) being reported upon. These reports are presented to the Speaker of the House of Representatives who in turn lays them on the Table of the House of Representatives on the next sitting of the House.

A Mid-Year Audit Report was issued for the first time in July 2005 in respect of financial year 2004. The second report of this series was issued in July 2006. Complementing the Annual Report, this second Mid-Year Audit Report relates to Public Accounts for the financial year ending 31 December 2005. It summarises the findings of the Financial and Compliance Audits on the Financial Statements and activities of the Malta Government, and a number of Non-Central Government Organisations.

The motivation behind the Mid-Year series of reports is to shorten the reporting time to Parliament.

### Parliamentary and Media Coverage

All NAO reports are submitted to the Speaker of the House of Representatives who lays them on the Table of the House. These reports may be taken up and examined by the Public Accounts Committee.

Interest by the media varies according to the audit subject matter. The media usually takes up a report on its publication. News reports on local TV and radio stations feature the publications of NAO reports. Proceedings of the PAC meetings are also covered by journalists who are present during these meetings.

During 2006 the NAO organised a seminar for the Institute of Maltese Journalists themed 'The role and functions of the National Audit Office'. Its objective was to acquaint journalists with the historical background of the Office, its role and functions, its relationship with Parliament, and the types of audits and reports the NAO carries out. This seminar was held in

January but unfortunately was not well attended.

### Relations with Parliament

The NAO principally interacts with two Parliamentary Committees – the Public Accounts Committee and the National Audit Office Accounts Committee.

### Public Accounts Committee

The Public Accounts Committee (PAC) consists of not more than seven members, four from the Government side and three from the Opposition side. The Leader of the Opposition, after consultation with the Leader of the House of Representatives, nominates the Chairman of the Committee. The main roles of the Committee are to scrutinise and assess the financial administration of the public sector and to promote improvements, to encourage the economic, efficient and effective utilization of public sector resources, and to enhance the accountability of the executive government to Parliament and the public.

The Public Accounts Committee helps to ensure that findings of the NAO are given due attention. It normally meets once every two weeks when Parliament is in session. Most of the meetings are focused on issues raised in the Mid-Year and Annual Audit Reports by the Auditor General or Performance/Value for Money Audit reports. The Auditor General submits his Annual Audit Report, as well as the other reports, to the Speaker of the House of Representatives. Reports may be taken up by the Public Accounts Committee, which is empowered to examine the Reports and discuss their contents.

The Committee, through at least three of its members, may also request the Auditor General to enquire and report matters within his mandate. The Committee is also empowered to take evidence from senior officials of ministries and departments or other government-related bodies. Moreover the PAC can also review the activities of non-central government organisations that

are required to present their accounts to Parliament.

During the current legislature, up to 31 December 2006, the PAC held 43 sittings, 17 of which were held during 2006. The Auditor General is called upon to attend all meetings.

### National Audit Office Accounts Committee

The National Audit Office Accounts Committee is composed of the Chairman of the Public Accounts Committee, the Leader of the House of Representatives, two members from the Government side and one from the Opposition. The Committee elects the Chairman from amongst its members.

The Committee meets at least once a year and presents to the House of Representatives a report of its activities and the report of its examination of any estimates prepared by the Auditor General.

The accounts of the NAO, which are on an accrual basis, are also audited by certified private sector auditors appointed by the Committee. The private sector auditors present their audit report to the Committee which in turn submits the report to the House of Representatives together with any comment thereon by the said Committee. The Committee met on Wednesday, 12 January 2006 to examine the audited Accounts for financial year ending 31 December 2004; the Work and Activities of the NAO Report for 2005; and the NAO Estimates for 2006.

The National Audit Office Accounts Committee may also discuss motions relating to Government land to be disposed of in terms of the "Disposal of Government Land Act" in accordance with Section 3(1)(c) and 3(4) of the said Act. The Committee may discuss the relative motions and report thereon to the House.

The Auditor General attends the sittings on these motions when the Committee deliberates.

### Code of Professional Conduct

The NAO follows its own Code of Professional Conduct to promote and ensure a professional work environment. The Code is a comprehensive statement of the values and principles that should guide the daily work of auditors and other employees. It also outlines the philosophy, principles and rules regarding ethical and professional conduct within the Office. It is further supplemented by Office Orders dealing with specific issues in greater detail. The NAO is currently in the process of updating this code of conduct. In terms of NAO policy, all employees are required to sign Declarations relating to NAO's '*Code of Professional Conduct*', '*Information Technology and Security Policy and Confidentiality*'.

### Human Resources

Structurally, and in terms of audit work, the National Audit Office is divided into two Sections. One Section is responsible for financial and compliance audits and is headed by an Assistant Auditor General. This Section includes four Audit Units, each headed by an Audit Manager. Three Units

have a portfolio of a number of Ministries and Departments. One of these Units is also responsible for the audit of Local Government and other Public Bodies. The fourth Unit is responsible for special audits.

The other Section, also headed by an Assistant Auditor General, is responsible for Performance/Value for Money audits. It is also responsible for International Relations, as well as Research and Policy.

The Audit Units are manned by officers of different auditing grades (Table 1 refers) that were introduced in 1999. The Organisation Structure of the NAO, as on 31 December 2006 as shown in Diagram 1, reflects the division of duties in terms of the statutory audit of Financial and Compliance Audits and Special Audits, and other legislative provisions relating to Value for Money/Performance Audits. Other Units and functions fall under the Support Services Section and are headed by Managers who are responsible for Finance and Administration, Human Resources, Training, and Information and Communications Technology. Staff Position as on 31 December 2006 is depicted in Table 1.



Mr Joseph G. Galea, Auditor General presenting the Annual Audit Report on the Public Accounts for 2005 to Hon Anton Tabone, MP, Speaker of the House

Diagram 1: NAO Organisation Structure

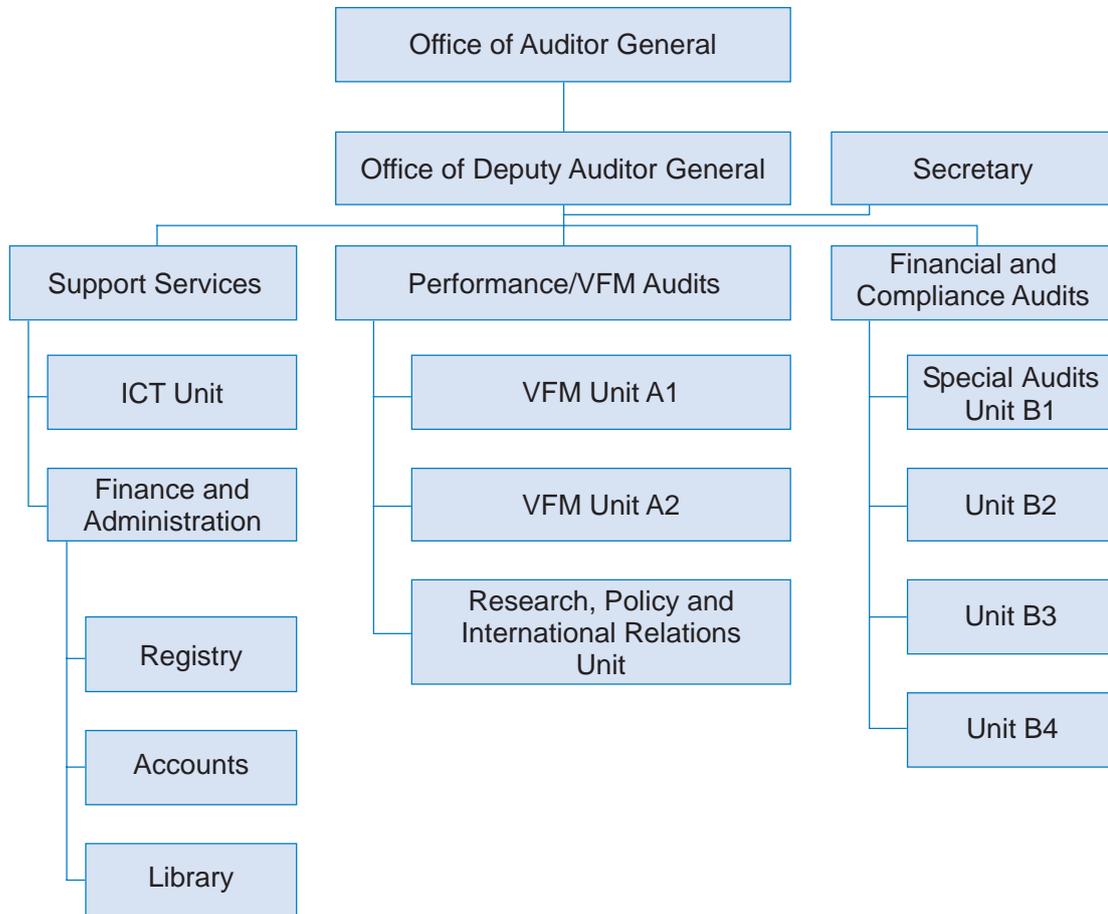


Table 1: Staff Position as on 31<sup>st</sup> December 2006

Grade Position	In Post	Male	Female
<b>Senior Management</b>			
Assistant Auditor General	2	2	-
<b>Support Services</b>			
Manager	2	2	-
Senior Principal	2	1	1
Principal	1	1	-
Assistant Principal	1	1	-
Senior Executive	2	1	1
Executive	2	-	2
Clerk	1	-	1
Receptionist	1	-	1
Minor Staff	6	5	1
<b>Auditing Grades</b>			
Manager	6	4	2
Principal Auditor	9	3	6
Senior Auditor	6	4	2
Assistant Auditor	10	2	8
Audit Technician			
Audit Clerk	2	1	1
<b>Total</b>	<b>53</b>	<b>27</b>	<b>26</b>

### Staff Recruitment and Mobility

The Auditor General engages staff with the required qualifications and experience. Attractive conditions of employment are offered in an attempt to attract the right employees.

An internal call for applications is issued whenever a vacancy arises. To apply, employees must hold the required qualifications and experience.

An external call for applications is then issued should a post remain vacant. Adverts are published in local newspapers and the Government Gazette, stipulating the qualifications and experience required.

During 2006, the position of Assistant Auditor General responsible for the Performance/Value for Money Audit Section became vacant on retirement of the incumbent. Following an external call for

applications, a senior employee of the NAO was successful and selected for the post.

Internal and External calls for applications<sup>1</sup> were issued in October and December to fill in a number of vacancies in the Grades of Senior Auditor and Principal Auditor.

### Staff Qualifications

The NAO has within its ranks a number of professionally qualified employees. This can be gauged from the range of specialisations currently on its books as on 31 December 2006, as depicted in Table 2.

Table 2: Staff Qualifications

Masters in Business Administration	3
Masters of Science in Management	1
BA (Hons) Accountancy/ CPA Warrant/Practising Certificate in Auditing	14
BA (Hons) in Administration	1
BSc (Hons) in Statistics & Operational Research	1
BSc (Hons) in Mathematics & Computer Studies	1
Bachelor of Commerce (Hons) in Management	1
Certificate in Information Systems Audits	1
Diploma in Business Studies	6
Diploma in Management	8
Advanced Diploma in Computer Studies	1
Diploma in Secretarial Studies	1

<sup>1</sup> Although the Auditor General is exempt from the Constitutional provisions (Section 108 of the Constitution of Malta) regarding the employment procedure of personnel, publicity is given in a number of local newspapers, as well as the Government Gazette, whenever vacancies need to be filled from outside the NAO. An interviewing board, chaired by a consultant in industrial relations, examines all applications, interviews applicants and submits recommendations for the approval of the Auditor General.

### Training

The NAO attaches great importance to training. On recruitment, new employees are given on-the-job training by senior officials, while experienced employees are encouraged to follow University Degree or Diploma courses on a part-time basis. Employees are also regularly sponsored to follow courses of training abroad.

Furthermore, members of staff are encouraged to attend local Conferences and Seminars organized by the Malta Institute of Accountants and other professional bodies.

### Local Training

NAO employees attended a number of seminars and training courses during 2006. Table 3 (Seminars and Training Courses) and Table 4 (Local Sponsorships) refer:

Table 3: Seminars and Training Courses

Seminar/Course Theme	Organiser
Revised International Accounting Standards in Practice – Part 1	Malta Institute of Accountants (MIA)
Revised IFRSs – Part 2	MIA
Euro Changeover – What’s in it for the Accountants	MIA
Surviving Global Competition: Business Priorities for Growth and Employment	Malta Business Bureau
Euro Tax Seminar	Malta Institute of Taxation (MIT)
Security & Risk Management	EMCS Ltd
The use of data management techniques in assurance services Association (ISACA)	Information System Audit & Control
Revised IAS in Practice – Part 2	MIA
Lateral Thinking	Malta Institute of Management (MIM)
Polluter Pays Principle in Malta and the EU	MEPA
Anti-Money Laundering	MIA
Corporate Culture	MIA
Information Security Architecture/Enterprise Resource Planning	ISACA
Improving Debt Collection through the Maltese Courts	Malta Association of Credit Management
Developments in International Security Standards	ISACA
Trust and Portfolio Discretionary Management	MIA
Quality Assurance	MIA
Euro Tax Seminar	MIT
Business Continuity Planning	Shields Security Consultants Ltd
European Health Fraud and Corruption Network Awareness	Ministry of Health, the Elderly and Community Care
IT Risks & Control in a SME Environment	ISACA
The EU Statutory Audit Directive	MIA
Serving the Public Interest	MIA
Information Security Basic Training	Malta Information Technology and Training Services Ltd (MITTS)
Effective Business Writing	MISCO
Minute Taking	MISCO
Pastel Evolution Training	IES Ltd

Table 4: Local Sponsorships

Sponsorship	Organiser	No. of Employees attending
ACCA	MIA	1
Diploma in Taxation	MIT	1
Masters in Business Administration	University of Malta	1

### Overseas Training

In 2006 a Senior Auditor from the Performance/Value For Money Audit Section attended an International Training Course with the U.K. National Audit Office. This course covered both Financial and Compliance and Performance/Value For Money Auditing. Seven officers have attended the course since its inauguration in 1993.

### Engagement of Consultants

Although the National Audit Office has within its ranks qualified employees who have the necessary expertise to carry out training and audit assignments, when the need arises services of consultants in particular field of expertise are contracted, as indicated in Table 5.

Table 5: Consultants

No of Consultants	Type
1	Legal advisor on a retainer basis
1	Review of audits carried out by Local Government auditors; assistance in Special Audits; other tasks on an "ad hoc" basis
1	IT Administration issues
1	Matters concerning conditions of employment and industrial relations; chairing of Interviewing Board in filling of vacancies.

### Library

The NAO continued to invest in its library. The library serves as a reference and central depository equipped with manuals, auditing, accounting and other publications to assist and update audit staff in their work. Of particular relevance are Value for Money/ Performance and Financial and Compliance Audit Reports published by other SAIs, as well as standards and guidelines produced by INTOSAI and the International Federation of Accounts (IFAC).

### Participation in Public Sector Programmes

#### Accrual Accounting

The Office continues to be represented on the Accrual Accounting Task Force (which falls under the responsibility of the Ministry of Finance) in an 'observer' capacity. The Office provides, through its representative, its opinion and feedback on the various initiatives undertaken by the

Task Force for the eventual introduction of accrual accounting in Government Financial Reporting.

### E-Procurement

The NAO is also represented on the Task Force set up by the Ministry of Finance charged with the formulation of strategies and policies and the implementation of an appropriate system that will modernise the public sector through the introduction of procurement solutions based on information and communication technologies. Representation on this Task Force is also in an 'observer' capacity.

### International Relations

Table 6 provides an overview of all events relating to overseas visits, including events held in Malta with the participation of foreign delegates.

### EU Contact Committee

The Contact Committee (CC) is an assembly of the Heads of the Supreme Audit Institutions of the EU Member States and the European Court of Audit (ECA). It is autonomous, independent and non-political. In order to contribute to the improvement of EU financial management and good governance the CC fosters the exchange of professional knowledge and experiences on the audit of EU funds and other EU-related issues. Its mission is to enhance co-operation among its members in order to improve external audit and accountability in the EU field.

During 2006, the CC working groups were occupied in various EU-related projects:

- Working Group (W.G.) on National SAI Reports on EU Financial Management
  - The W.G. developed a systems description format that enables SAIs to collect comparable information on the systems in place for EU funds. This format was eventually applied to the Common Agricultural Policy. The working

group also drafted an information leaflet titled '*Producing Reports on EU Financial Management*'.

- Working Group on Procurement
  - Each of the four Task Groups making up this Working Group met at least once whilst the Core Group met on two occasions. Deliverables included:
    - \* A Guide to EU Procurement Rules, incorporating summaries of Court of Justice rulings;
    - \* Checklists for use by financial auditors examining public procurement activities;
    - \* A Procurement Performance Model for use in Performance/Value for Money examinations.
- Working Group on Structural Funds
  - This Working Group produced a report relating to a parallel audit on the processes that are in place for the identification, reporting and follow up of irregularities;
- Working Group on Value Added Tax
  - This Working Group prepared reports on "Measuring VAT Losses" and "Cooperation between SAIs in the Field of VAT".
- Expert Group on Audit Quality
  - The Group prepared and presented an Electronic Database on Audit Quality. It helped in the organisation of a Seminar on "Implementation of Audit Quality Practices". It is also involved in the organisation of a future Seminar on Audit Quality to be held in 2007.
- Joint Working Group on Audit Activities
  - In close cooperation with SIGMA and with the support of the ECA, this Working Group identified a number of parallel audits on activity areas between SAIs from EU Member States and EU candidate and potential candidate countries. The Group also continued to

monitor the overall level of joint audit activities.

- Agricultural Network
  - The year 2006 saw a growing interest of SAls in intensified collaboration between them and with the ECA. Positive results were reported for the first Network Conference held during this year.

The public website of the Contact Committee of the Supreme Audit Institutions of the European Union can be accessed on: <http://www.contactcommittee.eu>. The site contains information relevant to the Committee, most notably its mission statement, background and participating countries; cooperation-related issues between EU SAls with SAls of EU candidate and potential candidate countries and within international organisations; Contact Committee resolutions; Working Groups' final reports and SAls' reports on the audit of EU funds; and agendas for the Contact Committee.

### **NAO Contribution to International Papers**

During 2006, articles, papers and other feedback were provided on the following themes:

- Exposure Draft (ED) IPSAS (International Public Sector Accounting Standards) relating to Disclosure of Financial Information about the General Government Sector; Presentation of Financial Statements; Accounting Policies, Changes in Accounting Estimates and Errors; The Effect of Changes in Foreign Exchange Rates; Consolidated and Separate Financial Statements; Investments in Associates; Interests in Joint Ventures; and Inventories.
- INTOSAI Draft Audit Practice Note to ISA (IFAC International Standards on Auditing) relating to 'The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements'.
- Article on NAO Mid-Year 2005 Report and

other Reports for the INTOSAI Journal on Government Auditing.

- INTOSAI Survey of Supreme Audit Institutions – Professional Auditing Standards: Needs and Priorities
- EUROSAl Magazine article on "Activities of the Expert Group on Audit Quality for the Network of EU Member State SAls" (co-jointly prepared with the other members of the Expert Group on Audit Quality).

### **NAO Participation in Committees**

A senior employee acts as a EUROSAl joint sub-coordinator of SAls from the Mediterranean Region on Environmental audit.

Another senior official participates in the Liaison Officers' Meetings of EU Member States and has co-jointly participated in activities relating to the Expert Group on Audit Quality.

The NAO has nominated two senior officers to participate in a Working Group (made up of the SAls of Denmark, the Russian Federation, Hungary, Malta and the ECA), in the preparation of Principal and Discussion Papers on 'Establishing Audit Quality Management System within a SAl', which is one of the themes of the VII EUROSAl Congress to be held in June 2008.

An Assistant Auditor General is the Chairman of the Eurocontrol Audit Board for the audit of Eurocontrol budgets and accounts.

Table 6: Overseas Events - 2006

Date	Event	Location	Description
January to December	Visits to Eurocontrol Audit Board	Mainly Brussels	A senior NAO official is Chairman of the Board in the certification process of the Eurocontrol Agency and Air Route Charges.
February 20-22	Familiarisation Visit to the Romanian Court of Accounts	Bucharest (Romania)	The aim of the visit by the Auditor General and two senior officials was to strengthen ties between the two institutions, identify areas of further collaboration, as well as exchange views and ideas on various aspects of public sector auditing.
February 27 – March 3	ECA Audit Mission on Common Agricultural Policy – IACS	Malta	The NAO acted as liaison between the ECA and the auditee when the European Court of Auditors carried out an audit of the Integrated Administrative and Control System (IACS) of the Paying Agency Department within the Ministry for Rural Affairs and the Environment. The ECA examined the administrative procedures in place for the management and control of area aid and animal premium claims, the procedures for performing IACS on-the-spot inspections in respect of these areas, and the IACS Control Statistics sent to the Commission.



Bilateral visit between the Romanian Court of Accounts and the National Audit Office, Bucharest (Romania), 20 - 22 February 06

Date	Event	Location	Description
March 9	Seminar on Audit of ECA Financial Mechanism	Brussels	The seminar was attended by a senior NAO official. Future co-operation was agreed between the Supreme Audit Institutions of Beneficiary States regarding the audits of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism. It also aimed to establish the necessary contacts between these Supreme Audit Institutions and the European Board of Auditors.
March 13-15	3 <sup>rd</sup> Workshop for Central Harmonisation Units	Bled (Slovenia)	The workshop was attended by a senior NAO official. The objective of the workshop was to discuss issues relating to the implementation of internal control standards in the public sector, including: (i) Risk assessment and managerial supervision; (ii) Co-operation between State Audit Institutions and Central Harmonisation Units; (iii) the functional independence of the internal auditors; and (iv) Annual Central Harmonisation Unit reporting on Public Internal Financial Control concept in the public sector at large.
March 15-17	ECA/SIGMA Workshop on Implementing Audit Quality Practices	Vilnius (Lithuania)	A manager and another official attended the workshop. The objective of the workshop was to facilitate the exchange of knowledge and practical experiences on current audit quality practices implemented by Supreme Audit Institutions.



Meeting of the Liaison Officers of the Supreme Audit Institutions (SAIs) of the European Union - Budapest (Hungary), 15-16 May 2006 (Source: ECA Website)

Date	Event	Location	Description
April 18-19	Familiarisation Visit to Libya – Institution of Auditing & Technical Supervision	Tripoli (Libya)	The visit was attended by the Auditor General and two senior officials. The aim of the visit was to strengthen ties between the two institutions; identify areas of further collaboration; and exchange views and ideas on various aspects of public sector auditing.
April 20-21	Visit Britain/ UK NAO	London	The visit was attended by an NAO manager and another employee. The purpose of the visit was to learn about the planning and implementation of marketing activities by Visit Britain, the national tourism organisation in Britain, and to discuss the approaches adopted by the UK National Audit Office during the performance audit: “Visit Britain: Bringing visitors to Britain”, published in November 2004.
April 26-27	Bilateral Annual Coordination (European Commission/IAID) Meeting – 26 April Visit to Eurocontrol Central Flow Management Unit -27 April	Brussels	The meeting was attended by the Auditor General. The bilateral agreement between the Maltese authorities and the EU Commission in connection with the Structural and Cohesion funds was discussed. The visit also covered the main audit findings related to Community and national controls on the use of Structural and Cohesion Funds for the year 2005; the current and future audit strategies for the selection of projects for review; and specific commitments for improvement. The Auditor General also visited the Eurocontrol Central Flow Management Unit.
April 27-28	Working Group Meeting on National SAI Reports	Prague	A senior NAO official attended the meeting that focused on the current situation in the Supreme Audit Institutions regarding the development of own National SAI Reports on EU matters. New developments taking place in EU financial management that could have an impact on the future activities of the Working Group were also discussed.
May 15-17	Audit of Electronic Documents/ Records Management Systems (EDRMS)	Zurich	The seminar was attended by an NAO employee. The objective of the seminar was to familiarise participants with the implementation, management and auditing of Electronic Documents Records Management Systems (EDRMDS). The seminar discussed the issues to be considered when introducing EDRMSs including: (i) audit software in use for financial and compliance audits; (ii) amount/level of Information Systems audits performed; and (iii) the effects of current and impending legislation on the State Audit Institution.

Date	Event	Location	Description
May 15-16	Liaison Officers' Meeting of EU MS	Budapest (Hungary)	The meeting was attended by a senior NAO official. The purpose of the meeting was to discuss the final reports prepared by Liaison Officers of EU Member State Supreme Audit Institutions in terms of the Stockholm December 2005 Resolutions of the Contact Committee Meeting. Further information is to be found under "EU Contact Committee".
June 20	International Symposium on Strengthening Global Government Audit	Vienna (Austria)	The symposium was attended by the Auditor General. Various topics were covered, including the importance of global co-operation in government auditing for the European Commission; the co-operation between the United Nations and INTOSAI; the functioning of INTOSAI according to its Strategic Plan; the European Court of Auditors and co-operation with national Supreme Audit Institutions and INTOSAI; and the funding, accountability, monitoring, evaluation and audit mechanisms applicable to the provision of disaster - related aid to third countries.
July 7	Working Group Meeting on Audit Quality	Luxembourg	A senior NAO official participated in the meeting. Topics discussed during the meeting included: (i) the preparation of a draft programme for a EUROSAI Training Committee event on Audit Quality to be held in Budapest in March 2007, (ii) the participation by the Working Group in the VII EUROSAI Congress to be held in Krakow (Poland) in 2008; (iii) developments relating to the electronic database on audit quality; and (iv) the future activities of the Working Group.
July 31- August 1	VAT Exchange Visit	Bonn (Germany)	The visit was attended by a senior NAO official and two other employees. The aim of the exchange was to share ideas and experiences within the following areas:(i) VAT losses due to Missing Trader Fraud - national attempts for a solution; (ii) Introduction of the Reverse Charge Mechanism in Germany, Austria and UK; (iii) Business game to identify positive and negative effects; (iv) possible improvements of the VAT Information Exchange System (VIES); and (v) Branches of big European companies resident in Malta and their role and activities.
September 4-5	VAT Working Group: VI Plenary Meeting	Helsinki (Finland)	A senior NAO official participated in the meeting. The Working Group discussed the methodology and the outcome of the survey on the VAT Gap and finalised the Activity Report for 2006. The Group also discussed the introduction of the Second Generation VIES II, with presentations from a number of Supreme Audit Institutions, including Malta.

Date	Event	Location	Description
September 7-9	4 <sup>th</sup> European Institute of Advanced Studies in Management (EISAM) International Conference on Accountancy, Auditing and Management in Public Sector Reforms	Siena (Italy)	The conference was attended by a manager. The overall theme of the conference was the future of the New Public Management Agenda, and included papers from academics and practitioners on a wide range of topical issues including the role of the Auditor General; Performance Auditing; Strategic Management in the Public Service; Performance Measurement; Public Private Partnerships; Health Care Management; E-government; Regulation of Privatised Industries; Local Government; Budgetary Control; the Reform of Public Entities; Public Accountability; Public Sector Accounting and the Application of Management Accounting Systems in the Public Sector.
September 6-22	International Training Course by the UK NAO	London	The international training course was attended by one employee. The course provided an overview of the methodology, process and procedures applicable to UK NAO Financial Audits and Performance /Value for Money Audits.
September 13-15	ECA/SIGMA Workshop on Audit Manuals	Laulasmaa (Estonia)	A senior NAO official participated in this workshop that enabled the sharing of experiences on the development of audit manuals of the different State Audit Institutions of new Member States, Candidate and Prospective Candidate Countries.
September 20-22	IV Meeting of the EUROSAI IT Working	Bratislava (Slovak Republic)	A manager and an other official attended this meeting. Themes discussed included: (i) the performance of an IT self-assessment; (ii) the relevance of IT for (international) revenue fraud combat; (iii) the approach to E-government audit; and (iv) future projects to be undertaken by the Working Group.



ECA/SIGMA Workshop on Audit Manuals-  
Laulasmaa (Estonia),  
13 - 15 September 06

Date	Event	Location	Description
October 10-11	3 <sup>rd</sup> European Healthcare Fraud and Corruption (EHFC) Network Annual Conference	Madrid	The conference was attended by the Auditor General. The objective of the event was to facilitate networking amongst healthcare counter fraud and counter corruption specialists from across Europe, and to enable the public and private healthcare sectors from across Europe to work together to ensure that proper standards and controls are developed.
October 12-13	Liaison Officers' Meeting of EU MS	Luxembourg	The meeting, attended by a senior NAO official, discussed the final reports prepared by Liaison Officers of EU Member States for the December 2006 Warsaw Contact Committee Meeting. Further information is to be found under "EU Contact Committee".
October 25-27	OLAF Conference on improving Operational Cooperation	Brussels	The conference was attended by the Auditor General and a senior official. The objective of the event was to improve operational co-operation between OLAF partners in internal and anti-corruption investigations. Topics discussed included: (i) the European Commission policy and operational co-operation; (ii) a new structure for OLAF; (iii) fraud prevention in the areas of agriculture, customs and structural funds; and (iv) the role of the media in fighting and preventing fraud.
November 6 - 8	EUROSAI Seminar on Audit of Public Aids and Subsidies	Prague	A manager attended the event that was organised by the Supreme Audit Office of the Czech Republic in collaboration with EUROSAI and was divided into three main topics: (i) the auditing of State Aids and Subsidies, including the audit of transfer payment programs; (ii) national Supreme Audit Institutions experiences in the audit of EU funds; and (iii) recent developments in auditing Public Private Partnerships.



IV Meeting of the Environmental Audit Working Group and Seminar hosted by the European Court of Auditors - Luxembourg, 27-29 November 06 (Source: ECA Website)

Date	Event	Location	Description
November 21	Common Agricultural Policy (CAP) Information Network	Luxembourg	The meeting was attended by a manager. Topics discussed included: (i) the reform in the Common Agricultural Policy; (ii) the audit of the Single Payment Scheme that is a central element of the Common Agricultural Policy Reform; (iii) the Court of Auditors' Common Agricultural Policy Statement of Assurance Audit; and (iv) the future of the Common Agricultural Policy Information Network.
November 27-29	IV Meeting of the Environmental Working Group	Luxembourg	The meeting was attended by a manager. Themes discussed included: (i) biodiversity audits; (ii) flood protection audits; and (iii) experiences related to the methodology of environmental auditing.
December 1-2	EUROSAI-ARABOSAI Meeting	Tunis (Tunisia)	It was the first time that Malta was invited to attend such a meeting. A manager attended this event. The theme of the meeting was privatisation and its impact on the management of public services. It also included presentations and workshops on various common issues related to the audit of privatisation affecting European and Arab Audit Institutions.
December 11-12	EU Contact Committee Heads of SAIs Meeting of EU Member States	Warsaw	The Auditor General and another senior official attended this annual Meeting. The 2006 Contact Committee Meeting discussed reports prepared by the Liaison Officers. Current developments relating to the improvement of accountability of EU Funds were also discussed. Further details are to be found under "EU Contact Committee".



Heads of SAIs of EU Member States meeting Mr Lech Kaczyński, President of the Republic of Poland during the EU Contact Committee Meeting - Warsaw (Poland), 11-12 December 06 (Source: Polish Supreme Chamber of Control Website)

## Information and Communications Technology

### *IT Operations Review*

In the light of the developments in the area of Information Technology (IT) and its rapid adoption by government ministries, departments, non-central government and other entities, the NAO engaged external consultants to carry out an '*IT Operations Review*'. As a result of this review the NAO is enhancing the development of the new IT Audit function within the IT Unit in addition to its current internal support to auditors and IT administration of the technical infrastructure functions.

The IT Unit is gradually building its capacity to expand its contribution to IT-related components of Financial and Compliance, and Performance/Value for Money audits, as well as to be able to undertake 'stand alone' IT audits.

### *IT Administration and Support*

The IT Administration and Support functions continued to respond to internal requests for support, including assistance with the procurement of equipment and software and liaison with suppliers of IT-related services, equipment and consumables. The helpdesk serviced over eight hundred calls from the staff and assisted the other sections with their requirements, such as new network point arrangements, the reconfiguration of applications and the upgrade of software.

The operating system software of the file server was also upgraded to a more advanced version so as to ensure that the infrastructure is kept current and able to provide the necessary facilities.

### *Production of Publications*

The Unit is also responsible for the coordination and production of NAO publications. The production process transforms the various texts received from

the respective authors by collating and formatting them into the pre-printing layout. This is then prepared in the appropriate technical format and sent to the printers for printing and binding. The publications, after having been laid on the table of the House of Representatives, are also placed on the NAO website to promote a wider circulation.

## Conclusion

July 2007 will bring about the completion of my second and last five-year mandate as Auditor General.

Generally speaking, they have been ten years of challenging, demanding and hard but also rewarding work. July 1997 had in fact seen the start of a new era – the establishment of the National Audit Office – as an office independent of the administration, headed by an officer of Parliament – the Auditor General. This move was, in turn, the result of years of study into the ways and means by which the public service was to undergo a reform, an initiative commenced back in 1988.

This independence made it possible for the former Department of Audit to be developed into an organisation that manages to assist the Auditor General in discharging the Constitutional mandate effectively and efficiently.

Meeting the constitutional mandate involved significant capacity building. A modern day state audit institution can only hope to guard the public purse effectively and efficiently if it can draw on highly trained, skilled, experienced and motivated employees. With its mandate to perform Financial and Compliance Audits extended to include Performance/Value For Money and Special audits, the National Audit Office needs to be manned by personnel qualified in a mix of skills – accounting, financial auditing, management, statistics, economics, and information technology, amongst others. Capacity building was, and will remain, a big challenge. Attracting and retaining suitably qualified personnel to work in a state audit institution is no mean feat.

My office has, over the last years, endeavoured to provide a work environment that is motivating. Its statutory position makes it rather difficult to offer the salary packages paid by certain organisations, both public and private. This notwithstanding, the pay packages offered are competitive and are, in addition, supported by motivational drivers in the form of sponsorships and financial bonuses for strong performance. It has been my firm belief that lifelong learning is the key to success, both for an individual and for the employer. Throughout the past ten years, a number of employees studying on a part-time basis at University and other institutions have stood the Office proud, achieving excellent results.

In addition to formal educational training, it has always been Office policy to offer employees on-the-job training, and the possibility of enhancing capacity, knowledge and skills through the participation in conferences, seminars and workshops, both locally and abroad.

Notwithstanding the in-house capabilities, it is at times felt useful to engage outside expertise in the form of consultancy. The quality of audit work improves significantly with the engagement of such expertise, to the benefit of Parliament, the auditee and hence the taxpayer in general. The Office is further enriched by the ever greater exposure to modern methodologies of work. More important is the fact that employees stand to benefit through the acquisition of specialised knowledge and experience.

My Office makes use of modern IT equipment that allows employees to perform their duties efficiently. It also possesses a robust infrastructure enabling digital communication within the Office and with the public sector. The availability of Internet and Intranet facilities are considered as important office tools, supplementing the library content for research purposes.

I have already referred in passing to overseas activities undertaken by the NAO. No man is an island, and neither is any institution. We have learnt a lot, both as

individuals and as an organisation over the years, to continue being of service to Parliament. The Office needs to keep itself abreast of developments, even on the international scene. Apart from the special commitments brought about by the EU accession, it has always been my policy to participate actively in events held abroad. The NAO involves itself by attending various international committee meetings, seminars, congresses and training courses. We also contribute on a regular basis by submitting country papers and specialised reports. While benefiting the Office in that it establishes for itself an international presence and takes on better practices and work methodologies from other state audit institutions, this activity benefits employees, who enrich their knowledge and experience in the process.

My sincere gratitude goes towards all those who contributed in some form to this success – honourable members of the House of Representatives, particularly members of the Public Accounts Committee and members of the National Audit Office Accounts Committee; the public service departments, public sector entities; foreign state audit institutions; local consultants; and last but certainly not least the NAO management team and other employees who have put in big efforts to make this success story possible.

There is still more to be done and it is certainly no time to be complacent.

However, I feel confident that by building on these past achievements my successor will be able to move forward with confidence to guard the public purse to the benefit of our country.

Joseph G. Galea  
Auditor General

February 2007