



National Audit Office
Annual Report and Financial Statements

2021

Table of Contents

List of Abbreviations	5
Foreword by Auditor General	7
Auditor General and Deputy Auditor General Reappointed for a Second Term	10
A common language for the NAO	12
Rulings by the Hon. Speaker of the House of Representatives of particular relevance to the National Audit Office	15
PART ONE	21
Introduction	22
Public finances	22
Government and EU expenditure on Covid-19	23
Infrastructural projects and investments (co-financed by EU)	24
Developments and reforms within the Public Service	24
Ongoing Financial Management Reform	25
Organisational Overview and Section Results	26
Financial and Compliance Audits Section	28
Performance Audits Section	31
Special Audits and Investigations Section	34
Information Technology Audits and Operations Section	37
Finance and Administration Section	39
Governance	41
NAO Organisation Chart	41
Highlights of 2021	43
Local Events	43
Foreign Events	48
Stakeholder Relations	52
Relations with Parliament	52
Relations with auditees	53
Relations with educational institutions	57
Relations with the general public	63
Participation of senior NAO officials in EU boards	69
Participation in domestic working groups and committees	70
Relations with employees - Social activities	70
PART TWO	73
NAO Business Model	74
NAO Capitals	75
Risks and opportunities	86
Risks	86
Opportunities	87
Strategy and Resource Allocation	87
National Audit Office Strategy 2019-2023	87
NAO Strategy Action Points	88

Concluding Notes	89
NAO Outlook	89
Basis for preparation and presentation	90

PART THREE	91
General Information	92
Report of the Auditor General of the National Audit Office	93
Statement of Profit or Loss and Other Comprehensive Income	96
Statement of Financial Position	97
Statement of Changes in Reserves	98
Statement of Cash Flows	99
Notes to the Financial Statements	100
Independent Auditors' Report	112

List of Tables

Table 1: Examples of EU funded Malta projects and their expected cost	24
Table 2: List of NAO Senior Management Meetings with Permanent Secretaries	53
Table 3: Results of Planning and Communication Statements	54
Table 4: Results of Auditee feedback on audit execution and team behaviour throughout the audit process	55
Table 5: Results of Auditees feedback on NAO Reports	56
Table 6: Results of Auditees' opinion on NAO findings	56
Table 7: Results of rating by auditees of quality of NAO recommendations	57
Table 8: List of NAO Strategy Action Point Teams Goals and Outputs	88

List of Charts and Figures

Chart 1: Government Expenditure on Most Material Covid-19 Government Measures	23
Figure 1: % of respondents who were familiar with phrases referring to the Maltese SAI	63
Figure 2: Replies to question - From where did you hear about the NAO?	64
Figure 3: Replies to question - Mention some roles of the NAO	65
Figure 4: Replies to question - Who do you think appoints the Auditor General?	65
Figure 5: Replies to question - How independent do you think NAO is from Government?	66
Figure 6: Level of confidence in the way the NAO is managed	66
Figure 7: Level of trust that the NAO safeguards the interests of citizens	67
Figure 8: Replies to question - To whom does the NAO report?	68
Figure 9: Replies to question - Which NAO reports should be published?	68
Figure 10: Level of confidence in the Auditor General reports	69

List of Abbreviations

AAG	Assistant Auditor General
AG	Auditor General
AI	Artificial Intelligence
ANSEC	National Association of Executive Secretaries
ASOSAI	Asian Organisation of Supreme Audit Institutions
CAP	Chapter
CFMS	Corporate Financial Management Solution
CIPFA	Chartered Institute of Public Finance and Accountancy
Covid-19	Coronavirus Disease 2019
DAG	Deputy Auditor General
ECA	European Court of Auditors
ECL	Expected Credit Loss
EPPO	European Public Prosecutor's Office
ESA	European System of Accounts
ESP	EUROSAI Strategic Plan
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
EY	Ernst and Young Malta Limited
F&A	Finance and Administration
FCICM	Financial Crime Investigation and Case Management
FEMA	Faculty of Economics, Management and Accountancy
GDP	Gross Domestic Product
HDPAF	Higher Diploma in Public Accounting and Finance
ICT	Information and Communications Technology
IDI	INTOSAI Development Initiative
IESBA	International Ethics Standards Board for Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISAM	IDI's SDG Audit Model
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
ITASA	IT Audit Self Assessment

List of Abbreviations continued

ITSA	IT Self Assessment
ITWG	IT Working Group
JCL	James Caterers Limited
LCA	Local Councils Association
LESA	Local Enforcement System Agency
LGD	Local Government Division
MBA	Masters in Business Administration
MFE	Ministry for Finance and Employment
MHC	Malta Healthcare Caterers Limited
MIMCOL	Malta Investment Management Company Limited
MoU	Memorandum of Understanding
MP	Member of Parliament
MS	Microsoft
MTA	Malta Tourism Authority
NAO	National Audit Office
NGO	Non-Governmental Organisation
NSO	National Statistics Office
OECD	Organisation for Economic Co-operation and Development
PA	Planning Authority
PAC	Public Accounts Committee
PESA-P	Professional Education for SAI Auditors – Pilot Study
PMF	Performance Measurement Framework
RF	Radio Frequency
SA&I	Special Audits and Investigations Section
SAI	Supreme Audit Institution
SAO	Supreme Audit Office
SDG	Sustainable Development Goal
SIC	Standards Interpretation Committee
TAI	Transparency, Accountability and Inclusiveness of Use of Emergency Funding for Covid-19
TEN-T	Trans-European Transport Network
UK	United Kingdom
UN	United Nations
VAT	Value Added Tax
VPN	Virtual Private Network
WHO	World Health Organisation

FOREWORD

Auditor General's Overview



Auditor General
Charles Deguara

I am honoured and humbled that, following the unanimous approval by Parliament during the sitting held on 24 March 2021, my mandate to assume responsibility for the leadership of the National Audit Office was renewed for a second term. I am deeply thankful to my Deputy, Mr Noel Camilleri, whose second term as Deputy Auditor General was likewise renewed unanimously during this sitting, and to our formidable NAO team, whose commitment, competence, hard work and resilience are truly commendable.

Indeed, our Office's excellent performance throughout these five years is undoubtedly the result of a collective team effort, involving all our management and staff within the auditing, administrative and IT as well as our support services sections. Together we have issued a record number of audit assignments as well as organised various international conferences that have substantially enhanced our Office's international profile.

Focusing specifically on 2021, one objectively acknowledges that it was another very positive year during which our staff once again rose to the occasion. Our teams managed to complete our Audit Plan (in addition to other unforeseen assignments) notwithstanding the challenges brought about by the second year of the Covid-19 pandemic. It is significant to note that during the last three months of 2021, we issued eight reports, including the Annual Report by the Auditor General on the Public Accounts 2020 and on the workings of Local Government 2020 respectively.

Besides our core function of carrying out numerous audit assignments, covering an impressive spectrum

of operations across the public service, we have also focused on important assignments essentially meant to review our own internal operations. Such an introspective analysis is of critical importance in view of our commitment to ensure that we continue to improve our own methodologies, processes and systems.

Only in this way, can we aspire to continue achieving our primary objective, in line with our Strategic Plan 2019-2023, of offering a public sector audit service of the highest quality to all our auditees. Thus contributing towards the further enhancement of good governance across the public sector and promoting the optimal management of public resources and funds. Ultimately, this is done in the best interests of our citizens, whom we serve.

For this reason, following extensive discussions with each section's management, an internal NAO team, practically made up of staff from all major sections within our organisation, reviewed and eventually produced the final version of the Performance Measurement Framework Report. The report commended the Office for the range of initiatives undertaken over recent years to improve its processes and procedures, and identified areas where there is scope for further improvement. Senior management has already initiated discussions on the important, albeit challenging, implementation phase.

Moreover, we also mandated a specialised group to carry out an extensive survey highlighting various aspects of the general public's perception of our Office and our work. A detailed report based on the survey's findings was presented to the undersigned in August 2021. A summary of the results of this survey is reproduced in this Report. Preliminary discussions have already begun by senior management, essentially with a view to try to improve even further the public perception of the National Audit Office.

It is critical to note that we do our utmost to continue enhancing the technical quality of our work. This aim is attained through the continued adoption of more efficient and effective methodologies, in line with

international auditing standards, such as basing all our audit assignments on the fundamental values of objectivity, independence, impartiality and integrity, and ensuring duly evidenced-based findings and conclusions.

The Office also expects and demands full compliance with the ethical and integrity requirements of the Code of Professional Conduct of the National Audit Office and adopts a zero-tolerance policy to ethical breaches. Only thus can we aspire to safeguard the excellent reputation and trust that our Office enjoys, both by Parliament as well as the general public. Within this context, it is pertinent to note that the Governance Action on the NAO's Annual Report on the Public Accounts 2019 and other NAO Reports 2020 publication, issued by the Office of the Principal Permanent Secretary in October 2021, duly acknowledges: "The example of the National Audit Office should be a beacon to lead other institutions to reach high standards in both oversight operations and organisational ethics."

During the present year, the National Audit Office will be commemorating a special and extremely important milestone in its relatively long history, namely the 25th anniversary of its being set up as a fully independent constitutional entity, totally autonomous from the Executive. The National Audit Office succeeded the Department of Audit, originally established by the first British Governor, Sir Thomas Maitland, way back in 1814.

Indeed, as a Government department, up to July 1997, it fell under the responsibility and control of the Ministry for Finance. As a result of the unanimous agreement between Government and the Opposition, the National Audit Office was set up in its present form by virtue of both the new Auditor General and National Audit Office Act, 1997, as well as important amendments to the Constitution of Malta, through Section 108.

These new legal provisions ensured that the Office's total independence, a sine qua non for any serious and worthy national audit institution, is indeed enshrined in the Constitution of Malta itself. This fundamental development reflects the provisions

of the 1977 Lima Declaration, which was the first INTOSAI document to clearly and comprehensively emphasise the critical importance of Supreme Audit Institution independence.

This historical declaration, among other important aspects, reminds all its members that national audit institutions can only be objective and effective if they are fully independent from the audited entity and are duly protected from any outside influence. The NAO is currently actively engaged in various initiatives to commemorate this significant milestone, including the planned publication of a book that will be written to scholarly standards. This publication will essentially document and reflect on leading themes and issues associated with the development of public sector audit in Malta and beyond during the first two decades of the 21st century and into the future.

The main objective of this publication will be to offer a variety of perspectives on these issues: thematic and chronological, professional and academic, technical and political, local and comparative. It will be edited by Prof. Edward Warrington, who has extensive knowledge and experience of the workings of the NAO, having been actively involved in the preparation and editing of previous publications. These include the *Guardian of the Public Purse – A History of State Audit in Malta 1814-2014*, and the present NAO Strategy Plan 2019-2023.

On this important anniversary, in addition to recalling the past, we also need to duly prepare ourselves for the future by undertaking the necessary initiatives to continuously adapt to local and international trends and developments. To ensure that the NAO continues to effectively carry out its constitutional mandate – particularly to provide assurance to Parliament and to our citizens that public funds are being used appropriately, wisely and in line with prevailing rules and regulations – we need to exercise foresight and plan rigorously and smartly. We undertake this onerous task primarily by exploiting new opportunities and preparing ourselves to face and overcome emerging challenges related to public sector auditing.

Considering these new challenges – mostly brought about by the ongoing transformation of the NAO’s external environment, including, inter alia, developments in the social, economic, digital, environmental, healthcare and educational fields – it is of fundamental importance that NAO staff possess the necessary skills and competencies to continue producing very high-quality audit assignments. Fully cognisant of the fact that our human resources constitute by far our most valuable resource, we will continue to allocate the highest priority to the ongoing professional development of our teams. Moreover, the NAO will continue to invest in technological tools and facilities to continuously ensure effective and efficient operations.

Thus, essentially, through continuous improvement in our operations and methodologies, we will continue to ensure the provision of an excellent public sector external audit service, as our Parliament and citizens rightly expect and deserve. Acknowledging the quality and competence of our team, we are confident this will be duly achieved.



Charles Deguara
Auditor General
July 2022

Auditor General and Deputy Auditor General Reappointed for a Second Term

With effect from 30 March 2021, the Auditor General, Charles Deguara, was reappointed by the President of Malta, Dr George Vella, following unanimous approval by the House of Representatives of Motion 478, dated 24 March 2021, for a second five-year period in terms of the Constitution of Malta. The Deputy Auditor General, Noel Camilleri, was similarly reappointed for a second five-year term with effect from the same date following unanimous approval by the House of Representatives of Motion 479, also dated 24 March 2021, for a second five-year period in terms of the Constitution of Malta.



Oath of office of Auditor General Charles Deguara



Oath of office of Deputy Auditor General Noel Camilleri



Group photo taken during ceremony of Oath of office of Auditor General and Deputy Auditor General

A common language for the NAO

National Audit Office Deputy Auditor General Noel Camilleri looks back at the work done on the Strategic Plan 2019-2023, reviews what remains to be done and outlines preparations for the next strategic plan in this frank interview.



Deputy Auditor General
Noel Camilleri

Back to basics

So many benefits have accrued to the National Audit Office as a result of the adoption of its five-year Strategic Plan. Outside the daily pressures of producing the numerous reports the Office issues each year, it has enabled staff at all levels to go back to basics and re-evaluate how the Office works, what is being done well and what could be improved, in line with international standards.

According to Noel Camilleri, Deputy Auditor General, the various work streams have given the Office “a new focus and a new direction”. Even more impressively, it enabled everyone from senior management downwards to speak the same language, quoting the Strategic Plan and specifically the Performance Measurement Framework (PMF), which emerged as one of the most challenging work streams.

“We are now on the same wavelength,” he affirmed. “What emerged from this exercise was that it set us thinking that this is the way things should be done in the proper way.”

Indirectly, it showed members of staff that they could work better than they are currently working since the PMF, in the form of a self-assessment, asks them whether they were doing something specifically. To which they had to answer, black on white, “yes” or “no”.

“If it’s ‘yes’, you need to give evidence that you are doing it based on ISSAIs – the International Standards of Supreme Audit Institutions. So, if we tackled the shortcomings that we found, then we would be complying with the ISSAIs.”

This has also led to some divergencies since many members of staff felt they were actually doing the work. What needed to be improved was the recording and retention of audit process documentation so that, in the event that an external auditor went in, the process could be evident from that documentation from start to finish.

Strategy accomplishments

“We are now into the fourth year of our strategic plan and we have one year remaining,” Mr Camilleri observed. “When we drew up the strategy, we initially formulated a two-year action plan. Then, of course, we had the Covid-19 pandemic. Still, we carried on and I can say that most of the action points we had planned have been completed.”

He then quickly went over the various accomplishments. “We had various work streams. If we are talking about feedback from the auditees, now we have a process whereby we can collect data. This information will now be reflected in this annual report in which we are giving figures related to the satisfaction of our auditees and our relationship with them.

“We also worked on how we can be more receptive to stakeholders by opening communication channels through which they can suggest audit topics to be considered by the NAO. We created a database of information in which we can gather sources of information so we can do the necessary research for our audits.

“The upgrading of our website is ongoing. We said we would do video clips, which was something new. We are now back to having face-to-face meetings with the permanent secretaries, having stopped this during the pandemic, and we have met several of these permanent secretaries.”

The work stream on risk is also ongoing since some things changed and they are in the process of finalising that work stream. In Mr Camilleri’s view, the PMF work stream was one of the most onerous: “This is a framework which SAIs, supreme audit

institutions, use to gauge their performance to see where they stand on various aspects and criteria.

“This was the most comprehensive exercise. In fact, we had seven people who put it together. They had to discuss our processes among themselves, taking samples of audits that had been done, and then delve deeper into the processes.”

PMF dimensions

Among the various dimensions of the PMF was the legal dimension, internal governance and ethics, audit quality and reporting, financial management, assets and support services, human resources and training, and also communication with stakeholders.

Taking the legal dimension as an example, the PMF went into whether local legislation was robust enough to protect the NAO’s independence. With the exception of some minor issues, legislation was found to guarantee the Office’s independence.

“The results on operational aspects were various,” Mr Camilleri said. “There are set benchmarks. We thought we were doing some things correctly when, in fact, we could have done them better. On the other hand, there were others which we were doing correctly but, because this framework is all evidence based, we may not have been keeping sufficient documentation. We need to have all the documentation in place so that the process can be examined from start to finish.”

During the meetings on the draft PMF, there were divergencies between the team and the management. “Let’s face it – we’re all human,” he said. “There were ‘interesting’ debates internally, until we started to understand one another.”

The PMF has now been more or less accepted by everyone at the NAO after it was revised. There is a finalised copy and Mr Camilleri feels that it is time to move forward. The bulk of the action points that emerged from the strategy have also been completed, with the exception of the communication strategy, which has yet to be tackled.

“Obviously, it took us longer than envisaged. Perhaps we were too ambitious in the first place,” he said.

Strategy 2024-2028

Whether the next strategy document, for 2024-2028, will be a continuation of the current document or something completely new, Mr Camilleri said only time will tell. “As the Auditor General himself has stated, there is going to be a big input from this PMF self-assessment that we completed in the next strategy.”

Wider consultation was needed not solely with the Permanent Secretaries, the auditees, and possibly with Members of Parliament, the media, civil society and NGOs. “Of course, this needs to be well managed, but it could be that we will come out with something that will be better as a result,” he said.

“There will always be outstanding matters to be tackled if we need to continuously improve. Some things are easily accomplished and the sections have already started working on them; others are not so easily accomplished.” Mr Camilleri gave as one example the updating of each section’s Audit Manuals. “The assistant auditors general took the initiative immediately.

“They agree that our manuals do not always reflect the current situation and need to be updated in areas like audit planning and the criteria to be used for the selection of the audits. One section, Special Audits and Investigations, is sui generis. This stands alone because it partly makes use of Compliance and Performance Audit Standards.

“It’s a mix of the two, with some element of investigation. Although thus far that particular section may have made use of manuals pertaining to other sections, they have now started assembling a manual of their own and we will be having our first draft in a few weeks’ time.”

With short term, medium term and long-term aspects to the strategy, Mr Camilleri affirmed that certain long-term aspects, like Quality Control and Quality Assurance of audits, will spill over into

the next five years, adopting a more structured approach.

“Where we could also improve when we define the Action Plan is to specify concrete time frames and more specific outcomes. What do you expect out of this action? Where could we do better? We hope that the outcome of our targets is clearer and the evidence more tangible.”

Outstanding matters

Meanwhile, there are still quite a few pending matters to be addressed in the current strategic plan. Mr Camilleri said that, following the general election, the permanent secretaries had changed. “We need to reacquaint ourselves. There is a new Principal Permanent Secretary, new permanent secretaries and the portfolios of the others have been changed. We also need to launch the new website.”

In the work stream of communication with stakeholders, the intention is to build closer relationships with entities like the University of Malta, which could also be formalised through an MoU. Other matters that, although were not in the strategic plan, were deemed necessary are also being addressed.

Foremost among these is a competency framework. “A competency framework around professional capacity building has been created by IDI (INTOSAI Development Initiative) as part of the INTOSAI strategy. What we are doing now, and we will probably launch internally very soon, is to take that framework and proactively adopt it to establish what makes a Performance auditor, a Compliance auditor and a Financial auditor, and adapting it to our needs. This will also give us invaluable insights into our professional development requirements.”

Ultimately, the Strategic Plan fosters gradual improvement within the NAO. “We are moving forward in a coherent way. Although we may have been overly ambitious, it is good to stretch yourself. That is certainly the way forward – to stretch ourselves a little bit more,” Mr Camilleri said.

Rulings by the Hon. Speaker of the House of Representatives of particular relevance to the National Audit Office

The Hon. Dr Anglu Farrugia, Speaker of the House of Representatives



During the past two legislatures, whereby the last one came to an end after the dissolution of Parliament on 20 February 2022, I gave over 200 rulings, some of which are of great importance with regard to the National Audit Office (NAO). I state this because when the Auditor General presents a report to the Speaker of the House, the latter tables that report in Parliament for the consumption of the Parliamentarians and, most importantly, a large proportion of the reports are also taken up by the Public Accounts Committee (PAC).

After revisiting all the 201 rulings that I gave between 2013 and 2022, I chose nine in particular, which I would say are of paramount importance with regard to the Office of the Auditor General. I would like to go through these nine rulings chronologically.

The first one was in Sitting 101 of 10 December 2013. Here I ruled that, with regard to the Auditor General's report titled 'An analysis of the effectiveness of the Enemalta Corporation's Fuel',

which report was before the PAC, the main witness in this particular Committee, Mr George Farrugia, was given a presidential pardon and, thus, had to answer all the questions put to him by the Members of the PAC.

Hence Article 19 of the ‘Guide for Witnesses appearing before the Public Accounts Committee of the House of Representatives – Parliament of Malta’, which states that “no witness is to be compelled to answer a question which might incriminate him/her”, should not apply to this particular witness.

Right not to answer questions

The second ruling followed a few months later, in Sitting 115 of 3 February 2014. This ruling concerned another witness who was summoned before the PAC, Mr Tancred Tabone. When the same Auditor General Report, ‘An analysis of the effectiveness of the Enemalta Corporation’s Fuel’, was being discussed, by the time that Mr Tabone was summoned before the PAC, he was already being charged in Court with regard to the subject of the same report.

In my ruling, which was later challenged in the Constitutional Court, I stated that Mr Tabone had to appear before the PAC and he enjoyed the right not to answer any question that may incriminate himself. If any Member of the PAC objected to such right, then the PAC must refer the matter to the Speaker to rule on the issue. In fact, I am going to quote the salient part of this ruling:

“Għaldaqstant, b’risposta għat-talba indikata fl-email tal-Onor. Jason Azzopardi, din is-Sedja qiegħda tiddeċiedi li x-xhud Tancred Tabone għandu jidher quddiem il-Kumitat Permanenti dwar il-Kontijiet Pubbliċi u għandu jwieġeb id-domandi li jsirulu minn kull membru ta’ dan il-Kumitat, inkluż l-istess Chairman interim, u f’każ ta’ domanda li tista’ tinkriminah, huwa għandu jitlob li jġi eżentat

milli jwieġeb dik id-domanda. U f’każ li jkun hemm oġġezzjoni minn xi membru fis-sens li jekk dik id-domanda tiġi mwiegħba ma tkunx inkriminanti fil-konfront tal-istess xhud Tancred Tabone, il-Kumitat għandu allura jitlob direzzjoni mis-Sedja biex tagħti d-deċiżjoni tagħha dwar jekk dik id-domanda li x-xhud ipprefera li ma jwegħibx għax tista’ tinkriminah, għandhiex tiġi mwiegħba jew le.”

AG terms of reference

The third ruling I want to refer to is the one that I gave in Sitting 267 of 25 May 2015. This ruling concerned both an academic and a legal issue that was raised by the PAC with regard to the terms of reference established by the Auditor General to investigate the final contract – this was a public deed between the Department of Lands and the General Workers’ Union – that dated back to 12 December 1997, in which the General Workers’ Union was granted title of emphyteusis on a particular piece of land. The main issue, as requested in the ruling, was whether the particular terms of reference fell under the auspices of the Auditor General or the ordinary courts.

The ruling that I delivered clearly stated that there should not be any suppression or influence, to the Auditor General’s discretion, in applying the terms of reference and since any possible legal remedy always fell within the ‘Auditor General and National Audit Office Act’, Cap. 396. I also ruled that, even if the remedy was not sufficient, there was always the safeguard remedy, which is the Constitutional procedure under article 108 of the Constitution, that could also be taken in such cases. In fact, in this ruling I said:

“Is-Sedja issa se tagħmel referenza għall-Att dwar l-Awditur Ġenerali u l-Uffiċċju Nazzjonali tal-Verifika, Kap. 396, partikolarment għall-artikolu 9 tal-Ewwel Skeda tal-istess Att:

“(a) L-Awditur Ġenerali jista’ sew personalment sew permezz tal-Uffiċċju Nazzjonali tal-Verifika, bl-inizjattiva tal-Awditur Ġenerali nnifsu jew fuq talba tal-Ministru responsabbli għall-finanzi jew ta’ mill-anqas tliet membri tal-Kumitat dwar il-Kontijiet Pubbliċi jew ta’ xi Kumitat ieħor bħal dak tal-Kamra tad-Deputati li minn żmien għal żmien jista’ jissostitwixxi lil dak il-Kumitat, jagħmel inkjesta u jirrapporta dwar:

- (i) kull haġa li jkollha x’taqsam mal-finanzi tal-Gvern, proprjetà jew fondi amministrati jew taħt il-kontroll ta’ xi dipartiment jew uffiċċju tal-Gvern jew ta’ xi korp li l-kontijiet tiegħu ikunu sugġetti għall-verifika tiegħu;
- (ii) dawk il-kontijiet u rapporti finanzjarji li jitqiegħdu quddiem il-Kamra tad-Deputati bis-saħħa ta’ xi liġi jew skontha;
- (iii) il-kontijiet ta’ dawk l-awtoritajiet pubbliċi jew korpi li jamministraw, ikollhom f’idejhom jew jużaw fondi li jappartjenu direttament jew indirettament lill-Gvern ta’ Malta;
- (iv) il-funzjonijiet ta’ kumpanniji jew entijiet oħra fejn il-Gvern ta’ Malta jkollu mhux anqas minn 51 fil-mija tal-ishma;
- (v) kull haġa oħra kif jista’ jiġi stabbilit bi jew taħt xi liġi.”

L-artikolu 10 ta’ din l-istess Skeda jgħid hekk:

- “(a) Meta l-Awditur Ġenerali jikxef xi irregolarità serja f’xi dipartiment jew uffiċċju tal-Gvern, jew f’xi korp li dwaru jkollu s-setgħa li jagħmel verifika, din
- (b) għandha titgħarraf mill-Awditur Ġenerali lill-Ministru responsabbli għal dak id-dipartiment, uffiċċju jew korp tal-Gvern.
- (i) L-Awditur Ġenerali jista’ jagħmel rapport lill-iSpeaker dwar kull persuna li tkun qed twettaq dmirijietha f’dak id-dipartiment

jew uffiċċju tal-Gvern, jew korp li dwaru jkollu s-setgħa li jagħmel verifika, u li jonqos milli jħares id-dispożizzjonijiet ta’ dan l-Att jew tal-Att dwar l-Amministrazzjoni Finanzjarja u l-Verifika, jew ta’ xi regolament magħmul bis-saħħa tagħhom.

- (ii) L-Awditur Ġenerali għandu jagħmel rapport fuq dik il-persuna lill-Ministru responsabbli għal dak id-dipartiment, uffiċċju jew korp tal-Gvern u jista’ jirrakkomanda li l-Ministru jaddebita lil dik il-persuna bl-ammont ta’ diżavvanz jew telf jew pagament mhux dovut li jirriżulta min-nuqqas ta’ tharis ta’ xi dispożizzjoni ta’ dan l-Att, jew tal-Att dwar l-Amministrazzjoni Finanzjarja u l-Verifika, jew ta’ xi regolament magħmul bis-saħħa tagħhom.”

Absconding witness

Another interesting ruling was that given in Sitting 344 of 13 January 2016, when the PAC was discussing another important Auditor General Report titled ‘An analysis of the effectiveness of the Enemalta Corporation’s Fuel Procurement’. I stated in this ruling that, once a witness fails to attend the PAC and is to be found in the jurisdiction of Malta, then the procedure that has to be followed is that he or she be formally summoned accordingly. This procedure, however, cannot take place once the witness absconded from the Maltese jurisdiction and, hence, the provisions laid in Cap. 113 cannot be applied, and I quote from this ruling:

“L-Artikolu 5(1) tal-Kap 113 jistipula li ‘Ix-xhieda u l-periti jiġu ordnati biex jidhru b’mandat maħruġ b’ordni tal-Kamra ffirmat mill-Iskrivan tal-Kamra.’

In this ruling I also said:

“Dan ifisser li fil-każ li s-Sedja għandha quddiemha, kemm-il darba x-xhud ikun fil-ġurisdizzjoni tal-

Parlament Malti, ossija jkun f'Malta, il-proċedura hija li jista' jiġi mħarrek biex jidher quddiem il-Kumitat jekk jirrifjuta li jagħmel dan wara li jkun mitlub. Allura dan ifisser ukoll li x-xhud in kwestjoni jista' biss jiġi mitlub li jidher quddiem il-Kumitat u dan għaliex ma tistax tiġi applikata l-proċedura indikata fil-parir tal-Avukat Ġenerali ladarba tali xhud qiegħed barra minn Malta.

Għaldaqstant ir-ruling li qiegħed jingħata minn din is-Sedja huwa li ladarba x-xhud imsemmi Naeem Ahmed mhuwiex qiegħed f'pajjiżna u aktar u aktar lanqas ma jinsab fil-ġurisdizzjoni ta' Malta, il-provvedimenti tal-Kap. 113 ma jistgħux jiġu applikati fil-konfront tiegħu."

There was another ruling that I gave in Sitting 296 of 5 February 2020, whereby I decided that the PAC cannot discuss ex officio any report that was not officially presented by the Auditor General or was not part of any document tabled in Parliament. According to Standing Order 120E, the PAC is so empowered accordingly. However, according to paragraph (d) of Standing Order 120E, the PAC can:

"(d) jitlob lill-Awditur Ġenerali li jipprezenta memoranda dwar kull haġa fejn issir talba biex isir dan minn mill-anqas tliet membri tal-Kumitat Permanenti".

Thus, according to this ruling, once the report was not submitted by the Auditor General, then three Members of the PAC can ask the Auditor General to present a report on the subject matter that is requested to be discussed in the PAC. In fact, in this particular ruling, it was decided that:

"is-Sedja qiegħda tiddeciedi li l-poteri li għandu l-Kumitat Permanenti dwar l-uniku item li għandu fuq l-aġenda tiegħu l-istess Kumitat, jiġifieri l-kuntratt li sar bejn l-MTA u l-Membru Parlamentari Konrad Mizzi li deher fil-ħarġa ta' The Times of Malta, il-Kumitat jista' jiddeciedi li jitlob lill-Awditur Ġenerali li jipprezenta hu memorandum dwar kull haġa li jhoss li għandha ssir fuq talba biex isir dan dwar rapport li għandu jipprepara l-Awditur Ġenerali, anke ovvjament b'riflessjoni li dan il-kuntratt ġie rexiss u annullat, wara li jkun hemm mhux inqas minn tliet membri tal-Kumitat li jiddeciedu li ssir din it-talba."

Summoning of witnesses

In another ruling given in Sitting 430 of 22 February 2021, when the PAC was examining another report titled 'An Investigation of Matters Relating to the Contracts awarded to ElectroGas Malta Ltd. by Enemalta Corporation', it was ruled and decided that the PAC can summon any witness to seek additional information that is not available in the same National Audit Office (NAO) report, but still falls within the terms of reference of the NAO, as also indicated clearly in the same ruling in which I said:

"Fid-dokument 'Guide for Witnesses giving written or oral evidence to a House of Commons select committee' datat Frar 2016 joħroġ ċar dak li fil-fatt is-Sedja tindika permezz tal-Ordni Permanenti diġà citat, u nikkwota:

"Powers of committees in gathering evidence

When gathering evidence, almost all select committees have a power to send for 'persons, papers and records'. This means that committees can insist upon the attendance of witnesses and the production of papers and other material."

Subsequently, the conclusion of the ruling was:

"L-Ordnijiet Permanenti kif ukoll il-prassi jstabbilixxu proċedura differenti għal meta l-Awditur jintalab janalizza xi materja partikolari u, għaldaqstant, is-Sedja qed tiddeciedi li kull meta tintalab informazzjoni addizzjonali għal dik li tkun mogħtija lil dan l-istess Kumitat mill-Uffiċċju Nazzjonali tal-Verifika skont it-terms of reference li jkollu dan l-Uffiċċju, tali talba għandha ssir mill-Kumitat direttament lill-entità kkonċernata. Kif inhi l-prassi jekk il-Kumitat jidhirlu li jkun meħtieġ, jista' wkoll iħarrek uffiċjali tal-istess entità biex jidhru quddiem dan l-istess Kumitat u jesebixxu u jwieġbu taħt ġurament kull domanda tal-Kumitat."

Breach of privilege

Another interesting ruling was given in March 2021, after the Chairperson of the PAC asked the

Speaker to rule about a letter that was addressed to the Auditor General, Mr Charles Deguara, that in itself included “extremely offensive and disturbing” comments by James Barbara, on behalf of James Caterers, who at the time was also the subject of an investigation within the NAO. I ruled that there was prima facie a case of breach of privilege against James Barbara, and this in terms of article 11(4)(h) of Cap. 113, which states:

“(h) kull min jikkorrompi, ibeżża’, jhedded, iqarraq xhud jew b’xi mod mhux xieraq jinfluwenzah dwar ix-xieħda li jkun imissu jagħti quddiem il-Kamra jew Kumitat tagħha;”.

Another interesting ruling with regard to the NAO was given in Sitting 449 of 19 April 2021, in relation to the PAC’s continuation of the discussion on the report titled ‘An Investigation of Matters Relating to the Contracts awarded to ElectroGas Malta Ltd. by Enemalta Corporation’, upon a request directly addressed by the Chairperson of the PAC to the Speaker about the rights of a witness to appear before the PAC when the same witness is not subject to a criminal prosecution.

In that ruling, which concerned witness Brian Tonna, I was very clear, following also recent decisions given by the Constitutional Court, this following the Tancred Tabone case and others, that once a person is not accused with regard to the subject matter discussed before the PAC, then he has to answer the questions asked but he cannot be constrained to answer any question that, according to him, or the lawyer who is representing him during the sitting, may incriminate him. This is also in line with guideline 19, which states:

“No witness is to be compelled to answer a question which might incriminate him/her”. This is found in the ‘Guide for Witnesses appearing before the Public Accounts Committee of the House of Representatives – Parliament of Malta’.

Addressing witnesses

The last ruling which was of paramount importance with regard to the behaviour and the way that the

Members of the PAC address a witness, in this case a Member of Parliament, the Independent MP Konrad Mizzi, was the ruling given in Sitting 540 of 27 January 2022. This ruling was requested by the same witness, who had every right to ask for a ruling as an Independent MP.

In this ruling, I established clear guidelines in the line of questioning by Members of the PAC, which questions have to be solely and clearly focused on the NAO report in question, with full observation of the Standing Orders, the guidelines applicable, and also the laws applicable to parliamentary committees. In fact, the salient part of this ruling states the following:

“Is-Sedja rat ukoll illi f’dan il-każ ix-xhud quddiem il-Kumitat huwa Membru tal-Parlament li allura huwa intitolat għall-privileġġ parlamentari u dan kif indikat ukoll fil-guidelines li kkwotajt minnhom aktar kmieni li ħarġu f’Ottubru tal-2011 fejn hemm miktub li:

“Members of the House including Ministers may refuse to appear as witness and thus may not be formally summoned to attend as witnesses before the Committee. The House shall be informed of such a refusal.”

Imbagħad fil-Guidelines 19 hemm miktub hekk:

“No witness is to be compelled to answer a question which might incriminate him/her.”

Is-Sedja rat ukoll l-iStanding Order 60 li jgħid hekk:

“Ebda membru ma għandu juża kliem offensiv jew mhux xieraq kontra l-karattru jew il-proċeduri tal-Kamra jew b’riferenza għal xi membru tagħha. Ebda intenzjoni ħażina ma għandha tiġi attribwita lil xi membru.

Kull membru li jkun uża kliem oġġezzjonabbli u li ma jirtirax l-istess, jew ma joffrix apologija għall-użu tagħhom, għas-sodisfazzjon tal-Kamra, għandu jiġi ċensurat jew trattat xort’oħra kif il-Kamra jidhrilha xieraq u kull membru msejjaħ għall-ordni għandu joqgħod bilqiegħda kemm-il darba ma jithallix jispjega ruħu.”

Is-Sedja, filwaqt li tagħmel referenza għal dan li ngħad f'rulings precedenti li:

“ic-chairman tal-kumitat għandu l-fakultà li jmexxi s-seduta tal-kumitat li huwa jippresjedi u s-Sedja b'mod ġenerali ma tindaħlx kif issir din it-tmexxija ħlief f'ċirkostanzi partikolari fejn ikun meħtieġ li tara li Ordnijiet Permanenti, ir-regoli u prassi ta' din il-Kamra tad-Deputati u tal-Kumitati tagħha huma segwiti”

tappella biex iċ-Chairpersons u kull Membru tal-Kumitati jaraw li anke bl-eżempju li jagħtu, jimxu mal-Ordnijiet Permanenti tal-Kamra biex jiġu evitati problemi fl-andament tal-istess laqgħat tal-Kumitat.

Għalhekk fiċ-ċirkostanzi u mingħajr ma tidhol fil-mertu tal-kummenti li diġà saret referenza għalihom f'dan ir-Ruling, is-Sedja qiegħda tiddeċiedi

u tidderieġi u tistenna lil kull Membru tal-Kumitat dwar il-Kontijiet Pubbliċi biex waqt li jkunu qed jagħmlu d-domandi b'mod liberu u b'mod oġġettiv fil-konfront tar-Rapport imsemmi li qed jiġi diskuss f'dan l-istess Kumitat, jużaw il-kawtela kollha b'osservanza għall-Ordnijiet Permanenti tal-Kamra, il-liġijiet, il-linji gwida u r-regoli viġenti applikabbli għall-Kumitati tal-Parlament.”

As I said, these are nine important rulings that directly concern the NAO with regard to the procedure adopted by the PAC when such NAO reports are discussed. I felt that in this particular article I wanted to highlight the importance of having clear rulings on the procedures that need to be followed in order to make the proceeding of the PAC more efficient with regard to the analysis and the follow-up directions of reports that are submitted by the NAO.

For the National Audit Office (NAO) to remain the vibrant and relevant institution of oversight it is meant to be, it must be afforded all the protection necessary to function without any interference whatsoever.

The auditor general is an officer of the House of Representatives, appointed by the President of the Republic acting in accordance with a resolution of parliament supported by the votes of no fewer than two-thirds of its members.

Times of Malta – 16.3.2021



PART ONE

Introduction

The first part of this report provides an overview of the external environment within which the NAO operated in 2021. The key issues affecting the NAO were:



Public finances

As the statutory external auditor of public finances, the NAO reviews the accuracy, fair reporting, regularity, economy, efficiency, effectiveness and integrity of public sector financial transactions. This is an overview of the financial results for 2021, which forms the basis of our audit work¹.

Reporting on a cash basis

Revenue

In 2021, recurrent revenue amounted to €5,394.5 million, an increase of €1,005.2 million over that reported in 2020 of €4,389.3 million (a 22.9% increase).

Expenditure

Total expenditure for the year amounted to €6,636.8 million, an increase of €779.6 million over that reported in 2020 of €5,857.2 million (a 13.3% increase).

The difference between total revenue and expenditure resulted in a deficit of €1,242.2 million

being reported in the Government's Consolidated Fund in 2021, registering a decrease in deficit of €225.7 million compared to 2020.

At the end of 2021, Central Government Debt amounted to €8,097.4 million, representing an increase of €1,332.2 million from 2020.

Reporting on an accruals basis

Reporting on an accruals basis is currently undertaken by the NSO in accordance with the European System of Accounts (ESA) 2010 and the Manual on Government Deficit and Debt (2019 edition). This methodology results in surplus/deficit of the General Government sector, composed of the Budgetary Central Government, the Extra Budgetary Units and the Local Government sector. A number of accrual accounting and other adjustments are applied to the surplus/deficit on the Consolidated Fund prepared on a cash basis to arrive at the computation of the surplus/deficit of the General Government sector computed on an accruals basis.

In 2021, the General Government deficit amounted to €1,161.7 million, equivalent to 8.0% of GDP. General Government debt amounted to €8,284.4 million, or 57.0% of GDP.

¹ These financial results were extracted from NSO News Release 053/2022 dated 30 March 2022 and NSO News Release 068/2022 dated 22 April 2022.

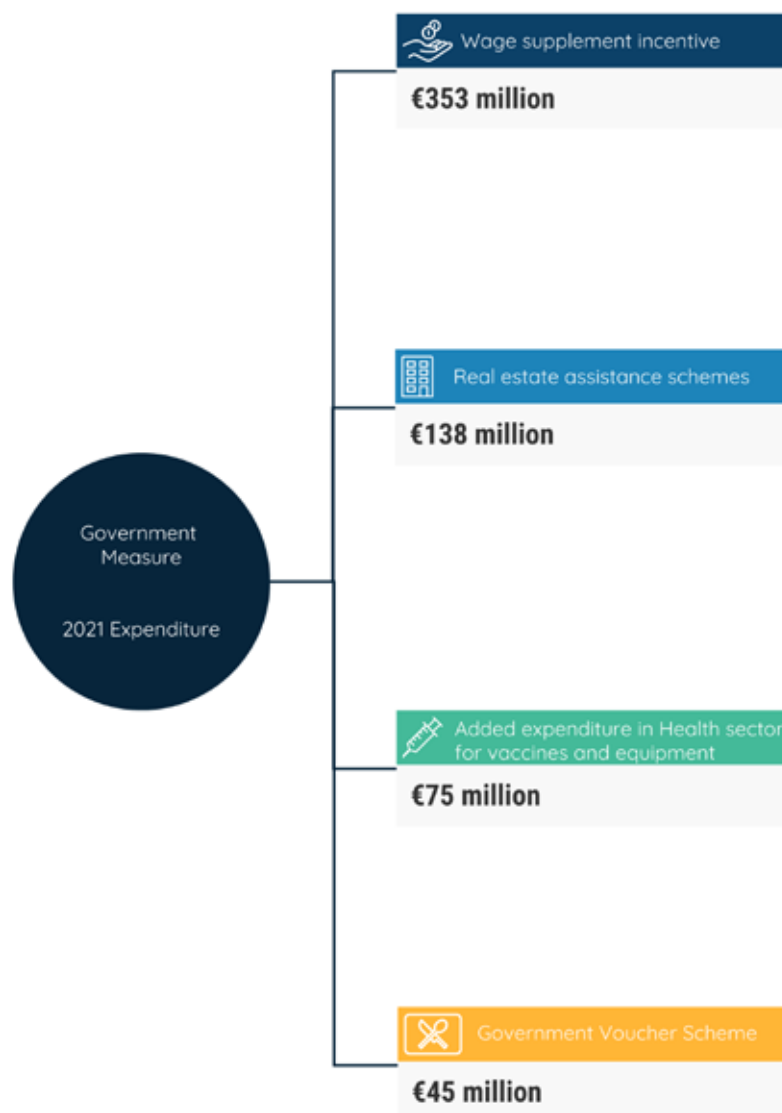
Government and EU expenditure on Covid-19

Another factor affecting the NAO is the substantial increase in local and EU funds earmarked to address the challenges posed by the Covid-19 pandemic. The EU Multiannual Financial Framework 2021-2027, the NextGenerationEU recovery instrument, and the EU Recovery and Resilience Facility cover various policy and expenditure areas, including funds to recover from the pandemic. In particular, the funds allocated to Malta from the EU Recovery and Resilience Facility amounted to €316.4 million.

In Malta, a number of schemes, such as grants for employees' salaries, reduction in property transfer taxes and voucher schemes to cover local expenditure, have prevented the collapse of the local economy. A raft of measures was also introduced to safeguard citizens' health, including the procurement of personal protective equipment and anti-Covid-19 vaccines.

A significant portion of the 2021 Government expenditure was allocated to finance a number of the above-mentioned government measures. The most material are listed in Chart 1.

Chart 1: Government Expenditure on Most Material Covid-19 Government Measures



The NAO is to ensure the propriety, regularity and value-for-money element in the use of these local and EU funds.

Infrastructural projects and investments (co-financed by EU)

A number of local projects are also being financed by EU funds². These projects, once completed, will greatly enhance the quality of life in Malta. They cover important areas, such as infrastructure, information technology and the environment. Examples of these projects appear in Table 1.

Developments and reforms within the Public Service

A number of reforms in the public service also took place in 2021³. An overview of some of these reforms is given below.

- The Building and Construction Authority Act came into effect to establish a Regulator for buildings. The Building and Construction Authority was also set up.
- The updated Environment Protection Act came into force, prohibiting the importation, production, sale and distribution of certain single use plastic items.

Table 1: Examples of EU-funded Malta projects and their expected cost

Type of Projects	Expected cost in € million
Towards a Net Zero Impact Water Utility – ensuring Integrated Water Resource Management	89.5
Enhancement of the TEN-T Road Network through investment channelled towards addressing bottlenecks	40.9
Eliminating Bottlenecks in the TEN-T Core Port of Valletta	38.1
Connected E-government project	35.4
Sustainable Living Complex at the University	30.0
Enhancing National Monitoring and Public Engagement Capacity for improved Water Resources Management	21.2
Energy Efficiency and Renewable Energy Malta Instrument	15.0
The setting up of a Multi-Material Recovery Facility	13.4

² The information provided in this part of the Report is extracted from the Planning and Priorities Co-ordination Division website.

³ This information has been extracted from the Proposal for a Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for Malta and checked for implementation.

- The Construction and Demolition Waste Strategy was approved in November. This strategy is in line with EU waste legislation and the EU Construction and Demolition Waste Protocol.
- A national Household Transport Survey was carried out to quantify current travel patterns and gauge public opinion on new potential measures to be included in the updated Transport Master Plan.
- An agreement between Transport Malta and the Local Councils Association was signed to launch the Open Spaces Project. The project aims to generate more unencumbered open public spaces in urban areas for public enjoyment.
- The National Smart Specialisation Strategy 2021-2027 was finalised, facilitating access to EU funding for Research and Innovation in six economic sectors. These are: Health and Wellbeing, Sustainable Use of Resources for Climate Change Mitigation and Adaptation, Smart Manufacturing, Marine and Maritime Technology, Aviation and Aerospace and Future Digital Technologies.
- Four judges and four magistrates were appointed to the judiciary, following a call for applications.
- The National Anti-Fraud and Corruption Strategy, aiming to ensure a normative, institutional and operational framework for the effective and efficient fight against fraud and corruption in Malta, and reflecting local requirements and international obligations, was updated.
- The Proceeds of Crime Act, with the aim to provide for their identification, tracing, freezing and confiscation, came into force. It redefines the structure of the Asset

Recovery Bureau, outlining its relationship and reinforcing its independence from Government.

Ongoing Financial Management Reform

The Government of Malta is in the process of the full implementation of accrual accounting in Central Government, involving the change-over from the Departmental Accounting System, which is a cash-based system, to the Corporate Financial Management Solution (CFMS), which is a fully-fledged accrual accounting system.

The first stage of the implementation of CFMS took place in the last quarter of 2020, with the system going live in 15 pre-agreed sites. In these pilot sites, the respective ministries and departments operated exclusively through CFMS. Following this piloting stage, on 1 April 2021, the core CFMS went live in all ministries and departments.

The implementation of CFMS necessitated continuous support by an ad hoc CFMS Implementation Team, who addressed several queries and teething problems. Many of the solutions were included in the guidelines issued during the hands-on training sessions provided to all CFMS users. This training material was eventually posted on the CFMS portal.

In view of issues that took priority over other matters, not least the lack of resources at the Treasury Department, the opening balances could not be uploaded into the system and, thus, a first set of full accruals-based financial statements for Central Government for 2021 were not made available for audit.

Preparations are also under way for the final part (phase three) of the CFMS project. This includes other systems and modules directly integrated with CFMS, among which are budget and forecasting, cost management, as well as the management of financial assets and liabilities.

Organisational Overview and Section Results

International Standard of Supreme Audit Institutions (ISSAI) 100 on Fundamental Principles of Public Sector Auditing states that public sector entities exercise responsibility for the use of resources derived from taxation and other sources in the delivery of services to citizens and other recipients. These entities are accountable for the management, performance and use of resources, both to those stakeholders that provide the resources and to those, including citizens, who depend on the services delivered using those resources. Public sector auditing is essential in that it provides legislative and oversight bodies, those charged with governance and the general public with information and independent and objective assessments concerning the stewardship and performance of government policies, programmes or operations.

The NAO carries out the following types of public sector auditing:

- Financial and Compliance Audits;
- Performance Audits;
- Special Audits and Investigations; and
- IT Audits.

An audit section in relation to each of the above audits is in place. The audit sections are supported by the Finance and Administration Section. The results of each section will be presented in this part of the Report.

Due to the nature of particular audit assignments, there were instances when two different audit teams worked together to produce a mixed competency report.

Waqf seminar organizzat b'mod kongunt mill-Uffiċċju tal-Awditur Ġenerali u l-Qorti Ewropea tal-Awdituri, l-Awditur Ġenerali tkellem dwar l-importanza li l-uffiċċju jindirizza sfidi ġodda, fosthom kwistjonijiet internazzjonali fit-tibdil fil-klima u l-ħolqien ta' entitajiet ġodda li joperaw f'ambjent kumpless.

“Ix-xogħol sar iżjed kumplikat, sistemi ta' entitajiet li jaħdmu b'mod iktar kumpless, procurement iktar differenti, kuncett ta' public private partnership, iktar milli żdied jew naqas jiena ngħid sar aktar kumplikat,” fisser l-Awditur Ġenerali, li wkoll saħaq li l-uffiċċju jidentifika sfidi ġodda għaliex huwa obligat li jagħti rendikont lill-ogħla istituzzjonijiet tal-pajjiż u l-poplu kollu.

TVM – 2.11.2021

Financial and Compliance Audits

Annual Report on Public Accounts

Audit Opinion on the Financial Report

Audit Opinion on Compliance Audits

42

management letters
issued

24

Financial and
Compliance Audits
in Government
Departments in 15
Ministries

18

Financial and
Compliance Audits in
Government Entities
covering 13 Ministries

350+

recommendations

Audit follow-ups

9

previous year audits
followed up

74

recommendations
followed up

38

recommendations
that were fully
implemented

21

recommendations
partly implemented or
on which significant
progress made, not
implemented 15

Report on Local Government

59

(out of 68)
local councils
audited

5

Regional Councils
audited

1

Local Councils
Association audited

2,300+

recommendations
made

Financial and Compliance Audits Section

Financial audit focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error. (ISSAI 100 definition)

Compliance audit focuses on whether a particular subject matter is in compliance with the governing authorities, rules and regulations also known as criteria or benchmarks. Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities that govern the audited entity. These authorities may include rules, laws and regulations, budgetary resolutions, policy, established codes, agreed terms or the general principles governing sound public sector financial management and the conduct of public officials. (ISSAI 100 definition)

The Financial & Compliance Audits Section issued three publications in 2021. The Annual Report by the Auditor General on the Public Accounts 2020 incorporated 42 audits, the Analysis of the Financial Report and a write-up on the Arrears of Revenue. The other two publications were the Report by the Auditor General on the Workings of Local Government and the Follow-up Audit Report 2021 Volume I.

When preparing the audit plan for the Financial and Compliance Audits Section it is ensured that, as much as possible, all ministries are included, with the extent of coverage being given according to the respective budgeted financial estimate. The mix also covers Revenue, Capital and Recurrent Expenditure, based on

the materiality of the amounts involved. Additionally, a sample of government agencies are audited each year, including those whose income depends on their capacity to generate their own revenue.

The returns on the Arrears of Revenue are analysed to establish high-risk areas meriting an audit on revenue. Decisions in the selection process also depend on personal experience, current topical subjects and professional judgment.

The audit plan for 2021 included a financial audit on each of the ten pilot Ministries/Departments which, in 2020, had been using the new accrual-based accounting system in 2020. However, the respective financial statements were not provided for the necessary verifications.

Notwithstanding the foregoing, the Financial and Compliance Audits Section has over the past years conducted a number of audits on specific balance sheet items, such as Creditors and Accruals, Debtors and Prepayments, as well as Stocks and Inventory, of various Ministries. These were intended to assist each entity in preparation for the change-over to accrual accounting.

Although research on financial audit software was made and management has attended virtual demos offered by prospective suppliers in this regard, it was decided to postpone the purchase of software until the NAO has a clear indicative date when financial statements will be provided by the Treasury. To this effect, the internal Financial Audit Committee, entrusted with the task of preparing an audit manual, is also waiting for further developments to proceed.

The Compliance Audit Committee has prepared a number of templates that can be used for audit purposes. Discussions will eventually be held with senior management to consider their implementation.

During 2021, preparations were made for the organisation of a training programme in early 2022, in collaboration with KPMG Academy, to obtain a comprehensive background of the procedures required to conduct high quality risk-based financial audits. Five officers also started a two-year intensive course on Financial Auditing as Professional Education for Auditors of Supreme Institutions under the auspices of the INTOSAI Development Initiative.

In line with the SAI Performance Measurement Framework exercise, concluded by the Office in

2021, the Financial and Compliance Audits Section will be taking action to address the points noted, especially with regard to audit documentation. Effort will also be made to conclude the initial work prepared by the Compliance Audits Committee and to update the respective manual in line with the relevant ISSAIs. Methodologies to determine materiality, the nature, timing and extent of audit procedures, as well as the requirements for audit documentation, will be included in the manual.

Malta is lagging behind in attaining national and European Union (EU) waste management targets, including those related to plastic waste. This was revealed in the report Performance Audit: The effectiveness of plastic waste management in Malta (February 2021) published by the National Audit Office (NAO). The document revealed that 58% of plastic waste is ending in the landfill, while only 1% is recycled.

The NAO said that the report forms part of a cooperative audit initiative undertaken jointly with another 11 European State Audit Institutions (SAIs) under the auspices of the European Organisation of Supreme Audit Institutions Working Group on Environmental Auditing (EUROSAI WGEA).

Newsbook – 2.2.2021

Performance/Value for Money Audits

6

performance audits

Areas: environmental protection, health, general public services, public order and safety, economic affairs

64

recommendations in
performance audits

3

previous year audits
followed up in Volume II of
the Consolidated Follow-up
Audit Report

34

recommendations followed
up

15

recommendations fully
implemented

11

recommendations partly
implemented or where
significant progress was made

8

recommendations not
implemented

Performance audit focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness, and whether there is room for improvement

Performance Audits Section

Performance audit focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness, and whether there is room for improvement. Performance is examined against suitable criteria, and the causes of deviations from those criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement. (ISSAI 100)

During 2021, the Performance Audits Section published six reports:

1. The effectiveness of plastic waste management in Malta;
2. Preliminary Review: NAO's role in reviewing Government's measures relating to the Covid-19 pandemic;
3. Fulfilling obligations in relation to Asylum Seekers;
4. Smart and RF Meters' contribution to more accurate and timely utilities billing;
5. Is LESA suitably geared to perform its traffic enforcement function adequately?
6. A Strategic Overview on the Correctional Services Agency's operations at the Corradino Correctional Facility.

In addition, this Audit Section also published the follow-up audits 'The designation and effective management of protected areas within Maltese Waters'; 'A Strategic Overview on the Department of Fisheries and Aquaculture's Inspectorate Function'; and 'A Review on the Contract for Mount Carmel Hospital's Outsourced Clerical Service'.

This Audit Section is also proactively involved in the EUROSAI Working Group on Environmental Auditing, particularly through its engagement in the Working Group's Steering Committee and the joint audit on Plastic Waste.

The 2021 audit programme was characterised by the variety of topics, the subject of which was determined

through a rigorous risk assessment employed by the Performance Audits Section. This audit programme yielded a variety of findings and conclusions, most of which were related to governance issues in terms of efficiency, effectiveness, value for money, transparency, financial management and accountability. To this end, the published reports also comprise recommendations to address the issues at stake.

During the course of these audits, the Audit Section had to deal with a spectrum of issues. Topic complexity ranged from the technical aspects involved (Smart meters audit) to the social sensitivity of the subject matter (reports on asylum seekers and the Corradino Correctional Facilities). The fragmentation of data, coupled with varying periods of delay in receiving data from auditees, remained, as in previous years, a common feature of the annual performance audit programme. The Covid-19 pandemic also brought about certain restraints, such as limiting on-site visits to the minimum. The latter constraint, where possible, was mitigated through more in-depth reviews of documentation and virtual meetings.

Following the conclusion of the SAI Performance Measurement Framework exercise, the Performance Audits Section is also taking action to address a number of points noted therein, such as audit documentation and signing off of audit work during the different audit phases. The Section also intends to revise its manual to better reflect the updated INTOSAI International Standards of Supreme Audit Institutions relating to performance auditing, as well as good practice and current NAO methodology.

The Assistant Auditor General of the Section is the Liaison Officer for International Relations for the NAO. He co-ordinates activities with other SAIs, particularly within the EU Contact Committee network, the European Court of Auditors, EUROSAI and INTOSAI. The various, mostly webinar, events that this Office participated in are referred to in other parts of this Report.

Coordinated audit: Management of Plastic waste in Europe

During 2021, the Performance Audits Section collaborated with 11 other European SAIs in the co-ordinated audit on the management of plastic waste in Europe. This initiative follows up on the findings presented in the 12 individual national audit reports, which were presented to the respective Parliaments by the SAIs of Albania, Bulgaria, Hungary, Malta, Moldova, North Macedonia, Poland, Portugal, Romania, Serbia, Slovakia and Turkey. Malta's national report, 'The effectiveness of Plastic Waste Management in Malta' was published by the NAO in February 2021.

The main objectives of this initiative were to analyse the problems related to the management of plastic waste, spur national governments to take preventive and corrective action in this area and raise public awareness on plastic pollution. This co-operative audit, co-ordinated by the Supreme Audit Institution (SAI) of Poland, was undertaken under the auspices of the European Organisation of Supreme Audit Institutions (EUROSAI) Working Group on Environmental Auditing. During the year under review, the Performance Audits Section contributed to the drafting of the joint report, which was published collectively and individually by the participating SAIs in May 2022.

Fir-rapport tiegħu, l-NAO qal li l-Audit Reports ta' 43 awtorità lokali oħra ġew kwalifikati b'ċerti kundizzjonijiet minħabba li ma kienx hemm evidenza suffiċjenti biex jiġu verifikati ċerti transazzjonijiet. Dan filwaqt li 10 Kunsilli Lokali kellhom Emphasis of Matter fl-audit report, li jindika li tali Kunsilli jista' jkun li ma jlaħħqux mal-obbligi finanzjari tagħhom fil-futur qrib.

L-NAO qal li 24 Kunsilli Lokali għalqu s-sena 2020 b'defiċit jew b'riżervi negattivi u 10 Kunsilli ma sottomettewx ir-risposta tagħhom għall-Management Letter sad-data li tlesta r-rapport tal-Awditur.

Net News – 7.12.2021

Special Audits and Investigations

2

investigations and an
abridged report

1

recommendation

Areas of Special Audits and Investigations

General public services

Health

Social protection

Special Audits are audits on important areas concerning the public interest, such as transparency, accountability and ethical behaviour

Investigations are carried out when concerns are raised on financial propriety by a Government Ministry, Department or public entity

Special Audits and Investigations Section

Special Audits are audits on important areas concerning the public interest, such as transparency, accountability and ethical behaviour.

Investigations are carried out when concerns are raised on financial propriety by a Government Ministry, Department or public entity. These concerns include alleged breaches of ethical conduct by public officials, service quality failure, misconduct, waste, abuse of authority, misappropriation, fraud and corruption. Investigations are usually requested by the Public Accounts Committee or by the Minister responsible for Finance. They can also be undertaken on the initiative of the Auditor General.

Results of Special Audits and Investigations Section

The Special Audits and Investigations Section (SA&I) concluded two audits in 2021. The first, which was published in April 2021, was titled 'The contract awarded to the JCL and MHC Consortium by the St Vincent de Paul Residence for the management of four residential blocks through a negotiated procedure'. Irregularities were noted by the SA&I in its review of this procurement process, most serious of which were those relating to the concept of an additional investment, the legal basis of the negotiated procedure, the absence of authorisation and concerns on failure to secure value for money. A more concise approach to reporting was piloted in this audit, with the SA&I seeking to maximise impact.

The other publication issued in 2021 corresponded with the second part of the audit focusing on the concession of three public hospitals. This report, titled 'An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government: Part 2 – A review of the contractual framework', was published in unabridged and abridged formats in December 2021.

Several concerns relating to the negotiations undertaken leading to entry into the concession,

the contractual framework and the implementation of obligations arising therefrom were identified by the SA&I. The conclusion of Part 2 of the SA&I's review allowed for the commencement of the final part of this audit – that related to the transfer of the concession to Steward Health Care. Work in this respect was initiated towards the end of 2021 and is scheduled to be concluded in 2022.

For most of 2021, the SA&I Section was actively engaged in supporting the Public Accounts Committee in its deliberation of the audit report titled 'An investigation of matters relating to the contracts awarded to ElectroGas Malta Ltd by Enemalta Corporation'. The Committee raised several queries in relation thereto, which necessitated further verifications to be undertaken by the audit team. That audit remained the sole focus of the Public Accounts Committee throughout 2021.

Significant progress with respect to the SA&I's manual of procedures was registered in 2021. It is envisaged that the manual will allow for the consolidation of the several international auditing standards (ISSAIs), NAO policies and practices utilised by the Section in the conduct of its audits and facilitate the practical application thereof.

Other internal initiatives driven by officers from the SA&I Section comprised the review of the initial draft of the SAI Performance Measurement Framework, aptly led by Josephine Vella, Audit Manager, in collaboration with several colleagues from other sections within the NAO, and the successful launch of the auditee feedback survey, a strategic initiative managed by Maressa Stivala, Audit Manager.

Another contribution by the SA&I Section was the feedback provided to the Office of the Commissioner for Standards in Public Life and the Organisation for Economic Co-operation and Development in relation to the regulation of lobbying. This initiative was led by Amanda Borg, Principal Auditor, and Denise Borg Muscat, Principal Auditor. Throughout 2021, assistance was provided to the Economic Crimes Unit in relation to audits undertaken on several occasions.

In terms of international commitments, the SA&I actively contributed to several initiatives in 2021. Keith Mercieca, Assistant Auditor General, and Rebecca Vassallo, Principal Auditor, continued providing support to the INTOSAI Development Initiative by serving as mentors to other Supreme Audit Institutions in relation to the co-operative audit focusing on the Sustainable Development Goal 3.d.

The main objective of this audit is to contribute to strong, resilient national public health systems that lead to good health and wellbeing for all, a theme of primary relevance in view of the Covid-19 pandemic. The Supreme Audit Institutions supported in this respect are those of Bangladesh, Bhutan, Myanmar, Nepal, Sri Lanka and Vietnam.

Another notable international contribution, this time restricted to the European dimension, was the work undertaken by the SA&I Section in relation to the Task Force on Audit and Ethics. The SA&I –

represented by Amanda Borg and Rebecca Vassallo – compiled, disseminated, analysed and reported on a survey undertaken on behalf of the task force.

Throughout 2021, Keith Mercieca facilitated several conferences, including the ASOSAI Leadership and Stakeholder Meeting held in April 2021 and the INTOSAI Development Initiative ISAM Webinar held in November 2021. He also delivered a presentation during the annual seminar held by the NAO and the European Court of Auditors titled ‘A perspective on key emerging issues: Thoughts and reflections on the NAO’s focus and practices’.

As regards professional development, the most significant investment undertaken in 2021 was that relating to the professional education for SAI Auditors, an initiative being piloted by the INTOSAI Development Initiative. Amanda Borg and Clare Caruana are attending this training programme and are being mentored by Josephine Vella and Maressa Stivala, respectively.

Rapport ta' verifika mill-uffiċċju tal-Awditur Ġenerali dwar l-arloġġi tal-dawl u l-ilma u s-sistema tal-kontijiet imħaddma mill-ARMS, ikkonkluda li l-kontijiet maħduma fuq bażi pro rata kienu fil-biċċa l-kbira tagħhom korretti u skont Prattika kif approvata mir-regolatur. Madankollu, l-Awditur qal li minn rapporti oħrajn toħroġ varjanza bejn il-metodu attwali li bih jinħarġu l-kontijiet kull xahrejn u l-metodu annwalizzat. Spjega li f'dan il-każ il-konsum jitkejjel fuq sena skont il-massimu ta' units u l-eko-kontribuzzjoni li jintużaw f'dan il-perjodu.

L-Uffiċċju tal-Awditur qal li l-analiżi tiegħu turi li matul is-sena li għaddiet, sitta u erbghin fil-mija (46%) tal-kontijiet tad-dawl u tlieta u sittin fil-mija (63%) tal-kontijiet tal-ilma li ġew studjati, ma kellhomx varjanza sinifikattiva u din kienet tammonta għal anqas minn żewġ ewro fis-sena. Qal li varjanzi aktar sinifikattivi kienu dovuti għal konsumaturi li jkollhom konsum qawwi.

TVM – 3.11.2021

IT Audits and Operations

2

IT Audits

59

Recommendations
Areas of Information
Technology Audits: General
public services, education

2

previous year audits
followed up in Volume II of
the Consolidated Follow-up
Audit Report

54

recommendations
were followed up

35

were fully implemented, **18**
partly implemented and **1** not
implemented

Information technology (IT) audits examine whether an organisation's IT infrastructure, policies and operations are in line with IT industry best practices. They also determine whether IT controls protect public sector assets, ensure data integrity and are aligned with the business's overall goals

Information Technology Audits and Operations Section

Information technology (IT) audits examine whether an organisation's IT infrastructure, policies and operations are in line with IT industry best practices. They also determine whether IT controls protect public sector assets, ensure data integrity and are aligned with the business's overall goals.

The work conducted by the IT Audits and Operations Section in 2021 covered the execution of IT audits, management of IT Operations, publication design of NAO reports and maintenance of the NAO social media pages.

The IT Audits unit of the Section conducted a horizontal audit on 'IT Asset Management Across Government', which was also mentioned in the December issue of the EUROSAI ITWG newsletter⁴. Another IT audit was carried out at the Examinations Department titled 'IT Audit: Department of Examinations'.

The team also completed follow-up reports on the following two horizontal IT audits:

- 'Cyber Security across Government Entities' (published in 2017); and
- 'The use of IT systems to identify skills and professional development needs within the Public Service' (published in 2018)

Furthermore, the IT auditors provided ongoing technical assistance to the Performance Audits Section while conducting the performance audit related to business continuity within the public service during the Covid-19 pandemic, especially when covering the IT component of the audit.

The IT operations and publication design aspect of the Section's work throughout 2021 was very hectic and challenging. The following is a list of the most salient tasks completed in this area of NAO business:

- installation of a new telephony system, which allowed seamless communication

- between the office and all employees whether they are at the office or working remotely;
- installation of a new payroll system with the related time and attendance and leave module;
- upgrade of the IT local area network switches in line with technology refresh requirements and office connectivity requirements;
- upgrade of the desktop publishing software suite and desktop hardware;
- design of 15 NAO publications, which included:
 - *Annual Report on Public Accounts*
 - *Local Councils Annual Report*
 - *Compendium of Follow-Up reports (one published in Q2 2021 and the other in Q3 2021)*
 - *NAO Annual Report and Financial Statements*
 - *Performance Audit Reports*
 - *IT Audit Reports*
 - *Special Audits & Investigative Reports; and*
- inhouse production of two video clips, one for the NAO annual report and one for the performance audit report on Plastic Waste Management.

The previous IT policy was extensively revamped, new sections have been introduced such as 'big data' and other policies such as the 'NAO Data Protection Policy' have been merged in this document. The IT team spearheaded the process over several months, which included extensive internal consultation with other sections of the NAO.

The IT team was given several opportunities to attend online events to further their professional development (e.g., registration of the IT auditors in ECA's TiNA network on MS teams). The Manager of the IT Unit moderated one of the workshops of the EUROSAI ITWG Meeting held in November 2021.

⁴ <https://eurosai-it.org/news/newsletter/itwg-newsletter-2-2021/updates-from-itwg-members/malta-it-asset-management-audit>

Results of the Finance and Administration Section

Expenditure

€2,865,998 spent on salaries and other social security contributions

€321,689 spent on administrative and other overheads

€322,864 spent on subcontracted audit fees of local councils

Assets and Liabilities

€930,520 Total Assets under Administration

€354,526 Non-current assets at net book value

€575,994 Current Assets

€792,799 Total Liabilities

€520,159 Current liabilities

€272,640 Non-current liabilities

Finance and Administration Section

The Finance and Administration Section is responsible for NAO's accounting and human resource management system, and the provision of all administrative support.

The main achievement and contribution of the Finance and Administration Section to the Office during the year was the seamless transition to a new payroll and time and attendance system.

The Indigo System

In January 2021, the Finance and Administration Section was informed by the payroll supplier that the company will no longer be offering any support services to its payroll and time and attendance systems as from 1 January 2024.

The Finance and Administration Section commenced immediately to source an alternative payroll system and, by May 2021, was able to recommend to Management the Indigo System. Following approval by Management and procurement of the Indigo System in June 2021, the first payroll run on the Indigo System was processed for August. The payroll runs on the Indigo System were processed in parallel to the previous HR system up to the last payroll for December. The Indigo System took over the time and attendance function from 1 November 2021.

Through this transition, staff benefited from having a web-based application that is also accessible through any mobile device that allows them to register their clocking at any place of convenience. The application provides a dashboard to every member of staff that gives them access to personal financial information, such as pay slips and FS3s, a display of clocking and vacation leave balances, while offering the facility to book any vacation leave, remote working or other out of office required.

The Finance and Administration Section, in collaboration with the IT Department, also ensured a smooth transition in the set-up of the link between

the Timesheet Management System and the Indigo System for the importation of vacation, sick leave and other data into the former. This process was completed successfully by mid-January 2022.

The transition to the Indigo System was considered to have been a highly successful project management process due to the open communication lines maintained throughout the implementation of the project with both management and staff, as well as the IT Department.

Capital Projects

The Finance and Administration Section was involved in the capital project that relates to the building extension plans, initiated in 2019 and discussed with the Ministry for Finance and Employment and the NAO Accounts Committee during that same year. The architect appointed by the Office proposed a project on three levels at an original cost estimate of €2.2 million to provide a resource centre and additional office space.

In 2021, the architect revised the project downward to a cost estimate of €1.87 million, while retaining the same conceptual design, with a resource centre, additional offices and meeting rooms.

The designs were submitted to the Planning Authority (PA) in September 2021. Following feedback received by interested parties in the project, the architect in consultation with Management and the F&A Section felt the need to revise the design and submit new plans to the PA in order to take account of concerns and objections raised during the PA consultation process.

The architect is in the process of submitting new plans to the PA and is confident that, following submission of amended plans, the project will be approved by the PA. Once the project is approved by the PA, immediate discussions will begin to secure capital funding for the project and kick-start the procurement process.

Embellishment works

Since the last quarter of 2021, Infrastructure Malta have been undertaking urgently required embellishment works both within the premises as well as in the gardens and grounds adjacent to the National Audit Office.

Learning and Professional Development

The F&A Section took an initiative to contact a UK philosopher, Dr Stephen Law, to provide a webinar on critical thinking to all NAO staff. It was the first time that the NAO offered a subject of philosophy in its professional development and learning programme. The objective of the webinar was to raise awareness in the mindset of staff to use more critical thinking in their lines of work, especially when it comes to collecting and evaluating audit evidence and the expression of professional judgment. The three-hour webinar was delivered online on 4 June.

The F&A Section also co-ordinated with INTOSAI on the Professional Education for SAI Auditors – Pilot Study (PESA-P) project. The PESA-P project is a professional educational initiative forming part of the INTOSAI Development Initiative that aims to create audit professionals with competencies that can add value and benefits to Supreme Audit Institutions.

The PESA-P syllabus is based on the INTOSAI's competency framework and gives participants an opportunity for education, assessment and reflection, alongside work experience. The NAO Malta nominated 15 auditors from the Financial and Compliance, Performance and Investigative audit sections, while providing five audit managers as coaches/mentors to assist in the required

education, assessments and continuing professional development.

During 2021, the F&A Section provided logistical co-ordination for two other training projects that were launched in early 2022

- Four webinars consisting of three hours each and delivered online by KPMG to 25 NAO participants
- The second part of the Financial Crime Investigation and Case Management (FCICM) module, organised in collaboration with CIPFA and delivered to the last group of 20 staff. The completion of this module finalises the CIPFA project that has been ongoing since its launch three years ago.

Policies

Finally, the Section facilitated the communication and implementation of policy directives no.10 (29 January 2021) and the policy directive no.11 on remote working (24 September 2021).

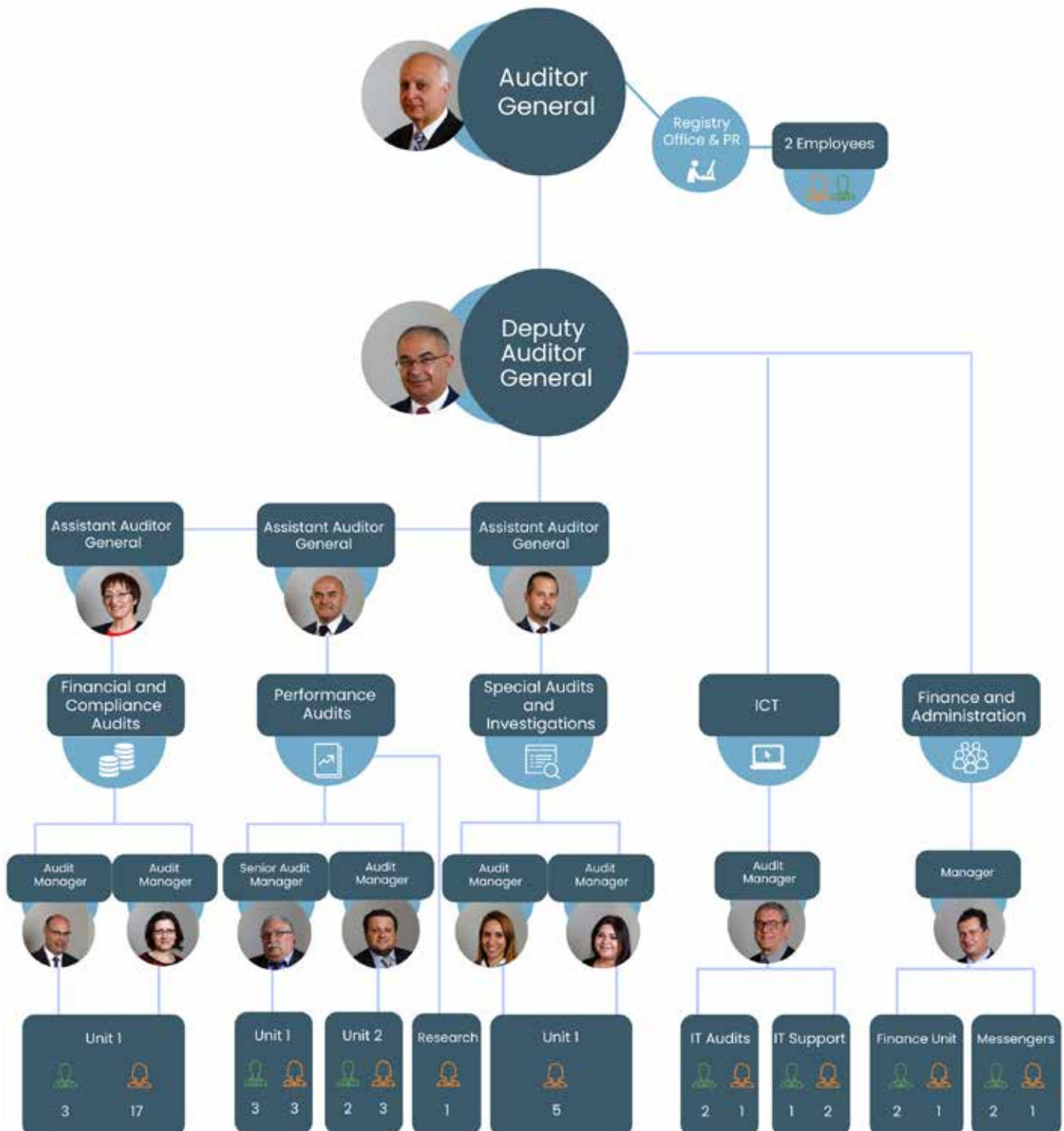
The Finance & Administration Section is currently working on a draft document that will be defining the competency framework for all audit staff. The SAI-PMF exercise has indicated the need to establish a system that ensures that audit teams have the necessary professional competence to perform financial, compliance and performance audits. The F&A Section can play a valuable role in this regard by providing support to NAO auditors by building awareness of audit standards and assisting staff in the development of their professional skills through learning and professional development projects.

Governance

NAO Organisation Chart

The chart below represents NAO's organisation chart. The Office's overall direction (in line with the NAO Office Strategy 2019-2023), management

and monitoring of progress in audits, Office policy directives, as well as any other issues that need to be brought up and considered at senior management level, are discussed and decided upon by the senior management team during fortnightly senior management meetings. Twenty-three such meetings were held during the year.



The senior management team is composed of Auditor General Charles Deguara, Deputy Auditor General Noel Camilleri, Assistant Auditor General, Performance Audits Section, Brian Vella, Assistant Auditor General, Financial and Compliance Audits Section, Tanya Mercieca, and Assistant Auditor General, Special Audits and Investigations Section, Keith Mercieca.

The daily NAO operations are run by the line managers under the supervision of senior management members. Line managers include

Audit Managers Sharon Borg Finn and Orland Bonavia of the Financial and Compliance Audits Section (who report to Ms Tanya Mercieca); Senior Audit Manager William Peplow and Audit Manager Simon Vassallo of the Performance Audits Section (who report to Mr Brian Vella); Audit Managers Josephine Vella and Maressa Stivala of the Special Audits and Investigations Section (who report to Mr Keith Mercieca), Simon Camilleri of the IT Audits and Operations Section, and Ian Rizzo of the Finance and Administration Section (who report to Deputy Auditor General Noel Camilleri).

The Covid-19 pandemic failed to put a damper on the activities of the National Audit Office, which published 19 reports and assignments – an absolute record – last year.

The figure was confirmed in the NAO's latest annual report. In the report, the Auditor General observed that the pandemic brought about considerable challenges, not least the necessity to work from home. Nevertheless, the office managed to conclude its audit plan for 2020, albeit with some minor modifications, and even completed other unplanned assignments in the process.

Newsbook – 8.6.2021

Highlights of 2021

Local Events

Leo Brincat visits the NAO

On 9 March, the Maltese Member of the European Court of Auditors (ECA), Leo Brincat, paid an official visit to the NAO. During this visit, he delivered an extensive presentation on two ECA Reviews:

- ECA Review Number 06/2020 – Risks, challenges and opportunities in the EU’s economic policy response to the Covid-19 crisis; and
- ECA Review Number 01/2021 – The EU’s initial contribution to the public health response to Covid-19.

In relation to the former review, Mr Brincat noted that, notwithstanding the fact that the pandemic has had a much greater impact at a European and global level than the 2008 financial crisis, given that it affected both people’s livelihoods and their health, the European Union’s response to the

pandemic proved more agile, flexible and rapid than in the case of the financial crisis. However, various shortcomings were flagged that occurred amid EU co-ordination concerns in relation to the pandemic.

Mr Brincat affirmed that note was taken by the review of the immense potential of the very generous financial package, i.e., the NextGenerationEU programme, which is the EU’s key tool to ensuring recovery and resilience, in assisting Member States to recover from major declines in their gross domestic product. The review also observed that austerity measures were waived during this period, resulting in excessive levels of public deficits and public debt in all Member States.

In the second publication, the ECA reviewed the EU’s initial response to the Covid-19 crisis and identified certain challenges faced by the EU in supporting Member States’ public health actions. These include setting an appropriate framework for cross-border health threats, facilitating provision of appropriate supplies in a crisis and supporting the development of vaccines. Mr Brincat also noted that the EU allocated 3% of its annual budget by 30 June 2020 to support public health-related measures.



ECA Member Leo Brincat and Auditor General Charles Deguara during Mr Brincat’s visit to the NAO

Various distinguished guests, including Members of the Public Accounts Committee and officials from the Internal Audit and Investigations Department, apart from NAO staff, participated in this event.

NAO-ECA joint seminar

The NAO, in collaboration with the ECA, organised another joint seminar with the theme 'Addressing Key Emerging Issues through Public Audit' on 2 November.

Auditor General Charles Deguara, in the opening address, highlighted the key importance of a timely and accurate response by the NAO to the challenges and opportunities presented by emerging issues in the audit field.

In his keynote address, Leo Brincat outlined a number of important emerging themes that could develop into potential audit topics to be carried out by the ECA. These include the spike in energy prices and freight; climate targets, environmental sustainability and the Green Deal; the increased role of digitalisation and Artificial Intelligence; migration; e-mobility; rule of law and the principle of conditionality; new types of crime, such as environmental crime and political disinformation, as well as cyber security threats; the risks and opportunities of the EU enlargement process; and enhanced research and innovation in technology.

However, Mr Brincat identified a key issue of concern, namely the implementation of the Recovery and Resilience Fund that is part of the NextGenerationEU. This fund, together with the Multiannual Financial Framework 2021-2027, are supporting the recovery plan from the Covid-19 pandemic for Europe. He noted that the Recovery and Resilience Fund differs from the Multiannual Financial Framework 2021-2027 since checks are performed on the basis of achieving milestones and targets and not on costs.

Assistant Auditor General, Special Audits and Investigations, Keith Mercieca, delivered an insightful presentation on 'A Perspective on Key Emerging Issues – Thoughts and Reflections on the NAO's Focus and Practices'. He noted that the

evolving public sector landscape has resulted in more extensive cross-governmental collaboration; various major projects, concessions and public private partnerships; entities and companies distant from government control; horizontal functional entities operating alongside line Ministries; the availability of more data and access to this information; Covid-19 and our focus on public debt; and the prominence of Sustainable Development Goals on national agendas.

Stefano Manicolo, Director General, Internal Audit and Investigations Department, delivered an interesting presentation on 'Public Procurement and Risk Management'. He outlined the public procurement cycle and identified a number of violations at the post-tendering phase, including impaired quality in contract implementation; incomplete or missing records necessary to assess the progress of works or the delivery of goods; and total amount paid to the contractor exceeds the contract value.

He thus referred to the importance of risk management as an increasingly important aspect of public sector governance and delved into the necessity of preparing and regularly updating a risk register, which is a means of recording the identified risks, their severity and the actions (internal controls) adopted.

Deputy Auditor General Noel Camilleri delivered the final presentation on the key issues raised during the seminar and their potential impact on NAO processes and procedures. He pointed to the importance of public entities and audit institutions exercising foresight in their activities and operations. This involves being future oriented, anticipating change, recognising immediately emerging risks and developing suitable responses early enough for them to be effective.

European Chief Prosecutor visits the NAO

On 26 October, the European Chief Prosecutor, Laura Codruta Kövesi, made her first official visit to

the NAO. The European Public Prosecutor's Office (EPPO) is a new, independent body of the European Union having a legal personality and acts as a single Office with a decentralised structure in the 22 Member States, including Malta, participating in the procedure of enhanced co-operation established through Council Regulation (EU) 2017/1939 of 12 October 2017. Malta's European Prosecutor, Yvonne Farrugia, was also present.

During the meeting, Auditor General Charles Deguara, Deputy Auditor General Noel Camilleri and Assistant Auditor General, Performance Audits Section, Brian Vella highlighted the Office's main objectives, legal powers and functions. It was agreed that both entities would extend their active collaboration in areas of mutual interest.

Earlier in the year, on 21 May, Mr Deguara, Mr Camilleri and Mr Vella held an introductory meeting with the Maltese team within the EPPO for an update on their respective roles and responsibilities.

At present, the team is made up of Dr Farrugia, who is based in the EPPO Office in Luxembourg, and Dr Martin Sammut and Dr Geoffrey Azzopardi, who are based in Malta.

Audits of Local Government

In terms of the Local Government Act, the National Audit Office (NAO) is mandated to carry out audits of all local councils, as well as of all regional councils in Malta and Gozo on an annual basis.

Following extensive discussions between the NAO, the Local Government Division (LGD) and the Local Councils Association (LCA), it has been decided that, as from 2022, the NAO will focus on the audit of the financial statements of all local councils in Malta and Gozo, while monitoring and reporting on compliance to pertinent rules and regulations will be undertaken by the Division for Local Government. This will increase the efficiency and efficacy of the current annual process.



Official visit by European Chief Prosecutor Laura Codruta Kövesi, to the NAO

The Division for Local Government will be strengthening its capacity through the creation of a new directorate responsible for financial and procurement compliance. An annual report on monitoring and compliance will be published by the division ahead of the initiation of the annual audits. Through this agreement it is anticipated that the issue of duplication of work will be addressed.

The NAO still reserves the right to continue to carry out compliance audits, as and where deemed necessary, on a sample basis. These will be included, together with the financial audits, in the Annual Report on the Workings of Local Government, issued by the NAO.

AG participates in an ANSEC discussion forum

On 14 December, AG Charles Deguara participated in a discussion forum on 'The role of Executive Secretaries' during the Annual Meeting organised by the National Association of Executive Secretaries (ANSEC). During his interventions, Mr Deguara referred to the various findings and recommendations included in the NAO Annual Report on the Workings

of Local Government for 2020, emphasising the need for the timely submission by local councils and regional committees of their financial statements. In addition, he noted that it was unacceptable that in some cases local councils did not even reply to the Office's management letters.

AG participates in public consultation on Malta's future economic vision document

In June 2021, the Malta Investment Management Company Limited (MIMCOL) initiated an extensive public consultation process in connection with the launching of the draft Malta's Economic Vision 2021-2031 titled 'A Future-Proof Malta – A Nation of Courage, Compassion and Achievement'. This document maps out Malta's economic evolution for the coming decade.

The strategic vision outlined is set across five main pillars:

1. Sustainable Economic Growth geared towards quality-of-life improvements and increased resilience;



Auditor General Charles Deguara participates in the ANSEC discussion forum

2. High Quality Infrastructure and Investment;
3. Education and Employment;
4. Environment; and
5. High Standards of Accountability, Governance and Rule of Law.

These pillars are centred around creativity, innovation and sustainability, that drive new investment, mobilise human capital and contribute to the enhancement of the quality of life for Malta's citizens.

In this regard, on 7 July, AG Charles Deguara was invited to participate in a panel discussion at a business conference focusing on the fifth pillar of this document, specifically Good Governance and Rule of Law. In his intervention, Mr Deguara noted that the NAO is a key stakeholder in this regard – in fact, the Office's primary objective is to enhance good governance across the public sector in the best interest of Maltese citizens.

He affirmed that this is achieved by providing assurance to Parliament and to the general public that public funds are being used in an efficient, effective and economical manner, and in line with prevailing rules and regulations. Mr Deguara also referred to the Office's 2019-2023 strategic plan, highlighting the Office's top priority to provide ample professional development opportunities to the NAO's highly qualified and competent staff to enable the Office to meet emerging commitments and embrace new challenges in the public sector

external audit environment as a result of the changes initiated by this vision.

NAO participation in OECD Fact-Finding Mission

On 23 and 24 November, AG Charles Deguara and AAG, Special Audits and Investigations Section, Keith Mercieca participated in the OECD fact-finding mission held in Malta in connection with the project launched by the Maltese Commissioner for Standards in Public Life on 'Improving the integrity and transparency framework in Malta'. The project, which is fully funded by the European Commission, aims to enhance the ethics and integrity framework in Malta and raise awareness on ethical behaviour among persons in public life and the general public with a view to attaining better standards.

Points for discussion raised by the NAO reflected the instances of lack of transparency frequently encountered when undertaking audits, where lobbying often remains opaquely shrouded. Measures of address highlighted in the NAO's feedback, particularly in relation to the definition of lobbying, the register of lobbyists and the transparency register, were also brought to the fore.

Dr Denise Borg Muscat and Dr Amanda Borg, who were actively involved in the drawing up of the NAO's extensive feedback to the Office of the Commissioner for Standards in Public Life in connection with a public consultation process regarding lobbying, also participated in one of the discussions carried out during this mission.

The National Audit Office added yet another chapter to the ongoing saga surrounding the government's decision to sell three public hospitals to Vitals Global Healthcare.

In what was the second part of their audit into the deal, the NAO this time exposed how the government had perpetuated the failure of the concession – which VGH pulled out of after it flunked financially – by continually endorsing multiple waivers of the requirement for VGH to secure financing.

The Malta Independent – 17.12.2021

Foreign Events

Participation in online conference on SAI independence

On 27 May, AG Charles Deguara was one of the speakers at an online conference organised by the Supreme Audit Office of Poland on the theme 'Good Practices that could be Applied in a Situation where an SAI's Independence is Challenged'. Mr Deguara affirmed that, through the Office's evidence-based audits, any shortcomings by auditees are revealed and addressed through recommendations.

Thus, the operation of a totally autonomous national audit institution is a sine qua non for ensuring good governance, accountability, transparency and integrity in the public sector, thus earning the trust and respect of our citizens.

AG participates in IDI Leadership Masterclass

AG Charles Deguara was invited by the INTOSAI Development Initiative (IDI) to participate in a new initiative, namely the Leadership Masterclass, with the theme chosen this year being SAI Independence. This theme was chosen since evidence from the IDI Global Stocktaking Report confirmed that SAI independence is currently under threat, or declining, in many parts of the world.

Each participating SAI was supported by a dedicated IDI adviser, who was responsible for providing bilateral co-operation and support throughout the Masterclass for Heads of SAIs' planned assignments. Mr Deguara participated in three virtual meetings. These focused on an initial exchange of ideas and experiences on SAI Independence, the results of the 2020 INTOSAI Stocktaking Report and those of the IDI study on impacts of Covid-19 on SAI Independence, and finally on the role of SAI leaders in maximising the degree of SAI Independence.

Senior NAO official attends EU Contact Committee Liaison Officers' Meeting

On 22 September, Senior Audit Manager William Peplow attended the Liaison Officers Meeting of the network of EU Member State SAIs. This meeting was held in preparation for the Contact Committee Meeting of the Heads of EU Member State Supreme Audit Institutions organised by the European Court of Auditors (ECA) in November 2021.

The Liaison Officer's Meeting discussed the outlook on the online meeting of the 2021 Contact Committee Meeting, and the main theme, topics and format of the 2022 Contact Committee Meeting. The event also provided a forum for any feedback and comments on the Draft Status Outline Document, which describes the work carried out by the different Contact Committee Working Groups and Task Forces.

The ECA provided information on the compendium on Covid-19. This document contains information on audits by different EU Member State SAIs relating to Governments' response to Covid-19. Proposals for future activities of the network were also discussed.

Senior management officials attend the Contact Committee Meeting

AG Charles Deguara, DAG Noel Camilleri and AAG, Performance Audits Section, Brian Vella attended the Contact Committee Meeting of EU Member State Heads of SAIs, organised by the European Court of Auditors on 10 November. The meeting focused on the impacts and consequences of Covid-19 on the EU and individual Member States, and the resulting lessons learned from the pandemic.

It also highlighted the importance for EU Supreme Audit Institutions to embrace new approaches and tackle emerging issues in public sector audit. The meeting identified one such topic – Auditing NextGenerationEU – to be of interest to both the ECA and the individual EU Member States.

NAO at XI EUROSAI Congress

AAG, Performance Audits Section, Brian Vella attended the online XI EUROSAI Congress, held on 14 April and hosted by the Czech Republic Supreme Audit Office (SAO), under the leadership of its President Miloslav Kala.

The following is a summary of the proceedings and outcomes of the plenary session of the XI Congress:

- The activity report of the EUROSAI Secretary General (2017-2021) was approved by the Congress.
- EUROSAI Strategic Goals and Governance Portfolios presented their progress reports (2017-2021) to the Congress.
- The Congress endorsed the activity reports of EUROSAI's Working Groups (on Information Technologies, Environmental Auditing and the Audit of Funds Allocated to Disasters and Catastrophes) and Task Forces (on Audit & Ethics and on Municipality).
- An update of EUROSAI Strategic Plan (ESP) 2017-2024 was approved by the Congress.
- The Congress also took note of the updated Memorandum on Enhanced EUROSAI Structure and Governance.
- The EUROSAI Financial Statements (years 2017, 2018, 2019 and 2020) were approved by the Congress, which also took note of the respective auditors' reports.
- The Budget 2022-2024 (including the annual financial contributions of EUROSAI members) was also approved.
- The Congress took note of the reports by the INTOSAI General Secretariat and by

INTOSAI Development Initiative, in the framework of the close co-operation with EUROSAI.

- As part of the celebration of the 30th anniversary of EUROSAI, the publication prepared by the SAI of the Czech Republic was presented, together with a commemorative video of former Presidencies (the SAIs of Italy, Czech Republic, France, Russian Federation, Germany, Poland, the Netherlands and Turkey) and Secretaries General.

NAO participates in webinars on SAIs' Response to Covid-19 Pandemic

AG Charles Deguara participated in an INTOSAI Development Initiative (IDI) webinar on an IDI-EUROSAI joint initiative titled 'Transparency, Accountability and Inclusiveness of Use of Emergency Funding for Covid-19', also referred to as TAI Audits, on 12 March.

The outcome of TAI audits is intended to ensure the setting up of more transparent, accountable and inclusive frameworks for public spending during emergencies with particular consideration of inclusiveness in the use of public funds.

A number of webinar participants, including the (Maltese) NAO, and SAIs of UK and Spain, shared their experiences on performing audits of emergency funding for Covid-19. Thereafter, all participating EUROSAI SAIs provided their opinion and feedback on the extent to which they:

- exercised oversight on emergency public procurements and on socio-economic packages; and
- engaged with stakeholders for audit impact.

In addition, on 26 March, Mr Deguara and DAG Noel Camilleri attended a virtual conference on the EUROSAI Project Group on Auditing the Response to the Covid-19 Pandemic Experience Sharing Webinar.

During this conference, every national audit institution shared its experiences in connection with ongoing audits of expenses incurred in connection with the Covid-19 pandemic. Mr Deguara gave an update on the Covid-19 situation in Malta and provided an overview of NAO planned audits on the theme of the pandemic.

NAO at 25th UN/INTOSAI Symposium

On 28-29 June, AG Charles Deguara and DAG Noel Camilleri participated in the virtual 25th UN/INTOSAI Symposium on Working during and after the pandemic: building on the experiences of Supreme Audit Institutions (SAIs) for strengthening effective institutions and achieving sustainable societies. Around 250 participants from across the globe followed this symposium and representatives from more than 20 SAIs shared their experiences and insights on how they tackled audits relating to the Covid-19 pandemic.

The common thread in the deliberations was that essentially SAIs managed to conclude most of their audit programmes due to staff members and auditees' resilience and flexibility.

NAO at EUROSAI Working Group on Environmental Auditing Spring Session

On 26 and 27 June, Senior Audit Manager, Performance Audits Section, William Peplow and Senior Auditor, Performance Audits Section, Rodianne Spiteri participated in the EUROSAI Working Group on Environmental Auditing Spring Session. The main theme of the seminar, which was chaired by the State Audit Office of Poland, related to waste management.

The first day was mainly allocated to keynote speakers to introduce and discuss from a theoretical viewpoint various facets of waste management. In the second day, various SAIs presented audits carried out on waste management. Ms Spiteri delivered an excellent presentation on the audit carried out by the NAO on the effectiveness of plastic waste management in Malta.

She focused on the audit background, aim and objectives; the extent of completeness and reliability of data managed by the Regulator, the Environment Resources Authority; the adequacy or otherwise of legislative and strategic frameworks relating to waste management; the review of implementation, monitoring and enforcement measures; and financial costs. Ms Spiteri also gave an overview of the audit findings, overall audit conclusion and recommendations.

Additionally, Mr Peplow and Ms Spiteri also led the group discussion related to auditing plastic waste management and presented the main outcomes during the plenary session.

NAO at XIX Annual Meeting of EUROSAI Working Group on Environmental Auditing

On 19 and 20 October, Senior Audit Manager, Performance Audits Section, William Peplow and Senior Auditor, Performance Audits Section, Rodianne Spiteri participated in the XIX Annual Meeting of the EUROSAI Working Group on Environmental Auditing on the theme 'Green Transition'. Since climate change and environmental degradation are an existential threat to the EU and to the world, the opening presentation referred to the European Green Deal, which aims to make Europe climate neutral by 2050, boost the economy through green technology, create sustainable industry and transport, and decrease pollution.

Various other presentations on green transition were delivered, including one by Prof. Luciano Mulé Stagno, Director at the Institute for Sustainable Energy at the University of Malta, on 'The Potential of Offshore Solar Energy'. The aim of the presentation was to discuss the advantages and disadvantages of having offshore floating structures of solar systems. He referred to a current project, which is underway at the University, aimed at:

- proving the economic and technological viability of solar offshore installations in open sea and determining their best design;

- developing the design and validating it through modelling; and
- building and testing that design and validating it through wave-tank tests and maximising power output.

On the second day of the webinar, Mr Peplow and Ms Spiteri, with the technical help of IT Audit Manager Simon Camilleri and Principal IT Administrator Fabrizio Taliana, led the Workshop on 'Climate' in which the 32 participants from 18 SAIs discussed potential audit topics in this area and identified best practices in their respective countries.

NAO at EUROSAT IT Working Group Seminar

On 11 May, IT Audit Manager Simon Camilleri participated in the EUROSAT IT Working Group e-Seminar on 'From Code to Action: SAIs Discovering the World of AI'. The objective of the seminar was to update participants on the latest relevant European policy developments as well as experiences of audit offices and selected public sector entities in the field of Artificial Intelligence (AI), machine learning and algorithms.

Mr Camilleri moderated one of the workshops organised during this Seminar with the theme Mapping Challenges of auditing AI and using AI in SAIs.

NAO at Annual Meeting of ITSA/ITASA Project Team

On 14 September, IT Audit Manager Simon Camilleri participated in the annual meeting of the IT Self-Assessment/IT Audit Self-Assessment (ITSA/ITASA) Project Team within the EUROSAT IT Working Group. The meeting consisted of two sessions covering progress and plans related to ITSAs and ITASAs.

During both meetings, the planned ITSAs and ITASAs were discussed. Mr Camilleri has been reconfirmed as an ITASA Moderator and ITSA Co-Moderator.

NAO at 14th EUROSAT IT Working Group Meeting

IT Audit Manager Simon Camilleri attended the 14th EUROSAT IT Working Group Meeting held on 9-10 November in Estonia.

On the first day, a seminar was held with the theme 'Brace for impact – SAIs pinpointing cyber-risks'. A panel discussion on the theme 'Modern approach to cybersecurity auditing' was also held.

The second day consisted of a EUROSAT IT Working Group Business Meeting. The Working Group general progress report and updates on a number of Work Plan projects, such as the IT Audit Manual, co-operative audits, CUBE, ITSA and ITASA, and Research and Training Hub were presented.

Updates were also presented by a number of INTOSAI partners, including the INTOSAI Working Group on IT Auditing, the INTOSAI Working Group on Big Data, the INTOSAI Working Group on Impact of Science and Technology on Auditing and the INTOSAI Development Initiative.

Mr Camilleri was once again included in the list of ITASA moderators, managed by the ITWG team.

NAO officials as ISAM mentors to SAIs

AAG, Special Audits and Investigations Section, Keith Mercieca and Principal Auditor, Special Audits and Investigations Section, Rebecca Vassallo form part of the core team that developed the INTOSAI Development Initiative Sustainable Development Goals Audit Model (ISAM). In 2021, they were invited by the INTOSAI Development Initiative (IDI) to join the global team of resource persons to support SAIs in the ASOSAI region in an audit of 'Strong and resilient national public health systems', linked to SDG 3 "Ensure healthy lives and promote well-being for all at all ages".

The Covid-19 pandemic has accentuated the relevance of this audit to society, and has highlighted the importance of ensuring the setup and operation of strong, integrated and resilient public health systems that possess the necessary capacities for early warning, risk reduction and management of health risks.

As mentors to SAIs, Mr Mercieca and Dr Vassallo have been receiving online mentor training from IDI on ISAM, pedagogy, online tools and subject matter expertise, including information sessions by WHO officials. They have also participated in the design and development of digital educational material for SAIs and have been assigned the role of co-ordinators within the team of mentors in this process.

Mr Mercieca and Dr Vassallo have also facilitated the professional education of SAIs by delivering the educational sessions online, and by supporting SAIs in asynchronous educational activities. They have also each been assigned three SAIs to support during the audit process. This assistance will entail the provision of feedback on the audit plans, the establishment of an online workspace during the conduct of the audit and the review of the draft audit reports.

Facilitation of IDI Webinar on ISAM

On 14 December, AAG, Special Audits and Investigations Section, Keith Mercieca facilitated an IDI webinar on the audit of the SDGs. The central objective of the webinar titled 'Reflections on ISAM' was to assemble reflections on ISAM from the SAIs that are participating in the SDG implementation audits and their respective mentors.

Aspects explored in the webinar included the extent of use of ISAM and reflections on what the audit of SDG implementation means. The session that Mr Mercieca moderated focused on what could be improved in ISAM to provide additional value. The webinar was well attended, with just short of 200 participants from SAIs from all continents present.

Stakeholder Relations

In line with its stated vision, the NAO strives to provide a multidisciplinary professional service to Parliament, Government and the taxpayer, and to be an agent of change conducive to achieving excellence in the public sector. To be able to work towards this goal, it interacts with a number of stakeholders, without impairing its independence. These include Parliament, auditees, educational institutions, the general public, a number of EU institutions, local and foreign working groups and committees, and its employees.

Relations with Parliament

Parliament is the Office's main stakeholder for two key reasons: both the Auditor General and Deputy Auditor General are Officers of the House of Representatives; and thus, all NAO reports are presented to the Speaker of the House of Representatives, who lays them on the Table of the House at its next sitting. Some of these reports are discussed by the Public Accounts Committee (PAC), which is the Parliamentary Standing Committee tasked with reviewing NAO reports.

In 2021, there were 28 PAC meetings and the following was discussed:

- examination of the Auditor General's report titled 'An Investigation of Matters Relating to the Contracts awarded to Electrogas Malta Ltd by Enemalta Corporation'.
- presentation by Mr Leo Brincat, Member of the European Court of Auditors, on:
 - Annual Report 2020 of the European Court of Auditors, and
 - Special Report on EU Readmission Co-operation with Third Countries.

Relations with auditees

Principal Permanent Secretary presents Governance Action Report to AG

On 28 October, Principal Permanent Secretary Mario Cutajar, accompanied by the Permanent Secretary Ministry for the National Heritage, the Arts and Local Government, Joyce Dimech, and Director Governance Action, Jacqueline Bonnici, visited the NAO to present a copy of the report issued on the same day, titled 'Governance Action on NAO Report on Public Accounts (2019) and other NAO Reports (2020)' to AG Charles Deguara, in the presence of DAG Noel Camilleri.

This publication included a detailed analysis of the extent of implementation of NAO recommendations

included in the NAO Report on Public Accounts for the year 2019 and other NAO reports published in 2020. The report states that the public administration successfully implemented 90% of all actions designed to address the recommendations in the Report by the Auditor General on Public Accounts 2019.

NAO Senior Management Meetings with Permanent Secretaries

A number of meetings were also held by senior management with a number of Permanent Secretaries to discuss both ongoing audits in their Ministries and any related issues and concerns. The following meetings were held with the Permanent Secretaries and Ministries at the time (Table 2 refers):

Table 2: List of NAO Senior Management Meetings with Permanent Secretaries

Mr Alfred Camilleri	Ministry for Finance and Employment
Mr Joseph Rapa	Ministry for Health
Dr Frank Fabri	Ministry for Education
Mr Paul Zahra	Office of the Prime Minister (EU Funds)
Mr Joseph F. Caruana	Ministry for the Environment, Climate Change and Planning
Ms Joyce Dimech	Ministry for the National Heritage, the Arts and Local Government and the Ministry for Research, Innovation and the Co-ordination of the Post Covid-19 Strategy
Ms Nancy Caruana	Ministry for the Economy and Industry
Mr Joseph Caruana	Ministry for Transport, Infrastructure and Capital Projects
Mr Johan Galea	Ministry for Justice, Equality and Governance
Mr Joe Borg	Ministry for Gozo

2021 results of auditee feedback surveys

NAO aims to maintain a professional relationship with auditees without impairing its independence and objectivity. In order to assess its progress in this regard, the NAO, through one of its strategy action teams, developed an auditee feedback survey that was distributed to NAO auditees in 2021.

The survey was split into three main parts:

- Planning and Communication;
- Audit Execution and Team Behaviour throughout the Audit Process; and
- Reporting, findings and recommendations.

Planning and communication

When requested to state whether the audit was timely, 92.0% of respondents confirmed that that was the case – only 2.7% stated that the audit was too early, and only 5.3% stated that the audit was too late.

Auditees were also requested to rate their agreement/disagreement with a number of statements related to NAO's planning and communication processes. The results are presented in Table 3.

The below results demonstrate that all auditees to whom the statement applies agreed that auditors

Table 3: Results of Planning and Communication Statements

	Strongly Agree	Agree	Disagree	Strongly Disagree	N/A
	% of replies	% of replies	% of replies	% of replies	% of replies
The objectives and scope of the audit were clearly communicated to you.	36.0	62.7	Nil	Nil	1.3
You were provided with the opportunity to comment on the scope of the audit. (N/A for investigations)	46.7	46.7	4.0	Nil	2.6
The relevance of the data/information requested from you was clear.	38.7	60.0	Nil	Nil	1.3
The audit team obtained an adequate background knowledge of your organisation or the subject matter of the audit.	26.7	68.0	2.7	1.3	1.3
The audit team discussed emerging issues with the auditee and remedial action could be taken during the course of the audit. (N/A for investigations)	22.6	64.0	6.7	Nil	6.7
The audit team provided the opportunity to submit management with comments on audit findings and recommendations. (N/A for investigations)	38.0	53.2	1.3	Nil	7.5

effectively communicated to the auditees the objectives and scope of the audit. All auditees also confirmed that the relevance of the data/information requested from them was clear. Most of them also confirmed that auditors discussed with them emerging issues encountered during the audit as well as any remedial action that could be taken while the audit was in progress.

In most audits, auditees confirmed that auditors also provided them with the opportunity to submit management comments on audit findings and recommendations. Auditees in most cases also confirmed that audits were backed up by a proper understanding of the background knowledge of the organisation or the subject matter of the audit.

Audit Execution and Team Behaviour throughout the audit process

The survey also enabled auditees to provide feedback on the NAO's execution process and team behaviour throughout the audit process. The results are presented in Table 4.

All auditees agreed that NAO auditors exercised ethical behaviour during the audit by demonstrating competence, professional behaviour and objectivity. In fact, over 60% strongly agreed that the audit team exercised professional behaviour. Auditees also agreed that professional behaviour was exercised by NAO auditors when requesting appropriate information for the audit. There were no auditees who disagreed with these statements.

In addition, auditees mostly agree that the limitations experienced by the organisation were adequately considered, and disruptions to daily activities of the auditees were kept to a minimum by the Office auditors. This further confirms that, as the external public sector auditor, the NAO is delivering quality service to auditees and other stakeholders.

Reporting, findings and recommendations

Auditees were requested to provide their feedback on NAO reporting, findings and recommendations. The results for each category are presented in this part of the Report.

Table 4: Results of Auditee feedback on audit execution and team behaviour throughout the audit process

	Strongly Agree	Agree	Disagree	Strongly Disagree
	% of replies	% of replies	% of replies	% of replies
The limitations within your organisation were adequately considered.	21.5	74.7	2.5	1.3
The amount of information requested was appropriate.	27.8	72.2	Nil	Nil
The disruption of daily activities was kept to a minimum during the audit.	24.0	72.2	2.5	1.3
The audit team demonstrated competence.	46.7	53.3	Nil	Nil
The audit team demonstrated professionalism	62.7	37.3	Nil	Nil
The audit team demonstrated objectivity	49.3	50.7	Nil	Nil

Rating on NAO Reports/Management letters

The results of auditee feedback on the timeliness and quality of NAO reports/management letters are shown in the Table 5.

All auditees agreed that NAO reports/management letters were clearly written – it is significant to observe that over 60% of auditees rated clarity as very good. They also confirmed in their feedback that the report/management letter was issued in a timely manner, thus reiterating once again the timeliness of the audit process. Nearly all auditees also rated the NAO reports' technical quality highly.

Rating of NAO findings

The results of auditees' opinion on the soundness of NAO findings are shown in the Table 6.

Auditees have also confirmed that NAO findings are objective and based on evidence – none rated these two qualities as poor or very poor. In fact, more than a third of the auditees rated the auditors' objectivity and evidence-based findings as very good. Most of them have also stated that auditors, when documenting audit findings, were sensitive to the context within which the organisation works.

Table 5: Results of Auditees feedback on NAO Reports

	Very good	Good	Poor	Very poor
	% of replies	% of replies	% of replies	% of replies
It was clearly written.	63.2%	36.8%	Nil	Nil
Its technical quality was good.	51.3%	47.4%	1.3%	Nil
The report/management letter was issued in a timely manner.	54.7%	45.3%	Nil	Nil

Table 6: Results of Auditees' opinion on NAO findings

	Very good	Good	Poor	Very poor
	% of replies	% of replies	% of replies	% of replies
Based on evidence	34.2	65.8	Nil	Nil
Objective	40.8	59.2	Nil	Nil
Sensitive to the context within which the organisation works	28.9	64.5	5.3	1.3

Studju mill-Uffiċċju Nazzjonali tal-Verifika, l-NAO, sab li 80% tar-rakkomandazzjonijiet tal-Awditur Ġenerali ġew indirizzati mis-Servizz Pubbliku

Fi stqarrija mill-Uffiċċju tas-Segretarju Permanenti Ewlieni intqal li dan juri biċ-ċar kemm ir-rakkomandazzjonijiet tal-Awditur Ġenerali u istituzzjonijiet oħra ta' skrutinju jingħataw importanza mis-Servizz Pubbliku, biex dejjem tkun sostnuta l-governanza b'saħħitha u l-kontabilità.

One News – 1.7.2021

Table 7: Results of rating by auditees of quality of NAO recommendations

	Fully	Partly	Never	Not applicable
	% of replies	% of replies	% of replies	% of replies
Did these draw on findings included in the report?	71.1	23.7	Nil	5.2
Were these actionable for your organisation?	50.0	43.4	Nil	6.6

Rating of NAO recommendations

Table 7 provides a summary of auditees' feedback on the quality of NAO recommendations included in the Office reports.

Results show that over 70% fully agree that recommendations included in NAO reports draw on the related findings. In addition, half of the respondents stated that our recommendations are fully actionable.

One has to note that, although no auditee disagreed with the above statements, the Office intends to continuously improve its process of providing recommendations that can be fully implemented by the organisation within a reasonable timeframe and thus continue to provide high quality reports.

Relations with educational institutions

The Office co-operates with a number of local and foreign educational institutions, including the University of Malta.

The NAO, in collaboration with the Department of Accountancy within the Faculty of Economics, Management and Accountancy (FEMA) at the University of Malta, awards the annual National Audit Office prize to a Masters in Accountancy graduate for the best dissertation in an area related to Public Sector Accounting.

In 2021, the Accountancy best dissertation awards ceremony was held on 9 December, with Auditor General Charles Deguara presenting the public sector award to two graduates, since in 2020 the event could not be held due to Covid-19 restrictions.



Presentation of best dissertation award by Auditor General Charles Deguara to University graduate Daniel Galea

Daniel Galea (Masters in Accountancy degree Course Group 2018-2020) won the Office's Award for the best dissertation titled: 'Public Private Partnerships and their applicability in Malta: An Analysis' and Wayne Formosa (Masters in Accountancy degree Course Group 2017-2019) was given the NAO's Award for his dissertation titled: 'The Future of Popular Reporting for Local Councils in Malta'.

Over the years, co-operation with the University of Malta also consisted in staff from the NAO giving lectures to University students. In 2021, the Assistant Auditor General, Performance Audits Section, Brian Vella conducted a number of lectures on Governmental Accounting for Bachelor of Arts (Honours) in Public Administration, FEMA, fifth-year students at the University of Malta. A number of NAO officials also assisted a number of University of Malta students, particularly from FEMA, by accepting to hold interviews relating to the students' dissertations.

In addition, a number of students, who are both NAO employees and others, opted to carry out a dissertation on a topic related to the NAO. We have asked three of these students to provide a summary of their research. These are:

- Neil Zammit, Principal Auditor, Financial and Compliance Audits Section – dissertation titled 'A Critical Investigation on the Impact that the New Accounting System Implemented by the Maltese Public Sector will have on the National Audit Office', submitted in partial fulfilment of the requirements for the attainment of the MBA with the University of Derby (UK) qualification;
- Claire Casha, Senior Auditor, Financial and Compliance Audits Section – dissertation titled 'The Maltese Central Government's transition to Accrual Accounting and Reporting: How the National Audit Office needs to evolve to meet the new challenges that this will bring about in Public Sector audit', submitted in partial fulfilment of the requirements for the attainment of

the Bachelor of Arts in Management at the Study World Global College, Malta;

- Mario Abela, a senior public official – dissertation titled 'How can the NAO help to achieve good governance in the public service?', submitted in partial fulfilment of the requirements for the attainment of the Executive Masters in Business Administration (Public Management) at the University of Malta.

A Critical Investigation on the Impact that the New Accounting System Implemented by the Maltese Public Sector will have on the National Audit Office



Neil Zammit

Change management is a continuous phenomenon. Despite the various established theories and ongoing empirical research on change management processes within business entities, every course of change procedure provides a unique transformation experience, which sometimes may result in change initiatives falling short of their specified objectives. In fact, what motivated me to perform this research was to determine how the accrual-based system being implemented within the public sector will affect the audit processes of the National Audit Office (NAO) and how these new adopted processes will be received and accepted by the NAO officers.

Undoubtedly, this study contributed to literature by evaluating change in a specific entity in Malta, which has a vital role in the governmental financial reporting system and framework. To this effect, the NAO can serve as a good case study for reference to other institutions that were or will be faced by similar change processes and circumstances brought about through the decisions undertaken by the Maltese Government.

Besides, this research shed more light on a specific problematic scenario dealing with uncertainty issues within the NAO brought about by the imminent change process to be taken on board. Every change process entails an element of risk vis-à-vis the ambiguity of outcomes in contrast with the potential benefits associated with the proposed problematic solution. Therefore, this study was beneficial to the NAO, by identifying diverse issues surrounding the proposed change programme, while recommending appropriate actions to mitigate these difficulties and enhance its operations and quality of work.

My research confirmed that this Office was not in a position to take an active role in this entire change programme. Thus, the NAO could not identify in advance what actions were required to effectively execute this change and to actually take whatever actions were necessary. The NAO shall strive to communicate further with the Government and its specific representatives to enable the change programme to be steered in a smoother manner without further disruptions. Participation and involvement in the change process shall be direct and effective in all senses.

Moreover, this study showed that change within the NAO was very minimal. This implies that there are other factors that are affecting the change programme within the NAO, including the effect of the change process itself vis-à-vis the Government Ministries, together with the mindset of those involved and state of awareness to change. Changing mindsets is not that easy. However, this can be done by making sure that the change process is seen as something tangible and attainable. Otherwise, no one will feel part of it and the change itself will not be successful.

Interesting also to note is that, although some form of systematic process was being followed at the NAO, more effort is required by senior management to define the process and promote it among all staff members. Senior management needs to be well prepared to be able to focus on the main target items of the change process and must not let the process be interrupted.

Also, this research exposed the fact that senior management is delaying the decision to acquire new software that is required for the change process to be formalised and facilitated. And, finally, a successful change process has to be based on an adequate IT system that will work together with the proper combination of people and operating processes.

The Maltese Central Government's transition to Accrual Accounting and Reporting: How the National Audit Office needs to evolve to meet the new challenges that this will bring about in Public Sector audit



Claire Casha

Selecting an interesting title for a study is imperative for every student. Since I was following a course in management, and I had been employed with the National Audit Office (NAO) for almost two decades, it was second nature for me to look at topics that were affecting the scenario within which the Office was operating. Change is important and likewise

inevitable in every institution, and hence the title selected focused on the necessary adaptations the Office needed to implement to keep abreast with developments, and build capacity and expertise to fulfil its role.

The objective of this study was to analyse how the Office's role has to evolve in order to meet the potential challenges brought about by the Central Government's transition to accrual-based accounting. It also assessed whether the Office's strategy met the foreseen objectives. The study examined how this transition will necessitate the Office to change in terms of Information Technology, Human Resources, Policies and Standards, and Procedural issues. Thus the gap between the Office's operations and those that were perceived to become required during and following the transition, were enquired.

Following research, an understanding of the following key areas was established.

Auditors provide the Government with insight by assessing its performance and, in doing so, standards are required to be set as benchmarks. The NAO provided its auditors with a three-year programme to prepare for the implementation of the International Public Sector Accounting Standard (IPSAS) as adopted by the Maltese Government. In addition, the Office intended to provide further training to its employees in the areas of IPSAS, International Standards of Supreme Audit Institutions (ISSAIs) and the Corporate Financial Management System (CFMS).

The CFMS provides huge volumes of high-quality information. However, this depends on the knowledge and capabilities of the employees operating it. The NAO faces a challenge in ensuring that the data extracted from this system is interrogated and analysed to ensure its integrity and reliability. It appeared that there was scope for enhancing the skills of the auditors by providing training in this area.

The role of the NAO will continue to expand with additional responsibilities emanating from the new financial legislation. This will increase the workload on the Financial and Compliance Audits Section due to the increased demand for certification of the Government's annual financial statements, at ministerial and national level.

These responsibilities were to be partially absorbed by the Office through new and diverse audit methodologies. Investment in audit technology, as well as the development and use of data analytics, will increase efficiency and insight provided by the audits performed. The NAO needed to invest in its workforce and strengthen its training programmes to further support the employees' personal development, particularly in IT competencies.

In addition, audit methodologies and reporting practices need to meet INTOSAI Audit Standards. Thus, the NAO was recommended to adopt the ISSAI implementation guidelines on Financial and Compliance audits. In view of the foregoing, a training programme on ISSAIs, which promotes objective, systematic and evidence-based audit work, was also required.

The Office needs to recruit highly skilled, qualified audit staff. In the eventuality that the staff level was not adequately sufficient, the Office would have to outsource certain functions, while keeping the core role under its control.

In conclusion, this study has shown that Public Sector Reform brings about significant changes to the NAO. However, this Office is committed to meet its future mandate and, in response, it was preparing for the likely upcoming challenges. Such a large-scale change also brings with it opportunities, and the NAO had already started the process to extend its capacity, resources and expertise to support accountability and improvement. Nevertheless, for it to succeed, the NAO had to continue to develop and enhance its work and capabilities, while assuming new responsibilities in its pursuit of enhanced influence on Government.

How can the NAO help to achieve good governance in the public service?



Mario Abela

Being a public officer for the past 30 years, mostly employed in the finance section, I was involved in the various audits or investigations carried out during these three decades by the National Audit Office.

Also, for six years, from 2013 onwards, I read the Higher Diploma in Public Accounting and Finance (HDPAF) and Executive Master in Business Administration (Public Management) (MBA), both within the University of Malta. For both courses, I decided to do my research about audit, internal for the HDPAF and external for the MBA. For the latter, I opted to investigate 'How can the NAO help to achieve good governance in the public service?'

My study explored the vital role of the NAO in ensuring the relevance of good governance in the public service. This can be attained by effectively complying with the recommendations given by this Office to the audited entity/department. These recommendations should be taken on board by management, hence enhancing the principles of good governance while guaranteeing value for money.

Recommendations arising in the majority of the audits/investigations include the lack of

documentation held by the government's departments and the need of more commitment from the top management. Adherence to public procurement regulations, due diligence and failure to give requested information also featured in most of the NAO's recommendations.

Another section of my study focused on the role of the media in respect of reporting the NAO's audits or investigations, in particular any wrongdoing found and highlighted in the reports. The methodology for this part of the dissertation consisted of:

- An interview with Auditor General Charles Deguara;
- A set of 10 questions were forwarded to Mr Deguara and the responses integrated in my research and findings section;
- A review of articles mentioning the National Audit Office on online news portals during 2017, 2018 and from January to July 2019. This included an analysis of the 39 different audits, investigations or reports published by this Office and mentioned in the media; and
- An examination of books, journals and other literature related to the role of the external auditor and good governance.

From this study, it was confirmed that correct reporting by the media, especially independent ones, makes it easier for citizens to be informed about the findings, shortcomings and recommendations included in NAO reports. Through truthful coverage, malpractices by the executive branch are brought to the attention of the public, who funds the government expenditure through taxation.

As stated by the Auditor General during our meeting, the NAO started to "engage with the media with caution". The public discussion following the issuing of the investigation related to the contract awarded to ElectroGas Ltd. by Enemalta Plc was a great satisfaction for the NAO.

It was also revealed that:

- a total of 199 articles (all in English) were found, generating more than 7,800 reader comments. There were four references in foreign websites, too.
- news portals wrote 23 articles, generating 1,502 comments, on a specific audit/investigation published by the NAO. This theme topped the list of both media news articles and comments made. To this day, there are still references to this report in certain debates and discussions. The second report generating most online media interest, elicited 19 news titles and 1,251 comments. These two subjects overwhelmed all other investigations/audits mainly due to the investigation type and political implications.
- following the discussion triggered after the issuance of a particular investigation, the NAO issued a press statement expressing its satisfaction with the interest created by that report.

In view of the above results, it was recommended that requests for audits/investigations, when possible, should not be politically instigated. The NAO should be left outside the political arena; it is an autonomous body and should remain independent.

It was also proposed that the credibility of the external auditor in the eyes of the public could be enhanced when good practices are found and highlighted.

Another suggestion is that, in the technology era, the presence of the National Audit Office on social media would enhance its visibility since more citizens would be aware of its works.

The researcher is of the opinion that, on a yearly basis, the NAO should organise a seminar in which all those involved in the audits/investigations performed by it discuss the suggestions or recommendations made. Only generic information will be examined and debated – not a blaming exercise. This idea came from a reply by the Auditor General when he stated that the relationship “between the auditor and the auditee should be a collaborative, surely not, an adversarial one”.

The study concluded that publicity of this Office’s work makes it more difficult for the government to not respond to recommendations made.

The National Audit Office has said that “LESA’s potential as an enforcement agency is evident”. However, it added that LESA “requires investment in the quality and quantity of its officers, as well as better planning in resource allocation”.

This comes after a performance audit was carried out by the NAO to “determine whether this agency is suitably geared to perform its traffic enforcement function adequately.”

Gozo.news – 21.1.2021

Relations with the general public

The NAO commissioned an independent entity to carry out a cross-sectional survey among the Maltese population to identify the perception and opinion of Maltese citizens on the work being carried out by the National Audit Office. The survey was conducted through telephone interviews and the data was collected in June 2021. A sample size of 500 individuals was chosen among the Maltese population aged 16 years old and above. The level of confidence was 95% with a confidence interval of +/-4.3%. The sample was stratified based on age, gender and districts.

The main results of the survey are presented below.

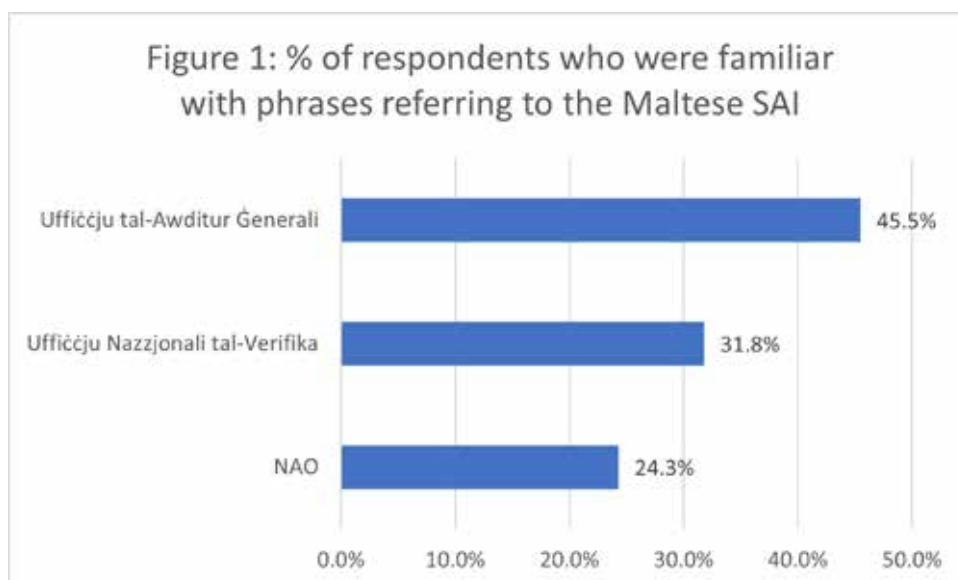
Public Survey Results

Respondents' awareness of the Office

The respondents were presented with three different phrases – one an abbreviation in the English language and two complete phrases in Maltese – that are used interchangeably to refer to the Office:

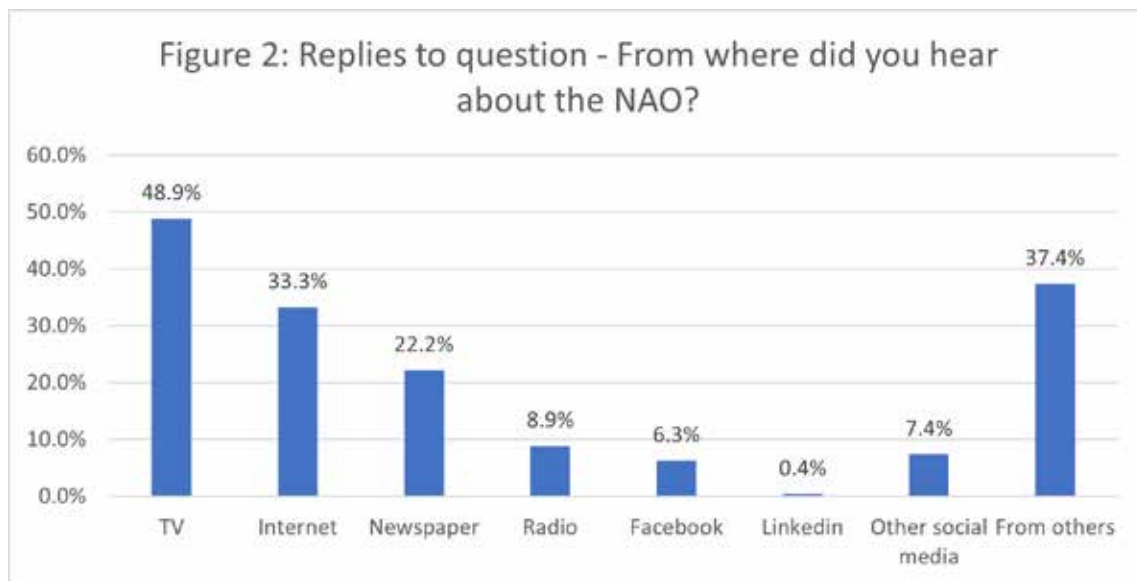
- NAO
- Uffiċċju Nazzjonali tal-Verifika
- Uffiċċju tal-Awditur Ġenerali.

As can be seen from the chart below, respondents were most familiar with the term Uffiċċju tal-Awditur Ġenerali.



How respondents got to know of the NAO

Respondents were asked from where they got to know about the NAO. The results are shown in Figure 2.



Most of the respondents heard about the NAO from television, followed by the internet and newspapers. Very few respondents got to know of the NAO from LinkedIn. A notable number of persons got to know about the NAO by word of mouth.

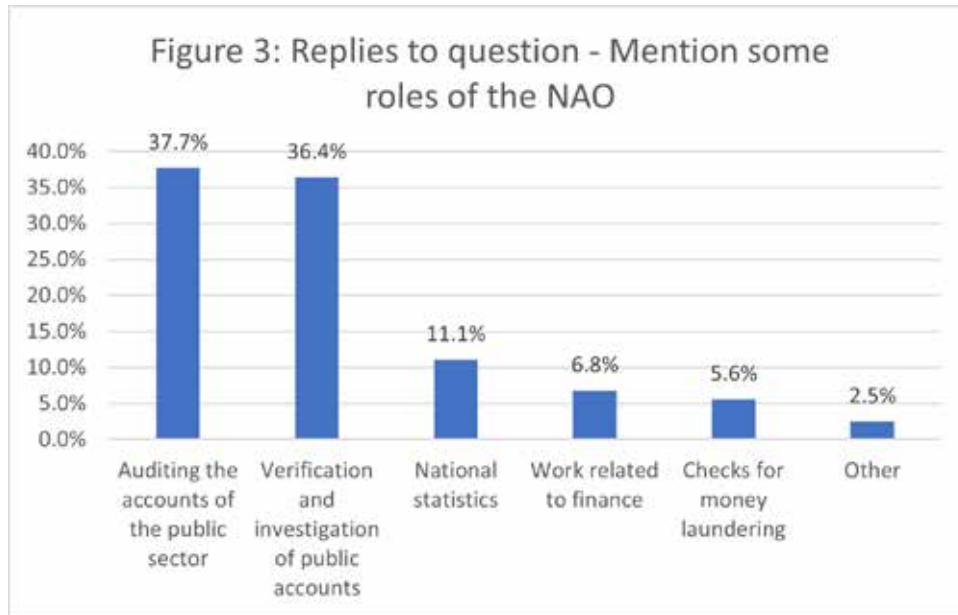
Respondents' awareness of the functions of the Office

Persons who stated that they have heard of the Office were asked whether they were aware of the functions of the Office. The survey results demonstrated that 61.4% of the respondents who had heard of the NAO stated that they know what its main functions are.

Respondents' opinion on the main functions of the NAO

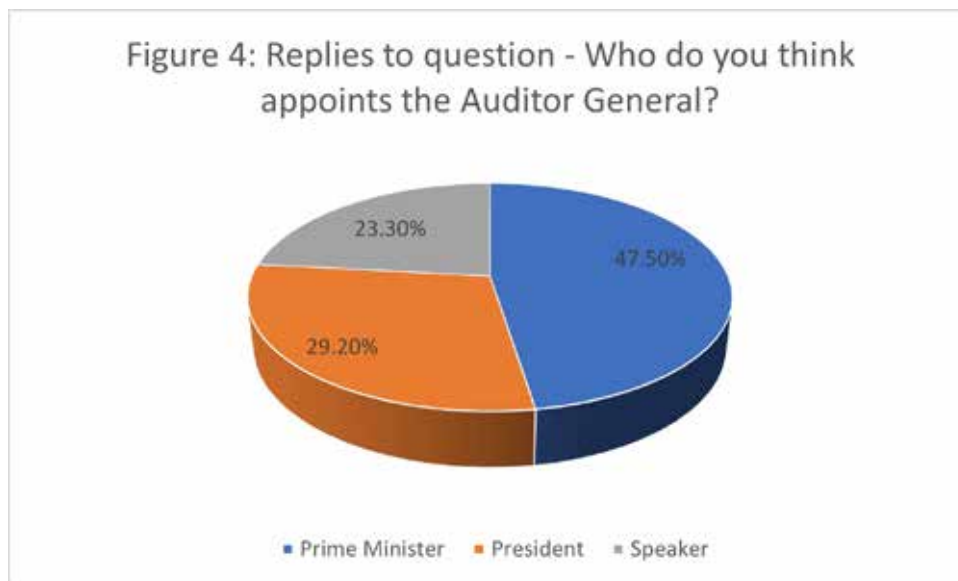
Survey respondents who had heard of the Office were requested to state what they thought were the main functions or reports carried out by the NAO. The results are presented in Figure 3.

From Figure 3, it can be observed that, respondents are very familiar with the financial and compliance auditing as well as the special audits and investigative roles of the office but are less acquainted with its performance and IT auditing functions. There are still some members of the public who confuse the NAO with the National Statistics Office or who opine that our main role is to carry out anti-money laundering checks.



Who respondents think appoints the Auditor General

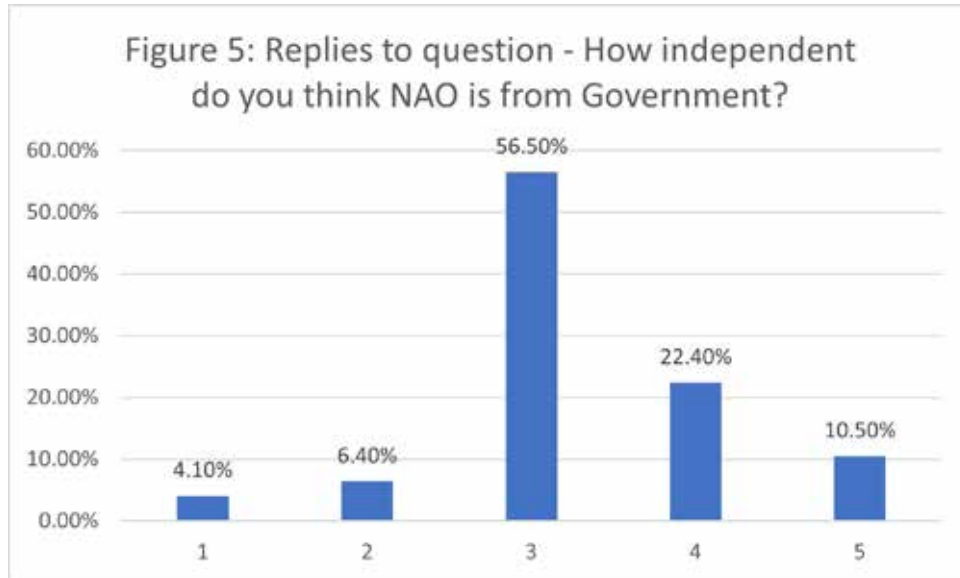
Respondents were asked to state who they think appoints the Auditor General. Figure 4 summarises the responses:



Nearly half of the respondents said that the Auditor General is appointed by the Prime Minister. Only around 30% of respondents were aware that the Auditor General is appointed by the President.

Respondents' opinion on the independence of the Office

Survey respondents were asked about their opinion on the independence of the Office. The results are presented in Figure 5.



56.5% of respondents held a neutral position. The average reply was 3.29 (where 1 signified not at all independent and 5 meant very independent). 22.4% rated the NAO's independence as 4, and 10.5% scored the NAO's independence as 5.

Level of respondents' confidence in the way the NAO is managed

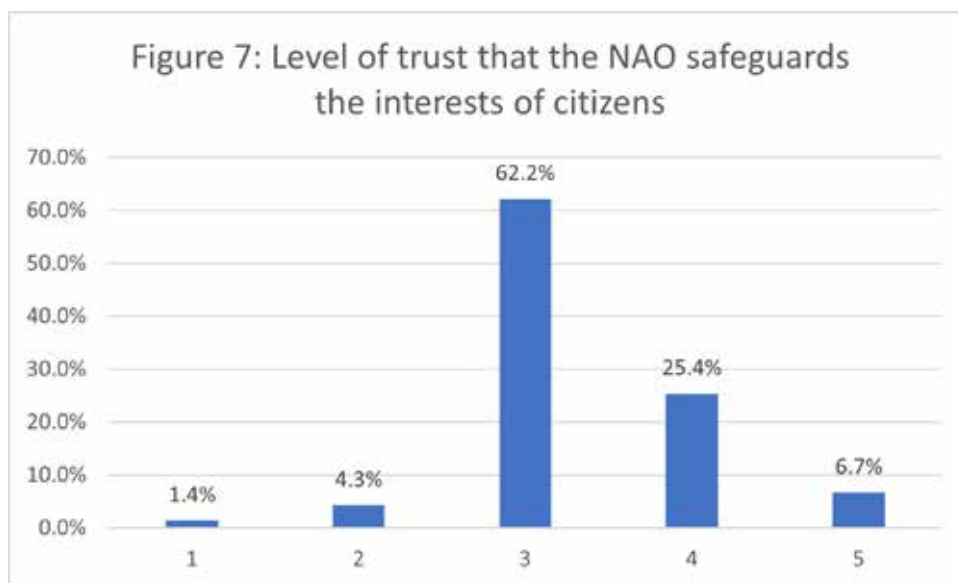
Respondents were asked to rate their confidence in the way the NAO is managed where 1 signified having no confidence and 5 meant having great confidence. The results are summarised in Figure 6.



The average score is 3.41 – since it exceeds 3, the rating signifies that the respondents are quite confident in the way the NAO is managed. In addition, a significant portion of respondents rated their level of confidence as 4 or 5. It is also pertinent to note that, when respondents were asked the reason for their rating, a significant part of those who rated the Office as 1, 2 or 3 stated that they gave this rating as they did not know much about the Office.

Level of confidence of respondents in NAO's role in safeguarding the interest of citizens

Survey respondents were requested to rate their opinion on how much they trust that the NAO is safeguarding the interest of citizens, where 1 signified having no confidence at all and 5 meaning they trusted NAO to a large extent. The results are presented in Figure 7:



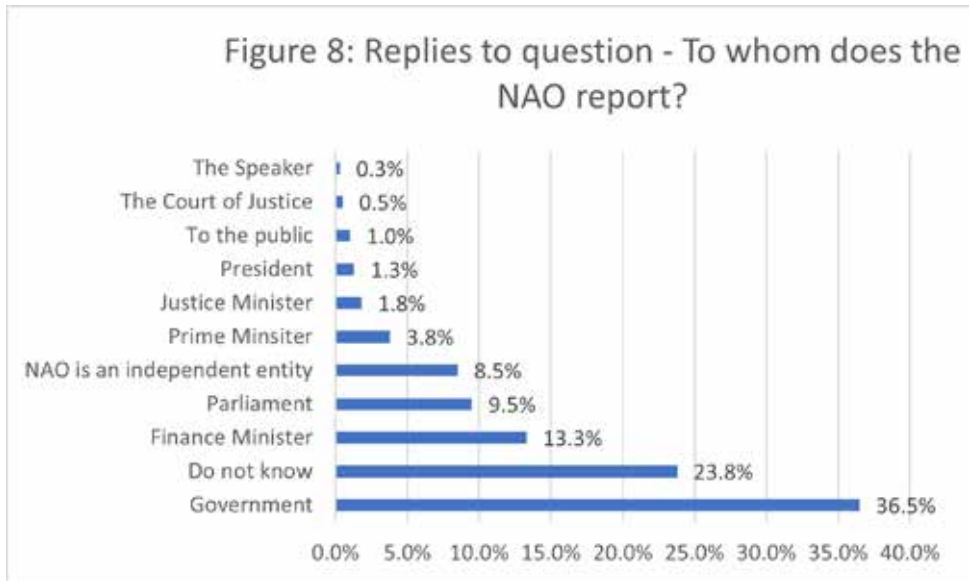
62.2% of respondents held a neutral position, with the average score amounting to 3.32. Just over a quarter rated their level of trust at 4, and 6.7% scored their level of trust at 5.

Results of respondents' views on the NAO's reporting function

A number of questions were directed at the public's opinion on the NAO's reporting function. A key result in this respect is that only 23.8% of the respondents who heard about the NAO have ever read one of its reports.

To whom respondents think the NAO reports

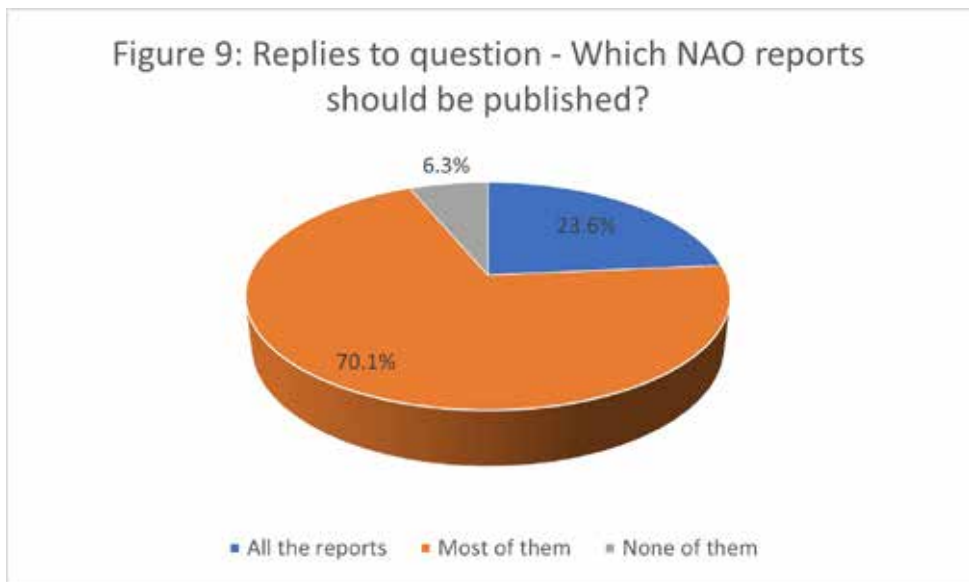
Survey respondents were asked to whom the NAO reports. The results are presented in Figure 8:



Very few respondents are aware that the NAO reports are presented to the Speaker of the House of Representatives, who lays them on the Table of the House of Representatives at its next sitting. More than one third of respondents said that the NAO reports to Government, and nearly a quarter do not know to whom the NAO reports.

Respondents' opinion on whether NAO reports should be published

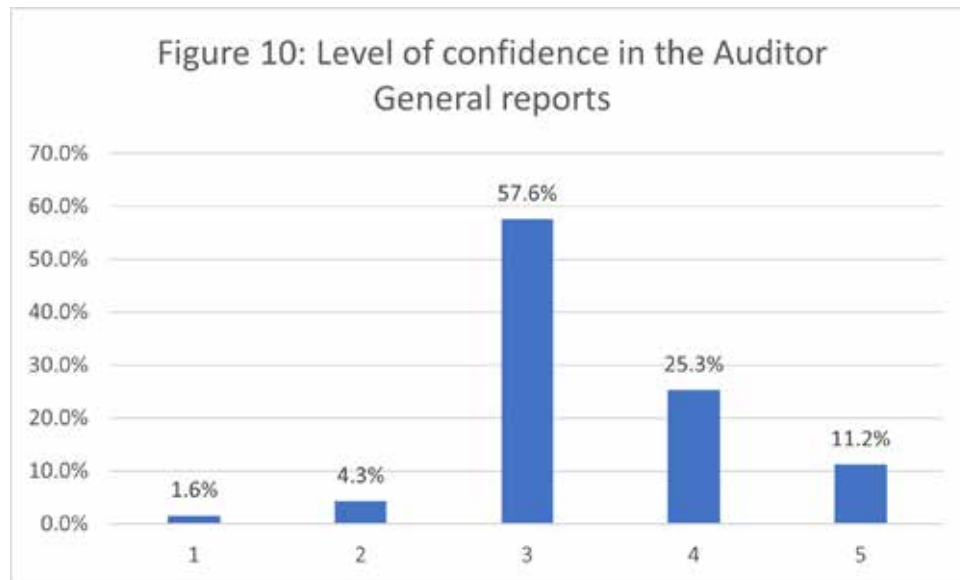
All respondents were asked if all NAO documents were to be published. The results are presented in Figure 9:



As can be seen from Figure 9, the majority of respondents agreed that most NAO reports should be published. Only 6.3% of respondents stated that NAO reports should not be published.

Level of confidence in respondents in Auditor General's Reports

Respondents were asked about their level of confidence in the Auditor General's reports, where 1 signified having no confidence at all and 5 having great confidence. The results are presented in Figure 10:



Respondents on average have good confidence in the reports published by the Auditor General – an average score of 3.40. A significant proportion of respondents rated their level of confidence as 4 or 5.

Participation of senior NAO officials in EU boards

NAO senior management officers participate in audit boards of a number of EU institutions. DAG Noel Camilleri was a member of the European Stability Mechanism Board of Auditors. His term of service expired in October 2021.

Assistant Auditor General, Financial and Compliance Audits Section, Tanya Mercieca is a member of the College of Auditors of the EU Institute for Security Studies, an agency dealing with the analysis of foreign, security and defence policy. It is totally funded by the EU member states according to an established formula that determines the contribution due from each country. The audit is undertaken every year by the College of Auditors, which is currently being chaired by Ms Mercieca herself. The other two members are an official from the Romanian Court of Auditors and an officer from the Foreign Affairs Ministry of Poland.

Ms Mercieca is also a member of the Audit Board of Eurocontrol, a European-wide civil-military organisation that supports EU Member States and other stakeholders involved in air navigation in a joint effort to make aviation in Europe safer, more efficient and cost effective and with a minimal environmental impact. On 14 December, Ms Tanya Mercieca, as member of the Eurocontrol Audit Board, participated in the 142nd Audit Board meeting, together with five other professional auditors from the SAIs of Norway, the Netherlands, Poland, Portugal and the Czech Republic.

Participation in domestic working groups and committees

In terms of article 96A of the Constitution, AG Charles Deguara is a member of the Judiciary Appointments Committee, chaired by the Chief Justice. This committee evaluates all candidates responding to ad hoc calls for applications to the post of judges and magistrates, and submits its recommendations to the President, who eventually appoints the Members of the Judiciary.

Mr Deguara is a member of the Co-ordination Committee set up in terms of Article 23 of the Internal Audit and Financial Investigations Act (Chapter 461 of the Laws of Malta) to co-ordinate the activities of, and to facilitate the exchange of information between, different entities charged with the protection and safeguarding of public funds. This committee is led by the Head of the Internal Audit and Investigations Department.

DAG Noel Camilleri attends the Corporate Financial Management Solution Implementation Board as an observer. The board's mandate is to oversee the implementation of new accrual accounting software across government departments.

AG Charles Deguara and Assistant Auditor General, Financial and Compliance Audits Section, Tanya Mercieca are members of the Local Government Good Governance Working Group. The key objective of this working group is to address the main issues identified by the AG in the Annual Report by the Auditor General on the Workings of Local Government in a harmonised manner.

Ms Mercieca also participates in the IPSAS Implementation Project Board as an observer. The board is responsible for the strategic direction and overall management of IPSAS implementation across government ministries and departments.

Relations with employees – Social activities

Due to the health restrictions imposed because of the Covid-19 pandemic in the past two years, the NAO Social Committee could not organise events as frequently as usual, especially during the first nine months of 2021. Consequently, the NAO Social Committee's principal objective, namely to sustain workplace wellbeing and team spirit, especially through the creation of opportunities and activities where staff can mix and get to know each other better in a relaxed ambience, could not be fully attained.

The social committee organised fund-raising activities in aid of the Malta Community Chest Fund Foundation. One such activity consisted of the sale of traditional Maltese sweets, like Żeppli, Kwarezimal and Figolli, which generated a very positive response from NAO staff.

Dress down days were also organised to celebrate Pink October and Movember. The Office held limited social gatherings during the work interval to mark these two occasions, always in full compliance with the health directives in force. As a result of these activities, a donation of €380 was made to the Malta Hospice Movement.

The highlight of the year was the resumption of our traditional Christmas staff lunch that, unfortunately, could not be held in 2020. A good number of NAO staff participated in this activity. Some traditional Christmas sweets were also sold; the resulting proceeds of €400 were donated to the Malta Community Chest Fund.



Pink October Activity



Movember Activity



PART TWO

NAO

National Audit Office



NAO Business Model

The Office's business model is a system whereby business processes transform inputs pertaining to the various capitals of the NAO into outputs and outcomes that create value over time and implement NAO strategy. A breakdown of NAO capitals is given in the following paragraphs.

2021 Business Model



NAO Capitals

Financial capital

The financial capital of the Office represents the funds allocated to the Office to effectively carry out its Constitutional and legal mandate. The Office ensures that judicious use is made of these public funds in accordance with propriety, regularity and value-for-money principles.

Intellectual capital

The NAO's intellectual capital includes its audit processes and methodologies designed to deliver a quality service to Parliament, Government and other stakeholders. These audit systems are employed by the different audit sections – the Financial and Compliance Audits Section, the Performance Audits Section, the Special Audits and Investigations Section and the IT Audits and Operations Section. The Office's intellectual capital also incorporates all the activities undertaken to implement the NAO Strategy for the period 2019-2023.

Manufactured capital

The Office's manufactured capital consists in the office building in Floriana and storage space in Valletta, furniture and fittings, and IT and other equipment. These form the underlying infrastructure of the NAO, enabling it to carry out effectively its audit activities. In 2021, various embellishment works were carried out both on the NAO premises as well as in the gardens.

Human capital

NAO's human capital consists of staff competences, capabilities and experience, which constitute essential requisites to enable it to carry out its audit activities. NAO auditors are qualified in a number of disciplines and have developed the necessary experience required to perform their duties at their

respective levels. The audit sections are supported by an effective IT and administrative set-up.

Social and relationship capital

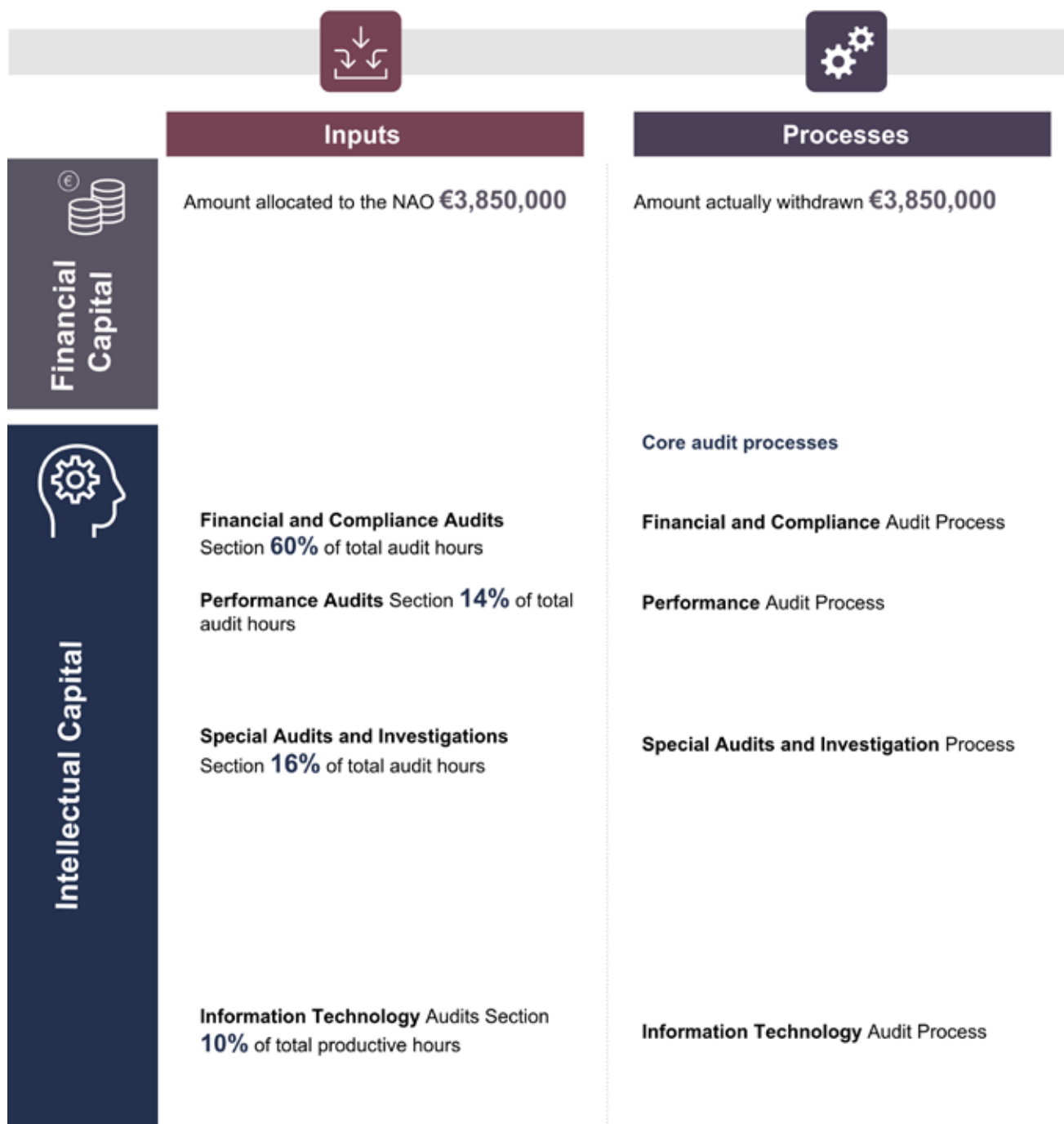
The Office interacts with stakeholders, while duly safeguarding its total independence. The NAO communicates audit findings, discovered during the audit, to the audited entity so that weaknesses are addressed by the latter in an effective and timely manner. The Office also ensures that its evidence-based reports are presented in an attractive format and communicate the audit messages with clarity and objectivity. The NAO encourages timely implementation of its audit recommendations.

The Office is also active in the international scene. It participates in foreign working groups, networks and task forces, and attends a number of international professional webinars. The NAO prepares replies and comments to overseas surveys, questionnaires, exposure drafts and other requests for information from other SAIs and international organisations.

Environmental capital

The NAO encourages environmentally friendly practices in the Office. Intelligent lighting has been installed in the common areas. Employees are encouraged to refer to documents and publications in virtual format rather than print hard copies. Various meetings with the Office's foreign counterparts are held virtually rather than attended in person abroad. There has been a marked reduction in travel and material and supplies costs in relation to the period preceding the Covid-19 pandemic, thus reducing the carbon footprint and safeguarding the environment. The Office also looks after and maintains the gardens surrounding the Office.

The NAO's business model is presented on pages 76-85.





Outputs

Operated within the financial parameters allocated by Parliament

Annual Report on Public Accounts **2020** including the results of **42** financial and compliance audits

Report on Local Government **2020**

6 Performance Audits

2 Investigations and **1** abridged report

2 IT Audits



Outcomes

Ensured financial viability of the Office

Ensured judicious use of public funds

Publicity of all audit reports presented to Speaker of the House of Representatives

Strengthened audit methodology and thus increased value added from state audit by:

Providing an independent overview of different public sector operations to determine whether these have been carried out economically, efficiently and effectively, as well as providing recommendations to improve public governance

Issuing two complex investigation reports on 'The contract awarded to the JCL and MHC Consortium by the St Vincent de Paul Residence for the management of four residential blocks through a negotiated procedure' and 'An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government - Part 2 | A review of the contractual framework' - (second report, including an abridged report)

Issuing a horizontal IT Audit on 'IT Asset Management across Government Ministries and Departments'





Outputs

2 Follow-up Audit Reports - Volume I consisted of **9** Financial and Compliance Follow-up audits and Volume II consisted of **3** Performance Follow-up audits and **2** IT Follow-up audits

1 Annual Report and Financial Statements **2020**

NAO Strategy Action Point Teams Outputs and status

NAO Malta Performance Measurement Framework Self-Assessment Final Report

Risk Ranking System is in progress

Inventory of data/information sources for use by NAO auditors in the audit process

Survey results as analysed in this Report.

Ongoing discussions with web developer for upgrade of NAO website



Outcomes

Ensuring that Recommendations proposed by this Office are followed up by auditees through the NAO Follow-up Audit Reports

Providing an overview of NAO's activities for 2020

Implementation of NAO Strategy

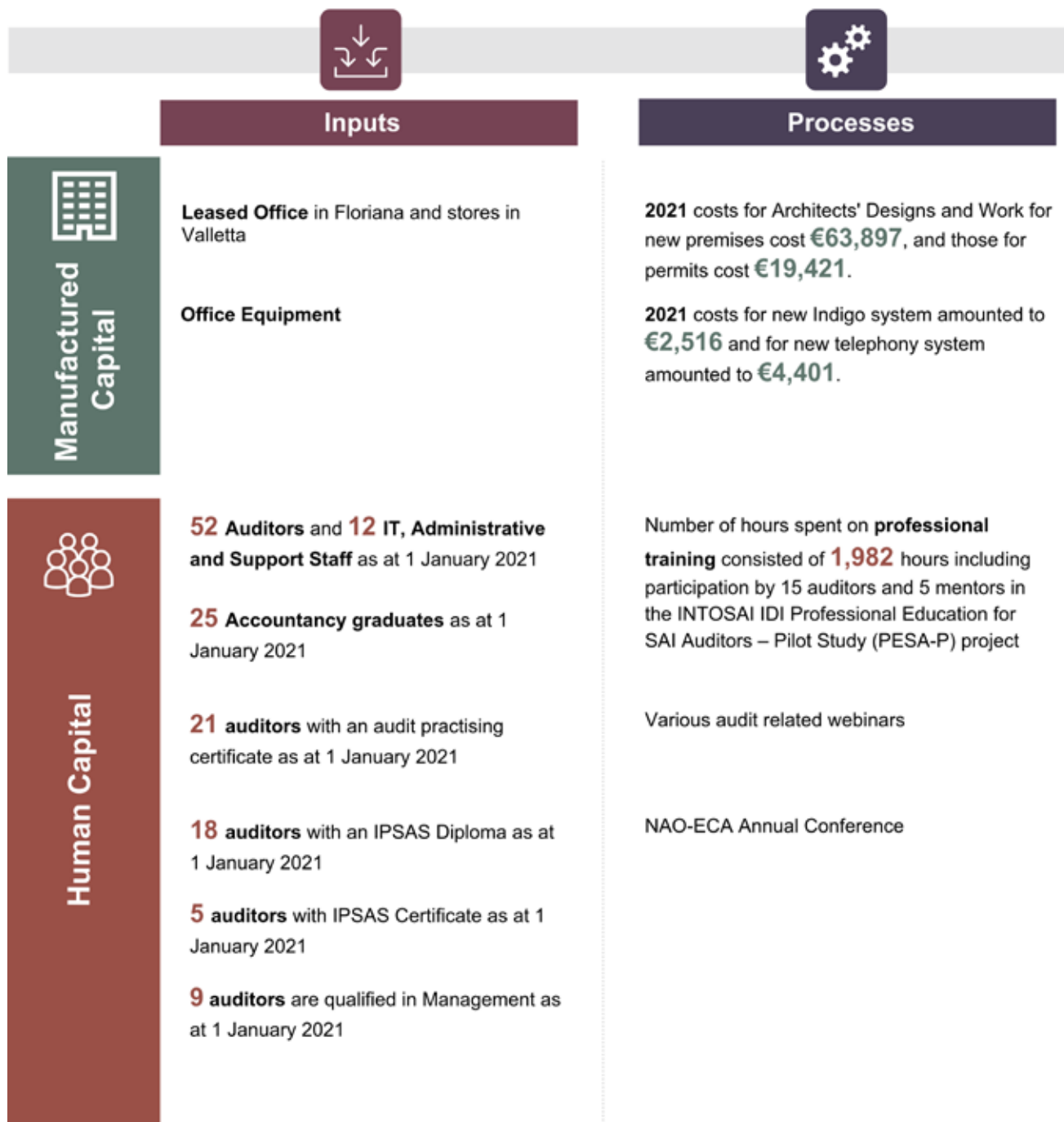
Increased Office accountability

The new system will enhance NAO audit processes

Enhanced information gathering

Enhanced Office professional behaviour

Enhanced communication of audit reports to stakeholders





Outputs

A fully functional Office and storage space. Preparatory work is being undertaken for the construction of adjacent office premises, thus increasing Office capacity.

Updated payroll and time and attendance systems and upgraded telephony system.

51 auditors and **12 IT, Administrative and Support Staff** as at 31 December 2021

25 Accountancy graduates as at 31 December 2021

21 auditors with an audit practising certificate as at 31 December 2021

18 auditors with an IPSAS Diploma as at 31 December 2021

5 auditors with an IPSAS Certificate as at 31 December 2021

9 auditors are qualified in Management as at 31 December 2021



Outcomes

Increase in Office capacity to accommodate more resources in order to better meet the Office's Constitutional and legal mandate

Ensure staff remain connected even if working remotely.

More highly trained workforce

Increase in competences of the workforce

Moving towards the NAO's vision "To provide a multidisciplinary professional service to parliament, government and the taxpayer and to be an agent of change conducive to achieving excellence in the public sector"

Increasing awareness in emerging issues addressed through public audit



Inputs

Processes

Human Capital
cont ..

5 auditors are qualified in Public Policy as at 1 January 2021

2 lawyers as at 1 January 2021

1 auditor with a Ph.D. in Applied Statistics as at 1 January 2021

Intellectual property

Gender equality

Protecting the wellbeing of staff members through an appropriate work life balance

Social Capital

9% of total audit hours were dedicated to the publication and post publication process

7% of total audit hours were dedicated to the publication process and **2%** of total audit hours were dedicated to the post publication process

International Relations/Co-operation
1,239 hours

Research, Auditing and reporting

Following NAO Equality policy

Availability of family friendly measures and hybrid working opportunities

Increased use of infographics in audit reports and video productions

Enhanced presentation of audit results, conclusions and recommendations in audit reports

Attendance at PAC Sessions

Articles in Audit journals authored by NAO staff

Participation in international Working Groups and Task Forces, attended foreign webinars, prepared replies to questionnaires and prepared comments on an INTOSAI document



Outputs

5 auditors are qualified in Public Policy as at 31 December 2020

2 lawyers as at 31 December 2020

1 auditor with a Ph.D. in Applied Statistics as at 31 December 2020

Analysis, findings and recommendations

Respecting equality and supporting diversity (Equal Rights and Opportunities) – NCPE

High takeup of family friendly measures and hybrid working opportunities while ensuring staff members' productivity

15 Audit Reports and other NAO publications communicated to the public through Press Releases, NAO website, and Facebook page

66 instances of TV coverage of NAO in **2021** and **329** articles in news portals mentioning the NAO in **2021**

1 NAO Audit Report discussed over **28** PAC meetings

2 articles written for foreign journals/newsletters

Prepared comments on one INTOSAI Document, prepared replies to over **20** surveys and attended

11 important meetings, apart from other webinars



Outcomes

Increasingly provide objective reports to Parliament, the Executive and citizens.

A workplace respecting values of equality and diversity that enhances innovation

Members of staff experience adequate work life balance

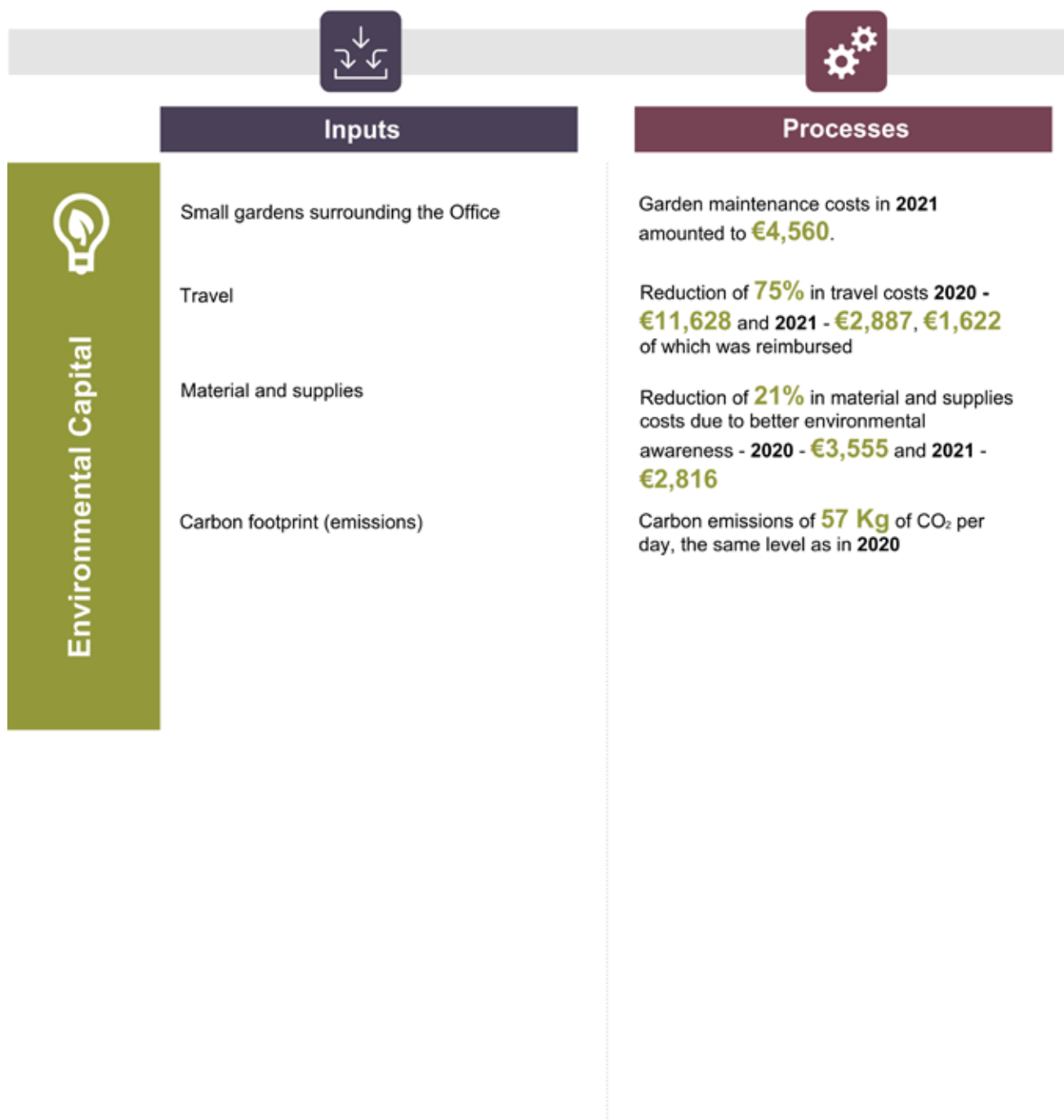
The NAO is communicating more with stakeholders, especially the media, without impairing its independence

Coverage by the media of NAO reports is enabling our reports to reach wider audiences

PAC review encourages implementation of NAO recommendations

More NAO exposure in international fora

More visibility of NAO in international sphere, particularly within EUROSAI and sharing of international good practices and co-operation with other SAIs





Outputs

Well maintained small gardens surrounding the Office

Increased environmental responsibility

Reduced paper use due to more use of technology

Reduced level of carbon emissions from **2019** registered in the year **2020** was sustained in the year **2021**



Outcomes

More relaxing atmosphere for employees during work intervals

NAO contribution towards better air quality

NAO contribution to a better environment

NAO contribution to a cleaner environment

Risks and Opportunities

Risks

The NAO actively manages a number of risks, threats and vulnerabilities in its external and internal environment that may impair its ability to effectively carry out its mandate and thus create value over time.

The NAO actively monitors strategic risks, i.e., those risks associated with matters relating to the mission and achievement of strategic objectives. The entire audit process – from strategic planning, individual audit planning, the conduct of the audit, audit reporting and follow-up – is designed and implemented in accordance with international professional auditing standards to ensure that the NAO achieves its mission to help promote accountability, propriety and best practices in government operations, thus enabling the public sector to work towards becoming both a centre of excellence, and a model of good governance.

A number of action groups carry out particular projects in order to achieve its strategic goals. Most of these groups have reached their goal and produced the required output; the rest are at an advanced stage of completion. Senior management is actively monitoring the work of these groups and implementing their output.

The Office is also cognisant of and manages its financial risks, i.e., those related to its financial resources, especially the efficiency and transparency in the management of resources. The Office ensures its financial sustainability and judicious use of public funds by preparing budgets before requesting funds, instituting and implementing a number of internal controls to manage its expenditure, and submitting the NAO's annual financial statements to an external audit.

Actively managing operational risks, i.e., those risks associated with failures in processes, systems or the structure of the NAO, was another challenge faced by the NAO, especially as a result of changes brought about by the Covid-19 pandemic. Senior

management has ensured a seamless switch to a hybrid working model and enabled effective adaptation to its audit methodologies to comply with health directives while in no way compromising on its audit rigour and completeness.

The NAO, like all other audit institutions, is also exposed to legal risks that affect the ability of the Office to adhere to regulations and contractual obligations. The NAO strives to ensure that all its operations, activities and initiatives are solely intended to fulfil its Constitutional and legal mandate, and that they comply fully with the prevailing laws, rules, regulations, professional standards and other best practices. The Office also guarantees that all contractual obligations entered into are scrupulously honoured and fulfilled.

The Office faces technological risks, i.e., risks that relate to the ability of the NAO's technological tools to support the achievement of strategic objectives. The NAO has implemented the necessary technology for a smooth transition to a hybrid system of remote and office working, has upgraded its time recording and payroll systems, and is in the process of designing a new website.

The NAO actively manages integrity risks, i.e., those situations or events that, if they materialise, would affect the Office's ethical environment and principles. All Office management and employees are required to comply with the Code of Professional Conduct of the National Audit Office and other codes of professional conduct of professional bodies of whom they are members. They are expected to exercise ethical and professional behaviour in all circumstances in both their work environment and in their private lives. In particular, they are required to strictly adhere to regulations regulating conflict of interest and other situations in which their sense of professionalism and objectivity may be or may seem to be compromised.

The NAO actively manages its reputation and image. Reputational risks, if materialised, could damage the way in which stakeholders perceive the institution. As already indicated, the NAO strives to carry out

economic, efficient and effective value adding audits and to demonstrate professional competence and due care in its audit processes and reporting. The Office commissioned an independent body to undertake a survey on the public's image of the NAO. It also asked auditees to complete a survey to provide their feedback on the quality of audit work undertaken by NAO auditors at their entity. Both these surveys provided overall encouraging results – auditees and the public are generally satisfied with the Office's output.

Opportunities

The NAO's internal and external environment also presents a number of opportunities. As stated in its current strategy, the Office is to take more advantage of technological improvements that will expedite the use of new and updated audit methodologies and will enable faster and more reliable analysis of data.

The use of infographics facilitates the comprehension of NAO reports and ensures a more attractive presentation of audit background, methodology, findings, conclusions and recommendations. In addition, the ever-increasing use of social media permits the Office to communicate its messages to a wider audience.

The results of the NAO Performance Measurement Framework exercise have provided an opportunity for the Office to further improve on its processes and procedures, and thus continue to deliver a quality service to Parliament, Government and the taxpayer. This exercise has also assisted the Office to ensure that, in all its audit work, it always acts in the public interest, by adopting and implementing international professional auditing standards.

There is also the opportunity for further professional development intended to augment staff competences, encourage the adoption of best audit practices, and thus increase audit efficiency and effectiveness. In this regard, one cannot overemphasise the importance of collaborating

with the various stakeholders, especially other audit institutions, such as foreign Supreme Audit Institutions, the Internal Audit and Investigations Department, which is the internal auditing arm of the Maltese Government, the European Court of Auditors, the European Organisation of Supreme Audit Institutions and the International Organisation of Supreme Audit Institutions to achieve the aforementioned objectives.

Strategy and Resource Allocation

National Audit Office Strategy 2019-2023

The National Audit Office Strategy identified six strategic goals, to be achieved during the period 2019 to 2023, to improve governance and performance across the Public Sector. The six strategic goals are to:

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

NAO Strategy Action Points

To implement these strategic goals, six strategy action groups were set up to undertake a number of

assignments. These teams, their team leaders, their goals and their outcomes, as reported in last year's Report, are summarised in Table 8:

Table 8: List of NAO Strategy Action Point Teams' Goals and Outputs

Team	Team Leader	Team Goal	Team Output
A	Sharon Borg Finn, Audit Manager, Financial and Compliance Audits Section	Identifying Best Source of Information	Information Sources Register and related Guidelines
B	William Peplow, Senior Audit Manager, Performance Audits Section	Identification of Risk Areas/ Selecting more relevant audit areas	Paper on 'Identification of Risk Areas/Selecting More Relevant Audit Areas'
C	Simon Vassallo, Audit Manager, Performance Audits Section	Opening of communication channels for selection of audit topics/Providing opportunities to the public and stakeholders	Identification of three preferred communication channels with stakeholders: (a) submission of suggestions through the NAO website forms; (b) more extensive use of email; and (c) more extensive use of social media.
D	Ian Rizzo, Manager, Finance and Administration, Josephine Vella, Audit Manager, Special Audits and Investigations Section, and Orland Bonavia, Audit Manager, Financial and Compliance Audits Section ⁵	SAI Performance Measurement Framework	Finalisation of NAO Performance Measurement Framework Self-Assessment Report
E	Maressa Stivala, Audit Manager, Special Audits and Investigations Section	Feedback from auditees re: audit process and on auditors	Survey Template and Procedure Manual
F	Simon Camilleri, Audit Manager, IT Audits and Operations Section	Promote NAO Reports through diverse media	Update of NAO social media pages and website, and preparation of video clips on some reports

⁵ Ian Rizzo led the team when the first draft Report was presented to Senior Management. Josephine Vella and Orland Bonavia led the team when the final Report was presented to Senior Management after discussions with Management on the original draft.

In 2021, most of these groups progressed to the implementation phase of their project outcomes. In particular, the information sources register issued by Team A was disseminated to all NAO staff. The survey designed by Team E was distributed to all auditees for 2021 and the results included in this Report.

In addition, meetings were held with a web developer to develop a new NAO website, taking into account the implementation of the proposals of teams C and F. In addition, video clips (accessible from the NAO website and Facebook pages) giving an overview of selected audit and annual reports have been produced.

Preparatory work commenced by Team B on Phase 2 of the project involving the establishment of a risk ranking system of all budgeting votes. This ranking system is expected to be piloted and adopted in 2022. Progress was also registered by the NAO Performance Measurement Framework team, as amplified in the following paragraph.

The NAO Performance Measurement Framework Action Plan

The Performance Management Framework (PMF) is an international framework for the assessment of an SAI's performance against the ISSAIs (International Standards of Supreme Audit Institutions) and other established good practices for external public auditing. It covers audit work, internal governance and ethics, relationships with external stakeholders, as well as independence and legal framework.

Following the submission of the Self-Assessment Report, prepared by the PMF Action Team at the end of 2020, a detailed presentation of the salient findings was given to the NAO's senior management. In view of the significance of the report, several meetings were held between the management and the PMF Action Team in which findings were discussed and divergences considered.

Following these meetings, the PMF Action Team finalised its report to reflect the points raised by

management. This was forwarded to management at the end of 2021. Management is now considering the way forward to gradually implement the necessary changes in line with the issues raised by the PMF Action Team.

Concluding Notes

NAO Outlook

The NAO Performance Measurement Framework concluded that there is scope for further enhancement of a number of Office processes. In order to strengthen these processes, and thus ensure that the Office's contribution to public sector governance is sustained, the Office is looking to expand its human, intellectual, technological, physical and relational resources in a cost-effective manner.

The Office is looking to invest in an extension to its premises to provide for a more appropriate modern day resource centre. The new building will also incorporate a number of multipurpose rooms equipped with all that is necessary for training sessions and meetings.

The NAO is considering more co-operation options with the University of Malta. It is also consolidating its representation in foreign Working Groups and Task Forces on topics relating to audit work and thus enhance its professional networking.

The Office kickstarted the process of updating its Audit Manuals, and will eventually need to procure and implement audit software to enable it to enhance its quality control and assurance functions.

The NAO is also looking into the applicability to the Office of certain advances in technology, including the internet of things, artificial intelligence and the use of algorithms, big data, open data initiatives, cloud computing and blockchain technology.

In order to implement the recommendations of the NAO Performance Measurement Framework, the NAO is also in the process of strengthening

the capacity of the various Office Sections, while promoting further collaboration between the individual Audit Sections. It aims, mainly through professional development opportunities, to enhance its financial auditing arm, alongside the conduct of compliance audits.

Emerging audit issues, such as climate change and the environment, and the effects of the Covid-19 pandemic, are increasingly being incorporated in the audit plans of the Performance Audits Section.

The Special Audits and Investigations Section is undertaking more complex investigations over time, as well as embarking on the assessment of the robustness of governance and ethical frameworks, and the effectiveness of their implementation. Individual employees within this Section are also being involved as mentors for audits relating to the implementation of the UN 2030 Sustainable Development Goals.

The IT Section intends to strengthen its audit methodology in relation to public sector ICT infrastructure, cybersecurity, the effectiveness of public sector electronic payment portals and the implementation of recent advances in technologies, as explained above. The manager of the Section has attended various foreign training opportunities in a number of the above fields.

The outlook of the Finance and Administration Section is to have all its services – financial operations, assets management, support services, human resource management, and professional development and training – integrated within an effective corporate management structure. In applying good management principles and ensuring the best use of resources, any organisation

must have a support structure that provides good governance, strong internal controls, accountable and transparent accounting systems, efficient administration and an effective human resources function.

While the F&A Section believes that the present financial operations reach the highest standards of ISSAIs as corroborated by the SAI-PMF exercise and the external auditor's opinion on the financial statements, there is room for improvement in the human resources function. The initial starting point would be a human resource strategy that is aligned to the NAO's corporate strategy and linked to any plans for recruitment, promotion and skills development – and all interwoven within the developed competency framework, as explained in the Section Results.

The above corporate support measures are deemed necessary so that the NAO can continue to conduct its audit work in the public interest and thus achieve its vision of providing a multidisciplinary professional service to Parliament, the Government and the taxpayer, and to be an agent of change conducive to achieving excellence in the public sector.

Basis for preparation and presentation

The NAO has undertaken due professional care to report on its material events and activities. The materiality of events included in this Report was determined by identifying all the work, activities and results of the NAO, and selecting for reporting purposes the significant events that, in the Office's opinion, were deemed critical to contributing to enhancing transparency, accountability and value added yielded from state audit.

PART THREE



Annual Report and Financial Statements

31 December 2021

GENERAL INFORMATION

Description

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

Auditor General

Carmel Deguara

Deputy Auditor General

Noel Camilleri

Office

National Audit Office
Notre Dame Ravelin
Floriana FRN 1601
MALTA

Bankers

APS Bank Ltd
APS Centre
Tower Street
Birkirkara BKR 4012
MALTA

Auditors

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

REPORT OF THE AUDITOR GENERAL OF THE NATIONAL AUDIT OFFICE

The Auditor General presents his annual report, together with the financial statements of the National Audit Office (the “Office” or “NAO”), for the year ended 31 December 2021.

Principal Activities

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

Review of Results

The National Audit Office published a total of 15 reports with an average staff complement of 64 persons (equivalent to 58 full-timers). The reports consisted of six performance audit reports, including a preliminary report on the NAO’s role in reviewing Government’s measures relating to the Covid-19 pandemic, two special audit and investigative reports, two IT audit reports, an annual report on the public accounts of 2020, an annual report on the audited financial statements of the local councils for year ending 2020, and the annual report and financial statements of the Office for 2020.

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

Published Reports:

Financial and Compliance Audits:

- i. Report by the Auditor General on the Public Accounts for the year 2020; and
- ii. Report by the Auditor General on the Workings of Local Government for the year 2020.

Performance Audits:

- i. Is LESA suitably geared to perform its traffic enforcement function adequately?;

- ii. The effectiveness of plastic waste management in Malta;
- iii. Fulfilling obligations in relation to asylum seekers;
- iv. Smart and RF meters' contribution to more accurate and timely utilities billing;
- v. A Strategic Overview on the Correctional Services Agency's operations at the Corradino Correctional Facility; and
- vi. Preliminary review: NAO's role in reviewing Government's measures relating to the Covid-19 pandemic.

Special Audits and Investigations:

- i. The contract awarded to the JCL and MHC Consortium by the St Vincent de Paul Residence for the management of four residential blocks through a negotiated procedure; and
- ii. An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 2 | A review of the contractual framework.

Information Technology Audits:

- i. IT Audit – Department of Examinations; and
- ii. IT Asset Management across Government Ministries and Departments.

Other:

- i. Annual Report and Financial Statements of the National Audit Office – 2020;
- ii. Follow-up Audits Reports by the National Audit Office – 2021 Volume I; and
- iii. Follow up Audits Reports by NAO – 2021 Volume II.

Financial Review

The National Audit Office achieved a surplus of €291,540 for the year ending 2021, as compared to a surplus of €87,304 achieved in the previous financial year.

The average number of employees for the year remained static to that of the previous year at 64 wholesome persons. The full-time equivalents of these 64 employees (30% of whom work on a reduced hours schedule) translates to 58 employees. The overall salary increases for the year amounted to 3.8%, which is in line with the average increase of all salary scales for 2021 as provided in the NAO Collective Agreement 2017-2024.

The audit fees of local councils are governed by agreements signed separately with five external audit firms to conduct the audit of the financial statements of 68 local councils, five regional committees and the local council association in accordance with the offers submitted for the tender issued in 2013 over a five-year period (2013-2017). For the third consecutive time, the contracts for local council audits for financial year ending 2020 have been renewed for an additional year. The audit fees have remained fixed at the negotiated rates of last year at 12% over the original tender fees. The increase in the subcontracted local council audit fees, amounting to €28,979, is attributed to a change in the subcontracted audits of two regions.

Administrative expenses dropped by a further €91,510 during the year and were mainly attributed to decreases in office services, travel expenses, contractual services, professional fees, hospitality expenses and depreciation. All the expenses bar professional fees and depreciation declined due to the impact of Covid-19. Professional fees were higher in the comparative year due to the use of a consultancy on an investigative audit. Depreciation was lower than the comparative year due to a significant lower amount of capital expenditure in 2021.

The cash and cash equivalent balances increased by €275,859 during the 2021 financial year to reach €466,915 at year end. The excess cash surplus, which resulted from the full withdrawal of the government subvention allocation of €3.85 million, is being held in reserve to meet the initial expenses of the capital project in the event of it being approved by the Planning Authority and the National Audit Office Accounts Committee.

Capital expenditure amounted to a total of €24,320, with the bulk of the expenditure being attributed to the replacement of laptops for staff.

Capital Commitments

On 20 August 2019, the National Audit Office submitted a business plan to the Ministry for Finance and Employment (MFE) to construct a new annex adjacent to the present office to serve as a resource centre and provide additional office space. The Architect appointed by the Office proposed a project on three levels at a cost estimate of €2.2 million.

For 2020, MFE allocated €200,000, in addition to the €3.6 million recurrent allocation, to enable the Office to undertake the initial phase of the project that consisted of design, research and permitting.

The Office only utilised €11,206 in 2020, which were spent on geological and survey studies. This cost was financed from the €3.6 million recurrent allocation. The €200,000 allocation for the specific project was not utilised and hence not withdrawn.

For 2021, an amount of €100,000 was allocated by the MFE, in addition to the 2021 recurrent allocation of €3.75 million, to finance the required permitting of the project. The Architect revised the project downwards to €1.87 million inclusive of VAT during the year, while retaining the same conceptual project design that included a resource centre and additional office space. The permitting designs were submitted to the Planning Authority (PA) on 24 September 2021. Following feedback received from relevant authorities and NGOs with an interest in the environment, the Architect, in consultation with the Office, agreed to revise the design and submit new designs to the PA.

The total cost incurred on the project, which includes the architects' design fees and the permitting fees of PA, amounted to €94,524 at balance sheet date.

Reserves

After adding the surplus of €291,540 from the balance of accumulated deficit as at the beginning of the year, the surplus balance in the profit or loss account at the end of 2021, amounting to €137,721, is being carried forward to the next financial period.



CARMEL DEGUARA
Auditor General



NOEL CAMILLERI
Deputy Auditor General

National Audit Office
Notre Dame Ravelin
Floriana FRN 1601
Malta

20 May 2022

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2021

	Notes	2021 €	2020 €
Government subvention	6	3,750,000	3,600,000
Other income	7	24,493	18,216
Operating expenditure			
Salaries and personnel expenses	8	(2,865,998)	(2,760,918)
Administrative and other expenses	9	(321,689)	(413,199)
Sub-contracted audit fees of local councils		(322,864)	(293,885)
		(3,510,551)	(3,468,002)
Results from operating activities before pension costs		263,942	150,214
Provision for service pensions and gratuities	11	27,423	(63,019)
Results from operating activities		291,365	87,195
Bank interest receivable		175	109
Surplus for the year		291,540	87,304
Total comprehensive income for the year		291,540	87,304

The accounting policies and explanatory notes on pages 100 to 111 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2021

	Notes	2021 €	2020 €
ASSETS			
Non-current assets			
Property and equipment	10	354,526	438,353
Current assets			
Debtors and prepayments		109,079	19,683
Cash and cash equivalents	13	466,915	191,056
		575,994	210,739
Total assets		930,520	649,092
RESERVES AND LIABILITIES			
Non-current liabilities			
Provision for service pensions and gratuities	11	272,640	361,629
Payables	12	-	3,333
		272,640	364,962
Current liabilities			
Payables	12	458,898	376,486
Provision for service pensions and gratuities	11	61,261	61,463
		520,159	437,949
Total liabilities		792,799	802,911
Reserves			
Profit and Loss Account		137,721	(153,819)
Total reserves		137,721	(153,819)
Total liabilities and reserves		930,520	649,092

The accounting policies and explanatory notes on pages 100 to 111 form an integral part of the financial statements.

The financial statements on pages 96 to 111 have been authorised for issue on 20 May 2022 by:



CARMEL DEGUARA
Auditor General of the
National Audit Office



NOEL CAMILLERI
Deputy Auditor General of the
National Audit Office

STATEMENT OF CHANGES IN RESERVES
for the year ended 31 December 2021

	€
Balance at 1 January 2020	(241,123)
Total comprehensive income for the year	
Surplus for the year	87,304
Balance at 31 December 2020	(153,819)
Balance at 1 January 2021	(153,819)
Total comprehensive income for the year	
Surplus for the year	291,540
Balance at 31 December 2021	137,721

The accounting policies and explanatory notes on pages 100 to 111 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2021

	2021	2020
Note	€	€
Cash flows from operating activities		
Surplus for the year	291,540	87,304
<i>Non-cash adjustments to reconcile surplus to net cash flows:</i>		
Depreciation	108,147	129,547
Bank interest receivable	(175)	(109)
Provision for service pensions and gratuities	(27,423)	63,019
Amortisation of grant for ICT expenditure	(3,333)	(3,334)
	368,756	276,427
Movement in debtors and prepayments	(89,396)	(12,030)
Movement in payables	(17,588)	15,806
Movement in provision for service pensions and gratuities	(61,768)	(61,604)
Cash generated from operating activities	200,004	218,599
Bank interest received	175	109
Net cash from operating activities	200,179	218,708
Cash flows from investing activities		
Building improvements and purchase of equipment	(24,320)	(178,453)
Cash used in investing activities	(24,320)	(178,453)
Cash flows from financing activities		
Capital allocation from Government subvention	100,000	–
Grant for ICT expenditure	–	10,000
Cash from financing activities	100,000	10,000
Net increase in cash and cash equivalents	275,859	50,255
Cash and cash equivalents at 1 January	191,056	140,801
Cash and cash equivalents at 31 December	466,915	191,056
13		

The accounting policies and explanatory notes on pages 100 to 111 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

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

2.2.1 Going Concern

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

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

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

2.3 Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS – continued

2. BASIS OF PREPARATION – continued

2.4 Use of estimates and judgments

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

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

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

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

The accounting policies adopted are consistent with those of the previous financial year, except for the new standards and amendment to IFRS effective as of 1 January 2021. The adoption of these standards or interpretations did not have a material impact on the Office's financial statements or performance.

2.6 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2022 and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the Office's financial statements, on initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Government of Malta subventions

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

3.2 Finance income

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.3 Financial instruments

Non-derivative financial assets - recognition and derecognition

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

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

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

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

Non-derivative financial liabilities - recognition and derecognition

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

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

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

Non-derivative financial assets - measurement

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

Non-derivative financial liabilities - measurement

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.4 Cash and cash equivalents

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

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

3.5 Property and equipment

Recognition and measurement

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

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

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

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

Subsequent costs

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

Depreciation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Depreciation - continued

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

3.6 Impairment

Non-derivative financial assets

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

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

Non-financial assets

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

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

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.7 Employee benefits

The Office contributes towards the State pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions are recognised as employee benefits expense in profit or loss in the periods during which services are rendered by employees.

3.8 Provisions

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

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

3.9 Leases

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

4. DETERMINATION OF FAIR VALUES

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

Receivables

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

NOTES TO THE FINANCIAL STATEMENTS - continued

4. DETERMINATION OF FAIR VALUES - continued

Payables

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

5. FINANCIAL RISK MANAGEMENT

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

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

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

Credit risk

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

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

Liquidity risk

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

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

Market risk

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

6. GOVERNMENT SUBVENTION

	2021	2020
	€	€
Authorised by the House of Representatives	3,850,000	3,800,000
Amounts withdrawn	3,850,000	3,600,000
Amount to cover operations recognised in Profit or Loss Account	3,750,000	3,600,000
Subvention to cover capital expenditure (Note 12)	100,000	-
	3,850,000	3,600,000

7. OTHER INCOME

	2021	2020
	€	€
Audit fee of a Non-Government Organisation	3,000	3,000
Reimbursements	10,507	11,882
Amortisation of INTOSAI grant received (Note 12)	3,333	3,334
EU Funding on training project	7,653	-
	24,493	18,216

8. SALARIES AND PERSONNEL EXPENSES

	2021	2022
	€	€
Salaries	2,717,247	2,615,536
Social security contributions	148,751	145,382
	2,865,998	2,760,918

NOTES TO THE FINANCIAL STATEMENTS - continued

8. SALARIES AND PERSONNEL EXPENSES - continued

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

	2021	2020
	No.	No.
Senior management	5	5
Operating	47	47
Administration and IT	9	9
Messenger staff	3	3
	64	64
	58	58

During the year, a total of 19 persons (2020: 19) worked on a reduced hours basis. This is equivalent to 30% of the workforce.

9. EXPENSES BY NATURE

	2021	2020
	€	€
Auditors' remuneration	4,750	4,750
Professional fees	17,580	68,311
Depreciation of property and equipment	108,147	129,547
Learning and professional development	2,261	621
Other administrative expenses	188,951	209,970
Total administrative and other expenses	321,689	413,199

NOTES TO THE FINANCIAL STATEMENTS - continued

10. PROPERTY AND EQUIPMENT

	Building Improvements	Equipment	Computer equipment and software	Motor vehicles	Furniture and fittings	Total
	€	€	€	€	€	€
Cost						
At 1 January 2020	697,670	124,671	197,380	96,358	153,831	1,269,910
Additions	105,839	6,370	39,218	20,000	7,026	178,453
Write-offs/disposals	–	(9,206)	(30,673)	–	–	(39,879)
At 31 December 2020	803,509	121,835	205,925	116,358	160,857	1,408,484
Additions	–	8,445	15,179	–	696	24,320
Write-offs/disposals	–	–	–	–	–	–
At 31 December 2021	803,509	130,280	221,104	116,358	161,553	1,432,804
Depreciation						
At 1 January 2020	405,294	109,945	159,093	64,524	141,607	880,463
Depreciation charge for the year	69,205	6,770	37,385	11,959	4,228	129,547
Released upon write-off/disposal	–	(9,206)	(30,673)	–	–	(39,879)
At 31 December 2020	474,499	107,509	165,805	76,483	145,835	970,131
Depreciation charge for the year	53,788	7,423	32,108	11,959	2,869	108,147
Released upon write-off/disposal	–	–	–	–	–	–
At 31 December 2021	528,287	114,932	197,913	88,442	148,704	1,078,278
Carrying amount						
At 31 December 2021	275,222	15,348	23,191	27,916	12,849	354,526
At 31 December 2020	329,010	14,326	40,120	39,875	15,022	438,353

NOTES TO THE FINANCIAL STATEMENTS - continued

11. PROVISION FOR SERVICE PENSIONS AND GRATUITIES

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

	2021	2020
	€	€
Non-current	272,640	361,629
Current	61,261	61,463
	333,901	423,092

Of the non-current portion of the provision, an amount of €131,311 (2020: €192,078) refers to payments to be made after more than five (5) years from the reporting date. The movement in this provision for the current and comparative year is as follows:

	2021	2020
	€	€
Service pensions and gratuities as at 1 January	423,092	421,677
Provisions made during the year	(27,423)	63,019
Provisions used during the year	(61,768)	(61,604)
Service pensions and gratuities as at 31 December	333,901	423,092

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

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

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

The provision for service pensions and gratuities as at 31 December 2021 is arrived at by discounting the post-employment benefit obligations of the Office using the year-end yield to maturity of 0.56% on 5.25% 2030 I Government bonds (2020: 0.23% on 5.25% 2030 I Government bonds). The post-employment benefit obligations are computed after taking into consideration the following assumptions:

Average life expectancy of males and females is 80 years and 85 years, respectively (2020: males and females of 81 and 85 years, respectively), based on data published in the National Statistics Office Demographic Review.

NOTES TO THE FINANCIAL STATEMENTS - continued

12. PAYABLES

Due within one Year	2021	2020
	€	€
Operational and capital payables	10,891	20,396
Grant received (i)	3,333	3,333
Taxes and social security	–	57,617
Accrued expenses	282,906	233,536
Amount due to Treasury for pension contributions	61,768	61,604
Deferred Government subvention on capital expenditure	100,000	-
	458,898	376,486

Due after more than Year	2021	2020
	€	€
Grant received (i)	–	3,333
	–	3,333

- (i) In December 2020, NAO received a grant of €10,000 from the International Organisation of Supreme Audit Institutions (INTOSAI) to provide short-term support through ICT solutions to enable continuity of operations impacted by Covid-19. The grant was used to purchase an additional server for VPN access to staff and to migrate the payroll system to a cloud-based platform.

The grant is recognised as an income in the profit and loss account and amortised over a three-year period to match the useful life of the assets purchased through this grant.

13. CASH AND CASH EQUIVALENTS

	2021	2020
	€	€
Cash at bank	466,258	190,481
Cash in hand	657	575
	466,915	191,056



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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the National Audit Office (the "Office") which comprise the statement of financial position as at 31 December 2021 and the statement of profit or loss and comprehensive income, the statement of changes in net liabilities and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Office as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

Basis for opinion

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

Other information

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

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

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



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

Responsibilities of the Auditor General for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auditor General.



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

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

- conclude on the appropriateness of the Auditor General's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Office to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

A handwritten signature in blue ink, appearing to read 'Christopher Balzan', is written over a light blue horizontal line.

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

Ernst & Young Malta Limited
Certified Public Accountants

20 May 2022

2021-2022 (to date) Reports issued by the NAO

NAO Annual Report and Financial Statements

June 2021 National Audit Office Annual Report and Financial Statements 2020

NAO Audit Reports

June 2021 Follow-up Reports by the National Audit Office 2021 Volume I

July 2021 Performance Audit: Fulfilling obligations in relation to asylum seekers

October 2021 Information Technology Audit: Examinations Department

October 2021 Follow-up Reports by the National Audit Office 2021 Volume II

November 2021 Performance Audit: Smart and RF meters' contribution to more accurate and timely utilities billings

November 2021 Information Technology Audit: IT Asset Management across Government Ministries and Departments

December 2021 Performance Audit: A Strategic Overview on the Correctional Services Agency's Operations at the Corradino Correctional Facility

December 2021 Report by the Auditor General on the Public Accounts 2020

December 2021 Report by the Auditor General on the workings of Local Government for the year 2020

December 2021 An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 2 | A review of the contractual framework

May 2022 Performance Audit: Assisting Individuals with Dementia and their Caregivers within the Community

May 2022 Ministry for Finance and Employment: An Analysis on Revenue Collection Financial Year 2020

May 2022 Joint Report on Management of Plastic Waste in Europe

June 2022 An evaluation of performance audits in the public sector: Common audit findings (2017-2020)

June 2022 Follow-up Audit Report, 2022 issued by the National Audit Office

July 2022 Performance Audit: Procuring the Public Transportation Service