



National Audit Office  
Annual Report and Financial Statements

2020



# Table of Contents

<b>List of Abbreviations</b>	<b>5</b>
<b>FOREWORD Auditor General's Overview</b>	<b>7</b>
<b>Making NAO future proof</b>	<b>11</b>
<b>Auditor General and Deputy Auditor General Reappointed for a Second Term</b>	<b>14</b>
<b>The Making of an Independent Audit Office</b>	<b>16</b>
<b>PART ONE</b>	<b>20</b>
Introduction	21
COVID-19 pandemic	21
Government's public finances	21
The Public Service's Transition to Accrual Accounting	23
Proposed Constitutional, legislative and institutional reform	23
Organisational overview	24
Governance	25
Highlights of 2020	26
Local Events	26
Foreign Events	37
Stakeholder relations	41
Relations with Parliament	41
Relations with auditees	41
Participation of senior NAO officials in EU boards	41
Participation in domestic working groups and committees	42
Relations with employees – Social activities	42
<b>PART TWO</b>	<b>43</b>
NAO Business Model	44
NAO Capitals	45
Risks and Opportunities	56
NAO Strategy and Resource Allocation	57
National Audit Office Strategy 2019-2023	57
NAO Strategy Action Points	57

<b>PART THREE</b>	<b>61</b>
Section Reports – Financial and Compliance Audits	62
Section Reports – Performance/Value for Money Audits	65
Section Reports – Special Audits and Investigations	69
Section Reports – IT Audits and Operations	73
Section Reports – Finance and Administration	76
Concluding Notes	79
Outlook	79
Basis for preparation and presentation	80
<b>PART FOUR</b>	<b>81</b>
General Information	82
Report of the Auditor General of the National Audit Office	83
Statement of Profit or Loss and Other Comprehensive Income	87
Statement of Financial Position	88
Statement of Changes in Reserves	89
Statement of Cash Flows	90
Notes to the Financial Statements	91
Independent Auditors’ Report	103

# List of Abbreviations

AAG	Assistant Auditor General
AG	Auditor General
AI	Artificial Intelligence
CAP	Chapter
CBM	Central Bank of Malta
CFMS	Corporate Financial Management Solution
CIPFA	Chartered Institute of Public Finance and Accountancy
CO <sub>2</sub>	Carbon Dioxide
CoFoG	Classification of the Functions of Government
COVID-19	Coronavirus Disease 2019
DAG	Deputy Auditor General
DAS	Departmental Accounting System
ECA	European Court of Auditors
ECL	Expected Credit Loss
ESA	European System of Accounts
ESM	European Stability Mechanism
EU	European Union
EUISS	European Union Institute for Security Studies
EUROSAI	European Organisation of Supreme Audit Institutions
EU-SILC	European Union Statistics on Income and Living Conditions
EY	Ernst and Young Malta Limited
F&A	Finance and Administration
F&C	Financial and Compliance Audits Section
GDP	Gross Domestic Product
GDPR	General Data Protection Regulations
H.E.	His Excellency
HMSO	His/Her Majesty's Stationery Office
HR	Human Resources
HRMS	Human Resources Management System
IAS	International Accounting Standard
ICT	Information and Communications Technology
IDI	INTOSAI Development Initiative

## List of Abbreviations continued

IESBA	International Ethics Standards Board for Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
ITS	Institute of Tourism Studies
NAO	National Audit Office
NAOAC	National Audit Office Accounts Committee
NCPE	National Commission for the Promotion of Equality
NGO	Non-Governmental Organisation
NSO	National Statistics Office
OHSA	Occupational Health and Safety Authority
OLACEFS	Organisation of Latin American and Caribbean Supreme Audit Institutions
PA	Planning Authority
PABX	Private Automatic Branch Exchange
PAC	Public Accounts Committee
PC	Personal Computer
PMF	Performance Measurement Framework
PQ	Parliamentary Question
SA&I	Special Audits and Investigations Section
SAI	Supreme Audit Institution
SAO	State Audit Office
SDG	Sustainable Development Goal
SIC	Standards Interpretation Committee
TVM	Television Malta
VAT	Value Added Tax
VGH	Vitals Global Healthcare Limited
VPN	Virtual Private Network

# FOREWORD

## Auditor General's Overview



**Auditor General**  
Charles Deguara

### 2020 - Remaining a vibrant and relevant Institution notwithstanding COVID-19 pandemic's challenges

Undoubtedly, 2020 will primarily be remembered as the year of the COVID-19 pandemic, which hit our societies in a way that very few, if any, predicted. Almost overnight, it changed many aspects of our lives; not least the way we work. The National Audit Office (NAO) was no exception.

However, notwithstanding the considerable challenges and difficulties brought about by this devastating pandemic, on account of which working from home became a necessity rather than an option, our Office has not only managed to successfully conclude all its Audit Plan for 2020, albeit with some minor modifications, but also completed various other required, unplanned assignments related to its public sector audit mandate.

This was possible thanks essentially to the commitment, flexibility, resilience and professionalism of all our staff. To be fair, we likewise acknowledge and appreciate the efforts made by our auditees across the public sector who, notwithstanding the challenges faced by them too, went out of their way to extend their co-operation to our audit teams.

Ensuring that the NAO remains a vibrant and relevant institution is reflected in the strategic goals highlighted in the Office's Strategic Plan 2019-2023, of which we are practically half-way through. Only thus can our Office's primary dual objective, essentially to promote good governance across the public sector, as well as to provide assurance to Parliament and, ultimately, to our citizens that public funds are being used (i) in an effective and efficient manner and (ii) in line with prevailing rules and regulations, be duly achieved.

The fact that the NAO managed to continue doing so, even throughout such challenging and unprecedented times, speaks volumes about our extraordinary team. This included our IT and Administration sections, whose efforts ensured a robust, reliable and secure IT infrastructure, which enabled our audit teams to continue their assignments, even though they were not able to work from the office for most of the time.

In all honesty, I feel humbled to have been entrusted, once again, with the responsibility to lead this incredible team for another five years, following Parliament's unanimous approval, on 24 March 2021, of the Resolution to reconfirm my appointment as Auditor General and that of my Deputy, Mr Noel Camilleri.

Our Office's core function as the public service's external auditor was carried out through the publication of 19 NAO reports and assignments during 2020 – an absolute record for a single year – touching on a diverse range of subjects, as can be seen throughout this Annual Report. Indeed, all auditing sections, namely Financial and Compliance Audits, Performance Audits, Special Audits and Investigations and IT Audits, rose to the occasion and managed to produce an impressive number of publications of the highest quality, in line with international auditing standards.

As already stated, throughout 2020, besides these purely auditing assignments, the NAO also embarked on various other useful initiatives. One of the most important related to the proposed amendments

to the Office's legislative framework, which is essentially made up of the Auditor General and National Audit Office Act, CAP 396, and Section 108 of the Constitution of Malta. Both legal instruments were approved unanimously in Parliament on 25 July 1997, thereby setting up the NAO in its present format.

In essence, the main objectives of the extensive legislative amendments, drawn up after a comprehensive internal consultation process spearheaded by our two in-house lawyers, in liaison with our expert Legal Adviser, were to reflect recent important developments. These included emerging challenges in the area of public sector auditing, as well as to tentatively provide better tools to the NAO to carry out its challenging constitutional mandate.

The proposed amendments relating to Section 108 of the Constitution were presented to H.E. the President of Malta, Dr George Vella, in February. The other legislative amendments to the Auditor General and National Audit Office Act were presented to the Minister for Justice, Equality and Governance, the Hon. Dr Edward Zammit Lewis, in November.

The International Organisation of Supreme Audit Institutions (INTOSAI) Framework of Professional Pronouncements, namely P12 – *The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens* – sets very high standards for every national audit institution, like the NAO. In its preamble, it is clearly stated that these institutions only deserve the trust of their principal stakeholders, essentially Parliament, citizens and the public service itself “if they themselves are objectively judged as being credible, competent and independent and can be held accountable for their operations. In order to make this possible, they need to be model institutions, setting an example from which others in the public sector and the auditing profession at large can learn.”

We acknowledge that becoming a model institution essentially requires ongoing critical self-review and a consistent amelioration in performance. The obvious question is: how can the Office expect its



auditees to promote good governance, resulting in enhanced service delivery, if it does not do its utmost itself, especially by setting the right example?

As a consequence of our commitment to become a model institution, and in line with our Action Plan, during 2020 an NAO team was tasked to carry out a comprehensive internal review, based on methodology developed by the INTOSAI, called the Supreme Audit Institution Performance Measurement Framework (SAI-PMF). In essence, this entailed our own audit practices and methodologies being put under scrutiny using the SAI-PMF as the benchmark standard.

Notwithstanding such an extensive challenge for the team involved, a draft of this report was finalised within the established timeframes and presented to senior management for review by the end of December. We strongly believe that this internal analysis is necessary to ensure ongoing development of good practices within any organisation; obviously, it is now senior management's responsibility to review and, subsequently, as far as possible, duly implement those changes deemed necessary to address any identified gaps.

During the year, considerable progress was also registered by the other five internal Teams set up by senior management in connection with the implementation of various measures arising out of our Action Plan.

During 2020, H.E. the President of Malta, Dr George Vella (July), and the Prime Minister, the Hon. Dr Robert Abela (November), paid their first official visits to the NAO. Both conveyed their appreciation for the sterling work being undertaken by the NAO's staff in the best interests of the Maltese public administration.

On its part, NAO's senior management highlighted the Office's ambitious plans and objectives for the coming years, focusing on the fundamental need to safeguard the trust and credibility enjoyed by the Office. In this regard, I invariably emphasised that

our guiding principle throughout all our assignments is to always ensure the highest levels of objectivity, fairness, integrity and professionalism.

The scheduled visit by the Leader of the Opposition, the Hon. Dr Bernard Grech, in December had to be inadvertently postponed to early 2021.

The NAO also organised, once again, the sixth edition of the annual National Audit Office-European Court of Auditors Seminar (November) – obviously this year in a virtual manner. The theme chosen could not have been more appropriate 'Responding to the COVID-19 Pandemic – the Audit Perspective'.

For the first time ever, this seminar included interventions by two members of the ECA: the Maltese member, Mr Leo Brincat, who delivered the keynote speech; and the Swedish member, Ms Eva Lindstrom. They were joined by two other speakers, one from the NAO and another from the Internal Audit and Investigations Department, Mr William Peplow and Ms Simone Sapiano, respectively, both Senior Audit Managers.

All speakers stated that the pandemic did not in any way stop the work of their respective institution, agreeing that during these times of crisis technology has served us well.

To conclude, we are committed to taking all necessary measures which will enable us to provide the highest level of auditing service to the public service, in line with our constitutional mandate. We are thus confident that, through further investment in the professional development of our staff, as well as continued collaboration and teamwork with all our stakeholders, we will manage to overcome all major challenges we will face in the near future, including those on which we are already actively engaged, especially by:

- (i) duly preparing ourselves for the introduction of financial auditing, following Government's gradual application of accrual accounting across the public sector;

- (ii) focusing on the continued, timely implementation of our Strategic Plan 2019-2023; and
- (iii) formulating a detailed action plan to, as far as possible, address issues raised in the SAI-PMF Report.

I would like to convey my heartfelt appreciation to our internal editorial team that compiled this Annual Report, under the chairmanship of our Deputy Auditor General, Mr Camilleri. In close collaboration with our IT publications team, once again the editorial team did an excellent job. Obviously, last but definitely not least, my heartfelt thanks go also to all our other colleagues within the National Audit Office for ensuring that 2020 would be another eventful and successful year for our Office. Each and everyone's contribution is greatly appreciated.



Charles Deguara  
Auditor General  
June 2021

# Making NAO future proof

While 2020 was a year of records on all fronts, despite the COVID-19 pandemic which saw the National Audit Office also working remotely, still the Office is not sitting on its laurels. According to Deputy Auditor General Noel Camilleri, the strategy being put in place will ensure not only continuous improvement in terms of output but in terms of the way the Office is organised and works.



**Deputy Auditor General**  
Noel Camilleri

## A consistent strategy

The strategic direction of the National Audit Office remained steady in 2020 and in no way was derailed by the COVID-19 pandemic that struck the island from March. “We remained consistent,” Deputy Auditor General Noel Camilleri said. “Because of the circumstances, we just had to find workarounds for many things.”

The pandemic did not break the communication channels with the Office’s main stakeholders. In certain respects, it strengthened them and made the Office venture into new communication methods. For example, in 2020 the Office undertook an audit on SDG (Sustainable Development Goal) 1 – poverty in which a considerable number of third parties were involved. Government departments and agencies, NGOs and others were consulted. “Notwithstanding the pandemic, it was all organised on-line and it was a success story,” he said.

Among the records achieved in the ‘pandemic year’ he pointed out a record number of audits; a record number of publications; a marked reduction in sick leave, vacation leave remaining at the same level as the previous year; time spent on administrative work declined – even administrative costs decreased; and productivity increased.

Investment in IT infrastructure, the cost of which was previously considered prohibitive, was accelerated, enabling the Office to continue its work without interruption. “Just before the outbreak, we transitioned to Microsoft 365, which thanks to its cloud-based features, facilitated our seamless move to remote working,” he said.

Still, workarounds had to be found for the way the Office carries out its audits since it could not, for the most part, visit auditees in person to obtain information and scan documents. “On the other hand, our auditee is the government – government departments and agencies. Most were prepared and managed to cope. We certainly cannot say that the auditees did not co-operate,” Mr Camilleri said.

### PMF completed

The team undertaking the exercise completed their work on the Performance Measurement Framework (PMF). The document was handed to management at the end of 2020 and it is now in the process of reviewing and analysing the findings. Once this has been discussed in management and with the team, the way forward will be mapped out in terms of an action plan.

Mr Camilleri said there had been a lot of lessons learned from the exercise, since the structure of the PMF, drawn up by the INTOSAI (International Organisation of Supreme Audit Institutions) Development Initiative, went into the operational and audit aspects of the entire organisation: how audits are carried out; the methodologies in use; and best practices.

It was based on best practice, in conformity with ISSAIs (International Standards of Supreme Audit Institutions) and was quite onerous. “It was a huge task and the evidence-based scores are very often ‘yes’ or ‘no’, so there was no in-between.”

Also completed were the internal policy document on risk and that relating to the information sources for risk analysis, audit selection and audit planning. The team dealing with the former delivered a paper to management identifying ‘What does risk mean to us? What should it mean to the Audit Office?’ Following review by management, a policy for its review is to be handed in by the end of the second quarter of 2021.

After the document on information sources for risk analysis, audit selection and audit planning was

drawn up, a database was developed, the relevant members of the office were informed and the database was made available to staff in the second quarter of 2021.

The team working on the work stream, Opening Communication Channels to enable stakeholders to propose areas that the NAO could possibly audit, completed their planned work. The next step is the revamping of the NAO website to ensure there will be a greater facility for interaction with stakeholders. “We are seeing the website as the go-to site for communications with stakeholders in conjunction with social media,” Mr Camilleri said.

### Feedback from auditees

The work stream to capture feedback from auditees completed their work in 2020 and it is now being implemented via a Google Form, which is sent out to auditees at the end of each audit. In it, auditees are asked about the audit process and are even invited to comment on the audit team. The information captured is the basis of reviews or analyses that would subsequently be done.

The work stream on enhancing the relationship with auditees, namely the permanent secretaries, was adversely affected by COVID-19, however its implementation continued in 2021. Initial work was done on the development of three-year rolling audit plans. Mr Camilleri explained that the audit plans themselves were being further refined.

“In 2020 we issued statistics for top management’s consideration that will better enable the Office to target certain government sectors in terms of financial materiality and more work will be undertaken in 2021 for the 2022 plan.”

### Equality Mark

Two policies were adopted, enabling the Office to qualify for the Equality Mark issued by the National Commission for the Promotion of Equality. The first was the NAO policy on equality and the second covered sexual harassment. A structure with formal

procedures was also created to allow those who wish to register a grievance in terms of equality to obtain a remedy.



### Revamped ICT and Data Protection Policy

In addition, a revamped ICT and Data Protection Policy was issued, which included matters brought to the fore by the pandemic. A Contingency Plan on COVID-19 was circulated among the staff, along with guidelines on what staff should do under different pandemic related scenarios.

“Our approach as an Office was to be extra cautious in every situation,” Mr Camilleri said. In each case staff are advised to spend more time at home before they are cleared to go back to the office.

### International exposure

Although all international exchanges and visits were cancelled from March onwards, many international events were postponed last year. The visits Mr Camilleri missed most were those like the annual Contact Committee meeting, where important contacts are made that can be followed up in future. “No online or virtual meeting would substitute for that,” he observed.

An audit team from the NAO carried out an audit on the European Stability Mechanism’s internal committees on behalf of the ESM Board of Auditors. A visit was held in Luxembourg in January to carry out the scoping for the audit, but all interviews and other relevant data collection had to be carried out remotely after the pandemic struck in March.

“Still, it was a wonderful experience since our audit team interviewed high-ranking professionals like the Managing Director, the Secretary General of the ESM, and Management Board members,” Mr Camilleri said. The NAO also received good publicity, with a mention in the Board of Auditors’ Annual Report and the ESM’s Annual Report. A summary of findings is expected to be published in the Board of Auditors’ 2020 Annual Report.

### Increased output

While improvements were registered across the board, most notably compliance audits have almost doubled in the three years between 2018 and 2020, increasing from 22 to 39 last year, with a further increase planned for 2021. “Strictly speaking, we reached the target of 40 because there were other audits that were already completed but related to this (2020) financial year,” he said.

A novelty from 2021 is that the NAO plans to publish COVID-related audits. The first report covers the Public Sector’s response to COVID, with others in the pipeline on economic measures and other related subjects.

Having completed the PMF, Mr Camilleri stressed the importance of continually improving the Office’s internal audit processes. “We are departing from an exceptionally good foothold, but we can’t just say we are going to stay still. We need to try to continue to be relevant by tackling areas where there is truly the need for audits – we need to be proactive rather than reactive,” he said.

“I take pleasure when, through our proactivity, we go in ourselves, identify a problem area and recommend how the government should fix it. We should be a step ahead to avert system and administrative failures.”

# 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.



# The Making of an Independent Audit Office

by Prof. Godfrey A. Pirotta



In 1995, the Third Reading of a Bill setting up the Public Accounts Committee (PAC) was passed by Malta's House of Representatives.<sup>1</sup> During the various stages of its passage, the Opposition had argued, however, that while it fully agreed with this Bill and would vote for it, it felt that, if the PAC was to work properly, it was necessary for the Government to embark on a wholesale reform of the Audit Office.

It believed that during its deliberations this Parliamentary Committee would require the assistance of a fully professional and independent Audit Office if it were to carry out its responsibilities effectively. As happens in all democratic countries, Oppositions tend, at some stage or another, to become the government and on 3 June 1997, a former Shadow Minister, now in the role of Minister of Finance, stood in the House to move a Bill aimed at implementing those reforms.

The aim of this brief article is twofold: first to map out the incremental changes that finally led to the establishment of an independent Audit Office; and, second, to briefly set out what these changes involved.

1. See Pirotta, Godfrey A., (2006), *Malta's Parliament: An Official History*, House of Representatives, Malta, pp. 258-262.



## Audit Office under Responsible Government

In 1921, Britain conceded Malta its first Responsible Government Constitution. This meant that a Cabinet of Ministers, selected from among elected members of the Legislative Assembly and accountable to it, was now in charge of administering Maltese affairs. Under this new Constitution the reporting relationship of the Audit Office changed completely, as the Head of Ministry, Joseph Howard, explained to the Assembly:

“Although a member of the establishment of the Colonial Audit Department,” Howard told members, “the Auditor is in the first instance directly responsible to the Government of Malta in all matters bearing on the accounts and finances, and in all points of audit his reports are submitted direct to this Government.”<sup>2</sup>

This statement gave rise to two important questions. How was the Auditor to be appointed? And how was his independence from the government to be secured? At the time, there was no disagreement between Government and Opposition that the Head of this Department and his staff should be appointed by the Government. However, they disagreed emphatically about what constituted an auditor’s independence.

According to the Government, the Auditor “must have no direct or indirect part in the administration” but that this did “not mean that this Head must not depend on the Government”.<sup>3</sup> The Opposition disagreed, however, arguing that, rather than insisting that the Auditor should correspond only with the minister, to “ensure independence and impartiality”, the Auditor should report to the

Legislative Assembly, the body which ultimately sanctioned all government expenditure.<sup>4</sup>

A first step in the right direction was taken in 1926 with the passing of the Treasury and Audit Act. By and large, the Act did provide some important safeguards. Under this Act, the Auditor General<sup>5</sup> was to enjoy a position comparable to that of a judge and could only be removed by the Governor upon an address by both Houses of the Legislature in the same session.

Furthermore, his salary was to be fixed and equal to that of a judge and the staff employed in the Audit Department were to be under his sole control. The Act also laid down the time by which the Auditor General was to present his Annual Report.

What the Act did not do was to remove the Auditor General from under ministerial control and place the office under the direct control of Parliament. Nor was the Auditor General allowed to recruit his own staff, but remained dependent on the government for its staffing needs.<sup>6</sup>

## Responsible Government lost and regained

In November 1933, the British Government suspended the 1921 Constitution and returned the island to the status of a Crown Colony. This meant that, once again, the Audit Office became subject to the Colonial Regulations and to supervision by the Colonial Audit Department. But the war, which broke out in 1939, had a great impact on the Audit Office and, when the 1947 Constitution was promulgated, this office had not yet recovered.

2. Debates of the Legislative Assembly, Sitting of 17 January 1922 – PQ Joseph Howard to Michael Borg.

3. Debates of the Legislative Assembly, Sitting of 30 March 1922 – Committee of Supply on Estimates.

4. Debates of the Legislative Assembly, Sitting of 1 May 1922 – Committee of Supply: Audit Office Estimates.

5. In the past, this Office was styled that of the Auditor General before it was changed to that of Audit. For a detailed background, see Pirota, Godfrey A., (1996), *The Maltese Public Service: The Administrative Politics of a Micro-state 1800-1940*, Mireva Publications, which traces the history of the Maltese Public Service.

6. See Warrington, Edward., & Pirota, Godfrey A., (2014), *Guardian of the Public Purse: A History of State Audit in Malta 1814-2014* (second revised edition), National Audit Office, pp. 60-62.

Under the new Constitution, the Audit Office was placed under the Finance Ministry and was to remain there for a number of decades. Not surprisingly, the question of its independence also continued to feature in debates and newspaper articles over the entire period that it remained under the Finance Ministry portfolio.

But what weighed heavily on the Audit Office was the shortage of staff, which from time to time was aggravated by the transfer of trained personnel to other departments. Seen in the light of the extraordinary increase in the scope of government from this period onwards, this latter deficiency contributed more strongly to the difficulties of the Audit Office than any other.<sup>7</sup>

## The Audit Office after Independence

The Blood Commission, which paved the way for the restoration of Responsible Government in 1962 and eventually for independence in 1964, had recommended “that provision should be made... for the appointment, terms of service and exercise of the functions of the Director of Audit to secure his impartiality and freedom from political control”.<sup>8</sup>

Under this Constitution, the Auditor was to be appointed by the Governor, acting on a recommendation by the Prime Minister, following consultation with the Public Service Commission, which had just come into being. He could be removed by the Governor after reference to, and the recommendation of, a tribunal consisting of the Speaker of the House as Chairman and two other members, one appointed by the Chief Justice and the other by the PSC chairman.

The annual report was to be transmitted directly to the Speaker, copied to the Minister of Finance, and tabled in the House. In his work, the Auditor was to be guided by the Financial Administration and Audit Act of 1962. The Independence Constitution introduced some retrograde steps. For example, the procedures for appointment and removal from office became similar to those of a judge.

From now on, audit reports were no longer to be sent to Mr Speaker but were to be submitted to the Minister of Finance directly, who was obliged to lay them on the Table of the House within one month. Starting from around 1963, several newly established government bodies tended to be removed from the jurisdiction of state audit.<sup>9</sup>

It was not until 1989 that proposals to reform the Audit Office resurfaced. The Public Service Reform Commission recommended in its report that the Audit Office should have statutory authority to recruit its own staff; its funds allocated through ‘block votes’ with the proviso that these should not fall below a minimum agreed by Parliament; and that it should submit reports to parliament.<sup>10</sup>

The Director of Audit subscribed to these recommendations, also recommending the creation of a Public Accounts Committee (PAC). This latter suggestion was included in a White Paper, published in 1993, in which several changes to the Constitution of Malta were advanced.<sup>11</sup> In fact, through an agreement between Government and Opposition, the PAC came into being in 1995.

## The 1997 Reform

As noted at the beginning, in June 1997, the Minister of Finance moved a Bill to reform existing legislation touching on the office and functions of the Audit Office.<sup>12</sup> The new Act was to be a complete break

7. *Ibid.*, pp.70-76.

8. Colonial Office, (1961), *Report of the Malta Constitutional Commission*, HMSO, London, par. 102(a).

9. Warrington, E. & Pirota, G.A., (2014), *op. cit.*, pp 89-90.

10. *A New Public Service for Malta*, (1989), p. 62.

11. Malta Government, (1993), *The Change Continues*, Department of Information, Malta, pp 30-31, 68-69.

12. Debates of the House of Representatives, Sitting of 3 May 1997.

from the 1962 Financial Administration and Audit Act and aimed at making the Audit Office fully independent in its function.

The first of these reforms touched the appointment of the person of the Auditor. From the passing of this Act onwards, the Auditor and his deputy were no longer to be appointed by the President on the recommendation of the Prime Minister, but by a two-thirds vote of the House of Representatives. Their appointment was to be for five years, renewable for a second term. Their remuneration was to be on a par with that of a Senior Judge and a Magistrate, respectively.

The Audit Office was to be hived off from the Ministry of Finance portfolio and, from this point onwards, was to report directly to Parliament. The Auditor was to be responsible for the recruitment of those employed with the Audit Office and for the level of remuneration they were to receive. This meant that he/she was no longer to be dependent on the civil service for staffing levels and that office staff could not be transferred at Ministers' whims.

The powers of the Audit Office were also extended. From the passing of the Act, the powers of audit were, for the first time, to extend not only to government departments but to all public authorities, companies in which the government owned 51% of the shares, corporations or bodies that were required to present their accounts to Parliament and to other institutions that made direct or indirect use of public funds.

The Auditor was also now being empowered not merely to examine whether the sums allocated had been spent as directed but to provide value for money audits. The Office was free to undertake investigations of its own, in addition to those requested by the Minister of Finance or the PAC, and to request Mr Speaker to place these reports on the Table of the House. The Auditor was authorised to make use of, when deemed necessary, private auditing firms to provide added support in his functions.

Finally, the Audit Office itself was to be subject to the scrutiny of a new committee composed of the chairman of the PAC, the Leader of the House and two members from each side of the House. Their report would then be presented to Parliament for approval. This committee was also to be responsible for examining the estimates submitted by the Audit Office before these were approved by Parliament.

## Final word

This Act was passed in July 1997. It was the final stage in a process that had taken 76 years. The last reform concerning this office had taken place in 1962, when the Financial Administration and Audit Act had been promulgated. It would be wrong to assume from the above that Auditors did not seek to exert their independence in the execution of their duties.

Strong evidence to the contrary lies in the Annual Reports of the Department. However, a search through the website of the Audit Office will demonstrate how the 1997 reforms have revolutionised the work of this scrutinising agency and how its reports have positively impacted the improvement of good governance in Malta.

# PART ONE



# Introduction

This initial Section of the Report provides an overview of the external environment in which the National Audit Office (NAO) operated in 2020. The major events affecting the NAO were:



## COVID-19 pandemic

### Complying with health authorities' directives

Although the COVID-19 situation came about unexpectedly, the NAO set out to ensure staff safety by complying with the health authorities' directives. Apart from shifting to remote working, a number of other measures were taken to safeguard those officers working from the Office, including the provision of face masks and hand sanitisers. The Office also ensured compliance by all NAO officers of use of face masks directives, social distancing rules, and quarantine regulations.

### Developments in COVID-19 infrastructure

Since a substantial number of NAO employees alternated between working remotely and at the office, the NAO planned these infrastructural changes/measures to facilitate:

- remote working in a secure fashion while maintaining e-filing procedures wherever the work location;
- continuity of intra-office communications while remote working;
- teleconferencing facilities for online meetings at the NAO offices; and

- widespread use of collaborative tools to conduct online meetings.

This necessitated the purchase of an additional server to allow Virtual Private Network access to staff; and the upgrade of the Human Resources Management System to transit to a Cloud platform and provide remote clocking. The Office received a grant from INTOSAI to partly fund these additional IT requirements needed to address the challenges from the COVID-19 pandemic.

## Government's public finances

As the statutory external auditor of Government public finances, the NAO reviews the accuracy, fair reporting, regularity, economy, efficiency and effectiveness and integrity of public sector financial transactions. This is an overview of the financial results for 2020, which forms the basis of our audit work.<sup>13</sup>

### Reporting on a cash basis

Official reporting by the Treasury, which includes Ministries and Departments, is currently on a cash basis. To-date, only local councils and a few government entities operate on an accrual basis.

13. These financial results were extracted from NSO News Release 058/2021 dated 30 March 2021, NSO News Release 071/2021 dated 20 April 2021, CBM Economic Update 2/2021 dated 22 February 2021, and Malta Development Bank Annual Report 2020 and Financial Statements.

Treasury reporting for 2020 included the following:

- Recurrent Revenue amounted to €4,389.3 million, 11.7 per cent lower than the €4,972.9 million reported in 2019. Major declines were registered in the various categories of tax revenue:
  - o Income Tax (€229.1 million);
  - o Value Added Tax (€177.1 million);
  - o Licences, Taxes and Fines (€86.7 million); and
  - o Customs and Excise Duties (€67.7 million).
- Total expenditure increased to €5,857.2 million, 18.0 per cent higher than the previous year. Recurrent Expenditure totalled €4,638.9 million, up by €422.7 million when compared to the €4,216.2 million reported in 2019.
- Increases were registered across all the major recurrent cost categories:
  - o Programmes and Initiatives (€276.4 million);
  - o Contributions to Government Entities (€88.9 million);
  - o Operational and Maintenance expenses (€38.4 million); and
  - o Personal Emoluments (€19.0 million).
- In particular, under the Programmes and Initiatives cost category, additional outlays were incurred in 2020 on:
  - o Social Security Benefits (€79.0 million, of which €14.5 million were spent on COVID-19 social benefits);
  - o Medicines and surgical material (€49.2 million of a total of additional funds of €154.0 million spent on the health sector); and
  - o the Economic Regeneration Voucher Scheme (€45.3 million).
- The interest component of public debt servicing costs amounted to €181.2 million, an €11.1 million drop compared to 2019.
- Government's capital expenditure amounted to €1,037.1 million, €482.1 million higher than in 2019. This was mainly due to additional expenditure towards Investment incentives (€406.7 million) compared to 2019. These incentives amounted to €434.9 million, of which €384.2 million were spent on the COVID-19 Business Assistance Programme, including employment support measures.
- The difference between total revenue and expenditure resulted in a deficit of €1,467.9 million being reported in the Government's Consolidated Fund at the end of 2020. This represented an increase in deficit of €1,477.3 million when compared to the surplus of €9.4 million witnessed in 2019. The large increase in deficit and debt resulted from COVID-19 pandemic financial-related measures that had to be taken by Government to mitigate the financial impact of the pandemic.
- At the end of 2020, Central Government debt amounted to €6,765.2 million, a €1,437.0 million rise on 2019. Increases reported under Malta Government Stocks (€873.5 million) and Treasury Bills (€344.0 million) were the main contributors to the rise in debt. Foreign Loans increased by €119.9 million, largely reflecting the €120.0 million EU loan from the temporary Support to mitigate Unemployment Risks in an Emergency (SURE) instrument.

### 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 2020, the General Government deficit amounted to €1,300.2 million equivalent to 10.1 per cent of GDP. General Government debt amounted to €6,960.0 million or 54.3 per cent of GDP.

### The financial implications of other COVID-19 measures

As regards the moratorium on loan repayments measure, as at end December 2020, there were 2,373 loans subject to a moratorium on repayments, amounting to €748.7 million, representing 6.4% of total outstanding loans to Maltese residents. The largest number of loans covered by moratoria was held by households, with the sector accounting for 64.3% of the total volume of loans subject to a moratorium. Maltese households held €137.6 million, or 18.4%, of the total value of loans subject to a moratorium, equivalent to 2.2% of outstanding household loans.

The Malta Development Bank offered three schemes to assist businesses during the pandemic – the COVID-19 Guarantee Scheme, the COVID-19 Interest Rate Subsidy Scheme and the COVID-19 Small Loans Guarantee Scheme. By the end of 2020, the nine commercial banks that rolled out the COVID-19 Guarantee Scheme sanctioned a total of €408.1 million in working capital loans. These loans are guaranteed by the Malta Development Bank and have supported 522 businesses, collectively employing around 30,000 persons. As at end 2020, the amount of €679,844 was owed to commercial banks in respect of the COVID-19 Interest Rate Subsidy Scheme. The latter amount is receivable from Government.

## The Public Service's Transition to Accrual Accounting

The Government of Malta is in the process of implementing accrual accounting in Central Government. This project will involve a 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.

As a result, the financial statements of Government as presented by the Treasury will be accruals based at source rather than cash based and will be prepared in conformity with the International Public Sector Accounting Standards (IPSAS), as adopted by the Maltese Government to reflect local requirements.

The piloting stage of accounting on an accruals basis commenced in January 2020, with the core CFMS going live in 15 pre-agreed sites where the respective ministries and departments operated exclusively through CFMS. Following this pilot stage, a full rollout in all ministries and departments took place in April 2021.

The NAO has been preparing for the implementation of Accrual Accounting in Central Government by training its auditors in the implementation of IPSAS, providing them with an overview of the CFMS software, and encouraging them to familiarise themselves more with financial audit-related procedures since the NAO may invest in audit management software in future.

## Proposed Constitutional, legislative and institutional reform

To ensure transparency and accountability in all spheres of public administration, as well as in the private domain, Malta is currently in the process of further strengthening its public institutions. The procedures and resources of regulatory authorities,

such as the Malta Financial Services Authority, the Financial Intelligence Analysis Unit and the Malta Business Registry, are being greatly enhanced. Relevant legislation has also been enacted to prevent, detect and punish financial crime and to increase the powers of regulatory authorities in this regard.

Reforms are also being undertaken in the home affairs and justice spheres. The police force economic crimes unit, as well as several court inquiries, have been further mobilised to investigate alleged financial crimes and prosecute potential offenders. In addition, the role of the State Advocate has been separated from the role of the Attorney General to remove the previous anomaly that both functions were previously assigned to one individual, the Attorney General. New appointments to the judiciary, as recommended by the Judicial Appointments Committee of which the Auditor General is a member, and other key posts are affected following public calls.

Against this background, the Office also felt the need to present proposed amendments to Section 108 of the Constitution of Malta and to the Auditor General and National Audit Office Act, as explained later on under 'Highlights of 2020' on page 29.

## Organisational overview

The NAO carries out the following types of audits:

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

Financial audits provide independent assurance on the accuracy and reliability of public sector financial statements, and that these statements are fairly presented in accordance with Government's accounting policies.

Compliance audits assess whether proper checks are in place for the accurate assessment, collection and proper allocation of revenue and to ensure that expenditure has been effected only as authorised; and whether the rules and procedures to safeguard and control public property have been adhered to.

Performance audits evaluate whether public funds have been expended economically and with due regard to efficiency and effectiveness.

Special audits cover specific important areas, such as ethics and the implementation of the United Nations Sustainable Development Goals (SDGs) in Malta, deemed critical to the public interest.

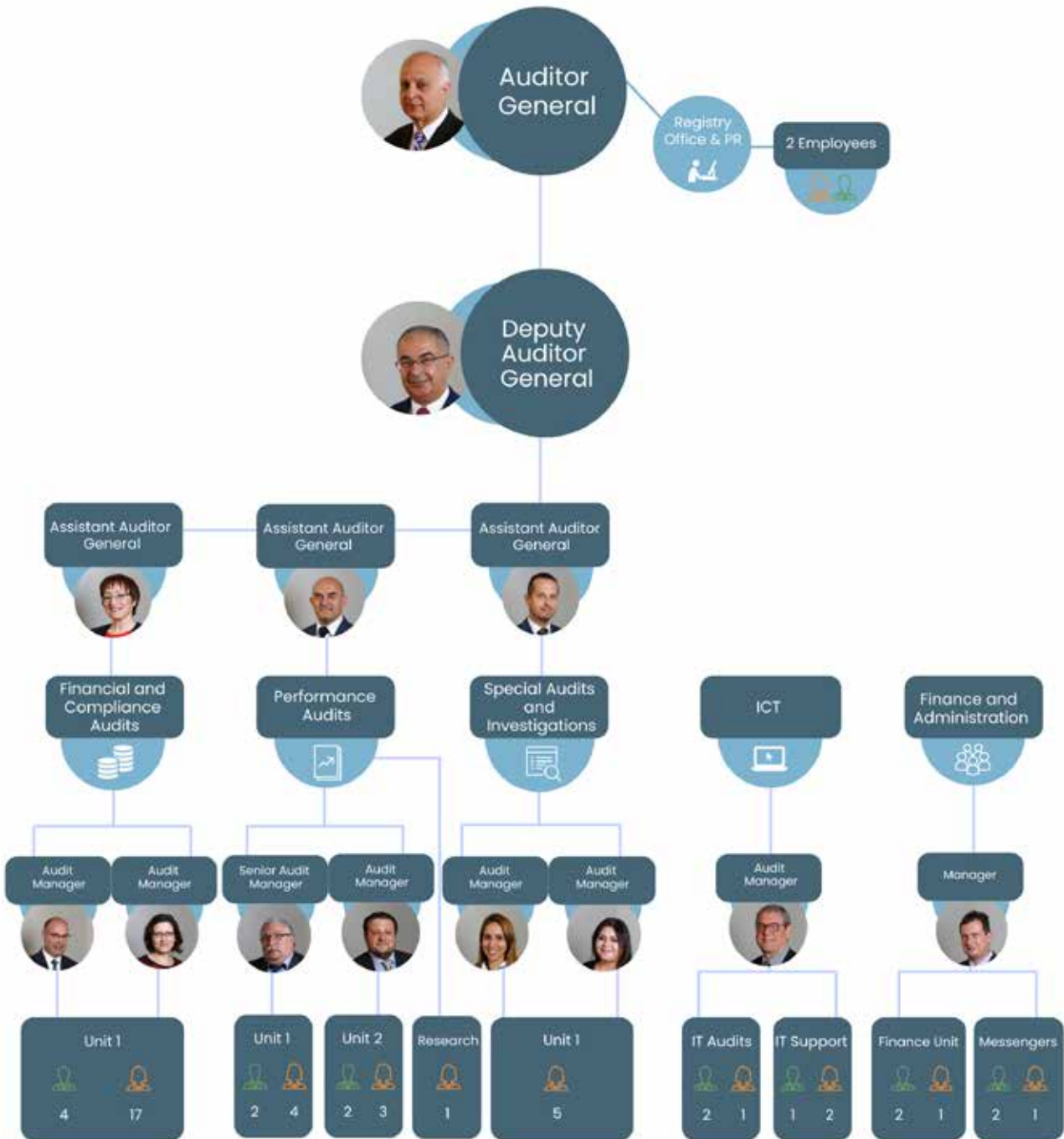
Investigations are carried out when concerns are raised on financial propriety by a Government ministry, department or public entity. These concerns include alleged breaches of ethical conduct by public officials, service quality failure, misconduct, waste, abuse of authority, misappropriation, fraud and corruption. Investigations are usually requested by the Public Accounts Committee or by the Minister responsible for Finance.

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.



# Governance

## NAO Organisation Chart



## Highlights of 2020

### Local Events

#### *NAO-ECA joint seminar*

The NAO in collaboration with the European Court of Auditors (ECA), organised an online joint seminar on “Responding to the COVID-19 Pandemic – The Audit Perspective”. For the first time ever, two Members of the ECA participated in this annual event.

In his opening address, AG Charles Deguara explained how the NAO rose to the challenge of dealing effectively with the adverse effects of the pandemic; in particular, it finalised all the planned audit reports for the year. He also delved in some detail on the benefits and potential disadvantages of remote working, and how the Office has enhanced its infrastructure to accommodate this novel way of working.

The Maltese member at the ECA, Leo Brincat, delivered the keynote address on “Responding to COVID-19 – The Audit Perspective”. Mr Brincat highlighted the importance of resilience and agility in responding to the challenges of the pandemic.

As a practical example, he provided an overview of the ECA response to the COVID-19 pandemic – it revised its work programme to ensure that its audit assignments respond to the major challenges posed by the pandemic in a flexible manner.

Eva Lindström, Swedish member of the ECA, in her speech on “A Sustainable, Digital Recovery: Opportunities from an Audit Perspective”, compared the COVID-19 crisis to the climate crisis. She affirmed that the COVID-19 crisis has come about unexpectedly, but policy-makers and decision-makers reacted quickly and decisively to the pandemic.

She observed that the climate crisis, on the other hand, has been going on for many years. Since its consequences are perceived to occur more as gradual changes, there tends to be inertia on the part of government and society in general to act decisively to tackle the climate crisis. She noted that, if society wants to achieve a green, digital and inclusive recovery post COVID-19, it must focus equally on all three pillars of sustainable development – economic, social and environmental, while being engaged in both crises at the same time.



Ms Lindström also referred to the importance of digitalisation – Supreme Audit Institutions will ensure that they remain relevant to stakeholders if they aim for a future-oriented, risk-based and digitally advanced audit.

William Peplow, Senior Audit Manager, NAO Performance Audits Section, gave a detailed overview of the NAO's proposed response to the pandemic. He affirmed that the pandemic had a two-pronged effect on the Office:

1. its own internal business continuity; and
2. the audit of public funds spent on measures and programmes aimed to deal with the effects of COVID-19.

Mr Peplow explained that, in response to the crisis, a number of policies were issued to deal with the pandemic, including staff safety and remote working policies. Remote working facilities were upgraded to ensure access to and the safeguarding of NAO files; providing the necessary infrastructure to facilitate online meetings; and ensuring continued access to internal and external IT applications.

In relation to the audit of public funds spent on COVID-19 measures and programmes, NAO's review will essentially focus on three aspects:

- Phase 1 – business continuity of operations within the public sector (through a performance audit);

- Phase 2 – financial and compliance aspects of Government's measures (through a financial and compliance audit); and
- Phase 3 – the impact of Government's measures (through a performance audit).

Simone Sapiano, Manager, Internal Audit and Investigations Department, in her presentation titled "COVID-19: Turning a Pandemic into an Opportunity", affirmed that for the Department to still achieve its work objectives, it addressed human resources, work procedures and information technology challenges caused by the pandemic.

Various lessons were learnt in the process, including the importance of having staff with different backgrounds and skills; the necessity to expand and use the Department's accessibility to online data and information; and modifying work procedures to incorporate a shift to analytics and substantive testing.

Following various interventions from the participants, DAG Noel Camilleri wrapped up the seminar with an interesting overview of the main issues raised, including:

- Audit Institutions' general response to the pandemic;
- the response to the pandemic from an audit perspective; and
- the future of audit.

## ***NAO supports call for regulation of lobbying, setting up of transparency register***

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The NAO said it supports such a call in view of the significant governance-related concerns identified in its work.

"Several audits undertaken often point towards scenarios where lobbying is likely, pivotal and central to the Government's decision-making process, yet persists as a phenomenon that certainly remains unregistered in any form."

The NAO said it is tasked with ensuring that Government conducts its business and functions in accordance with the principles of transparency, accountability and good governance.

***The Malta Independent 4.5.2020***



### *Leo Brincat visits NAO*

The Maltese member of the ECA paid an official visit to the NAO on 16 November. The main objective of this visit was for Leo Brincat to officially present a copy of the Court's Annual Report that had just been published to the Auditor General.

In Mr Brincat's address to the NAO's senior officials, he emphasised the importance that the NAO and the ECA continue to collaborate, especially in those areas that are of mutual interest to both entities. He conveyed his appreciation for the excellent work being undertaken by the NAO, particularly considering the present challenges due to the COVID-19 pandemic.

On his part, the AG reiterated that the NAO remains committed to extending its full co-operation to the ECA, which plays a crucial role in providing assurance on the best use of funds at the disposal of the European Commission and other related entities. Thus, he affirmed that the Court may be considered as the independent guardian of the financial interests of the citizens of the European Union, just as the NAO is the guardian of the public purse. He also noted that, notwithstanding the COVID-19 pandemic, the NAO still managed to finalise the audit assignments planned for the year.

*Presentation to the President of proposed Constitutional amendments related to the working of the NAO*

AG Charles Deguara presented various proposals for amendments to the Constitution intended to strengthen the role, functions, duties and powers of the NAO to H.E. President Dr George Vella. These amendments were presented in view of the public consultation launched by the Office of the President to reform the Constitution of Malta and are deemed necessary by the Office to render the NAO more effective in addressing emerging issues and challenges, and strengthen the Office's role in contributing to good governance across the public sector.

The delegation from the National Audit Office included Deputy Auditor General Noel Camilleri, two in-house lawyers Dr Denise Borg Muscat and Dr Amanda Borg, who co-ordinated the extensive consultation process within the office that led to the proposed legislative amendments, and Professor Ian Refalo, the office's legal consultant, who provided the necessary support to the process.

H.E. the President conveyed his appreciation to the delegation for these proposals.



*Presentation of proposed amendments to the Auditor General and the National Audit Office Act to the Minister for Justice, Equality and Governance*

AG Charles Deguara presented a series of proposed amendments to the Auditor General and National Audit Office Act to the Minister for Justice, Equality and Governance Edward Zammit Lewis in a meeting held on 5 November.

These amendments are deemed pivotal to better equip the NAO in its work to improve governance and performance of the public sector. The multiple responsibilities overseen by the public sector, coupled with its evolving complexity, renders the Office's audit ever more challenging. Overcoming these challenges necessitates the introduction of new methods of auditing, improved co-ordination with stakeholders, and the refinement of existing practices, together with multiple other initiatives.

The NAO delegation included DAG Noel Camilleri; AAG Keith Mercieca; Dr Amanda Borg, who together with Dr Denise Borg Muscat co-ordinated the extensive consultation process within the Office that led to the proposed legislative amendments; and Professor Ian Refalo, the Office's legal consultant, who provided the necessary support to the Office in the process.

The Hon. Minister Edward Zammit Lewis conveyed his appreciation to the delegation for these proposals and indicated that the State Attorney, Dr Chris Soler, also in attendance, would be reviewing the submissions and providing advice on the NAO's proposals.

*Audit of ESM's internal committees*

The European Stability Mechanism (ESM) is a crisis resolution mechanism assisting euro area Member States who experience severe financial distress. The NAO presented a report titled “A review of the governance arrangements of the European Stability Mechanism’s internal committees” to the ESM Board of Auditors.

This report fulfilled a request by the Board of Auditors for the NAO to determine the governance arrangements of the ESM’s internal committees.

The NAO audit team was composed of Keith Mercieca, Assistant Auditor General, Special Audits and Investigations Section; Fleur Marie Calleja Ghirxi, Principal Auditor, Financial and Compliance Audits Section; and Clare Caruana, Senior Auditor, Special Audits and Investigations Section.

The audit was initially scoped in January 2020 with extensive interviews with ESM Management taking place remotely in June 2020. The audit team’s conclusions and recommendations were subsequently presented to the ESM Board of Auditors. The ownership of the report lies with the Board of Auditors, which endorsed the report on 19 October 2020.





### *Finland's AG pays official visit to the NAO*

The Auditor General of the National Audit Office of Finland, Tytti Yli-Vikari, paid an official visit to the NAO on 31 January. She engaged in a frank and open exchange of experiences and knowledge with AG Charles Deguara, DAG Noel Camilleri and the three Assistant Auditors General. They discussed mutually interesting subjects in public sector auditing, focusing particularly on the key role of national audit institutions in enhancing good governance across the public sector.

During her visit, Ms Yli-Vikari also gave an inspiring speech to all NAO employees on “Current Trends in Public Audit – A Global Perspective”. She referred to a number of external and internal factors driving change to the functioning of Supreme Audit Institutions (SAIs), such as ongoing and upcoming major adjustments to the structures and operating models of the public sector, the impact of technology and digitalisation on public sector auditing; and the pressure to attract new talent to SAIs with different competences and value bases and diverse expectations.

She also identified the emerging issues in public sector auditing, such as Artificial Intelligence and data; environment, climate and sustainability issues; and societal changes, including aging populations and migration. Ms Yli-Vikari affirmed that the resulting modifications to the working methods of SAIs and stakeholder expectations arising from these developments have caused a revision of the skills track for future audit professionals. These skills include foresight, flexible planning, project skills, shared leadership and coaching skills.

*President of Malta's official visit*

H.E. President of Malta Dr George Vella paid an official visit to the NAO on 3 July. During the visit, AG Charles Deguara, DAG Noel Camilleri and other senior officials provided a detailed explanation of the work undertaken by the Office. In his address to NAO senior management, President Vella referred to the significance of good governance and accountability, the two pillars underpinning a strong society. He stressed that the role and functions performed by the NAO in ensuring that these two key values are safeguarded are invaluable.

The President also highlighted the importance of the Office maintaining integrity and transparency in its work so that it will continue to enjoy the respect of both the Maltese authorities as well as of the entire nation. He also alluded to the proposed Constitutional amendments aimed to further strengthen this institution in the light of new societal challenges. As a result of these changes, in future, audits can also be carried on individuals and entities receiving public funds.

On his part, the AG affirmed that the NAO is committed to continue to provide the best possible service to society by working to further strengthen good governance in the public sector, in the best interests of all citizens. He concluded by highlighting the highest priority attributed to the fundamental values of integrity, objectivity and full impartiality when carrying out all NAO work.

The President concluded his visit to the NAO by addressing all staff members and expressing his appreciation for their work.

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Thank you for an excellent opportunity to be briefed on the huge responsibilities shouldered by the Audit Office, and the responsible way the work is carried out.

I assure that the foundation for respect towards your work will remain integrity, responsibility, professionalism + accountability.

Dr. M. Burt Prentice

*[Signature]*  
PRESIDENT  
3/7/20



*Prime Minister's official visit*

The Hon. Prime Minister, Dr Robert Abela, accompanied by Principal Permanent Secretary, Mario Cutajar, paid an official visit to the NAO on 6 November. In a meeting with the Office's senior management, a discussion was held on their work, including an outline of all types of audits undertaken as well as the Office's objectives and priorities for the coming years.

In a virtual address to all staff, the Prime Minister expressed his appreciation for the commendable and important work performed by the Office. He affirmed that it is crucial that the Office maintain its independence and neutrality to continue to enjoy everyone's trust. On his part, the AG acknowledged that the NAO's work at times presents formidable challenges. He noted that the highest value added is obtained from public audit in those cases where auditees implement in a timely and effective manner the recommendations included in NAO reports.

In this way, the Office acts as a catalyst for the promotion of good governance in the public sector. In addition, Mr Deguara asserted that, over time, the Office has managed to nurture a professional, competent and experienced team that is increasingly able to handle complex audits.

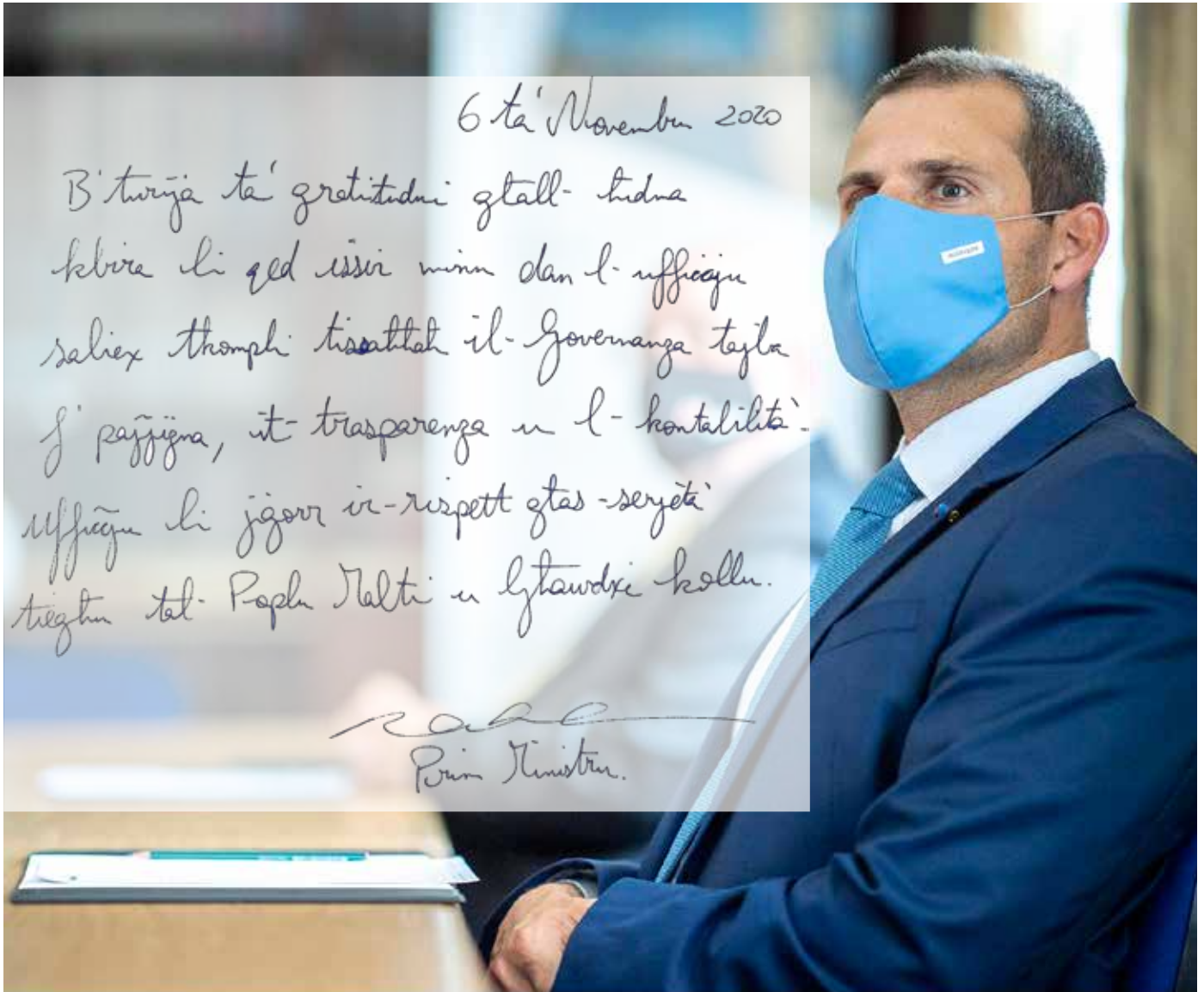
The AG stressed that the Office cannot promote good governance in the public sector without strengthening further this critical value within the NAO itself. He referred to the several proposals put forward by the Office to further enhance the legislative framework governing the work of the NAO – both as constitutional amendments and as amendments to the Auditor General and National Audit Office Act (CAP 396).

He concluded his speech by emphasising the fundamental need to safeguard in every possible way the full trust and confidence that Parliament and our citizens have in the NAO. For this purpose all the work undertaken by the Office must continue to be performed always and without any exception in the most objective, fair, independent and professional manner.

The DAG, in his intervention, referred to the commitment by NAO management and staff to continue the implementation of the initiatives envisaged in the Office's Action Plan 2019-2023, which include actions to better measure the performance of the Office and strengthen its efficiency and effectiveness, consolidate further its risk management practices and enhance relations with stakeholders.

The DAG also highlighted the challenges facing the public administration in switching the accounting methodology from a cash-based system to an accruals-based one. Mr Camilleri asserted that the Office supports this project since its implementation will ensure better accountability and transparency in the operation of Government finances.

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### *The European Label for Governance Excellence - Malta relaunch*

On 2 December, AG Charles Deguara participated in a conference organised by the Local Government Division, in collaboration with the Centre of Expertise for Local Government Reform within the Council of Europe, to re-launch the European Label for Governance Excellence for the regional and local authorities in Malta and Gozo.

The aim of this label is to encourage municipalities to obtain an official recognition of the quality of governance they deliver at local level. The label is a learning tool and should help to:

- a) understand the strengths and weaknesses of the approaches used to provide public services to the local community and of the manner they exercise public authority;
- b) improve the quality of local governance with the help of the various tools promoted by the label; and
- c) take inspiration from their colleagues' best practices.

The local speakers delivered their address in the recently equipped Naxxar Local Council Hall, which has state-of-the-art teleconferencing facilities. The foreign speakers and all participants took part virtually. The main objective of the event was to familiarise regional and local councils with the 12 Principles of Good Democratic Governance and take them through the requisites needed to apply for a label.

Pembroke Local Council were also presented with their label after successfully applying. In his intervention, Mr Deguara emphasised that all entities involved in local government needed to promote good governance throughout their operations, ultimately in the best interest of the citizens whom they aspire to serve. He highlighted that the NAO is a key player in this regard since, in essence, the Office's audit work is focused on the need to continuously enhance good governance across all local government entities in Malta and Gozo. Thus, the NAO's audits give the opportunity

to all local and regional councils to address all shortcomings and issues identified in the Office's reports in a timely and effective manner.

### *NAO obtains NCPE Equality Mark*

The NAO, represented by Manager, Finance and Administration, Ian Rizzo, was awarded the Equality Mark certification by the National Commission for the Promotion of Equality (NCPE) on 15 October.

This certification demonstrates the Office's active commitment to implement relevant policies and practices that promote gender equality and family friendly measures at the place of work, and to maintain an inclusive environment that fosters equality and values diversity. The accreditation will also allow the Office to use the Equality Mark logo in all its communication for two years.

As part of the application process, the NAO, in consultation with the *Union Haddiema Magħqudin – Voice of the Workers*, which represents the majority of employees within this Office, launched two policy directives – one on Equality and the other on Sexual Harassment.

Through the policy on equality, the Office is reinforcing its commitment to Article 4 of the Equality for Men and Women Act (Chapter 456), ensuring a non-discriminatory environment at the place of work. As regards the policy on sexual harassment, the Office reaffirms its zero tolerance to any unwelcome behaviour of a sexual nature.

Both policies provide for an independent set-up of an internal Equality Committee to deal with any alleged cases of discrimination and/or sexual harassment.

The Collective Agreement that is currently in force (2017-2024) has also been recognised as offering various family friendly measures and flexible work life balance initiatives.

## Foreign Events

### *First International Hackathon for SAIs*

IT Audit Manager, Simon Camilleri, attended in person the first EUROSAI International Hackathon for SAIs, held from 3 to 5 March in Prague, Czech Republic. This training session targeted IT experts, data analysts, graphic designers and auditors from Supreme Audit Institutions (SAIs). The event aimed to discover solutions, through applications or visualisations, that would help to improve the effectiveness of SAI processes, such as when identifying priority areas. The resulting products would save costs and reduce the SAIs' administrative burden.

The programme consisted mainly of coding sessions using a number of applications or visualisations. Data sets provided by individual audit institutions, simulated data sets (i.e., data sets that do not reflect actually performed audits) and publicly available data were used in this exercise.

This training event provided a number of insights on how the NAO can make further use of data analytics and data visualisations in its audits.



### *IX EUROSAI-OLACEFS Meeting*

AG Charles Deguara, DAG Noel Camilleri and Assistant Auditor General, Performance Audits Section, Brian Vella attended the IX EUROSAI-OLACEFS (Organisation of Latin American and Caribbean Supreme Audit Institutions) Meeting, held virtually from 9 to 11 September on “The COVID-19 Pandemic: A Unique Opportunity for Supreme Audit Institutions to Highlight the Impact of their Work”. The main themes discussed were:

- OLACEFS Region’s perspective and measures on the COVID-19 global pandemic;
- activities of the EUROSAI Project Group on Auditing the COVID-19 Global Pandemic;
- increasing the impact and efficiency of the public sector;
- enhancing measurement methodologies; and
- the Role of Supreme Audit Institutions in the Implementation of the 2030 Agenda.

Eight workshops were held. These were the topics:

1. SAIs’ advisory role to Parliament and/or Congress;
2. SAIs’ advisory role to auditees, citizens and other parties;
3. indicators, measurement tools;
4. integrity/anti-corruption;
5. public prosecution – relations with public prosecutors’ offices, prevention and tackling of corruption;
6. reactive and rapid audit reporting, good practices, digital reporting;
7. social utilisation; and
8. transparency, digital tools impact.

AG Charles Deguara delivered a presentation on “The advisory role of the National Audit Office” to the first workshop. He classified NAO’s advisory role in three parts:

- provision of advice to Government;
- participation in domestic working groups and committees; and
- collaboration with educational institutions.

He outlined several examples of how this advice is provided, including making recommendations to Government on proposed legislation, attending meetings of a number of local committees as an observer, and collaborating with a number of faculties at the University of Malta, especially the Faculty of Economics, Management and Accountancy.

### *EUROSAI Project Group on COVID-19*

The EUROSAI project group on “Audit of Responses to the COVID-19 Pandemic” was set up to enable SAIs to evaluate the effects of the COVID-19 pandemic on governments and policies, and to determine SAIs’ role in the process. It is co-led by the National Audit Offices of the United Kingdom and Finland.

The project group addresses the responses to the COVID-19 pandemic in four stages, namely: preparation, response, exit strategy and management of long-term effects. It focuses primarily on healthcare services, extensive emergency response plans and policies to protect the economy.

The main purposes of the project group are to:

- ensure the co-ordination and communication of COVID-19 works of the EUROSAI members;
- facilitate the sharing of the audit approaches and outputs of members by designing a tool, such as the COVID-19 audit program; and
- determine the scope for the “reports on the lessons learned” that are likely to be published in the upcoming periods.

The project group organised online roundtable meetings on 16-24 June in which discussions were held on the status of COVID-19 in participating countries, the relevant audit plans of these countries’ SAIs, and proposed activities and subjects that could be included in the project group’s operational plan.

AG Charles Deguara delivered a presentation on the state of the COVID-19 pandemic in Malta on 16 June, including the associated Government response, in particular business support measures, employment support measures and the economic recovery plan announced by Government on 8 June.

The AG also proposed a number of activities as future projects of the working group, including any possible amendments to SAI audit programmes and methodology.

#### *e-Seminar on sustainable energy*

On 7-8 April, Senior Audit Manager, Performance Audits Section, William Peplow and three team members, Keith Gauci, Maria Azzopardi and Rodianne Spiteri, took part in the EUROSAI Working Group on Environmental Auditing e-Seminar on Sustainable Energy. There were presentations on promoting sustainable energy; tackling energy poverty; and surmounting obstacles to the development of renewable energy sources. The key aspects of the European Court of Auditors' work on climate and energy 2019-2020 were also discussed.

Mr Gauci delivered a presentation on "Exploiting solar energy – evaluation of feed-in tariff schemes for photovoltaics", based on the results of the NAO Performance Audit Report published in March 2018 on *Evaluation of Feed-in Tariff Schemes for Photovoltaics*. The presentation focused on the background, audit objectives, audit methodology, audit findings, conclusions, recommendations and lessons learnt from the audit.

The audit concluded that the current local approach adopted to attain the 10% EU 2020 obligatory target for renewable energy generation, out of total consumption, has yielded various environmental, economic and social benefits. However, Mr Gauci

added that the opportunity exists for national authorities to use co-operation mechanisms, particularly statistical transfers, to ascertain the attainment of national and EU obligatory targets through a more cost-effective solution.

#### *EUROSAI Working Group annual meeting*

Senior Audit Manager, Performance Audits Section, William Peplow and Principal Auditor, Performance Audits Section, Maria Azzopardi attended the XVIII Annual Meeting of the EUROSAI Working Group on Environmental Auditing on "Air Quality and Urban Traffic – Problems and Possible Solutions in Auditing Tasks", held online on 28-30 September.

The meeting delved into the main factors influencing air pollution, particularly transport, industry, low emissions and agriculture. Presentations on national audits by individual Working Group members on these themes were held. Current and planned activities of the Working Group were also presented.

#### *Summer Studio Video Series*

Following an invitation by the President of the Supreme Audit Office of Slovakia, Ing. Karol Mitrik, the Auditor General participated in the Summer Studio video series through a video produced in-house at the NAO. During his intervention, Mr Deguara dealt with a number of topical issues affecting the day-to-day life of the Malta SAI during these difficult times as a result of the pandemic. He provided an overview of the audit methodology and information technology tools used to achieve its audit goals, especially as stipulated in our Audit Plan. Mr Deguara also touched on the issue of the effect of the pandemic on international co-operation among SAIs. Following addition of Slovak sub-titles, the video was eventually posted on the SAI's website as well as on YouTube.

*Official visit by AG and DAG to the State Audit Office of Croatia*

At the invitation of Mr Ivan Klešić, Auditor General of the State Audit Office (SAO) of Croatia, AG Charles Deguara and DAG Noel Camilleri paid an official visit to the State Audit Office of Croatia on January 15 and 16. During the visit, meetings were held at the Head Office and the Virovitica Regional Office to exchange experiences, opinions and views on a number of professional issues and best practices of the two institutions. In particular, management officials from the SAO of Croatia delivered their experiences on the following issues:

- Quality control and quality assurance measures in the SAO;
- The role of the Internal Audit Unit in the SAO;
- SAO's experience in self-assessments; and
- The SAO's strategic and audit planning process.

This official visit was followed by a Croatian delegation visit to Malta on 17 and 18 February 2020, during which a detailed presentation was made on the audit management system used by the SAO of Croatia.

*Consultation meeting with State Audit Office of Georgia*

Following initial contacts made by AG Charles Deguara with his counterpart at the State Audit Office of Georgia, Mr Irakli Mekvabishvili, an extremely interesting consultation meeting with our colleagues within the State Audit Office of Georgia was held on 3 June. During this meeting, a most interesting hands-on presentation was made on the Georgian experience on the implementation and use of the audit management system within their Audit Office.





## Stakeholder relations

To effectively carry out its mandate, NAO interacts with a number of key stakeholders invariably in full respect of its independence. These stakeholders include Parliament, audited entities, the general public, a number of EU institutions, local and foreign working groups and committees and its employees.

### *Relations with Parliament*

The NAO's main stakeholder is Parliament, keeping in view that both the Auditor General as well as the Deputy Auditor General are considered as Officers of Parliament. In fact, 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, which is the Standing Committee tasked with reviewing NAO reports. In 2020, there were 19 PAC meetings and the following reports were discussed:

- discussion on the Follow-up Report 2019 issued by the National Audit Office – Free Childcare Scheme (pages 36-44);
- presentation by ECA Member Leo Brincat of ECA Annual Report and Report on Work and Activities of the Court for the year 2019; and
- examination of the Auditor General's report entitled "An Investigation of Matters Relating to the Contracts awarded to Electrogas Malta Ltd by Enemalta Corporation" – general presentation by the Auditor General regarding the report and its conclusions.

The NAO also interacts with the National Audit Office Accounts Committee (NAOAC). Among other matters, this committee is charged with reviewing the NAO audited financial statements, appointing the auditors of the NAO financial statements and approving the NAO financial estimates for the following year. On 13 October, the Committee reviewed the NAO financial statements for 2019 and approved the estimates for 2021. EY, as appointed

by the NAOAC itself, are the current auditors of the NAO financial statements. Moreover, the Auditor General also attended various NAOAC committee meetings during which proposals for the allocation of public property to third parties were discussed.

### *Relations with auditees*

The NAO endeavours to maintain good relations with auditees during audits. On their part, auditees are expected to implement NAO recommendations within a reasonable timeframe.

For the fifth consecutive year, Principal Permanent Secretary Mario Cutajar presented the publication titled *Governance Action on the Annual Report on Public Accounts 2018 and other NAO Reports 2019* to AG Charles Deguara. This publication, essentially compiled by the Internal Audit and Investigations Department, contains an account of the extent of implementation of recommendations included in the NAO publication *Annual Audit Report by the Auditor General on Public Accounts 2018* and in all other audit reports published in 2019 by the Auditor General. Once again, it confirmed that 81% of recommendations were fully or partly taken on board by the respective departments or entities.

### *Participation of senior NAO officials in EU boards*

NAO senior management officers are involved in the audit boards of a number of EU institutions. DAG Noel Camilleri is a member of the European Stability Mechanism (ESM) Board of Auditors.

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 (EUISS) and a member of the Audit Board of Eurocontrol. The EUISS is the Union's agency analysing foreign, security and defence policy issues. Eurocontrol is a European-wide civil-military organisation dedicated to supporting European aviation.

*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 application and submits its recommendations to H.E. the President who eventually appoints the Members of the Judiciary. DAG Noel Camilleri attends the Corporate Financial Management Solution Implementation Board as an observer. This 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. One of the main aims of this group, of which the NAO is a founder member, is to address in a harmonised manner the main issues identified by the AG in the *Annual Report by the Auditor General on the Workings of Local Government*.

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*

Every year, the NAO Social Committee organises various events and activities for all NAO staff. Obviously, these social events are a good opportunity for staff to get to know each other more, spending quality time together in an enjoyable atmosphere. This enhances the team-spirit prevailing within our Office. In fact, a number of these events were held up to mid March 2020, when the pandemic hit Malta. Moreover, some of these events also serve as fund-raising activities in aid of the Malta Community Chest Fund Foundation. A total of €1,550 was donated to the Malta Community Chest Fund in 2020.

# PART TWO

N A O

National Audit Office



## NAO Business Model

*In this part of the Report, the Office presents its business model. This model represents the system of transforming inputs pertaining to the various capitals of the NAO, through its business processes, into outputs and outcomes that create value over time and implement NAO strategy. The NAO capitals are described in the following paragraphs.*

### 2020 Business Model

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## NAO Capitals

### *Financial capital*

The financial capital of the Office represents the funds allocated to the Office to effectively carrying out its Constitutional mandate. We ensure propriety, accountability and value for money in the use of these funds.

### *Intellectual capital*

The Office's intellectual capital includes its audit methodologies, employed by the different audit sections – Financial and Compliance Audits Section, Performance Audits Section, Special Audits and Investigations Section and IT Audits and Operations Section. It also incorporates all the activities undertaken to implement the NAO Strategy for the period 2019-2023.

### *Manufactured capital*

NAO's manufactured capital consists in the office building in Floriana and storage space in Valletta, furniture and fittings, and IT and other equipment. During 2020, the Office continued the renovation of its buildings, and invested in remote working infrastructure.

### *Human capital*

NAO's human capital consists of staff competences, capabilities and experience. NAO auditors are qualified in a number of audit-related disciplines and possess the required experience necessary 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 encourages communication with stakeholders duly safeguarding its total independence. It 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 also participates in foreign Working Groups, Networks and Task Forces, and attends a number of international professional webinars. NAO also prepares replies and comments to overseas surveys, questionnaires, exposure Drafts and other requests for information from other SAs and international organisations.

### *Environmental capital*

The NAO has a green leader to promote environmentally friendly practices in the Office. Employees are encouraged to make optimal use of paper and as much as possible to retain audit documentation in soft copy with an appropriate back-up. Due to the onset of the COVID-19 pandemic, as well as remote working, there was a decrease in a number of administrative expenses, including those related to travel, water and electricity, and material and supplies, thus reducing the carbon footprint and safeguarding the environment. The Office is committed to look after and maintain the gardens surrounding the Office.

The NAO's business model is presented on pages 46-55.





## Outputs

Operated within the financial parameters allocated by Parliament.

**Annual Audit Report** on Public Accounts 2019  
**Report on Local Government** 2019

**6** Performance Audits

**3** Investigations; **2** Special Audits

**3** IT Audits

**2** Follow-Up Audit Reports – Volume I consisted of **8** Financial and Compliance Follow-up audits and Volume II consisted of **4** Performance Follow-up audits and **2** IT Follow-up audits

**1** Annual Report and Financial Statements 2019



## Outcomes

Ensured financial viability of the Office.

Ensured judicious use of public funds.

### Publicity of audit reports

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

- Issuing report on "**A Review of Implementation of Sustainable Development Goal 1 – Malta's Efforts at Alleviating Poverty**"
- Issuing Report on "**A Review of the Ethical framework Guiding public employees**"
- Issuing complex investigation report on "**An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 1 | A review of the tender process**" with addendum
- Working on a **Co-operative audit on plastic waste**



**Inputs**



**Processes**



**Intellectual Capital**  
*cont ..*

Strengthening the National Audit Office

**1,076** hours on Strategy Action Points in 2020

NAO Performance Measurement Framework **781** hours

Identification of Risk Areas/Selecting more relevant audit areas **147** hours

Identifying Best Sources of Information **93** hours

Other teams **55** hours

**Proposed Constitutional** and other legislative amendments

**NAO Strategy-Action Plan** related work

**Conducted a self-assessment** of the Office performance, based on the methodology as established by the INTOSAI SAI-PMF framework and prepared relevant report

Preparation of paper on "**Identification of Risk Areas/Selecting More Relevant Audit Areas**"

Compilation of **Information Sources Register**

**Design of survey** to acquire feedback from auditees to improve the Office's performance and preparation of procedure manual to serve as a guide on the distribution of the feedback survey and storage of data received

**Identification of three key channels** to communicate with stakeholders, without impairing independence





## Outputs

Proposals presented to **H.E. the President of Malta** and **Minister responsible for Justice**

First draft of "SAI Performance Report – NAO Malta"

Paper on "Identification of Risk Areas/ Selecting More Relevant Audit Areas"

Inventory of data/information sources to be used by NAO auditors in the audit process.

Survey Template and Procedure Manual

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



## Outcomes

Changes will ensure enhanced powers and functions of the Office to effectively carry out its Constitutional mandate

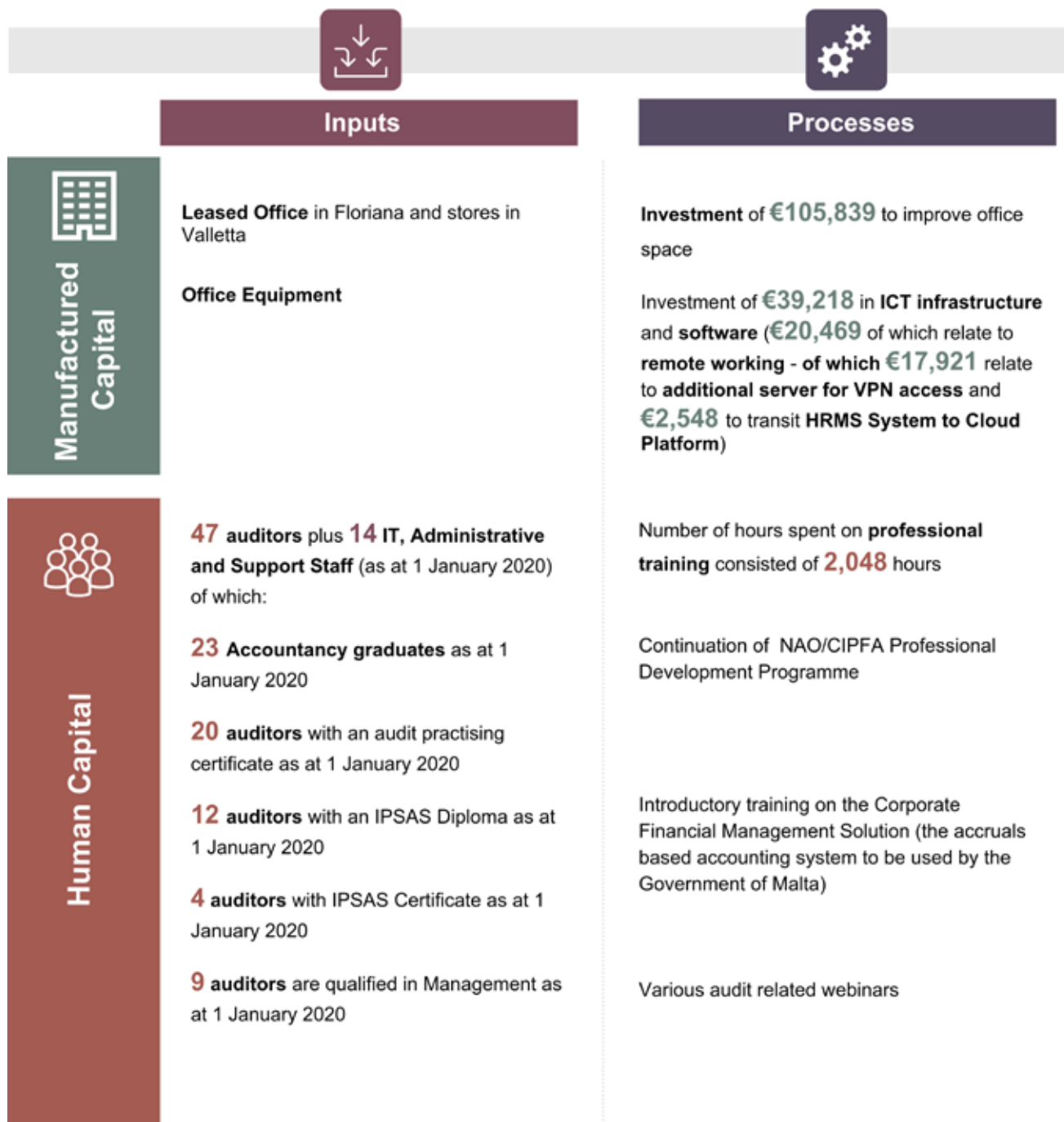
Implementation of NAO Strategy

Increased Office accountability

Enhanced NAO audit processes

Enhanced information gathering

Enhanced communication of audit reports





## Outputs

A fully functional Office and storage space.

Remote working infrastructure

**50 auditors** and **14 IT, Administrative and Support Staff** as at 31 December 2020

**25 Accountancy graduates** as at 31 December 2020

**21 auditors** with an audit practising certificate as at 31 December 2020

**18 auditors** with an IPSAS Diploma as at 31 December 2020

**5 auditors** with an IPSAS Certificate as at 31 December 2020

**9 auditors** are qualified in Management as at 31 December 2020



## Outcomes

More pleasant and welcoming work environment/Archiving of documents for eventual forwarding to national archives

More flexibility awarded to staff to foster work life balance

More highly trained workforce

Increase in competences of the workforce

Workforce more prepared for the audit of public sector accruals-based financial statements

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."



### Inputs



#### Human Capital cont ..

**5 auditors** are qualified in Public Policy as at 1 January 2020

**2 lawyers** as at 1 January 2020

**1 auditor** has a Ph.D. in Applied Statistics as at 1 January 2020

Intellectual property

Gender equality

Protecting the wellbeing of staff members in view of the COVID-19 pandemic



#### Social Capital

**8%** of total productive hours were dedicated to the publication and post publication process

**6%** of total productive hours were dedicated to the publication process and **2%** of total productive hours were dedicated to the post publication process, of which **0.2%** of total productive hours were spent on PAC related queries

International Relations/Co-operation  
**1,163** hours



### Processes

NAO-ECA Annual Conference

Research, Auditing and reporting

Following NAO Equality policy

COVID-19 contingency plan, COVID-19 guidelines and widespread remote working arrangements

Increased use of infographics in audit reports

Video productions

Articles in Audit journals penned by NAO staff

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

Participated in international Working Groups and Task Forces, attended foreign webinars, prepared replies to questionnaires and prepared comments on INTOSAI documents



## Outputs

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

**2** lawyers as at 31 December 2020

**1** auditor has 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

No work related contagion

**2** NAO Audit reports discussed over **19** PAC meetings (2020)

**19** Audit Reports communicated to public through Press Releases, NAO website, and Facebook page

**12** instances of TV coverage of NAO in 2020

**3** articles written for foreign journals/newsletters

At least **23** articles in newspapers mentioning the NAO in 2020

Prepared comments on two INTOSAI Documents, prepared replies to over 18 surveys and attended five important international meetings, apart from other webinars



## Outcomes

Enhancement of knowledge, both internally and externally/Benefits to the public administration and society

A workplace respecting values of equality and diversity that enhances innovation.

Moving towards a safer and more remote working environment

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




PAC review encourages implementation of NAO recommendations.

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

More NAO exposure in international fora  
More visibility of NAO in international sphere, particularly within EUROSAI

Sharing of international good practices

Co-operation with other SAIs

	 Inputs	 Processes
 Environmental Capital	Well maintained outdoor environment	Maintenance costs in 2020 <b>€5,081</b>
	Cost of utilities	Reduction of <b>31%</b> in utility costs in view of increased adoption of remote working (2019 – <b>€14,518</b> , 2020 – <b>€9,992</b> )
	Travel	Reduction of <b>80%</b> in travel costs due to the COVID-19 pandemic with video conferencing being used for those meetings that were not cancelled or postponed. (2019 – <b>€57,609</b> , 2020 – <b>€11,628</b> )
	Transport	Reduction of <b>19%</b> in transport costs due to decreased visits to auditee sites to abide by health authorities directives (2019 – <b>€18,137</b> 2020 – <b>€14,669</b> )
	Material and supplies	Reduction of <b>24%</b> in material and supplies costs due to increased remote working (2019 – <b>€4,655</b> 2020 – <b>€3,555</b> )
	Carbon footprint (emissions)	Reduction of around <b>25 tonnes</b> of CO <sub>2</sub> emissions in view of the increased adoption of remote working



### Outputs

Well maintained small gardens surrounding the Office

NAO's contribution towards the reduction of carbon emissions and better air quality



### Outcomes

More relaxing atmosphere for employees during work intervals

Remote working has enabled savings in certain running costs

Increased environmental responsibility

## Risks and Opportunities

### Risks

To further improve its performance in future, NAO assesses the risks arising from the external and internal environment affecting its ability to create further value.

The NAO acknowledges that at times pressure is exerted by the media, political parties, interest groups, the public, as well as other scrutineers on the NAO. The NAO will continue to address this external risk by carrying out its work with professional competence and due care, and by invariably maintaining the values of independence, integrity, transparency, accountability and ethical behaviour. Thus, the NAO will continue to strive to ensure in particular that it is free from any interests, be they political, institutional or otherwise, thus safeguarding complete independence.

Another external risk faced by the NAO is that, as time goes by, the Office is increasingly being asked to scrutinise new forms of commercial arrangements entered into for the delivery of public services and to carry out investigations that are of a complex, technical nature. Thus, it is imperative that the NAO be allowed the necessary financial resources to be able to improve on its other capitals in future including:

- ensuring the availability and retention of competent and experienced staff by offering them attractive remuneration and high quality professional development opportunities to maintain their competence, as well as an enabling work environment;
- investing in the latest auditing software and other related technologies;
- the exchange of audit knowledge and competences with foreign audit institutions; and
- issuing attractive and value adding audit reports and other assignments, as deemed necessary.

An internal risk faced by the NAO is that the Office fails to operate in a cohesive and collaborative

manner, hindering the attainment of optimal results. To address this risk, the Office strives to be a model employer, duly motivating and empowering staff, enabling them to excel in their respective roles as well as offering, as far as possible, attractive remuneration.

The pandemic brought about new work arrangements and working methods. The increase in remote working poses various challenges among which the risk of isolation, detachment and possible erosion of the sense of belonging and teamwork prevailing within the Office. To mitigate the risk, AG issues extensive weekly updates every Friday to all NAO staff. This ensures that all NAO employees are kept informed of all major initiatives and assignments being undertaken within the Office. Social updates are also included to maintain, as much as possible, the necessary interaction among staff.

Another internal risk faced by the NAO is the failure to innovate and embrace new opportunities. International auditing standards are updated on a regular basis and audit methodologies are enhanced, mainly through the use of technology. In addition, emerging issues of concern, such as the audit of COVID-19 related measures, audits on the effects of climate change and the use of data analytics software in audit, are very much debated in international fora. It is paramount that all NAO officials keep abreast with changes in the external and internal environment affecting the Office, as well as with the latest professional and technological developments for the early adoption of the latter by the NAO.

### Opportunities

The NAO's external and internal environments also present a number of opportunities, alongside risks. One of the opportunities provided to the NAO by the external environment is the possibility to leverage technology as much as possible to improve its audit processes, including the use of automated audits and data analytics software.

Another opportunity arising from developments in both the NAO's external and internal environments



consists in the prospect of an upgrade in the Office audit methodology to perform:

- financial audits of public sector accruals-based financial statements;
- audits of the COVID-19 pandemic; and
- investigations of complex arrangements.

The Office is also taking the opportunity from improvements in both its internal and external environments to enhance its reporting processes to include more infographics in reports and to produce video clips to accompany certain reports. The Office undertakes these initiatives to aid further comprehension of its reports, contribute towards clear and well-informed reports to Parliament and stimulate public debate. Other opportunities exist for the Office in terms of:

- increasing the NAO's collaboration with foreign Supreme Audit Institutions, given the currently widespread use of video conferencing, that has reduced the cost of travel and accommodation; and
- enhancing its relationship with the Public Accounts Committee to encourage review of a larger number of its audit reports.

## NAO 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, seven strategy action groups were set up to undertake the following assignments:

- Team A, led by Sharon Borg Finn – Identifying Best Sources of Information;
- Team B, led by William Peplow – Identification of Risk Areas/Selecting more relevant audit areas;
- Team C, led by Simon Vassallo – Opening of communication channels for selection of audit topics/Providing opportunities to the public and stakeholders;
- Team D, led by Ian Rizzo – SAI Performance Measurement Framework;
- Team E, led by Maressa Stivala – Feedback from auditees re: audit process and on auditors;
- Team F, led by Simon Camilleri – Promote NAO Reports through diverse media; and
- Senior Management – *ad hoc* sessions with Permanent Secretaries.

### *Team A, led by Sharon Borg Finn, Audit Manager, on "Identifying Best Sources of Information"*

Team A was established to achieve primarily strategic goal 1 "To contribute towards ensuring accountability in the use of public resources". The outcome of this group was to prepare an inventory of data/information sources to be used by NAO

auditors for risk analysis, audit selection, as well as the audit planning process itself.

A team of auditors from all units of the NAO, led by Sharon Borg Finn, Audit Manager, Financial and Compliance Audits Section, took on the task of compiling an Information Sources Register. Over the course of a couple of months, involving internal discussion, evaluation of feedback, but most importantly research of numerous sources, both in local and international fora, a methodology was created to capture the diverse forms of information.

Eventually, a template was created that was linked to the Classification of the Functions of Government (CoFoG). The template is in the process of being disseminated, accompanied with a set of guidelines for NAO auditors, for its use and maintenance.

*Team B, led by William Peplow, Senior Audit Manager, on “Identification of Risk Areas/Selecting more relevant audit areas”*

In line with the terms of reference outlined in Point B of the National Audit Office’s Action Plan, the primary aim of this paper was to propose a model to enable the selection of more relevant audit areas. This goal entails the consideration of the various risk elements, which are inherent within the various ministries, departments and governmental entities.

The benefits of developing such a model relate to the NAO increasing the rate of return on its work. An important by-product emanating from the development of this model includes the better governance of the planning cycle. Through this approach, the audit topic selection becomes more objective and transparent.

Within this context, Team B proposed that, at the strategic level, management is to set an overall direction and make the office a risk-enabled environment where risk assessment is part and parcel of audit planning and audit selection is made accordingly. This would necessitate the drafting of relevant policies and protocols in this

regard. At the operational level, a risk-based policy would be developed to support the NAO’s audit planning function by developing an audit universe, developing risk factors and relative weightings, and applying them to the subject areas identified in the audit universe.

*Team C, led by Simon Vassallo, Audit Manager on “Opening of communication channels for selection of audit topics/Providing opportunities to the public and stakeholders”*

Action Point C on the “Opening of communication channels with stakeholders”, led by Simon Vassallo, Manager, Performance Audits Section, identified the following key channels to communicate with stakeholders:

- submission of suggestions through the NAO website forms;
- more extensive use of e-mail; and
- more extensive use of social media.

Since all identified channels are dependent on electronic means of transmission, the action team listed and communicated the IT-related requirements of this action point to the IT Audits and Operations Section so that they are taken into consideration in the eventual acquisition of new software.

*Team D, led by Ian Rizzo, Manager Finance and Administration on “SAI Performance Measurement Framework”*

The fourth task of the NAO Action plan was commissioned by Senior Management in 2019 to an internally appointed team to conduct a self-assessment of the Office performance based on the methodology established by the INTOSAI SAI-PMF framework.

The SAI-PMF framework, which was launched by the INTOSAI Working Group on the Value and Benefits of Supreme Audit Institutions at the INTOSAI XXIII Congress in Abu Dhabi in 2016, was designed as a multi-purpose, universal framework that could be applied to all types of Supreme Audit Institutions

(SAIs), regardless of governance structures, mandate, national context and development levels.

The framework seeks to assess the performance of SAIs with a complex set of interrelated domains, indicators, dimensions and criteria that are based on documented evidence and translated into a standardised numerical scoring. This ensures that the measured performance of the SAI can be compared across different periods of time and/or with different supreme audit institutions.

The appointed internal team was made up of the Manager, Finance and Administration, Ian Rizzo, who was designated as Team Leader, two audit managers, Josephine Vella and Mr Bonavia, as co-team leaders, and four principal auditors. All the team members had over ten years of experience working in the auditing environment. Five members of the team are Certified Public Accountants with an audit practicing certificate. Mr Rizzo and one of the other Audit Managers in the team, Orland Bonavia, received basic training on the SAI-PMF framework in Madrid and Oslo, respectively.

The assessment conducted by the SAI-PMF team covered all the six domains set out in the SAI-PMF framework:

- Independence and Legal Framework;
- Internal Governance and Ethics;
- Audit Quality and Reporting;
- Financial Management, Assets and Support Services;
- Human Resources and Training; and
- Communication and Stakeholder Engagement.

The assessment was based on the NAO's legal and institutional framework, its internal organisational systems, and on its professional staff capacity prevailing during the period the assessment was carried out, i.e. from May 2019 to December 2020. In addition, a review of the digital files containing audit working papers relating to a sample of audits carried out in 2019 was undertaken to assess the quality of the audit and reporting methodologies employed in these audits.

The SAI-PMF team presented the first draft of the report to senior management on 23 December 2020.

The report identified many opportunities for improvement across these six domains, particularly relating to enhanced capacity development, strategic planning, and audit quality processes. The report also highlighted many areas where the performance of the office could be strengthened and monitored to ensure that the Office becomes more accountable, transparent and relevant to society, while serving as a model organisation in the public sector that leads by example.

Discussions of the report will continue in 2021 between the SAI-PMF team and Senior Management.

*Team E, led by Maressa Stivala, Audit Manager, on "Feedback from auditees re: audit process and on auditors"*

The action point team E on "Feedback from Auditees re: Audit Process and On Auditors", led by Maressa Stivala, Audit Manager, Special Audits and Investigations Section, was tasked to compile a survey to acquire feedback from auditees to improve the Office's performance. Work on the compilation of this survey was completed in 2019.

Feedback from auditees will be sought on aspects of the audit process related to planning, communication and execution; findings, recommendations and reporting; and performance of the audit team. The action point team also prepared a procedure manual to serve as a guide on the distribution of the feedback survey and the storage of the data received.

On 16 October, the action point team presented the compiled documentation to the NAO's middle management and finalised the survey and procedure manual through the feedback provided. This feedback was mostly intended to ensure the utmost clarity and conciseness of the survey in a bid to increase survey response rates. Since January 2021, the survey started being submitted to key stakeholders of published audit reports.

*Team F, led by Simon Camilleri, Manager, IT and Operations, on “Promote NAO Reports through diverse media”*

#### NAO social media pages and the NAO website

At the start of 2020, Team F, led by Simon Camilleri, Manager, IT Audits and Operations Section, on “Promote NAO Reports through diverse media” launched a new NAO LinkedIn page as another communication channel for the NAO’s reports, along with its existing NAO Facebook page and the NAO Website.

The team also analysed the results of a survey they conducted among the members of the Action Point teams on the revamp of the NAO website and a costing exercise was performed.

#### Video clips covering NAO publications and events

In 2020, for the first time ever, the NAO launched short video clips giving an overview of two of its reports tabled in Parliament. The video clips were produced in-house by the IT Audits and Operations Section and could be accessed from the NAO website and the NAO Facebook and LinkedIn pages.

These reports were:

- *Performance Audit: Community care for older persons; and*
- *Annual Report and Financial Statements of the National Audit Office – 2019.*

Apart from these video clips, the NAO social media pages also included video clips supplied by third parties with the following titles:

- *Sharing of experiences by Charles Deguara, Auditor General, NAO Malta, in video produced by SAI Slovakia; and*
- *Il-President Dr George Vella jżur l-Uffiċċju Nazzjonali tal-Verifika.*

#### *Senior Management - ad hoc sessions with Permanent Secretaries*

Senior Management started to undertake periodic, *ad hoc* sessions with Permanent Secretaries during the last quarter of 2019 to discuss ongoing and planned audits to make the Permanent Secretaries aware of these audits and to discuss any related issues or concerns. In view of the COVID-19 pandemic, these were, however, put on hold but were restarted in February 2021.

## ***Planning Authority unable to provide documents on specific direct orders – NAO***

### ***Audit Office issues report on planning regulator’s information technology setup***

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The Planning Authority was not able to provide key documentation on specific direct orders to the National Audit Office, a report auditing the planning regulator’s core information technology functions has found.

While an overall ICT strategy was lacking, the audit office recommended that a formal strategic plan for all its information technology solutions be drafted “in the coming years”.

The audit office found that the PA’s document management relating to direct orders “deviated from generally accepted practices” and when requesting key documentation on a specific direct order, the information was not made available to the NAO. The review could not determine whether it was misplaced or had simply not been compiled.

**Times of Malta – 9.11.2020**

# PART THREE



# Financial and Compliance Audits

Annual Report on Public Accounts

Audit Opinion on Financial Statements of Government

Audit Opinion on Compliance Audits

15

Financial and Compliance Audits in Government Departments in 15 Ministries

23

Financial and Compliance Audits in Government Entities in 15 Ministries

300+

recommendations in Financial and Compliance Audits

8

previous year audits followed up

56

recommendations followed up of which

36

were fully implemented or significant progress made, 11 were partly implemented, and 9 were not implemented

## Report on Local Government

61

(out of 68) Local Councils Audited

5

Regional Councils Audited

1

Local Councils Association Audited

1,600+

recommendations

Government departments, ministries and entities are audited according to a pre-set plan, along with local government.

### Focus on risk and materiality

The benefits of scoping prior to conducting every audit have yielded the desired results, with no fewer than 40 audits being completed in 2020 – most of which with both the Office and the auditee being on lockdown.

The Section is addressing difficulties it is finding when focusing on risk and materiality. If it had to focus solely on materiality, it would mainly look at personal emoluments; other risky areas at times result in some overlap with other sections on certain subjects. The three-year audit plans being developed and greater co-ordination enable the Section to be more flexible and agile to ensure it has enough entities to audit.

### Ongoing challenge

The Section continued to break barriers following the merger of two units within the Financial and Compliance Audit Sections in mid-2018.

In 2020, the staff was increasingly shuffled around, which served as a positive experience. In the majority of cases, staff shared its knowledge and experience; even experience in a wider context, learning how to work smarter and get better results.

### Pandemic challenges

Personal contact between staff and colleagues during the pandemic was a challenge. Staff needed to be more specific about information they were requesting from auditees and there was no possibility in a virtual environment to browse through files that would give hints of certain issues.

Communication skills had to be honed and the use of IT, including online meetings and access to the files through the Virtual Private Network, got better as the year progressed. While certain work can be done remotely even after the pandemic, it is essential for the auditor to be present at the auditee at key stages of the audits.

Many members of the team worked well and went the extra mile. However, several problems were

encountered with auditees, especially since they were also undergoing the change-over to the new Corporate Financial Management System (CFMS), which affected the audit process.

Logistical issues were met, especially where auditees were in the frontline of battling the pandemic. Still, the Section coped and produced its outstanding results without major hiccups.

### Other local input

With the introduction of CFMS in the Public Service, IPSAS (International Public Sector Accounting Standards) took a back seat in 2020. The IPSAS Implementation Project Board, which is responsible for the strategic direction and overall management of IPSAS implementation across Government ministries and departments, and of which the AAG forms part, only met once. This was an update meeting in October at the Treasury to take stock of the situation and clarify what the Board was expecting, according to the progress made.

### Local Council audits

Five separate audit firms were subcontracted to carry out the audits of the 68 local councils, five regional committees and the Local Council Association.

Each year, the audit firms have a tight nine-week deadline within which to audit the 14-15 councils in each respective region, with the audited accounts to be presented by the end of April.

In 2020, improvement was noted in the accounts prepared by a number of councils that were determined to produce a better result. Despite the Office's efforts and appeals to certain councils, certain issues remain pending year after year. Admittedly, some issues are not the councils' fault, but the audit opinion of the respective financial statements still have to be qualified.

A matter of concern is that some councils rely on the auditors to pass on adjustments to the

accounts, when this should be done by the Councils' accountants. Also, certain Councils do not even bother to send a reply to the Management Letter, this being one of the reasons why they do not take the NAO's recommendations on board. Such a situation is unacceptable to the NAO.

On the financial statements of 2018, the auditors made more than 1,600 recommendations, of which 31% (less than 500) were implemented by the end of 2019. The Local Councils Good Governance Working Group is trying to gradually address these pending issues.

### International audits

Ms Tanya Mercieca, AAG, is a member of the Audit Board of Eurocontrol, the entity that helps the EU Member States run safe, efficient and environmentally friendly air traffic operations throughout the European Region. In 2020 no meetings were held in person but the Board had to meet virtually notwithstanding that this does not have the same effect.

The same applies to the European Institute for Security Studies, of which Ms Mercieca is an auditor. Audits are presented around June with work normally being held between March and June. Without a system to review documents remotely, the auditors have to visit the premises in Paris to carry out the necessary verifications.

With travel not being possible, the deadline for the 2019 audit was first extended to the end of 2020 and now to June 2021, when the auditors now have to audit both the 2019 and 2020 figures. On top of that, EU-funded projects also need to be audited, making the current deadline more difficult to be met.

A team of three is meant to carry out this audit but for the last three years it was down to two after the third resigned in 2017. Since then, the appointment term of the other auditor expired last year. Although a further two auditors have since been appointed, they have yet to meet in person.

## ***Auditor General points to breach of procurement regulations by local councils***

### **Lack of interest in NAO's recommendations 'unacceptable'**

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Throughout 2019, local councils did not always acquire goods and services in adherence with procurement regulations, the National Audit Office (NAO) has noted in its latest report, where the issue is listed as a weakness identified in its findings.

In the annual report on workings of local government for 2019, noted that goods and services were "not always acquired in line with the procurement regulations" and were "either purchased directly from the open market, despite exceeding the established threshold, or procured under an expired agreement".

**The Shift News 2/12/2020**



# Performance/Value for Money Audits

6

performance audits of which one standalone follow-up audit report in areas of health, economic affairs and social protection

41

recommendations in performance audits from five original performance audits

17

recommendations were followed up in the standalone performance audit follow-up report

7

recommendations were fully implemented, 3 recommendations were partly implemented, and 7 were not implemented

4

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

36

recommendations were followed up of which

22

were fully implemented, 12 were partly implemented and 2 not implemented

All areas of government activity are subject to NAO's mandate for performance auditing to ensure specific activities, programmes, initiatives and systems are run in an economic, efficient and effective manner. The Assistant Auditor General of the Performance Audits Section serves also as the NAO's liaison officer for international relations.

## Performance audit work

### *Output*

In a year dominated by the COVID-19 pandemic, the Performance Audits Section not only embraced new work practices both in terms of internal collaboration and interaction with auditees but also in terms of its final output, exceeding the targets set out in its annual audit plan.

The Section published six stand-alone reports in 2020. Two of these reports were prepared following a PAC request and a request from the general public. Four other follow-up reports were published together in a single consolidated report. The Section also contributed a chapter to the IT audit on the Planning Authority Document Management System, following another request from the general public.

### *The virtual environment*

Practically all the Section's staff worked from home from the middle of March to the end of June. They then started working from the Office two or three times a week, or as needed, and, eventually, all Sections had to work from the Office at least once a week, or according to need.

There was full co-operation from auditees during the meetings that were held in a virtual environment, although a few meetings did take place face to face. The system worked well.

### *Audit selection*

A database on potential subject audit areas is periodically updated by the Section's Assistant Auditor General mainly through press, television and social media scanning, along with suggestions from Section managers and other Section staff. The Section's methodology in audit selection is then based on two sets of criteria. The first is selecting audit areas on the basis of their social and/or financial materiality, their potential to address citizen concerns, and the extent of interest to parliament, Government and the media, among

others. Suggestions from senior management are also taken into account.

Once a shortlist is drawn up, it is weighed against a second set of criteria based on CoFoG (Classification of Function of Government) to try to ensure that, within an established time horizon, specific CoFoG areas are included in the list according to NAO's priority given to each of these areas.

### *Audit approach*

The Section uses what is referred to as the 'Issue Analysis Drawing Conclusions' audit approach in its work. This is a tool that is applied at two key stages within the performance audit process – to optimise the way the audit is defined and objectives are set (Issue Analysis) and the way the audit is reported upon (Drawing Conclusions).

### *ISSAIs*

The audit methodology used is in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), issued by INTOSAI (the International Organisation of Supreme Audit Institutions), and this is specifically stated in the performance audit reports. ISSAI 3000 is particularly relevant to performance auditing, with a series of ISSAIs related to 'Disaster Recovery' being referred to in the current pandemic in audits related to COVID-19.

### *Action Teams relating to NAO's Strategy*

William Peplow, the Section's Senior Audit Manager, is heading an action team that last year registered significant progress on the Identification of Risk Areas; Selecting More Relevant Audit Topics. Simon Vassallo, the other Section's Audit Manager, is leading an action team working on Opening of Communication Channels for Selection of Audit Topics, Providing Opportunities to the Public and Stakeholders.

*Challenges overcome*

With all the staff working online, the remote working environment presented its challenges. There were various virtual meetings with the managers, who in turn were holding numerous meetings with their teams. The installation of VPN (virtual private network) for all audit staff enabled them to access electronic folders remotely.

The staff adapted extremely well to the situation, as can be seen from the increased productivity. There was good communication between the managers and their staff. In pre-COVID times, more emphasis was placed on the review of hard copies of documents and inspections of the physical environment. However, as a result of the pandemic, NAO auditors placed greater reliance on scanned documentation while taking into account auditee explanations, with efforts made, as far as possible, to corroborate that information with alternative sources of evidence.

Meetings with auditees were also held online, mainly on Microsoft Teams. There were no significant problems and the Office did not experience extraordinary delays, with auditees being forthcoming and co-operative. Certain audits that required close contact with auditees were postponed, and these were replaced with other audits. Alternatively, the logistics of the audits would be changed, with a greater reliance on scanned documents and virtual meetings.

Communication between members of staff and the general esprit de corps may have suffered, especially communication between the staff of different sections.

This was partly addressed with weekly updates from the Auditor General. Also, because of the quantity of online meetings, there was a greater focus on the subject of the meeting, with the tendency to cut to the chase and be more focused.

*Other activities**New initiatives*

The Assistant Auditor General and Section managers started discussing how to improve the Section's quality control system. Preliminary work also started on updating the audit manual.

*Co-operation with tertiary education institutions*

The Senior Audit Manager mentored two students reading for a Masters in Accountancy. These lectures related to principles of cost-efficiency and cost-effectiveness and how to measure them.

During the year, the Assistant Auditor General and the Senior Audit Manager also held a number of interviews with UoM students in connection with the students' dissertations.

*International Relations**Co-operation with international institutions*

The Section helps to co-ordinate the Office's activities with other SAIs, particularly those within EU Member States, the European Court of Auditors (ECA), INTOSAI, and the European Organisation of Supreme Audit Institutions (EUROSAI), as well as related Working Groups, Task Forces and Networks.

Practically all physical meetings were cancelled last year because of the pandemic. Meetings of the EU Contact Committee were largely postponed to 2021, though the activities of a number of working groups continued. Replacing physical meetings, several webinars were held by both INTOSAI and EUROSAI.

The area in which the Performance Audits Section was most active was that related to the environment, since one of the audits related to plastic waste. This

was a EUROSAI Working Group on Environmental Auditing co-operative audit that involved 12 countries, including Malta. The Country Report for Malta was published in February 2021 and the Section will be contributing to the aggregated report of the 12 countries involved, expected to be published in the early part of 2022.

#### *ECA NAO seminar*

Mr William Peplow delivered a presentation on the NAO's plans to audit COVID-19-related measures, as well as on Office efforts to ensure business continuity in this difficult time, during the annual joint seminar of the European Court of Auditors and the NAO.

#### *Bilateral meetings with other SAIs*

The bilateral meeting in Malta with the Finnish SAI was held in January, in which the Auditor General of Finland delivered a keynote presentation on 'Current Trends in Public Audit – A Global Perspective'. Another bilateral co-operation visit in Malta, arising as a result of the official visit by the AG and the DAG to the State Audit Office of Croatia in January, was held with two officials from this Office the following month to discuss with our staff within the Financial and Compliance Audits Section their use of the audit management system.

Bilateral exchange visits with the Slovenian SAI, as well as meetings with other SAIs, had to be cancelled or postponed due to the pandemic.

## ***Audit Office questions regularity of ITS site transfer process***

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The National Audit Office (NAO) has raised doubts on the regularity of the request for proposals issued by the government for the transfer of land on which the Institute of Tourism Studies was located in St George's Bay.

The land had been controversially handed to the DB Group, which plans to build a huge mixed-used complex including a hotel, leisure, retail and residential facilities.

In a report, the NAO said that it had been unable to establish where in government the decision to dispose of the site had come from, with no information provided and the Office of the Prime Minister and the Tourism Ministry each assigning responsibility to the other.

***Times of Malta 25.3.2020***

# Special Audits and Investigations

3

investigations including  
an addendum

2

Special Audits

2

recommendations made in a  
Special Audit

## Areas of Special Audits and Investigations

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Housing and Community Amenities

General public services

Health

Economic affairs

The primary focus is on audits requested by the Public Accounts Committee, the Minister responsible for Finance or the Minister for Local Government. It also conducts other audits and assignment on its own initiative and has worked closely with the INTOSAI Development Initiative (IDI) to assist other Supreme Audit Institutions in developing countries.

## Current focus

The two reports that occupied the majority of the Section's resources in 2019 and were completed in 2020 were: the audit on the disposal of the site in Pembroke formerly occupied by the Institute of Tourism Studies; and the concession awarded to Vitals Global Healthcare for the management of three hospitals. The latter represents the first part of the NAO's extensive review of this health concession, focusing on the procurement process that led to its award.

Another major audit – a first for NAO Malta – that began in 2019 and was completed in 2020 was on the first of the United Nations Sustainable Development Goals (SDGs), relating to poverty. It is envisaged that other SDG audits will be included in the Section's audit plans.

An interesting audit that focused on the ethical framework that guides public employees was also completed in 2020. This audit forms part of a series of reports intended to highlight the importance of ethical conduct within the public sector. The next report in this series is scheduled for 2021.

On the international front, a team from the NAO conducted an audit, on behalf of the Board of Auditors, of the governance of the European Stability Mechanism's internal committees.

Among the initiatives with IDI was the development of a training module and its delivery in relation to SDG 3d, which focuses on strengthening the capacity of all countries, in particular developing countries, for early warning, risk reduction and management of national and global health risks. The Section also started providing mentorship to other SAIs, mainly based in Asia, on the audit of SDG 3d. This is expected to continue into 2021.

The Section contributed to the EUROSAI Task Force on Audit and Ethics and also completed its review on the local legislation related to the NAO, making its suggestions on updates needed both in the Constitution and in the Auditor General and National Audit Office Act.

## Operational challenges

The Section adapted quickly to the overnight switch to remote working, learning very much by doing, and adopting new work practices that are to be retained even after the pandemic. The use of virtual meeting software instilled a sense of discipline, since the non-verbal cues enabling people to interrupt are no longer there. Some tasks, including the scanning of documents, still necessitated having a presence at the office.

The Section was in the process of concluding the report on the former ITS site when the shift towards remote working took place. Instead of reviewing the report at the office, it was all done remotely, sharing the document and checking source documents and other material.

For assignments that started after the staff started working remotely, co-ordinating how the team was to work separately and then how to combine the work done and co-ordinate the output together was a challenge. This was the case with the VGH report, issued in July 2020, which was both initiated in part remotely and finalised remotely.

The audit of the SDG on poverty involved many stakeholders, apart from employing data analytics to review the EU-SILC data that focuses on severe material deprivation and the at risk of poverty and social exclusion elements of society. The bulk of the work was conducted during the pandemic.

Interviews were held with the nominated representatives of seven government ministries to gain an insight into:

- the governance structures and policy frameworks in place to support Government efforts aimed at alleviating poverty, with particular attention to the consideration of the whole of government approach and policy coherence;
- stakeholder engagement in drafting policy; and
- how the needs of vulnerable groups were addressed by Government.

Information on measures, projects and initiatives undertaken in 2018 with the objective of alleviating poverty, whether directly or indirectly, was obtained from eight ministries. An interview was also held with officials from the National Statistics Office to better understand the data collection and reporting mechanisms in place for the measurement of poverty.

Four focus groups were held – all remotely – with 19 NGOs and six academics to:

- gain a greater insight into the realities of poverty;
- obtain these stakeholders' views on the positive efforts undertaken by Government; and
- any perceived shortcomings and recommendations necessary to address them.

As expected, analysing and reporting on all this extensive feedback proved an extremely laborious and challenging task.

Finally, written contributions on the effectiveness of Government's efforts to alleviate poverty and recommendations for future action were sought from nine governmental entities and seven commissions operating within the humanitarian and social sector.

Poverty is an important national issue that triggered a lot of debate among the public and the Section plans to start working on the audit of another SDG in 2021.

## International initiatives

The Section, particularly Keith Mericeca, Assistant Auditor General, and Rebecca Vassallo, Principal Auditor, assisted IDI in developing and delivering a training model for other SAIs to follow to skill their auditors in the auditing of SDG 3d. There were several sessions of training delivered over a span of months and each SAI had its own part to deliver. Everything was delivered remotely.

There were between 30 and 60 participants in the audience for each training session. The training was designed in an interactive way to enable participants to put into practice the points that were being conveyed.

The contribution over several years to EUROSAI's Task Force on Audit and Ethics is drawing to a close. Each SAI in the region took part in the survey on their level of preparedness on ethics – how often SAIs update their ethical codes, and whether their ethical codes are robust and comprehensive. Over 30 replies (including that from Malta) were analysed.

## NAO legislation

Although the NAO has been reviewing its legislation over a number of years, in 2020 it made submissions to the Office of the President of Malta on the changes it feels are needed to the Constitution. Then, midway through 2020, it delivered a document to the Ministry of Justice on the updating needed in the Auditor General and National Audit Office Act.

The Auditor General and other officers who led this process held a meeting with the Minister and the State Advocate in November in which they discussed these important revisions, intended to strengthen the Office and adapt the Office to the new realities of auditing a Public Service that has changed over the years. So, the NAO needs to change the way it audits the Public Service too.

## ESM audit

Two members of the Section, led by the Assistant Auditor General, and an auditor from the Financial and Compliance Audits Section audited the governance structures of the ESM's internal committees. Although the team travelled to Luxembourg to scope the audit, all remaining audit work was conducted online.

This was a great experience that put a positive spotlight on the NAO and the way it works. The Board of Auditors, which commissioned the audit, received the report well and all recommendations were accepted by management.

### Other developments

With the huge workload the Section faced in the past few years in terms of audits being referred to

it by the Public Accounts Committee almost fully addressed, two auditors who had been seconded from another Section returned to their previous Section.

Feedback was provided to the Lands Authority on the proposed mechanism regulating tenders for the disposal of public land under title of temporary emphyteusis. Several proposals were also made to the Office of the Commissioner for Standards in Public Life regarding the regulation of lobbying.

## ***€5.1 billion in government arrears flagged by Auditor General***

### State has billions in 'uncollectable' debts

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An audit of Malta's public service has uncovered a litany of administrative shortcomings and flagged arrears of €5.1 billion.

The report by auditor-general details shortcomings in more than a dozen entities, from the financial regulator to the police, state hospitals, and even overseas embassies.

The 300-page report is based on an in-depth analysis of a 2019 financial report submitted to parliament by the accountant general last year.

The findings come from 38 reports on the operations of several government departments and entities that form part of the Auditor General's annual audit report.

**Times of Malta – 9.12.2020**



# IT Audits and Operations

**3**

IT Audits

**57**

recommendations made on areas of IT Audits – Housing and Community Amenities and Economic Affairs

**2**

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

**29**

recommendations were followed up

**21**

were fully implemented, **4** partly implemented and **4** not implemented

Among the Section's responsibilities are internal IT operations, conducting IT audits in the Public Service and state agencies, and providing graphic design and desktop publishing services to the Office.

## Overnight shift

The onset of the COVID-19 pandemic, with the first national lockdown in March 2020, meant most members of staff made an overnight shift to remote working. This transition necessitated some investment in hardware and software, but also a change in the way staff worked, collaborated and conducted their day-to-day duties.

The infrastructural changes that were introduced facilitated:

- teleworking in a secure fashion, while maintaining e-filing procedures wherever the work location;
- continuity of intra-office communications while teleworking;
- teleconferencing facilities for online meetings at the NAO offices; and
- widespread use of collaborative tools for conducting online meetings.

The Office received a grant of €10,000 from INTOSAI (International Organisation of Supreme Audit Institutions) to partly fund the additional IT requirements needed to address the challenges of the COVID-19 pandemic. These requirements included the installation of an additional server to provide Virtual Private Network (VPN) access to staff and an upgrade to the existing Human Resources Management System to provide NAO teleworkers with the facility of remote clocking and access to the new leave module over the Internet. The VPN access ensured continued adherence to existing e-filing and central backup procedures.

Another challenge was communication. This was overcome with the use of collaboration platforms. One of the major headaches was that a large number of audits were at different phases of completion. Yet, the staff rose to the occasion and not only used the new and existing technology to access systems but also to collaborate through sharing of screens, enabling the Office to develop a new way of working.

The Office Internet bandwidth requirements were addressed to increase connectivity at the NAO's premises, especially when there was a higher

demand nationally. Still, people went on with their work and they delivered. On a positive note, wherever support was sought, it was forthcoming and there was a general feeling of collegiality.

Staff were also putting in their hours outside the normal 9 to 5 because they were either having to look after their children and/or elderly relatives. So, although everyone was facing a difficult situation, productivity remained high. With the psychological impact of the pandemic, there was a certain esprit de corps, with staff feeling the need to check in on each other and support one another.

The switch to teleworking led to an increased workload in the Unit. The support element for the NAO's staff increased. The delineation of roles within the team also got a bit fuzzy during the pandemic. When someone was not available, other members of the team were ready to step in immediately, if they knew how to address the query and felt responsible enough.

## IT audits

Three audits were conducted in 2020, along with two follow-up audits. One of the three IT audits, on the local councils, was also covered internationally in two EUROSAI (European Organisation of Supreme Audit Institutions) journals, the EUROSAI Task Force for Municipality Audit April-June 2020 newsletter, page 12 ([https://www.vkontrola.lt/tf/files/files/3rd%20newsletter\\_FINAL\\_07-29.pdf](https://www.vkontrola.lt/tf/files/files/3rd%20newsletter_FINAL_07-29.pdf)) and the EUROSAI IT Working Group 1/2020 newsletter (<https://eurosai-it.org/news/newsletter/1-2020/membersnews/malta-ict-across-local-councils>).

The first was thanks to the participation of two NAO executives on the EUROSAI Task Force for Municipality Audit, Tanya Mercieca and Maria Ferriggi, who suggested the article be submitted to the Auditor General during his weekly briefing on the audit reports that the NAO is working on. The second is due to the participation of the IT Manager on the EUROSAI IT Working Group, which had been hosted in Malta in 2019.

Of the three IT audits, that of the local councils was completed before March, the second on the Planning Authority was held during the first lockdown, with the clarification meetings being conducted remotely.

The third, on the former Malta Industrial Parks (today Indis Malta Ltd), was mostly online, with some one-to-one meetings in person. It is interesting to note that both the PA and MIP were well equipped infrastructurally to cope with remote working.

The two follow-up audits, on the Commerce Department and Jobsplus, were a mix between in-person and virtual.

## Communications

The IT Audits and Operations Section was responsible for all the logistical work related to the publication of a record 19 NAO reports in 2020, including the Annual Report and Financial Statements, the audit report on all the local councils, regional councils and the Association of Local Councils, and the various Sections' audit reports. The publication work included:

- graphic design and desktop publishing;
- uploading of reports and press releases on the NAO website, LinkedIn and Facebook pages; and
- in-house production of two short video clips, in line with NAO's strategic objectives.

The first video clip produced in-house provided an overview of the NAO Value for Money audit on community services for the elderly. This was an absolute first and was met with high media

coverage; so much so, it was even featured in the TVM evening news (<https://www.tvm.com.mt/mt/news/kif-jahsbuha-l-anzjani-dwar-is-servizzi-mid-dipartiment-tal-anzjanita-attiva-u-kura-fil-komunita/>).

The second in-house video clip covered the NAO Annual Report and attracted 502 hits on the NAO Facebook page. This video was produced both in English and Maltese, and was designed differently from the first video.

The Section conducted a mini-survey for the teams entrusted with outlining the NAO's strategy in which they were asked: what aspects are you discussing and proposing that can be transferred to a website or for which you would require a website to handle? Along with other internal requirements, one of the issues raised was on how to make the website more interactive.

Work also started in 2020 to update the palette of graphic images used in the infographics, which are making NAO reports much more visual and easily understood.

## EUROSAI IT Working Group events

A representative of the IT Audits and Operations Section participated in the first EUROSAI Hackathon event in Prague in March 2021. The Unit also participated in the EUROSAI IT Working Group seminar, held in November, as well as training events organised by third parties on Cybersecurity, AI, Cloud Management, Audit Management Systems and a walkthrough of the Government's new Corporate Financial Management Solution (CFMS).

# Finance and Administration

## Expenditure



**€2,760,918**

spent on salaries and social security contributions



**€413,199**



spent on administrative and other overheads



**€293,885**



spent on subcontracted audit fees of local councils

## Assets



**€649,092**

Total assets under administration



**€438,353**

non current assets (at net book value)



**€210,739**

Current Assets

**€437,949**

Current Liabilities



The Finance and Administration Section is responsible for NAO's accounting and Human Resources Management system, and the provision of all type of administrative support.

## Financial activity

The Finance and Administration Section ensures that the operating and capital expenditure falls in line with the amount allocated and authorised by the House of Representatives to the National Audit Office.

In financial year 2020, NAO withdrew €3.6 million from the €3.8 million that was allocated in the 2020 Budgetary estimates. This resulted in the undrawn amount of €200,000 being registered as savings to the Government. A surplus of €87,304 was achieved at the end of financial year 2020.

The operating expenditure consists mainly of salaries (80%), subcontracted fees for the audits of the local councils (8%) and administrative expenditure (12%). Due to the COVID-19 pandemic, some administrative costs, such as utilities, materials and supplies, information services, transport costs and hospitality, dropped significantly when compared to the prior year. Particularly significant in reductions were attendance of overseas seminars and local training, which had to adapt to virtual modes of engagement. All in all, administrative overheads dropped by €68,460 during the year.

The Office commenced the financial year 2020 with 61 employees. Three employees who were recruited in 2019, joined the Office in January 2020, increasing the staff complement to 64 persons. The full-time equivalent is 58 persons due to 30% of the workforce working on a reduced-hours schedule and flexible work arrangements. Only one person resigned during the year.

The COVID-19 pandemic also led the Office to promote further the option of home working among staff, as encouraged by the Government to limit possible contagious contact. The Finance and Administration Section introduced a new system of remoting clocking for staff to enable the time-recording system to adapt to the increased use of remote working facilities. This innovation formed part of the successful transition of the HRMS system from the local servers to the Cloud web-based platform that became fully functional by November 2020.

## Capital expenditure

The refurbishment of the NAO's main office continued apace in early 2020 with the lower left wing of the main building being fully refurbished.

The upgrades include a standard look and feel throughout, promoting a more homely environment with high quality apertures, new desks, a consistent use of colour and refreshed electricals.

Only some of the offices of the top floor and the conference facilities of the main building remain left to be refurbished.

However, in 2021, the Office will be concentrating on a planned capital project that consists of the construction of a two-storey building opposite the main building with underground basement for car spaces and storage facilities.

The project which is estimated to cost €1.57 million (excluding VAT) and which will take two years to complete (2022-2023) has yet to be approved by the Ministry for Finance and the NAO Accounts Committee later this year.

The Ministry for Finance has already allocated €200,000 in 2019 and €100,000 in 2020 to assist the Office undertake the necessary geological studies and proceed with the permits' approval from PA.

The Office is in the process of finalising the designs and applying for the required building permits.

The Office urgently requires these new premises as it does not have any facilities to house all staff in one single location for training or meeting purposes. The Office also requires adequate office space for recruitment of additional staff that will surely be required in view of additional work carried out by the NAO.

## COVID-19 provisions

Two major ICT investments were undertaken during the year to ensure that the Office could continue

to function uninterruptedly with staff working remotely from home during the pandemic.

An additional server was purchased to allow staff VPN access to shared folders on the server and ensure back-up of data in the same file location. Part of the cost of the server was subsidised by a grant from INTOSAI, following an application by the Finance and Administration Manager.

A new PABX telephone system was procured by the Finance and Administration Section in conjunction with the IT Department to enable the diversion of office calls to the individual's mobile or PC. It is currently being configured with MITA and the supplier.

### Data Protection

The F&A Section has continued with its drive to ensure compliance of data retention, both for audit and administrative purposes with the GDPR legislation. The F&A Section continues to stress with Managers the need to declare any personal data that is collected for audit purposes. To this effect, an inventory of data is being built to further collaboration across the Office on this matter.

The F&A Section has digitised all staff personal files and commenced the process of removing any unwanted personal documents and data from these files.

### Staff training

The F&A Section provided the necessary logistical arrangements and co-ordination for two training initiatives that were undertaken in 2020. These consisted of a week's training provided on the Corporate Financial Management System (which will be replacing DAS and introduce accrual-based reporting to Government) and the annual joint NAO-ECA Conference.

### Equality Mark

Following the introduction of two policies on equality and sexual harassment in February 2020 and an application with the NCPE to be recognised as an equal rights employer, the NAO was awarded use of the Equality Mark logo in July 2020 for a period of two years, subject to a review and renewal process.

As stipulated in the policies, the Office set up an Equality Committee to deal with any cases that could possibly arise on discrimination or sexual harassment. The Committee is made up of Tanya Mercieca (AAG, F&C, Chairperson), Simon Camilleri (Manager IT) and Josephine Vella (Audit Manager – SA&I).

The successful application for the Equality Mark was aided by the NAO's Collective Agreement (2017-2024), which offers a large number of family friendly measures.

### SAI-PMF

The Manager Finance and Administration Section led a team of six persons that concluded the Action Point on the SAI-PMF performance assessment in December 2020. A first draft report was presented to Management on 23 December 2020. Discussions with management are ongoing.

In the SAI-PMF exercise, the F&A Section obtained a satisfactory score on financial management. The main contributor for this is the robustness of its accounting and HR systems, which provide adequate financial information, and the NAO's financial statements being audited by an independent external auditor as appointed by the National Audit Office Accounts Committee.

The Office has always received an unqualified opinion on its financial statements, while no management letters have been issued in the past years. There remains, though, much scope for further improvement in the human resources and professional learning development function, whose responsibilities need to be more clearly assigned and delegated to the Section.

# Concluding Notes

In conclusion, NAO describes its outlook for the future as well as states the basis for preparation of this Report.

## Outlook

NAO aspires to remain an SAI of a reputable standing within the EUROSAI and INTOSAI communities. This will be possible through ongoing collaboration and exchange of audit experience both on a bilateral level with other SAIs as well as on a multilateral one within the ambit of other international public sector auditing bodies.

The audit methodology will also be enhanced by:

- always ensuring effective planning, high quality evidence collection and analysis, appropriate reporting and follow-up processes;
- keeping abreast of professional developments and contributing to their development by commenting on Exposure Drafts to new professional standards;
- embracing technological advances to facilitate the audit process;
- availing ourselves of the media, internet and social media to further publicise our reports; and
- periodically reviewing our procedures manuals to implement new developments.



The Office's reporting will continue to be enhanced to serve as an ongoing catalyst for change, leading to good governance across the public sector. This aim is achieved through formulating appropriate, achievable, realistic and cost-effective audit recommendations in our audit reports, intended to address issues identified during audit assignments. The Office encourages their timely implementation to increase the value added of state audit.

The NAO is also committed to continue its capacity building process by continuing to provide a professional working environment conducive to teamwork, collaboration, motivation and empowerment, and attractive working conditions for its staff, especially in future negotiations of collective agreements.

NAO has also presented proposed changes to the Constitution and to the Auditor General and National Audit Office Act to have the necessary tools and facilities, especially when there is an alleged serious breach of ethical conduct or alleged fraud and corruption. This will in future also increase the value added from state audit.

The NAO concludes that funds invested in its operations will ultimately result in substantial cost savings as well as increased revenue, transparency in the public sector, and the promotion of the judicious and accountable use of public funds. In addition, ensuring that the Office is in a strong position to act as the guardian of the public purse will ultimately prove beneficial and in the best interests of society.

#### Basis for preparation and presentation

We have undertaken due professional care to report on the material events and activities of the National Audit Office. 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 which in our opinion were deemed critical to contributing to enhancing transparency, accountability and value added yielded from state audit.



# PART FOUR



# Annual Report and Financial Statements

31 December 2020

## 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 2020.

### 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 other 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 19 reports with an average staff complement of 64 persons (equivalent to 58 full-timers). The reports consisted of six performance audit reports, three special audit and investigative reports, three IT audit reports, an annual report on the public accounts of 2019, an annual report on the audited financial statements of the local councils for year ending 2019, two follow-up reports, two other reports on the ethical framework of the public service and a review of the implementation of one of the sustainable development goals in Malta, apart from the annual report and financial statements of the Office for 2019.

Year	Amount approved by NAO Accounts Committee and authorised by the House of Representatives €	Amount allocated in Budgetary Estimates by Ministry for Finance €	Amount actually withdrawn €	Surplus/ (Deficit) €	Number of Audit Reports Published	Average Staff Complement
2009	2,100,000	1,864,000	1,864,000	(81,725)	11	57
2010	2,400,000	1,950,000	2,400,000	145,044	9	55
2011	2,400,000	2,200,000	2,200,000	(11,579)	11	56
2012	2,400,000	2,185,000	2,185,000	(143,140)	15	59
2013	2,500,000	2,250,000	2,265,000	(163,247)	13	57
2014	2,600,000	2,280,000	2,600,000	29,002	16	58
2015	2,800,000	2,700,000	2,700,000	(84,482)	15	62
2016	3,000,000	2,900,000	3,000,000	6,666	16	65
2017	3,150,000	3,150,000	3,150,000	42,160	14	63
2018	3,400,000	3,400,000	3,400,000	221,428	17	60
2019	3,500,000	3,500,000	3,500,000	119,862	11	61
2020	3,800,000	3,800,000	3,600,000	87,304	19	64

## Published Reports:

### Financial and Compliance Audits:

- i. Report by the Auditor General on the Public Accounts for the year 2019; and
- ii. Report by the Auditor General on the Workings of Local Government for the year 2019.

### Performance Audits:

- i. Community care for older persons;
- ii. Assessing the Public Transport Contract and Transport Malta's visibility on the service;
- iii. Addendum Investigation – The Mater Dei Hospital Project;
- iv. Tackling Child Abuse;
- v. A Follow-Up on the 2016 Analysis on OHS's Operations – A Case Study on the Construction Industry; and
- vi. The recruitment process within the Malta Medicines Authority.

### Special Audits and Investigations:

- i. The disposal of the site formerly occupied by the Institute of Tourism Studies;
- ii. An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 1 | A review of the tender process; and
- iii. An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 1 | A review of the tender process – Addendum.

### Information Technology Audits:

- i. Information Technology Audit – ICT across Local Councils;
- ii. Information Technology Audit – Planning Authority; and
- iii. Information Technology Audit – Malta Industrial Parks Ltd.

### Other:

- i. A review of the ethical framework guiding public employees;
- ii. Annual Report and Financial Statements of the National Audit Office – 2019;
- iii. Follow-up Reports by the National Audit Office – 2020 Volume I;
- iv. Follow up Reports by NAO – 2020 Volume II; and
- v. A review of implementation of Sustainable Development Goal 1 – Malta's efforts at alleviating poverty.

### Unpublished:

- i. The governance arrangements of the European Stability Mechanism's internal committees – An audit conducted on behalf of the ESM Board of Auditors.

The National Audit Office (NAO) presented a report titled "A review of the governance arrangements of the European Stability Mechanism's internal committees" to the Board of Auditors of the European Stability Mechanism on 19 October 2020.

This report fulfils a request made by the Board of Auditors for the National Audit Office, on behalf of the Board of Auditors, to determine whether the governance arrangements of the European Stability Mechanism's internal committees facilitated the fulfilment of their objectives.

Established as a crisis resolution mechanism, the European Stability Mechanism assists euro area member states in severe financial distress.

## Financial Review

The National Audit Office achieved a surplus of €87,304 for the year ending 2020, as compared to a surplus of €119,862 achieved in the previous financial year.

The average number of employees for the year reached 64 wholesome persons, representing an additional increase of three employees over the past year – and reflecting the three new employees who were recruited from the beginning of the year. The full-time equivalents of these 64 employees (30% of whom work on a reduced hours schedule) translates to 58 employees – which increased by just one full time equivalent over the 57 full time equivalent persons registered last year. After taking into account the cost of one additional full-time equivalent employee, salary increases for the year amounted for 3.8%, which is in line with the salary scales for 2020 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 second consecutive time, the contracts for local council audits for financial year ending 2019 have been renewed for an additional year . The audit firms accepted to renew contracts in 2020 at an increase of 12% over the original tender fees.

Due to the COVID-19 impact in 2020, administrative expenses dropped by €68,460 during the year, which were mainly attributed to reductions in overseas travel, contractual expenses, utilities, hospitality expenses, and learning and professional development expenses.

The cash and cash equivalent balances improved by €50,255 at the end of financial year 2020 to reach €191,056.

Capital expenditure amounted to a total of €178,453 with 60% of the amount being incurred on the refurbishment of the lower left wing of the main building. The lower wing of the main building has now been entirely refurbished.

## Capital Commitments

On 20 August 2019, the National Audit Office submitted a business case to the Ministry for Finance to construct a new annex adjacent to the present office to provide training and meeting facilities for all staff, as well as additional office space for new recruits. The architect appointed by the Office has proposed a project of three levels at a cost of circa €2.2 million.

Following discussions with the Ministry for Finance, an amount of €200,000 (in addition to the €3.6 million costs allocated for recurrent costs and other capital expenditure) was allocated in 2020 by the Ministry to enable the Office to undertake the initial phase of the project, which consists of permitting, design, geological studies and surveying.

The Office has only expensed €11,206 during 2020 on geological and survey studies and financed them from the €3.6 million recurrent subvention. The €200,000 additional allocation for capital expenditure was not utilised and cannot be recovered from the Ministry for Finance.

During 2020, an additional amount of €100,000 was allocated by the Ministry for Finance to the 2021 subvention of €3,750,000 to finance the required permitting of the project.

## Reserves

After deducting the surplus of €87,304 from the balance of accumulated deficit as at the beginning of the year, the total accumulated deficit at the end of 2020 amounting to €153,819 is being carried forward to the next financial period. The accumulated deficit, as shown in the statement of financial position, would be converted into a surplus had the provision for pensions and gratuities over an approximate 15-year period not been accounted for as per requirements of IAS 19.



**CARMEL DEGUARA**

Auditor General of the  
National Audit Office



**NOEL CAMILLERI**

Deputy Auditor General of the  
National Audit Office

Notre Dame Ravelin  
Floriana FRN 1601  
Malta

21 April 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
for the year ended 31 December 2020

		2020	2019
	Notes	€	€
Government subvention	6	<b>3,600,000</b>	3,500,000
Other income	7	<b>18,216</b>	19,195
<b>Operating expenditure</b>			
Salaries and personnel expenses	8	<b>(2,760,918)</b>	(2,614,672)
Administrative and other expenses	9	<b>(413,199)</b>	(481,659)
Sub-contracted audit fees of local councils		<b>(293,885)</b>	(260,012)
		<b>(3,468,002)</b>	(3,356,343)
<b>Results from operating activities before pension costs</b>			
Provision for service pensions and gratuities	11	<b>(63,019)</b>	(43,118)
<b>Results from operating activities</b>			
Bank interest receivable		<b>109</b>	128
<b>Surplus for the year</b>			
<b>Total comprehensive income for the year</b>	-	<b>87,304</b>	119,862

*The accounting policies and explanatory notes on pages 91 to 102 form an integral part of the financial statements.*

## STATEMENT OF FINANCIAL POSITION

as at 31 December 2020

	Notes	2020 €	2019 €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	10	<b>438,353</b>	389,447
<b>Current assets</b>			
Debtors and prepayments		<b>19,683</b>	7,653
Cash and cash equivalents	13	<b>191,056</b>	140,801
		<b>210,739</b>	148,454
<b>Total assets</b>		<b>649,092</b>	537,901
<b>RESERVES AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provision for service pensions and gratuities	11	<b>361,629</b>	360,367
Payables	12	<b>3,333</b>	-
		<b>364,962</b>	360,367
<b>Current liabilities</b>			
Payables	12	<b>376,486</b>	357,347
Provision for service pensions and gratuities	11	<b>61,463</b>	61,310
		<b>437,949</b>	418,657
<b>Total liabilities</b>		<b>802,911</b>	779,024
<b>Reserves</b>		<b>(153,819)</b>	(241,123)
<b>Total liabilities and Reserves</b>		<b>649,092</b>	537,901

*The accounting policies and explanatory notes on pages 91 to 102 form an integral part of the financial statements.*

*The financial statements on pages 87 to 102 have been authorised for issue on 21 April 2021 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 2020

	<b>Accumulated deficit</b>
	<b>€</b>
Balance at 1 January 2019	(360,985)
<b>Total comprehensive income for the year</b>	
Surplus for the year	119,862
<b>Balance at 31 December 2019</b>	<b>(241,123)</b>
Balance at 1 January 2020	(241,123)
<b>Total comprehensive income for the year</b>	
Surplus for the year	87,304
<b>Balance at 31 December 2020</b>	<b>(153,819)</b>

*The accounting policies and explanatory notes on pages 91 to 102 form an integral part of the financial statements.*

## STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	2020	2019
Note	€	€
<b>Cash flows from operating activities</b>		
Surplus for the year	<b>87,304</b>	119,862
<i>Non-cash adjustments to reconcile surplus to net cash flows:</i>		
Depreciation	<b>129,547</b>	102,435
Bank interest receivable	<b>(109)</b>	(128)
Provision for service pensions and gratuities	<b>63,019</b>	43,118
Amortisation of Grant for ICT expenditure	<b>(3,334)</b>	-
Gain on disposal of property, plant and equipment	-	(1,838)
	<b>276,427</b>	263,449
Movement in debtors and prepayments	<b>(12,030)</b>	17,598
Movement in payables	<b>15,806</b>	4,417
Movement in provision for service pensions and gratuities	<b>(61,604)</b>	(61,695)
Cash generated from operating activities	<b>218,599</b>	223,769
Bank interest received	<b>109</b>	128
<b>Net cash from operating activities</b>	<b>218,708</b>	223,897
<b>Cash flows from investing activities</b>		
Building improvements and purchase of equipment	<b>(178,453)</b>	(196,387)
<b>Cash used in investing activities</b>	<b>(178,453)</b>	(196,387)
<b>Cash flows from financing activities</b>		
Grant for ICT Expenditure	<b>10,000</b>	-
<b>Cash from financing activities</b>	<b>10,000</b>	-
<b>Net increase in cash and cash equivalents</b>	<b>50,255</b>	27,510
Cash and cash equivalents at 1 January	<b>140,801</b>	113,291
<b>Cash and cash equivalents at 31 December</b>	<b>191,056</b>	140,801
13		

*The accounting policies and explanatory notes on pages 91 to 102 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

The 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

As at 31 December 2020, the Office had an accumulated deficit of €153,819 (2019: €241,123).

The Office’s accumulated deficit arises principally from the provision for service pensions and gratuities that is provided over a 30-year period to cover the annual obligatory charge to the Treasury arising from the Pensions Ordinance, Cap. 93 in respect of certain ex employees who joined the Civil Service prior to 1979.

The COVID-19 pandemic had no significant impact on the finances of the Office and is not expected to have any significant impact within the coming year.

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 National Audit Office includes the annual charge due to the Treasury for every forthcoming year in its budgetary request and pays the amount due as it arises.

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).

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 2. BASIS OF PREPARATION - continued

#### 2.3 Functional and presentation currency

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

#### 2.4 Use of estimates and judgments

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

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

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

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

The accounting policies adopted are consistent with those of the previous financial year, except for the new standards and amendment to IFRS effective as of 1 January 2020. 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 2021 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 are taken directly to profit or loss on approval of the allocated amount in the Budgetary Estimates by the Ministry for Finance.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### 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.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### *Non-derivative financial liabilities - measurement*

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

#### 3.4 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.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### *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 |

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.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

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.

#### 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.



## NOTES TO THE FINANCIAL STATEMENTS – continued

### 4. DETERMINATION OF FAIR VALUES

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

#### *Receivables*

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

#### *Payables*

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

### 5. FINANCIAL RISK MANAGEMENT

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

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

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

#### *Credit risk*

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

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

#### *Liquidity risk*

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

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

## NOTES TO THE FINANCIAL STATEMENTS – continued

## 5. FINANCIAL RISK MANAGEMENT - continued

*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.

## 6. GOVERNMENT SUBVENTION

	2020	2019
	€	€
Authorised by the House of Representatives	<b>3,800,000</b>	3,500,000
Amount allocated by the Ministry for Finance in Budget Estimates	<b>3,800,000</b>	3,500,000
Amounts actually withdrawn	<b>3,600,000</b>	3,500,000

## 7. OTHER INCOME

	2020	2019
	€	€
Audit fee of Non-Government Organisation	<b>3,000</b>	3,000
Penalty Refund	-	5,043
Reimbursements	<b>11,882</b>	11,152
Amortisation of INTOSAI grant received (Note 12)	<b>3,334</b>	-
	<b>18,216</b>	19,195

## NOTES TO THE FINANCIAL STATEMENTS – continued

## 8. SALARIES AND PERSONNEL EXPENSES

	2020	2019
	€	€
Salaries	<b>2,615,536</b>	2,480,711
Social security contributions	<b>145,382</b>	133,961
	<b>2,760,918</b>	2,614,672

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

	2020	2019
	No.	No.
Senior management	<b>6</b>	6
Operating	<b>44</b>	41
Administration and IT	<b>9</b>	9
Messenger staff	<b>5</b>	5
	<b>64</b>	61
Equivalent number of full-time employees	<b>58</b>	57

During the year, a total of 19 persons (2019: 17) worked on a reduced hours basis. This is equivalent to 30% of the workforce.

## 9. EXPENSES BY NATURE

	2020	2019
	€	€
Auditors' remuneration	<b>4,750</b>	4,750
Professional fees	<b>68,311</b>	61,013
Depreciation of property and equipment	<b>129,547</b>	102,435
Net cost of hosting international events	-	7,360
Learning and Professional Development	<b>621</b>	36,029
Other administrative expenses	<b>209,970</b>	270,072
<b>Total administrative and other expenses</b>	<b>413,199</b>	481,659

## NOTES TO THE FINANCIAL STATEMENTS – continued

## 10. PROPERTY AND EQUIPMENT

	Building improvements	Equipment	Computer equipment and software	Motor vehicles	Furniture and fittings	Total
	€	€	€	€	€	€
<b>Cost</b>						
At 1 January 2019	593,081	127,302	166,003	70,541	158,773	1,115,700
Additions	104,589	8,550	41,925	39,793	3,368	198,225
Write-offs/disposals	-	(11,181)	(10,548)	(13,976)	(8,310)	(44,015)
At 31 December 2019	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)
<b>At 31 December 2020</b>	<b>803,509</b>	<b>121,835</b>	<b>205,925</b>	<b>116,358</b>	<b>160,857</b>	<b>1,408,484</b>
<b>Depreciation</b>						
At 1 January 2019	346,598	114,261	144,344	70,541	146,299	822,043
Depreciation charge for the year	58,696	6,865	25,297	7,959	3,618	102,435
Released upon write-off/disposal	-	(11,181)	(10,548)	(13,976)	(8,310)	(44,015)
At 31 December 2019	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)
<b>At 31 December 2020</b>	<b>474,499</b>	<b>107,509</b>	<b>165,805</b>	<b>76,483</b>	<b>145,835</b>	<b>970,131</b>
<b>Carrying amount</b>						
<b>At 31 December 2020</b>	<b>329,010</b>	<b>14,326</b>	<b>40,120</b>	<b>39,875</b>	<b>15,022</b>	<b>438,353</b>
At 31 December 2019	292,376	14,726	38,287	31,834	12,224	389,447

## 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:

	2020	2019
	€	€
Non-current	<b>361,629</b>	360,367
Current	<b>61,463</b>	61,310
	<b>423,092</b>	<b>421,677</b>

Of the non-current portion of the provision, an amount of €192,078 (2019: €192,090) refers to payments to be made after more than 5 years from the reporting date. The movement in this provision for the current and comparative year is as follows:

	2020	2019
	€	€
Service pensions and gratuities as at 1 January	<b>421,677</b>	440,254
Provisions made during the year	<b>63,019</b>	43,118
Provisions used during the year	<b>(61,604)</b>	(61,695)
Service pensions and gratuities as at 31 December	<b>423,092</b>	421,677

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 2020 is arrived at by discounting the post-employment benefit obligations of the Office using the year-end yield to maturity of 0.23% on 5.25% 2030 I Government bonds (2019: 0.48% on 5.1% 2029 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 81 years and 85 years, respectively (2019: males and females of 80 and 85 years, respectively), based on data published in the National Statistics Office Demographic Review.

## NOTES TO THE FINANCIAL STATEMENTS – continued

## 12. PAYABLES

<b>Due within one Year</b>	<b>2020</b>	2019
	€	€
Operational and capital payables	<b>20,396</b>	16,630
Grant received (i)	<b>3,333</b>	-
Taxes and social security	<b>57,617</b>	58,759
Accrued expenses	<b>233,536</b>	220,263
Amount due to Treasury for pension contributions	<b>61,604</b>	61,695
	<b>376,486</b>	357,347
<b>Due after more than one Year</b>	<b>2020</b>	2019
	€	€
Grant received (i)	<b>3,333</b>	-
	<b>3,333</b>	-

- (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 to be 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

	<b>2020</b>	2019
	€	€
Cash at bank	<b>190,481</b>	140,634
Cash in hand	<b>575</b>	167
	<b>191,056</b>	140,801



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

Tel: +356 2134 2134  
Fax: +356 2133 0280  
ey.malta@mt.ey.com  
ey.com

## **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 2020 and the statement of profit or loss and comprehensive income, the statement of changes in reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including 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 2020, 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.



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

### **Other information - continued**

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.

### **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.





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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**

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auditor General.
- conclude on the appropriateness of the Auditor General's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Office to cease to continue as a going concern.
- 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

21 April 2021

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Registered in Malta No: C30252

## 2020-2021 (to date) Reports issued by NAO

### NAO Annual Report and Financial Statements

May 2020 National Audit Office Annual Report and Financial Statements 2019

### NAO Audit Reports

May 2020	Performance Audit: Tackling Child Abuse
June 2020	Follow-up Reports by the National Audit Office 2020 Volume I
June 2020	Performance Audit: A Follow-Up on the 2016 Analysis on OHSA's Operations - A Case Study on the Construction Industry
July 2020	An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 1 - A review of the tender process.
July 2020	An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 1 - Addendum
October 2020	Follow-up Reports by the National Audit Office 2020 Volume II
November 2020	Information Technology Audit: Planning Authority
November 2020	Performance Audit: An analysis of Malta Medicines Authority recruitment process
November 2020	Information Technology Audit: Malta Industrial Parks Ltd
November 2020	Report by the Auditor General on the Workings of Local Government for the year 2019
December 2020	Report by the Auditor General on the Public Accounts 2019
December 2020	A review of implementation of Sustainable Development Goal 1 - Malta's efforts at alleviating poverty
January 2021	Performance Audit: Is LESA suitably geared to perform its traffic enforcement function adequately?
February 2021	Performance Audit: The effectiveness of plastic waste management in Malta
April 2021	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
May 2021	Performance Audit: Preliminary review: NAO's role in reviewing Government's measures relating to the COVID-19 pandemic