

Work and Activities of the National Audit Office

2015



13th EUROSAI Working Group on Environmental Auditing Annual Meeting

Malta, 6 - 8 October 2015



Work and Activities
of the
National Audit Office

2015

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List of Abbreviations

AA	Audit Authority
AFC	Advisory and Finance Committee
ARMS	Automated Revenue Management Services Limited
BCP	Business Continuity Plan
CAPAC	Commonwealth Association of Public Accounts Committees
CARICOM	Caribbean Community
CC-R	Contact Committee Resolution
CE	Cities Entertainment Limited
COBIT	Control Objectives for Information and Related Technology
CRD	Capital Requirements Directive
DfE	Department for the Elderly
EC	European Commission
ECA	European Court of Auditors
ECB	European Central Bank
EMC	Enemalta Corporation
EN	English
EPSAS	Public Sector Accounting Standards for the European Union Member States
ESCB	European System of Central Banks
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
FX	Foreign Exchange
GCCL	Gozo Channel Company Limited
GFCL	Gozo Ferries Company Limited
GPD	Government Property Department
GWU	General Workers' Union
IAID	Internal Audit and Investigations Department
ICT	Information and Communications Technology
IFAC	International Federation of Accountants
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IS	Information Systems
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
LMS	License Management System
LTC	Long-Term Care
MA	Managing Authority

MEPA	Malta Environment and Planning Authority
MITA	Malta Information Technology Agency
NAO	National Audit Office
NSO	National Statistics Office
OECD	Organisation for Economic Co-operation and Development
OLACEFS	Organisation of Latin American and Caribbean Supreme Audit Institutions
PAC	Public Accounts Committee
PPP	Private Public Partnerships
PSO	Public Service Obligation
SAI	Supreme Audit Institution
SME	Small to Medium-Sized Enterprise
SSM	Single Supervisory Mechanism
SWOT	Strengths, Weaknesses, Opportunities and Threats Analysis
TEN-T	Trans-European Transport Networks
TMS	Trademarks System
TMview	Trademarks Web Application
UK	United Kingdom
UN	United Nations
USA	United States of America
WGEA	Working Group on Environmental Auditing

Works and Activities of the National Audit Office – 2015



Anthony C. Mifsud, Auditor General

Auditor General's Overview

Due to the ever-increasing demands on Government to control public expenditure, achieve value for money from the use of resources and make economically sound decisions based on accurate information, public sector auditing has assumed a more critical role in aiding government in achieving its financial, social, economic and environmental objectives in a sustainable manner.

Our achievements for the year are evidenced by the number and scope of audit activities. The National Audit Office (NAO) is consistently being requested to

carry out high profile investigations. Notwithstanding its limited resources, NAO is carrying out these assignments with due care and other relevant ethical and professional auditing standards. The Financial and Compliance Audit Section yet again issued two audit reports: an Annual Audit Report on the Public Accounts for 2014, and a separate Audit Report on the Working of Local Government for the same year. In addition, for the first time, two separate opinions were issued in respect of financial audits and compliance audits. A total of fifteen reports were issued in 2015 including the Annual Audit Reports, Performance Audit Reports, Information Technology (IT) Audit Reports, as well as Special Audits and Investigations Reports.

The above results could not have been achieved without the availability of professionally competent and experienced auditors. Most NAO employees are qualified in various academic disciplines relevant to their work including Accounting, Auditing, Management, Economics and Public Policy. In order to retain such staff, NAO offers competitive remuneration packages and has adopted a number of family friendly measures. In 2015, the Office recruited seven new employees, in the Senior Auditor grade.

NAO promotes staff development and training to maximise their talents and potential while at the same time better achieve NAO's goals of delivering high quality audit reports through enhanced skills and competences. NAO contracted out a number

of training courses to private sector audit and consultancy firms to offer continuous professional development opportunities to staff members on current audit methodologies and techniques, audit reporting and issues affecting public sector auditing.

Furthermore, NAO provided financial assistance to its employees to further their studies in fields relevant to their work. The NAO also financed employees' attendance at local and foreign seminars, workshops and other audit-related events.

During 2015, NAO has also contributed in the international field. In particular, the 13th Annual Meeting of the European Organisation of Supreme Audit Institutions (EUROSAI) Working Group on Environmental Auditing was held in Malta in October 2015. Seventy-one delegates from 30 State Audit Institutions were present for this event. NAO has also actively participated in a number of other international meetings, including the Commonwealth Parliamentary Association United Kingdom (UK) 5th Westminster Workshop which was also held in Malta.

In fulfilling its mandate, NAO strives to be a model organisation. This is achieved by adhering to high standards of performance and quality in every audit activity. Our auditors adhere to the highest ethical standards and follow International Standards on Auditing and International Standards of Supreme Audit Institutions in all our audit work.

NAO also strives to maintain a good working relationship with audited entities. In most instances, auditees appreciate NAO's constitutional role, since NAO's services are acknowledged and appreciated by top management of the Public Service and Government authorities. Any conflicting issues that may arise are always addressed in the best interest of all stakeholders.

My sincere thanks goes to the Deputy Auditor General, Mr Charles Deguara, senior management and staff for their constant dedication and commitment to fulfilling the Office mandate and for their continued support and assistance in the preparation of all reports presented to the Speaker of the House of Representatives.

Anthony C. Mifsud
Auditor General

9th March, 2016

NAO Organisational Overview

National Audit Office Legislative Framework

The Offices of the Auditor General/Deputy Auditor General and National Audit Office (NAO) were established through an amendment to Article 108 of the Constitution of Malta and the enactment of the Auditor General and National Audit Office Act, 1997.

The Auditor General's primary mandate is stipulated in Article 108 of the Constitution. Through this mandate, the Auditor General is required to carry out an annual audit examination of the accounts of all Departments and Offices of the Government of Malta, and of such public authorities or other bodies 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 in force in Malta.

The Auditor General and National Audit Office Act, 1997 and Standing Order No. 120 of the House of Representatives of 1995 extend the Auditor General's mandate to cover independent advisory and investigative powers, examination of any financial matter concerning the use of public funds, as well as the undertaking of performance audits that assess the economy, efficiency and effectiveness of Government Ministries and Departments, public entities and companies where Government is a majority shareholder (i.e. holds 51 per cent or more of the shares).

In terms of Local Government legislation, the Auditor General is also responsible for the audit of Local Government. The Minister responsible for Local Councils may also request the Auditor General to conduct an investigation relating to Local Government.

The Deputy Auditor General's functions are those that the Auditor General may, from time to time, delegate to him. He performs the functions of the Auditor General whenever the latter is absent from Malta or on vacation leave, or is for any reason unavailable to perform the functions of his office. The Deputy is also required to perform the functions of the Auditor General whenever such Office is temporarily vacant, and until a new one is appointed.



Charles Deguara, Deputy Auditor General

NAO's Challenges

The following societal developments are taken into account when selecting audits and when determining our audit methodology:

1. Public demands for more information and transparency on how well government activities are performing.
2. European Union (EU) membership widens our audit scope.
3. Government has become increasingly more accountable due to EU membership – this is an increased challenge since there is an outside factor monitoring local government accountability.
4. Ever increasing revenues and expenditures.
5. Ever increasing complexity in government structures and operations.
6. NAO has become more proactive in terms of giving recommendations.
7. NAO is increasingly being requested by the Public Accounts Committee (PAC) and Minister responsible for Finance to conduct investigations.

Table 1: Number of Reports published over the past three years

Types of audits	2013	2014	2015
Statutory Annual Audit Report	1	1	1
Separate Report on the Audits of Local Government	-	1	1
Stand Alone Audit Reports - Performance Audits; Special Audits; Investigations requested by PAC; IT Audits; Reports requested by Minister of Finance	11	13	12
Work and Activities Report	1	1	1
Total number of reports published	13	16	15

Key Results for 2015

Resources

NAO's human and financial resources for 2015 are presented hereunder:

- 63 active members of staff as at 31 December 2015.
- Five private audit firms were appointed to carry out audits of Local Government.
- The amount of €2,700,000 was approved by Parliament, following the recommendation of NAO Accounts Committee, to be transferred to NAO to finance the Office's operations for 2015.
- NAO reports on its own financial performance by preparing annual accruals based financial statements. These financial statements are independently audited by private sector auditors. The auditors of NAO financial statements for the year 2015 were KPMG as appointed by the National Audit Office Accounts Committee.

Performance

Table 1 provides an overview of the number of audit reports published over the past three years.

One out of the 13 Reports in 2013 and four out of the 16 Reports in 2014 related to macroeconomic and fiscal policy assessments of the Government budget. This was not repeated in 2015 as these assessments started falling under the responsibility of the Fiscal Council with effect from 2015. Taking this factor into account, NAO Reports actually increased from 12 each in 2013 and 2014 to 15 in 2015.

Audit Work Performed

Financial and Compliance Audits

Financial Audits

Financial Audits are carried out with the objective of determining whether the Treasury, Ministries, Government Departments, and other public entities properly account for the money that Parliament has authorised, that such funds have been duly expended, and that the Government financial statements and accounts subjected to NAO's audit were fairly presented in accordance with Government's accounting policies.

At the end of the audit process, NAO issues an audit opinion on the accuracy and fair presentation of the statements within Government's Financial Report based on audit work performed. For the first time this year, separate audit opinions were issued in respect of financial audits and compliance audits.

Compliance Audits

The objective of compliance audits is to determine the extent to which audited entities, subjected to review, comply with identified criteria, such as applicable rules and regulations and principles of sound financial management.

This year, a separate audit opinion in relation to the extent of compliance of audited entities with the pertinent rules and regulations and the principles of sound financial management was issued separately from the financial audit opinion.

The financial audit opinion and compliance audit opinion are included within the Annual Audit Report which also comprises an analysis of the Financial Report, audits of individual Government Ministries and Departments, audits of Government corporate issues, and audits of public entities and non-governmental organisations. A separate audit report was issued containing the key results of financial and compliance audits of Local Government. Such Local Government Audits are carried out by private sector auditors contracted by NAO.

A summary of the results of all financial and compliance audits carried out in 2015, including those on Local Government, is included in **Annex A**.

Performance Audits

Performance auditing is a systematic and objective examination of Government activities and operations in order to assess the extent to which public sector entities utilise their resources in an economic, efficient and effective manner. Therefore its primary objective is to provide Parliament with independent assurance and opinion about the economy, efficiency and effectiveness of public-sector related activities. Another objective is to encourage audited bodies to improve their performance and achieve greater value for money from the use of resources.

During 2015, NAO published the following Performance Audit Reports:

- Provision of Residential Long-Term Care (LTC) for the Elderly through Contractual Arrangements with the Private Sector
- Class Size in State Primary Schools
- Tackling Domestic Violence

Summaries of these reports are found in **Annex B**.

Special Audits and Investigations

The Auditor General may carry out special audits and investigations on any matter relating to Government finances, property or funds administered or under the control of any Government Department or entity. These audits may be carried out following reports of alleged infringement of government policies and regulations, as well as other established procedures. In addition, such reports also address

issues relating to mismanagement and misconduct, inefficient and ineffective use of resources, as well as abuse of authority. All such reports are carried out with a view to proposing corrective measures deemed necessary.

Special Audits and Investigations may be undertaken following a request by at least three members of the Public Accounts Committee or by the Minister responsible for Finance, or as directed by the Auditor General. Generally speaking, investigations commissioned by the Public Accounts Committee and the Minister responsible for Finance are given priority over other investigative work.

During 2015, NAO published the following Special Audits and Investigations Reports:

- An Analysis of Types of Errors in Public Procurement within the Structural Funds Programmes
- An Investigation of Government's Acquisition of the Cafe' Premier
- An Analysis of Enemalta Corporation's Hedging Activity during 2014
- Audit of Gozo Channel Co. Ltd: Public Service Obligation Bid Feasibility and Operational Considerations
- A Comparison of Crude Oil Prices and Electricity Tariff Band Structures
- An Investigation of matters relating to the Emphyteutical Contract between Government and the General Workers Union
- An Investigation into the Issuance of Encroachment Permits between December 2012 and March 2013

Summaries of the above reports are found in **Annex C**.

IT Audits

In 2015, the Information and Communications Technology (ICT) Unit published two reports covering IT audits carried out at the Commerce Department and the Housing Authority. A summary of these reports can be found in **Annex D**. The IT audits included a general review of the management of the IT systems at the auditee sites. The audit methodology was based on internationally recognised audit frameworks and looked at the following aspects of IT management:

- **organisational setup** – review of the auditee’s IT management setup including the roles and responsibilities of the various sections.
- **software applications** – review of a selection of the major software applications currently used by the auditee.
- **protection of information assets** - review of the current security measures maintaining integrity, confidentiality and availability of data at the auditee site.
- **business continuity** - review of the IT related business continuity and disaster recovery plans currently used by the auditee.

During the execution of the audits, the NAO listed a number of audit findings which could pose a possible risk to normal IT operations and made recommendations to mitigate the risks identified. The audit findings were identified following the issuance of a preliminary questionnaire to the auditee, interviews carried out with officials from auditee’s IT management team and execution of on-site audits.

In April 2015, the NAO IT Unit organised a meeting for Chief Information Officers from Government Ministries. The meeting, which was well attended, provided the NAO IT audit team with an opportunity to give a generic overview of the various components of a typical IT audit which it conducts. The presentation was then followed by an open floor discussion.

On an international level, the NAO IT Manager attended the International Organisation of Supreme Audit Institutions (INTOSAI) Working Group on IT Audits and the EUROSAI IT Working Group meetings held in Warsaw between 28 June and 2 July 2015. The meetings provided the NAO IT Unit with the opportunity for an exchange of ideas on various forms of IT audits carried out by other Supreme Audit Institutions as well as engage in discussions on initiatives such as IT Self Assessments and IT Audit Self Assessments.

EU-related Audits

It is also within the Auditor General’s remit to carry out audits related to European Union (EU) funds granted to Maltese beneficiaries. Such audits may be of a Financial and Compliance Audit nature and/or a Performance Audit nature. With the exception

of parallel audits on EU-related funds conducted with other EU Member State SAIs, audits carried out by the Office do not focus exclusively on EU-related funds. However, the EU component, if applicable, is taken into account in any audit that the Office may carry out.

The European Court of Auditors (ECA) also carries out audits on EU funds granted to Maltese entities. In such cases, NAO provides assistance by making the necessary arrangements with the audited body, as well as ensuring that all information requested by ECA is submitted by the auditee. The relationship between ECA and SAIs of EU Member States is regulated by Article 287 of the Treaty on the Functioning of the EU.

As a rule, NAO examiners participate, mainly in an observer capacity, during ECA audits.

During 2015, ECA carried out the following audit missions in Malta:

- Audit in respect of the Statement of Assurance for 2014, European Regional Development Fund, programming period 2007-2013, regarding the Operational Programme *Investing in Competitiveness for a Better Quality of Life* – via the Cohesion Fund and the European Regional Development Fund. The main audit objective was to ascertain whether the expenditure claimed and reimbursed from the Cohesion Fund in respect of four randomly-selected projects under the Operational Programme was legal and regular. The results of these audits have been presented in ECA Annual Report for the year 2014. ECA reported that in a Cohesion Fund project in Malta related to the reconstruction and upgrade of a motorway section of a Trans-European Transport Networks (TEN-T) road network (of the length of 7 km), being one of the projects reviewed by ECA Audit team, the contracting authority negotiated directly a contract above EU-thresholds with one company without a prior call for competition. Thus, the declared expenditure for this contract was declared ineligible. The Court also reported lack of adherence to procurement regulations namely non-compliance with the publication and/or transparency requirements and unlawful selection criteria.

- Audit in respect of the Statement of Assurance for 2015, Direct Support Schemes for Farmers from the European Agricultural Guarantee Fund as per Council Regulation (EC) No. 73/2009 and Support for Rural Development by the European Agricultural Fund for Rural Development as per Council Regulation (EC) No 1698/2005. The primary objective of this Mission was to focus on the follow-up to the audit carried out by the European Commission on 20-24 October 2014 (NoAA/2014/020MT), and to examine, in particular, the effectiveness of administrative and spot controls. The secondary objective was to examine the effectiveness of the supervisory and control systems through an evaluation of the principal controls for the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The audit also involved a review of files at the Paying Agency.
- The audit team is **independent** and **free** of inappropriate influence, from any organisation, in the conduct of audits and investigations and that the contents of the reports are based on **independent** and **objective analysis**.
- The audit team possesses the required and relevant **qualifications** and **competencies**. Collectively, the audit team is equipped with the full range of up-to-date methodologies, which may include analytical review methods and statistical sampling.
- The audit team possesses the highest standard of **integrity** for performing its duties.
- The audit team must give special attention, **due care** to using objective and independent methods for gathering and evaluating evidence, and in developing conclusions and recommendations. The audit team is bound by professional secrecy with regard to all confidential information it receives.
- The audit team plans, designs and conducts its work in a manner that ensures **quality**, which is defined as accuracy, objectivity, fairness, completeness, significance, added value, timeliness and clarity.

During 2015, ECA also carried out a number of surveys addressed to the relevant Maltese audited entities to assist it in carrying out its audits. One of these surveys was in respect of *Statistics on the Revenue of Agricultural Enterprises and Entities Economic Performance through Performance Indicators*. Another survey related to a performance audit on *State Aid*. Another survey on cross-compliance in respect of the European Agricultural and Guarantee Fund and the European Agricultural Fund for Rural Development was issued. Another survey was distributed in connection with *Land Parcels Identification System*. NAO assisted ECA in contacting the relevant authorities to complete the surveys.

Audit Management

The Audit Team

Normally complex audits or investigations are carried out by a team of auditors. In the course of conducting audits and investigations, the audit team abides by the following general standards as a tool to ensure consistency and quality in the information and conclusions presented in its reports on the activities and financial statements of the audited organisation:

NAO's Audit Reports

The final stage of the audit cycle involves drafting the audit report (report) for consideration by Parliament and the Public Accounts Committee. The report is the most important phase of the audit cycle. It is independent, objective, fair and constructive and is an important link in ensuring accountability for public resources as it enables the stakeholders together with the public to determine whether:

- government resources are managed properly and used in compliance with laws and regulations;
- government programmes are achieving their objectives and intended outcomes; and
- government services are being provided efficiently, economically and effectively.

The report may be defined as the *written communication of the results of the audit undertaken*. Towards the completion of the audit, the audit team drafts the report that is easy to understand and free from vagueness or ambiguity. The contents of

the report include (1) deficiencies identified in the audit, (2) the resulting audit conclusions and (3) appropriate recommendations. The three elements guide the auditee to take appropriate corrective action, address the weaknesses identified and achieve significant improvements in the audited entity's performance.

The report is based on International Federation of Accountants' (IFAC) International Standards on Auditing and INTOSAI's International Standards of Supreme Audit Institutions requirements. The report is objective, complete, clear, convincing, relevant, accurate, constructive, and concise. To ensure adherence to the standards, the NAO has in place an effective quality control team to ensure that the report exhibits these qualities.

The report is written from an independent unbiased viewpoint, is balanced in content and neutral in tone. The Auditor General gives due recognition to positive aspects of performance, rather than over-emphasising or exaggerating deficient performance. This approach serves to improve the acceptance of the report by the auditee.

Moreover, every precaution is taken to ensure that the evidence is accurate and all findings correctly portrayed. This assures our readers that what is reported is credible and reliable.

Distribution of the Audit Report

Upon publication, the report is presented to the Speaker of the House of Representatives and the Chairman of the Public Accounts Committee. Another copy is presented to all Members of Parliament and the PAC Secretary.

Once the report has been laid on the Table of the House by the Speaker, copies are sent to the Permanent Secretary of the relative Ministry, the auditee, the media, the Melitensia Section of the Public Library, the University of Malta library, and other interested stakeholders in accordance with the distribution list prepared by the NAO. A copy of the report is placed on NAO's website and hard copies are forwarded to the Department of Information for sale to the general public. As a green initiative, since

2015, the number of printed audit reports has been drastically reduced as a cost saving measure.

Ethical Behaviour

Professional Conduct

NAO aims to foster a culture where employees are encouraged to demonstrate honesty, integrity and professional behaviour. In particular, all NAO employees are to comply with the provisions of the NAO Code of Professional Conduct, which is a comprehensive statement of the values and principles that guide the daily work of NAO auditors and outlines the principles and rules regarding ethical and professional conduct within NAO. In addition, upon taking up employment with the Office, employees sign a confidentiality declaration and take the oath of secrecy.

Using and Protecting Client Information

During the course of audit work, NAO has access to a wide range of information that is required for audit purposes. In order to safeguard the integrity and confidentiality of information received during an audit, NAO takes all the necessary steps to acquire it in a secure manner and handle it in accordance with best practice. The information is kept safe from unauthorised access and used solely and exclusively for the purpose it was intended. Moreover, information about an audited entity acquired in the course of an audit is not used for purposes outside the audit's scope or disclosed to third parties.

In addition, staff members are duty bound to protect information recorded in correspondence, documents and files, as well as data held on computers. This applies to both information obtained from audited entities and that generated within the Office. Unauthorised disclosure of official information or its use for personal reasons is strictly prohibited and is subject to disciplinary action.

Upon retirement or change of employment, former NAO employees have a continuing duty to respect the confidentiality of information, including personal data security acquired as a result of their work at the Office.

Human Resources

The Audit Function

Due to the nature of its work, NAO engages competent people who are knowledgeable in the methodologies of public sector auditing and who have the necessary skills and expertise to carry out complex audits. Furthermore, employees are expected to be independent, objective and impartial in their work. They are also required to deal effectively with challenging situations.

Moreover, NAO seeks to recruit highly motivated individuals who are committed to meet NAO's values and goals in all aspects of their work. Employees are held accountable for the authority entrusted to them as well as for the quality of their work.

NAO's work environment promotes growth, development and empowerment of its staff members. This ultimately promotes the well-being of all employees whilst ensuring the effectiveness of NAO reports.

NAO has four key audit functions, namely Financial and Compliance Audits, Performance Audits, Special Audits and Investigations, and IT Audits. These audit functions are performed by different Audit Sections.

One of the Audit Sections performing Financial and Compliance audits is also directly responsible for the certification of the Government of Malta Financial Statements and for the opinion on the Government

Financial Report. This Section falls under the overall responsibility of Vanessa A. Tonna, Assistant Auditor General.

Another Audit Section carrying out Financial and Compliance audits is also in charge of the audits of Local Councils. This Unit falls under the overall responsibility of Tanya Mercieca, Assistant Auditor General.

Another Audit Section, on Performance Audits, falls under the responsibility of Brian Vella, Assistant Auditor General. This Section comprises two audit Units, one headed by a Senior Audit Manager and the other Unit headed by an Audit Manager.

The ICT Section, which falls under the responsibility of a Manager, performs IT Audits in Government Ministries, Departments and public entities. This Section is also in charge of ICT operations within NAO as well as the desktop publishing of NAO reports.

The Special Audits and Investigations Section is responsible for carrying out all Special Audits and Investigations – whether initiated on the Auditor General's initiative, upon request by the Minister responsible for Finance, or through three PAC members. This Section is led by Keith Mercieca, Head Special Audits and Investigations Section, and incorporates one audit Unit, headed by a Manager.

Figure 1 provides the Organisation Chart by Function. Figure 2 provides it by Management Structure.



*Vanessa A. Tonna,
Assistant Auditor General*



*Tanya Mercieca,
Assistant Auditor General*



*Brian Vella,
Assistant Auditor General*



*Keith Mercieca, Head, Special Audits
and Investigations*

Figure 1: Organisation Chart by Function

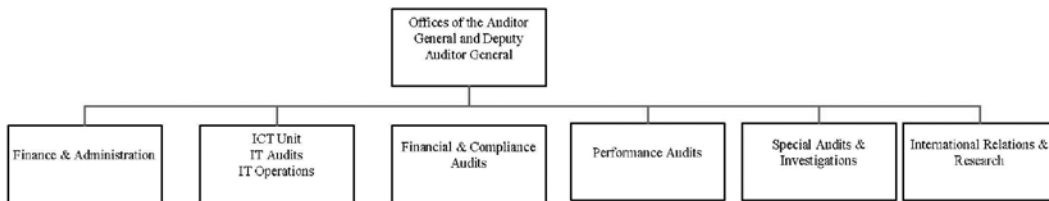
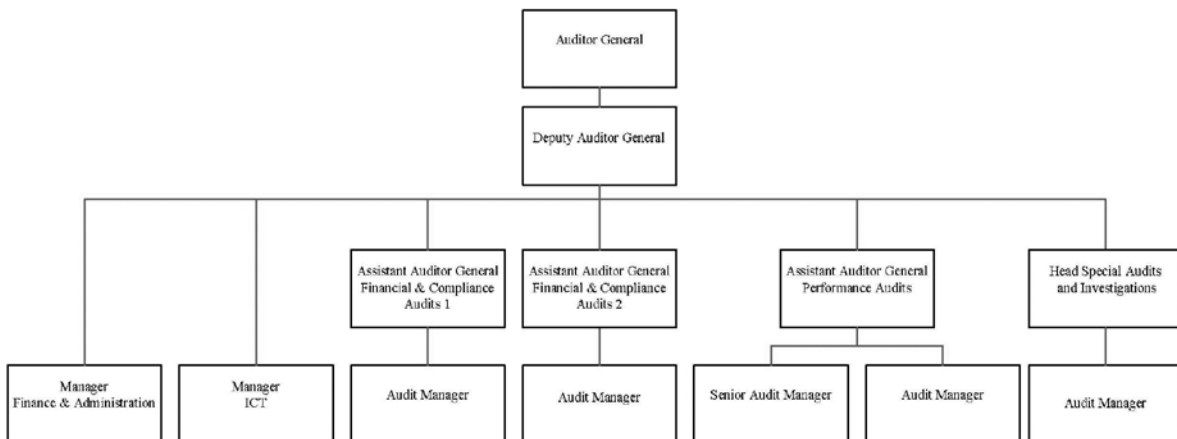


Figure 2: Organisation Chart by Management Structure



NAO Staff Complement

At the end of 2015, the active staff complement consisted of 63 employees. This figure comprised the Auditor General and Deputy Auditor General, three Assistant Auditors General, one Head of Special Audits and Investigations, 44 auditors and 13 support staff. Table 2 depicts the total staff complement as on 31 December 2015.

In addition to the active staff complement, there were three employees who were on parental leave. Another employee was on career break. Fifteen employees (who are included within the figure of 63 active employees) were on reduced hours.

The active audit staff who number 44 employees represent 70% of the full active staff complement. The majority of audit staff are within the Principal

Table 2: Staff Complement as at 31 December 2015

Grade Position	In Post	Male	Female
Auditor General	1	1	-
Deputy Auditor General	1	1	-
Assistant Auditor General	3	1	2
Head of Investigations	1	1	-
	6	4	2
Auditing Grades			
Senior Audit Manager	1	1	-
Manager	5	3	2
Principal Auditor	18	6	12
Principal Auditor ICT	2	1	1
Senior Auditor	14	4	10
Associate Auditor	1	-	1
Associate Auditor ICT	1	1	-
Assistant Auditor	1		1
Audit Technician	1	-	1
	44	16	28
Support Services			
Manager	1	1	-
Senior Principal	1	1	-
ICT Systems Administrator	1	1	-
Principal	2	2	-
Personal Assistant	1	-	1
Assistant Principal	2	-	2
Receptionist	1	-	1
Messenger Driver II	3	3	-
General Hand	1	-	1
	13	8	5
Total	63	28	35

Table 3: Distribution of Active Audit Staff as at 31 December 2015

Position	Financial & Compliance Audits	Performance Audits	Special Audits & Investigations	I.T. Audits	Total
Assistant Auditor General	2	1	-	-	3
Head	-	-	1	-	1
Senior Audit Manager	-	1	-	-	1
Audit Manager	2	1	1	1	5
Principal Auditor	9	5	4	-	18
Principal Auditor ICT	-	-	-	2	2
Senior Auditor	7	4	3	-	14
Associate Auditor	1	-	-	-	1
Associate Auditor ICT	-	-	-	1	1
Assistant Auditor	1	-	-	-	1
Audit Technician	1	-	-	-	1
	23	12	9	4	48
% of total auditors	48%	25%	19%	8%	100%

Auditor and Senior Auditor grades representing 32% and 22% of the total active staff complement respectively.

Support Services include staff working at Finance and Administration, the Registry, the Library, ICT Administration, and desk-top publishing of NAO Reports. Together, support services staff represent 21% of the active staff complement.

Employees Assigned Audit Work

During the year, NAO audit staff (including Senior Management Staff) were assigned to the four different audit sections as shown in Table 3 above.

Almost half of the audit staff work in the Financial and Compliance Audit Section whilst a quarter of audit staff work in the Performance Audit Section. A significant number of employees work at the Special Audits and Investigations Section to undertake an ever increasing number of complex investigations. The ICT Audits Unit within the ICT Section is the smallest unit within NAO. This Section, as stipulated earlier, also performs support services such as ICT administration and desk top publishing of NAO Reports. Employees who perform the latter services are not included in Table 3 but in Table 2 under Support Services staff.

Staff Qualifications and Skills

With increased public consciousness of the need to ensure effective use of public funds, the demand for public accountability of persons or entities managing public resources has become increasingly evident. This has compelled NAO to employ auditors who are academically qualified in different disciplines. As a result, NAO now has in its employment, auditors who have a broad range of expertise and proficiency.

Auditors working in the Financial and Compliance Audit Section are mostly certified accountants, some of which with a practicing certificate in Auditing. Audit staff within the Performance Audits Section and Special Audits and Investigations are qualified in various disciplines including accounting, management, economics, public policy, engineering, statistics and law. Moreover, two members working in the IT Audits and Operations Section have a Certified Information Systems Auditor qualification.

In 2015, two NAO officials were sponsored and are currently reading for a Masters Degree in Forensic Auditing and a Masters Degree for Sustainable Development, whilst another NAO official, also sponsored by the NAO, has just completed a Diploma in Social Sciences and is now reading for a Bachelor of Science Honours Degree in Information Systems and

Management. A member of the middle management who was also sponsored by the NAO, has successfully obtained an Executive Masters Degree in Business Administration.

Age Structure

On 31 December 2015, NAO employed 63 active employees made up of 35 female employees and 28 male employees. It is to be noted that active female employees represent 56% of all staff.

The age structure of NAO employees is presented in Table 4. The majority of staff members were in age group 31-40, representing 43% of all the employees. A substantial 22% of all employees (14 employees) were in age group 20-30. This signifies that NAO is a relatively young organisation with 65% of the workforce aged 40 years or under. Within this combined age bracket, female employees outnumber their male counterparts by 13 employees.

As regards employees aged over 40, 12 employees were in the 51-60 age group. Only 7 employees were in the 41-50 age group and 3 in the 61-70 age group. Within this wider age bracket of employees aged over 40 years, the number of male employees exceeds that of female staff members by six employees.

In 2015, the average age of all active employees was 40 years. The average age of male employees was 43 years, while that of female staff was 37 years.

Moreover, out of the fifteen employees on reduced hours, fourteen are female, and twelve are aged 40 or under. The three employees who are on parental leave and one employee on career break (non-active employees) are all female employees and are under 40 years old.

The above indicates the availability and take-up by NAO employees of family friendly measures which enable employees to achieve a healthy work life balance.

Use of Consultants

There are particular circumstances when dealing with complex, unusual or unfamiliar issues, where the skills required to perform the audit task are not available in-house. In such circumstances, the Auditor General seeks the assistance of an external expert who has the knowledge, skills, competence and aptitude to participate in the particular audit task. The expert may be a single individual or a firm possessing the expertise in the required field of competence.

The Auditor General normally seeks experts qualified in subjects such as law, statistics, economics, accounting, engineering, environmental studies, information technology, fraud investigation and specialised audit methodologies.

In 2015, NAO engaged a number of consultants to provide technical support to its current audits.

Table 4: Age Structure of NAO Employees

Age group	Number of Employees	Percentage of total Complement	Males	Percentage of total Complement	Females	Percentage of total Complement
20-30	14	22	4	14	10	29
31-40	27	43	10	36	17	48
41-50	7	11	4	14	3	9
51-60	12	19	7	25	5	14
61-70	3	5	3	11	-	-
	63	100	28	100	35	100

Human Resource Management Practices

Resourcing and Recruitment

NAO has adopted policies and procedures to recruit staff with suitable qualifications and experience in order to obtain an optimal mix of resources at the Office. The following factors are taken into consideration when recruiting new staff and when determining NAO resource requirements:

- Recruit multidisciplinary persons with suitable qualifications and experience; and
- Supplement internal human resources and skills by seeking outside expertise from adequately experienced and qualified specialists and technical experts.

Initially, when a post becomes vacant or a new post is created, an attempt is made to fill such post by internal suitable candidates who would be appointed by the Auditor General, acting on the recommendation of a Selection Board. External calls for applications are resorted to when vacancies cannot be filled internally.

Upon recruitment from outside NAO, all new employees are offered a three-year definite contract of employment. A definite contract of employment may be converted to an indefinite contract of employment after completing four years service with NAO. This is subject to the employee's performance and output meeting NAO standards.

In 2015, out of 61 active employees (excluding the Auditor General and Deputy Auditor General), 47 employees were on an indefinite contract of employment, while fourteen employees were on a definite contract of employment. The remaining four inactive employees are on an indefinite contract of employment.

Remuneration and Performance Management

All salaries and allowances, personnel welfare and benefits for NAO employees and other conditions of employment are strictly regulated by a Collective Agreement entered into between NAO and the employees' union. The current Collective Agreement was signed on 13 November 2013 and covers the period 2013 to 2016. The Agreement includes

NAO grade structure, salary scales and allowances applicable to each grade, together with a number of benefits to NAO employees including family friendly measures that encourage staff to balance work and outside interests and commitments.

In addition, NAO also has a health insurance policy for its employees and their dependants to cover the cost of eligible treatment resulting from illness or accident.

Moreover, through its performance appraisal system, NAO implements a suitable reward scheme to commend or reward employees who consistently meet or exceed clearly defined and transparent standards of high performance.

Training and Development

NAO invests heavily in staff training, as it believes that training is key to organisational development. During 2015, a significant number of NAO audit and administrative staff participated in a training workshop delivered by a leading professional firm on the *Economics of Fiscal Sustainability*. Another training programme was delivered to NAO staff by an established private audit firm on a number of issues considered key to the delivery of an effective public sector audit activity:

- Auditing Capital Expenditure
- Fraud in the Public Sector
- Auditing Human Resources Processes and Costs in the Public Sector
- Audit Sampling and Analytical Review

Internal Audit and Investigations Department (IAID) staff members participated in the above training programme.

A number of NAO staff also participated in a training programme coordinated by IAID and delivered by a major private audit firm on *the Audit Report, the Audit File and International Financial Reporting Standards* of particular relevance to public sector auditing.

NAO auditors also attended courses organised by the Malta Institute of Accountants relating mainly to accounting, auditing and related disciplines. They also participated in seminars organised by other professional institutions that normally would

be accredited as fulfilling continuous professional education requirements by the Malta Institute of Accountants. Employees also attended training sessions organised by the Centre for Development and Training which is responsible for the training and development needs of public officers.

Staff Retention

NAO's talent pool is sustained and built through such recruitment, hiring, development and retention policies and practices. These policies and practices are targeted towards building and sustaining competencies of NAO staff and towards achieving NAO's mission and goals. As a result, audit staff are hired and normally retained accordingly.

Table 5 is a summary of the number of years, current active audit staff have been in employment with NAO.

The average period of employment of active NAO staff is 11 years. 46% of the total active staff complement have been in employment with NAO for over 10 years whereas 54% have been in employment for under 10 years.

Individual Auditors' Experiences

Seven Senior Auditors who joined the Office in the year 2015 have described their first impressions of the NAO. Their feedback is reproduced overleaf.

Table 5: Number of years in employment with NAO of current Active Staff

Length of employment with NAO	Number of active NAO employees
10 years or under	34
Between 11 and 20 years	22
Between 21 and 30 years	4
Over 31 years	3
Total	63

**Experience of Marion Bajada
Senior Auditor
Financial and Compliance Audit Section**

Following quite a few years working within the banking sector, six years of which as an internal auditor, the urge for a new challenge was becoming quite powerful. In fact, 2015 was the year, wherein having come across NAO's call for the post of Senior Auditor, I decided to take this opportunity, considering that the work performed by the National Audit Office always intrigued me.

From the very first day, upon joining the Financial and Compliance Audit Section within NAO, I immediately integrated with my work colleagues, given that the work environment and staff are very friendly and helpful. Furthermore, this new experience of conducting audits on public accounts is both challenging and rewarding.

I can say that through my post within NAO, I am discovering another niche of the accounting profession, that is, government auditing. This will surely help me in enhancing further my professional career within NAO.



Marion Bajada

**Experience of Vanessa Gauci
Senior Auditor
Financial and Compliance Audit Section**

Subsequent to my studies at University, where I was introduced to the area of public sector auditing, I applied with interest for this role. The National Audit Office (NAO), being an agent of change, serves an important role within the Maltese society, promoting good governance, transparency, as well as proper and efficient use of public resources.

The last few months have met my expectations, in that the public sector auditing is an interesting career to pursue. Working for an important institution like the NAO has turned out to be a challenging, yet rewarding and motivating experience. The various areas of public sector auditing I have been exposed to during the recent months, have given me the opportunity to build experience and enhance my general knowledge. Moreover, as an employer, the Office supports and encourages the development of its employees through continued professional education.



Vanessa Gauci



Ian Bugeja

**Experience of Ian Bugeja
Senior Auditor
Performance Audit Section**

I joined the National Audit Office in May 2015 after over three years working in EU Funds as well as other experiences in the private sector. I have been impressed with the ethos of this Office, which demands the highest standards of employees' integrity and quality. At the same time, this organisation promotes and supports continuous professional development to all of its employees and gives utmost importance towards the development of the individual. In addition, the Office environment is characterised by team players with a wealth and diversity of experience who have helped new recruits such as myself to settle in this organisation in a seamless manner. All of these factors are contributing towards the ever-growing profile of this Office which in turn offers rewarding career prospects.

**Experience of Karl Galea
Senior Auditor
Performance Audit Section**

Following employment with a government corporation for around 12 years, the need for a change was becoming very strong. With experience on an array of topics, I found auditing as the most enticing and challenging and hence, when the opportunity to work for the National Audit Office (NAO) came up, I decided to make the change. I always regarded NAO as being the ideal workplace as it will broaden my work experience with challenging tasks whose results will ultimately prove beneficial to the public sector. Furthermore, I was also attracted to the fact that the Office is an independent public entity responding directly to Parliament on the value being added with the spending of public funds.

Commencing my employment in April 2015, I was assigned to the Value for Money 2 section dealing with Performance Audits. From the very first day of my employment, I felt a very welcoming atmosphere which made me feel like I had been employed with the Office for a longer period of time. Such an atmosphere is in-turn conducive to an increased quality of the section's output as all the team works as a single unit driving all members towards continuously striving for better results. The welcoming atmosphere is not limited to within the Value For Money 2 team but I feel that it also extends to middle and senior management making me feel valued and responsible all the while providing invaluable guidance towards reaching not only work related targets, but also personal aspirations as an auditor.

All in all, I believe that I have made the correct career move here at NAO and I am certain that such a move will continue to help me grow as an individual and as part of a team all the while contributing to improvements within the public sector entities being audited



Karl Galea

Experience of Felicity Trudy Rayner
Senior Auditor
Special Audits and Investigations Section

I was attracted to work with the National Audit Office due to the nature of work conducted by this Office. The dissertation for my Master in Accountancy qualification was focused on local corporate fraudulent schemes and when I came across the call for the post of Senior Auditor within the Special Audits and Investigations Section, I immediately decided to apply.

Although I have joined the Office very recently, my colleagues have been very welcoming and helpful offering useful guidance. The environment within our section is very friendly and senior management have been very approachable. This role has offered me the opportunity to gain new experiences and learn new techniques in the auditing profession. The Office also provides training opportunities, which allow me to grow and advance in my career.



Dr Denise Borg Muscat

Experience of Dr Denise Borg Muscat
Senior Auditor
Special Audits and Investigations

Having a legal background, working at the National Audit Office has been a completely new experience for me, which differs from my previous work experiences. The National Audit Office's work is very influential and working within the Special Audits and Investigations Section is very motivating. I am encountering different facets of law, particularly dealing with the public sector. This is helping me to enhance further my legal career. The work assigned is challenging and rewarding.

The Office enjoys a collaborative team environment optimising the capacity of each employee with his own educational background to extend beyond his comfort zone and develop. My experience has been very positive, being surrounded with supportive colleagues willing to assist and share their knowledge and skills, as well as very approachable senior management who express a genuine interest in the development of the employees.



Felicity Trudy Rayner

**Experience of Stephen M. Cassar
Senior Auditor
Special Audits and Investigations Section**

My employment within the Special Audits and Investigations Section has enabled me to better appreciate the role that the National Audit Office (NAO) plays in the effective and efficient oversight of government's accounting systems and to better understand the function of the entity with parliament through the interaction of the NAO and the Public Accounts Committee. Being part of the team has led me to understand the dynamics of the work involved and the diverse scenarios and circumstances in which the section is required to investigate. Our section is comprised of several personnel coming from different professional backgrounds, a factor which I feel leads to an interesting combination, where, through close collaboration and exchange of ideas and expertise one can gain a deeper insight of the task at hand, which in turn makes the work a continuous learning experience. Also, our senior management gives us the latitude and opportunity to provide our views and opinions on the subject matter at hand, which, combined with their expertise, helps us to better develop our competencies. Finally, I feel that the NAO's holistic approach towards the well-being of its employees, shown through various family friendly measures and provision of further training and continuing professional development makes it an organisation which, whilst recognising the fact that it generally functions in dynamic and volatile circumstances, provides a good environment in which an employee feels motivated, fulfilled and able to foster a culture of continued learning and professional development.



Stephen M. Cassar



Social Committee members

NAO Social Committee

Throughout the year, as is customary, the NAO Social Committee organised various events for all the Office's staff particularly during the festive Christmas period. Besides enjoying themselves in a relaxed and casual atmosphere, these events served also as effective team building initiatives whereby our employees could come to know better one's colleagues in a friendly environment away from the Office. Positive feedback was invariably received from staff attending such social occasions.

Facilities Management

Administration and Support Services

NAO facilities are managed and maintained by the Finance and Administration Section. The latter is responsible for the safeguarding and upkeep of NAO premises, as well as the maintenance of NAO archives which contain manual audit files and working papers of previous years. The Finance and Administration Section is also in charge of Finance, Registry, and the maintenance of the Library.

Archiving Facilities

Following the decision to gradually migrate towards a computerised filing system on the existing IT server infrastructure of the Office towards the end of 2014, the ICT Committee met 6 times during 2015 to implement this migration plan. Key decisions taken and subsequently adopted were a common electronic file naming convention, the standardisation of electronic folders for all departments and a policy to save all documents, correspondence and working papers in electronic format. On the recommendation of the Committee, the Office purchased additional portable scanners to enable its staff to convert pre-printed documents by the auditees into electronic format in a more efficient manner. At the end of the year, the Committee noted its satisfaction how paper consumption, printing and stationery costs have been reduced considerably while documents are now by far being retrieved in a quicker and easier manner.

The Committee feels confident that, with the preparatory work carried out throughout the year to implement the migration plan, the Office has the basic requirements to move towards a computerised document management information system. This

serves as an encouragement to better utilise the existing physical space that is currently being taken up for archiving purposes. Moreover, an intensive campaign has been undertaken during 2015 to extensively clear up our archives in Valletta of unneeded and unused documents and papers. This has freed up invaluable storage space.

IT Infrastructure and Operations

The IT Operations Unit within the IT Section is responsible for the maintenance of NAO's IT infrastructure, including the servers, local area network, and software applications. The Unit also coordinates the production of NAO publications.

Throughout 2015, the IT Operations Section was involved in a number of initiatives, which included amongst others:

- Ongoing maintenance and support of the NAO IT setup.
- Further harmonisation of the server folder structure.
- Provision of support services during the EUROSAI Working Group on Environmental Auditing (WGEA) Meeting held in Malta in October 2015.
- Desktop publishing of 15 NAO publications which were tabled in Parliament which included:
 - the Annual Audit Report on Public Accounts;
 - the Annual Audit Report on the Workings of Local Government;
 - a number of reports covering Performance Audits, IT Audits, Investigative and Special Audits; and
 - NAO Works and Activities Report for 2014.

NAO also has in place an ICT Steering Committee which deals with the monitoring, review and prioritisation of developments and issues of an NAO IT related nature. During 2015, this Committee, chaired by the Deputy Auditor General, and essentially encompassing the Heads of all operational units within the Office, held meetings as coordinated by the Manager, IT Unit.

Communication and Stakeholder Management

NAO Relations with Parliament

There are two Standing Committees of the House of Representatives primarily concerned with the work of NAO. These are the Public Accounts Committee (PAC) and the National Audit Office Accounts Committee.

The Public Accounts Committee

The primary function of the Public Accounts Committee is to examine in detail audit reports produced by the Auditor General. PAC is also empowered to inquire into matters relating to public accounts referred to it by the House of Representatives, a Minister or the Auditor General.

Up to 31 December 2015, 82 PAC sittings were held during the current legislature, 27 of which were held in 2015. Sittings held during 2015 related to:

- The discussion on the performance audit *An Analysis of the Effectiveness of Enemalta Corporation's Fuel Procurement* (16 sessions).
- A review of the audit report on *Investigation into the Procurement of Legal Services by the Privatisation Unit between 2008 and 2013* (one session).
- Scrutiny of contract entered into by the Government with Henley and Partners on Individual Investor Programme (8 sessions).
- Approval of draft Commonwealth Association of Public Accounts Committees Constitution (one session).

The Public Accounts Committee, the Foreign and European Affairs Committee, and the Economic and Financial Affairs Committee, met on 7 December 2015 (one session) to discuss ECA Annual Audit Report on 2014 Budget as well as the work and activities of the Maltese Member of ECA.

Minutes of Sittings are available on the website of the House of Representatives on <http://www.parliament.mt/sittingarchive?legcat=13&forcat=4>

The National Audit Office Accounts Committee

The main function of the National Audit Office Accounts Committee is to review NAO's financial estimates for the following year prior to their consideration and approval by Parliament. This Committee also examines NAO's audited financial statements, which are prepared on an accruals basis. These are audited by private sector auditors appointed by the same Committee. Moreover, the Annual Report on the *Work and Activities of NAO* is also submitted to this Committee.

NAO's audited Financial Statements for financial year ending 31 December 2014 and NAO Estimates for the year 2016, were discussed and approved by the Committee on 10 December 2015.

The National Audit Office Accounts Committee also discusses motions relating to the transfer of Government land in terms of the Disposal of Government Land Act in accordance with the relative provisions of the said Act. The Committee reports upon the motions discussed to the House of Representatives.

Minutes of Sittings are available on the website of the House of Representatives on <http://www.parlament.mt/sittingarchive?legcat=13&forcat=9>

NAO Relations with the Auditee

NAO attempts to maintain a good working relationship with all auditees. In most cases, the auditees acknowledge NAO's constitutional mandate and consequently extend their cooperation throughout audit assignments carried out by NAO staff. It is to be noted that the Constitution, in which the Auditor General's right of access is entrenched, overrides any provision in any other Act of Parliament. Notwithstanding this, NAO always endeavours to, as far as possible, arrive at mutually acceptable resolution of differences with auditees, in the interest of preserving good relations since collaboration and cooperation are essential ingredients of every effective and productive audit.

In the interest of upholding mutual cooperation, the auditee is expected to undertake a number of duties. It has the prime responsibility for ensuring that it maintains proper accounting records and adheres to

all applicable laws and regulations. Those charged with governance must also make sure that the entity's internal control system is sound and that the public funds for which they are responsible are used economically, efficiently and effectively.

Auditees also have the duty to cooperate with NAO auditors so that the audit objectives can be achieved without undue delay and/or disruption. Such cooperation may include informing all relevant employees of the auditee about the audit scope and objectives, identifying suitable officials as main contact points for the audit, providing access to facilities and evidential material as requested by the auditors, devoting enough time to clear problems or issues that arise during an audit, as well as determining and initiating corrective actions based on the weaknesses highlighted in the Audit Report.

NAO Relations with IAID

NAO maintains regular communication with the Internal Audit and Investigations Department (IAID) which is the centralised internal audit function of Government and falls under the remit of the Office of the Prime Minister. The Department is an integral part of the Executive Branch and reports directly to the Internal Audit and Investigations Board, whose chair is the Secretary to the Cabinet.

At the initial stages of an audit, the Office ascertains whether the audit area under scrutiny has already been, or is planned to be, reviewed by IAID. In addition, NAO may hold meetings with senior representatives of IAID to discuss relations between the two entities and the proposed yearly audit programme. Such meetings serve to enhance cooperation between the two institutions and avoid unnecessary overlap of audit effort.

Moreover, as stated above, IAID staff are often invited to attend training programmes organised by the NAO, and vice-versa.

NAO Relations with the University of Malta

Maintaining a professional relationship with academic and professional bodies, especially the University of Malta, is considered important due to the socio-economic implications that may be raised through audit findings. NAO reports can be a source

of practical information potentially applicable to various academic disciplines.

In addition, the Auditor General annually presents an award for the best dissertation in Public Sector Accounting/Auditing submitted in partial fulfillment of the Master in Accountancy degree run by the Department of Accountancy at the Faculty of Economics, Management and Accountancy. In 2015, the prize was presented to the graduate Mr Brady Farrugia for his dissertation on *The Utilisation of the Government Financial Report by Parliamentary Members*.

Moreover, a number of NAO senior officials are currently delivering lectures for two course modules forming part of a University of Malta Higher Diploma in Public Accounting and Finance course, namely on *Public Sector Auditing and Assurance* and *Public Sector New Public Management*. Another NAO official has delivered lectures in 2015 on the *Politics of Diversity* for the Higher Diploma in Political Studies. This diploma is coordinated by the Public Policy Department within the Faculty of Economics, Management and Accountancy of the University of Malta.

NAO Relations with the Media

The importance of communicating effectively with the media stems from the latter's potential to stimulate public discussion on the issues raised by the auditor. Upon publication of an audit report and following its subsequent presentation to the Speaker of the House of Representatives, a full version of the report is made available on NAO's website (<http://www.nao.gov.mt>) on same day. The report can be downloaded free of charge by the public and other interested parties.

Copies of the audit report are also forwarded to the media. In order to reach as wide an audience as possible, press releases in both Maltese and English are issued with a summary of the main and most crucial findings and conclusions. These are generally given extensive coverage in the local media, through television, radio and newspaper reporting, as well as through the electronic media. This procedure further places NAO reports in the public domain, with citizens possibly demanding more accountability, better work practices and better management of public funds by the public sector.

Through its Public Relations Officer, the NAO is also committed to, as far as possible, answer any media enquiries in a timely and correct manner.

NAO Relations with Civil Society and the Public

Both civil society and the public play an important role in public governance. Consequently, NAO keeps in view the needs of civil society and citizens when planning and conducting audits. Thus, NAO ensures that its work is relevant to these audiences.

Furthermore, findings, conclusions and recommendations included in NAO audit reports generally address some of the concerns voiced by civil society and the general public. Towards this end, NAO ensures that audit reports are accessible to civil society and the public by conveying the message in, as far as possible, a non-technical and jargon free manner. Moreover, as stated earlier, NAO reports may be downloaded from NAO website. Hard copies of NAO reports, excluding Special Audits and Investigations Reports, can also be purchased at minimal cost from the Department of Information.

Participation in Committees

The Deputy Auditor General attends in an observer capacity in the Government Finance Statistics Committee meetings. This Committee discusses latest developments relating to ensuring the accuracy and reliability of Maltese Government Finance Statistics. In this regard, a Memorandum of Understanding between the National Statistics Office (NSO) and NAO in the area of government finance statistics was drafted in 2015 and signed in 2016. Furthermore, during 2015, the preliminary findings of ECA 2014 Audit Mission on the Excessive Deficit Procedure as well as a number of government finance statistics issues raised by Eurostat were discussed during Committee meetings.

Moreover, an Assistant Auditor General participates, in an observer capacity in the Financial Management Committee and International Public Sector Accounting Standards (IPSAS) Project Board Meetings. The objectives of the former Committee is to innovate and re-engineer current financial management practices and improve the current financial reporting framework whilst the latter Board is responsible for the strategic direction and overall

management of the implementation of IPSAS across Government Departments and Ministries. It is also the role of the IPSAS Project Board to provide guidance and assign project work to the Project Team, as well as to discuss and approve recommendations presented by the latter. The Board also liaises with other Project Boards and Bodies entrusted with the implementation of Accrual Accounting across Government. It also approves IPSAS (as adopted by the Maltese Government) put forward by the IPSAS Team and presents policy proposals for approval by Government.

In 2015, the Board discussed, *inter alia*, the Accrual Accounting/IPSAS training strategy by Centre for Development, Research and Training; the tapping of EU funds (including through Eurostat) to receive grants to finance preparatory work for the modernisation of public sector accounting systems on an accruals basis; adoption of individual IPSAS by the Maltese authorities; the IPSAS Conceptual Framework; and current asset management procedures in the Maltese Government.

Local Events

In order to consolidate the relationship with its stakeholders as explained above, NAO has taken part in a number of initiatives, organised by itself or one of its external stakeholders. A brief description of these activities is given in this Section of the Report.

CARICOM Delegation at NAO

Members for the European Development Fund, namely the CARICOM (Caribbean Community) Development Fund, visited Malta between 9 and 11 March 2015 to acquaint themselves on the Implementation of the Cohesion Policy 2007-2013 in Malta. The delegation visited the NAO on 10 March 2015 during which presentations were made by Brian Vella, Assistant Auditor General and Gillian Scerri, Principal Auditor on the relations between the Office and the European Court of Auditors, as well as the role of the Office in the context of structural and cohesion funds.

NAO Meeting with Malta Fiscal Advisory Council

The Malta Fiscal Advisory Council, which is independent in the performance of its functions, was established by the Minister for Finance with effect from 1 January 2015 in terms of the Fiscal Responsibility Act, 2014, Cap 534. The main objective of the Council is to review and assess the extent to which the fiscal and economic policy objectives proposed by the Maltese Government are being achieved and thus contribute to more transparency and clarity about the aims and effectiveness of economic policy in Malta.

The newly set up Council immediately assumed responsibility for the Assessments in respect



Coordination Meeting between NAO and Malta Fiscal Advisory Council representatives held on 13 March 2015

of both the Main Fiscal Forecasts as well as the Macroeconomic Forecasts for the Maltese Economy which during years 2013 and 2014 had been temporarily carried out by NAO. Thus, a coordinating meeting was held at the NAO on 13 March 2015 which was attended, amongst others, by the major stakeholders involved in these Assessments, namely the Economic Planning Division, the National Statistics Office and the Budget Office within the Ministry for Finance. During the meeting, the Chairman of the Fiscal Council, Mr Rene' Saliba, conveyed his appreciation to the Auditor General and the Deputy Auditor General for ensuring a smooth handover to the newly set up Council.

Department of Social Welfare Standards - Training Workshop on Programme Evaluation

NAO officials actively participated in part of a training workshop on *Programme Evaluation* for Department of Social Welfare Standards public officers held on 28 May 2015. Brian Vella, Assistant Auditor General, Performance Audit Section delivered a presentation to these officers on *NAO Mandate and the role of the Performance Audit Function at NAO*. William Peplow, Senior Audit Manager, Performance Audit Section, gave an overview of programme evaluation audits and audits with a focus on the social sector carried out by NAO. He made particular reference to the performance audit report: *Provision of Residential*

Long-Term Care for the Elderly through Contractual Arrangements with the Private Sector.

Commonwealth Parliamentary Association UK's 5th Westminster Workshop

The Commonwealth Parliamentary Association UK 5th Westminster Workshop was held in Malta on 1-4 June, 2015. The main aim of the Workshop was to enhance the capacity and effectiveness of delegates in the core aspects of their PAC work. Another purpose was to launch the Commonwealth Association of Public Accounts Committees (CAPAC) and recommend it to Commonwealth Heads of Government Meeting 2015.

The Hon. Tonio Fenech was elected Chair of CAPAC Executive Committee through the unanimous vote of all PAC Malta members from both sides of the House. The Executive Committee is also composed of ten other members hailing from different Commonwealth countries.

Brian Vella delivered a presentation on *How can the Audit Office best support PAC*. The focus of this presentation was to give an overview of NAO's current support to PAC, a Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis of the relationship between both Institutions, and make proposals on how PAC and NAO can cooperate more effectively.



Department of Social Welfare Standards Training Workshop held at NAO on 28 May 2015



NAO Annual Management Seminar held on 11 June 2015

William Peplow, Senior Audit Manager presented the topic *Oversight of Outsourced Government Spending*. His presentation was based on the Office's two performance audits dealing with Private Public Partnerships.

NAO Annual Internal Management Seminar

NAO's Annual Internal Management Seminar was held on 11 June 2015 and was coordinated by the Deputy Auditor General. The main theme for discussion during this meeting was the use of timesheets by employees of this Office. The Auditor

General delivered the opening speech wherein he highlighted the importance of maintaining effective time recording systems at NAO.

The opening speech was followed by a presentation by Ian Rizzo, Senior Principal, Finance and Administration Section, on the need for a more rigorous timesheet system application at NAO. He maintained that refining this practice would enhance NAO transparency and accountability, and would enable the Office to better measure its output and impact. After the presentation, a roundtable discussion on this subject matter was held.



Visit at NAO by Peter Welch, Director Audit from ECA on 14 September 2015



Delegation from Corte dei Conti at NAO from 14 to 16 October 2015

A number of other internal management issues were also reviewed during the seminar.

Visit at NAO by a Senior Official of the European Court of Auditors

Mr Peter Welch, Director Audit within the European Court of Auditors paid an official visit to the NAO on 14 September 2015. During this meeting, the Deputy Auditor General, as well as Brian Vella and Vanessa A Tonna, both Assistant Auditors General, provided information regarding various assignments performed by the NAO on such matters as the departmental accounts, regularity issues, and EU-funded projects and subsidies.

Bilateral Cooperation Visit of Delegation from the Corte dei Conti to NAO

A delegation made up of Raffaele Squitieri, President of the Italian Corte dei Conti and Giovanni Coppola, Head of International Relations visited NAO from 14-16 October 2015. The purpose of this bilateral visit was to exchange views on the workings of NAO and Corte dei Conti, as well as to discuss cooperation with Parliament; fight against fraud and corruption; types of audits carried out by both SAIs; as well as possible cooperation in EU Contact Committee activities.

The delegation from the Corte dei Conti together with a number of NAO senior officials including the Auditor General, Deputy Auditor General, and

the Assistant Auditor General responsible for the Performance Audit Section who is also in charge of International Relations, paid a courtesy visit to the Speaker of the House of Representatives. During this meeting, the Speaker highlighted the important role performed by State Audit Institutions in every democratic society. He argued that the bilateral talks between the Corte dei Conti and NAO will prove beneficial to both institutions particularly through a frank and open exchange of experiences and knowledge.

Third Annual Conference of the National Association for Local Council and Regional Executive Secretaries (ANSEK)

The National Association for Local Council and Regional Executive Secretaries held its third annual conference on 20 November 2015. The theme of the conference was *Maximising Resources*. Key issues such as the use of performance management and risk management manuals, achieving good governance excellence, maximising resources through IT, and obtaining value for money from the use of financial resources of local councils were discussed during the Conference.

Tanya Mercieca, Assistant Auditor General, delivered a presentation on the conference theme *Maximising Resources*. In her speech, she highlighted the importance of compliance with procurement regulations in order to obtain high quality goods and

services in relation to financial resources expended. She also spoke of the necessity of effective asset management, and the control of expenditure and deficits by local councils. She recommended that timely action is to be taken with respect to the remarks made by the Local Government Auditors in the Management Letters as the same shortcomings are being reported year after year.

Official Visit by Dr Louis Galea, the Maltese Member in ECA at NAO

Dr Louis Galea, Malta's Member at the ECA, paid an official visit to NAO on 7 December 2015. Dr Galea is a Member of Chamber IV of the Court, which deals with issues such as revenue, research and internal policies, and EU's various institutions and bodies. During his visit, he was accompanied by the Head of his private office, Jacques Sciberras.

During his visit, Dr Louis Galea met the Auditor General, Deputy Auditor General, and other senior management officials. In its role as the Maltese Supreme Audit Institution (SAI), NAO collaborates on an ongoing basis with ECA through annual meetings of Auditors General of all the member states within the European Union (please refer to section on *EU Contact Committee*).

Dr Galea conveyed his appreciation to the Auditor General and all NAO officers, and augured that the fruitful and constant collaboration between both institutions will be further consolidated. In this

regard, Dr Galea emphasised that both institutions need to be adequately resourced, especially by having well-trained and adequately motivated staff in order to meet the new challenges being faced in the area of public auditing which, due to a variety of reasons, was becoming more complex and demanding.

On his part, the Auditor General highlighted his Office's determination and commitment to ensure that its constitutional mandate, particularly through the continued promotion of good governance based on clear accountability and ongoing scrutiny, is duly carried out. He agreed that NAO and ECA should strive to enhance and even further their collaboration, this being of mutual benefit to both entities.

On the same day, Dr Galea presented the ECA Annual Report for 2014 to the Standing Committees of the Maltese Parliament on Foreign and European Affairs, Economic and Financial Affairs, and on Public Accounts.

International Events

NAO has also participated in a number of international events during 2015. This enables the Office to increase its international exposure and network with foreign audit institutions, thus promoting the mutual sharing of experience. A description of NAO involvement in the most important international activities is provided below.



Official Visit by Dr Louis Galea, ECA Member, at NAO on 7 December 2015

EU Contact Committee

Cooperation between the European Court of Auditors and EU Member State SAIs is primarily attained within the framework of the EU Member State SAIs Contact Committee Structure. This structure is composed of the Contact Committee, the Liaison Officers' Network and Working Groups/Task Forces on specific audit topics.

The objectives of such cooperation are to improve the audit of EU funds, initiate and coordinate the performance of audit activities of common interest in the EU field, exchange EU-relevant knowledge and experience within an EU context, and determine positions on emerging issues concerning auditing in the EU field.

The framework on cooperation is also implemented by the Contact Committee with the SAIs of future EU Member States. The EU Contact Committee also shares its views, information and results with interested third parties outside the Committee.

The annual EU Contact Committee Meeting was held on 18-19 June 2015 in Riga, Latvia. The meeting agenda comprised the following themes:

- European Fund for Strategic Investments
- EU-related audits
- Prevention and fight against irregularities and fraud and cooperation with law enforcement institutions
- 2014-2020 Multiannual financial framework
- Activities of the Contact Committee and its professional partners

EU Member State SAIs Liaison Officers' Meeting

The Liaison Officers' Meeting was held on 19 March 2015 in Ljubljana, Slovenia. The meeting took place in preparation for the EU Contact Committee Meeting held in June 2015 and was attended by the Assistant Auditor General, Performance Audit Section.

The main themes discussed included:

- Key issues, recent developments and activities for consideration by the Contact Committee in 2015
- Organisation and governance of the EU Contact Committee

- Activities of the EU Contact Committee Working Groups, Networks and Task Forces
- Information on the Activities of the Network of SAIs of EU Candidate and Potential Candidate Countries
- ECA's audit missions and fact-checking procedures with EU Member States

EU Contact Committee Working Groups

In 2015, the EU Contact Committee was active in the following Working Groups/Networks/Task Forces:

- Working Group on Structural Funds VI
- Working Group on Activities on Value Added Tax
- Joint Working Group on Audit Activities
- Network on Fiscal Policy Audit
- Network on Europe 2020 Strategy Audit
- Task Force for assessing the Contact Committee cooperation framework
- Working Group on European Public Sector Accounting Standards
- Task Force on the European Banking Union

EU Contact Committee Resolutions

A number of resolutions were adopted during the EU Contact Committee Meeting, namely on:

- Independent Assessments of National Public Economic Policies
- Prevention and Fight against Irregularities and Fraud
- Audit of the Working Group on Structural Funds
- Public Sector Accounting Standards in the Member States of the European Union

A statement was also issued by the above Committee on *Ensuring Fully Auditable, Accountable and Effective Banking Supervision Arrangements Following the Introduction of the Single Supervisory Mechanism*.

A copy of the Resolutions and the Statement is to be found in **Annex E**.

Working Group Meeting on Structural Funds VI

In 2013, the Contact Committee of the Supreme Audit Institutions of the European Union mandated the Working Group on Structural Funds VI to continue

its reviews of Structural Funds issues and specifically to carry out a parallel audit on *Analysis (of types) of errors in EU and national public procurement within the structural funds programmes*. The Supreme Audit Institutions of the Czech Republic, Estonia, Germany, Italy, Latvia, Malta, the Netherlands, Poland, Portugal and Slovak Republic agreed to participate in this Working Group and each SAI carried out the above parallel audit. A final comparative report of all the participating SAIs' audits was subsequently drawn up.

At the second plenary meeting of the EU Contact Committee Working Group on Structural Funds VI, held in Potsdam, Germany on 25-26 March 2015, the draft final report was reviewed. The future of the Working Group on Structural Funds was also discussed in terms of determining potential topics for the Working Group on Structural Funds VII as well as the possibility of other SAIs joining this Working Group.

Working Group Meeting on Structural Funds VII

The EU Contact Committee mandated the Working Group on Structural Funds VII to carry out a parallel audit on *Contribution of the Structural Funds to the Europe 2020 strategy in the areas of employment and/or education*. The Working Group plans to complete the country reports in respect of this parallel audit by December 2016 and finalise the composite report in the summer of 2017.

The Working Group decided to adopt the following audit question:

Are the European Social Fund and European Regional Development Fund interventions designed and implemented to effectively contribute to the Europe 2020 strategy in the areas of employment and education and is this supported by initial results?

The SAIs of Czech Republic, Denmark, Estonia, Finland, Germany, Italy, Latvia, Malta, the Netherlands, Poland, Portugal and the Slovak Republic agreed to participate in the 2015-2017 period activities of the Working Group. The Core Group of the Working Group consists of SAIs of Germany (Chair), the Netherlands, and Malta. SAI of Bulgaria and ECA are observers of the Working Group.

A meeting of the Core Group was held in Malta on 2-3 September 2015 to draw up the audit plan of the parallel audit.

In a meeting of the Working Group held on 18-19 November 2015 in Luxembourg, the background, objectives, approach, plan, and the schedule of the parallel audit were presented. The participants of the meeting provided feedback on the proposed audit approach. Moreover, a number of ECA Audits connected to the Europe 2020 Strategy and the Structural Funds were also discussed.



Structural Funds VII Core Group Meeting in Malta on 2-3 September 2015

EUROSAI Working Group on Environmental Auditing Spring Session on Auditing Energy Issues

The European Organisation of Supreme Audit Institutions (EUROSAI) Working Group on Environmental Auditing organised its spring session on *Auditing Energy Issues* on 23-24 April 2015 in Tallinn, Estonia and was attended by the Assistant Auditor General, Performance Audit Section and William Peplow, Senior Audit Manager, Performance Audit Section. The main issues discussed were: energy efficiency, measuring energy savings, the effectiveness of measuring energy efficiency and savings by sector and energy source, renewable energy, the effectiveness of national and EU energy policies and support schemes, relations with climate policy and the experience of SAIs in these fields.

William Peplow delivered a presentation titled *Renewable Energy Sources and Energy Efficiency in Malta* and led a discussion group on the problems encountered and expected in energy audits.

13th EUROSAI Working Group on Environmental Auditing Meeting

The 13th EUROSAI Working Group on Environmental Auditing Annual Meeting and Training Seminar on Auditing Environmental Impacts of Agriculture was held in Malta on 5-8 October, 2015. Seventy-

one delegates from 30 State Audit Institutions, including representatives from other International Organisation of Supreme Audit Institutions (INTOSAI) Working Groups on Environmental Auditing and the Organisation of Latin American and Caribbean Supreme Audit Institutions (OLACEFS), attended the Annual Meeting. The Chairman of the EUROSAI Working Group on Environmental Auditing and Auditor General of the National Audit Office of Estonia, Dr Alar Karis presided over the Meeting.

The training seminar, held on 5 October, focused on conducting environmental audit in agriculture, the environmental impacts of agriculture, measures for managing the adverse impacts of agriculture, links between EU agriculture support schemes and the environment, and balancing the interests of agriculture and nature protection.

The Annual Meeting held on 6-8 October discussed auditing issues related to industrial waste and chemicals, reaching the stakeholders of supreme audit institutions with the results of environmental audits, reporting on cooperative activities such as joint and coordinated audits on environmental issues, and discussions on possible cooperative audit topics.

The practical and logistical organisation of this Meeting was coordinated by William Peplow and his team of principal performance auditors namely: Maria Azzopardi, George Calleja Gera, and Elton Camilleri. Following conclusion of meeting, the



Session during 13th EUROSAI Working Group on Environmental Auditing Annual Meeting held on 5-8 October, 2015

NAO received extremely positive feedback, both formally as well as informally, regarding the excellent organisation of this meeting.

An article for INTOSAI Journal on the issues raised and outcomes of the meeting was prepared and submitted to INTOSAI. A copy of this Article is to be found in **Annex F**.

EUROSAI Task Force on Audit and Ethics VI Meeting

The EUROSAI Governing Board established the Task Force on Audit and Ethics (TFA&E) in June 2011.

The EUROSAI Task Force on Audit and Ethics VI Meeting met in Rome on 21-22 April 2015. The Seminar dealt with a number of issues, including: ethics and corruption; raising awareness on the importance of ethics as a key pillar of SAIs; the projects included in the TFA&E working plan; value for money and ethics within the public procurement system; and the issuing of common guidelines to audit ethics and integrity.

Participants were invited to make suggestions on how to improve the Task Force on Audit and Ethics website. The SAIs of Malta and Poland made the following suggestions, which were generally agreed:

- Eliminating format incoherencies.
- Including documents related to International Standard of Supreme Audit Institutions (ISSAI) 30 review project and a link to the project's website.
- Uploading documents of SAIs such as codes of ethics, regulations on ethical issues, training materials, projects, peer reviews, documents on ethics in public administration, upon agreement of SAIs.
- Adding links to some other websites (INTOSAI Working Group on the Fight against Corruption and Money Laundering and INTOSAI Task Force on Public Procurement Audit).

Appointment as Auditor of the European Institute for Security Studies

On 20 November 2015, the Board of the European Institute for Security Studies appointed Tanya Mercieca, Assistant Auditor General, as a member of

the College of Auditors of the Institute for the period 23 November 2015 to 23 November 2018. The three auditors making up the College of Auditors are recruited from State Audit Institutions of EU Member States in such a way that a fair rotation amongst Member States is ensured. The remit of the college of auditors is to carry out an external financial audit of the expenditure and revenue administered by the Institute.

NAO Contribution to International Studies

During 2015, NAO prepared a number of papers, replies to questionnaires and comments on international publications as follows:

- Academy of Economic Studies in Bucharest (Romania) Accounting Department Ph. D, Research on *National Courts of Audit in the EU*
- Commonwealth SAIs Document *Making SAI Independence a Reality*
- EU Contact Committee Mapping Survey on *The Accountability and Public Audit Arrangements concerning Banking Supervision*
- EU Contact Committee *Questionnaire to Assess the Design, Operation and Results of the current Contact Committee Cooperation Framework*
- European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs *Questionnaire on Cooperation with the National Courts of Auditors*
- European Court of Auditors *Questionnaire on EU Banking Supervision*
- European Court of Auditors *Survey on ECA's 2014 Reports*
- EUROSAI IT Working Group *Questionnaire on Data Protection*
- EUROSAI Magazine Article on *EUROSAI Contribution to Good Governance and Reliable Auditing of the Public Sector by modern SAIs (Annex G)*

- EUROSAI Mapping Questionnaire on *Performance Audits concerning the theme of Health care*
- EUROSAI Self Assessment Survey
- INTOSAI Committee on Knowledge Sharing and Knowledge Services Survey on *Research Projects*
- INTOSAI ISSAI 30 *Code of Ethics*
- INTOSAI ISSAI 3000 *Performance Audit Standard*
- INTOSAI ISSAI 3100 *Central Concepts for Performance Auditing*
- INTOSAI ISSAI 3200 *Guidelines for the Performance Auditing Process*
- INTOSAI ISSAI 4000 *Compliance Audit Standard*
- INTOSAI Professional Standards Subcommittee on Internal Control Standards *Questionnaire regarding the Review of INTOSAI Guidance for Good Governance 9140 and 9150*
- INTOSAI Survey on *Audit Assurance: A Survey to Better Understand Assurance Practices in SAIs*
- INTOSAI Working Group on Environmental Auditing 8th Survey on *Environmental Auditing*
- INTOSAI Working Group on IT Auditing Survey Questionnaire on *IT Audit Setup in SAI*
- National Audit Office of Lithuania Surveys on *External Audit of Municipalities*
- State Audit Office of Croatia Questionnaire on *Software Programmes in SAIs*

Taking a Trip of 80 years down Memory Lane

(Taking a look at newspaper coverage of the results of the Auditor General's Reports issued in 1935)

A snapshot of the results of financial and compliance audits carried out in 1935 by the then Auditor General of Malta, Colonel A. Trapani, as reported upon by a daily local newspaper, revealed a number of weaknesses.

One such shortcoming related to the Issue of Special Warrants to authorise extraordinary expenditure of a special nature which could not have been postponed to the following year's estimates without detriment to the public service. The Auditor General was not satisfied that the amount of expenditure of Stg 38,625 authorised through the issue of special warrants was actually justified. The Auditor General, who observed that expenditure authorised by Special Warrants tends to increase yearly, recommended that budgets prepared by Departments are to be effectively scrutinised.

He also noted discrepancies between actual stock in hand and the amount of stock in the stock records in a number of Departments. The Auditor General also reported that arrears were increasing. He also criticised the use of a transfer voucher which involved taking an amount from the sum estimated under one sub-head and crediting it to a sub-head previously under-estimated for.

Instances of the issues mentioned above have been encountered recently by the present Auditor General.

A copy of these newspaper reports is given in **Annex H**.

Annex A – Summaries of Audit Reports for year 2014 on Public Accounts and the Workings of Local Government

The Auditor General presented to the Hon. Speaker of the House of Representatives, the Annual Audit Report on the Public Accounts for 2014 on 14 December 2015. It comprises 23 reports on the operations of various Ministries, Departments and other Government entities, including an analysis of the Financial Report 2014. Some of the main observations are reported hereunder.

Following a detailed analysis of the Financial Report, the National Audit Office (NAO) noted that:

- Letters of Comfort and Bank Guarantees, being potential dues by Government should the latter need to make good for the companies' debts, reached around €1,403 million;
- substantial excess of expenditure over budgeted figures was once again reported on various Line Items;
- some of the outstanding advances issued in favour of third parties, totalling approximately €84.1 million, will continue to be repaid out of an annual budgetary provision; and
- following the enactment of the Government Borrowing and Public Debt Management Act, a number of measures will be implemented thereby introducing a risk management framework with supporting Information Technology systems, together with a code-of-conduct and conflict-of-interest rules.

An audit of expenditure at the Office of the Prime Minister, revealed instances of lack of adherence to the Public Procurement Regulations. Shortcomings were also identified in the areas of inventory, general-use vehicles and compliance with fiscal obligations.

Expenditure on the Restoration of Forts, Fortifications and Historical Places, included substantial variations to the original tender, some of which were approved retrospectively, as well as overpayments.

Some payments to employees of the Malta Council for Science and Technology were either unauthorised, not properly supported by evidence or inaccurate. Other shortcomings, particularly but not limited to attendance records and inventory management, were also noted.

The main weaknesses identified during the audit of capital expenditure of EcoGozo related to the absence of independent verifications by the Directorate, on the quality of materials supplied for the various projects it undertook, non-compliance with tender requirements, delays in most of the projects, as well as lack of segregation of duties.

An audit on Gaming Taxes collected by the Malta Gaming Authority, on behalf of Government, reported that financial statements presented by the gaming operators did not give sufficient detail of the composition of income for the purpose of tax calculations, thus hindering the necessary verification.

Non-Contributory Social Assistance Benefits paid by the Social Security Department was not being adequately assessed by the Department during the application and evaluation processes, coupled with the fact that beneficiaries failed to report changes in circumstances.

Weak internal controls were encountered at Aġenzija Sedqa in various areas relating to personal emoluments, mainly leading to overpayment of overtime and unreliable leave records.

The lack of appropriate internal controls throughout the payroll process within the Ministry for Home Affairs and National Security led to a number of deficiencies, which included remuneration paid to Board Members

in excess of the approved amounts, and various inaccuracies relating to salary payment.

Overtime at Mount Carmel Hospital was being resorted to consistently. Substantial amounts of allowances were also paid to employees, some of which were either unauthorised, inadequately supported by evidence, or incorrect.

The major cause of concern noted from an expenditure audit on contractual services at the Gozo General Hospital related to the provision of meals in respect of both patients, as well as staff, where significant weaknesses and discrepancies were noted in the ordering process and respective payments.

An analysis of Government's Capital Programme, from both the planning and financing aspects, is augmented with NAO's insights and proposals aimed at enhancing the current processes.

Similar to previous years, a review of the Arrears of Revenue Returns for 2014, submitted by Ministries/ Departments in terms of Treasury Circular No. 4/2015, revealed several issues related to the collectability of outstanding balances.

Considering the substantial amount of funds allocated by Government to Local Councils, exceeding €31 million, as well as the fact that the five Regional Committees generate around another €10 million, NAO again deemed it appropriate to issue a separate Report dedicated solely to the workings of Local Government.

The following major concerns, mostly prevailing from previous years, have been reported upon:

- a) Due to the various shortcomings encountered, the Local Government Auditors could not express an opinion on the Financial Statements of Birgu, Hamrun, Kirkop, Qrendi and Siggiewi Local Councils respectively.
- b) The Audit Reports of another forty-five Local Councils and all the five Regional Committees, as well as the Local Councils Association, were qualified with an 'except for' audit opinion.
- c) Twenty-two Local Councils and a Regional Committee recorded a negative Working Capital in the Statement of Financial Position.
- d) Thirty-one Local Councils registered a Financial Situation Indicator (FSI) below the established 10% benchmark.
- e) Twenty-seven Local Councils, as well as two Regional Committees, registered a deficit in the Statement of Comprehensive Income.
- f) Only thirty-two Local Councils, and two Regional Committees sent their response to the Management Letter within the stipulated deadline as set by Article 8(2) of the Local Councils (Audit) Regulations, 1993.

The nine Joint Committees again failed to submit the respective audited Financial Statements for 2014. Since these entities were entrusted with the collection of public funds, it is felt that such situation is unacceptable.

Annex B – Summaries of Performance Audit Reports

Performance Audit: Provision of Residential Long-Term Care (LTC) for the Elderly through Contractual Arrangements with the Private Sector

A performance audit focusing on the Żejtun, Mellieħa, Roseville and Casa Leone Homes showed that the prevailing disequilibrium between the demand and supply of government-funded residential Long-Term Care (LTC) services for the elderly led the Department for the Elderly (DfE) to engage into contractual relationships with the private sector through private public partnerships (PPPs) and the 'Buying of Beds' scheme. However, in some cases, there was scope for securing more favourable terms and ensuring a higher degree of contractual compliance by the respective Home operators.

These contractual arrangements were undertaken in an environment where various regulatory and policy limitations exist, such as those relating to care within the community. These circumstances precluded the more accurate projections of future needs, the development of new services and attracting more private sector investment in such a critical social dimension.

Citing urgent demand pressures, on a number of occasions, the DfE was constrained to enter into direct negotiations with suppliers. Although catered for in the Public Procurement Regulations, such circumstances stifle the potential benefits of competitive tendering. Competitiveness related issues become more exacerbated as a major supplier has been entrusted with the management and operation of over three quarters of the LTC beds pertaining to the PPPs and 'Buying of Beds' scheme.

The PPP financing arrangements regarding the construction works at the Żejtun and Mellieħa Homes resulted in the DfE incurring estimated effective annual interest rates that substantially exceeded interest rates at the time of signing these contracts in 2003 and 2007, that could have been obtained through Government Stocks borrowing. Opportunities to secure more favourable operational rates were similarly not always fully exploited as implied by the wide-ranging charges incurred at the four sampled Homes. Operational concerns also arose, as strong indications exist that the number of carers and nurses provided by Home operators fall short of contractual obligations.

Both the PPPs and 'Buying of Beds' scheme have their benefits and disadvantages and can be realistically considered in future policy developments. However, the full potential of increasing and extending collaboration with third parties remains dependant on three core factors. Firstly, a robust policy and regulatory framework has to be solidly in place. Secondly, the governmental entities responsible for implementing, nurturing and monitoring collaborative agreements with third parties must have the adequate organizational structure and capacity in place to enable effective handling of the various complexities involved. Thirdly, such initiatives must comply with sustainability criteria in terms of encouraging further and more diverse private investment.

Performance Audit: Class Size in State Primary Schools

The Auditor General questioned the financial feasibility of certain state primary schools, particularly those located in Gozo. During scholastic year 2013-2014, annual operational costs ranged from €2,660 to €9,162 per student. The higher costs materialize through the resultant diseconomies of scale associated with classes having a significantly lower number of students than the maximum permitted by law for the various educational levels or the national class-size average, which during the scholastic year amounted to 16 students.

Apart from raising cost efficiency issues, as has resulted from various studies carried out abroad, smaller classes do not offer additional academic or social advantages to students. To this end, this Report concluded that there was no correlation between the number of students in each classroom and the standardized average scores attained by Years 4, 5 and 6 students in three core subjects, namely Maltese, Mathematics

and English. This conclusion is similar to other studies conducted by the Department for Education (United Kingdom), which focused on class size in primary schools within the Organisation for Economic Co-operation and Development (OECD) countries.

Demographic shifts is the main factor leading to a continuously changing demand for state primary school services, where a net decrease in the student population in a number of localities materialised. Moreover, the demand for these services is also influenced by requests for student transfers from one school to another. This state of affairs, coupled with the historical practice of maintaining a state primary school in almost every town and village, has resulted in operating low population schools with classes having a low number of students, resulting in higher costs per student.

Rationalising school populations and class sizes is also subject to limitations emanating from the existing school infrastructure. Most of the buildings currently utilised as primary schools were constructed over 50 years ago, and consequently present various limitations in terms of the facilities offered and their respective student capacities.

The Report highlighted the potential benefits of merging low populated primary schools. Four case studies, which considered potential school amalgamation options, assumed various levels of investment ranging up to the construction of a new school as well as the ensuing additional overheads, such as transportation costs. These studies showed that, solely on the basis of operational cost savings, projects to merge low populated schools proved financially feasible. The viability of such projects would become more pronounced when the opportunity cost associated with the vacated building is considered.

The foregoing implies that the Education Directorates are to be encouraged to further explore strategies to rationalize class size in state primary schools. Nevertheless, while addressing financial sustainability issues, such strategies are also to retain flexibility to cater for the different contexts and social realities influencing the provision of primary education. Within such an intricate environment, it is critical to secure the input and cooperation of all stakeholders.

Performance Audit Report: Tackling Domestic Violence

Domestic Violence, by its very nature, is a largely hidden and under-reported problem. While this problem was traditionally considered to be a private matter between family members, the perception on this issue has since shifted considerably and is presently considered to be a prevalent social challenge which effects a significant segment of the local population. In view of this consideration, the NAO has carried out a Performance Audit to assess Government's role in addressing domestic abuse. Due to the multi-faceted nature of the issue at hand, this Office reviewed the operational systems of seven government entities which it considers as primary stakeholders in this issue. More specifically, this audit included a review of the Commission on Domestic Violence, Appogg, the Police Department, the Courts of Justice, the Department for Probation and Parole, the Health Department and the Education Directorates.

Of the more salient identified shortcomings, NAO observed that, while some of the reviewed departments did communicate with one another on operational considerations, an evident lack of a coordinated approach between all the reviewed entities was noted. This concern is further compounded by a prevalent shortage of resources allocated to tackle this social concern across all reviewed entities. Another particular shortcoming observed by the Office is that not all of the reviewed stakeholders keep electronically stored comprehensive and readily available information on the issue at hand, making the process of quantifying this social problem an even more onerous task than it already is by its very nature.

Through the individual analysis of the reviewed entities, this Office also observed a number of entity-specific concerns. The first of these relates to the fact that, in view of the aforementioned lack of resources, the Commission on Domestic Violence is hindered to fully shoulder its responsibilities, such as: the organisation

of awareness campaigns on all aspects of this problem; the harmonisation of data related to domestic abuse; and working towards legislative alignment between the recently ratified Istanbul Convention and Maltese law.

In reviewing Appogg's operations, NAO noted that while the Agency's Domestic Violence Unit provides high-risk cases with the necessary assistance in a timely manner, other low-risk cases are assigned to a waiting list due to staff shortage. It was also observed that, while the Ghabex Emergency Shelter's capacity is sufficient to cater for normal accommodation demand, this capacity is often considerably strained when successful awareness campaigns are carried out. Furthermore, NAO is significantly concerned on the lack of services the Agency offers to male victims and female perpetrators. While the Agency asserted that domestic abuse should be tackled through a gender-based approach (that is, assisting female victims and addressing male perpetrators), NAO contends that such a limited approach does not comply with the Domestic Violence Act (Chapter 481 of the Laws of Malta) which identifies a broader definition of domestic violence.

During its review, NAO also observed that, although some training on domestic abuse is provided by the Police Department to its employees, not all officers are in a position to benefit from continuous training due to pressing exigencies of the Force. This Office observes that such a situation may retract from the quality and uniformity of service provided throughout the Police Force. Shortcomings were also observed in the operational systems of the Courts of Justice, namely that: the relevant documentation was not kept in electronic format; plaintiffs and accused wait for their cases to be heard in the same waiting area, which is very limited in size with no effective means to safely separate the two; and the immediate proximity of the teleconferencing room with the actual Court room retracts heavily on the possible benefits of such a measure. This Office is also concerned that convicted perpetrators who are handed a probationary period by the Courts, are normally informed by the Department for Probation and Parole prior to the latter carrying out inspections. This practice, NAO opines, may present risks of perpetrators deceptively refraining from their abusive behaviour during the period leading up to the inspection visit to skew results in their favour. NAO also observed that Health Centres do not keep a comprehensively recorded electronic database of the cases of domestic violence they tend to, while Mater Dei Hospital lacks an adequate area in which it could accommodate children of individuals admitted for care following a domestic abuse incident. This Office also noted that, although the Education Directorates endeavour to give this social issue its due attention, they lack the required resources to approach this social concern comprehensively.

In this Report, these issues are comprehensively addressed along with others. A number of recommendations also feature in the study.

Annex C - Summaries of Special Audits and Investigations Reports

An Analysis of Types of Errors in Public Procurement within the Structural Funds Programmes

The Auditor General presented to Hon. Speaker the Report entitled 'An Analysis of Types of Errors in Public Procurement within the Structural Funds Programmes'. This was a parallel audit carried out in conjunction with the Supreme Audit Institutions (SAIs) of eight Member States. This audit focused on errors that were already detected and categorised by the Authorities, namely, the Planning and Priorities Coordination Division, in its role as the Managing Authority (MA); the EU Paying Authority within the Ministry for Finance, as the Certifying Authority; the Internal Audit and Investigations Department, as the Audit Authority (AA); as well as the European Commission (EC). For the purposes of this audit, the National Audit Office (NAO) reviewed and analysed errors in expenditure carried out through public procurement and declared to the EC during the period 2010-2013.

The errors reviewed addressed various aspects of public procurement, including breaches of the principle of equal treatment, failure to state selection and award criteria and the resort to incorrect methods of procurement. Other irregularities included non-compliance with advertising procedures, unapproved changes in contract scope and the unjustified resort to direct contracts.

Irregularities detected accounted for 1.64 per cent of the value of projects carried out through public procurement. In terms of actual amounts, out of the €425,756,293, which represents the total value of projects, €6,997,691 were classified as irregular expenditure. This irregularity resulted in a financial correction of €1,291,297, equivalent to 0.3 per cent of €425,756,293.

Errors relating to the incorrect application of certain ancillary elements and breaches of the principle of equal treatment were the most prevalent. The first error, detected by the AA, featured a broad array of irregularities ranging from the erroneous application of public procurement regulations to contract management-related shortcomings. Irregularities classified as breaches of the principle of equal treatment entailed the inappropriate or incorrect application of the procurement method adopted, a lack of clarity with respect to the tender award criteria and other administrative shortcomings.

The most significant irregularity in terms of materiality was that of non-compliance with the advertising procedures. Irregularities classified under this category resulted from failure on the part of the Contracting Authorities to adequately advertise the project. In the case of an error detected by the EC, this was the result of the misclassification of the project as 'research and development' instead of 'education and vocational education services'. This led to an erroneous procurement method, which resulted in the Contracting Authority failing to appropriately advertise. The financial correction applied was that of approximately €1 million, equivalent to 25 per cent of the declared project cost.

The MA registered the highest incidence of error detection, equivalent to 59 per cent of all irregularities. Possible explanations for this are the fact that the MA is the first line of verification, therefore increasing the probability of detection, and that its breadth of review is wider than that of the other Authorities. The value of the irregularities detected by the MA accounted for 33 per cent of all errors. Although only one error was detected by the EC, this accounted for 54 per cent of the value of all irregularities. With regard to the corresponding financial corrections, those imposed by the MA made up for 21 per cent of the value of all corrections while that by the EC represented 73 per cent. Other shortcomings are presented in the Report.

An Investigation of Government's Acquisition of the Café Premier

On 19 August 2014, the Opposition Members on the Public Accounts Committee, together with the then Opposition Spokesperson for Home Affairs and National Security, submitted a request for an investigation to

the National Audit Office (NAO). In essence, they requested the Auditor General to investigate disclosures in the media that Government had paid €4,200,000 for the reacquisition of the utile dominium of the Café Premier premises, which Government had conceded through an emphyteutical grant to Cities Entertainment Ltd (CE) in 1998.

The sequence of events leading to Government's reacquisition of these premises was traced back to early April 2013, when a CE Director wrote to the Prime Minister. Negotiations between CE and Government were concluded in August 2013, and the matter was approved by Cabinet in September 2013. On 29 January 2014, Government and CE signed an agreement whereby Government acquired the utile dominium relating to the temporary emphyteusis of the premises for €4,200,000.

The NAO maintains reservations regarding the manner by which this reacquisition was made. Although the amount paid by Government reflects a fair market value, this does not necessarily imply that value for money was achieved. The lack of rigorous and documented consideration of other options and the failure to properly evaluate such alternatives constrains the Office in determining whether value for money was achieved. One such alternative was the follow-through of legal action, which Government failed to pursue. This resulted in the eventual withdrawal of legal proceedings without clear justification or documentation, which action detracted from the required level of transparency expected in such a decision. This must be seen within a context where the tenant, CE, was in breach of the lease agreement, as the three-year threshold in ground rent payments had been exceeded when negotiations commenced. Poor governance was a factor central to this shortcoming, with Government's negotiating team failing to involve the Government Property Department from the initial stages of negotiations.

Government's justification for the reacquisition of the Café Premier focused on four main objectives, namely, the removal of possible danger posed to the National Library, the provision of greater accessibility, resolution of the problem of arrears faced by CE and the re-dimensioning of available space. The absence of documentation substantiating these policy objectives is considered as a significant shortcoming by the NAO.

Finally, the NAO established that the payment of €210,000 to M&A Investments Ltd was an intermediary payment, that is, a brokerage fee or commission, equivalent to five per cent of the transfer value of €4,200,000. This is rendered evident by documents reviewed by the NAO, wherein one refers to this payment as 'intermediary costs', while the other as a 'commission on sale'. Despite the fact that Government would still have paid €4,200,000, irrespective of the arrangement with M&A Investments Ltd, this Office is of the opinion that the €210,000 payment should not have featured in the agreement. The dealings between CE and M&A Investments Ltd were a private matter, and Government bore no relationship with the latter. Moreover, the €210,000 payment made in this respect was unsubstantiated and deemed by the NAO as inappropriately included in the agreement. Aside from this payment, no evidence of other commissions being paid out of public funds was found.

An Analysis of Enemalta Corporation's Hedging Activity during 2014

On 23 January 2015, the Opposition Members on the Public Accounts Committee requested the Auditor General to investigate the hedging activity undertaken by Enemalta Corporation (EMC) during 2014. This analysis include an examination of the policy, strategy and governance framework adopted by EMC with respect to its hedging function; a review of hedging agreements in force in 2014; and an analysis of the financial outcomes of hedging agreements entered into. In this context, the National Audit Office (NAO) reviewed hedging undertaken by EMC with respect to crude oil, unleaded petrol and diesel, as well as foreign exchange (FX) hedging upon the Corporation's fuel oil, gasoil, unleaded petrol and diesel requirements.

The NAO noted that hedging policy-related shortcomings identified in the 2013 Report, wherein the Office reviewed EMC's hedging function, largely persisted. To date, the Corporation does not have a formally documented hedging policy against which the Corporation may subsequently set its strategic orientation.

One notable manifested change in terms of hedging policy was the Corporation's decision to extend hedging operations to include unleaded petrol and diesel. EMC and Enemed stated that the rationale motivating policy decisions was driven by efforts at ensuring price stability while more generally adopting a risk-averse approach.

This Office noted the significant improvement registered in terms of the Advisory and Finance Committee's (AFC) governance. Documentation and correspondence exchanged by members of the AFC indicated that the Committee was continuously monitoring oil and FX markets. All members of the AFC were included in such correspondence and decisions taken were appropriately authorised by the Committee Chair. Even during periods of AFC inactivity (such as the period between 12 March 2014 and 19 September 2014), the Committee members maintained a constant watch over developments. The NAO reviewed all decisions taken by the Committee and the Office established that the absolute majority of decisions were reflected in hedging deals concluded by EMC.

The NAO has reservations regarding the manner by which the decision to hedge unleaded petrol and diesel requirements for Q3 and Q4 2014 was taken. Documentation reviewed by this Office, which solely focused on the setting of targets, failed to provide a comprehensive account of the AFC's sourcing of final approval and the subsequent placement of order with SOCAR Trading SA. Minutes of the Petroleum Procurement Committee meeting dated 3 April 2014 indicated that the deal with SOCAR had been concluded following "ministerial direction". Explanations and documentation put forward by the Minister for Energy and Health, as well as by the then Chair EMC, provided an element of context, particularly in terms of the stated Government policy of price stability. Furthermore, the Minister stated that the direction provided to EMC was limited to, and in line with, Government's efforts at reducing consumer prices. In addition, the Minister claimed that EMC was advised to maintain its targets and widen its supplier base. This was corroborated by the then EMC Chair. Notwithstanding the review of emails exchanged by the AFC and clarifications put forward by the Minister and the then Chair EMC, the NAO is of the opinion that documentation detailing final approval issued by the Committee and the subsequent placement of orders with SOCAR Trading SA was incomplete. This rendered it impossible for the Office to determine the extent of ministerial direction exercised and responsibilities assumed by the AFC. Given the magnitude of the agreement reached with SOCAR Trading SA, this Office considers the lack of documentation as detracting from the process' accountability and a shortcoming in terms of governance.

The NAO reviewed all hedging contracts that EMC entered into with third parties. From the verification carried out, the NAO confirmed that all hedging contracts corresponded to the entries prepared by EMC, and therefore, this Office considers hedging-related data provided by the Corporation in this respect to be complete and accurate. The NAO verified that invoices and settlement statements issued by the various brokers backed all of the corresponding individual monthly settlements as reported by EMC. The Office positively noted that all invoices precisely corresponded to the settlement data recorded and provided by EMC.

Finally, during 2014, EMC registered a loss of €8.6 million with respect to hedging undertaken on crude oil and a loss of €5.5 million with respect to unleaded petrol and diesel hedging. Central to the loss registered by EMC with respect to hedging on crude oil, unleaded petrol and diesel were the significant market movements recorded during Q4 2014, which were not and could not have been anticipated when such agreements were entered into. On the other hand, the Corporation registered a gain of €5.5 million in terms of FX hedge undertaken for fuel oil and gasoil and an additional €2.5 million gain from FX hedges entered into with respect to unleaded petrol and diesel requirements.

Audit of Gozo Channel Co. Ltd: Public Service Obligation Bid Feasibility and Operational Considerations

On 23 December 2013, the Minister for Finance requested the National Audit Office (NAO) to report on whether due diligence was exercised in the Gozo Channel Company Limited's (GCCL) bid, made jointly with the Gozo Ferries Company Limited (GFCL), for the provision of maritime transport between Malta and Gozo,

awarded to the Joint Venture in 2011. The NAO was also requested to review the GCCL's operations for 2010 to 2012. The Office selected fuel procurement, payroll costs and ticketing revenue on the basis of materiality and, where deemed necessary, extended the scope of review to include 2014.

The financial results registered were below the projected profits of the Public Service Obligation (PSO) bid, with adverse variances of €0.9 million in 2011 and €2.2 million in 2012. The factors contributing to these variances included the PSO payment, ticketing and other operating revenue, as well as payroll and vessel costs. Justifications cited by the GCCL were the drawing forward of the effective date of the PSO, the payment of a dividend, as well as roadworks and the construction of the Cirkewwa Terminal. Other explanations included lost ticket revenue arising from traffic-related discrepancies, salary increases resulting from new collective agreements and the inability to enter into fuel hedging agreements. According to the NAO, certain initiatives were not seen through due to insufficient action by the GCCL, such as the case of fuel hedging. Other results were not attained due to the overambitious targets set, with commercial space leasing as a case in point. Additional factors that limited the GCCL's attainment of the PSO targets were beyond its control, such as the roadworks undertaken during the reviewed period. The NAO also noted that the GCCL incurred capital costs on behalf of the GFCL, with €8 million outstanding in 2014. As things stand, should the GFCL fail to settle these dues, the GCCL's going concern status would be uncertain. Nevertheless, the GCCL registered a marginal profit of €59,000 in 2014.

The GCCL's fuel expense for 2010 to 2012 amounted to €9.8 million, with the NAO noting multiple instances when the procurement of fuel was not regulated by any contractual agreement, the value of which exceeded €5.6 million. Other concerns related to difficulties in establishing the quantity and quality of fuel procured, with instances noted where the GCCL's and Contractor's meter readings were left empty and insufficient laboratory testing ascertaining compliance with specifications.

Payroll costs incurred by the GCCL amounted to €5.9 million, €5.8 million and €6 million between 2010 and 2012 with a staff complement of 249, 237 and 228, respectively. Shortcomings identified by the NAO with respect to overtime, which amounted to €1.8 million over the audit period, centred on the fact that no formal system of authorisation was in place. Further accentuating this concern were instances of excessive overtime, at times exceeding 1,000 hours during the year, with the highest registering over 1,300 hours. Other concerns related to the Company-wide inclusion of break periods as part of the working week as well as notable errors in the computation of salaries.

Ticketing revenue represents the GCCL's main source of income, with over €30 million earned between 2010 and 2012. Inconsistencies in passenger and vehicle data registered at Cirkewwa and Mgarr raised the NAO's concern, with potential loss of ticketing revenue estimated at an aggregate of €1.5 million. Passenger variances were highest in 2012, at 106,000, while that of vehicles stood at 21,000 in 2014. Another shortcoming related to the delays in the remittance of cash generated through ticket sales to bank. The balances unpaid to the GCCL were most pronounced in the case of a number of ticket sellers, who averaged daily undeposited sales for particular months as high as €27,394, €28,211 and €33,694.

A Comparison of Crude Oil Prices and Electricity Tariff Band Structures

During the Public Accounts Committee sitting dated 10 June 2015, the National Audit Office was requested to review fluctuations in the international price of crude oil and changes in electricity tariff rates charged. The report, based on data provided by the Enemalta Corporation and the Malta Resources Authority, covers the period March 2008 to May 2015. The National Audit Office analysed changes in residential, non-residential and domestic electricity tariff rates against crude oil prices.

An Investigation of matters relating to the Emphyteutical Contract between Government and the General Workers Union

On 16 March 2015, the National Audit Office was requested to investigate whether: the provisions of the emphyteutical contract between Government and the General Workers Union (GWU) were breached as a result of the lease of part of the Union's premises to Automated Revenue Management Services Limited (ARMS); the Government Property Department (GPD) was aware and had approved this lease; other Government officials were involved; other lease agreements were in place and determine whether these were in accordance with the Government-GWU contract.

In 1957, the Government granted the GWU the perpetual emphyteusis of a site on which to build its headquarters for trade union activities and its Union Press. In 1997, the contract with Government was modified permitting the Union to transfer, assign or let part of its building to any company in which it had more than 51 per cent shareholding. In May 2015, the GWU redeemed the yearly ground rent of €801 against payment of €16,026, rendering the property freehold. Prior to the redemption, in April 2014, the GWU leased part of its premises to ARMS against the annual payment of €61,950.

The NAO established that between April 2014 and May 2015, the lease between the GWU and ARMS was in breach of the Union's contract with Government, as the GWU did not have any shareholding in ARMS. The redemption of ground rent rendered the breach less straightforward due to the opposing views expressed by the GWU and the GPD. The Union maintained that the redemption rendered obsolete all conditions stemming from the contract with Government, while GPD argued otherwise. The NAO aligns with GPD's views and recommends that the Department actively considers instituting legal action against the GWU for the breaches prior to redemption. The NAO also urges the GPD to establish, through legal action, whether the conditions of the contract survive ground rent redemption, and in the affirmative, institute judicial action against the Union or any other type of action deemed suitable.

In the NAO's opinion, while the GPD never approved the lease, it took limited action to avert and/or remedy the situation. The GPD maintained that it was unaware of the GWU's arrangement with ARMS until the press exposed this matter even though correspondence on file indicated that the Union had previously approached the GPD with regard to the possible lease of parts of its premises to Government entities. According to a former GPD senior official, the Union claimed that the 'pertinent authorities' were aware of this, yet the NAO was unable to establish a complete understanding of this matter as the GPD provided limited details while the Union failed to cooperate. Regardless, the GPD prepared a memorandum, intended for Parliamentary Secretary OPM, outlining that the matter could be resolved through a parliamentary resolution, yet failed to take the necessary action for its endorsement. Nevertheless, the Union entered into a lease contract with ARMS without the required authorisation. The only action taken by the GPD, following press coverage on the matter, entailed enquiries addressed to the Union about the ARMS lease. This was deemed insufficient by the NAO.

The NAO established that portions of the GWU premises were, aside from ARMS, being utilised as a tourist attraction, a restaurant, a travel agency and an insurance agency. The use of parts of the GWU premises by Malta 5D and Untours Insurance Agents was regular in view of the Union's shareholding. However, the occupation by Sciacca Grill and Vjaggi Untours was not as the Union was not the majority shareholder. While the NAO is certain of the irregularity of Sciacca Grill and Vjaggi Untours prior to the redemption of ground rent in May 2015, the situation is less clear following this development. This Office is of the opinion that the establishment of regularity or otherwise should be determined by the appropriate judicial forum.

An Investigation into the Issuance of Encroachment Permits between December 2012 and March 2013

On 25 August 2014, the Auditor General was requested to investigate the encroachment permits issued during the period immediately preceding the 2013 general election. According to media coverage cited in the request, 100 permits were issued during the last two months of the previous administration, when Government usually issued 150 permits on an annual basis. In light of these concerns, the National Audit Office (NAO) analysed the frequency of permits issued during the period 1 December 2012 to 8 March 2013 by comparison with other periods, as well as the regularity of such permits.

In addressing the first objective of this audit, the NAO limited its review to new encroachment permits issued during the period under review. This was motivated by the fact that permits up for renewal were automatically issued by the Department, subject to the payment of dues, requiring no other intervention whatsoever. The NAO established that the number of permits issued between December 2012 and March 2013 was 25. The approval of encroachments was contingent on the nature of the permit requested and in this context, the NAO noted that, out of the 25 permits issued, 13 were authorised by the then Minister for Fair Competition, Small Business and Consumers, while the remaining 12 were sanctioned by the Government Property Department (GPD) and other public sector entities. Eleven permits were issued between 23 February and 8 March 2013, with seven permits issued between 4 March and 8 March 2013. Out of these eleven permits, eight were authorised by the Minister.

Drawing comparisons with other periods, the NAO established that nine permits were issued between December 2010 and March 2011, twenty permits in the corresponding 2011/2012 months, and six in 2013/2014, as against the 25 permits issued in 2012/2013.

The second objective of this audit entailed the determination of the regularity, or otherwise, of permits issued during the period December 2012 to March 2013. The NAO noted that an element of discretion was exercised in establishing encroachment fees, with the GPD, at times, applying rates that were below the minimum threshold set for permits relating to particular categories. Fees charged, once established, remain unaltered despite successive renewals of the permit. The GPD's failure to address this matter inevitably results in the unfair application of rates, with establishments bearing similar characteristics and requesting similar permits being charged significantly different rates, merely due to the date when the permit was first issued.

In the case of permits issued for the placing of tables and chairs, the NAO had reservations about the standard rate applied, as it failed to take into consideration various factors that determine the profitability, or otherwise, of the site. The GPD charged a flat rate of €23 per metre squared per annum. Furthermore, although applicants were required to submit Malta Environment and Planning Authority (MEPA) clearance with respect to particular permits, the GPD issued the relevant permits even in cases when such approval was not provided.

Annex D - Summaries of IT Audit Reports

Information Technology Audit: Commerce Department

The Auditor General presented to the Hon. Speaker of the House of Representatives another Information Technology (IT) audit report that this time deals with the Commerce Department. This Report essentially analyses and comments upon the overall operational effectiveness of the IT and Information Systems currently being used by the Department.

One of the principal aims of this assignment was to collect and analyse evidence to determine whether the Commerce Department has the necessary controls to ensure that its IT and Information Systems maintain data integrity, safeguard assets, allow organisational goals to be achieved effectively and are conducive to making efficient use of the Government IT related resources.

The report reviewed seven software applications used within the Commerce Department in terms of ease-of-use, security controls, account management and hosting services.

When reviewing the Department's effective use of the License Management System (LMS), the Trademarks System (TMS) and the Trademarks web application (TMview), the National Audit Office (NAO) noted that:

- 1,944 trade licences were issued through the LMS in 2013, in comparison to 1,188 in 2012.
- 999 trademarks were registered in the TMS between July 2013 and July 2014.
- 52,062 trademarks, which were provided by the Commerce Department, can be accessed from TMview, out of 24,477,698 trademarks that were placed by various participating Intellectual Property Offices worldwide.

From a physical security aspect, the NAO noted that the Commerce Department lacks in physical access controls. In this regard, the NAO was informed that discussions are underway between the related stakeholders to improve the current situation. Whilst reviewing the Information Security of the Department, the NAO noted that whereas the IT applications hosted at the Malta Information Technology Agency (MITA) are covered by the agency's Business Continuity Plan (BCP), the Department does not have a formalised BCP at a department level. The NAO recommended that the department's BCP is drawn up and adopted.

Information Technology Audit: Housing Authority

The National Audit Office (NAO) has issued an Audit Report on the overall operational effectiveness of the Information Technology (IT) and Information Systems (IS) currently being used by the Housing Authority.

One of the main aims of this Report was to collect and analyse evidence to determine whether the Housing Authority has in place the necessary controls to ensure that their IT and Information Systems maintain data integrity, safeguard assets, allow organisational goals to be achieved effectively and assist in making efficient use of the Housing Authority's IT related resources.

During this audit, NAO reviewed 20 software applications presently used by the Authority as well as the entity's website. This Report includes a number of key findings and recommendations related to, amongst other things, the need for a formally documented ICT strategy and improved system backup procedures in line with IT best practices. The NAO positively noted that the Authority is actively working toward issuing a tender for the procurement of an integrated estate management IT system.

Furthermore, the NAO examined the Authority's IT operations and made recommendations regarding the best use of existing multifunction printers as well as the need for improved management of the entity's server's memory space and for a formally documented data retention policy.

This Office also made recommendations related to information security. In this regards, NAO suggested that an IT business impact analysis and an IT risk assessment exercise is carried out so that an IT business continuity plan can be compiled.

Annex E - EU Contact Committee Resolutions and Statement

Resolution on independent assessments of national public economic policies

CC-R-2015-01

The Contact Committee -

Having reviewed the proposals for new activities put forward by the liaison officers in 2015;

Decides to establish an expert network aimed at the enhancement of cooperation among SAIs with reference to the independent assessments of national public economic policies presented to national parliaments;

Agrees that this activity shall be carried out in accordance with the Activity Proposal attached to this resolution;

Asks Liaison Officers to report to the Contact Committee on the results of this activity in an appropriate way.

Decides that this Resolution should be posted on the Contact Committee website.

Riga, 19 June 2015

SAI Rapporteur: SAI of Latvia
Original Language: EN

Resolution on prevention and fight against irregularities and fraud

CC-R-2015-02

The Contact Committee,

Having reviewed the proposals for new activities put forward by the liaison officers in 2015;

Decides to establish a working group for the enhancement of cooperation among SAIs with reference to the prevention and fight against irregularities and fraud aimed at protecting EU revenues;

Agrees that this activity shall be carried out in accordance with the Activity Proposal attached to this resolution;

Asks Liaison Officers to report to the Contact Committee on the results of this activity in an appropriate way.

Decides that this Resolution should be posted on the Contact Committee website.

Riga, 19 June 2015

SAI Rapporteur: SAI of Latvia
Original Language: EN

Resolution on the Audit of the Working Group on Structural Funds

CC-R-2015-03

The Contact Committee -

Recalling that the Working Group on Structural Funds is undertaking a progressive programme of collaborative work which began in 2000 and has continued since with reports presented to this Committee respectively in December 2004, 2006, 2008, in October 2011 and in October 2013;

Recalling the current mandate, given to the Working Group by the 2013 Contact Committee, to build on their earlier work by carrying out a parallel audit on the **“Analysis (of types) of errors in EU and national public procurement within the structural funds programmes”**;

Welcomes the report presented by the Working Group and particularly:

- the fact that the topic chosen has attracted contributions from many Member States SAIs;
- the wide coverage of the different Structural Funds and Operational Programmes that the Working Group has achieved;
- the detailed findings that the Working Group has put forward;
- the recommendations made by the Working Group members;

Considers that the audit approach based on a common audit plan and the reporting of the findings by the SAIs of the Working Group makes the report very accessible to potential users;

Considers that the results are likely to be of significant value both to current and future Contact Committee members in their own work on the audit of Structural Funds as well as to the administrative authorities at national or EU level in developing or improving the underlying systems;

Urges each Contact Committee member:

- to publicise and distribute the report and its findings to a wider audience within their Member State and within the scope of their own reporting mandates; and
- to notify the Working Group (through the Liaison Officer network) of any actions taken to publicise the report including the audience targeted and any impact or feedback received;

Recommends that the report also be posted on the Contact Committee’s website;

Thanks the SAIs of the Czech Republic, Germany (Chair), Italy, Latvia, Malta, the Netherlands, Poland, Portugal and the Slovak Republic (members) and the SAIs of Bulgaria, Estonia, Finland, Hungary, Sweden and the European Court of Auditors (observers) for their input to the report; and is especially grateful to the Working Group’s Core Group of Germany and the Netherlands for their additional role in developing the approach and coordinating the final report;

Recognises the Working Group’s achievement in maintaining its widely inclusive group of participants;

Resolution on the Audit of the Working Group on Structural Funds (cont.)

Welcomes

- the Working Group's proposal to pursue its work in the years 2015, 2016 and 2017 with a review focusing on the "contribution of the Structural Funds to the Europe 2020 strategy in the areas of education and/or employment";
- that the Working Group intends to present the relevant audit report to the 2017 Contact Committee; and
- the fact that this subject has the potential to be of immediate and direct interest to all Contact Committee Members.

Invites all SAIs to participate in the Working Group and to consider joining the Core Group;

Mandates the Working Group to develop its ideas further and to take forward this work;

Decides that this Resolution should be posted on the Contact Committee website.

Riga, 19 June 2015

Reporting SAI: Germany

Resolution of the Contact Committee 2015 on Public Sector Accounting Standards in the Member States of the European Union (EPSAS)

CC-R-2015-04

The Contact Committee –

recognising that, as a result of Council Regulation 2011/85/EU, the topic of common public sector accounting standards has acquired considerable importance for the EU SAIs;

acknowledging the agreement adopted by virtue of its resolution CC-R-2012-05, considers any discussion about this matter as an issue of major interest for the cooperation within the Contact Committee of the EU SAIs and intends to closely observe developments in this matter;

acknowledging the agreement adopted by its resolution CC-R-2013-04 to the effect that the EPSAS Task Force is to closely monitor the process, to actively participate in the planned EPSAS Working Group and to report to the Contact Committee;

acknowledging the agreement adopted by its resolution CC-R-2014-01 to the effect that the SAIs are to continuously liaise with the respective national finance ministries, to appropriately contribute to the work of Eurostat's EPSAS Task Force and to make the information available to the Members of the Contact Committee;

bearing in mind that the European Commission is preparing the development of Public Sector Accounting Standards for the EU Member States (EPSAS);

taking regard to the activities of the Eurostat's Task Forces on EPSAS Standards and EPSAS Governance;

taking into account that the Task Force on EPSAS Governance is to be replaced by an EPSAS Working Group effective as from September 2015;

bearing in mind that, in the short term, the European Commission will not publish any separate communication on EPSAS and that a proposal for an EPSAS Framework Regulation is likely to be submitted in 2016;

resolves:

- that the reporting SAIs of France and Germany are to continue monitoring current developments and, from September 2015, report in particular on the activities of Eurostat's EPSAS Working Group;
- that the EPSAS Task Force is to direct its activities towards actively monitoring the development of the Commission's proposal for a framework regulation;

resolves to post this resolution on the Contact Committee's website.

Riga, 19 June 2015

Reporting SAIs: France and Germany

Statement

Ensuring fully auditable, accountable and effective banking supervision arrangements following the introduction of the Single Supervisory Mechanism

We, the Contact Committee of the Heads of the Supreme Audit Institutions (SAIs) of the EU Member States and the European Court of Auditors (ECA),

recognising that the establishment of the Single Supervisory Mechanism (SSM) in November 2014 changed the architecture of EU banking supervision by conferring on the European Central Bank (ECB) the responsibility for supervision of banks in the euro area;

noting that this includes almost 130 'significant' banks which come under direct ECB supervision representing a total asset value of €22 trillion;

recalling the Contact Committee statement of 8 May 2013 on the *importance of appropriate audit and accountability arrangements in the Economic and Monetary Union and EU economic governance* as well as its statement of October 2011 on the *impact of the European Semester and other recent developments in EU economic governance of the Supreme Audit institutions of the Member States of the European Union and the European Court of Auditors*;

emphasising the fundamental principles in these statements of ensuring sufficient transparency, appropriate accountability and adequate public audit when public funds are at stake;

recognising that the introduction of the SSM brings new challenges to respecting these principles, as well as highlighting previously existing weaknesses, notably:

- a significant number of SAIs have partial or no mandate to audit their national supervisors and their (supervisory) activities, especially in the case when this is undertaken by central banks;
- a number of national SAIs have lost the mandate to audit the supervision of significant banks in their respective Member States with the transfer of the supervision responsibility to the ECB since the introduction of the SSM; and
- some national supervisors do not account or report to any national authority in respect of their supervisory activities;

noting that specific financial institutions listed in the CRD IV directive¹ are excluded from supervision by the ECB, as well as from the jurisdiction of national supervisors;

noting that public audit of banking supervisors and their activities (including unrestricted access to all relevant information), even when under the responsibility of central banks, is a standard procedure in countries such as the USA, Canada, Australia, Denmark, Sweden, France and Germany;

recognising that the ECA is preparing its first audits of the ECB's supervisory activities, but noting that the ECB considers that the ECA's mandate for the audit of operational efficiency of the ECB's management does not encompass policies and decisions related to its supervisory tasks;

¹ Article 2(5) of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

Statement (cont.)

Ensuring fully auditable, accountable and effective banking supervision arrangements following the introduction of the Single Supervisory Mechanism (cont.)

highlighting that a number of SAIs consider that there is an urgent need to fill the possible audit gaps that have emerged at national level due to previous audit mandates of national SAIs over banking supervision not having been compensated by the ECA's mandate at ECB level;

Conclude that:

An audit gap has emerged in those euro area countries where previous audit mandates of national SAIs over national banking supervisors are not being replaced by a similar level of audit by the ECA over the ECB's supervisory activities. There is a need to clarify what consequences, if any, there will be for the SAI's audit mandate if a non-euro area country joins the SSM. Furthermore, an audit gap remains in some countries where audit mandates of national SAIs over national banking supervisors are limited or absent altogether.

A fully auditable and accountable banking supervision in the European Union can only be achieved by national SAIs and the European Court of Auditors working closely together in order to close the audit gap, and in the meantime to minimise the risks arising from it;

Recommend to raise awareness about the issue of ensuring fully auditable, accountable and effective banking supervision arrangements by:

for SAIs at national and European level:

- **encouraging Member State SAIs to inform their own national governments and parliaments about these issues;**
- **inviting Member State SAIs to take part in the planned collaborative audit** of the supervision of individual non-significant banks in selected EU countries to be started in 2015, the results of which will be presented to the Contact Committee;

for EU institutions and national authorities:

- **encouraging the European Parliament, the Council of the European Union, the European Council and the European Commission to consider a strengthening of the ECA's mandate** concerning the audit of the ECB's single supervisory mechanism, including clarifying the scope of Art. 20(7) SSM regulation, and/or changing Art. 20(7) SSM regulation and Art. 27(2) ESCB and ECB Statute, if necessary;
- **encouraging national governments and parliaments to seek an extension of the audit mandates of their national SAIs** in line with the possibilities the Capital Requirements Directive IV (CRD IV) offers to SAIs in Art. 59(2), so as to ensure that it also encompasses the audit of central banks and financial supervisory authorities;
- **encouraging the European Commission** to address these issues in the first evaluation of the SSM, the results of which will be published by the end of 2015;

Emphasise the importance of taking the above actions urgently and in a co-ordinated manner as an appropriate response to the ongoing financial crisis and the opportunity it brings to establish fully auditable, accountable and effective banking supervision arrangements. This should also extend to the activities of financial institutions such as insurance or investment.

Statement (cont.)

Ensuring fully auditable, accountable and effective banking supervision arrangements following the introduction of the Single Supervisory Mechanism (cont.)

The Chair of the Contact Committee will send this statement to the European Parliament, the Council of the European Union, the European Council, the European Commission, the Eurogroup as well as the national parliaments and governments of the EU Member States.

Annex F - Malta welcomes the EUROSAI WGEA for its 13th Annual Meeting

NAO Malta Article

The 13th EUROSAI WGEA Annual Meeting was held in Malta, between 6 and 8 October 2015. The main environmental topic for the meeting was auditing issues related to industrial waste and chemicals. The crosscutting audit topic was Reaching the Stakeholders of Supreme Audit Institutions. A training seminar in relation to Auditing Environmental Impacts of Agricultural preceded the Annual Meeting on 5 October 2015.

Seventy-one delegates from 30 state audit institutions, including representations from the WGEAs of the International Organization of Supreme Audit Institutions (INTOSAI) as well as the Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS) participated in the Annual Meeting.

The training seminar focused on adverse environmental impacts of agriculture as well as measures for managing such impact and supporting EU agricultural schemes. The seminar also encompassed presentations and discussion on SAIs' experiences relating to the conduct of environmental audits concerning the agriculture sector. Ms. Sylwia Gawronska (European Environmental Agency), Mr. Jérémie Crespin (European Commission, Directorate-General for Environment) and Ms. Christina Borchmann (European Commission, Directorate-General for Agriculture and Rural Development) delivered keynote speeches.

Mr. Anthony C. Mifsud, Auditor General of Malta, as the host and Dr. Alar Karis, the Auditor General of Estonia, as the Chair of EUROSAI WGEA, formally welcomed the delegates to the 13th EUROSAI WGEA Annual Meeting. The main theme addressed the topic: Auditing Issues related to Industrial Waste and Chemicals. Keynote speeches were delivered by Dr. Cathy Maguire (European Environmental Agency), Mr. Kevin Gatt (University of Malta) and Ms. Marie Dollhofer (BiPRO GmbH).

The theme relating to industrial waste and chemicals was further explored through SAI presentations, as well as plenary and group discussions. Discussion in relation to this topic mainly focused on treating industrial waste, hazardous waste management, medical waste treatment, regulating the management and disposal of solid waste as well as air pollution and climate change policy.

The second theme of the Annual Meeting, Reaching the Stakeholders was introduced through keynote speech by Dr Åge Johnsen, (Oslo and Akershus University College of Applied Sciences). A number of SAIs presented the methods and approaches adopted to ascertain that findings as well as conclusions arising through audit work reach stakeholders.

A businesses meeting concluded the Event where EUROSAI WGEA Secretariat presented a progress report and the work-plan for the forthcoming period. INTOSAI WGEA also presented a progress report and introduced its forthcoming initiatives. Additionally, OLACEF WGEA discussed the findings and conclusions of the Coordinated Audits of Water Resources.

The business meeting also entailed progress reports on the status of cooperative audits, namely Audit of Funds Allocated to Disasters and Catastrophes as well as the audit on the Protection of the Bug River drainage basin waters against pollution. This session also incorporated a plenary discussion on ongoing EUROSAI WGEA activities, including the potential for further cooperative audits, as well as continuous cooperation between SAIs.

More information on the Event is available on EUROSAI WGEA's portal at <http://www.eurosaiwgea.org/meetings/Pages/13th-Annual-meeting.aspx>

Annex G - EUROSAI Contribution to Good Governance and Reliable Auditing of the Public Sector by Modern SAIs

NAO Malta article

Introduction

Since its inception 25 years ago, EUROSAI has consistently promoted good governance principles and reliable auditing of the public sector by European SAIs, and encouraged audit institutions and audited entities to act always in the public interest. These initiatives are increasingly considering sustainability issues now incorporated within the United Nations (UN) Post-2015 Development Agenda, transparency, and accountability. Moreover, through its various activities, and in the setting up of the individual Working Groups, EUROSAI has encouraged SAI capacity building, knowledge sharing and the promotion of professional standards in line with its strategic goals.

This paper will particularly focus on the benefits of EUROSAI membership by NAO Malta. This participation in EUROSAI will be assessed in terms of the extent to which this participation contributed to knowledge sharing, the implementation of INTOSAI professional standards and capacity building of NAO Malta thus strengthening the Auditor General's audit mandate; and how it encouraged NAO Malta to further promote good governance in the Maltese public sector.

Benefits from EUROSAI events and Working Groups' websites

A key benefit of EUROSAI Membership is the attendance of Congresses, seminars and training events. For instance, in 2014, a number of NAO representatives attended and actively participated in eight EUROSAI events. These activities have increased the skills set and enhanced professional development of NAO Malta officers. NAO Malta officers have also benefited from the extensive professional material included in the EUROSAI and Working Groups websites.

Encouraging independence and good governance

Moreover, initiatives by EUROSAI to strengthen and support SAI independence were particularly welcomed by NAO Malta as the latter attributes the highest importance to ethical, independent, and professional behaviour and due care by all NAO employees. Joint conferences held in conjunction with other INTOSAI regions, and cooperation with INTOSAI Working Groups have also widened the horizons of EUROSAI Members, including that of NAO Malta, and enabled EUROSAI members to familiarise themselves with the opportunities, risks and challenges faced by international audit institutions in promoting transparency, accountability, good governance and effective oversight in the public sector.

Promulgation of INTOSAI Professional Standards by EUROSAI and encouraging Quality Control and Assurance Systems

In addition, the promulgation of INTOSAI professional standards by EUROSAI has also aided NAO Malta in carrying out high quality audit work. Furthermore, the document issued by EUROSAI *Establishing an Audit Quality Management System within a Supreme Audit Institution* assisted many SAIs, including NAO Malta, in consolidating their quality control and assurance systems.

Encouraging Environmental Sustainability

EUROSAI has always been at the forefront in promulgating sustainability issues with a particular focus on environmental sustainability. A number of the environmental issues previously discussed at EUROSAI have now been incorporated within the UN Post-2015 Development Agenda. Safeguarding the environment is a critical issue in Malta, particularly due to its small size. Participation in the EUROSAI Working Group on Environmental Auditing, in particular those on audit methodology and risk assessment techniques in environmental audits, proved pivotal in strengthening the performance audit capacity of NAO Malta.

NAO Malta embarked on a number of environmental performance audits since the environment has been one of the pillars of the last three Legislatures of Government and environmental obligations have become ever more stringent not only nationally but in fulfillment of European Union requirements. NAO Malta also participated in two EUROSAI environmental parallel audits on *Preventing and Dealing with Pollution from Ships at Sea and in Ports, and Safeguarding Malta's Groundwater*. These audits concluded that good governance by the audited entities needed to be enhanced through improved structures, procedures and information systems. In the latter audit, it was concluded that adaptation measures to safeguard Malta's groundwater from climate change needed to be stepped up. Apart from being of benefit to the auditees concerned, these audits enabled SAI capacity building, knowledge sharing, and enhanced audit impact since European SAIs simultaneously presented an audit report on the same environmental issue to their various Legislatures. In addition, issues from the report *Safeguarding Malta's Groundwater* that were common among SAIs participating in the parallel audit were incorporated in a joint publication *Adaptation to Climate Change – Are Governments Prepared?* This report was presented by EUROSAI WGEA at various forums and disseminated among international stakeholders.

Encouraging Social Sustainability

Issues of social sustainability were also reviewed by EUROSAI, in particular during the 2008 EUROSAI Congress which discussed audits of programmes in the field of education and audit of programmes for the professional integration of the disabled. Indeed, as in many other EU Member States, the sustainability of its healthcare and pensions systems is a main issue for Malta. These factors spurred NAO Malta to conduct performance audits in the field of social sustainability. In particular, three performance audits; one on the provision of residential long-term care for the elderly through contractual arrangements with the private sector, one on the class size in state primary schools, and one on employment opportunities for registered disabled persons; were carried out. In the first audit, it was found that, at the time of the audit, the availability of long-term care was not sufficient to cater for an ageing population. The second performance audit noted that the class size in primary state schools is very small, resulting in increased operational costs that may not be sustainable in the future. In the third audit, a number of lacunae were noted in the organisation of the public corporation entrusted with ensuring employment opportunities for registered disabled persons, the Employment and Training Corporation. Such weaknesses including inadequate management information systems; low effectiveness of training initiatives due to poor take-up by registered disabled persons; and limited interface by the Corporation with registered disabled persons and employers. In all the three audits, NAO provided recommendations on how good governance in the above three cases can be improved.

Encouraging economic sustainability

NAO Malta opines that the third concept of economic sustainability should be given further attention by EUROSAI. The latter can be a forum for knowledge sharing and increasing SAIs' audit capacity in providing support to Governments to consistently attain economic and fiscal sustainability, in particular, that relating to public finances and debt sustainability, and through economic, efficient and effective use of resources, thus potentially averting another economic and/or financial crisis.

Benefits of EUROSAT IT Working Group

Participation in the EUROSAT IT Working Group has enabled NAO Malta to consolidate its IT Audit Function. NAO Malta bases the execution of its IT audit on ISSAI 5310 *Information System Security Review Methodology – A Guide for Reviewing Information System Security in Government Operations* and COBIT methodology, both promoted by EUROSAT. Furthermore, although NAO Malta does not participate directly in EUROSAT joint or parallel IT audits, the themes of these audits, such as e-government and data protection, were nonetheless reviewed by NAO Malta IT Audit team in some of its IT audits with the results pertaining to these areas included in separate chapters in the respective Reports issued. Training sessions on COBIT were also key in strengthening the IT audit methodology of SAIs, including that of NAO Malta. These training events offer plenty of opportunities for networking and learning from information sessions.

Moreover, following participation in EUROSAT meetings, in 2013, NAO Malta held its own IT Self Assessment with the assistance of a moderator from the SAI of Austria. The document management and file-naming convention proposals identified during this self-assessment were the precursor to the e-filing project embarked on subsequently by NAO Malta.

Perhaps one should at this stage comment on the issue of open data, which is one of EUROSAT's present discussion points. In Malta, the Freedom of Information Act has been enacted, granting citizens access to information held by public authorities. However, presently, not all government information is readily available online. NAO Malta may encourage Government authorities to produce open data which offers better opportunities for transparency and accountability.

Enhancement of Ethical Culture

The Task Force on Audit and Ethics has contributed significantly to the issue of ethical and professional behaviour as well as integrity by both SAIs and auditees. NAO Malta's active participation in the Task Force consisted in contributing a paper titled *Managing Ethics in a Small SAI*, taking part in surveys, and attending Task Force meetings. This participation has reinforced NAO Malta's ethical culture and helped it maintain and enhance ethical leadership.

Although NAO Malta has never conducted an ad hoc ethics audit, ethical issues consistently crop up during a number of high-profile investigations, commissioned by the Public Accounts Committee, that are brought to the attention of Parliament. NAO Malta also refers to the rich depository of material in the Task Force website to further augment its capacity in auditing ethics in the public sector and to keep abreast of developments in ethical matters.

The paper on *Managing Ethics in a Small SAI* makes reference to NAO Malta's Code of Professional Conduct, which addresses the various aspects of ethical behaviour such as confidentiality, conflicts of interest, independence and objectivity. Moreover, NAO Malta employees are all required to take a sworn oath of secrecy precluding them from divulging any information acquired during the course of their duties unless there is a professional duty to disclose. However, Malta's small size and the resulting fact that the pool of expertise is rather limited give rise to a number of conflict of interest situations at NAO Malta level. The Maltese Audit Institution encounters difficulties in sourcing independent experts, where required, and very often faces conflict of interest situations and audit capacity limitations rendering job rotation a more demanding task.

Conclusion

As highlighted in this paper, through its various initiatives EUROSAI has contributed to building the capacity of modern European SAIs, including NAO Malta, and supported them in their quest to promote effective management and good governance by auditees. EUROSAI can continue to be at the forefront of developments in the auditing field, and encourage further collaboration among European SAIs in their endeavours to promote the highest level of transparency, accountability and integrity.

Cooperation with the European Union and other international bodies could be enhanced to further spur the introduction of Public Sector Accrual Accounting in all European countries, and prepare the SAIs of the countries concerned to gradually switch their financial auditing methods to the audit of an accruals based set of public sector financial statements. It can also promote the alignment of budgets, statistics and public sector financial statements. This would be a significant step ahead in promoting good governance. EUROSAI can also contribute to the discussion on the sustainability of public finances in European countries and the contribution that strong public financial management can offer to a nation's development and stability.

Since the issue of sustainability is critical to a nation's success, the opportunity exists for EUROSAI to encourage SAIs to promote sustainability and integrated reporting by public sector entities, thus providing a more comprehensive view of performance. It could also provide support to SAIs in developing performance measurement systems to gauge their own effectiveness and in further developing their human resource functions. It could also make more use of web-based applications and social media to communicate issues of good governance. EUROSAI could also consider the carrying out of a parallel audit on revenue received through e-government sources.

NAO Malta will strive to enhance even further its relationship with EUROSAI in a number of areas such as further consolidating its IT audit function through the carrying out of an IT Audit Self Assessment, carry out specific audits on ethics, and perform a number of environmental audits on issues that are yet untackled.

On its 25th anniversary, we acknowledge EUROSAI's key role in promoting SAI performance excellence as well as good governance in the public sector. NAO Malta augurs that communication between EUROSAI members and with external stakeholders is strengthened to consistently build on the existing pillars of good governance, communicate effectively to all stakeholders any current developments in good governance issues and the auditing field, and ensure effective leadership and ethical behaviour by SAIs and auditees.

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NAO Malta website

<http://www.nao.gov.mt/>

EUROSAI Websites

<http://www.eurosai.org/en/about-us/about-eurosai/>

<http://eurosai-it.org/nowa/index.php/en/>

<http://www.eurosaiwgea.org/>

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Annex H - Newspaper Coverage of the Results of the Auditor General's Report issued in 1935

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THE TIMES OF MALTA

Wednesday 27th March, 1935

AUDITOR GENERAL'S REPORT KEY DEPARTMENT WITH DEPLETED STAFF

PART I

It has been customary for Heads of Departments to publish their annual report on the work and administration of their department often after the lapse of almost a year.

The Auditor General's Report for 1933-1934 is a case in point. This report was published on the 15th March, fifteen days before the commencement of a new financial year.

The value of such a report is thus considerably diminished, as, coming out so late, it is often concerned with mistakes that have been already rectified, and with conditions which have altogether changed with the lapse of time.

In paragraphs 23 and 24 of his detailed report, the Auditor General, Colonel A. Trapani, mentions certain factors that may have caused delay in this particular instance. It is stated that the Lotto (the Government Lottery) has caused an accumulation of departmental work.

"Besides the ordinary routine work of auditing accounts," states the report "various financial questions are referred to this office and must be examined in all their details." Further, the Auditor General states that the allocation of four or five clerks for the preaudit of Lotto winnings on Saturdays and Mondays, seriously interferes with the normal work of his department.

The Auditor General admits the extreme importance of keeping the audit of accounts up-to-date and agrees "that the scope of examination should not be reduced in order to bring up arrears." This is admittedly of such extreme importance, that one views with misgiving the statement that, under present conditions, the work of his department "cannot but necessarily fall in arrear."

If the work of the Audit Department, owing to lack of personnel or otherwise, falls into arrears, this engenders possibilities of abuse much worse under one-man government than under representative institutions. While accepting the fact that the Department appears to be understaffed, this cannot be accepted as a bona fide excuse for delay, either in the auditing of accounts, or in the publication of the annual report, which is the most interesting and important report of the Civil Government. Steps should have been taken to remedy the matter without delay.

Mr. E. Petrocchino has already been transferred from the Lieutenant Governor's Office to the Customs Department. Perhaps the transfer of another assistant-secretary to the Audit Department could be effected without unduly overworking the five remaining assistant-secretaries.

Arrears of Revenue

It is stated that arrears of revenue for the year 1933-34 amounted to £3,595, and the total arrears since 1913-14 amount to £9,071. Besides the above, arrears of £9,625, due for Succession and Donation Duties and Entertainment Duties have accumulated since 1921, bringing the total of arrears to £18,696. Considering Malta's comparatively small revenue this amount is not inconsiderable, and it is satisfactory to note that the Auditor General is giving the matter his serious attention, and certain of his recommendations to the Government made with a view to diminishing this accumulation of arrears, have already been accepted.

That arrears should still be

pending since 1913-14, and Succession and Donation Duties unsettled since 1921, is undoubtedly serious, and the publication of the list of the defaulters in the Auditor General's Report might act as a deterrent; this would be so to an even greater extent were periodical publication made in the Government Gazette.

Transfer Vouchers

It is stated that in the case of an expenditure in excess of that authorised in the General Estimates under one sub-head, a "transfer voucher" was resorted to, crediting the said sub-head with the amount expended in excess, and debiting another sub-head which could bear the equivalent amount.

As Colonel Trapani says, "this mode of accounting is unprecedented" especially as, once accepted as a precedent, similar irregularities may crop up the accounting of the large spending departments. The system of all departments should be such as to make all irregularities easily detectable, otherwise irregularities become chronic.

Special Warrants should certainly be applied for whenever expenditure in excess of any particular vote is necessary, quite apart from whether the total expenditure of the Department may be under that estimated and provided for or not. The practice of issuing a transfer voucher is the more dangerous when there is no Minister to take the responsibility for the transaction in Parliament, and when Estimates have been approved by the Secretary of State for the Colonies, and should not therefore be tampered with without his consent.

(To be continued)

DEPARTMENTAL Book-keeping

The Auditor General, Colonel A. Trapani, in his able report on the work of his department for 1933-34 reviewed on page 10 of this issue, described as "unprecedented" the action of a government department in taking an amount from the sum estimated under one sub-head and crediting it to a sub-head previously under-estimated for; this was done by means of a so-called "transfer voucher."

Colonel Trapani's condemnation of this procedure is well-merited. It is particularly necessary under our present form of administration that no loophole for abuse should be permitted. The system of auditing in practice here has earned the commendation of Mr. H. C. Merrick, Colonial Auditor, Gibraltar, and no deviation from accepted principles of keeping public accounts should be permitted.

There is quite enough abuse of power in Government Departments under one-man government, uncontrolled by a Representative Assembly, without allowing abuses to invade the system of public accounting.

AUDITOR GENERAL'S REPORT DISCREPANCIES AND MISAPPROPRIATIONS

Part II

It is to be noted with concern that the inter-Departmental system of store-keeping and stock-taking is far from satisfactory. The Auditor-General draws attention to the following three cases that came under his notice:—

Case 1. After a stock-taking of the stores existing in the Orphan Asylum, many discrepancies existed between the figures shown in the books and the stores actually existing. There were apparently—both shortages and surpluses. The Auditor-General states:—"The discrepancies were explained, and 'misappropriation of any of these stores was completely excluded. The Comptroller of Charitable Institutions was directed to adjust the store ledgers after obtaining authority to write off the books the stores reported deficient, and to take on charge all surplus stores."

Who gave these directions is not stated.

Case 2. After an inventory of tools of the Public Works Department had been carried out on the 15th January, 1932, large discrepancies were revealed between the books kept at the Head Office and those kept by District Engineers. With a view to ascertaining whether these discrepancies were due to "change of designations," "transfers" from one district to another, or to actual losses, all the articles existing in the several districts were compiled in one list.

The Auditor-General says:—"The result arrived at 'showed a very wide discrepancy between the books and the existing tools. The matter is still unsettled."

In the latter case we are not told whether the "discrepancy" is a deficiency or a surplus or both. That the matter "is still unsettled" after the lapse of two years and three months is highly irregular, and we look forward to reading in the next report the correspondence that must have passed between the Auditor-General and the Head of the Department concerned.

Case 3. After an investigation, it was found that a storekeeper of the Charitable Institutions had misappropriated Government Stores to the value of £70/15/7d. "The Storekeeper was dismissed from the service."

In connection with the three cases quoted the Auditor-General points out that "a complete stock-taking of all Government Stores mentioned in Article 63 (f) of the Treasury and Audit Act cannot for obvious reasons be carried out by this (the Audit) Department. Only test comparisons at regular intervals have invariably been held by this office. In this connexion I may state that it is proposed to amend the provisions of the foregoing article. Platitudes, such as "for obvious reasons," should be substituted in important Government reports by a statement of what are the actual reasons. In this particular instance we are left to hazard the opinion that a complete stock-taking of all Government Stores cannot be made by the Audit Department, owing to lack of personnel. If the amounts concerned in the unspecified "discrepancies" had been stated; and if the Auditor General had expressed an opinion as to whether there may not be other undetected "discrepancies" which lack of periodical stock-taking and proper checks serves to make possible; then the public would be in a position to

judge whether the expenditure in increased personnel would be justified and made good by the cessation of theft of Government property.

The cases quoted above lead to the belief that stock-taking of stores and the inspection of inventories by the Departments concerned are not a matter of normal routine, but only resorted to in exceptional circumstances.

All large business firms have departmental stock-taking once a month, besides half-yearly and annual stock-taking. A private firm's auditors have to see that such stock-taking has been carried out regularly and properly. Stock-taking should be entrusted to independent clerks, and recorded on stock-sheets without reference to the stock-books. The auditors' duty would then be to check the stock-books, see that all issues have been properly recorded, and, after deducting the issues from the original stock in hand at the last stock-taking date, see that the stock-sheets tally with the stockbooks.

If this system is not in force in Government Departments, human nature being what it is, we anticipate further serious deficiencies. The system of book-keeping in Government Departments should be equal if not superior to that in use among our leading mercantile houses. Whilst wages among the lower grades of the civil service are unduly low, in no case are the hours excessive and it should be possible to arrange periodical checking of stores by higher grade clerks, taken at random from another department.

(To be continued)

AUDITOR GENERAL'S REPORT APPROPRIATIONS BY SPECIAL WARRANT

PART III

We take particular exception to the following paragraph in the Auditor-General's Report:—

"Para. 22. The Expenditure accounts have been examined in detail in strict accordance with the financial regulations and with the laws of the colony."

It must be pointed out that although we are at present being administered after the manner of a Crown Colony, under a form of dictatorship of the most strict type, our constitution has not yet been revoked by Act of Parliament. Legally, the Constitution is only suspended. Our political status within the Empire is still that of a quasi-Dominion. It is a universally accepted principle in law, that only he who makes laws, can unmake them. Therefore a Constitution granted or confirmed to the Maltese Nation by an Act of Imperial Parliament, can only be withdrawn by Parliament.

Special Warrants.
The Expenditure authorised by Special Warrants during the year 1933-34, amounted to £38,625.

Special Warrants are issued by the Governor to authorise some extraordinary expenditure which had not been contemplated and provided for in the Appropriation Act, or for payments on account of services not included in the General or Supplementary Estimates. These Special Warrants should be granted only to cover some unforeseen services or works of a truly "special" character; which could not have been postponed without detriment to the public service. In the annual reports, year after year, the Auditor-General has found occasion to criticise and in some instances condemn, the issue of these Special Warrants. In the Report for 1933-34 under review, he states as follows:—

"Para. 29. I reiterate that, in order to retrench such expen-

diture, which shows a tendency to increase yearly, a strict control should be exercised over the financial proposals of the several Departments, all unavoidable expenditure of this nature being carefully scrutinized and reduced to the utmost limit compatible with the exigencies of the service."

It is obvious from the above that the Auditor-General is not satisfied that the £38,625 authorized by Special Warrant could not have been postponed without detriment to the public service, and included regularly in the next Estimates. Under the circumstances a list of the Special Warrants granted, and the amount and services they covered, should have been included in the report.

Under non-Responsible Government, the greatest care should be taken in the issue of Special Warrants: it is the Secretary of State who approves and is responsible to Imperial Parliament for all expenditure contemplated in General Estimates. In the case of expenditure authorized by Special Warrant, the Secretary of State is presumably faced with a "fait accompli."

Recent NAO Publications

NAO Work and Activities Report

May 2015 Work and Activities of the National Audit Office 2014

NAO Audit Reports

January 2015 Information Technology Audit: Commerce Department

February 2015 An Analysis of Types of Errors in Public Procurement within the Structural Funds Programmes

February 2015 An Investigation of Government's Acquisition of the Café Premier

March 2015 An Analysis of Enemalta Corporation's Hedging Activity during 2014

April 2015 Performance Audit: Provision of Residential Long-term Care (LTC) for the Elderly through Contractual Arrangements with the Private Sector

May 2015 Audit of Gozo Channel Company Limited: Public Service Obligation Bid Feasibility and Operational Considerations

June 2015 Performance Audit: Class Size in State Primary Schools

July 2015 A Comparison of Crude Oil Prices and Electricity Tariff Band Structures

July 2015 Performance Audit: Tackling Domestic Violence

July 2015 Information Technology Audit: Housing Authority

October 2015 An Investigation of matters relating to the Emphyteutical Contract between Government and the General Workers Union

November 2015 An Investigation into the Issuance of Encroachment Permits between December 2012 and March 2013

December 2015 Annual Audit Report of the Auditor General - Public Accounts 2014

December 2015 Annual Audit Report of the Auditor General - Local Government 2014

Recent NAO Publications (cont.)

NAO Audit Reports

January 2016	An Investigation of Government's Expropriation of Two One-Fourth Undivided Shares of the Property at 36 Old Mint Street, Valletta
February 2016	Performance Audit: Agreements between Government and Conservatorio Vincenzo Bugeja on Jeanne Antide and Fejda Homes
February 2016	Performance Audit: Service Agreements between Government and INSPIRE Foundation