

Work and Activities of the National Audit Office



2003

This report has been prepared under sub-para. 5(i) and para. 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997 for presentation to the House of Representatives.

J. G. Galea
Auditor General

National Audit Office
December 2003

OUR VISION

To provide a multidisciplinary professional service to parliament, to government and the taxpayer and to be an agent of change conducive to achieving excellence in the public sector.

OUR MISSION

To help promote accountability, propriety and best practices in government operations.

ACTIVITIES

The Auditor General is head of the National Audit Office, Malta. He and the National Audit Office are totally independent of Government. He examines the accounts of all Government Ministries and Departments and may also examine other public sector bodies. He also has statutory authority to report to the House of Representatives on the economy, efficiency and effectiveness with which Departments and other bodies have used the resources voted annually to them in the Estimates.

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2003





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WORK AND ACTIVITIES OF THE NAO

Role of the National Audit Office (NAO)

This report is in compliance with the requirements of sub-paragraph 5(i) of the First Schedule of the Auditor General and National Audit Office Act (Act XVI of 1997) in terms of which the Auditor General has to report annually to the House of Representatives on the work and activities of the National Audit Office.

The external auditing function of public funds is exercised by the NAO. The Office, which is autonomous and independent from the executive branch of government, was established with the coming into force on 25 July 1997 of Section 108 of the Constitution and the Auditor General and National Audit Office Act.

The National Audit Office, headed by the Auditor General, is responsible for the external audit of central and local government on behalf of Parliament. It may also carry out audits of public entities and other bodies administering, using or holding public funds.

The mandatory and primary objective of the Office, in terms of the Constitution and

the Auditor General and National Audit Office Act, 1997 is to provide independent information, assurance and advice to Parliament on the way Treasury, government departments and certain non-central government entities (particularly Local Councils) account for and use public funds.

Another objective, in terms of the Act, is to establish whether public moneys have been expended economically, efficiently and effectively.

Extent of Audit Work

All direct and indirect public funds fall under the scrutiny of the NAO. Any funds received or administered by Government, from whatever source, are within the extent of the mandate of the Office. However, direct central government receipts and payments, as well as local government revenue and expenditure, constitute the core responsibility of the NAO.



Aerial view of Notre Dame Ravelin

The audit field in respect of central government for 2002 included:

- **Total recurrent revenue of Lm719.8 million (against Lm668.6 million for 2001);**
- **Total extraordinary receipts and loans of Lm51.2 million (against Lm128.8 million for 2001);**
- **Total recurrent expenditure of Lm646.0 million (against Lm614.6 million for 2001);**
- **Total public debt servicing of Lm75.7 million (against Lm71.4 million for 2001);**
- **Total capital expenditure of Lm97.7 million (against Lm80.6 million for 2001).**

The operations of public bodies or bodies with government interest only fall under the scrutiny of the NAO if deemed necessary by the Auditor General or if requested by the Public Accounts Committee or by the Minister responsible for finance to carry out specific audits on such bodies. In terms of local company legislation (for companies with public interest) or statute (for entities set up by law) private sector auditors are engaged by the entities themselves to carry out regularity/certification audits.

Regularity Audits

These audits, also referred to as Financial and Compliance audits, are carried out in terms of Paras. 1 to 7 of the First Schedule of the Act. They are targeted to ensure that the Government Financial Report, including the financial statements of Ministries and Departments, is being properly presented, that transactions comply with financial rules and regulations, and that proper internal

controls are in place. Audits may also be made on corporate issues of a common concern, such as arrears of revenue due to government and travel abroad on government business. Regularity audit provides independent assurance that government departments and other audited bodies properly account for the money that Parliament has approved and that such money has been spent as Parliament intended.

Audit Findings and recommendations for the year ended 31 December 2002 are found in the Report of the Auditor General on Public Accounts 2002.

The total number of financial and compliance audits on central government Ministries and Departments carried out during 2003 numbered 78. These included major audits on the Analysis of the Financial Report and Arrears of Revenue due to Government Ministries and Departments. Audits were also carried out on specific resources, units or activities in the Inland Revenue, VAT and Customs Departments, as well as several other relatively large or smaller Ministries and Departments.

Value for Money Audits

Value for Money audits are also referred to as Performance audits and are carried out in terms of paragraphs 3, 6 (iv) & (v) and 8 (ii) of the First Schedule of the Act.

Value for Money/Performance audit, a relatively modern development of the audit function, emerged due to a number of factors. Increased government intervention in the economy in the sixties, the emergence of the welfare state, the eventual enhancement of the competitive environment and better communication put pressure on administrations for more transparency and accountability. These factors stimulated the emergence of performance audit of the public sector as a substitute for the market mechanism found in a competitive environment.

Performance audit was introduced in Sweden by its National Audit Office, the Riksrevisionsverket(RRV), in the mid-1960s following a drive to modernize Sweden's government administration. In the 1960s pressure started picking up in the UK for reform of the public audit system to reflect changes in the role of government over the course of the twentieth century.

This pressure was then translated into the UK National Audit Act of 1983, which emphasized focus on performance audit.

The co-relation between the emergence of performance audit and the drive for reform in public administration has also been experienced in Malta. Only the timing has been different. In the late 1980s, Government new policies, including an application for EEC (EU) membership, were the prime movers for reform and modernization of the public service. A Public Service Reform Commission, set up in 1989, recommended changes desired in the public service to meet emerging local and global challenges. These recommendations included the setting up of an independent Audit Office with a new approach to audit: *'one that addresses the outcomes of departmental operations, rather than focusing exclusively on the processes, with a remit extending to value for money, operations, financial management and human resource management.'* It may be argued that performance audit was a rational response to pressures on government administration to reform, develop and modernise itself.

The National Audit Office, which was formally set up as an autonomous body in



1997, eventually introduced performance audit in late 1999. Today, with the exception of Greece, all EU members, acceding and candidate countries carry out performance audits.

To meet its new responsibilities, the NAO had to be restructured in order to house performance audits. A separate Value for Money (VFM) Audit Section specifically geared for performance audits was set up and headed by an Assistant Auditor General. The VFM Audit Section had to start from scratch in training its staff in planning and executing performance audits. The VFM Audit Section has been strengthened by additional and qualified staff and the outsourcing of expertise, where and when appropriate.

In order to develop its strategic plan for the implementation of the performance audit policy, the NAO borrowed heavily from the vast experience reaped by the UK NAO over the years and which is available in its wide range of publications on the subject. At the operational level, the VFM Audit Section adopted the methodology applied by the Sweden National Audit Office as explained in a Handbook on Performance Auditing, (second edition). However, in all its audits, NAO adheres to the International Organisation of Supreme Audit Institutions (INTOSAI) standards, which include guidance for performance audits. As can be expected, the NAO had to adapt and develop methodology, learned experiences and international standards to fit our local requirements and environment.

Performance audits are intended to address practices and competences in processes and operations applied to programmes and activities of ministries, departments or public sector entities. The ultimate objective is to identify weaknesses in the systems, which need to be eliminated by introducing better or, better still, best practices.

Successful implementation of good quality performance audit depends heavily on auditees' co-operation and adequate

information systems and benchmarks in place. While co-operation from management of departments under audit is on the increase, availability of developed information systems and organised data is still lacking. As for benchmarks, NAO has reported on the failure to introduce benchmarking in Government departments.

Since the set up of the Value for Money Audit Section in late 1999, the following Performance Audit reports were published:

- **Internal Audit Function within Government Ministries – January 2000**
- **Vat Department Inspectorate Unit – October 2000**
- **Primary Health Care -The General Practitioners Function within the Health Centres – January 2001**
- **Museums Department - Promoting Heritage Sites – February 2001**
- **Department of Consumer Affairs – March 2001**
- **Government Transport – May 2001**
- **Countryside Section – Environment Protection Department – July 2001**
- **Licensing and Testing Department – February 2002**
- **School Transport System – September 2002**
- **School Information System – December 2002**
- **Preventing and Dealing with Pollution from Ships at Sea and in Ports – July 2003**

Advanced work in progress includes audits and reports on land acquired by Government from third parties and public procurement/roads.

Audit of Non Central Government Organisations

The National Audit Office yearly carries out a compliance and financial audit of a number of non-central government organisations. The main purpose of such audits is to ensure that public monies are used for the specific purpose for which these funds are handed out to the various organisations.

The audit is also carried out to examine whether these organisations adhere to government legislation and regulations and that they keep proper records and control over their revenue, expenditure, assets and liabilities.

These bodies are set up under various forms such as foundations, church or

private agencies and entities, voluntary associations, philanthropic institutions and societies. They have their own accounting systems and some of them submit audited accounts. Although they are directly or partly financed by Government through subsidies, grants or subventions, they are not bound to follow Government Financial Regulations.

The criteria, scope and extent concerning the examination of their accounts by the Auditor General may depend upon the amount of the annual subsidy or donation.

The accounts of the bodies listed below have been examined and subjected to a financial and compliance audit for 2002 (unless otherwise indicated):

House of Representatives

- Ombudsman

Education

- Manoel Theatre
- Society of Arts, Manufacture & Commerce (up to 2001)
- St Patrick's School (up to 2001)
- Marquis Scicluna Trust Fund
- Captain O.F Gollcher Foundation
- Malta Cultural Institute

Social Policy

- Co-Operatives Board
- Marriage Advisory Council
- Conservatorio Vincenzo Bugeja (up to 2001)
- (Grant Fejda; Jeanne Antide; Istituto Femile)
- Sedqa

Environment

- GAIA Foundation (up to 2001)

Home Affairs

- Custodian of Enemy Property

Agriculture and Fisheries

- Agrarian Society
- Horticulture Society
- Gozo Agricultural, Industrial & Cultural Society
- (Agric & Fisheries; Ministry for Gozo)
- (Financial Statements for 2002 not received)
- SPCA (Financial Statements for 2002 not received)

Health

- Titta Strickland Trust Fund

Transport and Communications

- Pilotage & Mooring Funds established under the Pilotage and Mooring Regulations, 1975
- Pension and Contingency Fund (up to 2001)

Other

- UNDP Projects on the University of Malta (1999-2002) and National Statistics Office (2000)

Audit of Local Government

In terms of Local Government legislation, audit tasks relating to Local Government were contracted out to private sector auditors. These auditors are engaged by the Auditor General to carry out yearly Financial and Compliance audits.

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

The Audit Report on the Public Accounts for 2002 includes a summary of the more serious shortcomings in Local Councils identified by the private sector auditors during their audit work on the accounts of Local Councils for the financial year ending 31 March 2003.

Special Audits

Audits or investigations, which may be of a financial or value for money nature, are carried out in terms of Section 8(a) and Section 9(a) of the First Schedule of the Act or in terms of Standing Order 120E paragraph (d) of the Standing Orders of the House of Representatives. These audits may be carried out on the initiative of the Auditor General, at the request of the Minister responsible for finance or at the request of at least three members of the Public Accounts Committee of the House of Representatives. They may relate to revenue, expenditure and resources belonging directly or indirectly to Government. Investigations may also be carried out in terms of the Local Government Act.

During 2003, reports on investigations, requested by the Minister responsible for

Local Government in terms of the Local Government Act, were presented on the Haz-Zebbug (Malta) and Nadur (Gozo) Local Councils to the Minister for Justice and Home Affairs and to the Speaker of the House of Representatives. The Minister subsequently laid the reports on the table of the House.

Other NAO activities

The NAO has a representative (in an observer capacity) on the Accruals Accounting System Task Force. This Task Force was established by Government to oversee the implementation process of accrual accounting in government accounts and financial reporting over the next few years.

NAO employees deliver presentations related to public sector auditing and accounting to other local bodies. During 2003, presentations were made during seminars organised by the Internal Audit and Investigations Directorate, the Malta Institute of Accountants, the University of Malta and the Staff Development Organisation of the Office of the Prime Minister.

The Office also actively participates, through discussions, presentations and studies, in overseas activities as indicated under "International Activities".

National Audit Office's relationship with Parliament

The Public Accounts Committee (PAC)

The Auditor General submits his annual Audit Report to the Speaker of the House of Representatives who lays the Report on the table of the House. This Report is subsequently referred to the Public Accounts Committee that in turn may review the Report and hold meetings to discuss its contents. It is also empowered to take evidence from senior officials of ministries



The Auditor General (right) during a sitting of the Public Accounts Committee

and departments or other government related bodies.

Apart from NAO reports, the PAC also reviews the activities of non-central government organisations, the accounts of which are presented to Parliament.

While the mission of the National Audit Office is to act as a watchdog to government financial operations and activities, the Select Committee of the House helps to ensure that findings of the NAO are given their due attention.

The PAC held 90 sittings during the ninth Parliament from September 1998 up to May 2003. The tenth Parliament has held 4 sittings to date. A number of PAC meetings focused on issues raised in the NAO reports.

The National Audit Office Accounts Committee

The National Audit Office Accounts Committee is appointed in terms of Part IV of the Second Schedule of the Auditor General and National Audit Office Act No. XVI of 1997.

The Committee is composed as follows: the member of the House of Representative who is for the time being Chairman of the Public Accounts Committee of the House of Representatives or such other committee of the said House from time to time replacing such Committee, the Leader of the House of Representatives and two members from among MPs supporting the Government and another member from among the MPs in opposition.

The Committee shall from time to time, but not less often than once a year, present to the House of Representatives (through the Leader of the House of Representatives) a report of its activities and the report of its examination of any estimates prepared by the Auditor General.

The revised estimates for 2002, based on the actual figures for the first nine month period of the year and the estimates for 2003, were presented, discussed and approved by the Committee on the 9 July 2003.

The accounts of the National Audit Office for 2002 were audited by private sector auditors who were appointed by the Committee in terms of Part V of the Second

Schedule of the said Act. These accounts were presented to the House on 4 July 2003.

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

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

International Relations

NAO is actively participating in the international sphere and significantly involving itself in international activities. It also regularly contributes by submitting comments on reports, questionnaires and other studies related to public sector auditing carried out by the International Organisation of Supreme Audit Institutions (INTOSAI), the European Organisation of Supreme Audit Institutions (EUROSAI) and other international organisations.

These studies cover themes such as Supreme Audit Institution (SAI) Independence, Internal Control Systems, surveys on Auditing and Accounting Standards, and audit of VAT in EU Member States.

A senior officer from the NAO acts as a EUROSAI joint sub-coordinator of SAIs from the Mediterranean region on Environmental Audit.

Another officer is participating in the Liaison Officers' Meetings of EU Acceding/Candidate countries and was appointed as co-rapporteur on a theme related to international "Draft Guidelines on Quality in the Audit Process" during 2003.

During the current year, this Office participated, locally or abroad, in the following events that related to conferences, seminars, working group committees, workshops, and other meetings with foreign colleagues:

Invitation to Budgetary Control Committee of the European Parliament

One particular event of major significance to this Office during the year was the invitation by the Budgetary Control



The Auditor General (middle row, third from right) participating in the Budgetary Control Committee of the European Parliament in Brussels on 29th April 2003

The Auditor General (second from right) addressing the EuroMed Workshop



Committee of the European Parliament for the Auditor General to give a presentation on the report on *“Relations between SAIs and Parliamentary Committees”* that was prepared by the NAO (Malta) and the Supreme Chamber of Control (Poland) on behalf of the SAI of EU Candidate/ Participant countries a year earlier. The meeting was held on 29 April in Brussels. It was an honour for the NAO to be invited by the Committee to actively participate in this event, in appreciation for the report that was very well received by all concerned. During this event, the Auditor General also gave a presentation on the Internal Control Systems in Malta.

EUROMED Workshop in Malta

On 24 to 26 February, the NAO was entrusted with the responsibility to host and co-jointly organise a Regional Workshop Programme for the Promotion of the Instruments and Mechanisms of the Euro-Mediterranean Market (EuroMed Market). This EU Programme is intended and organised for countries in the Mediterranean region. The event was

attended by representatives from several Mediterranean countries and a number of EU Member States.

The themes for the Workshop were (i) Proposals on harmonisation and cooperation in accounting; (ii) Proposals on harmonisation and cooperation in the field of auditing in the public sector; and (iii) Audit in the private sector: Access to and regulation of this profession and ethical control rules.

The Auditor General, who was the Head of the Maltese delegation, gave an extensive presentation on the theme: *“Proposals on harmonization and cooperation in the field of auditing in the public sector”*. He also chaired the presentations of the reports of the working groups.

Other members of the Maltese delegation included representatives from the Malta Financial Services Authority, the Accountancy Board, the Malta Institute of Accountants, the Internal Audit and Investigations Directorate and the University of Malta. The delegates actively participated through discussions and presentations on all the themes of the Workshop.

Other Events

On 8 January, an international group of Masters Degree students in Governance and Development Management from the School of Public Policy, University of Birmingham, for the third consecutive year, visited the NAO. The group was briefed on the NAO's legislative and organisational reforms since 1997, in particular on those relating to Regularity and Value for Money Auditing. Senior NAO employees gave presentations on these themes. Similar presentations were given to Public Policy Students at the University of Malta in March.

On 2 to 15 February, two NAO employees attended an INTOSAI Development Initiative Course on Financial Auditing that was targeted to SAIs of EU Candidate Countries.

On 22 to 23 May, the Auditor General and a senior employee attended a Meeting of SAIs of EU Acceding Countries in Krakow (Poland). Developments relating to SAIs of EU Accession countries were discussed.

On 26 to 28 May, two senior employees attended the 3rd EUROSAI Training Event in Prague (Czech Republic) on *"Internal Control Systems"*.

On 30 May, a senior employee attended a Working Group Meeting in Budapest (Hungary) on draft international guidelines on quality in the audit process. These guidelines are being prepared by representatives from the NAO (Malta), the State Audit Office (Hungary) and the Supreme Chamber of Control (Poland), on behalf of the SAIs of EU Acceding and Candidate countries

On 11 to 13 June, four employees attended a Workshop on *"IT Audit"* in Tirana

(Albania) organised by the Working Group on *"Audit Manuals"*. This Working Group is chaired by the European Court of Auditors and supported by SIGMA (Support for Improvement in Governance and Management in Central and Eastern European Countries - a joint EU/OECD Initiative) and is directed for SAIs of EU Acceding, Candidate and Prospective Candidate countries.

On 23 to 28 June, a senior employee attended the 8th Meeting of the INTOSAI Working Group on Environmental Auditing in Warsaw (Poland). Developments and joint coordinated environmental audits were discussed.

On 24 to 26 September, two senior employees attended a Workshop of the *"Audit Manuals"* Working Group in Antalya (Turkey). The theme was *"Audit Planning and Risk Assessment"*.

On 29 to 30 September, a senior member attended a second Working Group meeting in Paris (France) on the international draft guidelines on quality in the audit process.

On 29 to 30 September, a senior employee attended a Working Group Meeting of SAIs of EU Member States to discuss common problems and issues relating to the audit of EU VAT *"Own Resources"*.

On 6 to 8 October, the NAO Liaison Officer for EU Affairs attended two Liaison Officers' Meetings for SAIs of EU Member States (in an active observer capacity) and of EU Acceding States. The results and draft reports of several Working Groups within the Contact Committees of SAIs of EU Member States and EU Acceding States (including also the Candidate and Prospective Candidate SAIs) were discussed.

Themes discussed during meetings for Liaison Officers

For SAIs of EU Member States

- Update and prospects on activities regarding cooperation between the EU SAIs and the ECA;
- Organisation of the Contact Committee and Liaison Officers' Meetings
- Activities on parallel audits concerning the management of the Structural Funds;
- Coordination of SAI activities in the area of the protection of the Community's financial interests;
- Joint activities of EU Member and Acceding States;
- Exchange of information on the audit activities concerning the audit of Community Expenditure by the European Court of Auditors (ECA);
- Secure E-mail transmission (called TESTA) between the ECA and different SAIs;
- Activities of the informal working group on VAT "*Own Resources*"

For SAIs of EU Acceding, Candidate and Prospective Candidate SAIs

- Internal Control Systems in Candidate Countries;
- Workshops organised by the Working Group on Audit Manuals;
- Draft guidelines on quality in the audit process being prepared by the co-rapporteurs of the SAIs of Malta, Hungary and Poland;
- SIGMA Activities;
- State of cooperation between EUROSAI and IDI in respect of EUROSAI's training activities;
- Future cooperation between SAIs of EU Member States, Candidate and Prospective Candidate countries following EU Enlargement in May 2004.

On 15 to 17 October, a fact finding mission from the ECA held meetings in Malta and Luxembourg connected with the organisation and calculation of “Customs”, “VAT”, and “Gross National Income” Own Resources in Malta.

The NAO assisted the ECA in the organisation and visits of the meetings.

On 27 to 28 October, three senior employees attended a Seminar in Luxembourg. Themes covered included the organisation and functions of the ECA, OLAF (Office for the Fight against Fraud) and IAS (Internal Audit Service of the Commission).

The Seminar also included themes on the control of “Own Resources”, EC Programmes for Acceding/Candidate Countries, Agricultural Funds, and Structural Funds.

On 17 to 19 November, two employees attended another “Audit Manuals” Workshop focusing on “Audit Sampling”.

On 9 to 10 December, the Auditor General and a senior employee attended the Joint Meeting of Presidents of the SAIs of EU Member and Acceding States in Prague (Czech Republic).

The themes, reports and proposed resolutions that were discussed during the Liaison Officers Meeting of EU Member States in Luxembourg in October were the main topics for this Meeting. At the end of the Meetings, a number of Resolutions was agreed upon.

On 9 to 11 December, two senior employees attended a EUROSAI Environmental Audit Working Group Seminar in The Hague (the Netherlands). The theme of the Seminar was “Waste Management”.

Other international events relating to training are found under “Overseas Training”.



The two sides of the commemorative medallions



H.E. the President and the Hon. Speaker unveiling the commemorative plaque

NAO 6TH Anniversary Commemorative Event

On 25 July H.E. the President of Malta, Dr. Guido DeMarco, the Speaker of the House of Representatives, the Hon. Anton Tabone, and the Auditor General delivered speeches on the occasion of the 6th Anniversary of the establishment of the National Audit Office. The event took place at the National Audit Office in Floriana and was attended by NAO staff.

The Auditor General invited the President to present long-serving members of the staff with over fifteen years service with a commemorative medallion. In remembrance of the event the Auditor

General in turn presented the President and the Speaker with a commemorative medallion.

A plaque was unveiled to commemorate the 6th Anniversary of the establishment of the NAO by the President, who invited the Speaker to join him in the unveiling.

The previous evening, a reception was held on the newly landscaped grounds of the NAO. NAO staff and their families and a number of distinguished guests led by H.E. the President were invited for the occasion.



Group photo of the staff with H.E. the President and the Hon. Speaker during their visit to NAO on 25 July 2003

Table 1: Staff Position as on 30 November 2003

Grade Description	Full Complement	In Post	Male	Female
Senior Management				
Assist. Auditor General	2	2	2	-
Personal Staff				
Personal Assistant	1	1	1	-
Personal Secretary	1	1	-	1
Support Services				
Manager	2	2	2	-
Principal	3	2	2	-
Assistant Principal	2	1	1	-
Senior Executive	2	2	1	1
Executive	1	1	-	1
Clerks	-	1	-	1
Receptionist	1	1	-	1
Minor Staff	6	6	5	1
Auditing Grades				
Manager	6	6	5	1
Principal Auditor	12	11	4	7
Senior Auditor	12	10	7	3
Assistant Auditor	12	12	6	6
Audit Technician	-	2	-	2
Audit Clerk	-	3	1	2
Total	63	64	37	27

Staff

In 2003, the National Audit Office continued to improve the quality of its staff by recruiting professionally qualified personnel. During the year, calls for application were issued for the filling of vacant positions in the grades of Audit Manager, Principal Auditor and Senior Auditor.

In its efforts to raise standards in all the Units in the NAO, a CPAA Warrant holder with years of experience in accounting and auditing was recruited to keep its books of account.

Staff mobility

During the year three employees resigned from the NAO and another ex-government employee was boarded out on medical grounds.

Vacant Positions

Up to 30 November 2003 there were four vacancies in the auditing grades: one in the Principal Auditor Grade and three in the Senior Auditor Grade. It is envisaged that these vacancies will be filled during the coming year.

Table 1 on the opposite page gives a breakdown of the staff position as on 30 November 2003

The Table shows that 27 employees, or 42%, are female. The average age is 37 years.

Staff Qualifications

The NAO's success in recruiting professionally qualified employees can be gauged from the range of specialties currently on NAO's books, as depicted below:

Table 2: Staff Qualifications

Staff Qualifications	
Degree in Accounts or holders of CPA or CPAA warrant	19
Masters in Business Administration	2
Masters of Science in Management	1
Bachelor of Science (Hons) in Maths, Statistical and Operations Research	1
Bachelor of Commerce (Hons) in Management	1
Bachelor of Commerce in Management and Public Policy	1
A.C.I.B.	1
Diploma in Business Studies	5
Diploma in Management Studies	1
Diploma in Computer Studies	1

Training

The National Audit Office places great emphasis on the regular training of its staff. At present the Office encourages its staff to follow part-time courses after office hours. Experienced members of the staff, due to pressure of work, gave new employees on-the-job training instead of induction courses. Training included, 'inter alia' the examination of Revenue, Expenditure, Inventory, and Arrears of Revenue.

Other Courses of Training

Seminar on Value Management: The seminar was facilitated by Professor Steven Male of the University of Leeds, U.K. who is an expert in the field of Value Management (VM). All the senior members of the staff attended. Topics covered included: The Concepts of VM and Best Value as achieved through the use of VM Techniques, The Benefits that accrue from VM, and The Application of VM in particular fields.

Research Methodology: A course was organised on Research Methodology – Theory and Practice in conjunction with the University of Malta. The course, which lasted 12 weeks, was attended by nine members of the VFM Audit Units. The course topics included: Research Methods, Surveys, Hypothesis Testing and Experimental Design, and Advanced Statistical Analysis of Data.

Developing a More Competent Public Internal Auditor: This course was organised by the Internal Audit and Investigations Directorate. Four members of the auditing staff attended this course, which was of a three-day duration. The course included topics such as: The Internal Audit and Financial Investigations Act, Code of Principles for External Auditors, Public Service Ethics, The Role of the External Auditor, Identifying Risks and Report Writing, etc. A senior employee from the NAO gave the

presentation on the role of the External Auditor.

Managerial Leadership: Four members of the auditing staff attended this course. The course programme provided the concepts and the models for effective leadership, and the practical skills and tools necessary to effectively coach, empower and lead people to successfully complete tasks and achieve results. The programme included topics such as: The Vision Leader, Communicating with Employees, Assigning Tasks, Coaching, Developing Employees, Team Leadership and Personal Development Plan.

Presentation Skills: This programme provided the skills and the methods to improve the planning, structuring and delivery of formal and informal presentations for productive outcome and included topics such as: Introduction to High Impact Communication, Delivery Skills, First Presentations, Process of Understanding, Planning Your Presentation, Structuring Your Presentation, Second Presentation, Handling Questions and Next Steps.

Risk Management: This course was facilitated by four members of the staff under the direct supervision of a consultant. The course was given after weeks of research on the subject. It was explained that Risk Management meant having in place a corporate and systematic process for evaluating and addressing the impact of risks in a cost effective way and having staff with the appropriate skills to identify and assess the potential for risks to arise.

Time Management: Two employees from the Accounts Section attended a course on Time Management that was organised by New Horizons. The course introduced the participants to the principles of time management and its benefits. The course programme included the following topics: Time Management Overview, Time Management Plans, Technology and Time Management and Productivity.

Workshop on EU Financial Control of Structural Funds: A workshop was organised by the Regional Policy Directorate of the Office of the Prime Minister on financial control of Structural Funds, as part of the twinning activities on Regional Policy. The workshop was spread out over three days and covered the following topics: Exigencies of the Control – Hierarchical responsibility; Manuals of Procedures; and Monitoring of IT Systems. Five members of the NAO participated in this workshop.

Occupational Health and Safety: Four members of the staff attended a course on Health and Safety to promote high standards of occupational health and safety at the NAO.

Project Management: The VFM Audit Section organised a 36 hour course on Project Management in conjunction with the University of Malta. Thirteen participants are attending the course, at the end of which certificates will be issued, subject to satisfactory performance.

An NAO senior employee gave a presentation on *“External Auditing in the Public Service”* for newly recruited Senior Principals within the Government Service. This theme was part of a course organised by the Staff Development Organisation (SDO).

Local Sponsorships

The NAO is sponsoring employees undertaking part-time courses leading to a degree or to a diploma. The sponsorships include:

- Malta Institute of Accountants – 6 employees are currently following a five-year course leading to an MIA Accountancy professional qualification.
- Masters Degree in Business Administration – 2 Principal Auditors are reading for an

Executive MBA degree at the University of Malta.

- Masters Degree in Public Policy – A Senior Auditor is currently reading for this degree at the University of Malta.
- Diploma in Management Principles – Three members of the staff are currently undertaking a two-year course leading to a Diploma in Managerial Principles. The course is organized by the Chamber of Commerce.
- U. K. National Computer International Higher Diploma Course in Computer Studies – A Principal Officer at the I.T. Section is currently following this course.

Local Courses and Conferences

NAO employees are encouraged to attend local conferences and seminars as part of a continuous educational development programme. The following seminars and conferences were attended during the year 2003:

- Accounting Software for Practitioners, organised by the Malta Institute of Accountants.
- Public Sector Accounting – Now and the Future Seminar organised by the Malta Institute of Accountants. One of the speakers was from the NAO. His presentation was on *“The Government’s External Auditor’s Views on the Introduction of Accruals Accounting”*.
- Recent Amendments to the BPA Regulations, organised by the Malta Institute of Accountants.
- Money Laundering – *“Implications on the local Profession and recent development in Malta”*, organised

- by the Malta Institute of Accountants.
- Employment Issues – “*Implications to Maltese Companies and the local Profession*”, organised by the Malta Institute of Accountants.
- Companies’ Act – an Update, organised by the Malta Institute of Accountants.
- The Impact of EU Accession on VAT overview of legislative amendments, organised by the Malta Institute of Accountants.
- National Conference on the Results of the Negotiations, organised by Malta Information Centre.
- Conference on Regional Funds and the Maltese Islands, organised by Malta Information Centre.
- National Conference on the draft EU Constitution, organised by Malta Information Centre.
- The Costs and Benefits of Malta’s Negotiated Package with the EU, organised by The Malta Chamber of Commerce.
- Managing Time, organised by the Malta Institute of Management.
- Managing Change, organised by the Malta Institute of Management.
- EURO-TAX, organised by Malta Institute of Taxation.
- Pensions Reform: Planning for the Golden Year, organised by PKF Malta.
- EU Accession. Challenges & Opportunities, organised by ERNST & YOUNG in conjunction with the Malta Chamber of Commerce.
- ETC Client’s Forum, organised by the Employment and Training Corporation.
- Employment and Industrial Relations Act, organised by FHRD, MEA and WPDC.
- Meeting the New Challenges in International Tourism, organised by the Malta Tourism Authority.
- Coping with Change - Update Yourself or Sink!, organised by Deloitte & Touche.
- The Employment and Industrial Relations Act 2002, organised by Integrated Business Systems.
- The Financial Laws Seminar, organised jointly by the Malta Financial Services Authority and the Institute of Financial Services Practitioners.

Overseas Training

Three Weeks Training with the U.K. National Audit Office: In 2003 another Principal Auditor was sponsored to attend an International Training Course with the U.K. National Audit Office. The course is purposely organised for staff from overseas Supreme Audit Institutions. The course was originally inaugurated in 1993 and since then four employees have benefited from it. The course covered topics such as Financial and Value for Money audits.

Six Months Training with the U.K. National Audit Office: A Principal Auditor spent six months working at the U.K. National Audit Office on the audit of the Department for Culture, Media and Sport (DCMS) Section. The secondment began in January, 2003 and came to an end in July, 2003. During this period the officer was given formal training. The objectives of this training were for the officer to acquire experience on the audit of accruals accounts of at least one major museum or

gallery and one sports funding organization.

Valuable experience was gained in the UK audit methodology, which uses a risk based audit approach, placing heavy reliance on controls assurance.

She also formed part of a team auditing European Agricultural funds. The secondee also looked at the audit of Embassies and audit programmes used for overseas visits.

Five Months Training with the European Court of Auditors: An Audit Manager has been selected by the European Court of Auditors (ECA) to follow a five month internship with the European Court of Audit (ECA). The internship is for the period 1st October, 2003 to 29th February, 2004. Besides following the standard training programme for new ECA auditors, the objective of the internship is for the Audit Manager to acquaint himself with, and participate in, the working methodologies of the ECA.

Engagement of Consultants

Engagement of Audit Consultant: This Consultant offers advice to members of the staff on matters relating to risk assessment. The Consultant also carries out 'ad hoc' specific tasks, as may be required by the Auditor General and assists in the review of audits carried out by Local Government Auditors .

The Consultant may also be required to give advice on the audits of Non-Central Government Organisations and on reviews carried out on the Welfare Committee.

Legal Advisor: An expert in constitutional law is engaged on a 'retainer basis' to advise on technical legal difficulties.

Other Consultants: For work connected with Value for Money audits and investigations, experts are contracted as and when required on an *ad hoc* basis.

Library

The library was set up as a reference and central depository centre equipped with reference books, guidebooks, audit reports, manuals and other material necessary to assist the staff in their work and in their current academic studies.

A library software was purchased to catalogue all these documents with over 6000 being recorded on the system. The software also has the search facility so that users can search for a document by title, type, author, subject, etc.,

Additions are not solely related to financial and compliance auditing, but cover subjects such as Risk Analysis, Statistical Sampling, Benchmarking, Quantitative Techniques, Market Research, Operations Management, Relational Databases, Computer Audit, etc.

Information and Communication Technology

Mobile Computing Strategy

The mobile computing strategy continued to be implemented with the acquisition of an additional ten (10) notebooks. It is planned that in two years' time all staff directly involved in auditing duties will be equipped with mobile computers. This strategy will enable auditors to carry out their audit work without the need to report for duty at NAO's premises, thereby alleviating somewhat the acute office space problem.

Data Protection Act

This mobile computing strategy, together with the coming into force of the Data Protection Act, impressed upon the Office the need to formalise its security practices. NAO is the depository of a

considerable amount of information which originates both internally, as well as that received or collected during the course of both financial or performance audits.

This information is valuable and may also be of a confidential nature. The Data Protection Act puts the onus of responsibility for the security and safekeeping of all data, especially personal data, on the Office.

NAO Data Protection Policy

For this reason a comprehensive Information Technology and Security Policy, based on international standards, was developed in-house in July 2003. Besides outlining NAO's information technology policy and security procedures it also encompasses document management procedures.

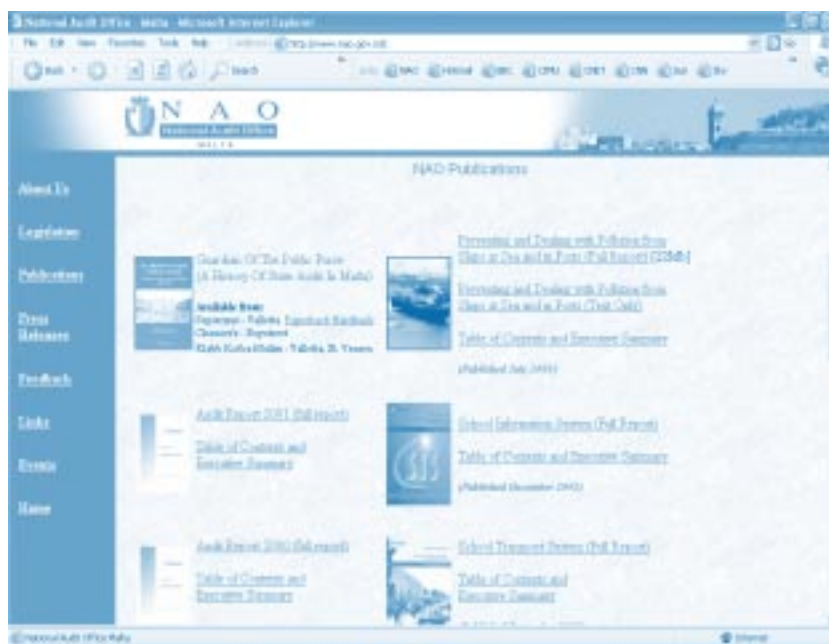
It is aimed at ensuring that information is easily accessible when required and remains readily available even after considerable time has elapsed since its

creation. A booklet on this topic, aimed even at the non-technical user, was circulated to all members of the staff.

All members of the staff are now being requested to sign a yearly declaration whereby they assume responsibility for the security of the information that they use or manage. They are bound to ensure that appropriate measures are taken to preserve its confidentiality, integrity and availability for use.

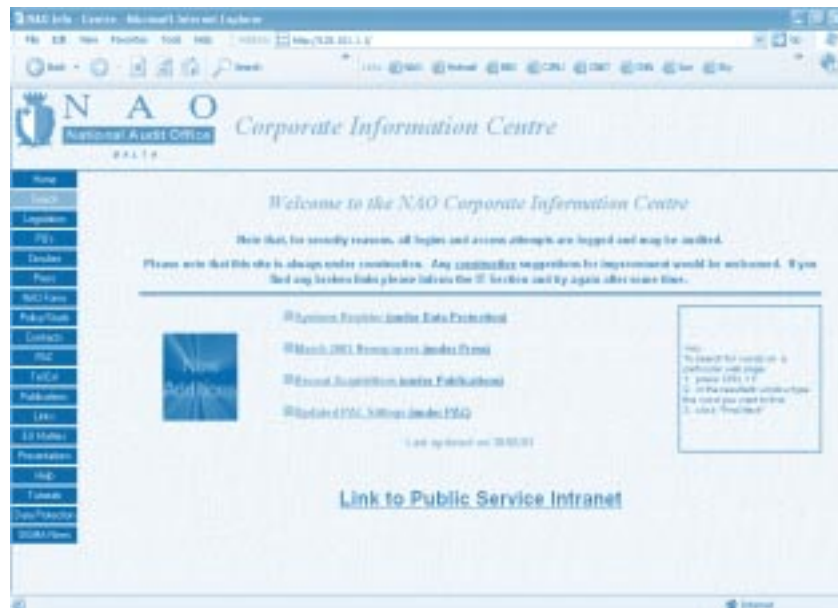
NAO Website (www.nao.gov.mt)

The NAO website remained a useful tool to keep constantly in touch with the outside world. All published reports are made available on the website as soon as these are tabled at the House of Representatives. These reports are generating considerable interest both locally and abroad. This is borne out by the fact that during the period June 2002 to July 2003 no less than 9,957 copies of these reports were downloaded by visitors to the website. This averages out at more than 700 downloads each month.



Snapshot of the NAO Website

Snapshot of the NAO Intranet



NAO Intranet

The Intranet has also proved to be a useful tool which enables NAO's staff to share and access information. It provides staff with an easily accessible source of diverse information which may be needed during the course of an audit.

It also provides links to various institutions both locally and abroad. It is planned that in the near future the Intranet will be made remotely accessible to auditors even while they are performing duties outside the NAO premises.

Both the Website and the Intranet are regularly maintained and updated to ensure the integrity and availability of the information contained therein.

Conclusion

During 2003 we continued with the recruitment process by employing staff at graduate level, in line with Office policy to engage highly qualified staff for posts of an intermediate or senior level. The

number of staff at the Office is now close to full complement.

We will continue to encourage current employees at the Office to upgrade their profession through appropriate and focused training both locally and abroad, as well as through secondments with other overseas audit institutions.

The majority of NAO audit examiners are professionally qualified or are undergoing University and other professional courses outside Office hours.

Good governance demands accountability, propriety, good practices and value for money in public administration and government operations. Our mission is to continue in our role to help government achieve these goals.

Methodologies and reporting for both Regularity and Value for Money audits conducted during 2003 have continued to be upgraded. We shall endeavour to continue improving our work to achieve our mission.

I wish to thank all members of the staff for their effort in assisting me in the preparation of the Annual Audit Report on Public Accounts 2002, as well as other reports presented to the Speaker of the House throughout the year.

I would also like to acknowledge the cooperation afforded by the auditees that, in most cases, has been readily forthcoming.



J. G. Galea

Auditor General

December 2003

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