



**Work and
Activities**
of the
**National
Audit
Office**

2004



Table of Contents

Background	5
<i>Public Sector Administration</i>	5
<i>Local Government</i>	6
<i>Public Accounting System</i>	6
Budgetary Process	6
Accounting Officers	6
Internal and other Controls	6
Accruals Accounting	7
National Audit Office	7
<i>Historical Development</i>	7
<i>Independence of Auditor General</i>	8
<i>Organisation and Structure</i>	8
<i>Recruitment, Conditions of Employment and Staff Competencies</i>	9
<i>Scope, Role and Rights of Access of the SAI</i>	9
<i>Relations with Parliament and Government</i>	10
Public Accounts Committee	10
National Audit Office Accounts Committee	10
Audit process	11
<i>Regularity Audit</i>	11
Financial Audit Work covered by NAO	11
Aims of Financial Audit	11
Number of Audits	11
Planning Procedures	12
Financial Audit Cycle	12
General Methodology	12
Audit Findings Report	12
Audit Feedback	13
Press and Media Coverage	13
<i>Performance Audit</i>	13
Legislation enabling SAI to carry out Performance Audits	13
Historical Development of Performance Audit	13
Number of Audits carried out, Reports produced	14
Selection of Topics to audit	14
How Work is carried out	15
Reporting Method	15
Results of Performance Audit Work / Impacts achieved	15

Skills of Staff undertaking this Work	15
How NAO monitors the Impact of its Performance Audit Work	16
Relations with Audited Bodies	16
Audited Bodies' Response to Reports	16
Press and Media Interest	16
Report on Risk Management in Government Departments	16
International Relations	16
<i>EUROCONTROL Audit Board</i>	17
<i>Network of SAIs of EU Member States (EU Contact Committee)</i>	17
<i>Overseas Events 2004</i>	18
190th Anniversary of the Setting Up of a State Audit Office	24
Human Resources	24
<i>Staff Mobility</i>	24
<i>Staff Position</i>	24
<i>Staff Qualifications</i>	24
<i>Training</i>	24
Other Courses of Training	26
Local Sponsorships	27
Local Courses and Conferences	27
Overseas Training	28
Engagement of Consultants	28
Library	29
Human Resource Management System	29
Information and Communication Technology	29
<i>Mobile Computing Strategy</i>	29
<i>Data Protection Act</i>	29
<i>Security Review</i>	29
<i>Printing of Reports</i>	29
<i>NAO Website and Intranet</i>	29
Court of Appeal finds in favour of Auditor General	30
Conclusion	30

Work and Activities of the National Audit Office - 2004

Background

Public Sector Administration

The central administration of Malta consist of fourteen Ministries. The Ministries fall under the responsibility of Ministers and, in some cases, are assisted in the performance of their duties by Parliamentary Secretaries. Ministers and Parliamentary Secretaries are Members of Parliament.

The Permanent Secretary is appointed by the Prime Minister and shall be subject to the general direction and control of his Minister and be responsible for the supervision of the departments and entities falling under his Ministry.

The overall functions of the Permanent Secretary include the co-ordination, supervision and monitoring of the administration, management and

implementation of his Ministry's policy and output.

The position of head of Treasury, which falls under the Ministry of Finance, is the Accountant General. The accounting operations of the Government are under his general management and supervision.

Each Ministry has a number of Departments that may be headed by a Director General and/or one or more Directors. Ministries and Departments were covered by forty-nine Votes during 2003/2004.

Public Bodies, i.e. entities set up by legislation, also fall under the responsibility of different Ministries, according to the Public Body in question.



Aerial view of Notre Dame Ravelin

Local Government

As from their inception in 1993, the Government of Malta adopted a policy of devolution of power and responsibilities to Local Authorities. Malta has a system of Local Councils which provides one-stop services to the community.

The Local Councils Act, 1993 empowers the Minister responsible for Local Government to make regulations and procedures for the purpose of regulating the financial functions of the Local Councils. The financial year for Local Councils is 1 April to 31 March of the following year. The Department of Local Government is the regulatory body overseeing Local Councils and ensures that they operate in a manner consistent with existing laws and regulations.

Public Accounting System

Budgetary Process

The Financial Year for Government Accounts runs from 1 January to 31 December. The draft annual Financial Estimates of revenue and expenditure is usually consolidated at Director/Director General and Head of Department level, together with the Permanent Secretary, as the case may be. These draft Estimates are also discussed with the Minister concerned.

The draft Estimates are then referred to the Ministry of Finance, which carries out an evaluation and makes its recommendations.

The Minister of Finance lays the final Estimates of revenue and expenditure before the House of Representatives.

With effect from 2003, a concept was introduced whereby the expenditure ceiling within which each Ministry was required to programme its activities was set at 90% of the approved estimate. The residual 10% then had to be committed in the light of the actual Government revenue performance. This was done for the purpose of working towards the overall budget deficit target.

The Annual Financial Statements of Government, certified (as to the tallying of figures reported against Treasury records) by the Accountant General and countersigned by the Auditor General, are presented to Parliament by April following the end of the financial year being reported upon. The Financial Report of Government (comprising detailed Annual Financial Statements and other Below-the-Line Accounts) for the same financial year is published within six months following the end of the financial year being reported upon.

An Audit Opinion on this report is issued by the Auditor General not later than twelve months following the end of the financial year being reported upon.

Accounting Officers

The Accountant General is the Chief Accounting Officer of the Government, the accounting operations of the Government being under his management and supervision. Accounting Officers include Heads (Permanent Secretaries, Directors General, Directors) of Ministries and Government Departments. It is the duty of all Accounting Officers to ensure that regulations issued by the Accountant General are duly observed.

Internal and other Controls

Various key players enable the Ministry of Finance, the Accountant General, Management, Government external and internal auditors, and other stakeholders to follow the audit trail, controls, processes and reporting within a system. Internal Control Systems are the primary responsibility of top management, i.e. heads of Government Ministries and Departments. Top management is to ensure that proper internal controls are in place, in line with good internal control practices and in consonance with circulars issued by the Ministry of Finance or by Treasury (headed by the Accountant General). The other important key players include the Central Bank of Malta (as custodian of the Government Public

Account), the Department of Contracts (headed by the Director General, Department of Contracts), the National Audit Office and the Internal Audit and Investigations Directorate (IAID) falling under the Office of the Prime Minister. The Government accounting system is electronic (known as Departmental Accounting System – DAS) and has in-built controls to enhance internal controls and reporting.

The IAID is Government's internal audit body. It is functionally responsible to the Internal Audit and Investigations Board (IAIB), that is chaired by the Secretary to the Cabinet of Ministers.

The IAID is also the certifying body on internal control systems for EU purposes. It functions as the national coordinator with those EU Commission services responsible for internal control and audit, as well as the protection of EU financial interest – particularly against mismanagement and fraud. It is the national interlocutor for DG OLAF.

Where EU Funds are concerned, apart from the bodies already specified, other main key players in the control systems include - along the lines with other EU Member States - the National Authorising Officer, the Planning and Priorities Co-ordination Directorate and the Implementing Authorities.

Accruals Accounting

The Maltese public sector has, over the past few years, been undertaking a project to replace the cash based accounting system with accruals accounting. This project is being managed by an Accruals Accounting Task Force, falling under the responsibility of the Ministry of Finance. The NAO has a representative (in an observer capacity) on the Accruals Accounting Task Force.

A number of activities are also in hand to ensure that the proper infrastructure is in place for the eventual introduction of this accounting system over the next few years.

The financial statements of Local Councils (Local Government) and Government entities, agencies and other organisations established by legislation or regulated by the Companies Act are already being prepared on an accruals accounting basis.

National Audit Office

Historical Development

An Audit Department was established in October 1814 by the then British Governor of Malta, following the introduction of a centralised system of financial control. This system had three complementary elements. The first was for all revenue collected to go into the Public Treasury and no expenditure was to be incurred without the authority of Government. Second, no money could be disbursed from the Treasury without a warrant bearing the Governor's own signature. Third, all accounts were to be closed and audited monthly. To achieve this latter end, the Audit Department was established, headed by an Auditor General who was charged with examining the accounts of the civil Government.

Several changes took place throughout the 190 years since the establishment of the first National Audit Institution. At the time of independence in 1964, public audit in Malta was carried out by the then Department of Audit, within the portfolio of the Ministry of Finance. As economic and political growth took place in the period following independence, public expenditure increased as did the need for greater accountability. A more effective state audit function became increasingly necessary as did the need for more stringent controls over the management of public funds.

The National Audit Office of Malta was established in 1997 by an unanimous vote of the Maltese Parliament. The Auditor General and National Audit Office Act, 1997 established the Office as independent from the executive branch of Government. The independence of the Auditor General is entrenched in the Constitution.

Other important changes in state audit legislation included the way the Auditor General and his Deputy are appointed (through a two-thirds Parliamentary majority); the presentation of Audit Reports directly to the Speaker of the House of Representatives; the direct funding of the NAO through Parliament; the audit of NAO Accounts by private sector auditors and the scrutiny of the NAO through a Parliamentary Committee (National Audit Office Accounts Committee); the increased emphasis in legislation on Value for Money Audits; and increased emphasis on audits of non-central government organisations.

Independence of Auditor General

The independence of the Auditor General is guaranteed by a number of Constitutional provisions. These include:

- He/She is an officer of Parliament.
- He/She is empowered to audit all Ministries and Departments of the Government of Malta.
- The Auditor General is paid such salary prescribed for a Judge of the Superior Courts. The salary of his/her Deputy is pegged to that of a Magistrate of the Inferior Courts.
- He/She is entitled to audit all public authorities or other bodies administering, holding or using funds belonging directly or indirectly to the Government of Malta.
- The Auditor General, his Deputy and other persons authorised by the Auditor General have access to all books, records, returns and other documents relating to those accounts.
- The Annual Audit Report, and other audit reports, are laid on the table of the House by the Speaker of the House of Representatives.
- The Auditor General appoints his own staff and determines their numbers, grades, salaries and conditions of service.

- The National Audit Office is funded directly by Parliament.
- In the proper exercise of his functions, the Auditor General is not subject to the authority or control of any person.

Organisation and Structure

The National Audit Office is headed by the Auditor General and is appointed by the President of Malta acting in accordance with a resolution of the House of Representatives supported by the votes of not less than two-thirds of all members in the House. The Deputy Auditor General is appointed in the same way.

The Auditor General and his Deputy are appointed for a term of five years which may be renewed only once by a further period of five years.

They may only be removed from office by the President of the Republic upon address from the House of Representatives supported by not less than two-thirds of all members in the House.

The audit structure of the National Audit Office, below the posts of Auditor General and his Deputy, is divided into two Sections. One Section is responsible for financial and compliance (Regularity) audits and is headed by an Assistant Auditor General. This Section includes four Audit Units, each headed by an Audit Manager.

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

The other Section is also headed by an Assistant Auditor General, which is responsible for Performance/Value for Money audits. The Section is made up of two teams, each headed by a manager. Each team sub-divides into two work-units, each comprising three members of staff.

Other sections are headed by Managers who are responsible for NAO policy, finance and human resources, training, information technology and international relations.

tailored to suit their individual needs and the overall needs of the Office to maintain a balance of the diverse skills required in Performance Auditing.

Recruitment, Conditions of Employment and Staff Competencies

The Auditor General appoints his own staff and determines their numbers, grades, salaries and conditions of service.

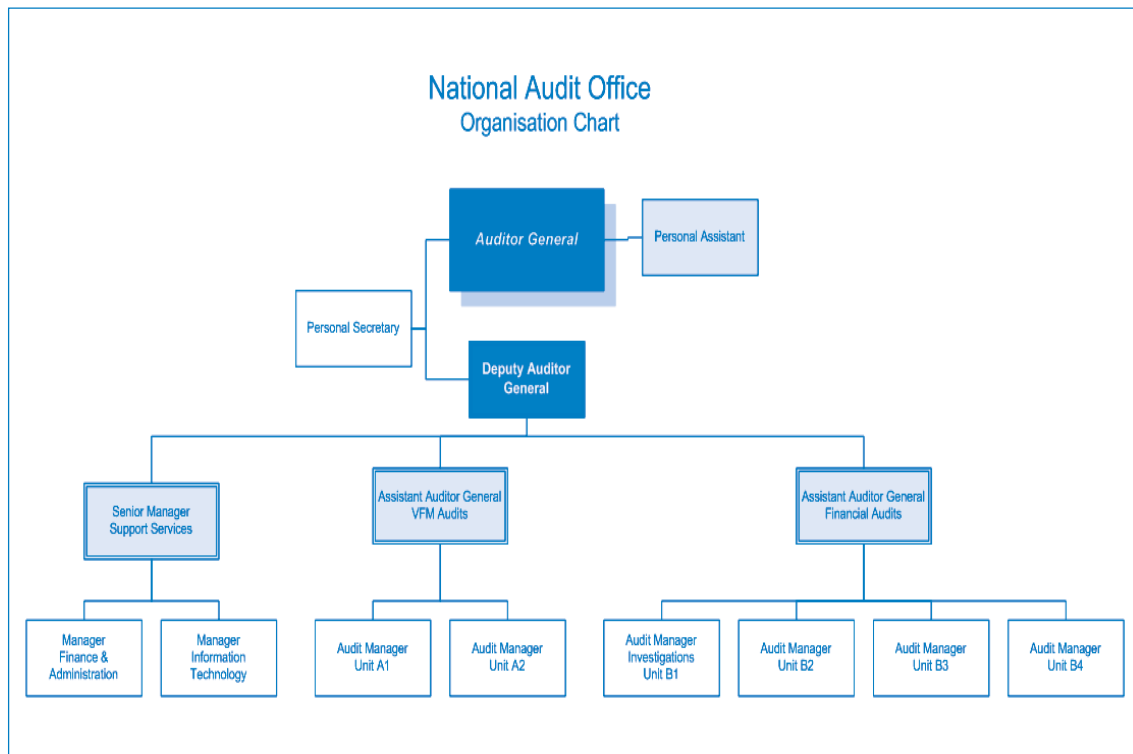
Staff employed with the Regularity Audit Section is largely made up of qualified accountants and auditors. They undergo continuous professional education either through internal training, seminars organised by the Malta Institute of Accountants, or through seminars and courses organised by other local and overseas bodies.

Staff employed with the Performance Audit Section receive similar continuous professional development. Training is provided by senior lecturers from the University of Malta in tools and techniques

Scope, Role and Rights of Access of the SAI

Under the terms of the Auditor General and National Audit Office Act 1997, the primary objective of the NAO is to provide independent information, assurance and advice to Parliament on the way the Treasury, Government Departments and certain non-central Government entities (including Local Councils) account for and use public funds. The Act also empowers the Auditor General to carry out performance audit work to establish whether public money and resources have been utilised, received and/or expended economically, efficiently and effectively.

Central Government receipts and payments, as well as Local Government revenue and expenditure, constitute the core responsibility of the NAO. However,



any public body in which the Government has a stake may come under its scrutiny if deemed necessary by the Auditor General, or as may be requested by the Public Accounts Committee (PAC) or the Minister of Finance.

NAO officers who undertake examination of the accounts of any Ministry, Department or public body are to comply with any security requirements of the entity in question and are to take any oath of secrecy that may be required by law to be taken by any person employed by that entity.

The Auditor General may examine any person on oath on any matter pertaining to any account subject to his audit.

The Auditor General is also entitled to report any serious irregularity to the Minister responsible for that Ministry, Department or entity where such irregularity was committed, and may recommend to the Minister a surcharge against that person committing the irregularity.

Relations with Parliament and Government

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

Public Accounts Committee

The Public Accounts Committee (PAC) is composed of seven members, four from the Governing side and three from the Opposition.

The Chairman of the Committee is nominated by the Leader of the Opposition after consultation with the Leader of the House of Representatives.

The main roles of the Committee are to scrutinise and assess the financial administration of the public sector and to promote improvements, to encourage the economic, efficient and effective utilisation of public sector resources and to enhance the accountability of the executive

government to Parliament and the public. It helps to ensure that findings of the NAO are given due attention.

The Committee is empowered to take evidence from senior officials of Ministries and Departments or other government related bodies.

Most of the meetings are focused on issues raised in the Annual NAO Regularity Audit report or Performance/Value for Money Audit reports passed to the Committee by the Speaker.

The Committee, through at least three of its members, may also request the Auditor General to carry out investigations and other enquiries relating to matters within the NAO's mandate.

The PAC can also review the activities of non-central government organisations which are required to present their accounts to the Parliament.

National Audit Office Accounts Committee

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

The Committee meets at least once a year and presents to the House of Representatives a report of its activities. The sum or sums considered to be required by the Auditor General are fixed by a resolution of the House after considering the estimates prepared by the Auditor General and the report by the Committee.

The accounts of the NAO are audited by certified private sector auditors who are appointed by the Committee. The audited accounts are then presented to the Committee which, through the Leader of the House of Representatives, presents these accounts to the House of Representatives together with any comment thereon by the said Committee.

Audit process

Regularity Audit

Financial Audit Work covered by NAO

Mandatory Audit of Central Government

In terms of the Constitution and the Auditor General and National Audit Office Act, the mandatory role of the National Audit Office is the Attestation, Financial and Compliance Audit of the Financial Statements of Government.

This audit is carried out by the Financial & Compliance Audit Section, which is responsible for Financial and Compliance Audits covering all Ministries, Departments and Agencies falling within the Central Government. The results of these audits are found in the Report of the Auditor General on Public Accounts for financial year ending 31 December 2003.

Audit of Non-Central Government Organisations

The Financial and Compliance Audit Section also undertakes financial and compliance audits on a number of Public Authorities and Corporations, other Public Entities and Non-Government Organisations (NGO's) benefiting from any Government assistance or subsidies.

The main purpose of such audits is to ensure that public funds transferred or donated by government are used for the specific purpose for which these funds are handed out to the various organisations.

Audit of Local Government

Local Government (Local Councils) also falls within NAO's remit, in terms of Local Government legislation. A Unit within the NAO overviews and consolidates the audits of Local Councils, which are contracted out to private sector auditors, as required by Local Government legislation. A report on these audits is also included in the Auditor General's Audit Report on Public Accounts.

Special Audits

In terms of Section 9(a) of the First Schedule of the Auditor General and National Audit Office Act: *"The Auditor General may either personally or through the National Audit Office, on the initiative of the Auditor General himself or at the request of the Minister responsible for finance or of at least three members of the Public Accounts Committee....inquire into and report on"* matters subject to his mandate. During 2004 a report on an investigation relating to the "San Giljan Waterpolo Pitch" was concluded and presented to the Speaker of the House. Other special audits requested by the Public Accounts Committee or the Minister responsible for finance are in hand.

Aims of Financial Audit

The main aim of the Financial and Compliance Audit Section is to form an independent opinion as to the true and fair presentation of the Government Financial Report and all the statements included therein, principally the Consolidated Account which represents all the revenue and expenditure of the Government for each financial year. The section also provides independent assurance that Government entities comply with the prevailing financial rules and regulations and ensures that proper internal controls are in place and in effect operating as intended. The Office provides independent assurance that government departments and other audited bodies properly account for the money that Parliament has approved and that such monies have been spent as Parliament intended.

Number of Audits

In 2004, covering the financial year 2003, the Section carried out around 90 audits, besides the detailed audit of the Government Financial Report. The Section was also responsible for other audit tasks, as required by various individual legislations. The Section conducts its operations according to a three year roll-over plan aimed at covering all major areas within a three-year period.

Planning Procedures

Prior to the start of the audit cycle a plan for the year under review is prepared. The basis for the conduct of the audits are the risk and materiality elements and the internal controls in place. In drawing out the annual audit plan an effort is made to get acquainted with the activities of the auditee and form an opinion on the reliance that may be placed on internal controls, as well as the extent of substantive testing required.

Financial Audit Cycle

The financial audit plan covers a calendar year. Audits at the individual Government Departments for a particular year commence late during the year under review and continue towards the end of the third quarter of the following year.

The Annual Government Financial Statements are presented by the Accountant General to the Auditor General for examination by not later than the end of March of the following financial year. The examination and certification of these Statements is completed by mid-April. These certified Statements are presented by the Accountant General to the Speaker of the House.

The detailed Government Financial Report is published by the Accountant General by the end of June of the following financial year. The actual detailed audit of the Government Financial Report is included in the Annual Audit Report.

As regards Local Government audit, the Local Government auditors are required to submit an Audit Opinion on the individual Local Councils by 30 June following the end of a financial year for Local Councils, which ends on 31 March.

The role of the Auditor General in the audit of Local Government is twofold. The first is an administrative role concerned with the appointment and remuneration of the Local Government Auditors. The second role is a technical one, which is intended to lend support to the 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 includes a summary of the weaknesses that were most commonly encountered across Local Councils.

General Methodology

Reliance is placed on the internal controls and their effectiveness in the daily operations of the entity audited. These are tested via walk through tests based on a risk and materiality assessment of the entity as a whole. A balance of reliance on such controls and substantive testing is achieved and determined at the planning stage. It is based on the knowledge of the entity and its environment.

A comprehensive management letter outlining the weaknesses that came to NAO's attention and recommendations to address weaknesses is sent to the Head of the entity concerned. A time limit for management comments is given.

The entity's management is requested to submit its comments and intended actions on the weaknesses identified. Where major findings are identified and/or when requested by the Head of the audited entity, an exit meeting may be held with the respective Head and other officials. However, this is not a standard procedure.

Audit Findings Report

The major audits are reported in the Auditor General's Annual Audit Report which is presented to Parliament, through the Speaker of the House. The Report is taken up by the Public Accounts Committee, which discusses the major issues therein. Senior Management officials are summoned during PAC meetings to answer queries of the PAC members.

Pre-publication write-ups are sent to the Permanent Secretary responsible for the audited entity for any remarks felt necessary at that end.

Audit Feedback

The audited entity submits comments on the audit report and its intended action to remedy weaknesses outlined in the report. These comments, including any commitments to rectify shortcomings and improve systems, are reflected in the Annual Audit Report and followed up in subsequent audits.

Press and Media Coverage

The substance and extracts from the Annual Audit Report (that covers Attestation, Financial and Compliance Audits of Central and Local Government, as well as of other entities audited by NAO) are covered extensively, shortly following the publication of the Report. The NAO has endeavoured to make the report as user friendly and comprehensive as possible to reach as wide a readership as possible. PAC Meetings, that cover this Report over a number of Sittings, are also often frequented by journalists and are extensively reported upon in the media.

Performance Audit

Legislation enabling SAI to carry out Performance Audits

The Auditor General and National Audit Office Act provides that: *'The Auditor General may examine whether the department, office or other body whose accounts are being audited by him has used the funds and resources available to it effectively, efficiently, and economically without incurring expenditure which is unnecessary.'* (Section 3, First Schedule).

Section 8(a) (ii) of the same Schedule stipulates that: *'The Auditor General may make special reports to the House of Representatives dealing with value for money audit relating to efficiency and effectiveness of any department, office or body.'*

Moreover, the Act states that: *'The Auditor General shall appoint such number*

and such classes of officers at the National Audit Office as he may consider necessary to assist him in the discharge of his functions according to law.'

Historical Development of Performance Audit

Initial steps towards the inclusion of performance auditing within the Malta NAO were taken by a Public Service Reform Commission, set up in 1989. The Commission's recommendations had 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.'*

The translation of this new audit policy into concrete action generating performance audits started off in the mid 1990's, and is still developing. Major milestones included:

- Legislation giving a clear mandate to the Auditor General (Auditor General and National Audit Office Act mentioned earlier).
- A management structure to include the performance audits set up in 1999.
- Recruitment of multi-disciplined staff required to carry out such audits.
- Development of an appropriate culture for both the NAO and its auditees.

Performance audit carried out by NAO endeavors to assess the economy and/or efficiency and/or effectiveness of a government activity, function or programme. Performance auditing is not solely concerned with 'money'. It is also concerned with management issues such as strategies, structures, processes and communication, control systems and plans. All these are understood to have a bearing on the final results, whether financial or otherwise.

Number of Audits carried out, Reports produced

Since the year 2000, 14 specific reports have been published as shown in Table 1.

In addition, performance audit issues have featured as short reports in the Auditor General Annual Audit Reports. Past issues covered include benchmarking, stores management, social housing, tax arrears and old people's homes. The most recent such report is entitled "Quality Service Charter Initiative", which appeared in the 2003 Annual Audit Report and is a follow-up to an exploratory audit carried out in 2001.

Selection of Topics to audit

The audit teams carry out brainstorming sessions late in the year, to identify topics that are significantly material for the carrying out of performance audits. Themes are categorised into social,

economic, financial and environmental issues. Prior to this exercise, media reports are scanned for possible audit subjects. Concerns shown by Parliament are also taken into account. The end result is a number of possible topics to be addressed in the coming year. Further desk research is conducted and a Study Proposal document is compiled for each topic. Study Proposals are drawn up by managers and submitted to the Assistant Auditor General (AAG), VFM, for approval. Each proposal is graded using a Study Selection Criteria template. This evaluates proposed studies on the basis of:

- Furthering NAO Policy and Strategy;
- New Initiatives in Government;
- Modernising Government;
- Customer Orientation (of the audit subject);

Table 1: List of Performance Audit Reports published to date (December 2004)

Date	Audit Report Title
Jan 2000	Internal Audit Function within Government Ministries
Oct 2000	VAT Department Inspectorate Unit
Jan 2001	Primary Health Care – The General Practitioner Function within Health Centres
Feb 2001	Museums Department – Promoting Heritage Sites
Mar 2001	Department of Consumer Affairs
May 2001	Government Transport
Jul 2001	Countryside Section – Environment Protection Department
Feb 2002	Licencing and Testing Department
Sep 2002	Education Division – School Transport System
Dec 2002	Education Division – School Information System
Jul 2003	Preventing and Dealing with Pollution from Ships at Sea and in Ports
Jan 2004	Managing Procurement – Road Construction and Restoration Contracts
Feb 2004	Acquisition of Property by Government
Nov 2004	Inventory Strategy and Distribution of Pharmaceutical Products

- Interest to Parliament and the media
- Deliverability (of the audit).

Once approved, a more detailed Preliminary Study document is drawn up. Such reports are collated into the Section Annual Audit Plan which is submitted to the Auditor General (AG) for approval.

How Work is carried out

Following the drawing up of the Annual Plan, an audit study commences with a more in-depth appraisal of the subject. This takes the form of further desk research and initial data gathering exercises to include preliminary meetings with the auditee. Output of this process is the drawing up of a formal audit plan which sets out the course the study will take, detailing audit concern and problem, scope, objectives and methodology. The plan also details resources, internal and external, that need to be employed, together with a Gantt chart showing deliverables and corresponding milestone dates. This plan is discussed with the auditee management during an Entry Conference.

Audit fieldwork commences after the Entry Conference. Methodology applied varies according to the audit being carried out and may include: interviews, document inspection, use of surveys and/or questionnaires and data extraction from manual and electronic systems.

The Section has recently shifted from a results-oriented to an issue-based approach to audit. The report is compiled in tandem with data collection and analysis. During this stage, a quality control function exercised by the AAG is the thorough review of text and results.

The Report's First Draft is supported by detailed working papers. The Draft Report is simultaneously submitted to the AG and the auditee's top management, for views, comments and feedback.

Auditees are allowed a period of time, typically four weeks, during which to evaluate the Draft. After this, an Exit Conference is held. During this meeting,

auditees and the NAO discuss report contents, and any submissions on the part of the auditees are considered for inclusion within a revised report.

Reporting Method

The revised report, described above, is reviewed once again by the Auditor General. The document is then forwarded to the printers for publication. Performance Audit reports are submitted to the Speaker of the House of Representatives who in turn lays them before the House on the next sitting.

Eventually, Performance Reports may be taken up for discussion by the PAC.

Results of Performance Audit Work / Impacts achieved

As in the case of Financial and Compliance Audits, PAC discussions of performance audit reports are attended by both NAO and auditee management and staff. Also in attendance are Permanent Secretaries of the Office of the Prime Minister and the Ministry of Finance. These last ensure that any recommendations the PAC makes are taken up by the civil service entities concerned.

Skills of Staff undertaking this Work

Performance auditing calls for multi-disciplined personnel. In view of this requirement, the NAO has, over time, recruited management and staff trained in areas ranging from management, accountancy, public policy, statistics and IT. In addition, life-long learning is supported by the Office.

For this reason, personnel are encouraged to take up further studies at University and other academic institutions. Another initiative taken by the VFM Section is the holding of specifically-tailored courses, organised in conjunction with University lecturing staff. Topics covered in this regard include Sampling Techniques, Queueing Techniques, Research Methodology and Project Management.

How NAO monitors the Impact of its Performance Audit Work

Impact of performance audit work by the NAO is gauged through follow-up audits. As of 2004, NAO has started to include two such follow-up audits in its annual plan. This decision was taken as it was deemed that auditees should be afforded a reasonable amount of time after an initial audit, and prior to a follow-up, to implement recommendations.

Relations with Audited Bodies

As from its very first contact with the auditees, NAO endeavours to convince all concerned of its objective of offering its assistance to auditees through carrying out an external, unbiased assessment of their operation. With very few exceptions this system has been found to be effective as auditees tend to realize the benefits of having a performance audit carried out.

Audited Bodies' Response to Reports

Auditees' response to performance audit reports usually commences in earnest during the Exit Conference. To date, auditees, barring one exceptional case, have accepted the contents of performance audit reports with minor amendments.

Press and Media Interest

Interest of the media varies according to the audit subject matter. However, given the process of audit selection being applied (as described in *'Selection of topics to audit'* above), considerable interest is afforded to performance audit reports.

This is due to the fact that the issues chosen would be thematic, of interest to the general public and would have often featured as concerns in the media and/or during parliamentary debates.

The media usually takes up a report on its publication. Newspapers feature excerpts from and the gist of the Executive Summary, together with the more interesting report findings. Opinion leaders occasionally pick up performance audit reports, and produce articles that are based around report

findings and recommendations. On a number of occasions, performance audit reports hit newspapers front page.

News reports on TV and radio feature the publication of performance audit reports. Coverage usually includes extracts from and the substance of the Executive Summary.

On a number of occasions, the media reported on proceedings of the PAC meeting as it is customary for journalists to be present during PAC meetings.

Report on Risk Management in Government Departments

In December 2004, a report on "Risk Management in Government Departments" was also issued. This is a study that highlights and projects the need for a risk management culture within the various activities carried out by different Government Departments.

International Relations

NAO actively participates in the international sphere and significantly involves itself in international activities. It regularly contributes by submitting country papers, comments on international reports and exposure drafts, articles, questionnaires and other studies related mainly to public sector auditing carried out by the International Organisation of Supreme Audit Institutions (INTOSAI), the European Organisation of Supreme Audit Institutions (EUROSAI), the network of EU Member State SAIs and other international organisations.

The studies covered themes such as:

- Internal Controls
- Audit Quality
- Environmental Audit
- Performance Audit (including Article for 2004 EUROSAI Publication No. 10 - "Statistical Sampling Techniques in Practice : Conducting a Telephone Survey during a Performance Audit: A Malta Experience)

- Cooperation with other Supreme Audit Institutions (SAIs)
- Cooperation with other Local Audit Bodies
- Audit of Revenue in the Public Service
- Accounting for Social Policies of Government
- Revenue from Non-Exchange Transactions
- State Audit in the EU – relating to NAO (Malta)
- Value Added Tax Management Systems Audit

One 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 Member States and is co-jointly responsible for a theme relating to "Guidelines on Audit Quality" which was finalised during the current year.

As a member of the INTOSAI Standing Committee on Accounting Standards NAO participates by reviewing and submitting its comments to the Committee on certain exposure drafts prepared by the International Federation of Accountants (IFAC) Board on Accounting Standards.

EUROCONTROL Audit Board

A senior official of the NAO has been selected and appointed a member of the Eurocontrol Board for the audit of Eurocontrol budgets and accounts. Eurocontrol is an international body responsible for air traffic over the European Zone and administers revenues exceeding EUR 6 billion.

Network of SAIs of EU Member States (EU Contact Committee)

Cooperation between EU Member State Supreme Audit Institutions and the European

Court of Auditors (ECA) principally takes place within the framework of the EU Contact Committee structure. The Committee which is composed of the Heads of the SAIs and the President of the European Court of Auditors has the support of the Committee of Liaison Officers and working groups of specific audit topics.

Whilst taking due account of the independence and constitutional mandate of each SAI, the cooperation promotes and implements joint initiatives to develop methodologies and strengthen the operational capacity of the organisations. The "liaison" obligations of Art 248(3) of the Treaty establishing the European Community is conducted through the Contact Committee set up by the European Court of Auditors.

This Article states that :*"In the Member States the audit shall be carried out in liaison with national audit bodies or, if these do not have the necessary powers, with the competent national departments. The Court of Auditors and the national audit bodies of the Member States shall co-operate in a spirit of trust while maintaining their independence"*.

Moreover, the Treaty of Nice contains the following declaration:

"The Conference invites the Court of Auditors and the national audit institutions to improve the framework and conditions for cooperation between them, while maintaining the autonomy of each. To that end, the President of the Court of Auditors may set up a contact committee with the chairmen of the national audit institutions".

In addition to facilitating the exchange of information between the SAIs and the ECA, their structure has made it possible to attain considerable progress through effective cooperation between the various institutions which audit the management of Community funds.

The Heads of national SAIs and the ECA meet once a year. Their meetings are prepared by the Liaison Officers, who themselves usually meet twice a year. Studies and other assignments undertaken by the Liaison Officers on behalf of the SAI Presidents are usually accompanied by Resolutions that are approved

by the SAI Heads during the Contact Committee Meetings. Activities relating to the Contact Committee are found in the Table under "Overseas Events 2004".

Overseas Events 2004

The following overseas-related events were undertaken.

Date	Event	Location	Description
1 Jan – 29 Feb (initiated on 1 Oct 2004)	ECA Internship	Luxembourg	Five and a half month Training Internship in an ECA Audit Unit undertaken by an Audit Manager.
15-16 Jan	Working Group Meeting on Audit Quality Guidelines	Budapest (Hungary)	A senior officer participated in an expert capacity on a study relating to Audit Quality Guidelines on behalf of the former network of SAIs of EU Acceding, Candidate and Close-to-Candidate Countries.
19-20 Feb	Liaison Officers Meeting of SAIs of EU Acceding, Candidate and Close-to-Candidate Countries	Dubrovnik (Croatia)	A senior officer participated in the event as Liaison Officer for the NAO. Several EU-related issues were reported upon and discussed. The themes discussed are found under the Riga Meeting below. This Liaison Officers' event was the last of a series prior to EU Accession.
Feb – Dec	Eurocontrol Audit Board	Brussels (Belgium)/ London (UK)	The Financial and Compliance Assistant Auditor General participated in a number of Eurocontrol Audit Board meetings relating to the audit of Eurocontrol.
29 Mar – 2 Apr	EUROMED Auditing and Accounting	Rome (Italy)	A senior officer participated in this EuroMediterranean Partnership event on Auditing and Accounting, together with other Government and private sector representatives.
31 Mar – 1 Apr	Presidents' Meeting of SAIs of EU Acceding, Candidate and Close-to-Candidate Countries	Riga (Latvia)	The Auditor General and a senior officer attended this last event for SAI Presidents from the former network of SAIs before EU Accession. EU-related themes, on which Liaison Officers had reported upon in line with SAI Presidents' Resolutions of previous years, were discussed. Resolutions approved during the Meeting related to Audit Quality, Internal Control Systems, Audit Manuals Workshops, Joint Audit Activities, and Future Framework of Cooperation between SAIs of EU Member and prospective EU Member States.

1 Mar – 31 Jul	ECA Internships	Luxembourg	Five and a half month Training Internship in ECA Audit Units undertaken by two NAO auditors - vide "Overseas Training" on page 28
16 Apr	Birmingham University Public Policy Students Visit	Malta	A number of foreign students undergoing PhD postgraduate studies at Birmingham University held a meeting in Malta with the Auditor General on the work and activities of the NAO
20-21 Apr	Study Visit to the Comptroller and Auditor General (C&AG) of Ireland	Dublin (Ireland)	The Auditor General and senior officers undertook a visit to the Irish C&AG to discuss audit issues relating to EU affairs.
22 – 23 Apr	Study Visits on UK Local Government (Audit Commission and Local Govt. International Bureau)	London	The Auditor General and senior officers undertook visits relating to Local Government in the UK. Meetings were held with representatives of the UK Audit Commission and UK Local Government International Bureau.
27 Apr	NAO/HMT Counter Fraud Conference	London	A senior officer attended the Conference relating to Fraud and counter Fraud measures
24-25 May	Liaison Officers' Meeting of SAIs of EU Member States	Paris (France)	A senior officer attended the first Liaison Officers' Meeting for SAIs of EU Member States following EU Accession, as full member of this new network. Themes discussed are found in the December Luxembourg Meeting for EU SAIs Presidents.
11-14 May	3 rd EUROSAI/ OLACEFS Seminar: "Audit in the 21 st Century"	London	The Auditor General and a senior officer attended this joint event for EUROSAI (European) and OLACEFS (South American) SAIs. The Auditor General chaired one of the themes in the Seminar.
14-15 Jun	Study Visit relating to the Audit of Capital Projects	Nicosia (Cyprus)	The VFM Assistant Auditor General, together with other officers, made a follow-up visit to the Audit Office of Cyprus to discuss methodologies relating to the audit of capital projects.
16 Jul	Publication on EU State Audit	Malta	Two UK NAO officials visited the Office to discuss a report on the Malta NAO which will eventually feature in an international publication entitled "State Audit in the EU".

Work and Activities of the NAO - 2004

1-3 Sep	ECA/SIGMA ⁽¹⁾ Performance Audit Workshop ⁽¹⁾ SIGMA is a joint initiative of the OECD and the EU	Prague (Czech Republic)	The VFM Assistant Auditor General and other officers attended a seminar on Value for Money Auditing. The Assistant Auditor General was one of the expert speakers on the Seminar theme.
8 – 24 Sep	NAO UK Internship Training Course	London	An officer attended the UK training course on Financial and Compliance and Value for Money Auditing – vide “Overseas Training” on page 28.
9-10 Sep	Working Group Meeting on revised Guidelines on Audit Quality	Warsaw (Poland)	A senior officer attended the Workshop relating to the updating and further work on Guidelines on Audit Quality. This study was initiated in 2003.
4-5 Oct	Liaison Officers’ Meeting of SAIs of EU Member States	Luxembourg	A senior officer attended the Liaison Officers’ Event for SAIs of EU Member States, in which progress on EU-related reports undertaken by the Liaison Officers were discussed. Reports and relative Resolutions are found under the December Luxembourg Meeting for EU SAIs Presidents.
11 Oct - 19 Nov	Internship in Malta	Malta	A German employee working with a Regional Office of the Bundesrechnungshof (SAI) underwent a six-week internship with the NAO as part of his studies for a University Masters Degree in Germany.
11-16 Oct	INTOSAI Congress	Budapest (Hungary)	The Auditor General and a senior officer attended the International Congress for Supreme Audit Institutions (INCOSAI). Themes related to cooperation between SAIs on an international level, and cooperation between audit bodies at a national level.
13-14 Oct	EUROSAI Training Committee/IT Working Group Seminar	Lisbon (Portugal)	A senior officer attended a Seminar on IT, wherein Peer Reviews on IT systems were discussed.
18-19 Oct	Seminar at ECA	Luxembourg	Two officers attended the Seminar. Themes included the organisation and functions of the ECA, OLAF (Office for the Fight against Fraud) and IAS (Internal Audit Service of the Commission), the Court of Justice, and the European Commission.
18-19 Oct	EU VAT Working Group Meeting	Rome	The Financial and Compliance Assistant Auditor General attended a Working Group Meeting on EU VAT Management.



Group photo of Liaison Officers' Meeting of EU Member States held in Paris on 24 - 25 May 2004



Participants in Performance Audit Workshop held in Prague on 1 - 3 September 2004

18-19 Oct	European Healthcare Fraud & Corruption Conference <i>(organised and funded by the European Commission Justice and Home Affairs AGIS Programme)</i>	London	The Auditor General attended the Conference which dealt with risks, problems and solutions relating to Healthcare Fraud and Corruption in Europe followed by a Declaration on the theme
4-5 Nov	EUROSAI Training Committee: Tax & Customs Auditing	Warsaw	An officer attended the Training Course which related to Tax and Customs Auditing.
2-5 Nov	EUROSAI Working Group Meeting on Environmental Auditing	Sofia (Bulgaria)	Two officers attended an Environmental Audit Seminar on Biodiversity. Also discussed was progress of the EUROSAI Environmental Auditing Working Group
6-7 Dec	Contact Committee of SAI Presidents of EU Member States	Luxembourg	The Auditor General and the Liaison Officer attended the first Contact Committee Meeting as full members since EU Accession. The reports undertaken by Liaison Officers, referred to earlier (under Liaison Officers' Meetings in Paris and Luxembourg), were discussed. Themes included the functioning of the Contact Committee; EU Financial Reporting by SAIs; EU Member States and SAI Co-operation Framework; Audits on EU Structural Funds; Public Procurement in the EU; Activities in the area of Agriculture; Framework for Co-operation with SAIs of prospective EU Members; Guidelines on Audit Quality; Activities in the VAT area; Joint Audit Activities; SIGMA Workshops and other Activities, EUROSAI Training. A number of Resolutions was also approved by the SAI Presidents.
8-10 Dec	Seminar on EU Financial Management	The Hague (Netherlands)	Two senior officers attended this Seminar in which SAI reporting on EU-related audits was discussed.
1 Oct – 31 Dec (ends 28 Feb 2005)	ECA Internship	Luxembourg	Five and a half month Training Internship in an ECA Audit Unit undertaken by an NAO officer vide "Overseas Training" on page 28.



Working Group Meeting on 9 September 2004 at Supreme Chamber of Control (Warsaw - Poland) on Guidelines on Audit Quality



Group photo of Presidents of SAIs of EU Member States during Contact Committee Meeting held in Luxembourg on 6 - 7 December 2004

190th Anniversary of the Setting Up of a State Audit Office

On 19 November, 2004 the NAO celebrated the 190th Anniversary from the establishment of the post of Auditor General and the setting up of a National Audit Institution in Malta in 1814. The President of Malta, His Excellency, Dr. Edward Fenech Adami, the Speaker of the House of Representatives, the Hon. Mr. Anton Tabone, MP, the Chairman of the Public Accounts Committee, the Hon. Not. Charles Mangion, MP, and Members of the Public Accounts Committee and the National Audit Office Accounts Committee and other M.P.s were invited. The Assistant Auditors General and other NAO staff were also present for the event.

The Auditor General gave a brief historical background on the establishment of the post of Auditor General and the setting up of the first National Audit Institution in Malta. He gave an account of the legislative and organisational changes undertaken at the Office since the coming into effect of state audit legislation and the consequent constitutional changes in 1997.

The President of Malta replied by stating that the Office has in recent years gained increased respect and that it is in a strong position to face the challenges that lie ahead of it. He then unveiled a plaque to commemorate the anniversary.

Human Resources

During 2004, the National Audit Office continued with the recruiting process with the aim of employing professionally qualified personnel to augment the current staff complement. Calls for applications were issued to fill vacancies in the grades of Audit Manager, Principal Auditor and Senior Auditor.

Staff Mobility

Although the NAO recruited 5 new employees, 3 other senior officials resigned during 2004. An ex-government employee who held the position of Audit Manager

within the Financial Audit Section retired on reaching pensionable age.

Staff Position

The NAO has established that currently it requires approximately 63 employees to carry out its current Constitutional mandate as against 62 in post. The Table on page 26 gives a breakdown of the staff position as on 31 December 2004. The Table shows that 27 employees, or approximately 44% of the staff complement are female. The average age is 36 years.

Staff Qualifications

The NAO now has within its ranks a considerable number of professionally qualified employees. This can be gauged from the range of specialities currently on NAO's books, as depicted hereunder.

Degree in Accountancy or holders of CPA or holders of the Certificate to practice auditing	22
Masters in Business Administration	2
Masters of Science in Management	1
BA (Hons) in Administration	1
Bachelor of Science (Hons) in Maths, Statistics & Operational Research	1
Bachelor of Commerce (Hons) in Management	1
Bachelor of Commerce in Public and Private Sector Management	1
Diploma in Business Studies	5
Diploma in Management	4
Diploma in Computer Studies	1
Diploma in Secretarial Studies	1

Training

The National Audit Office invests heavily in the training of its staff. Newly recruited employees are given on-the-job training by senior NAO officials, while experienced



The Auditor General delivering his speech during the visit by H.E. the President



NAO staff with H.E. the President during his visit to NAO

Staff Position as on 31 December 2004

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	-
Senior Principal	1	1	1	
Principal	2	1	1	-
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	7	5	2
Principal Auditor	12	12	4	8
Senior Auditor	12	10	7	3
Assistant Auditor	12	10	4	6
Audit Technician	-	2	-	2
Audit Clerk	-	3	1	2
Total	63	62	35	27

employees are encouraged to follow courses on a part-time basis after office hours. Others are sponsored by the NAO to follow courses of training abroad.

Other Courses of Training

Project Management: Organised in conjunction with the University of Malta. The course included the following modules:

Theoretical topics, Introduction to Network Analysis, Tasks and Resources, Shortening the Schedule, Resource Leveling, Project Appearance and Management and Project Monitoring. The course was of a 36 hour duration.

Presentation Skills: Organised by the Staff Development Organisation (SDO).

Writing Skills: Organised by the SDO.

Quantitative Methods: Organised by the National Statistics Office.

DAS Courses: The following three courses were organised by MITTS – DAS Refresher Course, DAS Data Analysis, Enquiry and Reporting and DAS Report Generator Course.

Team Building: Organised by the Staff Development Organisation

Basic Archive Skills Training Day: Organised by DMI (Malta) Ltd and the Archive Skills U.K.

The Instruments to Finance Business Growth: Organised by the Institute of Management in conjunction with the Malta Stock Exchange.

Local Sponsorships

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

- **Malta Institute of Accountants (ACCA)** – four (4) employees are currently following a five year course leading to ACCA.
- **Masters in Business Administration** – two (2) employees are reading for an Executive MBA at the University of Malta.
- **Diploma in Management** – four (4) members of the staff are currently undertaking a three year course leading to a Diploma in Management organized by the University of Malta
- **U.K. National Computer International Higher Diploma** – one (1) employee is currently following a Higher Diploma in Computer Studies.

During the year, one employee attained the Executive MBA and three employees obtained the Diploma in Management.

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:

- Conference on the Consultation Process on the Impact of the Proposed EU Directive on Service in the Internal Market.
- National Action Plan for Employment – 2004 Environment as an Opportunity for Entrepreneurs and Industry.
- Emotional Intelligence Leadership organized by MISCO.
- Deduction rules under the Value Added Tax Act.
- Occupational Health and Safety in the 21st Century.
- The Accountancy Profession Act.
- Update on Audit Reporting.
- Internal Audit
- Review of the VAT Act – Highlighting the New Procedures Related to Malta's Entry to the EU.
- Taxation Seminar.
- The Malta Enterprise.
- The Introduction of Data Protection in Malta.
- Public Dialogue with EU Commissioner Gunter Verheugen on "The European Union and its Neighbours – a key role for Malta"
- VAT Regulations and Intra Community Transactions.
- Repositioning our SMEs in the Global Market.
- The Value(s) of a Constitution for Europe.
- Leading Professionals.
- eTen Information Day.

- The Objective of the Enlargement of the European Union – The Polish Perspective.
- The EU's Development and Humanitarian Aid Policy.
- A Forward Look at the Knowledge Society in Malta 2015: Gender Perspectives and Implications.
- Real Estate Valuation updates – the essential guide forward.
- Malta's Integration into European and Monetary Union – The Challenges Ahead.
- Managing Stress at Work.
- Malta, the European Commission and Enlargement.
- The Role of Small Member States in an Enlarged Europe.

On a number of occasions, NAO staff made presentations relating to the work and activities of the NAO, such as to the Local Government Department and to the Management Efficiency Unit.

Overseas Training

Two Weeks Training with the U.K. National Audit Office: In 2004 an Assistant Auditor from the Value for Money Audit Section attended an International Training Course with the UK National Audit Office.

Five NAO employees have attended this UK international course since its inauguration in 1993. The course covers the Financial and Compliance as well as the Value for Money aspects of auditing.

Five Months Training with the European Court of Audit: Two Senior Auditors, one from the Financial and Compliance Audit Section and another from the Value for Money Audit Section were selected by the ECA to follow a five months internship with the ECA. The internship covered period 2 February 2004 to 30 July 2004.

Another Senior Auditor is currently undertaking the internship for the period 1 October, 2004 to 28 February, 2005.

The objectives of the internships are for the interns to acquaint themselves with and participate in the working methodologies of the ECA.

Several other officers attended short-term workshops, seminars and other training courses abroad – vide "Overseas Events" on pages 18 to 23.

Engagement of Consultants

As a policy the NAO endeavours to carry out training and audit assignments using its own resources. There are instances, however, when the NAO needs to engage the services of consultants.

During 2004 the NAO engaged the services of the following 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 legal difficulties.

Other Consultants: These consultants are engaged for work connected with Value for Money audits and investigations. The consultants are contracted as and when required on an 'ad hoc' basis. Another consultant was engaged in the capacity of an Industrial Relations Consultant and chairs the whole selection process of the promotion or recruitment of NAO employees.

Library

The NAO has set up a small library to serve as a reference and central depository centre equipped with reference books, guide books, audit reports, manuals, government circulars, CDs, videos and other material necessary to assist the staff in their work and in their academic studies.

New acquisitions are made regularly and need not be related to auditing, but may cover other subjects and topics with a bearing on NAO's mandate.

Human Resource Management System

The Finance and Administration Unit has during 2004 introduced a Human Resource Management System. The system is an integrated suite of programs made up of three core software products, namely Human Resources, Payroll and Time and Attendance System designed for the Management of Human Resources.

Information and Communication Technology

Mobile Computing Strategy

The majority of auditors have been provided with laptop computers thus enabling them to carry out their audit duties at the auditees' premises. It has also become the practice, where appropriate, to provide new staff with a portable computer soon after they join NAO.

Data Protection Act

Because of the provisions of the Data Protection Act, problems were being encountered when NAO requested Government Departments to provide electronic data in order to carry out its mandate. The need for guidance as to NAO's prerogatives vis-a-vis the Act was felt.

NAO collaborated with the Data Protection Unit of the Office of the Prime Minister, the Attorney General and the Data

Protection Commissioner culminating in the issue of OPM Circular No. 22/2004 in May 2004 entitled "Disclosure of Personal Data for Audit/Investigative purposes".

Security Review

Being aware that security arrangements in any computerised environment were of major concern, NAO carried out a review of its internal network security arrangements by external consultants.

NAO's security was found to be adequate with some recommendations to strengthen the arrangements already in place being suggested.

NAO accepted these recommendations and an exercise to upgrade its network infrastructure was undertaken. Moreover, the upgrading of all computer operating systems from Windows 98/2000 to Windows XP was resorted to since this offered more security.

Printing of Reports

NAO publishes several reports annually. The editing and layout of all NAO publications is being performed in-house by the Information Technology Unit.

In order to eliminate undue delay and facilitate matters, NAO invested in hardware and software compatible with that in use at the Government Printing Press. All publication material is passed on CD to the Printing Press which only performs the printing and binding of the publications.

NAO Website and Intranet

The Website and Intranet continued to be maintained up-to-date during the year with, "inter alia", the prompt inclusion of all reports tabled at the House.

Unfortunately since April statistics of website usage were not made available to NAO by MITTS. These statistics proved useful not only to assess the interest being generated but also to monitor the use of the Website.

Court of Appeal finds in favour of Auditor General

On 4 November 1999 a libel was filed against the Auditor General in connection with a 1999 investigative report on a Local Council by the National Audit Office. The libel case was heard in front of the Law Courts presided over by the Hon. Mr. Justice Dr. Giannino Caruana Demajo LLD who decided in favour of the Auditor General on 15 March 2002 on the basis that the Press Act considered such reports to be privileged.

On 1 April 2002, the plaintiff appealed from the judgement. The Appeal was heard by the Court of Appeal presided over by the Hon. Mr. Chief Justice Dr. Vincent De Gaetano LLD. The Court pronounced judgement on 20 December 2004; the appeal was dismissed and declared vexatious.

The original judgment in favour of the Auditor General was therefore confirmed.

Conclusion

During 2004 we continued with our policy of employing staff at a professional level, in line with Office policy to engage highly qualified staff. We also endeavoured to recruit experienced staff. The number of NAO employees is now practically at full complement and recruitment in the near future will largely reflect turnover of staff at the Office through retirements or resignations.

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

This year, I am pleased to report that four officers were undertaking five month internships at the European Court of Auditors. Another officer underwent a two week training course at the National Audit Office (UK). Furthermore, during the current year a member of staff has obtained Masters in Business Administration and three others obtained a diploma in Management.

We have continued to reorganise the Office so that we may achieve the mandate of the Office in a more effective and efficient manner. We have done this by revisiting the organisation structure of the Office so that NGOs and Investigations are given increased focus.

In the coming few years we have a number of challenges that we will need to address.

There is firstly the European dimension. Malta's entry in the EU means that we will have to focus on the funds that are transferred from/to the EU.

There are also several areas to which we need to give increased priority, such as the audit of NGOs and projects of infrastructure.

There are also the investigations requested by the Public Accounts Committee or by the Minister of Finance that have increased in recent years. We need to give these types of investigations increased attention.

Another challenge is the eventual change in the Government Accounting System from one that is currently a 'cash based' system to a system that is 'accruals based'. This would mean more detailed and increased audit work in view of the increased reporting detail in government financial transactions and the government financial position.

In recent years, we had the introduction of E-Government, something to which we are giving increased attention and importance as this concept of Electronic Government develops and proliferates throughout Government.

The environment is another concept which society and the state is giving increasing attention. We have already started doing audits in this area and will continue to increasingly do so as we know that the country needs to give environment its due importance if we want a better quality of life.

I would also like to acknowledge the co-operation afforded by the auditees that has improved significantly over recent years and has, in most cases, been readily forthcoming.

Finally, 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 for 2003, as well as the other reports presented to the Speaker of the House throughout the year.



Joseph G. Galea
Auditor General

January 2005

