



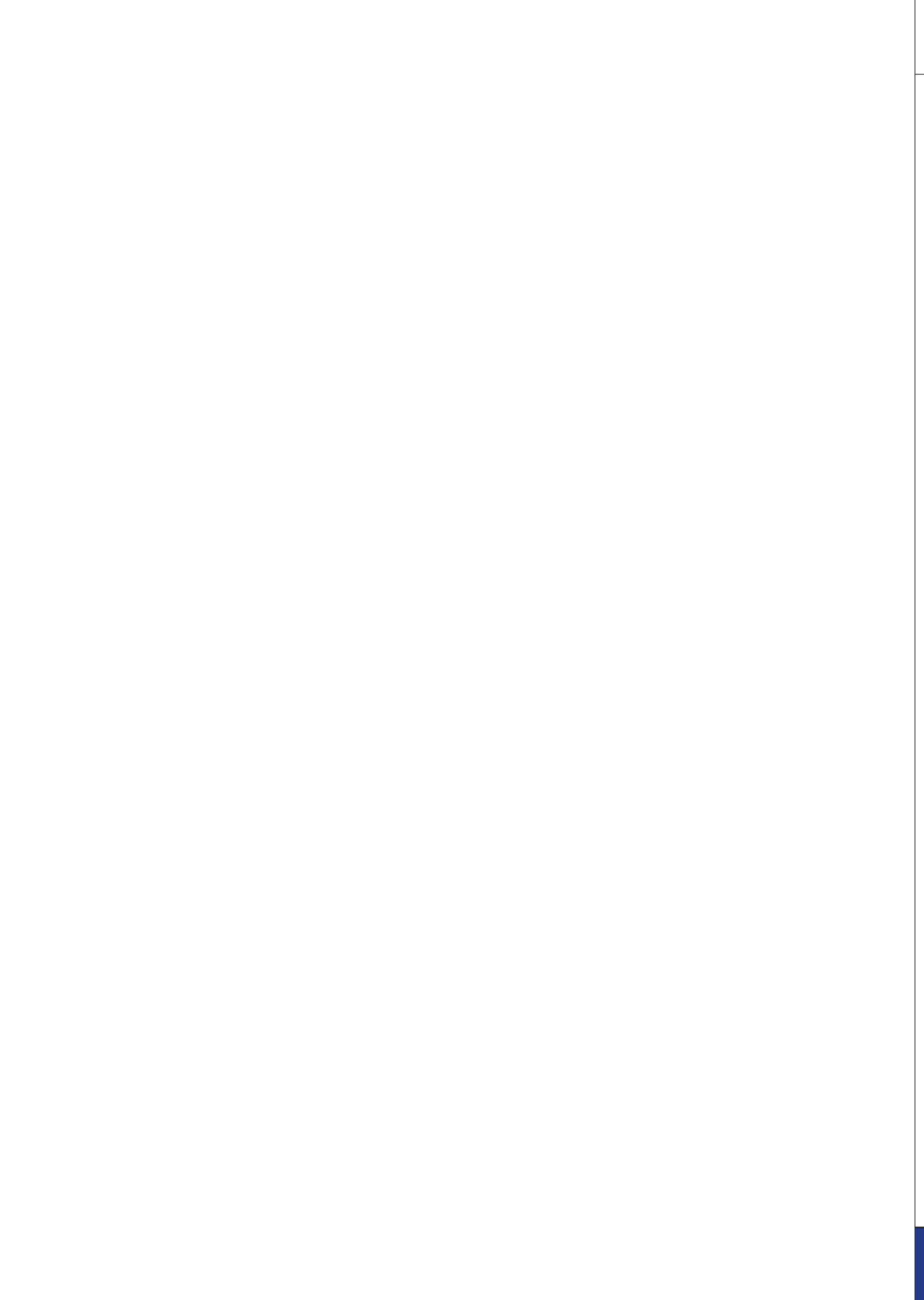
# **Works and Activities of the National Audit Office**

**2007**

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# Work and Activities of the National Audit Office - 2007

## The Role of the Auditor General and the National Audit Office (NAO)

The functions and powers of the Auditor General are defined by Section 108 of the Constitution of Malta and the Auditor General and National Audit Office Act of 1997. The Constitution sets out the general mandate of the Auditor General to perform financial and compliance audits of central Government. The Act extends this mandate further to include the granting of advisory and investigative powers, as well as performance auditing.

### The State Audit Function

The Constitution and the Act guarantee the functional independence of both the Auditor General and the NAO from the public service administration. This independence ensures that the constitutional mandate is met in a more effective way, allowing the Auditor General, as an officer of Parliament, to put forward unbiased opinions in connection with the way with which public funds would have been spent. Independence is facilitated through legislation, stipulating that in the proper exercise of his functions, the Auditor General is not subject to the authority or control of any person.

The Auditor General is appointed through a resolution of the House of Representatives supported by not less than two-thirds of all members of the House of Representatives. This ensures that the Auditor General, charged with the carrying out of state audit, enjoys the confidence of all the political parties represented in Parliament. This direct link with Parliament is maintained as all reports compiled by the Auditor General are tabled at the House of Representatives,

through the Speaker of the House of Representatives. It is through these instruments that the mandate of the '*Guardian of the Public Purse*' is discharged.

Through these reports, the Auditor General holds the Administration to account on behalf of the Parliament and the taxpayers. Instances of good practice are noted and declared as such – with the aim of encouraging their implementation on a wider scale within the public service. In the same way, deficiencies and flaws are identified, reported upon, and accompanied by recommendations to the auditee management team to help ensure that weaknesses are addressed.

In order to discharge this mandate, the Auditor General and other persons authorised by the Auditor General, are empowered to audit all departments and offices of the Government of Malta (the core civil service) and all public authorities and other bodies administering, holding or using funds belonging directly or indirectly to the Government of Malta.

In practice, the audit work consists of the inspection of books, records, returns and other documents relevant to the accounts of the bodies falling under the jurisdiction of the Auditor General. This work is often supported through interviews and the soliciting of explanations with auditee management and staff. The aim of the audit fieldwork is to ensure that all relevant information is collected. This enables the determination of findings that reflect reality, and hence conclusions and recommendations that, once implemented, add value to the auditee's operations, thus increasing cost effectiveness, to the ultimate benefit of the citizen. In this respect, the Auditor General's work is facilitated by legislation, which stipulates that any circumstance inhibiting such access of information is to be

reported to Parliament. Resort to such measures, however, is hardly ever made in practice.

The NAO portrays an image of professionalism and its services are acknowledged and appreciated by senior management of the core public service and government authorities alike. In rare instances where auditees raise an issue regarding NAO's right to carry out particular audits, the matter is discussed and to date such issues have always been resolved to the satisfaction of all parties involved. Such instances often arise due to some provision in an Act, often concerning the right of access to client data. It is however to be noted that the Constitution, in which the Auditor General's right of access is entrenched, overrides any provision in any other Act of Parliament. This notwithstanding, the NAO always attempts to arrive at amicable resolution of similar conflicts with auditees, in the interest of preserving good relations in the wider work environment.

Audit topics and the audit schedule of work are the prerogative of the Auditor General. However, the Auditor General and National Audit Office Act empowers the Minister responsible for Finance and the Public Accounts Committee (PAC) to request the Auditor General to undertake a special enquiry or investigation on their behalf. Similar powers are conferred on the Minister of Local Government, through the relevant legislation. These requests are complied with, so long as they fall within the Auditor General's mandate. In such cases, intervention is limited to the issuing of a request for the exercise to be carried out. The Auditor General and the NAO are still committed to carry out such investigations without being influenced by external bodies, thus ensuring that the independence of the Office is maintained.

## Types of Audits carried out by the NAO

The NAO undertakes Financial and Compliance and Performance Audits, as explained below.

### *Financial and Compliance Audit*

The Financial and Compliance Audit of public funds constitute the core and mandatory work of the NAO. These aim at ascertaining whether:

- The Government Financial Report, including the financial statements of Ministries and Departments, properly present the financial transactions of Government;
- transactions comply with financial rules and regulations;

- adequate safeguards exist for the collection of public monies;
- expenditure is properly controlled and authorised;
- proper internal controls are in place; and
- Government resources are being properly safeguarded.

Financial and Compliance Audits provide independent reasonable assurance about whether the Treasury, government departments and other bodies properly account for the money that Parliament has approved and that such moneys have been spent as Parliament intended. The audits incorporate both a review of the Government Financial Report, as well as audits of the individual Ministries, Government Departments, cost centres and other public entities (auditees). During 2007, audits were largely issue-based: they were aimed at reviewing specific activities of selected auditees.

Audits are also undertaken on corporate issues of general concern throughout government. These include, inter alia, such fields as Arrears of Revenue due to Government.

In the performance of Financial and Compliance Audits, internal controls and their effectiveness in the daily operations of the auditees are tested via walk-through tests based on risk assessment. A balance of reliance on such controls and substantive testing is based on the knowledge of the entity and its environment.

NAO auditors follow the International Standards of Supreme Audit Institutions and the IFAC International Standards on Auditing as guidelines for their audit work. An NAO 'Comprehensive Audit Manual' is also used as guidance material.

The Section endeavours to maintain good working relations with the audited entities. Its objectives are to enhance public sector performance and help ensure that the Government financial statements and records are fairly stated.

## Audit of Local Government

The audit of Local Government is also included within the mandate of the NAO as amplified and described in the legislation regulating Local Government. The Office outsources audit assignments relating to Local Government. In terms of Local Government legislation, private sector auditors are engaged by the Auditor General to conduct yearly Financial and Compliance Audits.

In addition, on every occasion that a Local Council has a change in the Executive Secretary, the Auditor General

appoints a private sector auditor to perform an interim audit in terms of the Local Council (Audit) Procedures, 2006. The audit will serve as an independent hand-over exercise and will cover the period from 1 April to the last day of the outgoing Secretary.

The role of the Auditor General in connection with the audit of local government 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.

Audits on individual Local Councils are reported upon by the Local Government Auditors within three months following the end of a financial year (ending 31 March).

The Local Councils (Audit) Procedures, 2006 regulate the role and functions of the Auditor General and other audit requirements.

The Auditor General consolidates the most serious shortcomings and irregularities identified in these reports into one report, which is then also incorporated into the Annual Audit Report on Public Accounts.

## Audit of Non-Departmental Organisations

The Office may carry out Financial and Compliance Audits of a number of Public Authorities and Corporations, other Public Entities and Non-Government Organisations benefiting from any Government assistance or subsidies. These entities may be foundations, agencies, private or church entities, voluntary organisations and philanthropic societies.

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 the funds are handed out to the various bodies. The criteria and scope of audit depend to a great extent upon the amounts of subvention or subsidy involved.

## Special Audits

In terms of the Auditor General and National Audit Office Act, special audits may be carried out on the initiative of the Auditor General, at the request of at least three members of the PAC or at the request of the Minister responsible for Finance. These audits relate to revenue, expenditure and resources belonging directly to Government, as well as activities, programmes or initiatives that are funded by Government.

A report on travel abroad requested by the Ministry of Finance was finalised in 2007.

Investigations may also be carried out in terms of the Local Councils (Financial) Regulations. In this case the Minister responsible for Local Government would make the request. The ensuing report is submitted simultaneously to the Local Government Minister and to the Speaker of the House of Representatives.

### *EU-related Audits*

During 2007, the NAO was active in the conduct of a number of reviews relating to EU funds. An audit on the Employment and Exposure Scheme of the Employment and Training Corporation and another audit on the Grant Scheme for Tourism Enterprises of the Malta Tourism Authority were finalised during 2007 and included in the Annual Audit Report for 2006.

### *Annual Audit Report*

The Annual Audit Report on the Public Accounts is published not later than twelve months from the end of a financial year (ending 31 December) being reported upon. The Report summarises the conclusions reached following the performance of financial and compliance audits and provides an opinion on whether the financial statements and records subject to audit were fairly stated. This Report is presented to the Speaker of the House of Representatives who in turn lays it on the Table of the House of Representatives on the next Sitting of the House of Representatives after receipt thereof. The Report for year ending 31 December 2006 was finalised in December 2007.

### *Performance Audit*

Performance Auditing complements Financial and Compliance Auditing by focusing on the economy, efficiency and effectiveness of programmes, initiatives and operations of Ministries, Departments and other public entities. These audits are done in compliance with specific legal provisions as laid out in the Auditor General and National Audit Office Act, and as part of the Office's vision and mission.

### *Impacts of Performance Audits*

Performance Audits therefore provide an independent assessment of the operations and management of government programmes against objective criteria of performance, and comment on situations or processes where output in terms of service provided is not of the appropriate standard. Audit results and recommendations

thus provide guidance to the public entity concerned on whether its structure, strategy, policies and procedures need to be updated or amended.

Moreover, these audits assist governments in the identification of ways of improving value for money out of the use of public funds through:

1. More effective utilisation of resources that will generate increased income and/or achieve reduced costs or expenditure, thus resulting in financial savings;
2. An improvement in the efficiency of government operations and services, and in the quality of the services provided;
3. The strengthening of management, administrative and organisational processes of public sector entities;
4. The achievement of the entity's aims and objectives more cost-effectively;
5. Serving as a basis for developing policy; and
6. Creating an awareness of the need for good accountability and transparency in the use of resources.

### *Current developments in the NAO Performance Audit Section*

Since 2000, a number of Performance Audit reports have been published and tabled at the House of Representatives, some of which have been taken up and discussed at PAC level.

In March 2007, the NAO published a report entitled "Reviewing VAT Liability: VAT Investigations and Credit Control Exercises". A number of other audits are in an advanced stage.

The Strategic Plan for the Performance Audit Section, covering the period 2007 – 2011, highlights the following:

#### *Objectives:*

- To provide Parliament with independent assurance and advice about the economy, efficiency and effectiveness of government activities.
- To encourage audited bodies to improve their performance or/and achieve greater value for money from the use of resources.

#### *Section Policies:*

The Performance Audit Section will continue to enhance its performance and the quality of its output through the formulation and ongoing maintenance of the Audit Manual (currently at an intermediate stage of compilation) that draws on best practices and standards of other State Audit Institutions and organisations working in related fields. It will also enhance the contents of the online Performance Audit database, available on the NAO Intranet. The Section will also aim to ensure that members of staff are motivated through the provision of adequate and relevant training, both local and foreign, and through the organisation of in-house training seminars. Another Section policy is to maintain excellent relations with the auditee, based on mutual assistance, with the overall objective of improving public sector operations.

#### *Resources:*

The Performance Audit Section comprises of two audit units, each headed by a manager. Each unit is subdivided into teams working on different audits. Given the diverse nature of audits carried out, the Section adopts a policy of flexibility whereby team members may be re-assigned to different teams depending on work exigencies and specialisations required. Outsourcing is resorted to when the necessary expertise is not available in-house.

### *Parliamentary and Media Coverage*

All NAO reports are submitted to the Speaker of the House of Representatives who lays them on the Table of the House of Representatives. These reports may be taken up and examined by the PAC.

Although a Press Release is prepared by the NAO whenever a report is published and copies of reports are circulated widely to members of the media community, interest varies according to the audit subject matter. The media usually takes up a report on its publication. News reports on TV and radio feature the publications of NAO reports. The media also reports on proceedings of the PAC Meetings as journalists are present during these Sittings.

### *Relations with Parliament*

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

#### *Public Accounts Committee (PAC)*

The PAC consists of seven members, four from the Government side and three from the Opposition side. The



Committee is chaired by a senior Opposition Member of Parliament nominated by the Leader of the Opposition, with the approval of the Prime Minister. It normally meets once every two weeks when Parliament is in session.

The main roles of the Committee are to:

- scrutinise and assess the financial administration of the public sector and to promote improvements, where necessary;
- 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.

Reports submitted to the Speaker of the House of Representatives may be taken up by the PAC, which is empowered to examine the Reports and discuss their contents. In fact, most of the PAC Meetings are focused on issues raised in the Annual Report by the Auditor General or Performance Audit reports. The PAC therefore helps to ensure that findings of the NAO are given due attention by the Administration.

The PAC, through at least three of its members, may also request the Auditor General to enquire and report matters within his mandate. The PAC is also empowered to take evidence from senior officials of ministries and departments or other government related bodies. Moreover the PAC can also review the activities of non-central government organisations that are required to present their accounts to Parliament.

During the current legislature, up to 31 December 2007, the PAC held 53 Sittings, 10 of which were held during 2007. The Auditor General is called to attend all the Sittings.

### *National Audit Office Accounts Committee*

The National Audit Office Accounts Committee is composed of the Chairman of the PAC, the Leader of the House of Representatives, two members from the Government side and one from the Opposition. The Committee elects the Chairman from amongst its members. The Committee meets at least once a year and presents to the House of Representatives: a report of its activities and the report of its examination of any estimates prepared by the Auditor General.

The accounts of the NAO, which are on an accrual basis, are audited by certified private sector auditors appointed by the Committee. The NAO presents the audit report issued by the private sector auditors to the National Audit Office Accounts Committee which then submits the report to the House of Representatives together with any comment

thereon by the said Committee. It is to be noted that the current auditors' term is coming to a close in 2008. They will be performing their last audit of the NAO financial statements for the financial year end 31 December 2007. The Committee will be appointing a new auditor once the two five year terms have come to an end.

During 2007, the Committee met on Monday, 5 February 2007 to examine the Audited Accounts for financial year ending 31 December 2005; the Work and Activities of the NAO Report for 2006; and the NAO Estimates for 2007. The NAO Audited Accounts for the year ended 31 December 2006 were presented to the Committee on Monday, 23 July 2007.

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" in accordance with Section 3(1)(1)(c) and 3(4) of the said Act. The Committee may discuss the relative motions and report thereon to the House of Representatives.

The Auditor General is invited to attend Sittings when the Committee deliberates.

## Code of Professional Conduct

The NAO follows its own Code of Professional Conduct to encourage and ensure a professional work environment. The Code is a comprehensive statement of the values and principles that guide the daily work of auditors and other employees. It also outlines the philosophy, principles and rules regarding ethical and professional conduct within the Office and may be further supplemented by Office Circulars dealing with specific issues in greater detail. In terms of NAO policy, all employees are required to sign Declarations relating to NAO's "Code of Professional Conduct", "Information Technology and Security Policy" and "Confidentiality".

NAO's independence and impartiality should not be impaired. For this reason and to avoid any potential conflicts, real or apparent, any direct activity in the political field, at whatsoever level or programme, is not considered compatible with the holding of any position with the NAO.

The palm reader system introduced at the NAO to record the log in and log out time of the staff ensures adherence to official working hours and facilitates the operation of a flexi time system of work.

## Human Resources

Structurally, and in terms of audit work, the NAO is divided into two Sections. One Section is responsible for Financial

and Compliance 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, also headed by an Assistant Auditor General, is responsible for Performance Audits. It is also responsible for International Relations and Research.

The Audit Units are composed of employees of different grades, including the posts of Audit Manager, Principal Auditor, Senior Auditor, and Assistant Auditor. The Organisation Structure of the NAO, as on 31 December 2007 as shown in Diagram 1, reflects the division of duties in terms of the statutory audit of Financial and Compliance Audits and Special Audits, and other legislative provisions relating to Performance Audits. Other Units and functions fall under the Support Services Section and are headed by Managers who are responsible for Finance and Administration, Human Resources, Training and, Information and Communications Technology. Staff Position as on 31 December 2007 is depicted in Table 1.

Diagram 1: NAO Organisation Structure

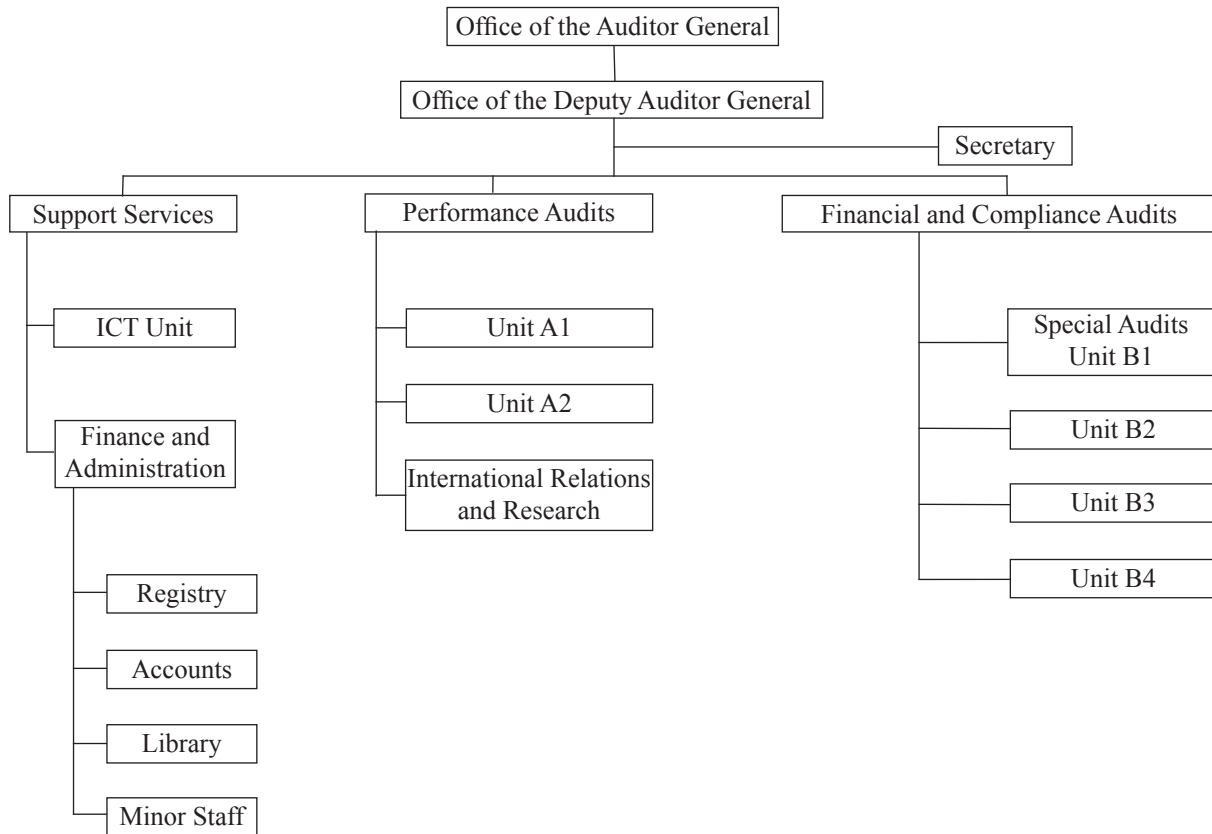


Table 1: Staff Position as on 31 December 2007

Grade Position	In Post	Male	Female
<i>Senior Management</i>			
Assistant Auditor General	2	2	-
<i>Support Services</i>			
Manager	2	2	-
Senior Principal	1	1	-
Principal IT	-	-	-
Assistant Principal	1	1	-
Senior Executive	2	1	1
Executive	1	-	1
Clerks	1	-	1
Receptionist	1	-	1
Minor Staff	6	5	1
<i>Auditing Grades</i>			
Manager	6	4	2
Principal Auditor	10	4	6
Senior Auditor	4	3	1
Assistant Auditor	10	2	8
Audit Clerk	3	1	2
Total	50	26	24

A number of NAO positions became vacant during 2007. To remedy the situation, the NAO continued to seek professionally qualified and suitably experienced staff to replace other employees who have either retired or resigned during the year.

Full staff complement is estimated at around 65. The shortfall of around 15 employees mainly results in the Principal Auditor and Senior Auditor Grades.

#### *Staff Recruitment and Mobility*

Article 108(10)(a) of the Constitution of Malta, which provides for the setting up of the NAO, vests upon the Auditor General the authority to appoint such officers as he may consider necessary to assist him in the proper discharge of his Office. In this respect, the provisions of article 110 of the Constitution do not apply to the officers appointed to the NAO.

Moreover, recruitment is also covered by article 1 of Part I of the SECOND SCHEDULE of the Auditor General and National Audit Office Act (Cap. 396) which authorizes the

Auditor General to appoint such number and such classes of officers as he may consider necessary to assist him in the discharge of his functions according to law.

The Auditor General recruits employees with the required qualifications and experience to work with the NAO. Internal calls for applications are first issued so that NAO employees would have the opportunity to advance in their career. During 2007 ten (10) internal calls were issued. After processing the internal calls for applications, external calls for applications to fill vacancies from the labour market are issued in the media.

During 2007, external calls for applications were published to fill vacancies in the Principal Auditor Grade and Senior Auditor Grade within the Performance Audit Section and the Financial and Compliance Audit Section. Calls were also issued to fill vacancies in the Principal Auditor Grade within the Information Technology Unit. During the year the NAO recruited two (2) Senior Auditors within the Performance Audit Section and one (1) Principal Auditor with the IT Unit.

No applicants were recruited for the Financial and Compliance Audit Section. In an attempt to fill these vacancies the NAO issued a fresh call for applications towards the end of the year. Another call for applications was issued to fill a vacancy in the post of Principal within the IT Unit.

Between January and November 2007, four Principal Auditors, one Senior Auditor and one Principal resigned. During the year, the Personal Secretary to the Auditor General retired on reaching pension age.

### *Staff Qualifications*

The NAO has within its ranks a number of professionally qualified employees. This can be gauged from the range of specialisations currently on its books as on 31 December, 2007.

<b>Staff Qualifications</b>	
Masters in Business Administration	4
Masters in Business Administration E-Business	1
Masters of Science in Management	1
Masters of Science in Statistics and Operational Research	1
BA (Hons) Accts, CPA or Certificate to Practice Auditing	12
BSc (Hons) in Statistics & Operational Research	1
BSc (Hons) in Mathematics & Computer Studies	1
BSc (Hons) in Computing & Information Systems	1
Bachelor of Commerce (Hons) in Management	1
Bachelor of Commerce (Hons) in Management & Public Policy	1
Bachelor of Commerce (Hons) in Economics	1

Furthermore, a number of employees hold Diplomas and other qualifications, including a Certificate in Information Systems Auditing (2), and Diplomas in Business Studies (4), Management (8), Public Administration (1), Taxation (1) and Secretarial Studies (1).

### *Training*

The NAO attaches great importance to training. On recruitment, new employees are given on-the-job training by senior officials, while experienced employees are encouraged to follow University Degree or Diploma courses on a part-time basis. Employees are also regularly sponsored to follow courses of audit-related training abroad.

Furthermore, members of the staff are encouraged to attend local Conferences and Seminars organized by the Malta Institute of Accountants and other professional bodies.

### *Local Seminars and other Locally Organised Training Events*

A number of NAO employees attended local seminars and training courses during 2007, as shown in the table overleaf:

## Local Seminars and Training

Theme	Organiser
Innovative Procurement Workshop	Ministry of Finance
Aspects of Risk Mitigation in the Financial Services	ISACA Malta Chapter
Innovative Procurement Workshop	Ministry of Finance
IFRS – Refresher Course	Malta Institute of Accountants (MIA)
Employment and Industrial Relations Act	MIA
Employment Law – Industrial Relations and Essential Legal Notices	MIA
Tax Seminar	Malta Institute of Taxation
The Innovative Organisation	MIA
VAT in Malta. Where to?	Malta Institute of Management (MIM)
Quality Assurance	MIA
Tendering Procedures	OPM Staff Development Organisation (SDO)
Introductory Course to the European Union	SDO
Microsoft Excel Advanced	SDO
Microsoft Access	SDO
Introductory Course on the European Union	SDO
EU Training: The Structure and Functions of European Institutions	SDO
EU Training: Public-Private Partnership	SDO
EU Training: Policy Making	SDO
EU Training: Tenders	SDO
EU Training: Auditing	SDO
I.T. Security and Assurance – Governing I.T.	ISACA Malta Chapter
Certified Information System Auditor (CISA)	ISACA Malta Chapter
Certified Information Systems Manager	ISACA Malta Chapter

### *Local Sponsorships*

During 2007, an Audit Manager within the Financial and Compliance Audit Section successfully completed a course in Taxation organized by the Malta Institute of Taxation. The course was on a part-time basis and was undertaken after office hours. The official was eventually awarded the Diploma Certificate. Another employee continued his ACCA course during the year while another obtained a Masters degree in Business Administration.

### *Overseas Training*

#### *Two Weeks Training with the U.K. National Audit Office*

In 2007, a Senior Auditor from the Financial and Compliance Audit Section attended an International Training Course with the U.K. National Audit Office. Eight officers have attended the course since its inauguration in 1993. The course covers both Financial and Compliance and Performance Auditing.

#### *Secondment with the European Court of Auditors 2007*

During 2007, an Audit Manager within the Performance Audit Section was seconded at the ECA as a National Expert for a period of six months. He was involved in the design of a panel of key performance indicators for the Court's audit activities. He also participated in research on the identification of methodologies for the selection of performance audit criteria.

### *Engagement of Consultants*

Although the NAO has within its ranks qualified employees who have the necessary expertise to undertake training and audit assignments, there are instances when the need arises for the engagement of services of consultants in particular fields of expertise.

During 2007 the NAO engaged the services of a legal advisor on a retainer basis. It also engaged a consultant to assist in matters concerning conditions of employment and industrial relations and the chairing of Interviewing Boards in filling of vacancies. The services of an expert in civil engineering were also commissioned.

### **Library**

The NAO continued to invest in its library. The library serves as a reference and central depositary equipped with manuals, auditing, information technology, accounting and other publications to assist and update audit staff in their work. Of particular relevance are Performance Audit and

Financial and Compliance Audit Reports published by other SAIs, as well as standards and guidelines produced by INTOSAI and the International Federation of Accountants (IFAC).

### **Participation in Committees of the Ministry of Finance**

Two senior NAO employees attended Task Force Meetings of the Ministry of Finance relating to Electronic Procurement and Accruals Accounting in an 'observer' capacity.

### **IT Self Assessment**

During the EUROSAI training event "SAIs in control of IT" held in Lisbon in October 2004, it was indicated that EUROSAI will be recommending to all SAIs to undertake an IT Self-Assessment. This recommendation was endorsed as part of the IT Working Group's Work Plan 2005-2008, by the IV EUROSAI Congress held in Bonn, May 2005. The NAO, acting on the EUROSAI recommendation, undertook the self-assessment in 2007 with the assistance of two moderators from the Netherlands Court of Audit.

During the self-assessment exercise, the NAO's main business processes were reviewed, followed by an assessment of the way they are supported by IT. Moreover, the actual and desired maturity levels of the most crucial IT-processes at NAO were also determined. Any gaps between the actual and desired levels were analysed and actions identified to fill in these gaps. The performance of the IT Self Assessment was compatible with the COBIT 4.0 framework (Control Objectives for Information and related Technology).

### **Performance Audit Seminar**

The NAO Performance Audit Section organised a seminar on "Using and developing our strengths to deliver quality audits" for its staff in February 2007. The Seminar covered various topics on the concept and implementation of Performance Auditing. Various presentations relating to the Performance Audit process were made including: (i) the Performance Audit strategic planning process, (ii) the planning of individual Performance Audits, (iii) implementing the Performance Audit and (iv) the Performance Audit reporting phase. Other issues discussed during the Seminar comprised (i) follow-up audits, (ii) environmental audits, (iii) quality in the audit process and (iv) Performance Audit Manual. The presentations were prepared and delivered by members of the Performance Audit Section.



## 10th Anniversary Celebrations 1997 - 2007

### *Tree Planting Event*

As one of the events to commemorate the NAO's 10th Anniversary of the Constitutional and legislative changes that established the Office of the Auditor General and the NAO, the Office sponsored the planting of a number of trees at Ta' Qali Park. The trees were planted on 7 May under the Tree 4U Campaign on the site which has been re-decorated to embellish the entrance to the Park. Trees were planted by the Auditor General, senior management and a number of other employees.

### *Conference*

As the main event, the NAO celebrated its 10th Anniversary by hosting a conference at a leading hotel in St Julians on Friday, 18 May 2007.

The objective of the conference was to bring together leaders of the Maltese Public Administration to review the contribution made by public sector auditing in the recent past and to explore ways of enhancing that contribution in the near future.

A number of contributions on the different aspects of state audit in Malta and abroad were presented during the conference by local and foreign speakers. A synopsis of the speeches delivered during the Conference is given hereunder.

In his introductory speech, the Hon Anton Tabone, MP, Speaker of the House of Representatives, Malta referred to the wide-ranging powers of the PAC to inquire into matters relating to public accounts and of the respective roles of the NAO and the PAC.

The Auditor General, Mr Joseph G. Galea, gave an overview of developments in public sector auditing in Malta over the past decade by highlighting the organisational developments that took place to consolidate the role of NAO as a professional audit institution. He also outlined NAO's active participation in international fora that have enhanced the international profile of the Office and enabled the sharing of experience on audit work.

In his presentation, President Emeritus Dr Ugo Mifsud Bonnici gave an overview of Parliament's interest in the work of the NAO by reviewing and assessing the links between the two institutions. He referred particularly to three important developments in state audit that took place in the past ten years: the professional approach undertaken



**NAO Tenth Anniversary Tree Planting Event on 7th May 2007 under the Tree 4U Campaign.**

by the Office, the marked degree of independence in state audit, and the contribution of Performance Audit to improvement in public sector performance.

The Hon Charles Mangion, MP, the PAC Chairman, assessed the current role of the PAC and proposed further developments in the relationship between the PAC and the NAO. The Chairman outlined the duties and functions of the PAC to inquire into matters relating to public expenditure and also referred to the new roles of the Committee in examining Performance Audit reports, promoting the modernization of financial management systems, ensuring the timeliness and quality of audits and encouraging social audits.

Dr Godwin Grima, the Principal Permanent Secretary and Head of the Public Service in Malta examined the relationship between the NAO and the entities that are subject to scrutiny. He evaluated the relationship on the basis of the change in the relationship between the NAO and the public service from a purely investigative role to one of open dialogue; the maintenance of a set of values by the public service including integrity, impartiality, honesty and objectivity; the issue of the Public Service Management Bill with the objective of strengthening the work of the public service and set its strategic vision; the new skills required of public service employees and the paradigm shift from public sector administration to public sector management; and the benefits of EU Membership to the civil service including the latter's adoption of good practices inbuilt in the management and control systems of the Structural Funds. He concluded that the Auditor General and his staff strive to be at the service of management.

Two other interesting contributions were delivered by foreign speakers. Mr Michael Whitehouse, Assistant Auditor General of the UK National Audit Office gave an outline of relatively recent developments in public sector audit in Britain. In particular, he provided a brief overview of the key elements of public sector reform in Britain including improved delivery of public services, the achievement of pre-determined targets by government departments, and the maintenance of the overall skill and capability of public sector employees. In response to these changes, the UK National Audit Office adopted a new approach to auditing by ensuring appropriate Parliamentary scrutiny of public sector performance, the maintenance of professional standards, achieving methodological rigour and securing sustainable impact of its audit work.

Dr Hubert Weber, President of the European Court of Auditors outlined the role and philosophy of the European Court of Auditors (ECA), and examined the relationship between the ECA and state audit institutions in the member states of the EU. He gave an overview of the duties and functions of the ECA and referred to the intensive exploration of areas of common interest undertaken together with the national audit institutions within the framework of the EU Contact Committee of the Supreme Audit Institutions.

Dr Edward Warrington, Director, Institute of Public Administration and Management, who was the Conference Chair, delivered a concluding synthesis by drawing together leading themes, issues and insights from the interventions as pointers for development in public sector auditing in Malta during the coming decade.



NAO Tenth Anniversary Conference, 18th May 2007



## International Relations

Table 6 on page 20 provides an overview of all events relating to overseas visits, including activities held in Malta with the participation of foreign delegates.

### *EU Contact Committee*

The EU Contact Committee is an assembly of the Heads of the Supreme Audit Institutions of the EU Member States and of the ECA. It is autonomous, independent and non-political. In order to contribute to the improvement of EU financial management and good governance, the Contact Committee fosters the exchange of professional knowledge and experiences on the audit of EU funds and other EU-related issues. Its mission is to enhance co-operation among its members in order to improve external audit and accountability in the EU field.

During 2007, the Contact Committee eight working groups were occupied in various EU-related projects:

- Working Group on National SAI Reports on EU Financial Management
  - A subgroup of the Working Group performed an analysis of the questionnaires completed in 2006 by 16 Member States, on the Common Agricultural Policy (CAP) systems descriptions in respect of the period 2004/2005. The systems descriptions enabled SAIs to collect comparable information on the systems in place for EU funds relating to CAP.
  - Another subgroup of the Working Group also carried out a first comparison of overall EU reports on Financial Management prepared by seven countries.
  - The development of the Working Group website was also discussed. In particular, it was recommended that SAIs put their experiences on the website, and that the latter is to contain sources of information on EU financial management.
  - The Working Group also exchanged information on the EU audit activities that the participating Member State SAIs were carrying out in 2007.
- Working Group on Procurement
  - In 2007, the Working Group finalised:
    - \* A Guide to EU Procurement Rules, incorporating summaries of Court of Justice rulings;
    - \* Checklists for use by financial auditors examining public procurement activities;
  - \* A Procurement Performance Model for use in Performance Audits.
- Many SAIs provided summaries of reports on public procurement which were previously published by them. These summaries have been put together into a single output and form part of the suite of documents prepared by the Working Group.
- The outputs of the Working Group are now available on CD and circulated to the wider membership of the Working Group for their comments and feedback.
- Working Group on Structural Funds
  - In December 2006, the Contact Committee gave its mandate to the Working Group to examine the “performance of the Structural Funds programmes in the areas of employment and/or environment”. The Working Group adopted a common audit plan and an audit schedule in the performance of the above mandated audit. The field work for the parallel audit started in July 2007. In December 2007, in Prague, the preliminary results were presented by Working Group Members.
- Working Group on Value Added Tax.
  - The Working Group continued its work on a single methodology for producing estimates of VAT fraud that can be used Europe wide by producing a progress report with the results of its methodological review of the process of calculating such fraud.
  - The above report also included the results of the questionnaire sent to members on general trends and recent developments in the area of VAT.
- Expert Group on Audit Quality
  - The Group made a presentation on the Guidelines on Audit Quality at the Seminar on Audit Quality organised under the umbrella of the EUROSAI Training Committee (Budapest/Hungary, 1-2 March 2007).
  - The Working Group also uploaded materials and references onto the Electronic Database on Audit Quality, hosted by a website managed by the ECA
  - It actively participated in the preparation of documents relevant to the development of Theme 1 of the forthcoming 2008 VII EUROSAI Congress: “Establishing an Audit Quality Management System within an SAI”.

- Joint Working Group on Audit Activities
  - The Working Group provided assistance in preparing papers and Resolutions for the SAI Presidents' Meeting in Skopje, June 2007.
  - All six SAIs participating in the parallel audit on the Audit of EU project funds produced and published national reports on the topic by June 2007. The Working Group then presented a progress report on the parallel audit to the Presidents in Skopje.
  - The Working Group was instrumental in producing and publishing the booklet "Making SAI Twinning Successful: A Good Practice Guide".
  - The Working Group also continued to monitor the overall level of joint audit activities.
- Agricultural Network
  - SAIs from the Czech Republic, Cyprus, Estonia, Austria and Sweden presented the audit results concerning the implementation of the Common Agricultural Policy in their respective countries.
- Working Group on Common Audit Standards
  - The Working Group was formed on 4 May 2007.
  - The Working Group prepared an exposure draft on "Common Auditing Standards and Comparable Audit Criteria in the EU Context". The exposure draft is currently under discussion by the Working Group.

NAO Malta participates in the Working Group on National SAI Reports on EU Financial Management, the Working Group on Structural Funds, The Working Group on Value Added Tax, the Expert Group on Audit Quality, the Agricultural Network, and the Working Group on Common Auditing Standards.

The public website of the Contact Committee of the SAIs of the EU may be accessed on: <http://www.contactcommittee.eu>. The site contains information pertaining to the Committee, most notably (i) its mission statement, background and participating countries; (ii) cooperation-related issues – between EU SAI's and SAI's of EU candidate and potential candidate countries and within international organisations; (iii) Contact Committee resolutions, Working Group final reports and SAI's reports on the audit of EU funds; and (iv) agendas for the Contact Committee, for the SAI Liaison Officers, the Cooperation Task Force and the Working Groups.

### *NAO Participation in the preparation of International Papers*

During 2007, articles, papers and other feedback were provided on the following themes:

- \* United Kingdom Financial Reporting Council Discussion Paper on "Promoting Audit Quality".
- \* United Kingdom National Audit Office (in consultation with the Commonwealth Secretariat) paper on "Funding Future Conferences of Commonwealth Auditors General – a Proposal".
- \* Paper by the Chair for Institutional and International Economics, at the Department of Economics and Business Administration; University of Marburg relating to a Cross Country Assessment on Supreme Audit Institutions.
- \* EUROSAI 2008 Congress Principal Paper on "Theme 1: Establishing an Audit Quality Management System within a Supreme Audit Institution."
- \* EUROSAI 2008 Congress Principal Paper on "Theme 2: Audit of Social Programmes – Audit of Programmes in the field of Education".
- \* EUROSAI 2008 Congress Principal Paper on "Theme 3: Audit of Social Programmes – Audit of Programmes for the professional integration of the disabled".
- \* INTOSAI Capacity Building Committee Questionnaire on "Encouraging Joint and Co-ordinated or Parallel Auditing Programmes and encouraging internship and visit programmes".
- \* National Audit Office of Lithuania Request for Information on "the Audits of Costs of Informing the Public".
- \* Request for information from the ECA on key performance indicators for measuring organisational performance in a SAI.

### *NAO Participation in International Committees*

The Assistant Auditor General for Performance Auditing acts as Liaison Officer in EU-related matters and participates in Liaison Officers' Meetings of EU Member States.

Two senior officers participate in a Working Group (made up of the SAIs of Denmark, the Russian Federation, Hungary, Malta and the ECA), in the preparation of Principal and Discussion Papers on “Establishing Audit Quality Management System within a SAI”, which is one of the themes of the VII EUROSAI Congress to be held in June 2008.

The Assistant Auditor General for Financial and Compliance Auditing concluded a three year term of office as Chairman of the Eurocontrol Audit Board for the audit of Eurocontrol budgets and accounts that during the period 2005/2007 averaged a turnover of more than € 3 billion.



**Eurocontrol Audit Board Meeting in Malta 14th September 2007**

Table 6: Overseas Events – 2007

Date	Event	Location	Description
January to December	Visits to Eurocontrol Audit Board	Periodic Meetings mainly in Brussels	The Assistant Auditor General for Financial and Compliance Auditing acted as Chairman of the Board in the certification process of the Eurocontrol Agency and Air Route Charges. One of the Meetings, on 14 September, was held in Malta.
January 25-26	Working Group Meeting on EUROSAT Congress Theme: "Establishing an Audit Quality Management System within a SAI"	Budapest	Two managers participated in this Working Group Meeting which discussed the content of the EUROSAT Principal Paper on Audit Quality Management Systems. They were also involved in the drafting of the Chapter on Human Resource Management and in fine-tuning the final consolidated version of the Principal Paper.
February 6-7	Nature Protection in the context of the European Environmental Law	Trier	A senior NAO official attended the workshop. The President of EUROSAT, in cooperation with the Academy of European Law, organised a workshop on the topic "Protection of nature in the context of European legislation on the environment". Various experts presented studies on the NATURA 2000 network and participants from 19 SAIs took part in the preparation of the parallel audit proposed for the purpose. Other issues raised included financing nature conservation, assessing the value of the environment and its protection, and the current EC biodiversity policy.
March 1 – 2	EUROSAT Training Committee Training Event on Audit Quality	Budapest	A senior NAO official attended the Seminar, which was jointly chaired by the SAI of Hungary and the ECA. A debate was held on the manner of improving quality of auditing in the control procedure and on experiences for improving quality assurance systems in line with IFAC standards. The Group of Experts in Audit Quality, set up within the framework of the Contact Committee, presented the master lines and electronic database drawn up on this subject. The training event also included presentations on audit quality management systems implemented by the various SAIs
March 5-6	Annual Symposium 2007 EU-Funds: ERDF, ESF, EAFRD, EFF	Berlin	The symposium was attended by a senior NAO official and another officer. The symposium dealt with recent developments in the granting of ERDF, ESF, EAFRD, and EFF funds. It enabled the local authorities responsible for the EU funds in each Member State to follow each process related to the implementation and co-ordination of new simplified regulations as set out by the European Commission with respect to the above funds. There were also various speeches from recognised experts on the new fund regulations in Europe.



March 28-30	19 <sup>th</sup> UN/INTOSAI Symposium on value and benefits of Government Audit in a Globalised Environment	Vienna	The Auditor General and another senior official attended the symposium. The symposium focused on how SAIs can assess the value and benefits of government audit in a globalised environment. Participants discussed a variety of topics including (i) how SAIs record their performance and impact; (ii) approaches for assessing the public value added by SAIs; (iii) obstacles in measuring SAI performance; and (iv) how SAIs can use lessons learned to continue implementing results-oriented systems in the future.
April 16-18	Public Private Partnerships – Practitioners’ Workshop: Making Public Private Partnerships work – A practical guide	Maastricht	The Workshop was attended by the Auditor General and a senior official. The workshop focused on the effective use of the EU Competitive Dialogue procedure and on how to secure value for money in the process of financing, planning, procuring and managing Public-Private Partnership contracts.
April 17-18	IT Working Group Seminar: Analysis of the most frequent problems of SAIs regarding IT	Luxembourg	Two senior officials and another officer attended the Seminar. The experience and consolidation of the knowledge of SAIs that have taken part in the IT Self Assessments in recent years have enabled an identification to be made of sensitive areas including: (i) the preparation of a strategic IT Plan; (ii) computing-user relations; (iii) the standardisation of processes, data and computer programs; (iv) management of computing projects; and (v) remote access. This Meeting gave rise to the design of ‘good practices’ in the computing field.
April 17-18	Working Group on EU Structural Funds III	Bonn	A senior official and another officer attended the workshop. During the workshop, the draft audit plan (background, audit approach and methodology, and audit questions) of a parallel audit on the utilisation of the EU Structural Funds by the Member States participating in the Working Group was discussed.
April 22-24	EU Member State SAIs Liaison Officers’ Meeting	The Hague	The Meeting was attended by a senior NAO official. The purpose of the Meeting was to discuss the final reports prepared by Liaison Officers of EU Member State SAIs in terms of the Warsaw December 2006 Resolutions of the Contact Committee Meeting. Further information is to be found under “EU Contact Committee”
April 24-25	Meetings at UK NAO re Performance Audit issues	London	An Audit Manager and another official held a number of Meetings with officials at UK NAO and the Office of Government Commerce. The objective of this visit was to discuss and exchange experiences on audit methodology, criteria, good practices and issues related to several Performance Audit themes being examined by the Office.

May 4	Working Group to Develop Auditing Standards	Luxembourg	A senior official attended the Meeting. The principal focus of this Working Group is the collaboration between the ECA and SAIs in their external audit function. Its objective is to develop common auditing standards and comparable audit criteria, based on internationally recognised standards and audit criteria, tailored for the EU area. Particular reference was made to (i) the articles in the EU Treaty relating to the EU Commission’s responsibility regarding the EU Budget’s execution, (ii) the Court’s Single Audit Opinion, (iii) the Commission’s Action Plan and the Integrated Control Framework, (iv) International Auditing Standards, (v) the revised DAS approach, and (vi) the definition and treatment of errors. Participants were also asked to provide their suggestions in order to determine a common audit procedure.
May 10-11	V Conference EUROSAI/ OLACEFS on Fiscal Sustainability	Lisbon	The Meeting was attended by the Auditor General and another senior official. Fiscal sustainability, Presentation of Accounts and Accountability was debated – fiscal accountability constituted a challenge for SAIs striving for better use of public assets, confronting them with the need to introduce changes in their resources and activities. Other issues discussed included: (i) the SAI’s contribution to the fiscal sustainability of social sectors, and (ii) fiscal sustainability in the modern State.
May 27-31	Familiarisation Visit of Rumanian Court of Accounts to NAO	Malta	The President of the Romanian Court of Accounts (RCA) and another RCA senior official participated in the visit, along with the Auditor General and other senior staff members. Issues discussed included the role of the NAO



Bilateral visit between the National Audit Office and the Romanian Court of Accounts May 2007

			Financial and Compliance Audit Unit, the functions of the Ministry of Finance with respect to EU Funds, NAO Performance Audits and Strategic Plan 2007 – 2009, and the audit of Local Government. The history, achievements and perspectives of the RCA were also discussed during the visit. An agreement of bi-lateral co-operation was signed by the NAO and the RCA.
June 1-30 November	Secondment of a National Expert to the ECA	Luxembourg	An NAO official was seconded to the ECA for a six-month period as a 'national expert'. He was engaged in the development work of the Audit Support and Methodology Section of the Court.
June 11-12	Meeting of the Heads of SAIs of the EU Candidate and potential Candidate Countries and the ECA	Skopje	The Auditor General and another senior official attended the Meetings. Topics discussed included: (i) SAI-Parliament co-operation, (ii) SAIs experience in the EU negotiation process, (iii) making SAIs twinning successful, (iv) the parallel audit of EU projects funds and (v) future framework of co-operation in the network. The Auditor General made a presentation on Malta's (particularly NAO's) experience in the EU accession process.
June 21	EXAWINT Meeting at the European Space Agency	Paris	The Meeting was attended by a senior official. The aim of the Meeting was to share information and experiences from the audit of different international institutions with other auditors. Topics discussed included (i) auditing standards, (ii) International Public Accounting Standards, (iii) external audit in the context of shared management and (iv) INTOSAI principles for best audit arrangements for international institutions.
June 25-26	Contact Committee Internal Control Seminar	Brussels	A senior official attended the Seminar. The overall objective of this Meeting was to promote the effective application of internal control standards in the field of EU-funds as one important element in improving the accountability for Community funds. The Seminar contributed to this overall objective by: (i) presenting and explaining the INTOSAI guidelines for internal control standards for the public sector; (ii) highlighting that the responsibility for ensuring the effective functioning of the systems of internal control for the management of EU funds is a shared one; and (iii) focusing on the roles of key stakeholders in the Member States, Candidate Countries, the potential candidate countries and in the European Commission, especially on the importance of the distinctive but related roles of internal and external auditors in this area.

June 25-26	Bicentenary Celebrations re the Establishment of the French Cour des Comptes	Marseilles	The Auditor General was invited for the event. There were various presentations relating to the different models of public sector external audit function, namely the Court of Accounts and the National Audit Office models.
July 6	Follow-up Meeting of Working Group on Common Auditing Standards	Luxembourg	A senior official attended the Working Group Meeting. During the Meeting, the Working Group reviewed the elaboration of common auditing standards for financial and compliance audits. Other areas discussed included the recent revision by the ECA of its approach concerning the definition and treatment of errors, and a discussion paper on common auditing standards in the framework of Financial and Compliance Audits.
September 20-21	Working Group Meeting on National SAI Reports on EU Financial Management	Rome	The Meeting was attended by a senior official. Various issues were raised during the Workshop including (i) recent developments in EU Financial Management, (ii) national SAI Reports on EU Financial Management, (iii) progress on the Action Plan towards an integrated internal control framework, (iv) improvement in EU financial statements, (v) the European Transparency initiative, (vi) the analysis of questionnaires on the CAP systems description format on 2004/2005 situation and (vii) the Working Group website.
September 20-21	Working Group Meeting on Preparation for VII EUROSAI Congress Theme 1 on Audit Quality	Copenhagen	Two managers participated in this Working Group Meeting which discussed (i) the results of the Country Papers, (ii) the content of the Discussion Paper on Audit Quality Management Systems in preparation for the EUROSAI Congress in June 2008, and (iii) the development of a Good Practice Guide on Audit Quality. The NAO officials were delegated the responsibility for drafting key sections of the final Discussion Paper.
September 24-25	VAT Working Group Meeting	Warsaw	The Meeting was attended by a senior official. The Working Group presented its 2007 Contact Committee resolution on promoting activities in the field of VAT in draft form. Moreover, a number of SAIs presented their work on the area of VAT. The ECA also gave an overview of the results of their EU wide audit on the VAT Information Exchange System (VIES).
September 12 – 28	UK NAO 2007 Training Course	London	The international training course was attended by one NAO officer. The course focused on improving the participants' presentation skills through a variety of tools and media, and provided an overview of the methodology, process and procedures applicable to UK NAO Financial Audits and Performance Audits.



September 28	EU Member States Working Group Meeting on Common EU Auditing Standards	Luxembourg	A senior official attended the Meeting. Following the discussion paper presented for the 2nd Meeting on Common Auditing Standards, the Chairman of the Working Group received comments from a number of delegations on the contents of the above paper. An exposure draft "Summary Document - Common Auditing Standards and Comparable Audit Criteria for Compliance Audits in the EU Context" was drawn up with the intention for this document to form the basis of the Working Group's interim report to the Contact Committee at its December Meeting in Helsinki. Suggested amendments to the summary document, as well as the above interim report were also discussed.
October 3 - 5	EUROSAI Working Group on Environmental Auditing on the Auditing of the execution of the Kyoto commitments (technical information and methodological approaches)	Bratislava	The Workshop was attended by two senior officials. The Seminar mainly focused on "Climate Change - auditing of the implementation of the Kyoto commitments". Moreover, a number of presentations were made relating to (i) background information on the Kyoto Protocol, (ii) EU Action against climate change, (iii) Greenhouse emissions, (iv) Natura 2000 and (v) auditing approaches.
October 8-9	European Commission Conference on risk of error in Community Programmes	Brussels	A senior official attended the conference. The Conference provided a discussion forum with Member States representatives covering the different risk concepts related to the control and management of Community funds. The conference explored how control strategies can be developed to ensure cost-effective use of resources, and aimed at demonstrating that the risk of error has been effectively mitigated. The Conference included presentations on various issues including (i) the typology of errors, (ii) the concepts of risk, (iii) the operation of a successful risk management system, (iv) the costs and benefits of controls, and (v) procedures for reducing risk.
October 11-12	EU Member State SAIs Liaison Officers' Meeting	Luxembourg	The Meeting was attended by a senior NAO official. The purpose of the Meeting was to discuss the final reports prepared by Liaison Officers of EU Member SAIs (further to the May 2007 Liaison Officers' Meeting) in terms of the Warsaw December 2006 Resolutions of the Contact Committee Meeting. Further information is to be found under " <i>EU Contact Committee</i> "

<p>October 16</p>	<p>IAS Conference: What assurance to expect from Internal Audit? From piecemeal audits towards an overall audit opinion</p>	<p>Brussels</p>	<p>A senior official attended the conference. The Conference offered an opportunity to reflect on the type of overall assurance that can be provided by internal audit. It dealt with various issues relating to internal audit including (i) the nature of an overall audit opinion,(ii) added value from internal audit, (iii) prerequisites for effective internal audit (overall management assurance, organisation-wide risk management system, coordinated audit planning), (iv) conditions for mutual reliance of internal auditors at different levels of an organisation and (v) synergies with other auditors (single audit).</p>
<p>October 18</p>	<p>European Court of Auditors 30th Anniversary Seminar</p>	<p>Luxembourg</p>	<p>The Head of NAO and another senior official attended the Seminar. The Seminar focused on “The Challenges of Auditing EU funds” and “The Future of Public Auditing and Accountability”. Issues discussed included (i) future developments of Performance Auditing, (ii) the challenges faced by the ECA (independence, leadership, attracting and keeping highly qualified professional staff, (iii) performance improvement, (iv) greater accountability in the use of EU funds, (v) more involvement of SAIs in EU-related audits, (vi) responsibilities of the Commission and Member States for the implementation of the EU Budget, (vii) the purpose of subsidies in areas of Structural Funds and research vis-à-vis the ‘Lisbon Strategy’, and (viii) the simplification of rules on Community funding as regards external control.</p>



Meeting of the Liaison Officers of the Supreme Audit Institutions of the EU - Luxembourg 11 - 12 October 2007 (Source ECA Website)

November 22-24	Working Group Meeting on Common Auditing Standards	Luxembourg	A senior official attended the Working Group Meeting. The Meeting discussed the progress report to be presented to the Contact Committee Meeting in Helsinki in December 2007. This report includes developments on common auditing standards and comparable audit criteria for financial and compliance audits in the EU context.
December 3 – 4	EU Member State SAIs Contact Committee Meeting	Helsinki	The Head of NAO and another senior official attended this Meeting. Following the Liaison Officers' Meetings of EU Member State Supreme Audit Institutions held in April and October, the Contact Committee Meeting met and discussed the Reports prepared by the Liaison Officers. Current developments relating to the improvement of accountability of EU Funds were also discussed. Further details are to be found under " <i>EU Contact Committee</i> ".
December 4-6	EUROSAI Training Committee Seminar on " <i>Performance Audit – Where do we stand?</i> "	Luxembourg	The Seminar was attended by two senior officials. During this event, representatives from thirty European SAIs discussed the lessons learned in planning and implementing Performance Audits. The Seminar also provided an overview of the latest developments and views on Performance Auditing. Experts from several SAIs presented case studies that provided the basis for workshops in which participants discussed audit experiences and methodologies.
December 10 – 11	EU Member State SAIs Working Group on Structural Funds – Performance Audit	Prague	One senior official and another officer attended the Workshop. Issues raised during the Workshop included (i) the presentation of experiences and the results of the audit of Structural Funds III so far, (ii) the follow up on the Working Group II's report on irregularities, (iii) the strategic goals, effectiveness and monitoring of Structural Funds' measures, (iv) the publication and circulation of the Working Group documents, (v) co-operation with the Contact Committee, and (vi) Liaison Officers' " <i>Prioritising Future Activities</i> ".

## Information and Communications Technology

### *Information Technology Unit*

The IT Unit was instrumental in the organisation of an IT Self Assessment workshop. During the workshop the NAO was assisted by the SAI of the Netherlands. The IT Unit is in the process of updating its IT Strategy for the coming years. The Office's IT requirements and issues that have been identified during the workshop are important to the development of the IT Strategy.

The IT Unit fulfils three business functions:

### *IT Administration and Support*

IT Administration and Support of users that make use of general office automation applications, as well as typical business applications such as accounting and human resources/payroll packages. These applications are run on personal computers, laptops and ancillary IT equipment such as printers, scanners and modems. The users are connected to each other, auditees' applications and the file servers via a network.

### *IT Audit*

The IT Unit is gradually building its capacity to expand its contribution to IT related components of Financial and Compliance and Performance Audits, as well as to be able to undertake 'stand alone' IT Audits. The IT Audit function is in the process of being set up: two IT Auditors have joined the IT Unit, and pilot IT Audits have been initiated to develop and adapt standard IT audit best practice to the public sector environment.

### *Production of Publications*

The IT Unit is also responsible for NAO's publication function that coordinates the production of its publications. The production process transforms the various texts received from the respective authors by collating and formatting them into the pre-printing layout. This is then prepared in the appropriate technical format and sent for printing and binding. The publications are also placed on the NAO website to promote a wider circulation. The IT Unit has implemented an upgrade to the software application and process used in the production. The software has been migrated to a PC based platform and a pilot publication has been produced. The publication styles are also being reviewed and the publications as being printed fully in four colours.

## Conclusion

This last year has proved to be a particular challenge. July 2007 brought about the completion of my second and last five-year term as Auditor General. As a result, as of August, my role within the State Audit function was redefined – following an agreement reached on 28th July 2007 between the Prime Minister and the Leader of the Opposition that I should continue to report for work so as to ensure the proper running of the NAO until the appointment of the new Auditor General.

This situation, is far from ideal – the state purse is now without a fully effective guardian. Although the NAO has continued to perform its tasks of conducting compliance, investigation and performance audits within the public sector as stipulated by the Constitution, the fact that both posts of Auditor General and Deputy Auditor General remained vacant implies that such audit work concluded cannot be submitted to the Honourable Speaker for tabling before the House of Representatives. The criticality of the situation prevailing is clearly discernible and I cannot but make an urgent appeal for immediate remedial action.

Matters are being compounded by the fact that it is becoming increasingly difficult to recruit new members of staff to occupy vacancies resulting from a number of resignations from various important positions within the Office since 2006.

Notwithstanding the above, the NAO which I have been leading with the full support of senior management team, has ensured that business goes on in as customary a manner as circumstances allow. Calls to fill vacancies are being issued, training of personnel has continued – a number of members of staff have successfully completed courses in disciplines that are proving and will continue to prove beneficial in the exercise of their duties. Audit work has been conducted and the annual report compiled. A number of performance audit reports are in an advanced stage of completion. Internal seminars have been held. Furthermore the Office maintained its overseas commitments through participation in working groups, seminars and meetings. Papers on selected themes were proposed for presentation during specialised workshops and seminars that were requested by the organisers of the European Union Contact Committee of the Supreme Audit Institutions, the European Supreme Audit Institutions (EUROSIA) and the Commonwealth Auditors General Conference.

It is my firm belief that such activities ensured that the Office, in spite of its current difficulties, maintained its professional level of operation until a successor is appointed.

The Office has also been active in other directions. Most notably are the efforts to consolidate the operations of the IT Section, extending its function from a purely support one to one that contemplates the conduct of stand-alone IT audits, an element that has become a critical component for a Supreme Audit Institution. The Office has made its services available to the European Court of Auditors, through the secondment of a manager for a period of six months, during which the officer took up duties as a National Expert.

I close my message with an other appeal for earlier action to address this situation keeping in mind that Section 108 of the Constitution of Malta provides that “there shall be an Auditor General” and that “there shall also be a Deputy Auditor General”.

Finally I take the occasion to express my sincere thanks to all NAO employees who, despite difficulties in the course of carrying out their delicate duties, continued to do their utmost to carry out their responsibilities. For this, I thank them also on behalf of the taxpayer.

Joseph G. Galea  
July 2008