



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

**2008**

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## List of abbreviations

AFCOS	ANTI-FRAUD COORDINATION SERVICES
AFROSAI	AFRICAN ORGANISATION OF SUPREME AUDIT INSTITUTIONS
ARABOSAI	ARAB ORGANISATION OF SUPREME AUDIT INSTITUTIONS
ASOSAI	ASIAN ORGANISATION OF SUPREME AUDIT INSTITUTIONS
CISA	CERTIFIED INFORMATION SYSTEMS AUDITOR
COBIT	CONTROL OBJECTIVES FOR INFORMATION TECHNOLOGY
ECA	EUROPEAN COURT OF AUDITORS
ECJ	EUROPEAN COURT OF JUSTICE
EU	EUROPEAN UNION
EURORAI	EUROPEAN ORGANISATION OF REGIONAL AUDIT INSTITUTIONS
EUROSAI	EUROPEAN ORGANISATION OF SUPREME AUDIT INSTITUTIONS
FEE	FÉDÉRATION DES EXPERTS COMPTABLES EUROPÉENS
FEMA	FACULTY OF ECONOMICS, MANAGEMENT AND ACCOUNTANCY
GAPSE	GENERAL ACCOUNTING PRINCIPLES FOR SMALLER ENTITIES
ICT	INFORMATIONS AND COMMUNICATIONS TECHNOLOGY
IDI	INTOSAI DEVELOPMENT INITIATIVE
IFAC	INTERNATIONAL FEDERATION OF ACCOUNTANTS
IAID	INTERNAL AUDIT AND INVESTIGATIONS DIRECTORATE
INTOSAI	INTERNATIONAL ORGANISATION OF SUPREME AUDIT INSTITUTIONS
ISA	INTERNATIONAL STANDARDS ON AUDITING
ISACA	INFORMATION SYSTEM AUDIT AND CONTROL ASSOCIATION
ISSAI	INTERNATIONAL STANDARDS OF SUPREME AUDIT INSTITUTIONS
ITASA	IT AUDIT SELF ASSESSMENT
ITSA	IT SELF ASSESSMENT
MIA	MALTA INSTITUTE OF ACCOUNTANTS
MITA	MALTA INFORMATION TECHNOLOGY AGENCY
MITTS	MALTA INFORMATION TECHNOLOGY AND TRAINING SERVICES LTD.
MQRIC	MALTA QUALIFICATION RECOGNITION INFORMATION CENTRE
NAO	NATIONAL AUDIT OFFICE
OLACEFS	LATIN AMERICAN AND CARIBBEAN ORGANISATION OF SUPREME AUDIT INSTITUTIONS
OLAF	EUROPEAN ANTI-FRAUD OFFICE

PAC	PUBLIC ACCOUNTS COMMITTEE
PIFC	PUBLIC INTERNAL FINANCIAL CONTROL
SAI	SUPREME AUDIT INSTITUTIONS
SDO	STAFF DEVELOPMENT ORGANISATION
SIGMA	SUPPORT FOR IMPROVEMENT IN GOVERNMENTAL MANAGEMENT
SPSS	DATA MINING, STATISTICAL ANALYSIS SOFTWARE
VAT	VALUE ADDED TAX



## Work and Activities of the National Audit Office - 2008

### New Senior Management Appointments

#### *Appointment of Auditor General*

On the 16 July, 2008 the House of Representatives unanimously approved a resolution appointing Mr Anthony C. Mifsud as Auditor General. The swearing in took place on 7 August 2008. He was formerly Permanent Secretary at the Ministry for Resources and Infrastructure. Mr Mifsud succeeds Mr Joseph G. Galea.



*Swearing in of Mr Anthony C. Mifsud as Auditor General on 7 August 2008*

### *Appointment of Deputy Auditor General*

On the 16 July, 2008 the House of Representatives unanimously approved a resolution appointing Mr Charles Deguara as Deputy Auditor General. The swearing in took place on 7 August, 2008. He was formerly Permanent Secretary at the Ministry for Justice and Home Affairs. He succeeds Mr John A. Bonnici who was the first Deputy Auditor General between 1999 and 2002. The post had been vacant since then.



*Swearing in of Mr Charles Deguara as Deputy Auditor General on 7 August 2008*

### *Appointment of Assistant Auditor General*

Ms Vanessa A. Tonna was appointed Assistant Auditor General for the Financial and Compliance Audit Section with effect from 1 December 2008. She previously held the position of Audit Manager and is the first female Assistant Auditor General to have been appointed at the NAO. She succeeds Mr Paul Borg.



*Ms Vanessa A. Tonna, newly appointed Assistant Auditor General on 1 December 2008*



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

The functions and powers of the Auditor General and the role of the NAO are defined by Section 108 of the Constitution of Malta and the Auditor General and National Audit Office Act of 1997 (hereinafter referred to as the “Act”). The Constitution and the Act empower the Auditor General to audit the accounts of all Departments and Offices of the Government of Malta, and of such public authorities or other bodies administering, holding, or using funds belonging directly or indirectly to the Government of Malta. The Act extends this mandate further to include the Performance audit of Central Government Departments and Offices and other public sector entities, as well as the audit of the operations of companies or other entities in which the Government of Malta owns not less than 51 per cent of the shares.

The NAO audit competences are specified hereunder:

**Central level:** The NAO has the authority to audit the accounts of Central Government Departments and Offices and may examine whether such Departments and Offices have used the funds and resources available to them effectively, efficiently, and economically.

**Local level:** The audit of Local Government is also included within the mandate of the Auditor General as amplified and described in the legislation regulating Local Government.

**Public bodies:** The Office mandate also includes the audit of Public Authorities and Corporations, and other public entities administering, holding, or using funds belonging directly or indirectly to the Government of Malta or where the Government of Malta owns not less than 51 per cent of the shares.

**Private entities:** The NAO is also empowered to audit Government assistance received by non-Governmental organisations.

**Natural persons:** Natural persons may be audited if they form part of an audit sample designed to assess either the level of service/financial aid provided to natural persons by government entities; or the obligations of individuals to comply with relevant rules and regulations; or remuneration to public sector officials.

The NAO has no separate mandate for the audit of EU funds. Its mandate to audit such funds is implicitly derived from current legislation. The Office uses the same competence and scope that it uses for the audit of national funds and so EU funds are audited under the same principles and procedures as national funds.

## 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 independent opinions in connection with the way public funds would have been spent. Independence is guaranteed 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 following a resolution of the House of Representatives supported by not less than two-thirds of all members of the House. 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 – all reports compiled by the Auditor General are tabled on the Table of the House of Representatives – through the Speaker of the House. 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 practice, the audit work consists of the inspection of books, records, returns and other documents, including electronically generated ones, 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.

NAO professionalism and services are acknowledged and appreciated by senior management of the public service and government authorities. 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. 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 possibly arrive at mutually acceptable resolution of similar conflicts with auditees, in the interest of preserving good relations in the wider work environment. Collaboration and co-operation are essential ingredients of every effective and productive audit.

Audit topics and the audit schedule of work are the prerogative of the Auditor General. However, the Act empowers the Minister responsible for Finance and the Public Accounts Committee to request the Auditor General to undertake a special enquiry 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 enquiries without being influenced by external bodies, thus ensuring that the independence and objectivity of the Office is maintained without exception or fail.

## Types of Audits

The NAO undertakes four distinct categories of audit, namely:

- 1) Financial and Compliance Audit
- 2) Performance Audit
- 3) Special Audit
- 4) IT Audit

## Financial and Compliance Audit

The NAO is responsible for undertaking Financial and Compliance audits of all Government Ministries and Departments, and other public entities and to report the results to Parliament. These audits of public funds constitute the core and mandatory work of the Office.

Financial and Compliance audits of Central Government aim to ascertain whether the financial statements of all Government Ministries and Departments are fairly stated and comply with International Standards of Supreme Audit Institutions (ISSAIs). These audits also review 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 has been properly authorised;
- proper internal controls are in place; and
- Government resources are being properly safeguarded.

Moreover, these audits test the regularity and performance of operational processes and systems.

Financial and Compliance audits provide independent reasonable assurance about whether the Treasury, Government Departments and other entities 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 Government Ministries, Departments, cost centres and other public entities.

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.

The NAO is empowered to perform operational audits that aim to test the regularity and/or performance of operational processes and systems managed by Government Departments and Offices and other public sector entities.

## NAO Comprehensive Audit Manual

In the conduct of such audit work, NAO's '*Comprehensive Audit Manual*' is used as a guideline. This manual includes information related to:

- NAO's organisation;
- Legal basis and policy;
- Types of audits carried out;
- NAO Auditing Standards;
- Planning, Conducting and Reporting processes for audits;
- Audit tools and techniques; and
- References to other manuals and guidelines relating to specific subject areas.

## Compliance with International Auditing Standards

Moreover, in all their work, NAO auditors follow the International Standards of Supreme Audit Institutions (ISSAIs) and the International Federation of Accountants (IFAC) International Standards on Auditing (ISAs) as guidelines for their audit work.



*Presentation of Annual Audit Report 2007 by the Auditor General to the Speaker of the House of Representatives on 15 December 2008*

The term ISSAIs is used as the common name for the body of documents concerning the responsibilities of SAIs in auditing public sector entities, and represents a comprehensive framework of public sector auditing standards that encompasses all INTOSAI standards and guidelines.

ISSAIs are systematically numbered under four levels according to a set of classification principles. This clarifies the hierarchy between the standards and makes it easier to determine the significance of each standard within the overall framework. The classification numbers also facilitate accurate references to the various documents.

At the top of the hierarchy is the Lima Declaration of Guidelines on Auditing Precepts (ISSAI 1) that contains a comprehensive list of principles regulating independent government auditing.

On the second level in the INTOSAI's framework, indicated by two digit numbering, are ISSAIs concerning the basic prerequisites for the proper functioning and professional conduct of SAIs. These include guidelines and good practices on SAI independence, transparency and accountability and also incorporate the Code of Ethics for auditors in the public sector.

Level 3 of the hierarchy, represented by three digit numbering, sets out the Fundamental Auditing Principles. This level contains the four chapters of the former INTOSAI

Auditing Standards that have been split into four separate documents numbered ISSAI 100-400. These documents contain the basic principles and standards that are essential to the conduct of public sector auditing.

Level 4 of the hierarchy, indicated by four digit numbering, comprises all INTOSAI auditing guidelines. This includes implementation guidelines on Financial auditing, Performance auditing and Compliance auditing. The Financial auditing guidelines are being developed in co-operation with IFAC and are based on IFAC's ISAs. Level 4 also includes specific guidelines on the audit of international institutions, environmental audit, privatisation, IT audit and audit of public debt.

### Audit of Local Government

The NAO mandate includes also the audit of local government. The conduct of yearly Financial and Compliance audits of local government is contracted out to private sector auditors in terms of legislation regulating local government. 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 serves as an independent hand-over exercise and covers the period from 1 April to the last day of the outgoing Secretary.

The Auditor General's role in terms of local government legislation 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: to support the auditors and to ensure that their observations and recommendations are given due consideration.

Audits on individual Local Councils are to be 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 where Local Councils are concerned.

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

### Audit of Non-Departmental Organisations

The Office may carry out Financial and Compliance audits of foundations, agencies, private or church entities, voluntary organisations, philanthropic societies and other public entities and non-Government organisations benefiting from any Government assistance.

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 results of risk and materiality assessment, including the amounts of subvention or subsidy involved.

### EU-related Audits

The Office is empowered to audit EU funds transferred to/from Malta Government and may undertake Financial and Compliance or Performance audits of such funds. It performs Financial audits to ensure that EU funds are being properly managed, controlled and accounted for. The Office may also carry out Compliance audits of EU funds to ensure that the management and control of such funds are in compliance with EU rules and regulations. The NAO can also undertake operational audits that assess the regularity and the performance of management processes and systems in force in Government Departments and Offices and other public sector bodies that utilise and administer EU funds.

The NAO performs separate EU audits on a variety of themes. During 2008, an audit on the VAT Information

Exchange System and another audit on the European Refugee Fund were finalised and reported upon in the Annual Audit Report for 2007. Performance audits of EU funds are discussed under the Performance Audit Section.

### Performance Audit

Performance audit complements Financial and Compliance audit by focusing on the economy, efficiency and effectiveness of policies, programmes, initiatives and operations of Ministries, Departments and other public entities and by seeking to promote accountability, propriety and better practices in government operations. This type of audit provides 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 may provide guidance on which systems and procedures within the audit activity need to be addressed.

Performance audit is carried out in compliance with specific provisions as laid out in the Auditor General and National Audit Office Act, and as part of the Office's vision and mission.

The Office is also empowered to undertake Performance audits of EU funds. During 2008, the Office published an EU funds-related Performance audit report entitled "Performance Audit – Structural Funds: Environmental Programme" that was part of a parallel audit undertaken simultaneously with thirteen other Member States of the European Union.

### NAO Performance Audit Manual

The Performance Audit Section has reached an advanced stage in the compilation of the Performance Audit Manual that draws on best practices and standards of other State Audit Institutions and organisations working in related fields. The Manual will set out the general principles and policies that govern the conduct of all Performance audit work, and will provide guidance to auditors in complying with these policies. It will also assist users to achieve a high level of quality in Performance audits and provide a basis for measuring audit performance.

Moreover, the Section will continue to update the contents of the online Performance Audit database, available on the NAO Intranet. It will also aim to ensure that members of staff receive adequate and relevant training, through participation in both local and foreign training events.

## Compliance with International Auditing Standards

The NAO also uses the ISSAIs as guidelines in the performance of its audits, in particular the Implementing Guidelines on Performance Auditing under level 4 of ISSAIs referred to earlier.

## Special Audits

In terms of the Auditor General and National Audit Office Act of 1997, 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 or indirectly to Government, as well as activities, programmes or initiatives that are funded by Government.

Special audits 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.

During 2008, the following Special audits were reported upon, in terms of Section 9 of the First Schedule of the Auditor General and National Audit Office Act:

- Enquiry and Report on the purchase of air tickets in connection with official travel abroad;
- Report on travel abroad on official government business.

## IT Audits

Considering the exponential increase in the number of IT applications and systems across Government, this is an emerging auditing area. The main reason being that one needs to determine whether such information systems are being effectively managed, safeguarding the entity's assets, maintaining data integrity, and operating effectively and efficiently to achieve the organisation's goals or objectives. Indeed, although the IT audit function within the NAO is still in its infancy, two IT audits have been carried out during 2008. These were intended to develop and adapt standard IT audit best practice to the public sector environment. Besides these stand alone IT audits, it is also envisaged that the IT Unit extends its expertise and experience to NAO teams in so far as the IT components of Financial and Compliance and Performance audits are concerned.

## Relations with Parliament

The NAO principally interacts with the House of Representatives through the Parliamentary Committees, namely, the Public Accounts Committee and the NAO Accounts Committee.

### *Public Accounts Committee (PAC)*

The Public Accounts Committee consists of not more than 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. It meets periodically 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;
- encourage the economic, efficient and effective utilisation of public sector resources; and
- enhance the accountability of the executive government to Parliament and the public.

Reports submitted to the Speaker of the House may be taken up by the PAC, which is empowered to examine the Reports and discuss their contents. In fact, most of the Committee meetings are focused on issues raised in the Annual Report by the Auditor General or Performance Audit Reports. The PAC thereby ensures that audit findings are given due attention.

The Committee, through at least three of its members, may also request the Auditor General to enquire and report upon matters within his mandate. The Committee 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-Departmental organisations that are required to present their accounts to Parliament.

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

The PAC held 53 sittings during the tenth Parliamentary legislature from May 2003 to January 2008. The last PAC sitting for the tenth legislature was held in September 2007. Three PAC sittings have been held during the current legislature up to 31 December 2008.

### Visit by PAC Members to NAO

The Chairperson of the PAC, the Hon Dr Charles Mangion, LLD, MP and members of the PAC visited the NAO on 24 September and 13 October 2008. Meetings were held with senior NAO management. The relations between the NAO and PAC, as well as the proposed work plan for the PAC for the following months, were discussed.

### National Audit Office Accounts Committee

The National Audit Office Accounts Committee is chaired by the Hon Dr Tonio Borg LLD, MP, who is the Leader of the House of Representatives. The committee has, as other members, the Chairperson of the PAC, two members from the Government 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 NAO's estimates.

The accounts of the NAO, which are on an accrual basis, are audited by certified private sector auditors appointed by the Committee. The Auditor General presents the audit report issued by the private sector auditors to the National Audit Office Accounts Committee which is then submitted to the House of Representatives together with any comment thereon by the said Committee. It is to be noted that the current auditors' term came to a close in 2008. They performed their last audit of the NAO financial statements for the financial year ended 31 December 2007. The Committee has now appointed a new auditor for 2009. This appointment may be renewable annually for a period of up to five years.

During 2008, the Committee met on Tuesday, 1 July 2008 to examine the audited Accounts for financial year ending 31 December 2007; the Report on the Work and Activities of the NAO for 2007; and the NAO Estimates for 2008. The Committee also met in December 2008 to approve the appointment of the new private sector auditors for the NAO.

The National Audit Office Accounts Committee also discusses 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 discusses the relative motions and reports thereon to the House of Representatives.

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

### Relations with other Audit Institutions

The NAO cooperates with the Internal Audit and

Investigations Directorate (IAID), which is the internal audit arm of Government. At the initial stages of an audit, the Office determines whether the audit area being proposed has already been reviewed by internal auditors. Audit reports may also be exchanged between the two entities. The NAO may also discuss with the IAID on audits carried out by the latter that would be of relevance to the NAO during fieldwork. Senior NAO members also attended a number of seminars hosted by the IAID. Furthermore, meetings were held at the NAO at Senior Management level to discuss relations between the two entities.

When performing an audit of the accounts or the operations of an entity, NAO auditors may refer to the private sector auditors' report and management letter relating to the entity in question.

The NAO also has constant contact with its Local Government auditors, as explained under "Audit of Local Government".

### Code of Professional Conduct

The NAO has its own Code of Professional Conduct to encourage and ensure a professional work environment. This Code was last revised during 2008. The Code is a comprehensive statement of the values and principles that guide the daily work of officers appointed by the Auditor General as he may consider necessary in order to assist him in the proper discharge of his Office as per Section 108 (10)(a) of the Constitution of Malta. It also outlines the philosophy, principles and rules regarding ethical and professional conduct within the Office. The Code is further supplemented by Office Orders dealing with specific issues in greater detail. It is NAO policy that all employees are required to sign a Declaration relating to NAO's "Code of Professional Conduct", "Information Technology and Security Policy" and "Confidentiality".

The Code outlines the general principles underlying NAO audit work, namely professional behaviour and integrity. It also defines the responsibilities of NAO employees towards the various stakeholders involved in a public sector audit, i.e. Parliament, audit entities, the public and the Office. In particular, the Code requires that NAO's independence and impartiality in performing audit work should not be impaired. Moreover, NAO employees are not permitted to participate in any direct activity in the political field, at whatsoever level or programme. Employees are also to maintain, and be seen to maintain, independence from audited entities.

The Code also stipulates that employees are to exercise professional competence, due care, objectivity, constructiveness, and substantiation of findings, conclusions and observations in the performance of their audit duties.

Employees are also required to respect the confidentiality and data protection of all information acquired from audit entities and avoid situations of conflict of interest.

## Human Resources

Organisationally, and in terms of audit work, the NAO is divided into two main Sections. One Section is responsible for Financial and Compliance audits and is headed by an Assistant Auditor General. The Section includes four Audit Units, each headed by an Audit Manager. Three Units have a portfolio of a number of Ministries and Government Departments. One of these Units is also responsible for the audit of Local Government and other Public Entities. The fourth Unit is responsible for 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 Organisation Structure of the NAO, as on 31 December 2008 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 2008 is depicted in Table 1.

Diagram 1: NAO Organisation Structure

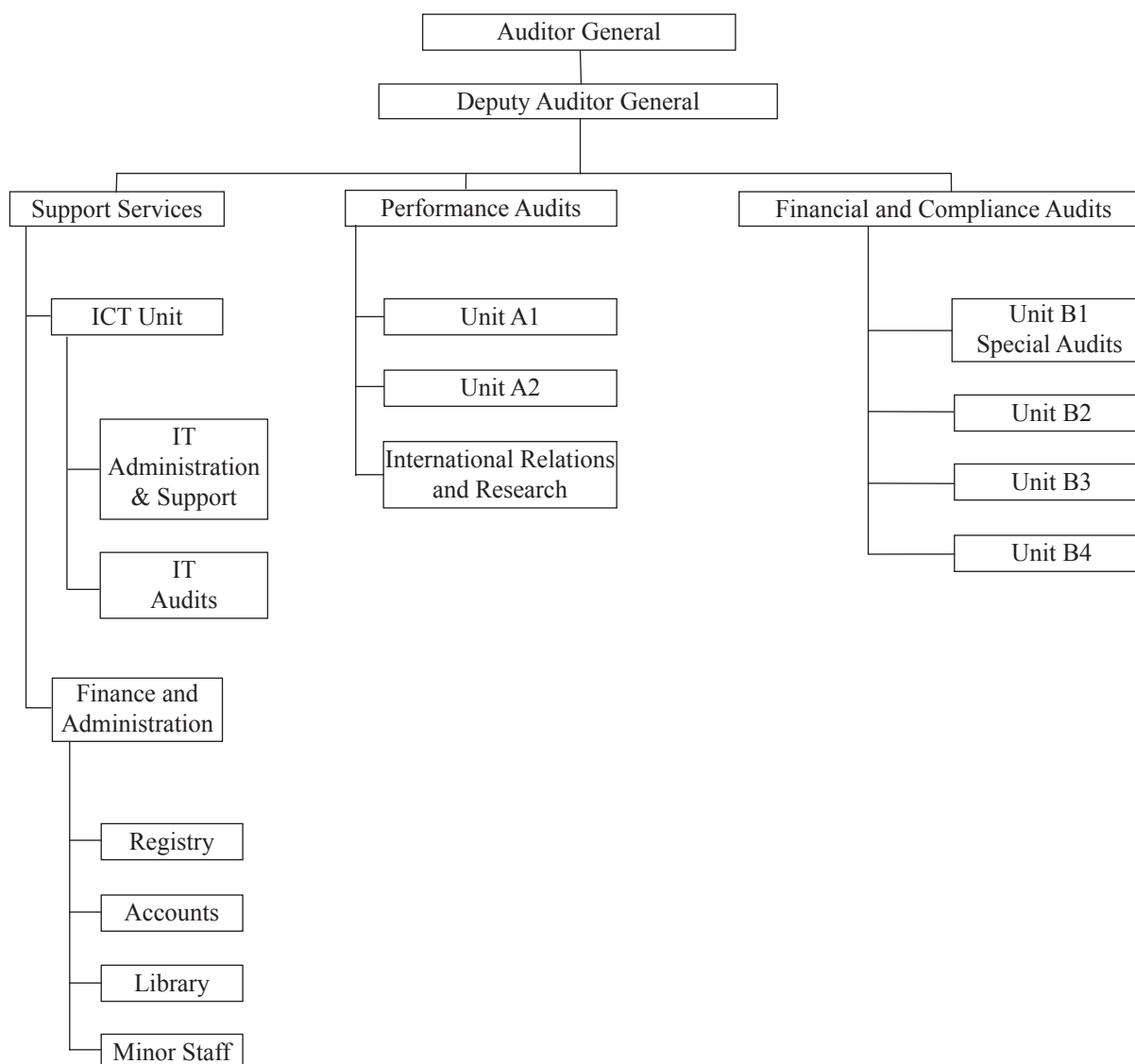


Table 1: Staff Position as on 31<sup>st</sup> December 2008

Grade Position	In Post	Male	Female
<i>Senior Management</i>			
Assistant Auditor General	2	1	1
<i>Auditing Grades</i>			
Manager	6	4	2
Principal Auditor	9	4	5
Senior Auditor	9	4	5
Assistant Auditor	9	2	7
Audit Clerk	2	1	1
<i>Support Services</i>			
Manager	2	2	-
Senior Principal	1	1	-
Principal IT	1	1	-
Assistant Principal	1	1	-
Personal Secretary	1	-	1
Senior Executive	3	1	2
Executive	1	-	1
Receptionist	1	-	1
Minor Staff	6	5	1
<b>Total</b>	<b>54</b>	<b>27</b>	<b>27</b>

During 2008, the NAO continued with its programme of recruiting professionally qualified and suitably experienced staff. This notwithstanding, a number of vacancies remain within the Principal Auditor and Senior Auditor grades.

### *Staff Recruitment and Mobility*

Recruitment within the NAO is regulated by article 108(10)(a) of the Constitution of Malta which provides for the setting up of the NAO. These provisions empower the Auditor General 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.

Recruitment is further regulated 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 set terms and conditions when appointing 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 further their career. In fact, during 2008 four (4) internal calls were issued. If internal calls for applications do not produce the desired results, external calls for applications are issued to fill vacancies from the open labour market.

External calls for applications were also issued during 2008 to fill vacancies in the Principal Auditor Grade and Senior Auditor Grade within the Performance Audit Section and the Financial and Compliance Audit Section. By the end of 2008, the NAO had succeeded in recruiting four (4) Senior Auditors with the Performance Audit Section. Three (3) Senior Auditors recruited during the year were assigned with the Financial & Compliance Audit Section.

During the year, one (1) Senior Auditor within the Financial and Compliance Audit Section resigned. Furthermore, the position of the Assistant Auditor General, a senior management position, also became vacant. Following a call for applications published in the media, this position was eventually filled by an Audit Manager from within the same Section.



### *Staff Qualifications*

The NAO has within its ranks a number of professionally qualified employees. This can be gauged from the range of disciplines currently on its books as on 31 December 2008:

<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
BA (Hons) Public Administration	1
BSc (Hons) in Mathematics, Statistics & Operational Research	1
BSc (Hons) in Mathematics & Computer Studies	1
BSc (Hons) in Computing & Information Systems	1
Bachelor of Commerce (Hons) in Management	3
Bachelor of Commerce (Hons) in Business Management	1
Bachelor of Commerce (Hons) in Management & Public Policy	1
Bachelor of Commerce (Hons) in Economics	1
Bachelor of Commerce (Hons) in Public Policy	1
A number of employees hold Diplomas and other qualifications, including a Certificate in Information Systems Auditing (CISA) (2), and Diplomas in Business Studies (4), Management (8), Public Administration (1), Taxation (1) and Secretarial Studies (1).	

### *Training*

The NAO gives very high priority to the continuous training, as well as professional development of its staff. On recruitment, new employees are given on-the-job training by senior officials, while experienced employees are encouraged to advance in their careers by offering sponsorship to follow University Degree or Diploma courses on a part-time basis. Employees are also sponsored to follow courses of audit-related training abroad.

Members of the staff are encouraged also 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

During 2008, members of the staff attended the seminars and training courses listed below:

### Local Seminars and Training

Theme	Organiser
Quality Assurance Workshop	MIA
Methods of relief of Double Taxation in Malta	MIA
The Quality of Audit Files: Common Audit Problems and Solutions	MIA
Corporate Governance: The Way Forward	MIA
Shaping Tomorrow's Accountant	MIA
Final Session on the new Tax Refund System	MIA
Working Capital Management	MIA
Linking Strategy and Organisation Structure	MIA
The New Company Tax System	MIA
Valuation Techniques	MIA
Backups and Recovery Plans – Ensuring availability of Business Information	MIA
The Extent of Documentation on the Audit of Smaller Entities	MIA
An Introduction to GAPSE	MIA
Quality Management Conference	Malta Federation of Industry
Towards a Borderless Economy	Malta Communications Authority
National Forum on Archives	The National Archives Council
Oracle Business Intelligence Summit	Megabyte
Green Jobs Seminar	Employment & Training Corporation
Workshop on the New Corporate Tax System	Malta Institute of Taxation
Companies Act	Society Education
Fair Value Accounting	Society Education
International Accounting Standard 7 – Cash Flow Statements	Society Education
Continuous Professional Development Programme 2008	Foundation for Human Resources Development
Getting Started with SPSS 16.0 for Windows	Foundation for Human Resources Development

<b>Theme</b>	<b>Organiser</b>
Performance Appraisal Workshop	Foundation for Human Resources Development
The IBM Computing Innovation International Conference Malta 2008	STC Training
Developing Assertiveness and Self-Confidence	SDO
Secretarial Skills	SDO
MS Access Advanced	SDO
National Procurement	SDO
Database	SDO
Introductory Course on the EU	SDO
EU Budget Reform 2008/9: its necessity and role in improving the European Union	SDO
Increasing Awareness of EU labour legislation (Impact of ECJ rulings on Interpretation of EU Directives)	Department of Industrial and Employment Relations
PIFC Twinning Seminar	IAID
Internal Audit Forum – A Local Perspective	Malta Forum for Internal Auditors
AFCOS OLAF Seminar	IAID
Good Corporate Governance	Malta Forum for Internal Auditors
IT and Management Information Systems	Megabyte

### NAO Sponsored Courses

A Senior Auditor within the Performance Audit Section commenced a postgraduate MSc course in Financial Management. This course is offered by the Edinburgh Business School through the Malta Institute of Management and is fully recognized by the Malta Qualification Recognition Information Centre (MQRIC).

Another officer was accepted by the University of Malta to follow a course leading to the Masters of Art in Public Policy offered by the Faculty of Economics, Management and Accountancy.

### Engagement of Consultants

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

During 2008, the NAO availed itself of the services of the following consultants:

A Legal Advisor was engaged by the NAO on a retainer basis.

A Management Consultant was engaged to assist in matters concerning conditions of employment and industrial relations and to chair Employment and Selection Interviewing Boards.

An Architect and Civil engineer was engaged to advise on matters relating to a special audit concerning a project on modernisation of roads.

A MITA, formerly known as MITTS, technical advisor on IT hardware was engaged to assist NAO in a special audit concerning the purchase of computers.

## Library

The NAO continued to invest in its library. This facility serves as a reference and central depository equipped with manuals, auditing, information technology, accounting and other publications to assist and update audit staff in their work. Of particular relevance are Performance and Financial and Compliance Audit Reports published by other SAIs, as well as standards and guidelines produced by the INTOSAI and the IFAC.

## Participation in Committees of the Ministry of Finance

Senior Officers attended a number of meetings relating to the Accruals Accounting Task Force, the Departmental Accounting System (DAS) Replacement Project Board and the Finance Management Act Steering Committee.

## Dissertation Award on Public Sector Auditing

On 30 April 2008, the Department of Accountancy at the University of Malta's Faculty of Economics, Management and Accountancy (FEMA) held the 2008 presentation of awards to the Bachelor of Accountancy (Hons) 2005/2007 graduate group. These awards included one, for the first time, for the best dissertation in Public Sector Auditing, which was sponsored by the NAO. The award was presented to Ms Charlene Brincat for her dissertation "Weaknesses Disclosed in the Maltese State Audit Report: A Five-Year Analysis".

The NAO receives requests from University students to assist them in the conduct of their dissertation, mainly through interviews with senior members of the staff.

The Auditor General intends to continue presenting awards for the best dissertation in Public Sector Auditing on an annual basis whenever such dissertation is deemed to have reached an appropriate level.

## International Relations

Table 2 provides an overview of all events relating to overseas visits, including events 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 (SAIs) of the EU Member States and of the European Court of Auditors (ECA). It is autonomous, independent and non-political. In order to contribute to the improvement of EU financial management and good governance, the CC fosters the exchange of

professional knowledge and experiences on the audit of EU funds and other EU-related issues, provides mutual support and initiates and co-ordinates common activities in the EU field. Its mission is to enhance co-operation among its members in order to improve external audit and accountability in the EU field. The Contact Committee meets once a year in one of the Member States of the EU.

The Assistant Auditor General responsible for Performance auditing acts as Liaison Officer in EU-related matters and participates in Liaison Officers' Meetings of EU Member States. Liaison Officers' meetings are convened in preparation for the annual Committee meeting held in December. In 2008, two Liaison Officers' meetings were held in May and October in Bratislava and Luxembourg respectively. During these meetings, the organisation and governance of the Contact Committee, as well as progress reports and accompanying draft resolutions relating to the activities of the Contact Committee Working Groups, were discussed. There was also an exchange of information on recent developments in EU financial management.

The annual Contact Committee meeting was held in Luxembourg on 1-2 December 2008. During this meeting, the following topics were discussed:

- The role of SAIs in the EU Budgetary process;
- Establishing a network for identifying common audit topics and sharing best practices in the area of the revised Lisbon Strategy 2008 – 2010;
- Contact Committee activities implemented in 2008 by its eight working groups and new activities for 2009;
- An evaluation of the results, draft resolutions and plans of the Contact Committee Working Groups;
- EU-related reports by the Member State SAIs, in particular the experiences of the Netherlands Court of Audit, in carrying out audits with an EU perspective.

During 2008, the CC eight working groups were occupied in the following EU-related projects:

- Working Group on National SAI Reports on EU Financial Management
  - o Ten SAIs produced an overall report on EU financial management by the end of 2008;
  - o It was proposed to develop the Working Group intranet web pages in which EU SAIs can find and exchange relevant information on EU financial management and on the Working Group;
  - o The Working Group continued in its efforts to develop some basic measures/indicators of the development in financial management in the individual Member States through:
    - An update of the basic financial information included in the Common Agricultural Policy analysis carried out in 2007;
    - The development of draft templates on Structural

- Funds and Irregularities Management;
- The annual update of table on EU Audit Activities of Member State SAIs.
- Working Group on Procurement
    - o The Working Group has produced four pieces of work:
      - Checklists for use in the financial audit of procurement;
      - A guide on EU procurement rules and relevant European Court of Justice (ECJ) judgements;
      - Key questions developed as reference pointers for auditors evaluating the performance of the procurement function in public sector bodies;
      - Summaries of reports on public procurement published by SAIs.

These documents were distributed to the SAIs at the December 2007 Contact Committee Meeting. No comments or suggestions for amendments were received in 2008.
    - o At the Contact Committee meeting in 2008, it was decided that:
      - the above material produced by the Working Group be placed on the public part of the Contact Committee website;
      - the Working Group be wound up since it has fulfilled its mandate.
  - Working Group on Structural Funds
    - o The Working Group on Structural Funds carried out a parallel audit in 2007 and 2008 on the performance of the Structural Funds' programmes in the areas of employment and the environment;
    - o In 2008, the field work for the parallel audit was completed and country reports were delivered. The final report of the parallel audit was prepared and presented to the Contact Committee on 1-2 December 2008;
    - o The Contact Committee decided that the Working Group is to continue its work in 2009 and 2010 by auditing the cost of controls of Structural Funds. This could include, as an optional part of the main mandatory audit, the utilisation of technical assistance for the controls of Structural Funds.
  - Working Group on Value Added Tax
    - o Following the 2007 report on Measuring the VAT Gap, the Working Group continued its work on monitoring basic trends in the area of VAT, in particular by following up the progress made by EU Member States in measuring VAT losses due to fraud. Two questionnaires on measuring losses and monitoring VAT trends were distributed, replies analysed and key findings identified;
    - o The Group observed the evolution of the EU anti-fraud strategy by distributing and analysing another questionnaire focusing on current as well as planned and proposed measures to counteract VAT fraud. The results of the above questionnaire were disseminated to all Working Group members;
    - o The NAO of Malta completed its audit on the VAT Information Exchange System. The scope of the audit was to assess whether the system incorporates adequate controls to ensure that legal requirements are actually complied with and to ascertain whether controls are actually being adhered to. The findings and recommendations of this audit were included in the Annual Audit Report on Public Accounts 2007;
    - o In March 2007, the Netherlands Court of Audit, the Bundesrechnungshof of Germany and the Rekenhof of Belgium embarked on a joint audit of Intra-Community VAT fraud. In 2008, the execution phase of the audit was finalised and the audit report published;
    - o The WG held its eighth Plenary Session in Malta on the 4 and 5 September 2008. During the above meeting the following matters were discussed:
      - The Commission engaged a Consultancy firm (Reckon) to prepare a report on measuring VAT fraud. The Working Group will evaluate the report when available and assess its impact on Member States
      - The Working Group discussed the usefulness and purpose of the data collected for monitoring VAT trends, and proposed more effective methods of data collection and analysis.
      - The Working Group discussed the ECJ judgement "COM / Italy" of 17 July 2008, case no. C-132/06 requiring every Member State "to take all legislative and administrative measures appropriate for ensuring collection of all the VAT due on its territory" and proposed that until the next plenary meeting of the VAT Working Group in 2009:
        - i) A Core Group of the main Working Group will observe the further evolution of the planned and proposed measures to counteract intra-Community VAT fraud;
        - ii) All SAIs will assess as far as possible to what extent national legislation and administrative measures comply with the aforementioned ECJ judgement as well as with the agreed measures and opportunities already offered by Community law.
      - The Working Group reviewed the analysis of replies to the questionnaire for evaluating the benefits for SAIs from Working Group activities and Outputs and discussed the way forward having regard to the conclusions emerging from the results of the questionnaire.

- Joint Working Group on Audit Activities
  - o A Consolidated Report on the parallel audit of EU project funds was drafted by the Working Group Chair and finalised with further input and support from participant SAIs (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania and SIGMA). The report summarises the activity and the main findings, recommendations and impacts of the national SAI reports produced by the six participants as well as drawing together the wider experiences and lessons learned;
  - o The Working Group members provided input and advice at the development stage on the design and content of the workshop on the audit/evaluation of public internal financial control systems and assisted in identifying and securing SAI speakers and facilitators. The event was hosted in July 2008 by SAI of Turkey and supported by the ECA and SIGMA;
  - o The document “Making SAI Twinning Successful: A Good Practice Guide” was to be posted on the Contact Committee website.
- Agricultural Network
  - o The Agricultural Experts Network continued to exchange information on audits and work programmes in 2007 and 2008 in order to strengthen co-operation between EU SAIs in the field of the Common Agricultural Policy.
- Working Group on Common Audit Standards
  - o Further progress was made in the elaboration of the section of the Exposure Draft, dealing with common auditing standards and comparable criteria in the field of compliance audits through the formulation of optional “Interpretative Notes” covering specific practical and technical aspects to complement the core-document which had been completed in 2007;
  - o Progress was also registered in the drafting of the section on common auditing standards and comparable audit criteria in the field of Performance audits leading to the finalisation of the core document on this subject;
  - o Work continued on the section of the Exposure Draft, dealing with the relevant experiences and approaches of the different EU SAIs in auditing EU funds through the compilation of case studies;
  - o In order to better assess the different structures and approaches of the Audit Institutions and to improve the knowledge about each other, a discussion was carried out on the conduct of a facultative, voluntary mapping exercise covering the respective legal frameworks and the SAIs’ mandate, the types of audits carried out in general and, within the EU

context, the reports published by the SAIs, their frequency and their addressees.

- Liaison Officers’ Task Force on Evaluation
  - o During 2007 and 2008, the Liaison Officers’ Task Force carried out a comprehensive evaluation of the efficiency of operation of the Contact Committee’s Working Groups and the level of use by SAIs of Working Group results/products. The evaluation, based on the results of two surveys, has been presented in a draft report;
  - o In 2007, the chairs and participants were asked how efficiently the Working Groups function in practice and how their operations might be improved. An interim report on this stage was presented to the 2007 Contact Committee in Helsinki;
  - o In 2008, subject auditors/technical experts/managers at the SAIs were asked if they had used the products/results from the various Working Groups in their SAIs’ work on the same audit areas;
  - o The Liaison Officers of all SAIs were invited to contribute to both surveys;
  - o The eventual aim is to make recommendations that will enable the Contact Committee to improve the efficiency of the Working Groups and increase their use.

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 Agricultural Network, and the Working Group on Common Auditing Standards.

The public website of the Contact Committee of the SAIs of the European Union 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 SAIs and SAIs of EU candidate and potential candidate countries and within international organisations; (iii) Contact Committee resolutions, Working Group final reports and SAIs’ 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.

### *Visit to NAO by the Maltese Member of the ECA*

The Maltese Member of the ECA, Prof. Josef Bonnici, paid a courtesy visit at the NAO on 13 August 2008. The relations between the ECA and the NAO, as well as the Office’s role in the EU Contact Committee, were discussed.

### *EU Contact Committee VAT Working Group Meeting in Malta*

The NAO organised the EU Contact Committee VAT Working Group in Malta on 4 and 5 September 2008 and was chaired by the Assistant Auditor General for Financial and Compliance audits. The meeting comprised representatives from 22 European SAIs and the ECA. An introductory thematic presentation on “Recent Developments and Outlook on the Forthcoming Agenda to Combat VAT Fraud” was delivered by the Maltese Commissioner of VAT. This was followed by the analysis of the results of Core Group 1 relating to the process of measuring VAT losses and data collected for the monitoring of VAT Trends. Moreover, a review was carried out of the results of Core Group 2 concerning the preparation of an Anti VAT Fraud Strategy at EU level. A discussion on the actions and way forward on the efficiency of the Working Group was also held. Furthermore, two country presentations were delivered by the Netherlands Court of Audit and NAO Malta.

### *Visit by European Union Anti-Fraud Office (OLAF)*

OLAF organised its annual meetings in Malta to exchange best practices in the ambit of coordinating anti-fraud activities, to assess the progress being attained in anti-fraud coordination - through Anti-Fraud Coordination Services (AFCOS) - which is locally represented by the IAID. The Auditor General was invited to the meeting of the OLAF delegation with the Prime Minister, held on 14 November 2008 at the House of Representatives.

### *Visit by Auditor General to the ECA*

Following the Contact Committee meeting, the Auditor General paid a courtesy visit to the ECA on 2 and 3 December 2008. Meetings were held with Dr Victor Caldeira, President of the ECA, Prof. Josef Bonnici, Member of the Court, and other senior officials. The ECA Statement of Assurance, ECA methodology, Quantification and Classification of Errors by the ECA, and ECA Audit Missions to Malta were discussed.



*Familiarisation Visit by the Auditor General at the ECA. Left to right: Mr Anthony C. Mifsud, Auditor General; Mr Vitor Manuel da Silva Caldeira, President of the ECA; Prof. Josef Bonnici, Member of the ECA; Mr Brian Vella, Assistant Auditor General at the NAO*



*VAT Working Group Meeting in Malta on 4-5 September 2008*

### ***NAO Participation in EUROSAI Working Group***

A senior officer participated in a Working Group (made up of the SAIs of Denmark, the Russian Federation, Hungary, Poland, Malta and the ECA), in the preparation of Principal and Discussion Papers on 'Establishing Audit Quality Management System within a SAI', which was one of the themes of the VII EUROSAI (European Organisation of SAIs) Congress held in June 2008. A decision was taken during the Congress to extend the mandate of the Working Group to develop a good practice guide on Quality Management in a Supreme Audit Institution. NAO renewed its participation in the Working Group.

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

During 2008, a number of articles and papers were presented on a number of themes, including:

- Comments on Exposure Drafts relating to Performance and Compliance Auditing Standards of the EU Contact Committee Working Group on Common Auditing Standards and Audit Criteria;
- Activity Report of the EU Contact Committee Working Group on VAT;
- Contributions relating to the EUROSAI Working Group on the Good Practice Guide on Quality Management in a Supreme Audit Institution;
- Fédération des Experts Comptables Européens (FEE) Questionnaire reply on the NAO and Accrual Accounting; and
- Commonwealth Auditors General Conference Theme Paper on Local Government.



Table 2: Overseas-related Events – 2008

<b>Date</b>	<b>Event</b>	<b>Location</b>	<b>Description</b>
January 14-15	Working Group Meeting on EUROSAI Audit Quality Theme 1	Budapest (Hungary)	An Audit Manager participated in the Working Group Meeting on the VII EUROSAI Congress Theme on Audit Quality. The Working Group reviewed and finalised the Congress Principal and Discussion Paper on the above topic.
January 21-23	VAT Working Group – Core Group Meeting	Bonn (Germany)	The Working Group Meeting was attended by the Assistant Auditor General for Financial and Compliance audits. During the meeting, the preparation of a survey relating to the current state of play on the preparation of an Anti VAT Fraud Strategy at EU level was discussed. The Working Group also reviewed the procedures for the analysis and reporting of the questionnaire results. Moreover, a discussion was held on the options for further activities for the Working Group following the VAT Working Group Meeting in Malta in September 2008.
February 18-20	5th EUROSAI IT Working Group Meeting	Ljubljana (Slovenia)	During the meeting, which was attended by 55 representatives from 28 SAIs, the results achieved during this working period (2005-2008) were discussed and future lines to be tackled in the following period (2008-2011) were scheduled. The current President of the Working Group and President of the Netherlands SAI stated her willingness to hand over the Presidency of the Group, with the Auditor General of the SAI of Switzerland being unanimously elected as her successor.
February 28-29	Common Auditing Standards Working Group Meeting	Luxembourg	The Assistant Auditor General for Performance audits attended the Working Group meeting. The objective of the Working Group was to present a first version of the Exposure Draft on common auditing standards and comparable criteria in the field of compliance and Performance audits to the next EU Contact Committee meeting. Various topics were discussed during the Working Group meeting including: (i) the harmonisation of public sector auditing; (ii) insights gained from the EUROSAI Seminar on Performance audit, organised on the 4-6 December 2007 in Luxembourg; (iii) the relevant international auditing standards and audit procedures in the field of Performance audits; (iv) the experience of the Hungarian SAI in the field of Performance auditing concerning the utilisation of Structural Funds; and (v) the ECA's recent revision of its approach concerning the definition and treatment of errors. The Working Group Members were also asked to prepare draft Interpretative Notes on topics related to compliance audits.

Date	Event	Location	Description
March 11-12	Seminar on Climate Change in co-operation with EUROSAI Working Group on Environmental Audit and Academy of European Law	Trier (Germany)	A senior NAO official attended the seminar. The President of the SAI of Germany and President of EUROSAI, together with the President of the SAI of Poland and Co-ordinator of the EUROSAI Working Group on Environmental Auditing, provided a workshop on “Efficient Energy Policy in the Context of Climate Change”. Participating in that workshop, held on 11 and 12 March 2008 in the Academy of European Law of Trier (Germany), were experts from the European Commission, researchers from various scientific institutions and jurists of international renown. Speeches were given on aspects relating to European Environmental policy, internal market rules and energy policy. Participants from 25 SAIs took advantage of the event to prepare the parallel audit scheduled by the Working Group.
April 9-11	EUROSAI Seminar on ‘SAI Management’	Berlin (Germany)	The Seminar was attended by the Assistant Auditor General for Financial and Compliance audits. The objective of this seminar was to encourage a lively exchange of experiences and discussions about how to organise and manage SAIs. In addition, the seminar was a forum for sharing information about reform approaches at individual member SAIs. Participants discussed a number of topics including: (i) Leadership and management of a Supreme Audit Institution; (ii) the various organisational models of SAIs (the Anglo Saxon Auditor General led model was compared to the more collegial Court of Audit); (iii) quality management within SAIs; (iv) auditors and their role within the SAIs; and (v) modern tools for steering the SAIs’ work such as vision statements, strategies, advanced leadership tools, the support by cost and performance accounting systems and reporting systems, and performance bonuses. and reporting systems, and performance bonuses.
April 24-25	Common Auditing Standards Working Group Meeting	Luxembourg	A senior NAO official attended the Working Group Meeting. Various SAIs’ concrete experiences in the field of Performance auditing were presented. A review of the contributions received from delegations for updating the part of the Exposure Draft dealing with Performance audits as well as further reflection on the specificities of Performance auditing in the EU context were also carried out. Moreover, presentations were delivered on (i) the mapping of the Netherlands Supreme Audit Institution; (ii) a draft Interpretative Note in the field of compliance auditing on the “Analysis of Supervisory and Control Systems for Shared Management Administrations”

Date	Event	Location	Description
			and (iii) Sampling and Error Evaluation in the field of compliance auditing.
May 15-16	EU Member State SAIs Liaison Officers' Meeting	Bratislava (Slovak Republic)	The Meeting was attended by the Assistant Auditor General for Performance audits. The purpose of the meeting was to discuss reports prepared by the Liaison Officers of EU Member State SAIs in terms of the Helsinki December 2007 Resolutions of the EU Contact Committee Meeting. Further information is to be found under "EU Contact Committee."
June 2-5	VII EUROSAI Congress	Krakow (Poland)	The Auditor General and two senior officials attended the Congress. Participants in the symposium were delegations from forty-eight SAIs, as well as representatives of the ECA, IDI, OLACEFS, AFROSAI, ARABOSAI, ASOSAI, EURORAI, IBAN and the INTOSAI Journal. The Congress consisted of three principal themes, namely: (i) Establishing an Audit Quality Management System within a Supreme Audit Institution; (ii) the Audit of Social Programmes in the Field of Education; and (iii) the Audit of Social Programmes for the Professional Integration of the Disabled. Principal and discussion papers as well as a number of case studies relating to the experiences and methodologies used by SAIs on the above three themes were presented during the Congress.
June 9-11	VAT Working Group – Core Group 2 Meeting	Brussels (Belgium)	The Assistant Auditor General for Financial and Compliance audits attended the Working Group Meeting. The main issues discussed during the meeting included: (i) the analysis of the replies received to the questionnaire on the evolution of the EU Anti-Fraud Strategy, (ii) the framework (structure, main findings and recommendations) of the Core Group's report to the VAT Working Group; (iii) the contribution of the Core Group to the VAT Working Group's Activity Report 2008 and to the EU Contact Committee Resolution on promoting activities in the field of VAT; and further discussion of possible future work priorities of the Core Group after its meeting in Malta in September 2008.
June 9-12	Embassy	Paris (France)	A senior NAO official and another NAO officer participated in the Financial and Compliance audit of the Maltese Embassy in Paris. The audit entailed the examination of accounts, the holding of interviews and the review of files at the Embassy as well as at the Head Office. Interviews were also held with officers from the Central Visa Unit and Passports Office.

Date	Event	Location	Description
			A number of key, control and compliance issues were detected during the audit relating to revenue, expenditure, inventory and other audit areas.
June 20	1st EUROSAI Working Group Meeting on Good Practices Guide on Audit Quality	Budapest	A senior NAO official attended the Working Group Meeting. During the meeting, the outcome of the Congress Proceedings on Theme 1 of the VII EUROSAI Congress held in Krakow (Poland) on June 2-5, 2008 and practical arrangements for the development of a Good Practices Guide on Audit Quality were discussed.
June 26-27	Common Auditing Standards Working Group Meeting	Luxembourg	The Assistant Auditor General for Performance audits attended the Working Group Meeting. During the meeting, a number of presentations were delivered on the following themes: (i) An Interpretative Note on "Performance audits in the area of Structural Funds"; (ii) An Interpretative Note on "The significance and methodology of performance appraisals as part of Performance audits; (iii) an updated version of the part of the Exposure Draft that deals with Performance audits, incorporating the contributions received from various delegations; (iv) a case study concerning Performance audit in the field of research; and (v) the added value of EU funding and specificities of Performance auditing of EU Funds.
July 7-9	20th Commonwealth Auditor General Conference	Bermuda	The Auditor General and a senior NAO official attended the conference. The conference entitled "Accountability for the 21st century" had two sub-themes. Theme 1 tackled "the powers and responsibilities of Commonwealth Auditors General" and Theme 2 was about "supporting the scrutiny function of Parliaments and Legislatures." Various papers on the above sub-themes were presented by different countries. NAO Malta presented a paper on the subject of "Audit of Local Government in Malta." Three workshops were also held during the conference on: (i) Strengthening Public Financial Management: next steps; (ii) How can Audit Offices help their PACs become more effective; and (iii) Audit Offices' role in offering wider support to Parliament.
September 4-5	VAT Working Group Meeting	Malta	This event was attended by the Assistant Auditor General for Financial and Compliance audits and another senior officer. Further information found under "EU Contact Committee VAT Working Group Meeting in Malta".

Date	Event	Location	Description
September 8-10	Structural Funds Working Group Meeting	Budapest	An NAO officer attended the Working Group Meeting. Twenty-nine delegates from 16 SAIs and one delegate from the ECA participated in the meeting. During the meeting, the joint audit report on the parallel audit of structural funds in the areas of the environment and employment, was finalised. The members of the Working Group also discussed possible suitable topics for a future Working Group IV. Following this discussion, the Working Group selected the “Cost of Control” as a new topic for Working Group IV. This topic could also include the utilisation of technical assistance for the controls of Structural Funds as an optional part to the main audit topic.
September 12	Seminar on National Statements/Declarations on EU Funds	Copenhagen (Denmark)	The Assistant Auditor General for Financial and Compliance audits attended the seminar. The seminar dealt with the exchange of information between participants on EU Member State Declarations. A number of presentations on national approaches to the development of national declarations on EU funds were delivered during the seminar. The potential risks and actual difficulties, the key success factors and practical issues in the preparation of such declarations were also identified. Such issues include building and maintaining a relationship/partnership with the Ministry of Finance and other clients/stakeholders; the reconciliation of national data to Commission data; and sources and quality of assurance.
September 23-25	ITASA and ITSA Meeting	Bern (Switzerland)	A senior NAO official attended the two separate sub-group meetings of the EUROSAI – Information Technology Working Group in Bern. During the respective meetings, the rollout plan of the next IT Audit Self Assessments (ITASAs) and IT Self Assessments (ITSAs), as well as the methodology of both procedures, were discussed. A questionnaire on the ITASA process, to be subsequently distributed to all members of the IT Working Group, was also reviewed. Moreover, it was decided that an article be written explaining the ITASA methodology for the International Journal of Government Auditing of INTOSAI and the Control Journal of ISACA. In addition, a number of lessons learnt from IT Self Assessments meeting held in Luxembourg were also discussed.
September 25-26	National SAI Reports on EU Financial Management Working Group Meeting	Warsaw (Poland)	The Working Group Meeting was attended by a senior NAO official. The Meeting provided an overview of recent developments in EU Financial Management, including presentations by SAIs on their recently published overall EU reports.

<b>Date</b>	<b>Event</b>	<b>Location</b>	<b>Description</b>
October 2-3	EUROSAI Seminar on 'Financial Audit Standards'	Vilnius (Lithuania)	The Auditor General and a senior official attended the seminar. Various presentations relating to the audit of financial statements were delivered including: (i) planning a Financial audit; (ii) performing a risk assessment and its practical application; (iii) carrying out an assessment of judgemental (non-statistical) audit findings; (iv) the content of an opinion on financial statements; and (v) the incorporation of the audit of compliance with regulations into the audit of financial statements.
October 7-9	6th EUROSAI Environmental Auditing Working Group Meeting	Kiev (Ukraine)	A senior NAO official attended the Working Group Meeting. The main topics for the meeting were fisheries management and sustainable energy. The working plan for 2008-2011 and the future organisation of EUROSAI Working Group on Environmental Auditing were also discussed and approved during a General Plenary Session.
October 9-10	EUROSAI Seminar on CoBit, an Audit Tool	Tallin (Estonia)	An NAO officer attended the seminar. The seminar was designed to meet the needs of Financial and Compliance, Performance and IT auditors with the focus on practical aspects of using CoBiT in auditing. Topics covered in the seminar included: IT governance, CoBiT framework and concepts, the CoBiT methodology, IT assurance aspects and planning of IT audit.
October 9-10	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 State SAIs (further to the May 2008 Liaison Officers' Meeting) in terms of the Helsinki December 2007 Resolutions of the Contact Committee Meeting. Further information is to be found under "EU Contact Committee".
October 16-17	Common Auditing Standards Working Group Meeting	Luxembourg	The Meeting was attended by the Assistant Auditor General for Performance audits. The Meeting consisted of a number of presentations on various topics including: (i) a Performance audit in the field of the environment; (ii) an updated version of the part of the Exposure Draft that deals with Performance audits (iii) the proposed line-of-action on how this core-document is to be developed further to incorporate specific practical and technical aspects through the addition of Interpretative Notes and/or annexes; (iv) the latest situation regarding the Interpretative Notes on Compliance Audits (v) the Interpretative Note on "the Analysis of Supervisory and Control Systems for 'Shared Management'".

Date	Event	Location	Description
			Administrations”; (vi) the Interpretative Note on “the Definition and Treatment of Errors”; (vii) the report by the Dutch SAI on progress on the “Mapping Exercise” and (viii) Work to be carried out in 2009 concerning the part of the Exposure Draft intended to cover the “Experiences of SAIs in the Audit of EU Funds”
October 21-22	5th Healthcare Fraud and Corruption Conference	Malta	Two audit managers attended the conference. The conference dealt with recent developments on fraud and corruption in healthcare, in particular the role of technology and information integrity in the fight against fraud and corruption. During the conference, information, views and knowledge on integrity in healthcare systems and possible threats to such integrity were exchanged between conference participants. The solutions that technology could bring to re-inforce integrity were highlighted during presentations and workshops.
November 10-12	EUROSAI Seminar on Audit of Social Security Systems	Prague (Czech Republic)	The Auditor General and a senior NAO official attended the seminar. The seminar dealt with three topics: (i) the European Social Fund; (ii) Fraud and Abuse in Social Security Systems and (iii) Social Services Support (such as Family, Health, and NGOs). Various presentations were delivered on the above three topics. These were complemented by the holding of discussion groups on each topic. The seminar provided opportunities for audit case based detailed discussion, learning and the sharing of experiences and good practices in the audit of Social Security Systems.
November 13-14	EUROSAI Working Group Meeting on Audit Quality	Warsaw (Poland)	A senior NAO official attended the meeting. The meeting dealt with the development of a document that will highlight good practices in the field of quality management within a Supreme Audit Institution.
December 1-2	EU Member State SAIs Contact Committee Meeting	Luxembourg	The Auditor General and the Assistant Auditor General for Performance audits attended this Meeting. Following the Liaison Officers’ Meeting held in May and October, the Contact Committee met and discussed the Reports prepared by the Liaison Officers. Current developments relating to the EU budget reform and the revised Lisbon Strategy, 2008 – 2010 were also discussed. Further details are to be found under “ <i>EU Contact Committee</i> ”.



*Group Photo of Liaison Officers Meeting of EU Member States held in Bratislava on 15-16 May 2008*



*Group Photo of Presidents of SAIs of the EU Member States during the Contact Committee Meeting held in Luxembourg on 1-2 December 2008*



## Information and Communications Technology

### *Information Technology Unit*

The IT Unit manages information-related matters at NAO. These can be divided into three main areas, namely, IT Administration and Support, IT Auditing, and Production of Publications. Furthermore the IT Unit supports the Finance and Administration section with the procurement of IT-related equipment and software, by developing specifications, collating technical information and providing technical adjudication services.

The IT Unit also represents the NAO at EUROSAI IT Working Group meetings. An IT Working Group project of particular interest is the development of an IT Audit assessment methodology for SAIs. This project will put into place a process whereby the IT Auditing methodology is continuously assessed and improved upon.

The IT Unit also offers support services to other sections of NAO in the use of IT in their auditing methodologies and processes.

A website development services provider has been engaged to redevelop the NAO's website. The services provider will assist NAO to implement more modern, user-friendly and secure web technology while the style and the content will be updated to current standards. This project is being co-ordinated by the IT Unit.

The IT Unit has project managed the implementation of an online document registry system. This provides the facility for physical files and documents to be traced more easily by a larger number of users.

The IT Unit also liaisons with IT suppliers for the supply of IT equipment, software, consumables and technical services as well as with printing service providers for publication related services.

This Unit is enhancing 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 were engaged with the IT Unit, and pilot IT audits have been completed. The first IT audits have been launched and it is being planned that within the next few months an IT audit would have been launched in a number of departments of public sector organisations.

## Production of Publications

The IT Unit is also responsible for NAO's publications and co-ordinates their production and printing in liaison with the Government Printing Press. The publications are also published on the NAO website to promote a wider circulation. The IT Unit is continuously striving to improve the process used in the production particularly through a review of the publication styles.

## Conclusion

The year 2008 brought about significant changes to the senior management team, namely my appointment as the new Auditor General, the appointment of the new Deputy Auditor General and the appointment of a new Assistant Auditor General for the Financial and Compliance Audit Section – incidentally the first female officer appointed to a high ranking position within the NAO.

Over the past year, a number of challenges were faced by the Office due to the particular circumstances prevailing within the NAO following the expiry of my predecessor's second term of Office. Consequently, audit work that had been concluded in the interim period could not be submitted to the Honourable Speaker for tabling before the House of Representatives. This was due to the fact that although the previous Auditor General continued leading the Office as head of the NAO for that period, both the Offices of Auditor General and Deputy Auditor General were vacant at the time. Shortly after my appointment, unpublished audit reports that had been completed during the period, in particular the Annual Audit Report on Public Accounts 2006 that had been compiled and finalised by the end of 2007, were presented to Parliament.

Moreover, the Office recruitment programme has been intensified during the second half of 2008. In fact, although a number of professionally qualified and suitably experienced employees were engaged to work for the Office during the latter part of the year, a number of vacant positions in the Principal Auditor and Senior Auditor grades still remain.


However, with the full support of my Deputy, as well as the senior management team, I intend to consolidate and build upon the present strengths of the Office. This year's Audit Plan has already been finalised and every effort will be undertaken to ensure that this Office's objectives and targets will be achieved.

NAO is fulfilling its Constitutional mandate by performing the full scope of government auditing – Financial and Compliance audits, Performance audits, Special audits and IT audits. This will be undertaken in line with policies and procedures, established by the Office, which are designed to provide reasonable assurance that all audit work performed complies with professional standards and legal requirements and to ensure that appropriate audit judgements are made and accurate conclusions reached.

I intend to continue strengthening the Office by further enhancing the IT Unit, so as to enable intensification of auditing of major Government IT systems in collaboration with key stakeholders involved, ensure the provision of training opportunities to all audit employees interested to further their academic and professional studies, and develop the international contacts with key institutions. I will also

endeavour to further improve the quality and quantity of audit work undertaken by the Office with particular focus on risk areas that are deemed to be of special public interest. In this regard, as far as possible, every effort will be undertaken so that such audits are conducted in a spirit of collaboration and cooperation since NAO's ultimate objective is the continued enhancement of service delivery through more cost-effective and efficient operations.

My sincere gratitude goes to my predecessor, who laid the foundations of the NAO in its present form. I would like to acknowledge the cooperation of the Deputy Auditor General, management and all other members of the staff for their effort in assisting me in the preparation of this Report, as well as of the other reports presented to the Speaker of the House of Representatives.



Anthony C. Mifsud  
Auditor General

30 January 2009