



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

**2009**

## Contents

	Pages
<b>Auditor General Overview</b>	7
<b>NAO's Historical Background</b>	9
<b>Contemporary State Audit Functions</b>	9
<b>NAO's Independence</b>	10
<b>NAO Values</b>	10
<b>Relations with Parliament</b>	11
<i>Public Accounts Committee</i>	11
<i>National Audit Office Accounts Committee</i>	12
<b>Public Sector Audits</b>	12
<i>Financial and Compliance Audits</i>	12
<i>Performance Audits</i>	17
<i>Special Audits and Investigations</i>	19
<i>IT Audits</i>	20
<b>Human Resources</b>	20
<i>Staff Recruitment and Mobility</i>	22
<i>Legislation</i>	22
<i>A professional and Diverse Workforce</i>	22
<i>Staff Qualifications</i>	22
<i>Training</i>	23
<i>Local Seminars and other Locally Organised Training Events</i>	23
<i>NAO Sponsored Courses</i>	24
<i>Staff Integrity</i>	24
<i>Collective Agreement</i>	24

<i>Engagement of Consultants</i>	25
<b>Green Initiatives</b>	<b>24</b>
<b>Implementation of the Freedom of Information Act</b>	<b>24</b>
<b>Family Friendly Measures</b>	<b>24</b>
<b>Information Technology Unit</b>	<b>25</b>
<i>IT Administration and Support</i>	25
<i>IT Audit</i>	25
<i>Production of Publications</i>	26
<i>IT Steering Committee</i>	26
<b>Issue Analysis, Drawing Conclusions Approach Seminar</b>	<b>26</b>
<b>NAO Senior Management Seminar</b>	<b>27</b>
<b>Visit to NAO by his Excellency the President of Malta</b>	<b>28</b>
<b>Relations with other Audit Institutions</b>	<b>28</b>
<b>Relations with University of Malta</b>	<b>29</b>
<b>Participation in Committees of the Ministry of Finance, the Economy and Investment</b>	<b>29</b>
<b>Relations with the Media</b>	<b>29</b>
<i>Press Releases and availability of the NAO Reports</i>	29
<i>Reporting by media on NAO reports</i>	29
<b>International Relations</b>	<b>29</b>
<i>EU Contact Committee</i>	31
<i>NAO Participation in the Preparation of International Papers</i>	34

<i>Internship Programme at NAO for foreign SAI employees</i>	34
<i>EUROSAI Working Group on Achieving Audit Quality: Good Practices in Managing Quality within an SAI</i>	34

## Annexes

<b>Annex A - Reports issued by NAO during 2009</b>	<b>36</b>
<b>Annex B – Summary of Audit Report on the Public Accounts 2008</b>	<b>37</b>
<b>Annex C - Financial and Compliance Audit Methodology</b>	<b>39</b>
<b>Annex D - Performance Audit Methodology</b>	<b>41</b>
<b>Annex E - Procurement Capability across the Public Administration</b>	<b>44</b>
<b>Annex F – Summaries of Performance Audit Reports</b>	<b>45</b>
<b>Annex G - Summaries of other Special Audit Reports</b>	<b>49</b>
<b>Annex H - Techniques for Issue Analysis and Drawing Conclusions</b>	<b>51</b>

## List of Abbreviations

ARABOSAI	Arab Organisation of Supreme Audit Institutions
CISA	Certified Information Systems Auditor
COBIT	Control Objectives for Information and Related Technology
COSO	Committee for Sponsoring Organisations
EAC	Emissions Alert Campaign
EAGF	European Agriculture Guarantee Fund
ECA	European Court of Auditors
EFQM	European Foundation for Quality Management
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
FEMA	Faculty of Economics, Management and Accountancy
FIDIC	International Federation of Consulting Engineers
FOIA	Freedom of Information Act
FOIO	Freedom of Information Officer
FSS	Final Settlement System
IAID	Internal Audit and Investigations Directorate
IADC	Issue Analysis, Drawing Conclusions
IFAC	International Federation of Accountants
ILI	Infrastructure Leakage Index
INTOSAI	International Organisation of Supreme Audit Institutions
ISA	International Standards on Auditing
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
LES	Local Enforcement Scheme
MFEI	Ministry of Finance, the Economy and Investment
MIA	Malta Institute of Accountants
MJHA	Ministry for Justice and Home Affairs
NAO	National Audit Office
NEEAP	National Energy Efficiency Action Plan
NGO	Non-Government Organisation
OPM	Office of the Prime Minister

PAC	Public Accounts Committee
PC	Personal Computer
RES	Renewable Energy Sources
RET	Roadside Emissions Test
RTI	Roadside Technical Inspection
SAI	Supreme Audit Institution
SDO	Staff Development Organisation
UN	United Nations
VAT	Value Added Tax
VFM	Value for Money
VIES	VAT Information Exchange System
VRT	Vehicle Roadside Test
WSC	Water Services Corporation

# Works and Activities of the National Audit Office - 2009



*Anthony C. Mifsud, Auditor General*

## Overview

The year 2009 has been a period of demanding and challenging work for the National Audit Office (NAO). We have managed to complete a substantial number of reports including the Annual Audit Report on the Public Accounts 2008, and several investigative and performance audit reports (Annex A refers). These results have been possible due to the availability of highly trained, experienced and

motivated staff. Contact with the media has also been enhanced to inform the general public of the reports and initiatives undertaken by the NAO.

Following the recent signing of the Collective Agreement with the employees' representative Union, it is anticipated that the number of suitably qualified and experienced staff who apply for vacant posts at the Office will increase so that the NAO would be in a position to operate at near full capacity.

The Office is updating its policies and procedures in order to ensure that the NAO audit methodology and processes comply with good practice and are in line with the requirements of international auditing standards. In particular, the Office will be in a position to fully adopt the revised Financial and Compliance Audit Manual that will replace the previous NAO Comprehensive Audit Manual issued in 2004. The Office also continues to update its Performance Audit Manual. Two internal publications relating to information technology concerns, namely the "Data Protection Guidelines" and the "Information Technology and Security Handbook", were issued to ensure that the employees abide by IT and data protection guidelines and requirements.

The role of the IT Unit is crucial in promoting the use of modern IT auditing methodologies and practices within the NAO Audit Sections. During the year, this Unit was also instrumental for the design and content of the new NAO website: <http://www.nao.gov.mt>. As a result, individuals or organisations who seek information on the Office's work, activities, recruitment and publications, or who would like to contact the Office, now have access to a more attractive, informative and comprehensive website.



The Office is also consolidating its IT Strategy. The IT Steering Committee chaired by the Deputy Auditor General has discussed and compiled an IT Strategy and identified a list of IT Training needs for the staff. The Strategy is being gradually implemented to ensure that NAO staff have the necessary IT tools and knowledge to fulfill their duties in the most effective manner possible. Thus, the Office intends to strengthen the IT training and competences of its audit staff.

During 2009, the Office has sought to improve upon its environmental responsibilities. NAO's commitment in this regard has been demonstrated through the nomination of one of its employees as a Green Leader, and the preparation of a plan of action for the period 2009 to 2011 that promotes eco-friendly practices within the Office.

My Office will also endeavor to enhance its relationship with its internal and external stakeholders. Training and development opportunities for audit employees will be intensified. More collaborative relationships with audited organisations will be established and developed in order for these entities to improve their operations and service delivery, as well as fulfill their accountability and reporting requirements.

I will also continue to give due attention, and try to enhance, the relationship with the Parliamentary Committees, namely the Public Accounts Committee (PAC) and the National Audit Office Accounts Committee, so that the NAO would be able to continuously improve on its operations and fulfill its Constitutional mandate more effectively.

I would like to consolidate further the collaboration with other professional bodies, in particular the Internal Audit and Investigations Directorate (IAID) for better co-ordination of audit work. Contacts and cooperation with the University of Malta, in particular the Faculty of Economics, Management and Accountancy (FEMA), will also continue to be strengthened. The Office will also consolidate its presence in the international sphere by continuing to actively participate in the European Union (EU) Contact Committee Working Groups and contributing to the preparation of international papers and documents on state audit-related issues. This will keep the Office abreast of ongoing developments within the auditing community.

I take the occasion to express my gratitude to the Deputy Auditor General, management and all other members of staff for their constant support and advice in the proper discharge of my Office.



## NAO's Historical Background

The Audit Department in Malta was set up in 1814 by Sir Thomas Maitland, the British Governor, during the first years of British rule. He introduced a centralised system of financial control in public administration, comprising three complementary elements, namely that:

- all the revenue collected was to be deposited into the Public Treasury and no expenditure was to be incurred without the authority of Government;
- no money could be disbursed from the Treasury without a warrant bearing Maitland's own signature; and
- all accounts were to be closed and audited annually.

To achieve the third objective, the Governor established an Audit Department with James Toole as its first director. His duties were to examine the public accounts, and to report to the Governor the results of his review. Every Department or Government entity was to be subjected to a rigorous audit.

A number of developments and changes have occurred in the state audit function in Malta since the setting up of the original State Audit Institution in Malta over 195 years ago. The most recent significant legislative and organizational changes occurred in 1997 with the establishment of the NAO as an autonomous body from the Administration. The National Audit Office is the successor of the Audit Department.

## Contemporary State Audit Function

The Office of the Auditor General and the National Audit Office were established through an amendment to Article 108 of the Constitution of Malta and the enactment of the Auditor General and National Audit Office Act of 1997. The Constitution and the Act set out the functions and powers of the Auditor General and the Deputy Auditor General and define the role of NAO as an independent Audit Institution. The Auditor General is empowered 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 holds not less than 51 per cent of the shares.

The Auditor General, who is the Head of the National Audit Office, and the Deputy Auditor General who assists him, are 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 both the Auditor General and the Deputy Auditor General, in the effective discharge of their Constitutional and legal mandate, enjoy the confidence of both the Government and the Opposition in the House of Representatives.

All reports compiled by the Auditor General are presented to the Speaker of the House of Representatives who then lays them on the Table of the House. Through these reports, the Auditor General provides independent assurance and advice on the way Ministries, Departments and public entities utilise public funds and on whether such funds have been expended economically, efficiently and effectively. Instances of good practice are noted in the reports with the aim of encouraging their wider implementation within the public sector. In the same way, deficiencies and shortcomings are identified and reported upon, and are accompanied by recommendations to the management of the audited body to help ensure that weaknesses are addressed.

The aim of the audit fieldwork performed by the Office is to enable the Auditor General to express an opinion on whether the Financial Report of the Government of Malta fairly presents Government's operations for the year under review. In practice, the Office audit methodology involves the inspection of books, records, returns and other documents, including electronic information, required for the audit of public bodies falling under the jurisdiction of the Auditor General. In this regard, the Auditor General's work is facilitated by legislation which stipulates that any circumstance inhibiting such access to information is to be reported to Parliament. The inspection of documents is often supported by interviews and the soliciting of explanations from auditee management and staff. The collection and evaluation of audit evidence enables NAO to form an objective audit opinion on the reviewed area based on an assessment of audit findings, and to formulate conclusions and recommendations that, once implemented, add value to the auditee's operations, thus increasing cost effectiveness, to the ultimate benefit of the citizen.

NAO services are acknowledged and appreciated by senior management of the public service and the Government authorities. In rare instances where auditees challenge 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 concerned. It is to be noted that the Constitution, in which the Auditor General's right of access is entrenched, overrides any provision in any other Act of Parliament. Notwithstanding this, the NAO always attempts to arrive at mutually acceptable resolution of differences with auditees, in the interest of preserving good relations. 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 both the Minister responsible for Finance and the PAC to request the Auditor General to undertake a special enquiry on their behalf. Similar powers are conferred on the Minister for Local Government, through the relevant legislation. These requests are complied with, so long as they are deemed reasonable and feasible and fall within the Auditor General's mandate. In such cases, requests are formalised with specific terms of reference for the enquiry to be undertaken, The Auditor General and the NAO are still committed to carry out such enquires without external influence, thus ensuring that the independence and objectivity of the Office is maintained without exception or fail.

## NAO's Independence

The Office independently reviews public sector performance and accountability and aims to add value to public sector performance by contributing to:

- improvement in public administration – by performing an independent assessment of the performance of selected public sector entities and activities and including areas where there is scope for improving efficiency and administrative effectiveness; and
- assurance – by providing independent assurance of Government public sector financial reporting, administration, control and accountability.

The Constitution and the Act guarantee the functional independence of both the Auditor General and the NAO from the public service administration. To ensure the independence of the Auditor General and the Office, the legislation stipulates that, in the proper exercise of his functions, the Auditor General is not subject to the authority or control of any person. Furthermore, the Auditor General recruits and appoints staff according to objective Human Resource requirements in terms of exigencies within the Office and within the framework of policies and procedures that he determines.

Independence is vital for ensuring an effective and impartial public sector audit activity. It is a vital factor that ensures the quality of the Office's work and guarantees the effective fulfillment of its Constitutional role. Independence allows the Office to conduct work without interference from the entity under audit or other third parties and to be objective in dealing with the issues and topics under review. Thus, coupled with objectivity, Supreme Audit Institution (SAI) independence contributes to the accuracy of the auditor's work and towards ensuring the quality of audit reports. Moreover, SAI independence should not be impaired by personal or external interests of its auditors.

The Lima Declaration of Guidelines on Auditing Precepts contains a number of requirements relating to the independence of a SAI. The Declaration stipulates that SAIs and their audit staff members are to be independent of the audited entity and protected against outside influence. SAIs are also to have the functional and organisational independence as well as the financial means required to accomplish their tasks. The Declaration also states that the establishment of SAIs and their independence is to be laid down in the Constitution and details set out in legislation.

International Standard of Supreme Audit Institutions (ISSAI) 10, namely the Mexico Declaration on SAI independence, sets out more comprehensive requirements for an independent SAI. The Declaration includes a number of guidelines on SAI independence comprising the following:

1. The existence and application of an appropriate and effective Constitutional/statutory/legal framework
2. The independence of SAI Heads, including security of tenure and legal immunity in the normal discharge of their duties
3. A sufficiently broad mandate and full discretion, in the discharge of SAI functions
4. Unrestricted access to information
5. The right and obligation to report on the SAI's work
6. The freedom to decide the content and timing of audit reports and to publish and disseminate them
7. The existence of effective follow-up mechanisms on SAI recommendations
8. Financial and managerial/administrative autonomy and the availability of appropriate human, material and financial resources

Furthermore, the EU Contact Committee of SAIs of EU Member States during 2009 made a declaration urging the EU institutions and Member States Parliaments to take all measures in order to preserve and ensure that the functioning of independent SAIs is safeguarded in the spirit of the Mexico Declaration and the Lisbon Treaty.

## NAO Values

NAO values are primarily reflected in its Mission and Vision. The NAO's Mission is *"to help promote accountability, propriety and best practices in Government operations"* while its Vision is *"to provide a multidisciplinary professional service to Parliament, to Government and to*



*Charles Deguara, Deputy Auditor General*

*the taxpayer and to be an agent of change conducive to achieving excellence in the public sector.”*

The Office is therefore committed to serving the public interest by promoting an accountable Administration, an ethical and effective public service, good governance, sustainable development and safeguarding of public resources. It is independent and objective in the performance of its duties and aims to achieve excellence both in the quality of its work and in the operations of the clients it serves. It also strives to create a respectful workplace by establishing and maintaining a co-operative and productive working environment in which staff can achieve their full potential, and promotes a culture of trust and integrity based on teamwork, collaboration and fairness. Furthermore, NAO leads by example by focusing on accountability and the achievement of results by staff, and producing reports that add value to the audit clients' activities as well as provide all stakeholders with an effective and timely assurance service. It also ensures that its operations are cost-effective and efficient by continuously striving to improve its audit processes and delivering products and services that represent value for money.

## Relations with Parliament

The Auditor General and the Deputy Auditor General paid a courtesy visit to the Hon Prime Minister, Dr Lawrence Gonzi, MP on 12 May 2009. They also paid a courtesy visit to the Hon Leader of the Opposition, Dr Joseph Muscat, MP on 16 July 2009.

The NAO interrelates with two Parliamentary Committees, namely, the PAC and the National Audit Office Accounts Committee. Audit of Local Government

### **Public Accounts Committee**

The PAC is composed 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. The Committee 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.

The PAC also has the authority to enquire into public expenditure, examine the public accounts, and to report to the House of Representatives the results of its work on issues related to public finances and public funds.

Reports submitted to the Speaker of the House of Representatives may be taken up by the PAC, which is

empowered to examine and review the Reports and discuss their contents. In fact, most of the Committee meetings are focused on issues raised in the Annual Audit Report on Public Accounts by the Auditor General, Performance Audit and Special Audit reports. The PAC thereby ensures that findings and recommendations of the NAO 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 may also review the activities of non-Departmental organisations that are required to present their accounts to Parliament.

The Auditor General takes an active role during the Committee's Sittings, along with other members of his staff, as may be required.

Up to 31 December 2009, fourteen PAC sittings were held during the current legislature. Minutes of Sittings are available on the website of the House of Representatives.

### ***National Audit Office Accounts Committee***

The National Audit Office Accounts Committee is made up of five members. It is chaired by the Leader of the House of Representatives, and has, amongst its members, the Chairperson of the PAC, two other members from the Government and one other member from the Opposition. 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 prepared on an accruals 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 comments thereon by the said Committee. The audit of the NAO Financial Statements for the financial year ended 31 December 2008 was carried out by a newly appointed private sector auditor since the term of five years, renewable every year, of the previous auditor expired.

The NAO's audited Financial Statements for financial year ending 31 December 2008, the Report on the Work and Activities of the NAO for 2008, and the NAO Estimates for 2009 were discussed by the Committee on Monday, 9 February 2009.

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 Article 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 also attends this Committee's Sittings, along with other members of his staff, as may be required.

### **Public Sector Audits**

Audits carried out by the NAO may be classified under the following categories:

- Financial and Compliance Audits (including Audit of Central Government; Audit of Local Government; EU-related Audits; and Audits of NGOs)
- Performance Audits
- Special Audits and Investigations
- IT Audits

### ***Financial and Compliance Audits***

Financial and Compliance Audits constitute the core and mandatory work of the Office. These audits provide independent reasonable assurance about whether the Treasury, Government Ministries/Departments, and other entities properly account for the money that Parliament has approved and that such funds have been spent as approved by Parliament.

Financial and Compliance Audits are carried out in terms of a structured approach consisting of audit planning, conducting meetings, systems overview, testing, reporting and follow-up phases. These audits are carried out in terms of Article 108 of the Constitution of Malta and paragraphs 1 and 2 of the First Schedule of the Auditor General and National Audit Office Act.

In accordance with paragraph 6 of the First Schedule of the Auditor General and National Audit Office Act, the Auditor General is required to report to the House of Representatives cases of serious and material irregularities discovered during the audits.

Moreover, NAO undertakes a number of follow-up audits that aim to ascertain whether the recommendations made in the Annual Audit Report on the Public Accounts have been implemented by the auditees.

Audits carried out during 2009 in respect of financial year ending 31 December 2008 are reported upon in the Annual Audit Report on the Public Accounts 2008. This was published and presented to the Speaker of the House of Representatives on 2 December 2009 and incorporated



*Vanessa A. Tonna, Assistant Auditor General*

findings on a number of Government Ministries/ Departments and public entities (Annex B refers).

*Financial and Compliance Audit Manual*

The NAO refers to the standards and guidelines issued by the International Organisation of Supreme Audit Institutions (INTOSAI) as guidelines of practices to be followed by NAO examiners in the conduct of its financial and compliance audits. The Office also uses International Standards on Auditing (ISA) of the International Federation of Accountants (IFAC) for the audit of the financial statements of selected public sector entities.

The NAO Financial and Compliance Audit Manual, which is being updated, is based on these International Standards and Guidelines on Auditing. NAO policies and practices are also incorporated in this Manual, which is used as guidance for NAO employees for the carrying out of financial and compliance audits. The Manual encompasses all the existing guidance which has been included in previous Financial and Compliance Audit Manuals, NAO Circulars and also the NAO Code of Professional Conduct.

This Financial and Compliance Audit Manual will supersede the NAO Comprehensive Audit Manual issued in 2004. The contents of this Manual include the following:

- Status and function of the Auditor General and the National Audit Office
- NAO Organisation Structure

- Types of Financial and Compliance Public Sector Audits and EU-related audits
- Code of Conduct, Laws and Regulations
- Objectives and methodology of financial and compliance audits
- Understanding the Entity and its Environment
- Responsibilities for the Audit Engagement
- Planning the Audit
- Gathering the Audit Evidence
- Conducting and Concluding the Audit
- Using the work of others
- Audit Documentation
- Audit Reports
- Publications and media relations

*Financial and Compliance Audit Methodology*

The financial and compliance audit methodology can be analysed as follows:

1. Formulating the Annual Audit Programme
2. Preparing individual Audit Plans
3. Conducting the Audit



*Finance and Compliance Audit Team -B1*

4. Preparing the Management Letter
5. Exit meeting with the Audited Entity's Management
6. The Audited Entity's Reply to the Management Letter (including summary thereof in the Annual Audit Report on the Public Accounts)
7. PAC Hearing of Audit Report on Public Accounts

The Financial and Compliance Audit Methodology applied by the Office is described in more detail in Annex C.

### **Audits of Local Government**

By virtue of Article 65(1) of the Local Councils Act (Chapter 363 of the Laws of Malta), the Auditor General may appoint persons (designated as Local Government Auditors) to audit the accounts of Local Councils. This

engagement, which is undertaken following an open call for applications under the auspices of the NAO, is for a period of one year, renewable each year, for a total period of not more than five consecutive years. A new tender was issued for the acquisition of such private auditing services during 2009 following the expiry of the previous five year contracts.

Apart from the administrative role of appointing Local Government Auditors, the Auditor General has a technical role, which is intended to lend support to Local Government Auditors and to ensure that their observations and recommendations are given due consideration.

The NAO is currently responsible for the following types of audits on Local Government:



*Finance and Compliance Audit Team -B2*



*Finance and Compliance Audit Team -B3*

*Financial Audits*

Financial audits relating to Local Government are split in two:

- Annual Financial Audit, i.e. the annual audit (for financial year ending 31 March as regards 2009. Financial years to end 31 December subsequently upon which the opinion on the financial statements of a Local Council is based and the drawing up a management report thereon. During financial year ending 31 March 2009, audits were carried out on the 68 Local Councils. A summary of the audit results is found in the Annual Audit Report on the Public Accounts 2008.
- Interim Financial Audit, i.e. an audit carried out at the

specific request of the Auditor General if circumstances call for an immediate investigation or when follow-up audits need to be carried out.

*Mid-Term Audits*

These audits are carried out whenever there is a change of Executive Secretary in a particular Local Council. It is the Council's responsibility to inform the Auditor General of such change in post as soon as notice is given to it to that effect. The Local Councils of Zurrieq and Birzebbugia had a change of Executive Secretary during financial year ended 31 March 2009. Incidentally, as a result of certain amendments approved recently by the House of Representative, henceforth the Local Councils' financial year will be a calendar one, thus ending on the 31 December.



*Finance and Compliance Audit Team -B4*

## Audits of Non-Government Organisations

The NAO carries out audits of various Non-Government Organisations (NGOs) administering or receiving public funds. The main aim of such audits is to ensure that public funds are allocated in the form of donations or subsidies are utilised for the specific purpose for which they were given.

NGOs are set up under various forms namely, Foundations, Church or Private Agencies or Entities, Voluntary Associations, Philanthropic Institutions and Societies. These NGOs have their own accounting systems and although they are directly or potentially financed by Government through subsidies, grants or subventions they are bound to follow their *ad hoc* internal regulations and procedures.

Presently, the establishment and activities of NGOs are regulated by the Voluntary Organisations Act (Chapter 492 of the Laws of Malta). Besides outlining the benefits and responsibilities deriving from registration of the voluntary organisations under this legislation, this Act also provides for the setting up of the Commissioner for Voluntary Organisations to monitor their activities in order to ensure observance of both the provisions of the Act and attainment of high standards of accountability, transparency and compliance with the law.

The criteria, scope and extent of examination of the NGOs' financial statements by the Auditor General depend on the amount of subsidy or donation that the Central Government grants them annually. The audit, however, aims to ensure that NGOs abide by relevant legislation and regulations regarding mainly the Final Settlement System (FSS), Income Tax, Value Added Tax (VAT) and Licenses. The relative legislation regulating the set-up of each NGO clearly defines the person responsible to ensure that proper records and books of account are kept.

In cases of non-compliance with the relevant rules and regulations, and depending on the materiality of the issue, the Auditor General may report this fact in the Annual Audit Report, so as to bring it to the attention of the House of Representatives. The Auditor General can also advise Government to withhold subsidy to the specific entity until the default is corrected.

Audits of Non-Departmental Organisations, as well as Public Corporations and Authorities, may also be carried out by this Office.

Reference may be made to the Annual Audit Report on the Public Accounts 2008 for audits reported upon in this category (Annex B refers). During 2009, NAO also carried out audits relating to the Office of the Ombudsman

Financial Statements 2008, Conservatorio Vincenzo Bugeja Financial Statements 2007 and Captain O. F. Gollcher Foundation Financial Statements 2006 and 2007. Preliminary audit work was also carried out on the Co-Operatives Board Financial Statements 2006 to 2008.

## EU-related Audits

Apart from statutory audits, the NAO may carry out audits related to EU Funds. These audits are carried out in terms of NAO's Annual Audit Programme. During 2009, the NAO carried out a follow up audit on the VAT Information Exchange System (VIES). This was reported upon in the Annual Audit Report on the Public Accounts 2008.

Furthermore, the Office cooperates with the European Court of Auditors (ECA) auditors by acting as a liaison between the ECA in its Audit Missions in Malta and the local bodies to be audited. The NAO provides assistance by making the necessary arrangements with the audited body, as well as ensuring that all information (including gathering of data and other information prior to audit and audit findings following conclusion of audit) requested by the ECA is submitted by the audited body.

NAO examiners participate mainly in an observer capacity during parts of the ECA audits. The NAO also undertakes limited additional reviews prior to, during and/or subsequent to these audits and may report upon them in its Annual Audit Report.

The relationship between the ECA and SAIs of EU Member States is regulated by Articles 285 and 287 of the Treaty on the Functioning of the EU.

The NAO assisted the ECA in audits relating to the results of a 2008 audit concerning the Leonardo Da Vinci sub-Programme of the Lifelong Learning Programme, as well as on an ECA Audit Mission carried out during 2009 relating to the European Agriculture Guarantee Fund (EAGF).

The NAO may also carry out joint audits with the ECA and SAIs of other EU Member States, subject to clear terms of reference of what is to be audited individually by the NAO, ECA and other SAIs, and provided that reporting and other requirements of all SAIs' institutions are in conformity with respective legislation.

## Performance Audits

Performance Audit is carried out in terms of Article 8(a)(ii) of the First Schedule to the Auditor General and National Audit Office Act 1997. It is an objective and systematic examination of a public sector organisation's programme, activity, function or management systems and procedures to provide an assessment of whether the entity, in the





*Brian Vella, Assistant Auditor General*

pursuit of established policies and goals, has achieved economy, efficiency and effectiveness in the utilisation of its resources.

This audit also provides an independent assessment of the operations and management of Government programmes against objective criteria of performance, and comments on situations or processes where output in terms of service provided is not of the appropriate standard. Audit results and recommendations may therefore provide guidance on which systems and procedures within the audit activity need to be addressed. Performance Audit thus complements Financial and Compliance Audit by seeking to promote accountability, propriety and better practices in Government operations.

#### *Performance Audit Manual*

The guidelines contained in the NAO Performance Audit Manual, which is being finalised, set out the broad framework for the conduct of performance audit work. It is based on good international performance auditing standards and guidelines, and the Issue Analysis Drawing Conclusion Techniques explained further on, as adapted to the NAO environment. Chapters in the Manual include the following:

- Legal Basis and Concept of Performance Audit
- Types of Performance Audit
- Performance Audit Principles and Standards

- The structure and audit methodology of the Malta NAO Performance Audit Section
- Strategic Planning of Performance Audit Work
- Planning Individual Performance Audits
- The Examination Phase of Performance Audit
- The Reporting Phase of Performance Audit
- Follow-up of Performance Audit Reports
- The Quality Control System
- Specific Subject Areas and other issues

#### *Performance Audit Methodology*

The performance audit methodology applied by the Office involves the carrying out of the following audit tasks:

1. Planning of Performance Audits
2. The Examination Phase of Performance Audits
3. The Conclusion and Reporting Phase of Performance Audits
4. Exit Meeting with the Auditee's Management
5. Publication
6. PAC Hearing of Published Performance Audit Reports

The performance audit methodology is discussed in detail in Annex D.



*Performance Audit Team - A1*

#### *Value for Money Audits of Local Councils*

Further to the audits carried out on Local Councils referred to earlier on page 14, value for money audits of Local Councils are also referred to in Local Government legislation. This type of audit is meant to determine whether the Local Councils have made proper arrangements for securing the economy, efficiency and effectiveness of their operations. In terms of Local Government Regulations, such audits are divided into two distinct and separate exercises:

- Annual audit, i.e. an audit carried out to review the work performed and results obtained by Local Councils. The resulting audit report is submitted together with the statutory financial year-end audit. To date, the NAO was constrained from conducting VFM audits

on Local Councils since the necessary performance indicators are still not in place. The Local Government Department is currently in the process of identifying appropriate performance indicators for Local Councils in different subject areas.

- Full audit, i.e. an audit carried out on a topic chosen by the Auditor General that may be carried out periodically. The Local Government auditors are to submit a report within six months from the date the audit is commissioned by the Auditor General.

#### *Performance Audit Publications issued in 2009*

During 2009, NAO published the following Performance Audit Reports:



*Performance Audit Team - A2*

- Water Loss Control Management by Water Services Corporation (WSC) published in March
- Vehicle Emissions Control Scheme published in July
- Renewable Energy Sources and Energy Efficiency in Malta published in September
- Procurement Capability across the Public Sector published in October (newspaper article on this audit also published in 'The Economic Update' of 'The Times' newspaper in November – reproduced in Annex E).

The following Special Audit Reports, comprising a strong element of Performance Auditing, were also issued:

- Report on the Enquiry on Direct Orders and Outsourcing at Mater Dei Hospital: Clerical/Reception, Security, Car Park and Traffic Management Services published in May
- Enquiry on Control Mechanisms Deployed by the Malta Transport Authority (ADT) in Road Construction Projects partly Financed through the 5th Italo-Maltese Financial Protocol published in June

Summaries of the six Reports are found in Annex F.

### *Special Audits and Investigations*

By virtue of Article 9(a) of the First Schedule of the Auditor General and National Audit Office Act, the Auditor General may, either personally or through his Office, inquire into and report on:

- any matter relating to Government finances, property or funds administered or under the control of any Government Department or office or of any body whose accounts are subject to his audit;
- accounts and financial reports which are in virtue of or under any law laid before the House of Representatives;
- the accounts of those public authorities or bodies administering, holding or using funds belonging directly or indirectly to the Government of Malta;
- the operations of companies or other entities in which the Government owns not less than 51 per cent of the shares; and
- any other matter as may be provided by or under any law.

Such enquiry is conducted either on the Auditor General's own initiative, or at the request of the Minister responsible for Finance, or of at least three members of the PAC.

Whereas the PAC sets the requests for specific investigations, the manner in which the audit work is carried out is determined by the Auditor General.

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 Speaker of the House of Representatives and to the Local Government Minister.

The Auditor General may also, in connection with his Constitutional and legal functions, examine any person on oath on any matter pertaining to his audit. In addition, Article 4 of the Auditor General and the National Audit Office Act, grants the Auditor General the powers that are by virtue of the Inquiries Act conferred on a Chairman of a Board of Enquiry under that Act.

Special Audits and Investigations may be of a Financial and Compliance Audit nature and/or of a Performance Audit nature.

During 2009, in addition to the Special Audit Reports referred to under 'Performance Audit Publications issued in 2009', the following Special Reports were also published:

- Enquiry and Report on the Purchase of PCs by Enemalta Corporation published in January
- Investigation relating to the Tender issued for the Provision of Warden Services and Installation of CCTV Cameras by four Local Council Joint Committees published in March
- Investigation of Alleged Irregularities regarding the Sant' Antnin Waste Plant in Marsascalea – Tender issued by WasteServ Malta Ltd. published in September

Summary of these Reports are found in Annex G.

In 2009 the PAC requested the NAO to investigate the process relating to the award of tender of the Enemalta Delimara Power Plant Extension. This enquiry is in progress.

### *IT Audits*

The IT Unit has carried out an IT Audit at the Malta Tourism Authority and is also concluding an IT Audit of the Bank Reconciliation System at the Treasury. The Unit

is planning that over the next year a full scope IT Audit would be carried out in a Ministry. Further details are found on page 25

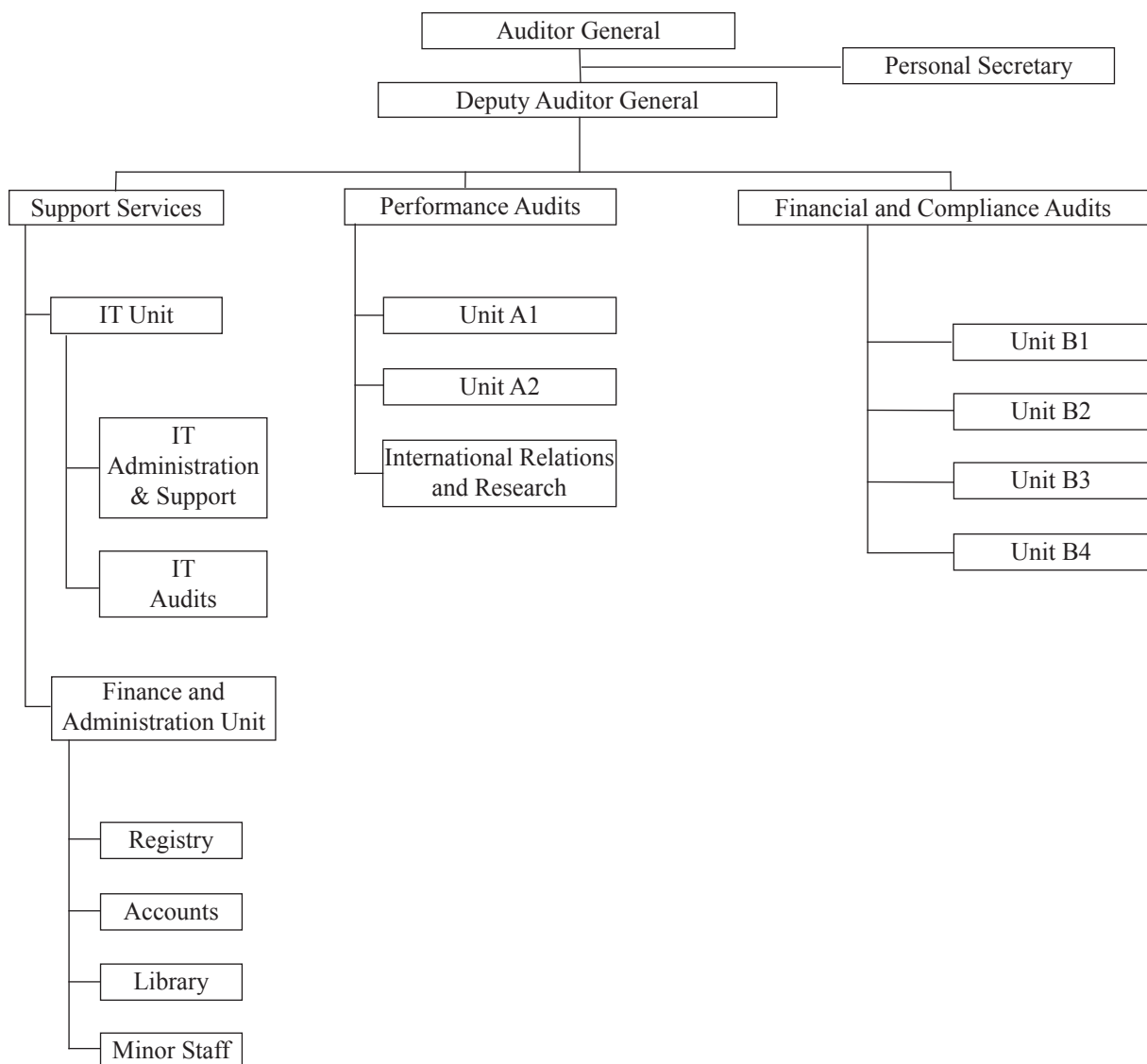
## Human Resources

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. This Section includes four Audit Units, each headed by an Audit Manager. Three Units have a portfolio of a number of Government Ministries/Departments. Two of these Units are also responsible for the audit of Local Government, other Public Bodies, and NGOs.

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 2009 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 Investigations, 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, Administration and IT. Staff Position as on 31 December 2009 is shown in Table 1 overleaf.

Diagram 1: NAO Organisation Structure





*Finance and Administration Team*

**Table 1: Staff Position as on 31st December 2009**

<b>Grade Position</b>	<b>In Post</b>	<b>Male</b>	<b>Female</b>
<i>Senior Management</i>			
Assistant Auditor General	2	1	1
<i>Auditing Grades</i>			
Manager	5	3	2
Principal Auditor	13	6	7
Senior Auditor	6	2	4
Assistant Auditor	10	2	8
Audit Clerk	2	1	1
<i>Support Services</i>			
Manager	2	2	-
Senior Principal	1	1	-
Principal Auditor IT	2	1	1
Principal IT	1	1	-
Assistant Principal	2	2	-
Personal Secretary	1	-	1
Senior Executive	3	-	3
Receptionist	1	-	1
Minor Staff	5	5	-
<b>Total</b>	<b>56</b>	<b>27</b>	<b>29</b>

### Staff Recruitment and Mobility

The total number of staff as on 31 December 2009 stood at 56 compared with 54 as on 31 December 2008. During 2009, the NAO continued with its programme of recruiting professionally qualified and suitably experienced staff. Recruitment within the NAO is regulated by Article 108 (10) of the Constitution and Article 1 of Part I of the Auditor General and National Audit Office Act.

Recruitment is one of the activities that impact most critically on NAO's performance. The NAO is continually striving to identify new and effective recruitment strategies to acquire and retain sufficient high-quality professional talent that is critical to its success.

Recruitment is conducted internally through the promotion of personnel in post and externally through the open market. External recruitment is made through advertising in newspapers, magazines, the Government Gazette and on-line via the NAO website.

During 2009, three Principal Auditors, two Senior Auditors, one Senior Auditor IT, and two Assistant Auditors were recruited. On the other hand, one Audit Manager, one Principal Auditor IT, three Senior Auditors and one Assistant Auditor resigned. Furthermore, one officer was promoted to the grade of Audit Manager, four to the grade of Principal Auditor, one to the grade of Senior Auditor, one to the grade of Assistant Principal, one to the grade of Senior Executive, one to the grade of Audit Clerk, and one to the grade of Receptionist.

Diagram 2 indicates the composition of NAO staff.

### Legislation

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.

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 authorises the Auditor General to set the 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.

### A Professional and Diverse Workforce

The quality of our work depends on the quality and expertise of our staff. Our Financial and Compliance Audit staff members are in their majority qualified professional accountants. Senior accountants are also in possession of the Certificate to Practice Auditing. However, our work on Performance Audits demands a broad range of expertise and experience, as well as expert knowledge of a variety of analytical skills. As well as qualified accountants, we have engaged staff with a range of technical expertise as listed below.

### Staff Qualifications

The NAO has within its ranks a number of professionally qualified employees. This can be gauged from the range of disciplines on its books as on 31 December 2009 (Table 2 refers).

Diagram 2: NAO Staff Complement by Category

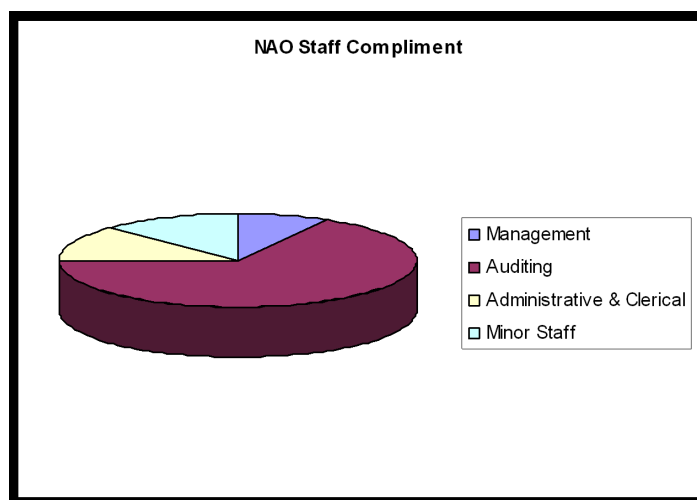


Table 2: Staff Qualifications

<b>Staff Qualifications</b>	
Masters in Business Administration	6
Masters in Business Administration E-Commerce	1
Masters of Science in Management	1
BA (Hons) Accts, CPA or Certificate to Practicse Auditing	12
BA (Hons) Public Administration	1
BSc (Hons) Business & Computing	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 Public Policy	1
A number of employees hold Diplomas and other qualifications, including a Certificate in Information Systems Auditing (CISA), and Diplomas in Business Studies, Management, Public Administration, Taxation and Secretarial Studies.	

### **Training**

The NAO encourages and provides training to its staff so that they may obtain the necessary understanding, practical skills and motivation to carry out work-related tasks.

The nature of the training and development includes the following:

- Identifying training and development needs through job appraisal schemes and regular consultation with the Assistant Auditors General, Audit Managers and Manager, Finance and Administration
- Designing and developing training and development programmes based on both the NAO's and the individual's needs
- Working in a team to produce programmes that are satisfactory to all relevant parties, such as managers and senior management.
- Developing effective induction programmes and individual learning plans
- Producing training materials for in-house courses; managing the delivery of training and development programmes and, in a more senior role, devising a training strategy for the NAO and ensuring that statutory training requirements are met
- Monitoring and reviewing the progress of trainees through questionnaires and discussions with Assistant Auditors General and Managers

- Evaluating training and development programmes; amending and revising programmes as necessary, in order to adapt to the changes that occur in the work environment

Training takes different forms, such as on the job training by senior officials, courses organised by the Office, external courses for NAO staff organised by the NAO and sponsorship of staff to attend local training events. One particular training course which has changed the approach to audit methodology in Performance Auditing during this year related to IADC approach (referred to various parts of this Report).

Employees are also encouraged to further their careers by being offered sponsorships to follow University Degree or Diploma courses on a part-time basis. Employees are also supported to attend seminars, workshops and other audit-related training events abroad.

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

NAO encourages all staff to enhance their skills through continued professional development. During 2009, members of the staff attended seminars and training courses organised by the Malta Institute of Accountants (MIA), Malta Institute of Management, Malta Institute of Taxation, Malta Federation of Industry, Malta Communications Authority, Employment and Training Corporation, Foundation for Human Resources Development, Staff Development Organisation (SDO), Department of Industrial and Employment Relations, Malta Forum

of Internal Auditors, Institute of Internal Auditors, and Information Systems Audit and Control Association.

### *NAO Sponsored Courses*

A Senior Auditor within the Performance Audit Section commenced a postgraduate MSc degree in Financial Management organised by the Edinburgh Business School.

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

The office is also sponsoring another officer who has commenced her studies for the ACCA qualification certificate after office hours.

### *Staff Integrity*

The NAO has adopted its Code of Professional Conduct (based on the INTOSAI Code of Ethics) to encourage and ensure a professional work environment. The Code outlines the general principles underlying NAO audit work and defines the responsibilities of NAO employees towards the various stakeholders involved in a public sector audit, i.e. Parliament, Government, audit entities, the public and the Office. The Code stipulates that NAO employees are to exercise professional behaviour, integrity, competence, due care, and objectivity in the performance of their audit duties. Employees are also required to respect the confidentiality and data protection and security of all information acquired from audit entities, avoid situations of conflict of interest, and maintain, and be seen to maintain, independence from audited entities and political interests.

Whilst all NAO auditors are required to comply with the Code of Professional Conduct and the Code of Ethics for Employees in the Public Sector (where applicable to the NAO), Certified Accountants and Auditors are further bound by the Code of Ethics for Warrant Holders. NAO officers holding other professions are also bound by the Code of Ethics relevant to their profession.

### *Collective Agreement*

Following extensive negotiations with the Union representing the employees, a new Collective Agreement was signed in November 2009. The Agreement covers the period 2008 to 2012 and includes a number of family friendly measures. Increased benefits and salary packages for the employees, that take into account the increased competitiveness that exists in the financial services market, have also been included.

### *Engagement of Consultants*

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

During 2009, 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
- Two architects and an engineer were engaged to advise on technical matters

### *Green Initiatives*

In line with Government's commitment to meet its corporate responsibilities with regard to the protection of our environment the NAO nominated one of its employees as a Green Leader. The appointment of the Green Leader is to create environmental awareness within the NAO and to act as catalyst for action to promote eco-friendly practices. A copy of NAO's Plan of Action for 2009 to 2011 has been circulated to all the members of the staff. The NAO has also carried out a feasibility study to replace all the electrical units with energy saving units. A number of green measures were also taken during the year to reduce or recycle different types of waste and for the Office to become more energy efficient.

### *Implementation of the Freedom of Information Act*

Following the enactment of the Freedom of Information Act, (FOIA) in December, 2008 Government initiated action to bring into effect the provisions of this Act. This process is being led by the Ministry for Justice and Home Affairs (MJHA) which has been liaising with other major stakeholders with a view to ensuring that the Act is implemented in a seamless manner and within the shortest time possible.

In line with OPM Circular No. 17/2009 dated 28 October 2009, Heads of Public Authorities were requested to nominate a Freedom of Information Officer (FOIO) and, whenever possible, an alternate FOIO to represent them in all matters relating to Freedom of Information. A Manager and an Assistant Principal were nominated by the NAO to



take on this role. The officers will eventually form part of a network which shall, among other things, provide a forum for the exchange of best practices and experiences among the members, facilitate training initiatives, and serve as a practical medium through which matters calling for review of procedures can be brought to the fore.

## Family Friendly Measures

It is NAO's policy to create a family friendly work environment and at the same time ensure that the necessary levels of efficiency and effectiveness within the Office are duly maintained. Family friendly measures play an important role in enabling our employees to balance work commitments with family responsibilities. With these policies in place, human resources are safeguarded as experienced employees can remain in employment, resulting in continuity and improved productivity. Family friendly measures are applicable to all NAO employees on a definite or indefinite contract basis. Family friendly measures include reduced hours and, to a lesser degree, flexible hours and home-working, all subject to the approval of the Auditor General.

## Information Technology Unit

NAO's IT-related matters are managed by the IT Unit. The three main areas that the Unit is responsible for are: IT administration and support, IT auditing, and production of internal and external publications. Furthermore, the IT Unit supports the Finance and Administration Unit with the procurement of IT-related equipment and software, by collating technical information and providing technical adjudication.

The IT Unit represents the NAO at the European Organisation of Supreme Audit Institutions (EUROSAI) IT Working Group meetings. The Unit supports and promotes the use of modern IT auditing methodologies and processes with the Audit Sections of the NAO.

The Unit has contributed to the activities of the IT Strategy Steering Committee. The Unit Manager and an IT auditor acted as members of the Committee.

An external development services provider was engaged to redevelop NAO's website. The team assigned by this provider assisted NAO to build and implement the new website with up-to-date and secure technology. The design, layout, style and content were updated to be in line with modern standards. This project was coordinated by the Manager of the IT Unit. The new website was launched on the occasion of the visit to the Office of His Excellency the President of Malta in July 2009.

## IT Administration and Support

At the NAO, the Finance and Administration Unit makes use of a number of general office automation applications, and typical business applications such as accounting and Human Resources/payroll packages. The IT Administration and Support function ensures that these applications run as efficiently and effectively as possible and with minimal disruption.

## 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



*Information Technology Team*

to develop the introduction of ‘stand alone’ IT Audits. An IT Audit published in the Annual Audit Report on the Public Accounts 2008 related to the IT Entity Level Controls and Business Continuity Planning at the Malta Tourism Authority.

### ***Production of Publications***

The IT Unit is also responsible for NAO’s publications function that coordinates the production of NAO 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 to the Government Printing Press for printing and binding. The publications are also placed on the NAO website to promote a wider circulation. The IT Unit is continuously striving to improve the process used in the production, as well as the publication style.

### ***IT Steering Committee***

In February 2009 an IT Steering Committee was established by senior management to address Office-wide IT related matters.

The Committee is chaired by the Deputy Auditor General and includes the two Assistant Auditors General, the Manager, Finance and Administration and IT Unit Manager, as well as the Designate Audit Manager – Special Audits and Investigations Unit and an IT Auditor who, besides actively participating in the discussion, performs the executive secretary duties.

The IT Steering Committee has discussed extensively a number of topics relevant to IT strategy. The Committee has:

- compiled and reviewed a set of Data Protection Guidelines;
- prepared and conducted an explanatory session in which all Managers were guided through the Data Protection Guidelines;
- compiled and reviewed the new IT & Security Handbook;
- discussed and compiled an IT Strategy;
- compiled a list of IT Training requirements and programmes;

- revamped the new NAO Website; and
- drawn up a Website Data Protection Policy.

The Data Protection Guidelines were issued to provide a comprehensive guide to the various procedures and policies related to Data Protection at the Office, and to indicate the procedures to be adopted when NAO auditors make requests to auditees for access to personal data required for auditing purposes.

The updated Information Technology and Security Handbook, also issued during 2009, contains all NAO policies and procedures relating to the use of information technology, document management and information security at the Office, and includes references to the relevant legislation. It also provides information on the correct use of e-mail and the Internet.

### ***Issue Analysis, Drawing Conclusions Approach Seminar***

A workshop was organised by the NAO Malta on the 4 and 5 March 2009 to discuss the application of the Issue Analysis/Drawing Conclusions Approach (IADC) to its audit work. The IADC methodology is a mixture of logical and practical rules aimed at delivering audit reports that are focused, accurate, logically rigorous, clear and useful. This audit approach was introduced at the National Audit Office of the United Kingdom<sup>1</sup> in 1993. The approach was derived in part from concepts developed by Barbara Minto in her publication on the *Pyramid Principle*<sup>2</sup> and has been increasingly used by other audit institutions, including the ECA. The methodology utilised under this approach was discussed in detail under the Section on Performance Audit Methodology.

Two trainers from the Wales National Audit Office conducted the workshop in Malta and shared their expertise and experience on applying the rigorous and structured approach of IADC to all the stages of a Performance Audit study.

Real projects were used as case studies during this two-day training event. NAO auditors had the opportunity to practice critical skills related to IADC, including the ranking of different issues, the challenging of ideas, as well as facilitation of IADC sessions.

The workshop was also attended by a number of officials from the IAID.

<sup>1</sup> National Audit Office (2003) User Guidance: The Issue Analysis and Dinner Party Approach (IADPTM). London: National Audit Office.

<sup>2</sup> Minto, B. (2002) *The Pyramid Principle: Present your thinking so clearly that the ideas jump off the page and into the reader’s mind.* Harlow: Pearson Education Limited.



*Issue Analysis, Drawing Conclusions Seminar on 4 – 5 March 2009*

## NAO Senior Management Seminar

A seminar for NAO senior management was held on 4 June 2009. The objectives of this seminar was to identify the current and future challenges being faced by the NAO and consider potential responses that will permit the Office to continue honouring its obligations to Parliament, to the public administration and to taxpayers. Various issues were discussed during the meeting including:

- the current achievements and challenges, strengths and weaknesses, relationships and resources, opportunities and threats of state audit in Malta today;
- exploring ways of enhancing NAO's relationship with the PAC; and
- identification of NAO future challenges, prospects and plans.

The key-note speech was given by the Hon Dr Charles Mangion, MP, Chairman of the PAC. Hon Dr Mangion made reference to the existing strong relationship between the PAC and the NAO, and recommended further development of the PAC and NAO cooperation. Particular reference was made to the need for effective follow-up by the respective Ministry of NAO reports and recommendations, as well as

to the PAC's subsequent directives and decisions. He also emphasised the need of addressing audit activities from a value for money perspective, apart from the traditional financial and compliance aspect.

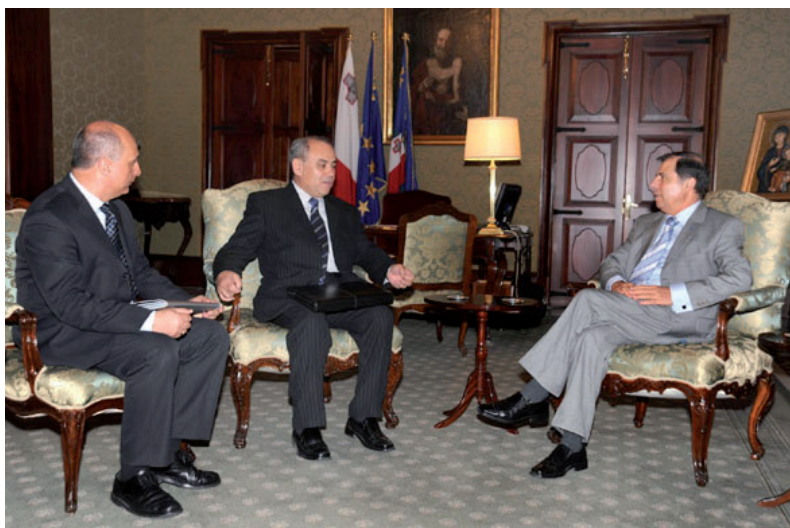
The Seminar was also addressed by the Auditor General who highlighted his general impressions of the first nine months at the NAO. He acknowledged the professional service offered by NAO staff and stressed the need for continuously improving NAO operations and activities to achieve a constantly efficient and vigilant NAO. In particular, he again emphasised the need for NAO, especially as a result of the present global and financial crisis, to continuously fulfill the requirements of modern state auditing: namely the conduct of financial audits of Government financial statements, audits of compliance with financial rules and regulations, and performance audits that assess value for money in Government operations and activities.

Moreover, the senior management team was given the opportunity to reflect on current developments at the NAO, present its views on NAO activities and resources, and review progress made in its internal and external relations.

The seminar was facilitated by Dr Edward Warrington of the Department of Public Policy at the University of Malta.



*NAO Senior Management Meeting on 4 June 2009*



*Visit by Auditor General and Deputy Auditor General to His Excellency, the President of Malta*

## Visit to NAO by His Excellency the President of Malta

The Auditor General and the Deputy Auditor General paid a courtesy visit to His Excellency, the President of Malta, Dr George Abela on 8 April 2009.

His Excellency visited the NAO on 28 July 2009. He was welcomed by the Auditor General, Anthony C. Mifsud, the Deputy Auditor General, Charles Deguara and staff. The visit took place during the year in which the State Audit Institution celebrates its 195th anniversary since its foundation in 1814.

During the visit, the Assistant Auditors General, Brian Vella and Vanessa A. Tonna, gave presentations to the President on current assignments undertaken by the NAO.

His Excellency had the opportunity to meet NAO staff and positively comment on the diverse role and activities of the Office. The Auditor General highlighted relatively recent developments in state audit in Malta, in particular the amendment to Article 108 of the Constitution and the enactment of the Auditor General and National Audit Office Act that instituted the state audit model on which the NAO functions today. The Auditor General also referred to the various types of audits carried out by the NAO, the good relationship that the Office has established with the PAC throughout the years, and NAO's role in the international sphere, in particular its membership of INTOSAI and EUROSAI, and its collaborative work with the ECA and other state audit institutions of various other countries (through the so-called EU Contact Committee network). Two senior officials from the Maldives State Audit Institution, who were on an internship with the NAO, were also present.

To commemorate this occasion, the NAO launched two publications – namely the “*Data Protection Guidelines*” and “*Information Technology and Security Handbook*” for use by its staff. The new NAO website was also officially launched. A marble plaque commemorating the 195 years of the state audit function in the Maltese Islands was also unveiled by the President.

## Relations with other Audit Institutions

The NAO collaborates with the IAID, which falls under the Office of the Prime Minister and is the centralised and independent internal audit function of Government, in the performance of its audit work. At the initial stages of an audit, the Office determines whether the audit area being examined has already been reviewed by the IAID. If the area would already have been assessed by the IAID, the Directorate forwards the relevant reports to the Office. NAO reviews the reports to ascertain whether the work carried out is sufficient to meet the objectives and scope of external audit and determines whether it can reduce detailed testing of the area.

Moreover, the NAO may hold meetings with the representative of the IAID to discuss relations between the two entities and the proposed audit work programme. The purpose of these meetings is to enhance cooperation between both institutions and avoid duplication of audit effort as much as possible. The NAO may also discuss with the IAID audits carried out by the latter that would be of relevance to the NAO during the audit fieldwork.

Senior representatives from the IAID attended the IADC seminar held on the 4 and 5 March 2009. Similarly, senior NAO officials attended courses organised by the IAID.

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

The NAO also maintains constant contact with local Government auditors, as explained under the Section entitled "*Audits of Local Government*", by providing support to such auditors and ensuring that their findings, conclusions, and recommendations are given due consideration.

As discussed under the Section "*Local Seminars and other Locally Organised Training Events*", NAO members of staff attend a number of courses and seminars organised by the MIA. The Office aims to enhance its relationship with the Institute through maintaining further contact, by periodically contributing articles to "*the Accountant Magazine*". In 2009, an article on the "Techniques for Issue Analysis and Drawing Conclusions Approach" (reproduced in Annex I) was published in the Summer edition of the magazine, following an NAO internal seminar held on this topic discussed under the section: "*Seminar on Issue Analysis, Drawing Conclusions Approach*".

## Relations with University of Malta

The Office maintains good relations with the University of Malta through discussions with the Faculty of Economics, Management and Accountancy (FEMA) on how cooperation can be strengthened.

Moreover, since 2008, the Auditor General, on an annual basis, presents an award for the best dissertation in Public Sector Auditing submitted in partial fulfillment of the requirements of the accounting degree run by the Department of Accountancy at the FEMA, subject to the desired level being reached.

The NAO also receives requests from University students to facilitate them in the preparation of their dissertation. These students are given the opportunity to interview senior members of the staff on the subject of their dissertation.

## Participation in Committees of the Ministry of Finance, the Economy and Investment

A number of NAO senior officials actively participated, albeit in an observer capacity, meetings relating to the Corporate Financial Management Solution Project Board, the Accrual Accounting Task Force; the Malta Government Accounting Standards Technical Advisory Committee, and the Public Finance Management Act Steering Committee.

## Relations with the Media

### *Press Releases and availability of NAO Reports*

The Office issues a press release for each Audit Report after it is presented to the Speaker of the House of Representatives.

Once presented to the Speaker, hard copies of the Audit Reports are distributed to various local and foreign stakeholders. Reports are also made available on the NAO website, usually the next working day following their presentation to the Speaker of the House of Representatives. This procedure is also being followed in the case of recent Special Audit Reports. These reports are also found on the House of Representatives' website.

During 2009, apart from those relating to NAO Reports, press releases were issued in respect of the Workshop on IADC organised by the NAO, as well as on the EUROSAI Working Group Meeting on Good Practices in Managing Quality within a SAI, which was held in Malta between 2 and 3 April 2009.

### *Reporting by Media on NAO reports*

Upon publication of an NAO report, the salient findings and conclusions of the report are generally given coverage by the local print media. Moreover, news reports on TV and radio feature the publication of NAO reports. The media also reports on proceedings of the PAC meetings as journalists are present during these Sittings.

## International Relations

Several NAO employees participated in international-related Conferences, Seminars, Workshops and other Meetings. The purpose of this participation was for NAO to enhance its international profile, participate in the network of EU Member State SAIs, keep abreast of developments in state audit-related issues, cooperate with other SAIs, as well as participate in overseas training events.

Table 3 provides an overview of all overseas visits, including events held in Malta with the participation of foreign delegates.

Table 3: Foreign-related Events 2009

Overseas Visits	Event	Location
January 29-30	5th Annual NAO Performance Measurement Conference and International Networking Seminar on Performance Measurement	London
February 11-13	20th UN/INTOSAI Symposium	Vienna
February 16	ECA Seminar on Financial Market Crisis	Luxembourg
February 19-20	Common Auditing Standards Working Group Meeting	Luxembourg
March 17-19	15th Annual Meeting of the INTOSAI Working Group on the Audit of Privatisation, Economic Regulation and Public Private Partnerships	Moscow
March 29-31	II Joint EUROSAI-ARABOSAI Conference	Paris
March 31- April 1	Structural Funds IV Working Group Meeting on Cost of Controls	Potsdam
April 2-3	EUROSAI Working Group Meeting on Achieving Audit Quality: Good Practices in Managing Quality within a SAI	Malta
April 23-24	Common Auditing Standards Working Group Meeting	Luxembourg
April 27-29	Performance Audit Seminar on <i>'Experience with the implementation and development of performance audits in reaction to challenges and opportunities in a changing environment'</i>	Prague
April 29	Conference on Changing Culture, Strengthening Delivery	London
May 11-15	Malta High Commission Audit Visit	London
May 7-8	Seminar on Public Performance Auditing	Luxembourg
June 7-9	Meeting of the IT Working Group	Berne
June 18-19	Meeting of Working Group on National SAI Reports on EU Financial Management	Budapest
July 1 – 2	Common Auditing Standards Working Group Meeting	Luxembourg
July 1 – August 31	Internship Programmes at NAO by employees from the SAI of Maldives	Malta
September 10-11	VAT Working Group Meeting	Luxembourg
September 10–11	International Seminar on Post Education in Public Sector Auditing	Copenhagen
September 28-29	European Commission Public Internal Financial Control Conference	Brussels
October 1-2	Developing an IT Audit Programme based on COBIT	Antwerp
October 5 – 8	Meeting of the EUROSAI Working Group on Environmental Audit	Sofia
October 6-7	6th European Healthcare Fraud and Corruption Conference	Edinburgh
October 8-9	Common Auditing Standards Working Group Meeting	Luxembourg
October 15-16	EU Member State SAIs Liaison Officers' Meeting	Luxembourg
October 22	2nd Annual Regulatory Reform Conference <i>'Next Steps on Better Regulation: Getting the Balance Right'</i>	London
October 28-29	EUROSAI Professional Standards Committee Seminar on Raising Awareness of ISSAI	Warsaw
November 17–18	EUROSAI Working Group Meeting on Achieving Audit Quality: Good Practices in Managing Quality within a SAI	Moscow
November 27	European Commission Workshop on <i>'External Imbalances and Public Finances in the EU'</i>	Brussels
November 30–December 1	EU Member State SAIs Contact Committee Meeting	Budapest

## *EU Contact Committee*

The EU Contact Committee is an assembly of the Heads of the SAIs of the EU Member States and of the ECA. It is autonomous, independent and non-political. Its mission is to enhance cooperation among its members in order to improve external audit and accountability in the EU field.

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, initiates and co-ordinates common activities in the EU field, and provides mutual support.

The Assistant Auditor General responsible for the Performance Audit Section is the 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 EU Contact Committee meeting held in December. In 2009, one Liaison Officers' meeting was held in October in Luxembourg. During this meeting, the organisation and governance of the EU Contact Committee, as well as progress reports and accompanying draft resolutions relating to the activities of the Contact Committee Working Groups, were discussed.

Moreover, the results of the conference entitled "*Assessing Public Internal Financial Control in Practice*" organised by DG Budget of the European Community in Brussels in September 2009, and the EU Contact Committee workshops on Fiscal Policy Audit and Lisbon Strategy Audit held in Helsinki in September 2009, were also discussed.

The annual EU Contact Committee meeting was held in Budapest. During this meeting the following topics were discussed:

- The role of SAIs in assisting the Government measures in response to the financial-economic crisis
- The review of EU-related Reports by Member State SAIs
- The EU Contact Committee Co-operation Framework
- Contact Committee Activities in 2009 and 2010
- The review of the activities of EU Contact Committee Working Groups implemented in 2009
- A review of the activities of the Network of the SAIs of Candidate and Potential Candidate Countries



*EU SAI Presidents' Contact Committee Meeting on 30 November – 1 December 2009*

During 2009, the EU Contact Committee's seven Working Groups performed various EU-related tasks:

### **Working Group on National SAI Reports on EU Financial Management**

The Working Group endeavours to assist SAIs in developing overall EU reports on EU financial management. The functions of the Working Group include: to serve as a platform for enhanced co-operation in the development of national SAI reports, to co-ordinate approaches, and to make recommendations on themes of common interest. In the longer term, the Working Group aims to arrive at the use of viable indicators in national SAI reports that actually measure the development of EU financial management and enable the making of comparisons between Member States.

The following are the results achieved by this Working Group:

- Ten groups produced an overall report on EU financial management by the end of 2009
- The development and launching of a closed intranet site enabling EU SAIs to obtain and exchange relevant information on EU financial management and on the Working Group
- The Working Group continued its debate on the added value of basic measures/indicators of the development in financial management in the individual Member States and the conditions under which they can be applied
- At the Working Group meeting in Budapest in June, the results of a first application of a template on the management of irregularities were presented
- The Working Group initiated a discussion on the support SAIs would like to receive from the Working Group, the results it has achieved so far and its objectives for the medium term

### **Working Group on Procurement**

In December 2004, the Working Group on Public Procurement was established in order to develop and manage a web site providing information useful in auditing public procurement.

The Working Group divided its work among four task groups, each of which was assigned responsibility for the preparation of material in one of the following areas:

1. Checklists for use in the financial audit of procurement
2. A guide on EU procurement rules
3. Key questions to be used as reference point for auditors evaluating the performance of the procurement function in public sector bodies
4. Summaries of published reports and guidelines on procurement

The output of the Working Group consisted of a comprehensive package comprising four documents which were distributed at the EU Contact Committee meeting in Helsinki in 2007.

At its meeting in Luxembourg in 2008, the Contact Committee resolved to place the material produced by the Working Group on the public part of the EU Contact Committee website. The Contact Committee further agreed to close the Working Group on public procurement.

In view of the fact that the products of the Working Group will be placed on the public part of the EU Contact Committee website, the need to regularly update results and data is crucial. Consequently, the Public Procurement Updating Group was set up by the Contact Committee in 2008 with the objective of updating the results and data produced by the Public Procurement Working Group that are to be placed on the EU Contact Committee website. In order to fulfill its mandate effectively, the Updating Group was divided into three distinct task groups with the objective of updating regularly the four documents (outlined above) developed by the former Working Group on Procurement. The monitoring of items (1) and (3) above was assigned to one Working Group.

### **Working Group on Structural Funds**

In 2008, the Contact Committee requested the Working Group on Structural Funds to continue its reviews of Structural Funds issues by carrying out an audit on the cost of controls of EU funds. The Working Group adopted a common audit plan and an audit schedule to effectively perform this audit. The field work for the parallel audit started in June 2009. In 2009, the Working Group collected evidence on controls carried out in 2007 and 2008. In 2010 and 2011, the Working Group intends to collect evidence on controls carried out in 2009 and 2010. The Working Group plans to present its findings to the Contact Committee in 2011.



## Working Group on VAT

The Working Group on VAT was established as a forum for the exchange of experiences about the functioning of the VAT system in the EU with special interest in:

- general trends in the VAT Area;
- administrative co-operation among EU Member States;
- measuring VAT loss due to fraud;
- tackling Intra-Community VAT Fraud;
- monitoring developments in the area of VAT; and
- promoting co-operation on VAT audit.

In 2009, the Working Group continued its work on studying developments relating to the measurement of VAT evasion and observing the evolution of the EU anti-fraud strategy. NAO representatives gave a presentation on the developments noted following the 2006 Audit on the VIES.

## Joint Working Group on Audit Activities

The aim of this Working Group is to conduct a number of joint audits between an EU candidate country and an EU Member State as partner. These parallel audits have a definite focus or subject area.

## Working Group on Common Auditing Standards

The purpose of the Working Group, which is chaired by Prof Josef Bonnici, Malta's ECA member, is to develop common auditing standards and comparable audit criteria, based on internationally recognised auditing standards applicable to the EU area. Its objective is to provide EU SAIs with guidelines on the application of International Auditing Standards in the EU area whilst taking into account EU specificities. Thus a common approach to the audit of EU funds would be undertaken by EU Member State SAIs.

The Working Group has almost finalised Section A dealing with common auditing standards in the field of Compliance Audits and Section B relating to common auditing standards in the field of Performance Auditing of the Exposure Draft being prepared by the Group. The Working Group has also proceeded with the drafting of additional Interpretative Notes in the field of both compliance and performance audits. Moreover, a general preamble / introduction,

preceding the Exposure Draft, and covering its three sections, has been drafted.

The Working Group has also decided on a structure for part C of the Exposure Draft, dealing with SAI experiences in the EU context. A first section will report on a "mapping exercise", which outlines the mandates of the different SAIs and their tasks with respect to the EU environment. This will lead to the second section which will feature examples of the relevant experience of EU SAIs in auditing EU funds.

## Working Group on Cooperation between the ECA and the EU Member State SAIs

The purpose of this Working Group is to review current outstanding governance and procedural issues relating to the Contact Committee network. The activities of the Working Group include the evaluation of the work of the different Contact Committee Working Groups, the identification and prioritisation of future activities of the network, as well as the issue of guidelines relating to the network's organization of its conferences, seminars, Working Group meetings and other events.

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 final report in 2009.

The above evaluation proved that the Working Groups are major driving forces of the Contact Committee co-operation. The exercise enabled the identification of the strengths and weaknesses of the existing system and proposed suggestions that can help improve and facilitate the work of the Contact Committee's Working Groups. Such recommendations include the definition of a clearly specified and results oriented mandate for the Working Group, the elaboration of a detailed work plan, the creation of an appropriate structure for the Group, further development in the transfer of information, and the establishment of robust reporting systems and assurance function.

NAO participates in the Working Groups on National SAI Reports on EU Financial Management, Structural Funds, VAT, and Common Auditing Standards.

Apart from participation in the aforementioned EU Contact Committee Working Groups, NAO is also a member of the EUROSAI IT Working Group, EUROSAI Working Group on Environmental Auditing and the INTOSAI Subcommittee on Accounting and Reporting.

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

During 2009, a number of papers and replies to international questionnaires were presented on various themes, including the following replies to:

- Polish SAI Questionnaire on the Employment of Disabled Persons within the Public Administration;
- INTOSAI Exposure Draft on ISSAI 1520 – ‘Analytical Procedures’;
- INTOSAI Exposure Draft on ISSAI 1530 - ‘Audit Sampling’;
- INTOSAI Exposure Draft on ISSAI 1620 - ‘Using the Work of an Auditor’s Expert and Management’;
- INTOSAI Survey on ‘The Value and Benefits of Supreme Audit Institutions’;
- INTOSAI Subcommittee on Accounting and Reporting Questionnaire relating to Financial Accounting and Reporting Standards;
- Finnish SAI Questionnaire on ‘Citizen’s Approach and its Role in the Functions of a Supreme Audit Institution’;
- INTOSAI Working Group on Fight Against Corruption and Money Laundering Questionnaire entitled ‘First Questionnaire on Fight against Corruption and Money Laundering’;
- INTOSAI Working Group on Public Debt Questionnaire relating to Contingent Public Debt;
- ECA Questionnaire entitled ‘The role of the European SAIs in coping with the crisis of the Financial Markets’;
- ECA Questionnaire entitled ‘The role of SAIs in the development of the State Agencies Performance’;
- Czech SAI Questionnaire entitled ‘The State’s Closing Account’;
- INTOSAI Working Group on Key National Indicators Survey concerning Key National Indicators;
- Czech SAI Questionnaire relating to Cooperation of SAIs with Private Audit Entities; and

- EUROSAI Strategic Plan Task Force Questionnaire entitled ‘Key issues related to EUROSAI Mission/ Vision and Strategic Goals’.

Feedback on EU audit-related issues was also provided by the NAO to EU Member State SAIs Working Groups referred to earlier under ‘EU Contact Committee’.

## ***Internship Programme at NAO for foreign SAI employees***

Two senior officials from the Maldives State Audit Institution were on an attachment with NAO for six weeks during July and August 2009. The two internees worked for the Financial and Compliance Audit Section and participated in a number of financial and compliance audits that were in progress at the time.

## ***EUROSAI Working Group on Achieving Audit Quality: Good Practices in Managing Quality within an SAI***

NAO is an active member of the EUROSAI Working Group which is developing a good practice guide on the management of audit quality within an SAI. The Working Group was established in June 2008 and includes experts from the SAIs of Hungary (Chair), Denmark, Russian Federation, Poland and the ECA. NAO contributed significantly to the development of the outlines on the selected good practices and was actively engaged in the editing of the draft document.

Between 2 and 3 April 2009, NAO also hosted in Malta one of the Working Group’s meetings. The event, attended by thirteen experts from the different SAIs, included thematic sessions on key good practices related to quality management within an audit environment. Challenges, such as risk management, performance measurement, professionalism in the audit approach, staff development and effective communication were discussed in detail. Possible ways of how to address these issues were also identified. Conclusions of the meeting were integrated in the draft document.

Furthermore, NAO participated in another Working Group meeting that was held in Moscow between 17 and 18 November 2009, during which the final document was discussed.



*EUROSAI Working Group Meeting on Achieving Audit Quality on 2 – 3 April 2009*

## Annex A - Reports issued by NAO during 2009

### AUDIT REPORTS

DATE	REPORT
January	Inquiry & Report on the Purchase of PCs by Enemalta Corporation
March	Investigation relating to the Tender issued for the Provision of Warden Services and Installation of CCTV Cameras by four Local Council Joint Committees
March	Performance Audit: Water Loss Control Management by WSC
May	Inquiry on Direct Orders and Outsourcing at Mater Dei Hospital: Clerical/Reception, Security, Car Park and Traffic Management Services
June	Inquiry on Control Mechanisms Deployed by the ADT in Road Construction Projects partly Financed through the 5th Italo-Maltese Financial Protocol
July	Performance Audit: Vehicle Emissions Control Scheme
September	Performance Audit: Renewable Energy and Energy Efficiency in Malta
September	Investigation on Alleged Irregularities regarding the Sant'Antnin Waste Plant in Marsascala
October	Procurement Capability across the Public Administration
December	Annual Audit Report on the Public Accounts for 2008

### WORK AND ACTIVITIES REPORT

January 2009	Works and Activities of the National Audit Office for 2008
--------------	--

### INTERNAL PUBLICATIONS

July 2009	Data Protection Guidelines
July 2009	Information Technology and Security Handbook

## Annex B – Summary of Audit Report on the Public Accounts 2008

The Auditor General presented to the Speaker of the House of Representatives, on 2 December 2009, the Annual Audit Report on the Public Accounts for Financial Year ending 31 December 2008. This was done in accordance with Article 108 (5) of the Constitution of Malta and sub-para. 5(ii) and para. 7 of the First Schedule of the Auditor General and National Audit Office Act (NAO), 1997. Subject to the observations referred to in the Annual Audit Report of the Auditor General, the Government statements and accounts scrutinized by NAO were fairly presented in accordance with the accounting policies of Government. The main observations are reported hereunder.

Following examination of the 2008 **Financial Report**, NAO noted that:

- Debenture interests recorded as revenue were effectively paid by Government;
- an Advance of approximately €25.3 million was issued for the purpose of accounting for the 14th Social Security Benefits due in 2008;
- none of the €14.1 million budgeted funds, aimed towards paying Treasury Clearance Fund Advances, were actually utilised;
- the completeness of reporting of the Statements relating to Investments and Abandoned Claims, Stores Written off and Cash Losses, could not be ensured;
- Cash Book and Central Bank balances reported in the Financial Report 2008 still do not tally with corresponding figures in the Bank Reconciliation Statement; and
- Letters of Comfort and Bank Guarantees reached €774 million.

Once again a number of Ministries and Departments failed to send their annual **2008 Return of Arrears of Revenue**. Figures of some Departments had to be published as given, while others lacked detailed breakdown of figures.

The examination of the list of **Bank Accounts** submitted by Commercial Banks revealed that these lists were incomplete. Lack of liaison between Ministries/Departments, the **Ministry of Finance, the Economy and Investment (MFEI)** and **Treasury** puts Treasury in a position of not being able to verify whether Bank Accounts operated by Ministries and Departments are being used for their original purpose.

Following amendments to the Pensions Ordinance,

MFEI established the claims related to **amounts owed to Government by entities**, which at the end of 2008 stood at €7.38 million. The audit exercise revealed, that **Ministry of Finance/Treasury Division** lacked a consistent and periodical claims' system.

Testing on internal controls presently in place in respect of **Class 2 Social Security Contributions (Post 1998)** revealed that 28,810 taxpayers with an actual balance of €4.5 million have fallen into arrears.

During testing at the **Capital Transfer Duty Department**, NAO noted a discrepancy of €928,294 between **Provisional Duty** refunds issued during 2008 as per Capital Transfer Duty System as against the Departmental Accounting System. Also noted were missing/incorrect property details in the former System and undelivered refund cheques not accounted for in both systems.

A follow-up audit was conducted to enquire on the developments following the 2006 **VAT Information Exchange System (VIES)** audit, including the extent to which NAO's recommendations have been acted upon by the **VAT Division**.

Following an audit of the **Local and Small Claims Tribunals**, it was noted that Commissioners were paid per Sitting irrespective of the number of cases heard. The **Courts of Justice Division** was limited in its verification over payments to the Commissioners due to lack of source documentation.

The system and current procedures in use at the **Police Department** in respect of **Revenue arrears** need to be updated. Lack of adequate information is particularly evident in cases where weapons/firearms cannot be traced or located.

The **Energy Benefit** aimed to alleviate the effect of increasing oil prices on water and electricity bills for approximately 29,000 eligible households. Tests performed at the **Ministry for the Family and Social Solidarity** indicated internal control weaknesses, with some beneficiaries exceeding the applicable means limit.

Verification over the expenditure in relation to the **Home Care Help Services Scheme** was carried out at the **Elderly and Community Care Department in Malta and the Ministry for Gozo**. Common observations noted relate to the lack of means testing, charging of a fixed nominal fee irrespective of the service given and lack of audit trail.

The current procedure for the free of charge **loaning out/in of Medical Equipment from Mater Dei Hospital to Private Hospitals and Clinics** was reviewed. Clear responsibility

and accountability for medical equipment loaned out by MDH must be delineated preferably in writing.

The 10% administrative fee, charged to Government on the **Main Sewer Contributions** by MEPA, is not documented. Internal controls operated by the **Ministry for Investment, Industry and Information Technology** are not sufficient, leading to approximately €2.7 million MSC collections by MEPA pending at year end.

A regular Financial Audit could not be performed on the accounts presented to NAO for Financial Years 2006 – 2008 in relation to the **Funds regulated under the Pilotage and Mooring Regulations, 1975**. Matters arising during a meeting questioned the sustainability of the Mooring Fund.

The Agriculture Support Schemes in relation to the **Pig Meat and Fruit and Vegetables Subsidies** were tested. The report focused on the inaccuracies in effecting subsidy payments identified, as well as on any inefficiencies noted in the management processes in use and in the administration of both Schemes concerning these subsidies.

Verification of procurement and contracting activities, specifically payments issued from the Civil Society Fund administered by the **Forum Malta fl-Ewropa**, concluded that, in a number of instances, source documentation and evidence supporting payments were lacking.

The audit covering the procurement of **Operating Materials and Supplies** by the **Gozo General Hospital** was limited due to non-availability of certain source records, coupled with the absence of a stock recording system on food provision. Various key irregularities, such as lack of control in the Food Provisions Section, were also identified.

The €4 million variance in the Operational and Maintenance Expenditure at the **Armed Forces of Malta** was mainly due to the unforeseen flow of irregular immigrants. Shortcomings within inventory records for vehicles were also noted.

Conclusions reached following previous years' audits carried out by NAO on **Procurement** prompted this

Office to conduct compliance audits in relation to the **Contractual and Professional Services** at the **Ministry for Rural Affairs and the Environment**, the **Ministry for the Family and Social Solidarity and Social Security Division** and **Tourism Directorate**. The following shortcomings were commonly noted:

- No agreements with service providers and/or procurement regulations were not followed
- Commencement of service prior to approval or formal contract
- No formal extension of existing agreements
- Amounts charged by service providers not verifiable
- No tax invoices or fiscal receipts attached to Payment Vouchers

The following were the main concerns noted from the audit reports and relative Management Letters submitted by Local Government auditors for all **Local Councils**:

- Fifty-two out of sixty-seven Financial Statements submitted were qualified
- Twelve Local Councils recorded a negative Working Capital in the Statement of Affairs, while twenty-four Local Councils registered a deficit in the Income and Expenditure Account. Twenty registered a Financial Situation Indicator below the 10% benchmark
- One Local Council did not submit the Audit Report by 13 November 2009

Testing and verification at the **Malta High Commission in London, Ministry of Foreign Affairs**, was limited as some source records were not available for audit purposes. Lack of controls and segregation of duties were evident in various areas.

The IT audit held at the **Malta Tourism Authority** focused on the review of Entity Level Controls and Business Continuity planning with respect to IT.

The full report is available in the publications section of the NAO website: <http://www.nao.gov.mt>

## Annex C - Financial and Compliance Audit Methodology

### *Annual Audit Programme*

The NAO is not in a position to audit all Government operations every year. The audit work is therefore planned on a risk assessment and materiality basis in such a manner that gives the maximum practicable assurance regarding public accountability and propriety across all Government activities within the limits of the human resources available at the NAO to carry out such audits. This enables the Auditor General to provide an appropriate audit opinion on the Consolidated Fund.

Audit Managers are required to present an annual draft Audit Programme for the following year. Each Audit Programme includes all audit tasks planned to be undertaken during the period by the respective Unit, as well as the identification of audit objectives, methodologies, staff to be employed and planned time frames for each audit.

The scope of Audit Programmes is to ensure that all significant activities of audited bodies are periodically examined and that each year:

- essential and desirable tasks are identified, and audit priorities are properly assessed between them;
- staff resources necessary to complete the audit work on time and to the required standards are established;
- work is allocated to achieve the efficient and effective use of available resources; and
- work is coordinated within and between different Audit Units.

The combined individual Audit Programmes form the Annual Audit Programme of the Financial and Compliance Audit Section. This Programme is reviewed and approved by the Assistant Auditor General of the Financial and Compliance Audit Section, Deputy Auditor General and Auditor General.

### *Audit Plans for individual audits*

Detailed Audit Plans are prepared for audit tasks/areas selected for review during the year. The detailed Audit Plan is drafted by the Lead Auditor at the start of the audit exercise and is approved by the Audit Manager before it is implemented. Detailed Audit Plans can be considered as guides to conducting the examination phase of the audit. They set out audit tests and procedures that should be carried out in collecting and analysing audit evidence. Once the Audit Plan has been concluded, a Notification Letter is sent to the client informing him of the commencement of the audit. The Notification Letter is copied to the respective Permanent Secretary.

### *Conducting the audit*

In the conduct of the audit, the Audit Team is required to obtain sufficient and appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.

The audit approach adopted is the combination of different types of audit tests carried out to obtain the evidence necessary to achieve the objectives of an audit, which are to:

- assess the accuracy and completeness of the financial statements of the entity being audited;
- ascertain whether the transactions underlying the financial statements are legal and regular; and/or
- assess the adequacy of systems and controls in place at various Ministries/Departments.

The auditor can use a number of different means by which to gather audit evidence, such as performing and evaluating tests of controls and subsequently deciding whether to place reliance on the entity's internal controls, or undertaking substantive procedures, which include tests of detail and the performance of analytical procedures. The auditor may also undertake a number of audit procedures, such as inspection, observation, inquiry, external confirmation, recalculation, re-performance and analytical procedures. The NAO auditor should ensure that the procedures employed are sufficient to reasonably detect all quantitatively material errors and irregularities. In choosing which procedure to apply, consideration is given to the quality of evidence, namely that the audit evidence is sufficient, relevant, reliable and reasonable. The approach used also depends on the assessment of the audit resources, the objectives of the audit task, the characteristics of the item being audited, and the risk of material misstatement.

As part of the audit, the auditor also tests whether the audited entity has complied with standing laws and regulations. Therefore, audit steps and procedures are also to be designed to provide reasonable assurance of detecting errors, irregularities and non-compliance concerns that could have a direct and material effect on account balances and transactions.

### *Management Letter*

The first end result of each financial and compliance audit is the Management Letter. This letter contains all the weaknesses and inefficient procedures/practices in place at the audited entity and the associated risks. Feasible recommendations on how to improve the audited entity's

operations are also forwarded. For every negative audit observation included in the Management Letter, an appropriate recommendation is drafted. Recommendations are to be viewed as guides for action and their purpose is to state what needs to be done at Ministerial/Departmental level to make necessary improvements to their activities. The audited entity is then invited to prepare its own comments on the issues raised in the Management Letter.

#### *Exit Meeting with the Audited Entity's Management*

Following the issue of the Management Letter by the NAO, an exit meeting may be held with the audited client. The purpose of holding an exit meeting with the audited entity's management is to ensure that the facts reported in the Management Letter are not in dispute; the presentation and conclusions drawn from these facts are fair; the Management Letter is balanced in coverage, content and tone; and reasons for possible different interpretations of views or conclusions between the Office and the audited client are clearly indicated. The exit meeting may be held before or after the submission of the management comments by the audited entity.

#### *The Audited Entity's Reply to the Management Letter*

Once the Management Letter is sent to the audited entity, the auditee has the opportunity to send his comments, explanations or objections to the findings reported in the Management Letter. Extracts from the reply received from the auditee are included in the summarised version of the Management Letter in the Annual Report, under the

heading '*Management Comments*'.

#### *The Annual Audit Report*

The Annual Audit Report on the Public Accounts referred to earlier is prepared in terms of Article 108(5) of the Constitution of Malta and paragraphs 5(ii) and 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997. It is published and presented to the Speaker of the House of Representatives for tabling in the House. The Report summarises the conclusions reached following the financial and compliance audits carried out during the period covered by the Report, as well as other audits, and proposes recommendations to address the weaknesses and shortcomings noted. Copies of the Report, accompanied with an official Press Release, are uploaded on the NAO website and distributed to the media and stakeholders.

#### *PAC Hearing*

Following the tabling of the Annual Audit Report on the Public Accounts to the Speaker of the House of Representatives, extracts of the Report may be selected by the PAC in order to be reviewed and discussed with the auditees concerned. The Auditor General (or his Deputy Auditor General, as the case may require) is the official spokesperson for the NAO at PAC hearings. He is assisted by NAO auditors or consultants who would have been involved in the audit report in question so as to provide any explanations or information that may be required by the PAC. The respective Permanent Secretaries and Heads of Departments, together with their assistants, are also invited by the Committee to give their testimony.



## Annex D - Performance Audit Methodology

### *Planning of Performance Audits*

The determination of performance audit strategies in order to achieve NAO goals as discussed under the Section relating to the NAO Strategic Planning Process involves strategic choices for the NAO. This is due to the fact that the number of potential areas is considerable and NAO needs to select its audit areas within the limits and capacity of its human resources. This means that choices must be made with care. The identification of entities, functional areas and sectors to be examined is undertaken following an identification and prioritisation process of subject areas for audit. The process involves assessing risks faced by public sector entities to evaluate priorities and to decide between different possibilities for inclusion in a Performance Audit Programme. Potential areas thus identified are then aligned with NAO's mandate and focus areas. Criteria for selection include furthering NAO policy and strategy; risk and materiality assessment; audit areas of interest to Parliament, Government, the media and the general public, auditability, deliverability, timeliness, feasibility, added value, potential impact and balance of the overall programme of performance audits.

Planning of individual performance audits is an essential process prior to commencing the actual audit field work. Within the programme of audits included in the strategic plan, auditors focus on those areas that have been included in the work programme for the year ahead.

The individual audit planning phase commences with the preparation of a study proposal. This study consolidates the information collected at the strategic planning phase of an audit, and identifies the proposed audit methodology, sources of evidence, and staffing requirements and the expected impact of the study.

A preliminary study is then carried out to obtain a sound understanding of the prospective audit area. The objectives of this study are to carry forward the assessment of an individual audit area made at the strategic planning phase and the study proposal phase and to determine whether the conduct of a full audit is feasible. If the audit is to continue, the preliminary study states how the work should proceed.

If it is determined that an audit could be conducted, a preliminary study also supports the future audit. For this purpose, a preliminary study creates an audit framework that determines what should be examined and how the audit is to be carried out. It also includes the audit timetable and resources.

The preliminary study is kept as brief as possible but is sufficiently thorough to enable a decision on the full study to be undertaken.

### *Issue Analysis*

An integral part of the preliminary study is the identification of the issues to be examined and included in the plan for the full study. This methodology, known as Issue Analysis, has started being formally used by the NAO in its Performance Audits since this year.

Issue Analysis consists of a set of questions designed to address the key issues of the audit. The Approach contains a single high level question outlining the main concern of the audit. This overall question is designed in a way that can be answered by "yes" or "no" and is determined following the performance of the following procedure:

- I. The identification of the situation
- II. The determination of the complication arising out of the above situation
- III. The formulation of the main audit question from the situation and the complication
- IV. The identification of the cause of the complication

I. Situation - The starting point is to identify a non-controversial, factual statement about the audit termed "situation". The situation statement can be prepared from background information on the audit entity collected at the initial stages of the audit planning process and may include, for instance, the amount being spent on a specific activity or programme, or a brief outline of the operational processes and services offered by a particular public entity.

II. Complication - The identification of the situation is followed by the formulation of the complication. This involves determining the issue of concern arising out of the situation and is to form the rationale for the performance of the audit.

III. Main Audit question - The main audit question is then determined logically from the definition of the situation and complication. Its purpose is to clearly indicate the main focus and scope of the study.

IV. Cause of the Complication - To understand the root cause of the problem, when determining the situation, complication and audit question, the factors giving rise to the issue of concern are also to be determined.

### *Issue Analysis Structuring Principles*

The high level question is then subdivided into associated sub-questions, each specifying a particular issue relating to the major concern. The issues arising out of the main question should be grouped in accordance with a logical ordering principle. This ensures that all the relevant issues are comprehensively addressed during the audit and provides an overall structure to the audit methodology

and process. There are several approaches which can be undertaken when selecting an ordering principle. Examples of such approaches include:

1. *By Time* - Utilising the above approach, issues are placed in order of occurrence or chronology (first to occur, second to occur, etc) or grouped in the following sequential order – inputs, processes and outputs.

2. *By Structure* - This approach involves dividing the whole into parts and covering all the components in the structure. This could include structuring the audit issues by Government entity, relevant organisational functions, geographic locations, demographic subsets, and interrelated components (time, cost, quality or processes), or by using a particular framework (such as the COSO or the EFQM models).

3. *By Rank* - Issues can also be ranked in order of importance (from highest level to lowest level) or according to the different levels of decision makers involved. Issues can also be presented in the order in which they possess a particular key characteristic (for example, the degree to which an issue contributes to better service delivery by a Government activity or programme).

The overall structure of questions takes the shape of a pyramid. Issues contained in the pyramid must always be mutually exclusive of each other (that is, different, distinct and not overlapping with one another) and collectively exhaustive (the answers to the sub-issues must be sufficient to answer the overall high level question and should cover all ground of the audit). This is important in order to ensure sufficient rigour during the collection of evidence and to direct the audit team's analysis towards the formulation of clear and specific conclusions on the area being audited.

In addition, NAO auditors ensure that the number of sub-issues for any given issue in the pyramid does not exceed seven to ensure clarity and brevity. If a high number of sub-issues are identified during the Issue Analysis, these are regrouped so that the total number of sub-issues is less than seven. Moreover, it is also important that the number of sub-issues always exceeds one. If the audit team has identified only one sub-issue, it reviews the formulation of that issue or check the analysis to ensure that there are no missing sub-issues.

#### Issue Analysis Meeting

Determining all the issues affecting the main question requires sound preparation and a focus on clear logical thinking. This may necessitate the organisation of an Issue Analysis meeting where audit examiners involved in the audit, and possibly also a number of key stakeholders, would have the opportunity to express their views on the main concerns relating to the area under review.

#### *Finalisation of Audit Planning*

Once the issue analysis pyramid has been developed to its lowest level, the audit team utilises the established structure to develop the full audit plan and study methodology. The full audit plan identifies in detail the audit tasks to be carried out to complete the project, define sources of evidence, and determine resource requirements such as staff and expertise.

The typical components of an Audit Plan include the following:

1. Provision of background information on audited entity
2. Audit Concern
3. Audit Objectives
4. Audit Scope
5. Audit criteria to be used in assessing the economy, efficiency and effectiveness of audited activities
6. Determination of performance measures to assess the economy, efficiency and effectiveness of audited activities
7. Audit approach and methodology
8. Audit Resources
9. Estimated cost of the audit
10. Timing, key milestones and the main control points
11. Determination of Quality Assurance procedures
12. Reporting format and procedures

#### *The Examination Phase of Performance Audit*

Following the conclusion of the preliminary study and issue analysis, an Entry Meeting is held with the Permanent Secretary responsible for the audit subject matter in question to officially start the examination phase of the audit. The purpose is to formally inform the Permanent Secretary of the audit, as well as to explain the objectives and scope of the audit and discuss any issues of a practical nature relating to the audit.

Audit examination work takes place on the basis of the audit planning already undertaken and the planning documents thereby developed (mainly the audit plan and issue analysis). The purpose of performing a full in-depth examination of the audit area is to implement the work plan, conduct the audit and produce a high quality audit report. It thus includes carrying out procedures to collect and analyse data, evaluating facts against pre-determined criteria, and drafting audit findings. Sufficient, relevant and reliable audit evidence is gathered to allow the auditor to conclude on the audit questions and to support all the statements made in the audit report.

#### Performance Audit Techniques

Various techniques are utilised by the NAO to gather and analyse evidence and produce a robust and evidence-based report. These techniques are drawn from various disciplines namely audit, social science, operational research,

economics, statistics and management consultancy and include both traditional audit methods such as interviews, file reviews and the analysis of departmental data, as well as the use of surveys, focus groups, performance gap measurement, benchmarking and case studies.

#### *The Conclusion and Reporting Phase of Performance Audit* Drawing Conclusions

Upon conclusion of the audit fieldwork, the evidence gathered is reviewed to ensure that it comprehensively answers all the issue analysis questions with a “yes” or “no”. The full set of emerging audit findings (based on the initial issue analysis) are grouped in accordance with a logical ordering principle which need not be the same as that of the Issue Analysis Structure. The main findings are then ordered in a pyramid of evaluative headings. Such headings would express in a summarised and concise format the main findings of the audit. The structure of the Drawing Conclusions pyramid can look different from the initial Issue Analysis Pyramid partly due to the refinement of initial thoughts and also because other issues may have emerged during fieldwork and analysis.

#### Report Outline Structure

The product of the Drawing Conclusions process is a clear and rigorous outline structure that encapsulates briefly all the key messages that will be included in the eventual audit report. The outline structure includes:

- the answer to the overall key question the audit set out to address;
- the reasons for that answer presented in a clear and logical structure and format; and
- a summary of the actual evidence gathered during fieldwork to support the conclusions.

#### Pyramid shaped reporting

Following the design of the report outline structure, the draft report is prepared. The report includes:

- a Table of Contents containing the evaluative headings thus forming a synopsis of the report findings;
- a Summary that includes the situation, complication, main study question, answer and cause;
- the recommendations made to address the weaknesses identified;
- the headings that are written as evaluative statements;
- the main body of the report; and
- appendices containing information about the audit methodology used, the legislative basis for the work carried out, technical explanations and statistics.

An evaluative heading provides a succinct summary of the finding being reported. It is brief and stated in an unambiguous, evaluative and assertive way.

Moreover, NAO ensures that the contents of its reports are objective, complete, clear, convincing, relevant, accurate, constructive and concise.

#### Drawing Conclusions Meeting

In order to determine the key messages of the final report, a Drawing Conclusions meeting may be held. The objective of this meeting is to agree on the headline question, confirm the headline answer; identify the reasons for the answer expressed as evaluative headings and ensure that such headings are organised in a logical pattern. During this meeting, the final ordering of second level questions is established, headings of the same type are grouped together, and any gaps identified. At this stage also, the audit team ensures that headings to be included in the draft report are mutually exclusive and collectively exhaustive.

#### Exit meeting with the auditee’s management

The draft final report is forwarded to the auditee senior management so that the latter would have the opportunity to provide feedback and comments on the findings of the report. NAO accompanies the draft with an invitation to auditee senior management to attend a meeting termed the ‘Exit Conference’. Typically, the meeting is scheduled for two to three weeks after the date of forwarding of the draft report. During this period, auditee senior management is advised to review the report contents and to submit formal, written feedback to the NAO. Such feedback serves as an agenda for the Exit Conference, during which any issues, findings and conclusions in dispute are discussed so as to ensure that NAO conclusions are accurate and fair. During this meeting, reasons for possible divergences between the views of the Office and the audited entity are clearly identified.

NAO management then considers and evaluates the feedback obtained from the auditee, and, if necessary, revises the report accordingly and/or includes extracts of the auditee comments in the final report.

#### *Publication*

Performance Audit Reports are presented to the Speaker of the House of Representatives for tabling in the House. Copies of the reports accompanied with an official press release, are also uploaded on the NAO website and distributed to the media and stakeholders.

#### *PAC Hearing*

Performance Audit Reports are discussed in the same way as Financial and Compliance Audit Reports by the PAC (as explained on page 40)

## Annex E - Procurement Capability across the Public Administration

(Article in 'The Economic Update' of 'The Times' on 11 November 2009)

### Procurement Capability across the Public Administration

Audits carried out by the NAO have, over the years, shown that in certain instances procurement systems and capabilities have not been adequate and had critical shortcomings. A comprehensive report has therefore been



prepared and published by the National Audit Office (NAO) on ways of how public procurement could be used as a lever to drive performance improvements and achieve further efficiencies in the public administration.

The spending base of public procurement is very significant and any improvements therefore

will have a substantial impact on budgets, freeing up resources for other priorities. Furthermore, public services can be at considerable risk if procurement is not well planned and efficient. Goods and services may also end up costing more if they are procured at short notice. Successful public procurement is important to the citizen using a public service, to the taxpayer and to the businesses supplying Government.

The NAO used twelve case studies from the public administration to examine the following:

- The organisation, resources and strategic importance given to procurement

- The development of relevant policies and procedures
- Planning for procurement requirements
- Information management and monitoring of markets, suppliers and procurement activity
- Initiatives to review and continuously improve procurement activities
- The management of procurement risks
- Opportunities for joint procurement

Visits to three leading local commercial organisations were also undertaken in order to learn more on good practices and lessons learned from the development of modern procurement systems. The study suggests that it is possible for the public administration to apply successful approaches and tools used in the private sector and still operate a rigorous tender process within the constraints of relevant rules and legislation.

Procurement capabilities may not always be easy to implement and may take considerable time and management effort to develop. The report presents a number of recommendations of how organisations across the public administration, depending on their individual circumstance, can continuously seek to improve and strengthen their procurement function. A copy of the report is available in the publications section of the NAO website (<http://www.nao.gov.mt>).

## Annex F – Summaries of Performance Audit Reports

(including Special Reports comprising substantial Performance Audit objectives)

### Performance Audit on Water Loss Control Management by the Water Services Corporation (WSC)

The Auditor General reported to Parliament that on the basis of available statistics the Water Services Corporation's initiatives to detect, monitor and record water losses have led to significant reductions in such losses. Nevertheless, considering especially the cost of water production, the WSC needs to intensify its efforts to decrease the level of water losses to one which is closer to what is considered as unavoidable. This performance audit essentially examined how the WSC carried out its responsibilities to minimise water losses.

Due to a number of factors, a discrepancy between the system input volume and the amount of metered water materialises. These losses can be categorized into real and apparent losses.

Real losses refer to physical water losses from the pressurized distribution system, up to the point of customer metering. The WSC estimates that, in 2007, real losses amounted to over 18 per cent (5.6 million cubic metres) of the system input volume. On the other hand, apparent losses refer to the water that is consumed but is not properly measured, accounted or paid for. In 2007, the WSC estimated that apparent losses totalled around 23 per cent (7.56 million cubic metres) of the system input volume.

Through various initiatives over the years, the WSC has significantly reduced real losses mainly as a result of significant capital investment in the water distribution system. The Corporation gauges the effectiveness of its management of real losses through an internationally recommended benchmark - the Infrastructure Leakage Index (ILI). An ILI close to 1.0 indicates that all aspects of a successful leakage management policy are being implemented. Generally, it is considered economically viable for the ILI of most systems to be between 1.5 and 2.5. The Corporation is striving to attain an ILI of 2.0 within the hydrologically encapsulated zones by the end of this year. For zones in Malta, the ILI decreased from 5.0 in 2004 to 2.97 in 2008. The ILI for zones in Gozo has been stable at around 1.5 for the last five years.

The WSC is increasingly shifting its focus to deal also with apparent losses. The WSC is yet to determine the amount of such losses which are unavoidable.

Customer meter inaccuracies also contribute towards apparent losses, generally through the under registration of consumption. All meters of the mechanical type suffer from a reduction in performance over time. In 2008, a WSC internal study concluded that the Corporation is not

billing nearly 16 per cent of water consumption due to meter inaccuracies. Such a problem is mainly caused by meters which are aged ten years and over, of which there are over 51 per cent of the total meters installed. It has been announced that the Corporation is in the process of making substantial investment in the purchase of modern meters which will render the meter reading process more efficient and reliable.

Apparent losses also result through unauthorised consumption. Although the issue of adequately addressing water theft seems not to have been given the very high priority it deserves, recently the WSC started to adopt a stricter stance towards water theft. Legal Notice 331 / 2008 states that whenever it is found that any tampering with or damage to the water communication has been made, the Corporation shall request the consumer to pay damages in an amount of not less than €1,500.

In view of the foregoing, the NAO proposed recommendations aimed at improving water accounting, namely the adoption of an economic leak intervention model to assist in the prioritisation of infrastructural works, maintenance and repairs, as well as to tackle water theft through a more proactive and aggressive approach.

### Performance Audit: Vehicle Emissions Control Scheme

The Auditor General reported to Parliament that Malta's vehicle emissions control schemes brought about some improvement in vehicle emissions compliance. However, the fine tuning of these schemes, through enhanced planning, implementation and enforcement, should contribute towards a more robust and sustainable vehicle emissions control framework. Vehicles' emissions are a major source of air pollution which impacts negatively on public health and the environment. The effects of vehicle emissions are further aggravated by Malta's high vehicle density. Additionally, the average age of vehicles is much higher than the EU average.

This audit focused on the four schemes comprising the vehicle emissions control framework, namely the Vehicle Roadworthiness Test (VRT), the Emissions Alert Campaign (EAC), the Roadside Technical Inspection (RTI), and the Roadside Emissions Test (RET) of the Local Enforcement Scheme (LES).

During VRT, only 1.2 percent of the tested vehicles were found to have excessive emissions. In this regard, the VRT showed that the highest risks of excessive emissions emanated from diesel engine, commercial and vehicles aged eight years and over. The audit revealed that the

VRT compliance effect diminishes substantially soon after passing a VRT. During the period under review, inspections intended to ascertain that VRT stations conducted tests in accordance with the prescribed regulations were not fully adequate or risk-based. Subsequent to the conduct of this audit, the ADT reported that in 2008 it adopted various initiatives to improve the inspection and monitoring of VRT stations.

To varying extents, the EAC was successful in creating public awareness, bringing about the enforcement and reducing vehicle emissions. Through SMSs, the public reported 30 per cent of the public transport vehicles, as against 10 and 4 per cent of commercial and private vehicles respectively. The potential of the Campaign was not fully realised mainly because a large number of reported vehicles were not summoned for testing. Although the ADT applied a higher filtering threshold than that prescribed, its testing capacity was still unable to cope. The ADT has not summoned vehicles for emission testing since last year.

RTIs and RETs are conducted by the ADT and local wardens respectively. They are of critical importance since such inspections are intended to ensure that owners maintain their vehicles in a roadworthy condition at all times. Both the RTIs and the RETs were able to identify a significant number of vehicles with excessive emissions. Noncompliant vehicles were detected throughout all vehicle age groups and engine capacities. However, the roadside testing regime does not adequately target petrol engine vehicles since the latter's emissions tend to be invisible, albeit very harmful. It is to be noted that RETs were suspended in 2008 as the ADT sought to limit the conduct of emission testing to certified testers.

Despite the greater compliance brought about by these emissions schemes, Malta's emissions control framework needs to be strengthened further. The report proposes that the emissions control framework be reviewed to ascertain that the relative schemes are not piecemeal or incremental but designed as part of a holistic and comprehensive strategy aimed at tackling excessive vehicle emissions. Additionally, the report recommends that, in conjunction with the recently introduced fiscal measures related to vehicle licensing, considerations be given to annual VRTs for older vehicles and that penalties are introduced in cases where fuel pump seals are found to be broken.

### **Renewable Energy and Energy Efficiency in Malta**

The Auditor General reported to Parliament that efforts to exploit renewable energy sources (RES) and to increasingly adopt energy efficient practices have yielded some encouraging results. However, the appropriate infrastructure and administrative capacity needs to be firmly in place to enable further progress and to ensure that Malta fulfills its European Union obligations.

In 2008, the National Energy Efficiency Action Plan (NEEAP) was published. However, the National Energy Policy and the Renewable Energy Policy for Malta, published in 2006 have still to be approved by Government. In April 2009, the draft energy policy was revised and presented for public consultation. Approval of policies is still awaited.

To date, the exploitation of RES is marginal. Malta faces considerable challenges to have in place the appropriate infrastructures to cater for the opportunities derived from wind, solar and biomass energy. Deep coastal waters and limited land availability restrain the exploitation of wind energy. Solar energy is being marginally exploited within the various economic sectors primarily due to the relatively high capital outlay involved. The generation of energy from waste has also been marginal since the development of the required infrastructure is still in its early phases.

Up to 2008, the utilisation of biofuels reached the point where projections showed that it was likely that Malta would attain its 2010 indicative target. However, in 2008, the sales of biofuels decreased sharply and declined to 2005 levels. In such circumstances reliable projections as to whether Malta is on track to achieve its biofuel target cannot be made. Such a situation could be attributed to various factors, particularly the lack of comprehensive planning to further encourage the market penetration of biofuels. Despite the increase in the number of fuel stations retailing biofuels, it appears that consumers may consider the price differentiation between biofuel and fossil fuels as marginal. Moreover, there were restricted awareness campaigns on the potential benefits of biofuels. This audit also revealed that the opportunity exists for more robust monitoring by the Regulator.

The NEEAP identifies 26 energy efficient measures. These were introduced within the various sectors of the economy. However, there has been no attempt to quantify the resultant energy savings from these measures. Through case studies undertaken, this audit indicated that, despite encouraging results, the opportunity exists for further improvements in the Domestic Sector appliances rebate scheme and Green Leader measures within the Public Sector. The relatively high capital outlay necessary to implement energy saving and generating systems seems to hinder the further uptake by consumers of "rebate" schemes applicable to the Domestic Sector. On the other hand, a lack of strategic planning hindered the Green Leader measure from further exploiting the potential for the adoption of energy efficient practices within the Public Sector.

Although efforts to date yielded some encouraging results, this audit raised a number of concerns indicating that there is a real risk that not all EU renewable energy and energy efficient targets are met. The major causes of this situation can be partly attributed to delays in

the consolidation and approval of the relative policies. Strategic and operational planning related to the various renewable energy and energy efficient initiatives was not always appropriate. Furthermore, the monitoring of the various measures and initiatives by the Regulator was not robust. In view of the foregoing, the NAO proposed a number of recommendations to ensure that the appropriate infrastructures and mechanisms are in place to exploit RES and to increasingly adopt energy efficient practices.

### **Performance Audit: Procurement Capability across the Public Administration**

Audits carried out by the NAO have, over the years, shown that in certain instances procurement systems and capabilities have not been adequate and had critical shortcomings. This has prompted the Auditor General to carry out a study that examines the procurement capabilities and practices applied across the public administration, using twelve Government Departments and regulatory bodies as case studies.

The Auditor General reported to Parliament on ways of how public procurement could be used as a lever to drive performance improvements and achieve further efficiencies in the public administration. The NAO report identifies several examples and good practices that organisations across the public administration can adopt to consolidate and strengthen their procurement capabilities. While there are initiatives in place to enhance public procurement systems and processes, NAO noted that there are still limitations in the adoption of best practices and there is scope to further strengthen and enhance procurement capabilities across Government. The spending base of public procurement is very significant and any improvements will therefore have a substantial impact on budgets, freeing up resources for other priorities.

The main foci of the study were on the following:

- The organisation, resources and strategic importance given to procurement
- The development of relevant policies and procedures
- Planning for procurement requirements
- Information management and monitoring of markets, suppliers and procurement activity
- Initiatives to review and continuously improve procurement activities
- The management of procurement risks
- Opportunities for joint procurement

Procurement capabilities and good practices may not always be easy to implement and may take considerable time and management effort to develop. The report presents a number of recommendations of how organisations across the public administration, depending on their individual circumstance, can continuously seek to improve and strengthen their procurement function.

### **Enquiry on Direct Orders and outsourcing at Mater Dei Hospital**

The Auditor General reported to Parliament on an enquiry requested by three Members of the PAC in August 2008 on outsourcing at Mater Dei Hospital of clerical/reception services, as well as security, car park and traffic management services. The request proposed that the Auditor General examines both financial and compliance, as well as value-for-money issues related to the contracts in question.

The enquiry found that the migration to Mater Dei Hospital in 2007 put pressure on the health authorities to engage additional clerks and ward clerical assistants to fill vacancies accumulated over the years at St. Luke's Hospital, as well as to take a decision to outsource these services. The approval to issue a call for tenders for the outsourcing of clerical/reception services was sought after the publication of the advert requesting firms to submit their offers. Timely arrangements were not made to issue a fresh call for tenders, resulting in the Tender being extended on several occasions.

Soon after the opening of the new Hospital, Government decided to reduce the car park rates due to social considerations. A service concession contract for the provision of external security, car park and traffic management services had already been awarded and the changes in the parking rates led to new arrangements. A key concern for Government was how to make these changes in the shortest possible timeframe while at the same time ensuring continuity of service. The NAO found that more effort could have been directed in the evaluation and negotiation of new contractual conditions or other options that could have been pursued by Government in order to ensure that value-for-money is achieved.

Internal security services at Mater Dei Hospital were also outsourced after a decision was taken to retain existing permanent security personnel at the St. Luke's Hospital site. The NAO found that an excessive number of security staff was retained at St Luke's Hospital and, although measures have been taken to reduce the staff complement, this number needs to decrease further once identified obstacles are addressed.

Internal security services at Mater Dei Hospital were outsourced two months prior to the submission of the request for direct order approval and six months prior to

the signing of contract. The approval to extend the original internal security services contract was granted five months after the termination of such contract.

The NAO found limitations in contract management. These included missing, incomplete or inconsistent information relating to the provision of clerical/reception and internal security services, limited verifications carried out prior to effecting payments, as well as the need to develop a more comprehensive system for monitoring the performance of outsourced services. Payments effected in respect of internal security services were not always covered by the necessary authorisations, mainly because of a miscalculation in the budgeted contract cost and the delay in approving the correct contract amount. Revenues relating to staff parking fees were not being endorsed by the Mater Dei Hospital management, whilst the company providing the external security service did not adhere to the minimum number of security guards requirement as stipulated in the service agreement.

The hospital management has indicated that it will take action to address issues raised by the NAO.

#### **Enquiry on Control Mechanisms Deployed by the Malta Transport Authority (ADT) in Road Construction Projects Partly Financed through the Fifth Italo-Maltese Financial Protocol**

The Auditor General reported to Parliament on an enquiry requested by the PAC on control mechanisms deployed by ADT in managing variations in the road construction projects partly financed through the Vth Italo-Maltese Financial Protocol.

The enquiry consisted of an evaluation of these control mechanisms and an outsourced technical expert evaluation of the relevant tender and supporting documents.

Whilst noting the timely completion of the projects, and a marked improvement in the planning process, the following main shortcomings were noted:

Treating the projects as a departmental tender resulted in safeguards afforded by the Public Procurement Regulations being replaced by new, untested systems.

Ministry of Finance's approval for ADT to manage the projects outside the most commonly applied provisions in the public sector procurement regulatory framework did not take into account extra-budgeted expenditure. From an originally-allocated Lm12.9M (Italo-Maltese Financial Protocol funds dedicated to road works), project expenditure totalled Lm16.5M.

ADT delegated project management responsibility to (external) Supervisors who had been nominated by the Contractors. No evidence was found to prove that ADT abided by Ministry of Urban Development and Roads instructions to maintain its own controls.

NAO checks on a sample project revealed that ADT had adopted an unorthodox payment process whereby the Contractor account was at times in credit.

Errors were encountered in bills. These had gone undetected for some time before being adjusted and in one instance the error went unnoticed.

Issues arise with the manner with which ADT adopted a modified version of the International Federation of Consulting Engineers (FIDIC) model of contract, with all the implications of such modifications.

The role of the Supervisor was not correctly defined and the perception of transparency, effectiveness and accountability was clouded by the perceived link between Contractor and Supervisor. The various roles assigned to the Supervisor within the contract blurred this separation further.

A number of recommendations to address these issues were made.



## Annex G - Summaries of other Special Audit Reports

### **Investigation on Alleged Irregularities regarding the Sant'Antnin Waste Plant in Marsascala**

The Auditor General presented a report on the Investigation on alleged irregularities regarding the Sant'Antnin Waste Plant in Marsascala. The tender, issued by WasteServ Malta Limited, was awarded to an international consulting company. This tender, whose cost exceeded €200,000, had a variation order of an additional amount of €35,523 to amend the Environmental Impact Statement.

In a letter sent to the PAC, the Hon. O. Bonnici highlighted a number of alleged irregularities on the part of the consulting company. Subsequently, the PAC officially requested the Auditor General to investigate the allegations made.

The NAO conducted this investigation, solely from a financial and compliance aspect. In this respect, the NAO addressed the issue of payments effected to the consulting company against the:

- terms of reference as set out in the tender document;
- the consulting company's response to the call for tender; and
- the Environmental Impact Statement delivered by the company.

From the Auditor General's investigation, it resulted that the consulting company was paid for a report which was excluded from the Environmental Impact Statement. The same company presented another two reports, the costings of which could not be identified in the Schedule of Rates forming part of the tender document submitted by the company. Subsequently, WasteServ paid the consulting company an amount exceeding €4,000 for one of these reports, as part of the variation order.

### **Tender for the Provision of Warden Services and Installation of CCTV Cameras by four Local Council Joint Committees**

The report by the Auditor General has found shortcomings and irregularities in the issue and award of tender for the provision of warden services and installation of speed cameras by four Local Council Joint Committees, the Sliema, Birkirkara, Central and North Joint Committees.

The investigation revealed that the tender advert in the Government Gazette did not specify the request for ancillary services, namely the provision of services relating to cctvs, speed cameras, towing and clamping but only made reference to the provision of warden services. Moreover,

the four Joint Committees erroneously opted for a 30-day publication period rather than 52 days, the latter being the applicable period for an open tender procedure.

The Adjudication Board lacked technical expertise and a representative of one of the Joint Committees. Additionally, the presence in the Adjudicating Board of an authorised officer - being one of the signatories to the running contract and to eventual contracts - was questionable. Ultimately the Board decided that, because of the similarity in prices tendered for the warden service, apart from the price it had to consider other factors such as past experience of the tenderer in law enforcement, the work plan submitted and available facilities and equipment. No recommendation was put forward by the Board and the tender was referred to the four Joint Committees to make their decision. All four joint committees unanimously approved the award of tender to the same contractor.

The investigation noted other shortcomings. These included the minimum five-year revenue-sharing agreement entered into in July 2004 concerning the installation of speed cameras within the defined boundaries of the councils represented by the Sliema Joint Committee; the extension of the 1999 contract between the Sliema Joint Committee and its contractor for additional enforcement services up to the end of January 2005; the "unethical" meeting held between the North Joint Committee and one of the bidders during the evaluation and adjudication phase of the new call for tenders; and the fact that the Legal Enforcement System was eventually drafted into law in 2006.

### **Enquiry and Report on the Purchase of Personal Computers by Enemalta Corporation Tender**

The Prime Minister in his then capacity as Minister responsible for Finance requested the NAO to conduct an inquiry on the purchase of personal computers by Enemalta Corporation. Questions had been raised in the local media about the way the computers were procured. It was reported that a tender valued well over Lm20,000 was adjudicated departmentally and that part of the tender was awarded to a local company which was managed by the then serving Enemalta Corporation Chairman.

The call for tenders was issued by Enemalta Corporation in April 2004 for the supply of personal computers with an estimated value of Lm15,000-Lm20,000, valid for a period of six months. The estimated quantity of computers required during the six-month period was fifty although an addendum in the Bill of Quantities stated that the quantity actually contracted for could be altered within the period. The offers received were evaluated by an Adjudication Committee composed entirely of Enemalta employees, set

up without ministerial approval. In total the Corporation ended up spending around Lm62,000 on 170 computers, dealing concurrently with two suppliers and managed by a single contract whose ambit was not supposed to exceed Lm20,000 on 50 units and one supplier. This Office concluded that this revealed not only weaknesses in planning and control but also a lack of coordination between the component sections of the Corporation. Moreover, the Corporation failed to ensure that all its procurement officers were sufficiently knowledgeable with regard to regulations that limited their powers.

No evidence was found indicating directly or indirectly any involvement by the Corporation's then Chairman at any stage of the process of ordering, adjudication or award of contract. The then Chairman's consistent and repeated denial of any involvement at any stage of the purchasing process was confirmed by the Corporation's officials and by NAO when the relevant documentation was examined.

## Annex H - Techniques for Issue Analysis and Drawing Conclusions

(Article in Summer Edition of 'The Accountant')

### Introduction

The vision of the National Audit Office (NAO) is to provide a multidisciplinary professional service to Parliament, to Government and the taxpayer and to be an agent of change conducive to achieving excellence in the public sector. One of the most important ways of how NAO seeks to realise its vision is by delivering audit reports that are focused, accurate, logically rigorous, clear and useful.

To do so effectively, NAO is applying a new approach called '*Issue Analysis/Drawing Conclusions*' (IADC) to its audit work. The IADC methodology is a mixture of logical and practical rules aimed at delivering clear and well-structured reports in a timely and cost-effective manner. The approach involves the following two specific processes:

- The Issue Analysis process: The techniques of Issue Analysis are applied during the initial issue identification, the development of audit questions and the design of audit fieldwork. The process helps the audit team to determine the scope of the audit and to obtain an understanding of the issues that are relevant to the project. The framework is also used to test the relevance and feasibility of the audit objectives, and to build the audit plan and to define what evidence is needed to complete the work.
- The Drawing Conclusions process: The methods used for Drawing Conclusions are focused on generating logical explanations based on the collected evidence from fieldwork and analysis. The techniques are particularly useful to develop the structure and summary of the audit report and can also be effectively used during engagement with the audited entities. The process facilitates the work of the audit team by directing attention on defining clearly what the gathered evidence shows, as well as what the audit report and the accompanying press release should say.

The IADC methodology was introduced in the National Audit Office of the United Kingdom<sup>3</sup> in 1993. The approach was derived in part from concepts developed by Barbara Minto in her publication on the *Pyramid Principle*<sup>4</sup>

and has been increasingly used by other audit institutions, including the European Court of Auditors.

### Workshop on IADC in collaboration with the Wales Audit Office

A workshop was recently organised by the NAO (Malta) in collaboration with the Wales Audit Office (WAO) to discuss the principles and techniques of IADC.

Two trainers from WAO, Ms Sue Morgan and Mr James Verity, conducted the workshop in Malta, sharing their expertise and experience on applying the rigorous and structured approach of IADC to all the stages of a performance audit study.

Real projects were used as case studies during this two-day training event. NAO auditors had the opportunity to practice critical skills related to IADC, including the ranking of different issues, the challenging of ideas, as well as facilitation of IADC sessions.

### Application of the IADC approach

#### *Issue Analysis*

Issue Analysis takes place once sufficient information has been collected during the preliminary study stage to allow a substantive discussion of the issues that are relevant to the audit. The initial set of issues is typically arrived at through desk research, preliminary interviews with stakeholders, brainstorming and other creative thinking techniques.

The Issue Analysis process leads to the identification of the most appropriate overall question that the audit will address and a logical hierarchy of supporting questions. The starting point for Issue Analysis is the "*Situation-Complication-Key Audit Question*", a structure developed by Barbara Minto<sup>5,6</sup>:

- The *Situation* should include a brief, non-controversial descriptive statement aimed at reminding and inspiring readers. It should provide factual background information.
- The *Complication* represents the "*so what?*" factor,

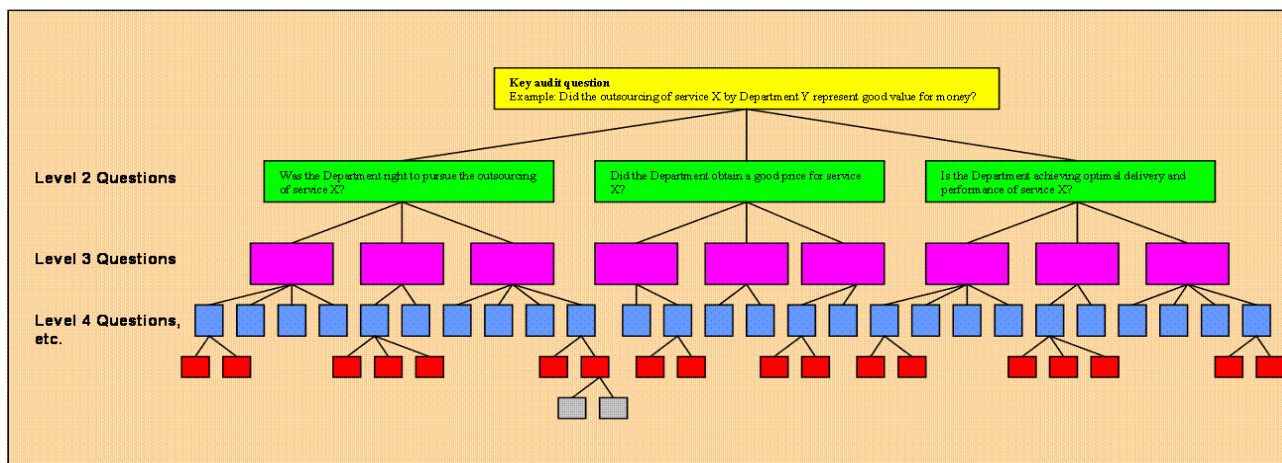
<sup>3</sup> National Audit Office (2003) User Guidance: The Issue Analysis and Dinner Party Approach (IADPTM). London: National Audit Office.

<sup>4</sup> Minto, B. (2002) *The Pyramid Principle: Present your thinking so clearly that the ideas jump off the page and into the reader's mind*. Harlow: Pearson Education Limited.

<sup>5</sup> Ibid. pages 37-49

<sup>6</sup> <http://www.barbaraminto.com>

Figure 1: The Issue Analysis Pyramid\*



\* According to Minto, issues at any level of the pyramid must always be summaries of the issues grouped below them. Furthermore, the issues in each grouping must always be logically ordered and of the same kind of idea. For more details refer to Minto, B. (2002) *The Pyramid Principle: Present your thinking so clearly that the ideas jump off the page and into the reader's mind*. Harlow: Pearson Education Limited pages 13-15.

that is a statement on what is complicating the situation. It should highlight what makes the study worthwhile.

- The overall *Key Audit Question* should be the obvious question that emerges logically after developing the Situation and Complication. Its purpose is to clearly indicate the main focus and scope of the study.

The overall structure of questions should take the shape of a pyramid (Figure 1) and the questions should be composed in a way that they are answerable “yes” or “no”. This is important in order to ensure sufficient rigour during the collection of evidence and to direct the audit team’s analysis towards the formulation of clear and specific conclusions on the area being audited. Using questions that are not answerable by “yes” or “no” (such as “how...”, “how well...”, “how effective...”, “what...”, “why...”) can lead to the risk that insufficient evidence is collected during fieldwork to answer conclusively the key audit question.

The issues should also be grouped using a logical ordering principle in order to provide overall structure and clarity of the issues below the big question. It is important to point out that there is no “correct” ordering of issues and there can be several ways of how to structure questions. A particular ordering approach might be more practical or suitable depending on the circumstances. What matters is that the selected ordering principle is valid and consistently applied.

Barbara Minto suggests three approaches to ordering thoughts in a logical manner<sup>7</sup>:

- *By time*: this is the simplest to understand as it shows the causes of an effect, be it chronological, systematic or part of a process, with issues being placed by order of occurrence (first to occur, second to occur, etc.).
- *By structure*: dividing the whole into parts and covering all the pieces in the structure, for example, dividing issues by Government entity, by relevant organizational functions, by stakeholder, by geographical location/distribution, by demographic subsets, or by using a particular framework (such as the COSO<sup>8</sup> or the EFQM<sup>9</sup> models);
- *By rank*: grouping (by order of importance) issues possessing to a different degree a key characteristic (such as three problems, four reasons, or five variables). These can be presented in the order in which they possess a characteristic: first, second, third, etc.

Furthermore, issues contained in the pyramid must always be *mutually exclusive* of each other (that is, different, distinct and not overlapping with one another) and *collectively exhaustive* (the answers to the sub-issues must be sufficient to answer the overall high level question).<sup>10</sup>

<sup>7</sup> Ibid. pages 93-112

<sup>8</sup> COSO stands for the Committee of Sponsoring Organizations, an organization that provides guidance on critical aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting.

<sup>9</sup> EFQM is the European Foundation for Quality Management.

<sup>10</sup> Ibid. page 96

In addition, the following two practical rules are also applied to the IADC approach:

- The “*Rule of Seven*”: The rule states that the number of sub-issues for any given issue in the pyramid should not exceed seven. The principle is intended to avoid situations whereby an issue is divided in an excessive number of sub-issues making it difficult for most readers or stakeholders to comprehend. If a high number of sub-issues are identified during Issue Analysis, these can be regrouped so that the Rule of Seven is not breached.
- The “*Rule of One*”: It is also important that the number of sub-issues always exceeds one. If the audit team finds that an issue is underpinned by only one sub-issue then the audit team may need to review how the issue has been formulated or else re-check the analysis to ensure that there are no missing sub-issues.

The role of the facilitator is critical for the success of an Issue Analysis meeting. S/he must possess skills in general facilitation to ensure optimal participation during the meeting. The facilitator should also be experienced with the IADC techniques as s/he will need to ensure that the rules are followed. Furthermore, the facilitator should not take a particular position in the discussion. S/he must keep the meeting focused on concepts, not letting participants get bogged down in low level issues and at the expense of more important top level issues.

#### *Using the approach to carry out the fieldwork*

Issue analysis is not an end in itself but a tool for identifying issues and designing fieldwork based on those issues.

Once the issue analysis pyramid has been developed to its lowest level, the audit team should use the established structure to identify the audit tasks that need to be carried out to complete the project. These tasks, once determined, are then used to define, for example, detailed fieldwork methodologies, evidence sources, resource requirements (including expertise), and the individuals who will be carrying out the tasks.

#### *Drawing Conclusions*

Drawing Conclusions should take place after audit fieldwork and analysis has been completed. The process is a bottom-up approach through which the full set of emerging audit findings (based on the initial issue analysis) are used

to determine what the high-level conclusions and headings should be and how they will be logically structured.

The rules of Issue Analysis discussed above (for example, use of a facilitator, the Rule of Seven, the Rule of One, issues must be mutually exclusive and collectively exhaustive, etc.) should also be applied to Drawing Conclusions.

The structure of the Drawing Conclusions pyramid can look different from the initial Issue Analysis pyramid partly due to the refinement of initial thoughts and also because other issues may have emerged during fieldwork and analysis.

Obviously, Drawing Conclusions can be carried out only when at least most of the fieldwork and analysis has been completed and the audit team has answers (“*Yes*”, “*No*” and perhaps a few “*Maybe*”) to all the issues and sub-issues.

The product of the Drawing Conclusions process should be a clear and interesting outline structure that encapsulates briefly all the key messages that will be included in the eventual audit report. The outline structure should be rigorous, reasonably brief but comprehensive enough to cover the following:

- The high level answer to the overall key question the audit set out to address
- The reasons for that answer presented in a clear and logical structure
- A summary of the actual evidence gathered during fieldwork to support the conclusions

NAO is making increased use of IADC techniques in its performance audit work

The IADC framework is being increasingly applied by NAO on a diverse range of performance audit studies. The approach requires sound preparation, good facilitation skills, focus, structured logical thinking and clarity. Our experience is showing that the additional work and rigour required by IADC invariably pays off during planning, fieldwork and report writing by helping our audit teams to produce well structured audit plans, findings and reports.