



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

**2010**

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## List of Abbreviations

ACCA	Association of Chartered Certified Accountants
ARABOSAI	Arab Organisation of Supreme Audit Institutions
ASKLM	Association for Local Councils Executive Secretaries Malta
ATC	Adult Training Centre
BRS	Bank Reconciliation System
BSC	Board of Special Commissioners
CAPAM	Commonwealth Association for Public Administration and Management
CISA	Certified Information Systems Auditor
CPA	Certified Public Accountant
CTDD	Capital Transfers Duty Department
DAS	Departmental Accounting System
DECC	Diesel Engine Combined Cycle
DLG	Department for Local Government
DoC	Department of Contracts
DSWS	Department for Social Welfare Standards
ECA	European Court of Auditors
ECDL	European Computer Driving Licence
EMC	Enemalta Corporation
EO	Education Officer
ESF	European Social Fund
ETC	Employment and Training Corporation
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
FEE	Fédération des Experts Comptables Européens (Federation of European Accountants)
FEMA	Faculty of Economics, Management and Accountancy
FSS	Final Settlement System
IAID	Internal Audit and Investigations Directorate
ICPAC	Institute of Certified Public Accountants of Cyprus
ICT	Information and Communications Technology
IFAC	International Federation of Accountants
INCOSAI	International Congress of Supreme Audit Institutions
INTOSAI	International Organisation of Supreme Audit Institutions
IPSL	Industrial Projects and Services Limited
ISA	International Standards on Auditing
ISACA	Information Systems Audit and Controls Association

ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
ITT	Invitation to Tender
KMS	Kunsill Malti għall-iSport (Malta Sports Council)
LCA	Local Councils' Association
LGA	Local Government Auditors
MCA	Malta Communications Authority
MCH	Mount Carmel Hospital
MEEF	Ministry of Education, Employment and the Family
MFEI	Ministry of Finance, the Economy and Investment
MITA	Malta Information Technology Agency
MRRA	Ministry for Resources and Rural Affairs
MS	Member States
MVPA	Moderate to Vigorous Physical Activities
NAO	National Audit Office
NAOM	National Audit Office Malta
NGO	Non-Government Organisation
NMC	National Minimum Curriculum
OPM	Office of the Prime Minister
PAC	Public Accounts Committee
PE	Physical Education
PI	Performance Indicators
SAI	Supreme Audit Institution
UN	United Nations
USP	Universal Service Provider
VAT	Value Added Tax
VFM	Value for Money

# Work and Activities of the National Audit Office - 2010



*Anthony C. Mifsud, Auditor General*

## Overview

As the external auditor of the Maltese public administration, the National Audit Office (NAO) audits public sector operations and provides Parliament with independent information, advice, and assurance on whether the statements and accounts of Government Ministries and Departments are free from material error, and whether public funds have been spent economically, efficiently and effectively without incurring unnecessary expenditure.

NAO is committed to providing professional auditing that is of high quality, timely and cost effective and to improving the performance and financial management of public sector entities. Over the past years, notwithstanding

the complexities of public sector auditing, the NAO has been able to maintain confidence in its reputation for independence, objectivity, knowledge and understanding of the public sector environment. Our audit reports assist Parliament in fulfilling its accountability function to the Maltese community and are designed to meet the evolving needs of Parliament, the Executive and public sector entities.

We are pleased to note that during 2010 we have managed to build upon the improved results achieved in 2009. We have published the Annual Audit Report on the Public Accounts 2009 together with a number of Performance Audit reports, one special audit, one investigation and two Audit Manuals (Annex A refers). In particular, we have completed a major and complex investigation relating to the Enemalta Corporation Tender for Generating Capacity.

To further support our work, we have also published a number of articles in local and foreign newspapers and journals on the salient features of a number of our Performance Audit reports. Moreover, it is pertinent to note that the major findings of our reports have received considerable media coverage.

We have also consolidated the Office audit methodology through the adoption of the Financial and Compliance and Performance Audit Manuals that were published in 2010. The guidelines contained in these Manuals set out the general principles and policies that govern the conduct of Financial and Compliance and Performance Audit work, and provide guidance to our auditors in carrying out their duties. Moreover, these Manuals provide an outline of the conceptual framework of the Office audit methodology, and describe how audits are selected, planned, conducted and reported upon.

The above results could not have been achieved without the availability of professionally qualified staff. NAO employees are qualified in various academic disciplines relevant to their work, including Accounting, Auditing, Management, Economics and Public Policy. Staff members are paid competitive remuneration packages supplemented by other financial incentives such as sponsorships, performance bonuses and responsibility allowances, as stipulated in the employees' Collective Agreement for 2008 - 2012. NAO awards sponsorships to its employees to further their studies in fields relevant to their work. The NAO also finances employees' attendance at local and foreign seminars, workshops and other audit-related events.

The NAO also strives to meet its environmental responsibilities through the appointment of a green leader to create environmental awareness within the NAO and the implementation of a plan of action for 2009-2011. This promotes eco-friendly practices within the Office. The Office has also intensified efforts to achieve a work-life balance for its employees by adopting a number of family friendly measures that balances work commitments with family responsibilities. This ensures that efficiency and effectiveness levels at NAO are not impaired.

The Office co-operates with the Parliamentary Committees with whom it interacts, namely the Public Accounts

Committee (PAC) and the National Audit Office Accounts Committee. The NAO also aims to strengthen its relationship with other professional institutions such as the Internal Audit and Investigations Directorate (IAID) and the University of Malta, in particular the Department of Accountancy at the Faculty of Economics, Management and Accountancy.

The Office endeavours to consolidate its participation in the international scene. Members of the staff attend various international conferences, congresses, seminars and workshops, as well as prepare country papers and specialised reports. This strengthens NAO's international presence. At the same time, NAO obtains increased exposure to practices and work methodologies employed by other state audit institutions in their audit work. Our participation in international events also benefits participants to enrich their knowledge and experience.

I would like to express my gratitude to the Deputy Auditor General, the management and members of staff for their continued support and assistance in the proper discharge of my Constitutional and legal mandate, as well as in the preparation of all reports presented to the Speaker of the House of Representatives.



Anthony C. Mifsud  
Auditor General

31 January, 2011



## The Role of NAO

### State Audit Legislation

Article 108 of the Constitution of Malta  
Auditor General and National Audit Office Act of 1997.

### NAO Mission

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

### NAO Vision

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

The functions and powers of the Auditor General and the role of the National Audit Office are defined by Section 108 of the Constitution and the Auditor General and National Audit Office Act of 1997. The Constitution and Act mandate the Auditor General to audit the accounts of all Government Departments and Entities administering, holding, or using funds belonging directly or indirectly to the Government of Malta as may be prescribed by or under any prevailing legislation.

The Act also entitles the Auditor General to undertake Performance Audits of systems, programmes, initiatives, projects or other activities relating to Central Government Departments and Offices and other public sector entities.

The Auditor General may also audit the operations of companies or other entities in which the Government of Malta owns not less than 51 per cent of the shares.

Furthermore, the Act enables the Public Accounts Committee of the House of Representatives or the Minister responsible for Finance to undertake an enquiry in any area related to public funds, as defined by the Act.

The audit of Local Government also falls under the responsibility of the Auditor General, as explained further on.

The National Audit Office is in essence a guardian of public funds and resources. Its purpose is not solely to identify shortcomings, but also to propose relevant recommendations to rectify them, as well as promote good practice, propriety, transparency, accountability, and value for money.



*Charles Deguara, Deputy Auditor General*

## The National Audit Office and Parliament

The relationship between the NAO and the House of Representatives is governed by the Auditor General and National Audit Office Act, 1997. Reports prepared by the Auditor General, including the Annual Audit Report on Public Accounts, Performance Audit reports, special reports and the annual report on the NAO's work and activities, are presented to the House of Representatives.

Cooperation between the NAO and Parliament should contribute to strengthening the role of the NAO in public sector financial management, control and auditing. This relationship is further strengthened by the fact that there are two bodies within the House of Representatives primarily concerned with the work of the NAO, namely the Public Accounts Committee (PAC) and the National Audit Office Accounts Committee.

### The Public Accounts Committee

The Parliamentary Public Accounts Committee (a Standing Committee of the House of Representatives) was established in March 1995 by means of an amendment, unanimously approved by Parliament, to the Standing Orders of the House of Representatives. This Committee is a mechanism which facilitates and encourages discussion and corrective measures to be taken on audit issues through the House of Representatives. In fact, the setting up of the PAC served as a catalyst to strengthen the audit function in Malta.

The PAC consists of seven members of Parliament, four from the members supporting the Government and three from the Opposition. The Chairman of the Committee is nominated by the Leader of the Opposition after consultation with the Leader of the House of Representatives.

The main roles of the Committee are to scrutinise and assess the financial administration of the public sector and to promote improvements, 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 powers of the PAC emanate from Standing Order 120E of the House of Representatives and include the authority to:

- inquire into matters relating to public accounts referred to it by the House of Representatives, a Minister or the Auditor General;
- examine the accounts of statutory authorities, including parastatal organisations;

- request the Auditor General to submit memoranda on any matter, provided that this is requested by at least three members of the Committee, and consider such memoranda;
- examine and act on reports made by the Auditor General; and
- report and make recommendations thereon to Parliament.

The PAC is charged with examining, *inter alia*, reports of the Auditor General, and hold hearings on these reports. In fact, most of the Committee meetings are focused on issues raised in the Annual Audit Report on Public Accounts, Performance Audit and Special Audit reports. Permanent Secretaries, Heads of Departments and their assistants are invited to participate in these PAC meetings to provide any information or explanations that may be required by the PAC chairman and/or members. The PAC thereby ensures that the 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. 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, 2010 twenty - nine PAC sittings were held during the current legislature. Minutes of Sittings are available on the website of the House of Representatives.

### The National Audit Office Accounts Committee

The Auditor General and National Audit Office Act provides for the setting up of the National Audit Office Accounts Committee.

This Committee is composed of:

- the Minister responsible for Parliamentary Affairs (known as the Leader of the House);
- the member of the House of Representatives who at the time is the Chairman of the PAC of the House of Representatives; and
- three members of the House of Representatives appointed upon a motion by the Leader of the House of Representatives: two members chosen from among members supporting the Government, while

the remaining member from among members of the Opposition.

The Committee is chaired by the Leader of the House of Representatives.

The main responsibility of the National Audit Office Accounts Committee is to review the annual estimates considered necessary for the running of the NAO prior to their consideration and approval by Parliament.

The audited Financial Statements of the NAO are also referred to the Committee. The NAO Financial Statements, 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 NAO's audited Financial Statements for financial year ending 31 December, 2008 and the NAO Estimates for 2010 were discussed by the Committee on Wednesday, 13 January, 2010. The NAO's audited Financial Statements for financial year ending 31 December, 2009 and the NAO Financial Estimates for 2011 were reviewed by the Committee on 7 December, 2010.

At least once a year, the Committee is also required to present to the House of Representatives (through its Leader) a report of its activities and a report of its examination of any estimates prepared by the Auditor General.

In terms of the Auditor General and National Audit Office Act, 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 reports upon the motions discussed to the House of Representatives. During 2010, the following meetings were held:

- Meeting dated 23 April, 2010 regarding the transfer of Dockyard and Manoel Island Yacht Yard Property.
- Meeting dated 30 June, 2010 regarding the renting out of property by Malta Industrial Parks Limited.
- Meeting dated 13 July, 2010 regarding the modification of contract of award under temporary emphyteusis of Fort Chambray and adjacent land in the limits of Għajnsielem, Gozo.

The Auditor General also attends the Committee's Sittings, along with other members of his staff, as may be required.

## The National Audit Office Audit Strategy and Policy

In order to fulfil its Constitutional and Legislative mandate, the National Audit Office has included the following key elements as the basis of its overall audit strategy:

- The encouragement of a professional relationship between the NAO, the auditee, Parliament, the PAC and other users of NAO reports.
- The selection of appropriate audit areas to fulfil the audit mandate comprehensively, such as the audit of public sector financial performance, the analysis of key indicators of efficiency and effectiveness of selected public sector entities, the review of entity systems and processes, the performance of special and investigative reports, and the review of public sector entity compliance with rules and regulations of public sector entities.
- The choice of relevant, complete and reliable audit criteria on which to benchmark and measure the subject matter under review.
- The implementation of procedures designed to obtain sufficient and appropriate audit evidence on which to base the audit opinion.
- The preparation of a written report that contains the conclusions of the audit carried out.

## Public Sector Audits

In order to fulfil its mandate effectively, the NAO undertakes various types of audits designed to provide assurance to Parliament on the accounting and use of public funds. These audits can be classified under the following categories:

- Financial and Compliance Audits
- 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 and 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. These audits provide

independent reasonable assurance about whether the Treasury, Government Ministries/Departments, and other entities properly account for the money that Parliament has authorised and that such funds have been expended as approved by Parliament.

The objectives of Financial and Compliance Audits are to enable the auditor to express an opinion on the:

- fair presentation in the Financial Statements of an entity's financial position at year end and its financial performance for the period then ended;
- financial accountability of the Government administration as a whole;
- administrative and internal control systems, including internal audit functions;
- maintenance of the financial records of an entity;
- compliance of entity with the laws, regulations and other directives pertaining to the entity; and
- integrity and appropriateness of administrative decisions taken within the audited entity.

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. 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 2010 in respect of financial year ending 31 December, 2009 were reported upon in the Annual Audit Report on Public Accounts 2009. This was published and presented to the Speaker of the House of Representatives on 17 November, 2010 and incorporated findings on a number of Government Ministries/Departments and public entities (Annex B refers).

The following paragraphs outline the work being undertaken by the Financial and Compliance Audit Section and comprise the following:

- Certification of the Government Annual Financial Statements
- Audit of the Government Financial Report

- Audit on Government Corporate Issues
- Audits on Capital Projects (Technical Audits)
- Audits of Local Government
- Audits of Non-Government Organisations
- EU-related Audits

## Certification of the Government Annual Financial Statements

The Government Annual Financial Statements are prepared by the Accountant General in terms of Article 65 of the Financial Administration and Audit Act (Chapter 174 of the Laws of Malta). These statements are to be prepared not later than three months after the close of the financial year ending 31 December. The Government Annual Financial Statements include the following returns:

- A statement of the Consolidated Fund Account as compared with that of the preceding financial year.
- A statement of the receipts and expenditure of any fund or account created by the Financial Administration and Audit Act or by any other law.

Article 1(c) of the First Schedule of the Auditor General and National Audit Office Act requires the Auditor General to tally the Treasury books with the statements prepared by the Accountant General and forwarded to him. The Auditor General also certifies and has to return these statements to the Accountant General within two weeks after the receipt thereof. The Accountant General presents these Financial Statements to the Minister of Finance, the Economy and Investment (MFEI) to be then published in the Government Gazette.

The certification carried out by the Auditor General on these Annual Financial Statements is of a substantive nature. At this stage, the NAO examines and reconciles the figures in the Treasury Books against the relative figures found in the records of the consolidated data in the Departmental Accounting System (DAS). Detailed testing relating to Sinking Funds of Foreign Loans and Contingency Fund is done at this stage to ascertain correctness of figures.

Each statement in the Annual Financial Statements is certified as "*examined and found to agree with Treasury Books*" and signed and dated by both the Auditor General and the Accountant General.

In the event that the Auditor General objects to any part of these statements, by virtue of Article 1(d) of the First Schedule of the Auditor General and National Audit Office



Act, he certifies the same, however with such remarks as he deems fit. The Annual Financial Statements would then be presented to the House of Representatives and published together with such remarks.

### **Audit of the Government Financial Report**

The Government Financial Report statements and accounts, which are prepared on a cash basis, are submitted to the National Audit Office by the Accountant General in terms of Section 67 of the Financial Administration and Audit Act. This report is to be published not later than the end of June of the year subsequent to the year end (which is 31 December).

The NAO undertakes the audit of the Financial Report following a materiality and risk assessment at both Financial Statement and Account Balance level. The audit of this report aims to:

- provide an analysis of the Government Financial Statements and Accounts;
- verify whether the statements and accounts properly present Government financial activities; and
- identify any material shortcomings relating to regularity, propriety and financial control.

The audit and analysis of the Financial Report is carried out through a comparative analysis of figures, analysis of information against supporting documentation (such as MFEI/Treasury Department files and DAS records), information obtained from audit examiners of the individual Government Ministries/Departments, interviews, analytical procedures and other tools and techniques.

Audit tests are designed to determine with reasonable assurance whether the Financial Statements are free from material misstatement and irregularity. At the end of the audit, the Auditor General expresses an opinion on the Financial Report.

The audit of the Financial Report is complementary to the audit of individual Government Ministries and Departments. In fact, the accuracy of figures in the Financial Report is very much dependent upon the proper accounting and adherence to Government financial rules and regulations made by the individual Ministries and Departments.

Comments on the Financial Report which typically feature in the NAO Audit Report (Annex B refers) relate to:

- explanations relating to the Consolidated Fund shortfalls in ordinary revenue as compared to the Budgetary Revenue Estimates;

- explanations of excess expenditure over revised Estimates;
- the bank reconciliation of the Public Account held at the Central Bank of Malta;
- audit comments on certain Financial Report Statements, dividends on investments, advances, unallocated stores, bank and cash year end balances, public debt, public deficit, foreign loans and grants and statement of abandoned claims, cash losses, as well as stores written off; and
- results of reviews of internal control procedures.

### **Audits on Government Corporate Issues**

The audit of Government-wide (corporate) issues comprises the examination of matters that are common across Government Divisions, Departments and Offices. Such activities include overseas travel on official business, transport, hospitality, training, personal emoluments/allowances, as well as arrears of revenue due to Government.

Audit results of Government-wide issues, including comments on observed departures from standing rules and regulations and the identification of any irregularities, together with calls for remedial action, are normally brought to Parliament's attention by the Auditor General in the Annual Audit Report on the Public Accounts (Annex B refers). Nonetheless, stand-alone reports on corporate issues may also be issued.

### **Audits on Capital Projects (Technical Audits)**

Expenditure of a capital nature is generally related to the following:

- Infrastructural, i.e. civil engineering works which include building of schools, hospitals and extensions to road networks.
- Social, i.e. expenditure for the well being of the society in general, for example, embellishment works, restoration of historical sites and initiatives concerned with the cleanliness and upkeep of the environment.
- Productive investment, i.e. expenditure which includes subsidy schemes to enhance economic activity and promote investment in key industrial public sectors.

Although these categories of expenditure are quite distinct, their objectives may sometimes overlap. Therefore capital works/projects can also include a mixture of different activities, such as a combination of infrastructural and social works.

Capital projects are assessed by using common criteria such as benefits recouped from the project, an accurate definition of project scope that is directly related to project benefits, timeliness in execution or implementation, and the monitoring of project cost and quality, irrespective of their size and entity.

Audits of capital projects may contain both regularity and/or value for money elements. Such audits may also be of an investigative nature, especially if there are alleged fraudulent activities going on, as may be reported upon by the media, the public, Government or Parliamentary (particularly PAC) sources. The use of experts (such as architects and civil engineers) is common in these types of audits, particularly when site inspections are necessary. An example of such an investigation concluded in 2010 is the Investigation relating to the Enemalta Corporation Tender for Generating Capacity.

During 2010, a number of audits were carried out on capital accounts alongside the audits on recurrent expenditure. For instance, an audit of the transactions of one capital account falling under the responsibility of the Tourism Department was audited in conjunction with the review of operational and maintenance expenses incurred by that Department.

## 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 appoints duly qualified persons (known as Local Government Auditors) to audit the accounts of Local Councils. This appointment, which is done following a call for tenders 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.

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

There are three types of audits on Local Government carried out by the NAO, and these are described below.

### Financial Audits

Financial Audits relating to Local Government are split in two:

- Annual Financial Audit, i.e. the annual audit upon which the opinion on the Financial Statements of a Local Council is based and the drawing up of a management report thereon is made. During financial period from 1 April, 2009 to 31 December, 2009, audits were carried

out on the 68 Local Councils. A summary of the audit results is found in the Annual Audit Report for Public Accounts 2009.

- 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.

As a result of amendments approved by Parliament during 2009, the Local Councils' financial year has been altered to a calendar one as from the year 2009, thus ending on the 31 December.

### Mid-Term Audits

These types of audits are carried out whenever an Executive Secretary terminates his employment with the Local Council and another Secretary is appointed. 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 Mdina, Mtarfa and Safi in Malta and Fontana and Ghajnsielem in Gozo had a change of Secretary during the financial period from 1 April, 2009 to 31 December, 2009. However, in all cases, the change occurred on 31 December, 2009, therefore no mid-term audits of these Local Councils were required. In 2010, there was a change in the Executive Secretary in the Local Councils of Birkirkara, Cospicua, Luqa, Marsascala, Mgarr, Mosta, San Pawl and Sliema in Malta and Kerzem in Gozo.

## Audits of Non-Government Organisations (NGOs)

The National Audit Office carries out Financial and Compliance Audits of various NGOs. The main aim of such audits is to ensure that public funds granted in the form of donations or subsidies to organisations are utilised for the specific purpose for which they were granted.

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* regulations.

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 it, this Act also provided for the set 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 may 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 licences. The relative legislation regulating the set-up of each NGO clearly defines the person responsible to ensure that proper records and books of accounts 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 stop granting the subsidy to the specific entity until the default is corrected.

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

Reference may be made to the Annual Audit Report for Public Accounts 2009 (Annex B refers) for audits reported upon in this category. During 2010, NAO carried out audits of the Financial Statements of the Ombudsman for 2009, of Conservatorio Vincenzo Bugeja Financial Statements 2008 and of Co-operatives Board Financial Statements 2006 to 2008.

### European Union related Audits

Apart from statutory audits, the NAO may carry out audits related to EU Funds. Such audits are usually identified in the annual NAO Audit Programme for the respective year. In 2010, NAO carried out a Financial and Compliance Audit on the Malta South Sewage Treatment Infrastructure Project to be co-funded under the EU Cohesion Fund 2007-2013. This audit was finalised and published in the Annual Audit Report for Public Accounts 2009 (Annex B refers). Moreover, two other EU-related audits were issued in 2010, one report on the *"Performance Audit: Implementing Producer Responsibility for Packaging Waste in Malta"* and one special report on *"Malta's Renewable Energy Contingent Liability - Potential Costs relating to the non-attainment of the EU's mandatory 2020 targets."*

The NAO carries out audits related to EU Funds whenever it is requested by the PAC or through specific instructions from the Auditor General (for example, in those cases where extensive media coverage has been given to a particular EU project/issue). Furthermore, prior to a visit from the European Court of Auditors (ECA), the Office

usually carries out a systems overview of the Fund/Issue to be audited.

Audits on EU Funds granted to Maltese entities are also carried out by the ECA. In such cases, the NAO provides assistance by making the necessary arrangements with the audited body, as well as ensuring that all information requested by the ECA is submitted by the audited body. The relationship between the ECA and Supreme Audit Institution (SAIs) of EU Member States is regulated by Articles 285 and 287 of the Treaty on the Functioning of the EU.

NAO examiners participate in a mainly observer capacity basis during parts of 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.

In 2010, the Office assisted the ECA in an audit mission carried out at the Paying Agency of the Ministry for Resources and Rural Affairs concerning financial year 2009 on the audit of the documentary and on-the-spot check of three Single Payment Scheme beneficiaries.

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

### Financial and Compliance Audit Manual

The Financial and Compliance Audit Manual has been updated and issued in March 2010. This Manual is the primary source of NAO policy and guidance relating to the performance of the NAO Financial and Compliance audits. The current Financial and Compliance Audit Manual incorporates all NAO policies and practices relating to the carrying out of Financial and Compliance Audits and requires compliance with International Standards on Auditing (ISAs), and International Standards of Supreme Audit Institutions (ISSAIs) in the conduct of such audits.

The Manual also describes in some detail a number of NAO related issues such as the respective role and functions of the Auditor General and of the NAO, the organisation structure of the Financial and Compliance Audit Section, training and development of staff and media relations. It also discusses in detail the different types of Financial and Compliance Audits undertaken by the Office and the related methodology in the undertaking of such audits. The Manual is supplemented with Appendices that include the Financial and Compliance Audit programmes, as well as standard working papers and forms being utilised by the Section.

An article on the NAO Audit Manuals was published in the 2010 edition of the EUROSAI Magazine. Further details are to be found under the Section “Articles prepared by the NAO” on page 31.

## Performance Audits

Performance Auditing at the NAO is carried out in terms of Paras 3, 6(iv), 6(v), 8(a)(ii), and 9(a) of the First Schedule of the Auditor General and National Audit Office Act, 1997:

- Para 3 states that “*The Auditor General may examine whether the department, office or other body whose accounts are being audited by him has used the funds and resources available to it effectively, efficiently, and economically without incurring expenditure which is unnecessary.*”
- Para 6(iv) stipulates that NAO audit reports should bring attention to instances where “*public monies have been expended uneconomically or without due regard to effectiveness and efficiency.*”
- Para 6(v) further stipulates that instances where “*satisfactory procedures have not been established to measure and report the effectiveness of expenditure programmes, where such procedures should reasonably have been established*” are also to be mentioned in NAO audit reports.
- Para 8(a)(ii) states that “*The Auditor General may make special reports to the House of Representatives.... dealing with value for money audit relating to efficiency and effectiveness of any department, office or body.*”
- Para 9(a) stipulates that “*The Auditor General may either personally or through the National Audit Office, on the initiative of the Auditor General himself or at the request of the Minister responsible for finance or of at least three members of the Public Accounts Committee or such other Committee of the House of Representatives that may from time to time replace such committee, inquire into and report on: (i) 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....*”

The primary objective of Performance Audit is to provide Parliament with independent assurance and opinion about the economy, efficiency and effectiveness of public sector related activities. Another objective is to encourage audited bodies to improve their performance and achieve greater value for money from the use of resources.

The NAO Performance Audit function derives its existence, scope and objectives from the Office Vision and Mission Statements, and the mandate of the Auditor General in terms of the Auditor General and National Audit Office Act.

## 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 (VFM) 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 the Auditor General. To date, the NAO was constrained from conducting VFM audits on Local Councils since the necessary performance indicators are still not in place.
- 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 Manual

The Performance Audit Manual was finalised and issued in August 2010. The Manual provides guidance on the approach to be applied by the Office in the conduct of such audits. It deals with the multiple aspects to Performance Auditing, such as the legal basis, concept and types of Performance Audit, the principles and standards underlying NAO Performance Audit work, the organisation structure of the NAO Performance Audit Section, the NAO Performance Audit process (planning, implementation and reporting), and the audit methodology, tools and techniques to be applied during each stage of the audit process. The Manual also discusses the application of a new audit approach to Performance Auditing by NAO, namely the Issue Analysis Drawing Conclusions methodology. This approach involves two specific processes: the Issue Analysis process and the Drawing Conclusions process. This Manual also includes a number of Appendices incorporating NAO-related legislation and the Section’s standard documentation and forms.

An article on the NAO Audit Manuals was published in the 2010 edition of the EUROSAI Magazine. Further details are to be found under the Section “Articles prepared by the NAO.” on page 31



## Performance Audit Publications issued in 2010

During 2010, NAO published the following Performance Audit Reports:

- *Inter Vivos* Transfer of Property published in February, 2010
- Physical Education and Sport in State Primary and Secondary Schools published in May, 2010
- Child Care Arrangements for Public Employees published in July, 2010
- Implementing Producer Responsibility for Packaging Waste in Malta published in September, 2010
- Malta Communications Authority Regulation of the Universal Postal Service published in October, 2010

Summaries of the five reports are found in Annex C.

## 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:

- i. 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;
- ii. accounts and Financial Reports which are in virtue of or under any law laid before the House of Representatives;
- iii. the accounts of those public authorities or bodies administering, holding or using funds belonging directly or indirectly to the Government of Malta;
- iv. the operations of companies or other entities in which the Government owns not less than 51 per cent of the shares; and
- v. 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.

In 2009, the PAC requested the Auditor General to investigate the process relating to the award of tender of the Enemalta Delimara Power Plant Extension. The investigation was concluded in 2010 and a special report "*Investigation relating to the Enemalta Corporation Tender for Generating Capacity*" was issued by the Office in April 2010. The Special Audit Report "*Malta's Renewable Energy Contingent Liability - Potential Costs relating to the Non-Attainment of the EU's Mandatory 2020 Targets*" was also issued by the Office during June, 2010.

Summaries of these reports are found in Annex D.

## IT Audits

The IT Unit was involved in an audit at the Department of Social Security within the Ministry of Education, Employment and the Family. Another audit was carried out on the Public Account Bank Reconciliation System used by the Treasury Division within the Ministry of Finance, the Economy and Investment. Further details on these audits are to be found on page 42.

## Report downloads

Published audit reports are placed on the NAO website on the day following their publication. The contents of these reports generate interest from the general public who download these reports from the Internet. Table 1 shows the total number of downloads as on 31 December, 2010 in respect of each audit report published in 2010.

**Table 1: Report Downloads**

2010 Publication Date	Report Description	Downloads
January	Report on the Works and Activities of the National Audit Office 2009	766
March	Performance Audit: Inter Vivos Transfer of Property	450
April	Enemalta Corporation Tender for Generating Capacity	1,286
May	Performance Audit: Physical Education and Sport in State Primary and Secondary Schools	424
June	Malta's Renewable Energy Contingent Liability – Potential costs relating to the non-attainment of the EU's mandatory 2020 targets	375
July	Performance Audit: Child Care Arrangements for Public Employees	399
September	Performance Audit: Implementing producer responsibility for packaging waste in Malta	181
November	Performance Audit: Malta Communications Authority – Regulation of the Universal Postal Service	121
November	Annual Audit Report of the Auditor General – Public Accounts 2009	485



The Report on the Works and Activities of the National Audit Office 2009 and the Report on Enemalta Corporation Tender for Generating Capacity have registered the highest number of downloads for 2010. Moreover, in the case of seven reports out of the nine reports published, the number of downloads exceeded the 300 mark.

## NAO's Human Resources

The NAO's main asset is its human resources. On 31 December, 2010, the NAO had a staff complement of 52 employees, in addition to the Auditor General and his Deputy. The staff complement comprises 2 in senior management, 35 employees working in the Audit Sections, and 15 in administrative, Information and Communications Authority (ICT) and support services. The staff has a broad range of academic and professional backgrounds and experience.

The NAO audit function is divided into two main Sections. One Section is responsible for Financial and Compliance Audits and is headed by Ms Vanessa A. Tonna, Assistant

Auditor General. The Section consists of four Audit Units, each headed by an Audit Manager. Three Units have a portfolio of a number of Ministries and Government Departments. One of these Units is also responsible for the audit of Local Government and other Public Bodies. The fourth Unit is responsible for Special Audits and Investigations.

The other Section, headed by Mr Brian Vella, Assistant Auditor General, is responsible for Performance Audits. The Section is also responsible for International Relations and Research.

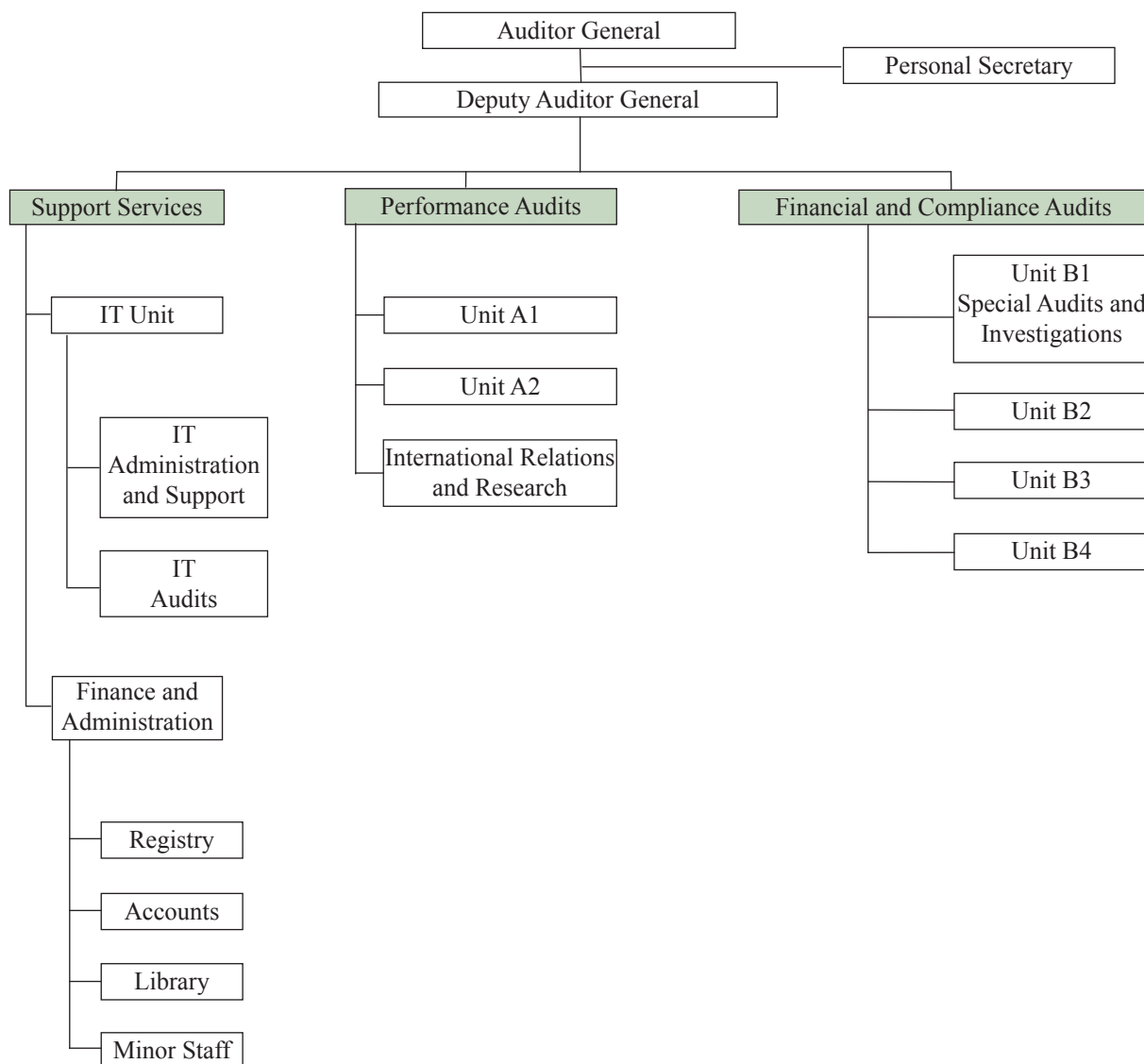
The Organisation Structure of the NAO, as on 31 December, 2010 as shown in Diagram 1, reflects the division of duties in terms of the statutory audit of Financial and Compliance Audits, Special Audits and Investigations, and other legislative provisions relating to Performance Audits.

Other Units and functions fall under the Support Services Section which includes Finance and Administration, Human Resources, Training and Development, and Information and Communications Technology. Staff Complement, as on 31 December 2010, is depicted in Table 2.

**Table 2: Staff Complement**

Grade Position	In Post	Male	Female
<i>Senior Management</i>			
Assistant Auditor General	2	1	1
<i>Auditing Grades</i>			
Manager	6	4	2
Principal Auditor	12	4	8
Senior Auditor	5	2	3
Associate Auditor	6	1	5
Assistant Auditor	4	1	3
Audit Clerk	2	1	1
<i>Support Services</i>			
Manager	1	1	-
Senior Principal	1	1	-
Principal Auditor IT	1	-	1
IT System Administrator	1	1	-
Personal Secretary	1	-	1
Assistant Principal	2	2	-
Senior Executive	3	-	3
Receptionist	1	-	1
Minor Staff	4	4	-
<b>Total</b>	<b>52</b>	<b>23</b>	<b>29</b>

**Diagram 1: NAO Organisation Structure**



**Staff Recruitment and Mobility**

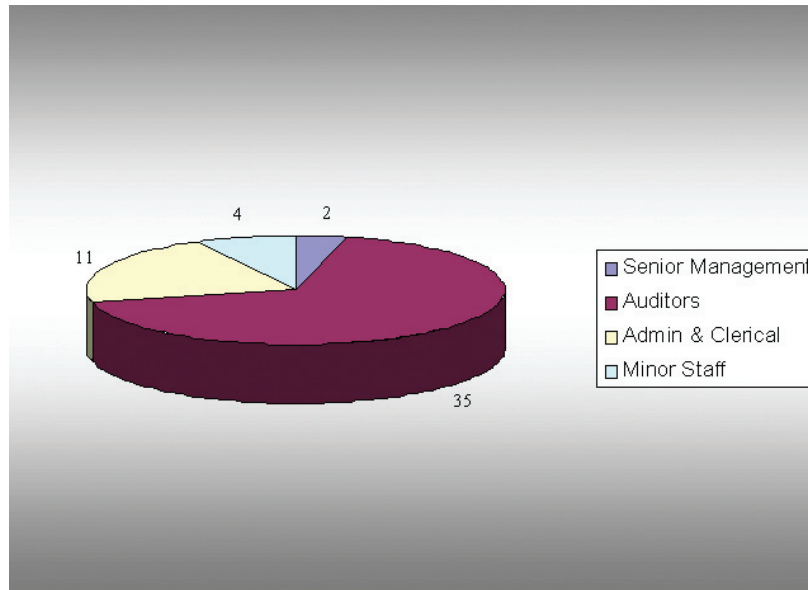
The total number of staff, as on 31 December, 2010, stood at 52. The percentage of female staff has gone up to 54% in 2010 from 52% in 2009. During 2010, the NAO continued with its programme of recruiting professionally qualified and suitably experienced staff. Notwithstanding this, a number of vacant positions still remain within the auditing grades.

It is NAO’s policy to fill vacant positions from its employees by issuing an internal call for applications. External calls for applications from the open market are only made when vacant positions cannot be filled in internally. External recruitment is made through advertising in newspapers, the Government Gazette and on-line via the NAO website.

In 2010, six internal calls for applications were issued for filling vacancies in the Systems Administrator grade within the Information Technology (IT) Unit, Principal Auditor grade within the Special Audits and Investigations Unit, Senior Auditors within the Financial and Compliance Audit Section, Senior Auditor grade within the Performance Audit Section, the Principal Auditor IT in the IT Unit, and the Audit Manager grade within the Performance Audit Section. The first three grades were filled internally while an external call for applications had to be issued to fill the other three grades.

Up to 31 December, 2010, within the Financial and Compliance Audit Section, one Audit Manager and one Assistant Auditor were recruited. There were four resignations during the year. Two of these employees joined European Institutions in Brussels and The Hague.

**Diagram 2: NAO Staff Complement by Category**



Furthermore, the Audit Manager responsible for the Special Audits and Investigations Unit reached retirement age. Moreover, as on 31 December, 2010, one Audit Manager, one Principal Auditor and one Senior Auditor were on unpaid leave, three employees were on maternity leave, and one employee was on parental leave.

Diagram 2 indicates the composition of NAO staff as on 31 December, 2010.

**Age Composition of Staff**

The age composition graph as on 31 December, 2010, as indicated in Diagram 3, shows the NAO as a “young” organisation, with 33 employees or 63% of staff members aged below 39 years. The average age of the female employees is 34 years while that of the male employees is 43 years.

**Sick Leave**

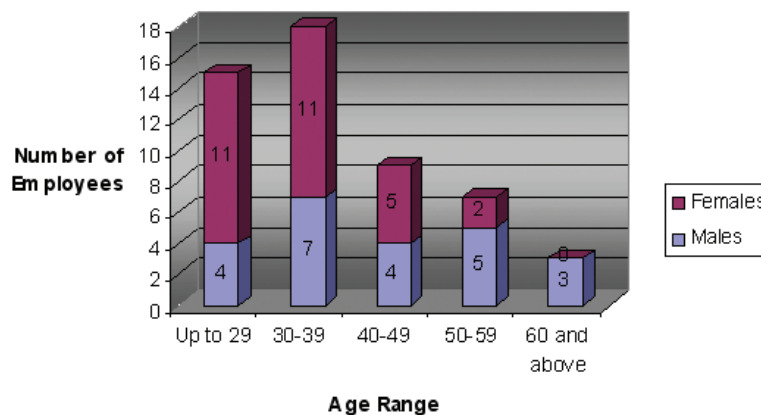
Sick Leave availed of by NAO employees has been on a downward trend over the past few years. It went down from 455 days in 2009, an average of 8.1 days per employee, to 320 days in 2010, an average of 6.1 days per employee (Diagrams 4 refers).

**Gender Equality**

It is NAO’s policy to maintain a working environment free of all forms of discrimination as required by the “Equality for Men and Women Act (Cap 456)”. All applicants are extended an equal opportunity to progress in their career.

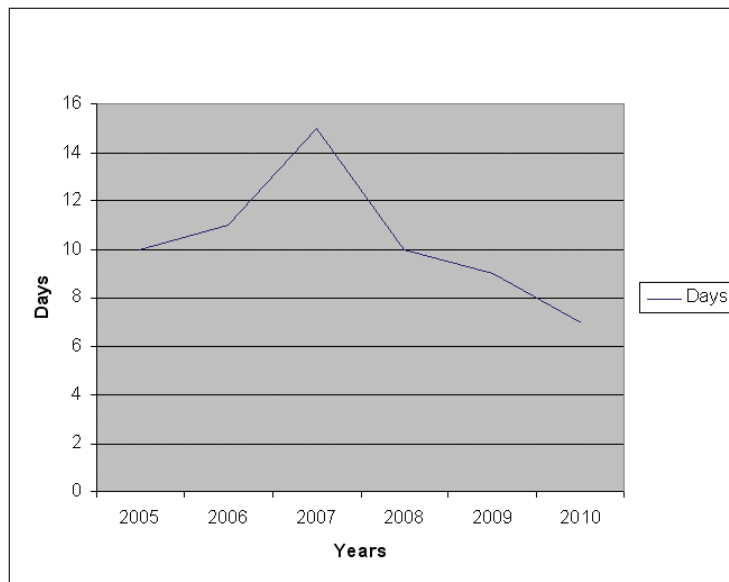
The NAO affords equal opportunity to both male and female employees in the following employment practices:

**Diagram 3: NAO Staff Complement by Age and Gender**





**Diagram 4: Sick Leave Trend**



recruitment, promotion, training, family-friendly measures, allowances and does not tolerate any form of discrimination.

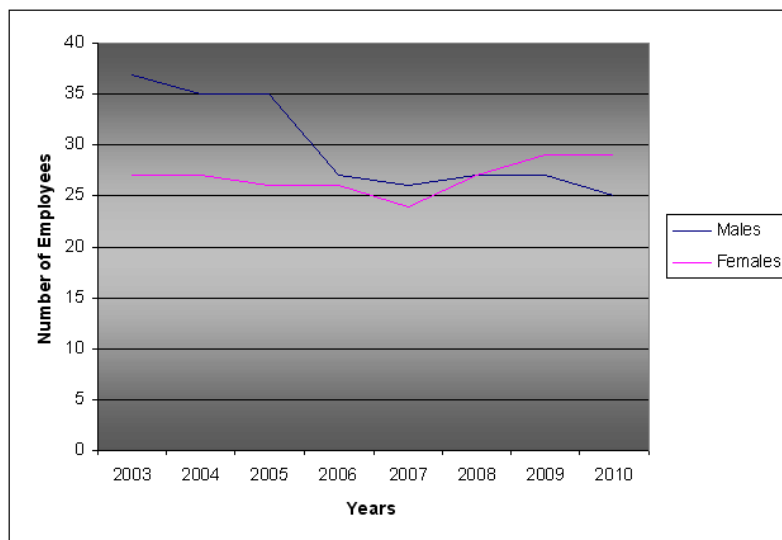
The NAO also promotes and encourages the implementation of family-friendly measures in order to help both its male and female employees achieve a better balance between their work and family life.

Diagram 5 shows the proportion of males compared to females over the years. As can be seen the number of female employees has, since 2009, exceeded the number of male employees.

**Equality Certified**

The NAO has been awarded the Certificate of Equality by the National Commission for the Promotion of Equality in conjunction with the European Social Fund (ESF). This certificate is awarded to those organisations that demonstrate a commitment towards gender equality, certifying them as true equal opportunities employers. A feature of this certification is the Equality Mark Logo which organisations can use in their publications and documentation.

**Diagram 5: Staff Complement by Gender**



## Legislation

Article 108(10)(a) of the Constitution of Malta provides for the setting up of the NAO. This article empowers 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 appoint such numbers and such classes of officers as he may deem necessary to assist him the proper discharge of his functions according to law. These officers enjoy such remuneration as the Auditor General may determine.

## A Professional and Diverse Workforce

The quality of NAO's work depends on the quality and expertise of the staff. Auditors from grade of Senior Auditors upwards within the Financial and Compliance Audit Section are qualified accountants. Moreover, most auditors within this Section are also in possession of the Certificate to Practice Auditing. On the other hand, the work of the Performance Audit Section demands a broad range of expertise and experience.

As well as qualified accountants, the NAO therefore has within its ranks staff with a significant range of disciplines including the following:

- Masters in Business Administration
- Masters in Business Administration E-Business

- Masters of Science in Management
- BA (Hons) Public Administration
- BSc (Hons) in Mathematics, Statistics & Operational Research
- BSc (Hons) in Mathematics & Computer Studies
- BSc (Hons) in Computing & Information Systems
- Bachelor of Commerce (Hons) in Management
- Bachelor of Commerce (Hons) in Business Management
- Bachelor of Commerce (Hons) in Management & Public Policy
- Bachelor of Commerce (Hons) in Economics
- Bachelor of Commerce (Hons) in Social Policy

Other employees hold Diplomas and other qualifications, including a Certificate in Information Systems Auditing (CISA), Certificate as a Microsoft Certified Technology Specialist, Certificate as a Microsoft Certified Systems Engineer, and Diplomas in Business Studies, Management, Public Administration, Taxation and Secretarial Studies.

On a personal initiative, Ms Dorianne Mamo, Principal Auditor within the Special Audits and Investigations Unit and Ms Gillian Scerri, Senior Auditor within the Performance Audit Section graduated in Executive Masters in Business Administration in 2010.



*Dorianne Mamo*



*Gillian Scerri*

## ***Training and Development***

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. Management is continuously striving to identify current and future training and development needs to enable the employees to operate at the desired level and give them the opportunity to advance in their career.

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, Human Resources.
- 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.
- 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, and sponsorship of staff to attend local training events.

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

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

All staff members are encouraged to enhance their skills through continued professional development. During 2010, members of the staff attended seminars and training courses organised, *inter alia*, by the Malta Institute of Accountants, 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, Department of Industrial and Employment Relations, Malta Forum of Internal Auditors, and Institute of Internal Auditors.

## ***NAO Sponsored Courses***

Every year, the NAO awards sponsorships for further and continuing education. The system is based on applications from individual employees. In 2010 three employees were offered sponsorships in Masters of Arts Degree in Public Policy, Masters Degree in Financial Economics and Certification by the Association of Chartered Certified Accountants (ACCA). The Office invested €7,248 on sponsorships during 2010.

## ***European Computer Driving Licence (ECDL)***

In 2010, members of the staff were given formal core training in the European Computer Driving Licence (ECDL) in conjunction with the Employment and Training Corporation (ETC). ECDL is the European-wide qualification which certifies that the holder has knowledge of the basic concepts in using a personal computer and working with common computer applications. The syllabus is designed to cover the concepts of computing, its practical applications and their use in the workplace. Sixteen members of the staff, including two senior members, attended the course successfully and attained the ECDL certificate.

## ***Family-friendly measures***

The NAO embraces a family friendly environment as this enables its employees to have a balanced work commitment with family responsibilities. At the same time the NAO ensures that the necessary levels of efficiency and effectiveness at the NAO are maintained. With



these policies in place the NAO is retaining experienced employees thus ensuring continuity and improved productivity. Family friendly measures are applicable to all the employees. These measures include reduced hours, flexible hours and home-working.

### Flexible Working Hours Scheme

This Scheme is designed to provide employees with a degree of flexibility over their working hours within specified limits and help to achieve a “*work-life balance*”. It allows staff to vary their starting and finishing times to fit in with their outside commitments and at the same time fulfil their contractual commitments.

NAO recognises that it makes good sense to provide opportunities for its workforce to enjoy a better work-life balance. By introducing flexible working practices and benefits NAO can reap the rewards – increased morale, better effectiveness and productivity and an ability to embrace change.

### Performance Reviews

Although informal monitoring of the performance of staff by Managers is carried out during the year, formal performance reviews are carried out twice yearly. Managers, in their role as Reviewing Officers, are requested to prepare the performance reviews of their staff. The purpose of these reviews is to examine whether new circumstances have arisen which warrant a change in the Officer’s Key Tasks as highlighted in the Performance Plan for the year. The Performance Plans represent a tool with which to translate the tasks and objectives of each officer and to hold them accountable for achieving those targets.

To be effective, Reviewing Officers are required to rigorously review their officer’s performance on the basis of tangible achievements in relation to the officer’s key tasks and objectives. The Reviews also serve to identify any assistance or training opportunities which may be required to improve performance. Account is also taken of critical constraints, which might have hindered the officer’s performance.

### Engagement of Consultants

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

During 2010, the NAO availed itself of the services of the following consultants:

- A Legal Consultant was engaged on a retainer basis.
- A Management Consultant was engaged to assist in matters concerning conditions of employment and industrial relations and the Recruitment Selection Board.
- A retired Audit Manager, having extensive experience in the NAO, was retained to undertake *ad hoc* audits.
- An electrical engineer was contracted to give professional advice in the Enemalta inquiry.
- An architect and civil engineer was contracted to provide consultancy service in an audit in progress relating to repairs in arterial and distributor of roads.
- Another architect and civil engineer was contracted to give advice in the Performance Audit relating to *Inter Vivos* Transfer of Property.

## Financial Information

### The Estimates

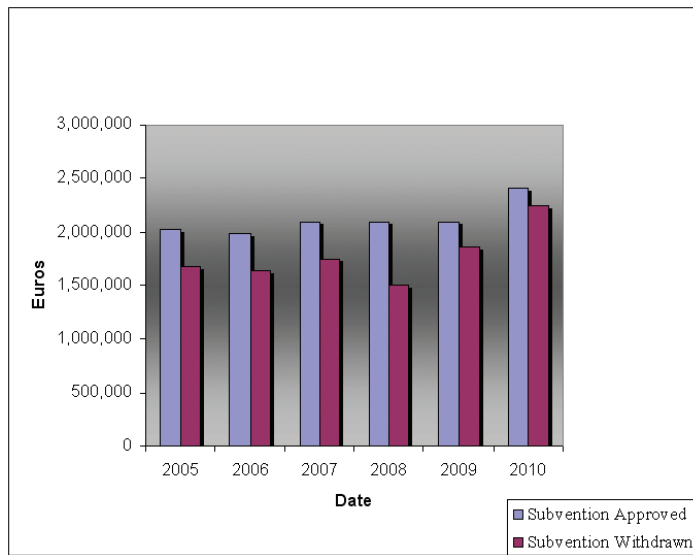
The Auditor General prepares an estimate of the sum that he considers necessary to meet the expenses of the NAO in terms of Part III, paragraph 8 of the SECOND SCHEDULE of the Auditor General and National Audit Office Act (CAP 396). He then presents the estimates to the National Audit Office Accounts Committee set up in terms of Part IV of the SECOND SCHEDULE. The estimates are then referred by the Committee to the House of Representatives for its consideration.

### Actual Operational Expenditure

As can be seen in the Diagram 6 graph - “*Actual Operational Expenditure*”, the NAO has always been prudent in the withdrawal of funds. Although the NAO is entitled to withdraw the full amount as approved by the National Audit Office Accounts Committee, the Office only utilises the funds that are necessary to sustain its operations.

The operating expenditure of the National Audit Office consists mainly of three main elements – Personal Emoluments, Local Councils Audit Fees and Administrative Expenditure.

**Diagram 6: Actual Operational Expenditure**



As can be seen from the pie chart in Diagram 7, Personal Emoluments account for the largest share of operating expenditure, and the amount of funds withdrawn depend to a large extent on the staff complement during that year.

### Office Library

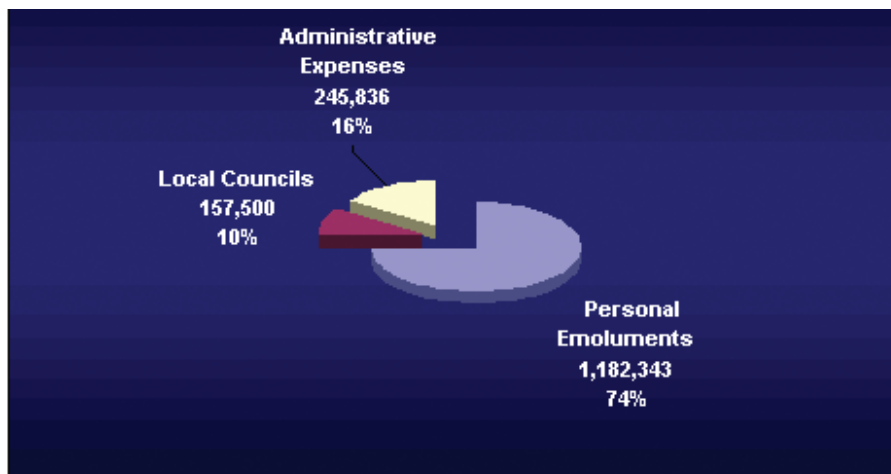
The library serves as a reference and central depository equipped with manuals, books on auditing, information technology, accounting and other publications to assist and update audit staff in their work. Of particular relevance are Performance and Financial and Compliance Audit Reports published by other SAIs, as well as standards and guidelines produced by the International Organisation of Supreme Audit Institutions (INTOSAI) and International Federation of Accountants (IFAC). The librarian acts also as a public relations officer.

### 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 Unit has contributed to the activities of the IT Strategy Steering Committee. An IT auditor is a member of the Committee.

**Diagram 7: Actual Management Accounts**



### *IT Administration and Support*

The IT Unit caters for desktop support services, including configuration and support of the office automation applications used by NAO staff.

The Unit has implemented a number of developments in the IT infrastructure. In consultation with Malta Information Technology Agency (MITA), the NAO IT Unit in collaboration with a third party supplier upgraded the server infrastructure, increasing the hard-disk space and the processing power whilst adding a redundant directory service to satisfy the needs of NAO employees. Moreover, the IT Unit took over the management of NAO's Active Directory from MITA and has carried out all the necessary server operations support.

Furthermore, the IT Unit performed a number of Website and Intranet updates so as to keep both the general public and the NAO staff up-to-date with reports issued by NAO's various auditing sections.

### *IT Audits*

The IT Auditing Unit assists in the carrying out of audits with a strong IT component.

Two such audits, one on the Department of Social Security within the Ministry of Education, Employment and the Family, and the other on the Government Bank Reconciliation System were finalised in 2010 and included in the Annual Audit Report on Public Accounts 2009.

The results and recommendations of these audits can be seen in Annex B.

### *Printing of Publications*

The IT Unit is also responsible for coordinating 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 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*

The IT Steering Committee is chaired by the Deputy Auditor General and includes the two Assistant Auditors General, the Manager, Finance and Administration, the Audit Manager, Special Audits and Investigations Unit, as well as an IT Auditor.

In 2010, the NAO IT Steering Committee implemented the ECDL Core Training for a number of NAO staff. Moreover, training sessions on Data Protection obligations were also held for all NAO audit staff.

### *National Audit Office Senior Management Seminar*

A seminar for NAO senior management was held on 10 June, 2010. The objective of this annual seminar was for senior management to explore ways of continuously achieving better results in the work of the Office and for participants to reflect on the external role of the NAO, in particular its relevance to stakeholders.

The key-note speeches were delivered by the Hon Tonio Fenech, MP, Minister of Finance, the Economy and Investment, and by the Hon Dr Charles Mangion, MP, Shadow Minister of Finance and Chairman of the PAC. Both speakers discussed extensively the theme "*The Role of the National Audit Office in the present global Financial Crisis.*"



*NAO Senior Management Seminar on 10 June, 2010*





*Visit by the Hon Dr Micheal Frendo, Speaker of the House of Representatives to the NAO on 22 July, 2010*

The Seminar was also addressed by the Auditor General who provided a brief outline of developments at the NAO over the previous 20 months since his appointment as Auditor General. Moreover, an Audit Manager delivered a presentation on “*My vision of the NAO in the coming decade*” where he highlighted a number of factors that in his personal view would assist senior management in determining the way forward for the Office.

During the seminar, participants presented their views and provided feedback on speeches and presentations, as well as discussed any relevant NAO-related issues.

The seminar was facilitated by Dr Edward Warrington, Head, Department of Public Policy, University of Malta.

### Visit to NAO by the Honourable Speaker of the House of Representatives

A courtesy visit by Mr Anthony C. Mifsud, Auditor General, Mr Charles Deguara, Deputy Auditor General and Dr Joseph Said Pullicino, Ombudsman was made on the newly appointed Speaker of the House of Representatives, Dr Michael Frendo on 3 May, 2010.

The Hon Speaker Dr Michael Frendo paid a courtesy visit to the NAO on 22 July, 2010. He was welcomed by Mr Anthony C. Mifsud, Auditor General, Mr Charles Deguara, Deputy Auditor General, and other NAO staff members. The visit coincided with the 196th anniversary of the setting up of the state audit function in Malta.



*Courtesy visit by Ombudsman, Auditor General and Deputy Auditor General to Hon Dr Micheal Frendo, Speaker of the House of Representatives, on 3 May, 2010*

The Hon Speaker conveyed his appreciation for the work being undertaken in various Ministries and Government entities and re-affirmed his ongoing support to the NAO.

The Hon Speaker also had the opportunity to meet the NAO's managers and members of staff and was informed how external auditors approach their audit assignments in Government Departments and Entities.

During his address, the Auditor General emphasised the excellent working relationship between his Office and Parliament, as well as the Office's commitment to continue ensuring the proper, efficient and effective use of public resources.

On his part, the Hon Speaker referred to the relationship between the National Audit Office and the House of Representatives. He underlined the importance of strengthening both institutions, to further enhance Malta's democracy within the context of the balance of powers in the State.

The Hon Speaker was presented with the new Financial and Compliance and Performance Audit Manuals prepared by the respective Sections of the NAO.

## Relations with other Auditors

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 (or is to be) reviewed by the IAID.

Moreover, the NAO may hold meetings with the representatives 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.

During 2010, four NAO staff members attended the course "*Anti-Fraud and Corruption, Train the Trainer Course*" organised by the IAID in collaboration with the Ministry of Defence Police and Guarding Agency UK.

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.

## Relations with the Accountancy Board

During 2010, NAO senior management held meetings with members of the Accountancy Board, during which audit work carried out by qualified accountants at the NAO was discussed. This Office is pleased to note that audit work carried out by NAO's qualified accountants has been recognised by the Accountancy Board as being relevant and valid for the purpose of acquiring the Certificate to Practise Auditing.

## Relations with the 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.

Annually, since 2008, the Auditor General presents an award for the best dissertation in Public Sector Accounting/Auditing submitted in partial fulfilment of the requirements of the accounting degree run by the Department of Accountancy at the FEMA, subject to the desired level being reached. In 2010, the award was presented to Ms Doreen Attard for her dissertation on "*Improving Public Sector Expenditure Efficiency Through Multi-Year Budgeting – An Evaluation.*"

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.

The NAO has also agreed with FEMA to provide lectures on public sector related themes during the more advanced stages of the University of Malta Diploma on Public Sector Accounting and Finance.

## Other Visits

Visits between the Auditor General, his Deputy and representatives of other organisations at the NAO also included the following:

- Courtesy visit by Dr Louis Galea, LLD former Speaker of the House of Representatives and current Maltese Member of the ECA on 19 April.
- Courtesy visit by the German Ambassador in Malta, H.E. Mr Bernd Braun on 27 April.



*Farewell visit by Dr Louis Galea, LLD to the NAO on 19 April, 2010*

- Meeting on Local Government with Council of Europe Representatives on 22 June.

Meeting on Information Systems Audit and Control Association (ISACA) Malta Chapter activities, including CISA, with ISACA Malta Chapter Board members on 2 December.

- Courtesy visit by former Directors of Audit/Auditors General and former Deputy Auditor General on 24 December.

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

NAO senior officials participated, in an ‘observer’ capacity basis, in meetings relating to the:

- Corporate Financial Management Solution Project Board;
- Accrual Accounting Task Force;

- Malta Government Accounting Standards Technical Advisory Committee; and

- Public Finance Management Act Steering Committee.

NAO, through its observers, provided its opinion on these Committees’ activities, where warranted.

### Participation in Office of the Prime Minister Standing Committees on Local Government Performance Indicators

In 2009 the Parliamentary Secretary for Consumers, Fair Competition, Local Councils and Public Dialogue launched the initiative for the introduction of Performance Indicators (PIs) in Malta. The proposed PIs which had been identified in the 2009 covered eight critical areas during the Local Government Reform consultation process: The Environment; The Road Sector; Education and Culture; Human Resources; Equal Opportunities and Non-Discrimination; Citizen Participation; Customer Relations Management; and Finance.



*Visit to NAO by former Directors of Audit/Auditors General and former Deputy Auditor General. Left to right: Brian Vella, Assistant Auditor General; John A. Bonnici, former Deputy Auditor General; Louis Spiteri, former Director of Audit; Anthony C. Mifsud, Auditor General; Joseph G. Galea, former Auditor General; Albert Mizzi, former Director of Audit; Charles Deguara, Deputy Auditor General.*



In October, 2009, the first Draft Proposal for the introduction of PIs across Local Councils was presented based on these eight critical areas. This working document was discussed during a two-day workshop organised in October, 2009 in preparation for the setting up of PIs to gauge Local Government services. For this workshop participation included representatives from the Department for Local Government (DLG), the Local Councils' Association (LCA), the Association for Local Councils Executive Secretaries Malta (ASKLM), other interested Mayors or Vice-Mayors and the National Audit Office (NAO). In addition, four experts from the Council of Europe participated in this event, sharing their experiences and expertise in the field.

Following the PIs workshop in October, 2009, the DLG convened its standing committees in order to discuss the introduction of the PIs further. NAO was invited to send officials to act as active observers in the standing committee, one from the Performance Audit Section and one from the Financial and Compliance Audit Section. In the opening meeting the Director of DLG explained that these meetings were aimed at continuing discussions on the possible areas that were selected in the October Workshop.

During the meetings each area of activity was read out by the Chair and participants were asked on how best to measure the area of performance in question and invited to suggest/comment. NAO mainly participated by commenting on methodological options and concerns related to the feasibility of the proposals. The meetings had focused on establishing draft indicators for each identified area.

The aim was that the selected PIs will measure progress by each Local Council in the selected areas of performance/activity against targets. The practice has been for a cluster of indicators to be used to measure each area mentioned in the eight critical areas referred to. Discussions were also being held on the criteria, on the measurement methodology for each indicator and on who will be responsible for the measurement. In addition, PIs which were not seen as being feasible were eliminated.

Following the conclusion of the standing committees on each critical area, a final meeting incorporating all the issues was to be set in 2010. However, following major shifts in the Department for Local Government, the Performance Indicators for Local Councils have still not been set up.

## Relations with the media

### *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. The extent of coverage depends on the

general interest in the audit subject matter. 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.

### *Articles prepared by the NAO*

In 2010, NAO staff prepared a number of articles on published Performance Audit reports that featured in local newspapers and foreign and local journals. These articles included:

- *Evaluating the Development of Child Care Arrangements for Public Employees* – Article for the *Sunday Times* on 1 August, 2010 (Cover page of the Classified Pages Supplement) – Annex E
- *Child Care Arrangements for Public Employees* – Article for the *Economic Update* of August, 2010 - Annex F
- *Physical Education and Sport* – Article for the Education Feature Page on the *Sunday Times* of 16 May, 2010 - Annex G
- *Malta - Performance Audit on Physical Education in State Schools* – Article for the *INTOSAI International Journal of Government Auditing* (October, 2010) - Annex H
- *Performance Audit on Procurement Capabilities Across Government* – Article for *EUROSAI Magazine* (2010 Edition) - Annex I

An article for the EUROSAI Magazine (2010 Edition) was also prepared on the NAO Audit Manuals. This article highlighted the relevance of audit manuals to SAIs, and provided a brief overview of the contents of the Financial and Compliance and Performance Audit Manuals. A copy of this article is to be found in Annex J.

## International Relations

During 2010, a number of NAO employees participated in various international events including Conferences, Seminars, Workshops and other Meetings. The objective of attending these activities was to actively participate in overseas training events, thus enhancing the international profile of the Office whilst giving an opportunity to NAO participants to keep abreast of developments in state audit-related issues. Taking part in such events also encourages our effective contribution to achieving greater co-operation with other SAIs and enables our participation in the network of EU Member State SAIs.

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



*Meeting with Amyas Morse, UK Comptroller and Auditor General and Frank Grogan, UK Director General International Relations during the 6th Annual NAO Performance Measurement Conference in London on 28-29 January, 2010*

**Table 3: Overseas Visits**

Overseas Visits	Event	Location
January 13-14	Performance Audit of Social Programmes for Professional Integration of the Disabled	Warsaw
January 28-29	6th Annual NAO Performance Measurement Conference	London
February 1-2	EU Contact Committee Working Group Meeting on Structural Funds V – Cost of Controls Parallel Audit	Ljubljana
February 4-5	EU Contact Committee Common Auditing Standards Working Group Meeting	Luxembourg
February 10	Transforming Public Services Through Collaboration	London
March 23-24	EUROSAI Working Group on Environmental Auditing Seminar – Auditing Climate Change in Copenhagen	Copenhagen
March 23	Joint FEE and ICPAC Public Sector Seminar on ‘Challenges of Accrual Accounting in the Public Sector’	Nicosia
April 13-14	EUROSAI Working Group on Elaboration of Good Practices for Achieving Quality	Luxembourg
April 26-27	EU Member State (MS) SAIs Liaison Officers’ Meeting	Prague
May 3–4	EU Contact Committee Working Group Meeting on Common Auditing Standards	Luxembourg
May 10-11	16th Annual Meeting of INTOSAI Working Group for Audit of Privatisation, Public-Private Partnerships and Economic Regulation	London
May 27-28	EU Contact Committee Working Group Meeting on EU Financial Management	Stockholm
June 7–8	EU Contact Committee VAT Working Group Meeting	Ljubljana
June 23-24	Making Innovation a Reality/UK NAO Visit	London
September 14	Government Procurement and Commissioning 2010 Conference	London
September 22-23	EU Contact Committee Workshop on Network on Audit of Lisbon and EU 2020 Strategies – The Role of SAIs	Luxembourg
September 28-29	European Healthcare Fraud and Corruption Network – 7th Annual Meeting	Brussels
October 5-7	8th Annual EUROSAI Working Group on Environmental Auditing Meeting	Texel (The Netherlands)
October 14-15	EU Contact Committee Public Procurement Audit Seminar	Lisbon
October 18-20	2010 CAPAM Biennial Conference ‘Building A Common Future: Global Challenges, Local Responses’	Malta
October 18-19	EU MS SAIs Contact Committee Meeting	Luxembourg
October 25-27	Seminar on Common Agricultural Policy	Prague
October 25	2010 International Audit Service Conference “External Audit, Internal Audit”	Brussels
November 9-10	Possible IT Solutions for Rolling Back the Grey Economy – EUROSAI IT Working Group	Moscow
November 21-28	International Congress of Supreme Audit Institutions (INCOSAI) XX	Johannesburg
December 6-8	World Bank: Conference on Joining Forces to Combat Transnational Bribery	Washington
December 9-10	EU MS SAIs Extraordinary Liaison Officers’ Meeting	Luxembourg





*EU SAI Presidents' Contact Committee Meeting in Luxembourg on 18-19 October, 2010*

### **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 an autonomous, independent and non-political assembly that meets annually. Its mission is to enhance co-operation among its members in order to improve external audit and accountability in the EU field and to act as a forum where issues of common interest are discussed.

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, Mr Brian Vella, 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. In 2010, two Liaison Officers' meetings were held in April and December in Prague and Luxembourg respectively. The April meeting was held in preparation for the 2010 Contact Committee meeting and the December meeting was held in preparation for the 2011 Contact Committee meeting. During the Liaison Officers' meetings, 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.

The results of the Interparliamentary conference on "*Improving National Accountability of EU funds*", held in the Netherlands in January, 2010, were presented in the April Liaison Officers' meeting. The December Liaison Officers' meeting further discussed, apart from future activities of the network, key current and emerging EU issues.

The annual EU Contact meeting was held in October in Luxembourg. During this meeting, the following topics were discussed:

- Consequences of the Lisbon Treaty in terms of the auditing of European funds.
- The involvement of national parliaments in the management of European Funds.
- Latest developments regarding the revised draft EU Financial Regulation.
- Independence of the EU SAIs.
- EU-related Reports by Member States SAIs.
- Report of the EU Liaison Officers Task Force on Co-operation.
- Contact Committee Activities in 2010 and 2011.
- The review of the activities of the EU Contact Committee Working Groups implemented in 2010.
- The review of the activities of the Network of the SAIs of Candidate and Potential Candidate Countries.

During 2010, the EU Contact Committee had seven Working Groups:

- Working Group on National SAI Reports on EU Financial Management
- Updating Group on Public Procurement
- Working Group on Structural Funds IV
- Working Group Activities on Value Added Tax
- Joint Working Group on Audit Activities
- Working Group on Common Auditing Standards
- Working Group on Co-operation between the ECA and the EU Member State SAIs

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

The website of the EU Contact Committee where further information may be found on the different Working Groups, is [http://eca.europa.eu/portal/page/portal/contact\\_committee/home](http://eca.europa.eu/portal/page/portal/contact_committee/home)

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

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

During 2010, in addition to Articles in local and international newspapers/magazines referred to earlier, NAO prepared a number of Country Papers, replies to questionnaires, and comments on Exposure Drafts on several themes, including the following:

- INCOSAI (International Congress of Supreme Audit Institutions) Country Paper on *“the Value and Benefits of Supreme Audit Institutions”*
- EUROSAT Conference Country Paper on *“Challenges and demands faced by public managers today”*
- EUROSAT Conference Country Paper on *“The role of SAIs in the accountability and responsibilities of public managers”*
- EUROSAT Conference Country Paper on *“The audit of the independent regulatory agencies by SAIs”*
- INTOSAI Exposure Draft on ISSAI 3100 – *“Performance Auditing Standards”*
- INTOSAI Exposure Draft on ISSAI 40 – *“Quality Control for SAIs”*
- Working Group on National SAI Reports on EU Financial Management Questionnaire on *“National Parliaments and EU-related Audits”*
- INTOSAI Questionnaire on *“INTOSAI–Donor Co-operation – Survey on Capacity Development: SAI Stocktaking Questionnaire”*
- European Court of Auditors Questionnaire on *“The Way the Contradictory Procedure is Implemented in the Member States of the European Union”*

- EUROSAT/ARABOSAT questionnaire on *“Transparency, Accountability and Anti-Corruption”*
- INTOSAI Subcommittee on Accounting and Reporting document on *“The Importance of an Independent Standards Setting Process”*
- INTOSAI *“Draft Guide on Peer Reviews”* and *“Draft Checklist on possible Peer Review Issues”*
- EU Contact Committee Working Group on Common Auditing Standards Country Paper on *“Information on SAI Practices in Auditing EU Funds/Policies within the Framework of INTOSAI Standards”*
- EUROSAT Seminar questionnaire on *“the role of SAIs in the Audit of Public Private Partnerships”*
- ECA’s Opinion on EU Statement of Assurance on 2009 EU Accounts – reply by NAO on section relating to SAIs.
- EU Contact Committee Activities on VAT Working Group Country Paper on *“Role of NAO in audit of VAT”*
- EUROSAT Environmental Audit Working Group Country Paper on *“NAO Experiences in Environmental Audits”*

### **International Congress of Supreme Audit Institutions**

The International Congress of Supreme Audit Institutions (INCOSAI) is the supreme organ of INTOSAI and is composed of all Members of the INTOSAI Community. National membership of INTOSAI is second only to the UN organisation.

Once every three years it holds regular meetings, which are chaired by the hosting SAI. It offers all INTOSAI members an opportunity to share experiences, discuss issues, report on activities of the past three years and pass resolutions and recommendations to improve government accountability worldwide.

Participants include delegations of member SAIs, as well as representatives of the United Nations (UN), the World Bank and other international and professional organisations.

In 2010, the XX INCOSAI Congress was held in Johannesburg South Africa between 21 and 27 November 2010.

During the Congress, two main themes were discussed, namely:

- The Value and Benefits of SAIs

- Environmental Auditing and Sustainable Development

The reports of INTOSAI's Regional Working Groups were presented during the Congress, including those of the:

- African Organisation of Supreme Audit Institutions
- Arab Organisation of Supreme Audit Institutions
- Asian Organisation of Supreme Audit Institutions
- Caribbean Organisation of Supreme Audit Institutions
- European Organisation of Supreme Audit Institutions
- Caribbean Organisation of Supreme Audit Institutions
- Pacific Association of Supreme Audit Institutions

Moreover, the reports of the various Working Groups pertaining to the Professional Standards Committee were also discussed including those of the:

- Financial Audit Subcommittee
- Compliance Audit Subcommittee
- Performance Audit Subcommittee
- Internal Control Standards Subcommittee
- Subcommittee on Accounting and Reporting

During the Congress, the INTOSAI International Standards of Supreme Audit Institutions (ISSAIs) and INTOSAI Guidance on Good Governance were launched.

Furthermore, a comprehensive report was given by each of the following Working Groups forming part of the Knowledge Sharing Committee on the results of the work undertaken during the last three years:

- Working Group on Public Debt
- Working Group on IT Audit
- Working Group on Environmental Auditing
- Working Group on Privatisation, Economic Regulation and Public-Private Partnerships
- Working Group on Programme Evaluation

- Working Group on the Fight against Corruption and Money Laundering

- Working Group on the Audit of Disaster Related Aid
- Working Group on Key National Indicators
- Working Group on the Value and Benefits of SAIs
- Task Force on the Global Financial Crisis

A major milestone achieved by the Congress was the approval of the Johannesburg Accords. These accords summarise the key themes and topics deliberated at INCOSAI XX, namely:

- Theme I (Value and Benefits of Supreme Audit Institutions)
- Theme II (Environmental Auditing and Sustainable Development)
- The South African Declaration on the International Standards of Supreme Audit Institutions (ISSAIs) (Annex K)

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

NAO continued its commitment towards the EUROSAI Working Group in developing a good practice guide on the management of audit quality within an SAI. NAO officers gave their contributions to this document, together with representatives from the SAIs of Hungary, Denmark, Russian Federation, Poland and ECA.

Following the two Working Group meetings held in 2009, another meeting was held between the 13 and 14 April, 2010 which saw the document reaching its final draft stage. Following this meeting, the document was further reviewed individually by each participating SAI and, after minor changes, the final product was presented to the EUROSAI Governing Board.

Furthermore, the Working Group has started the process of uploading a Good Practice Guide Database on the State Audit Office of Hungary website. In view of this, the Working Group has submitted a request to EUROSAI's Secretary General to extend the Working Group's mandate for six years, in which it could serve as a Monitoring Committee for this database.





XX INCOSAI S





SOUTH AFRICA







## Annexes

## Annex A - Reports issued by the NAO in 2010

### *Audit Reports*

DATE	REPORT
February 2010	Performance Audit: <i>Inter Vivos</i> Transfer of Property
April 2010	Investigation relating to the Enemalta Corporation Tender for Generating Capacity
May 2010	Performance Audit: Physical Education and Sport in State Primary and Secondary Schools
June 2010	Malta's Renewable Energy Contingent Liability Potential Costs relating to the non-attainment of the EU's mandatory 2020 targets
July 2010	Performance Audit: Child Care Arrangements for Public Employees
September 2010	Performance Audit: Implementing Producer Responsibility for Packaging Waste in Malta
October 2010	Performance Audit: Malta Communications Authority Regulation of the Universal Postal Service
November 2010	Report by the Auditor General – Public Accounts 2009

### *NAO Work and Activities Reports*

DATE	REPORT
January 2010	Works and Activities of the National Audit Office for 2009

### *Internal NAO Publications*

DATE	PUBLICATION
March 2010	NAO Financial and Compliance Audit Manual
August 2010	NAO Performance Audit Manual



## Annex B - Summary of Audit Report on the Public Accounts 2009

The Auditor General presented to the Speaker of the House of Representatives the Annual Audit Report on the Public Accounts for 2009 on 17 November, 2010. The main observations are reported hereunder.

Following examination of the Government of Malta Financial Report for year ending 31 December, 2009, the National Audit Office (NAO) noted that:

- although numerous Court and Other Deposit Accounts were closed during the year, many others, amounting to €1,970,808, experienced no movement for three consecutive years;
- an Advance of approximately €25.3 million was issued for the purpose of accounting for the 14th Social Security Benefits falling due in 2009;
- Cash Book and Central Bank balances reported in the Financial Report 2009 still do not tally with corresponding figures in the December, 2009 Bank Reconciliation Statement; and
- Letters of Comfort and Bank Guarantees reached €893 million (against €774 million in 2008).

A number of Ministries and Departments failed to send their annual Arrears of Revenue Returns for 2009, or lacked detailed breakdown of figures.

An expenditure audit of the Department of Information revealed shortcomings relating to long outstanding claims due to the Public Broadcasting Services Ltd.

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

- By the end of September, 2010, the audited Financial Statements of four out of sixty-eight Local Councils were not yet submitted to NAO when these should have been received by 30 March, 2010.
- LGA could not express an opinion on the Financial Statements as presented by one of the Local Councils due to the various material shortcomings encountered.
- Another forty-three Audit Reports were qualified with an *'except for'* audit opinion.

A substantial portion of the budget of the Tourism Department for 2009 was used to pay long outstanding invoices spilling over from one year to the next. The

expenditure audit also revealed weaknesses related to the procurement process for services rendered.

Standing regulations and instructions were not always adhered to by the Ministry of Foreign Affairs when procuring goods and services. Travel Advances were granted unnecessarily, while subsistence allowances were at times incorrectly calculated. Other shortcomings were noted in the approval of hospitality expenditure, and the use of chauffeur-driven services. Internal controls at the Head Office of the Ministry of Foreign Affairs, over expenditure incurred by Maltese Embassies abroad, need to be considerably enhanced. Desk Officers processing the accounts at the Head Office were often relying on what the respective Missions reported, without any scrutiny or checking of supporting documents or backing information. Due to lack of evidence substantiating the residency claimed by Gozitan students in receipt of the accommodation and travel allowances, coupled with the insufficient internal controls in the administration of the system, it could not be ensured that only eligible students were receiving this subsidy. Furthermore, the granting of this financial assistance was not adequately backed up by proper authorisation.

Claims for travel allowance conceded to Gozitan Government employees working in Malta were not always supported by adequate evidence. Most of the declarations were overstated, some of which substantially. Eligibility criteria to qualify for such allowance were also not properly defined.

The vast majority of the total payments charged to the Housing Schemes Subsidy account under the Ministry for Gozo covered unrelated expenses in connection with the finishing works of a new Adult Training Centre (ATC) in Victoria, which property is not even owned by Central Government but is under the possession of the Housing Authority.

The Programme Implementation Directorate within the Ministry of Infrastructure, Transport and Communications was responsible for the management and processing of all payments related to a major infrastructural project, the Malta South Sewage Treatment Infrastructure Project, which is expected to be co-funded by the EU Commission under the Cohesion Fund Policy 2007-2013. During the verification process, NAO identified opportunities for improvement in the authorisation procedure of Commitment Vouchers since a number of these lacked the necessary covering approval.

The Motor Hearses Association signed an agreement with the Government and Malta Transport Authority wherein Government obliged itself to pay the sum of €230,000

as support to the Association to face up to the challenges brought by the liberalisation of the hearses sector. When the grants were issued, the Association was required to submit quarterly accounts to the Authority detailing how these funds were utilised. NAO, through Transport Malta, requested a copy of the accounts to perform a Financial and Compliance Audit. However, the Association did not abide by these instructions and so an audit could not be performed.

There was lack of documentation on last-minute changes made to booking of advertising. This limited audit testing that could be carried out at the Public Broadcasting Services Ltd. was aimed to ensure that the revenue generated from advertising aired during the Malta Eurosong and Eurovision Song Contest was appropriately recorded and processed in accordance with the company's approved rates and guidelines.

A Financial Audit was performed on the Co-Operatives Board 2006 – 2008 Financial Statements presented to NAO. Various accounting inaccuracies were observed, including non-disclosure of a bank account in the Financial Statements.

An IT audit at the Social Security Department within the then Ministry for Social Policy identified shortcomings relating to IT Security, including the lack of a risk assessment and Disaster Recovery Policy.

During 2008, a Task Force chaired by the Minister of Finance, the Economy and Investment was set up to develop tailor-made solutions for local companies encountering financial problems due to the international economic crisis. This led to the inception of a financial aid scheme, of which eleven companies benefited during 2009. Following an overview of Government Financial Aid, which was administered by the Malta Enterprise, NAO identified a number of control issues that needed to be addressed.

A review of the Treasury Bank Reconciliation System (BRS) found that (i) the reasons behind the differences between the balances as reported in the BRS and the corresponding figures as reported in the Government Financial Report are not clear; (ii) there is room for improvement in the manner errors in validation of data are handled and documented; (iii) segregation of duties, such as "write" access to database field contents, is not being fully enforced; and (iv) software that was developed six years ago that would permit automated tri-party verification of transactions has never been implemented by Treasury. The audit, however, notes developments and progress reported by Treasury.

There was limitation of scope in the compliance audit of the Inland Revenue Division's Arrears of Revenue Return

as fifteen out of a total of 115 taxpayer files relating to the Pre '99 system were not made available for testing. Furthermore, a number of write-off approvals for the Pre '99 system, as reported in the Statement of Arrears, were not provided for review. An analysis of the implementation process and taxpayer participation of the Exemption Order Scheme, launched by the Minister of Finance, the Economy and Investment on 4 September, 2009, revealed that statute-barred amounts were not excluded before sending Notification Letters/Agreements in the initial stages of the Scheme. It was further noted that only around half of requested down payments, relating to agreements between taxpayers and Division, were submitted by taxpayers as at a certain cut-off date.

Following a review of amounts reported under 'Past Arrears Written-Off' and 'Amounts Not/Due' as reported in the Arrears of Revenue Return for 2009 of the VAT Division, it resulted that a number of inter-departmental adjustments were erroneously classified as written-off in the Return.

The Commerce Division is responsible for the administration of state aid relating to Food Subsidies consisting of subsidies on levies on the importation of sugar and on the costs of flour transportation between Malta and Gozo. A Financial and Compliance Audit, carried out to ascertain whether sound internal control systems are in place, and ensuring that subsidies were correctly paid, revealed (i) that no acknowledgment of receipts were being given for state aid applications for sugar subsidy; (ii) inconsistency in the Flour Grain types eligible for Government subsidy; (iii) that source of flour subsidy rate and calculation of bank guarantee on flour subsidy were not available; (iv) that forms and supporting documents were not appropriately submitted by applicants for state aid on sugar; and (v) incompleteness of refund forms for state aid on flour transportation.

An expenditure audit carried out on the Consumer and Competition Division revealed shortcomings relating to an unauthorised extension of a contract, and mobile calls being made from barred fixed telephone lines.

An audit survey on the acquisition and use of Fully-Expensed Cars within the Public Service revealed a number of shortcomings, namely (i) failure by respondents to provide information concerning the retail price, purchase price and engine capacity of fully-expensed cars; (ii) fuel consumption limit being exceeded; (iii) lack of use of the computerised Fleet Management System; (iv) respondents failing to submit sufficient information on the majority of fully-expensed cars that were sold to retiring officers, thereby hindering NAO from verifying the selling price calculation; (v) the necessary approvals for thirteen leased cars not being provided by respondents; and (vi) deficiencies being noted in the manner Ministries and Departments calculate the taxable fringe benefit.

The audit on Personal Emoluments at the Correctional Services revealed (i) limitations regarding use of punch clock; (ii) inconsistencies in overtime hours recorded and paid to Correctional Officers; (iii) lack of control over Civilian Officers' working hours and overtime; and (iv) lack of adequate segregation of duties due to staff shortage.

A follow-up Performance Audit, carried out on the deployment of security personnel at the site of St. Luke's Hospital, sought to follow up concerns which were identified in the May, 2009 Report on the Enquiry on Direct Orders and Outsourcing at Mater Dei Hospital: Clerical/ Reception, Security, Car Park and Traffic Management Services, namely the excess levels of deployed personnel; a considerable amount of accumulated Time-Off in Lieu; and the better utilisation of technological equipment. The study showed that most of these concerns still prevail today.

A Performance Audit carried out on the deployment of personnel by Industrial Projects and Services Ltd. (IPSL)

contends that IPSL served as a tool to cushion the social and economic impact arising from restructuring exercises within Government entities. However, it is acknowledged that within the Public Sector there may not be demand for the skills and trade of a significant portion of IPSL employees. The opportunity exists for IPSL to develop a human resource development programme to enable the Company and its workforce to fully exploit opportunities within the entire labour market.

An examination into the procedures and operations related to the Rehabilitation Work Scheme at Mount Carmel Hospital (MCH) noted that (i) earnings of some current beneficiaries exceeded the National Minimum Wage, which benchmark was established by the same MCH; (ii) definitions and distinctions to serve as reference points were absent; and (iii) patients in-take for such Scheme was being carried out through a Referral Form submitted and endorsed by one consulting psychiatrist.

## Annex C - Summaries of Performance Audit Reports

### ***Performance Audit: Inter Vivos Transfer of Property***

The Auditor General reported to Parliament that despite a significant return on the Capital Transfers Duty Department's (CTDD) outlay to administer the collection of *Inter Vivos* transfer of property duty, more could be done to ensure that Government's interests are appropriately safeguarded.

All applications received by the Department are, following preliminary vetting, reviewed by a CTDD Internal Board to ensure the correctness of the declared value of property since this value forms the basis of the '*Inter Vivos*' duty calculation. However, there are no formal terms of reference or guidelines relating to this Board's work and the basis of its decisions are not documented. Furthermore, none of the members of the Internal Board have technical expertise relating to property valuations, though they possess considerable experience. Additionally, the level of detail on the description of the property being transferred varies from one case to another.

A National Audit Office (NAO) case study revealed that, in a few cases, the Internal Board accepted declared property valuations which were deemed below the market price. During the period 2005 to 2008, the Internal Board accepted over 54 percent of the reviewed application forms.

Cases where the declared values may not reflect the market price of the property are referred to CTDD appointed Periti. The majority of the Periti's assessments confirmed the declared value of property. Moreover, most buyers and sellers did not challenge the Periti's determination of the market value of the property.

Revenue recouped through the Periti inspections by far outweigh costs incurred. However, a general lack of documentation weakens the internal control mechanisms related to property inspections. This is particularly evident in cases where the Periti make downward revisions of their initial valuations in a second property inspection – which is undertaken following the raising of objections to the initial Periti valuations by buyers and / or sellers.

The CTDD rejected nearly half of all objections regarding initial Periti's valuations raised by buyers and sellers. The Department contends that the unwarranted objections were mainly rejected on the grounds of unreasonable contestation. In these cases the aggrieved parties had the option to seek redress at the then Board of Special Commissioners (BSC). This Board, however, has not been functioning since December 2004. This situation resulted in the accumulation of around 600 outstanding cases. The

BSC has now been replaced through the establishment of the Administrative Review Tribunal.

In conclusion, this Performance Audit has shown that, despite the additional revenue collected by the Department, a number of inherent weaknesses in the management of the *Inter Vivos* process need to be addressed. The NAO proposed a number of recommendations to strengthen further the relative mechanisms and internal controls.

### ***Performance Audit: Physical Education and Sport in State Primary and Secondary Schools***

Malta has high rates of children and young people who are either obese or overweight and this is undoubtedly a major cause of concern. Schools present unique opportunities to provide time, facilities and guidance for children and adolescents to actively participate in Physical Education (PE) and sport activities. The National Minimum Curriculum defines PE and sport as a basic subject to be taught in all schools at compulsory educational levels. Government has indicated, through a number of channels, its commitment to improve the quality, delivery and frequency of these activities in schools.

The report by the Auditor General concluded that good progress has been made in State Primary and Secondary Schools, particularly following the appointment of an Education Officer for PE to monitor delivery in schools, and the establishment of a Sport Promotion Unit within the Malta Sports Council (KMS) to organise physical and sport activities during school hours. Complementary programmes outside school hours are also offered by KMS. Nonetheless, a number of issues still need to be addressed.

In State Primary Schools, the teaching of PE is being mainly carried out by Peripatetic Teachers with few Class Teachers holding additional PE lessons. As a consequence, in many Primary Schools, fewer lessons were found to be held than the four thirty-minute weekly sessions recommended by the Department for Curriculum Management and eLearning. In Secondary Schools, although lessons are being held regularly as determined by the Education Authorities, the number of PE lessons decrease in higher years.

Investment in new sport facilities and equipment has led to significant improvements in certain State Schools. At the same time, serious limitations persist in a number of other schools with regard to the suitability, maintenance and availability of facilities, in particular indoor areas.

The NAO report presents a number of recommendations, including the development of a single consolidated Delivery Plan outlining how PE, sport and physical



activity in schools can be increased and improved. The full implementation of this Plan will require strong leadership, commitment of resources, a gradual culture shift, and effective coordination among the different partners involved in this sector.

### ***Performance Audit: Child Care Arrangements for Public Employees***

Since the early 1990s, a small number of public service and public sector organisations have introduced child care support specifically for their employees, apart from other family-friendly measures already being offered on a wider scale. These organisations have, over the years, developed their own individual child care policies and arrangements.

Against this background, the National Audit Office (NAO) undertook a Performance Audit to evaluate the development and management of such arrangements, as well as to identify the key challenges and lessons learned from these experiences. Six public service and public sector organisations offering child care support were used as case studies. In addition, the Department for Social Welfare Standards (DSWS) was consulted on the National Standards for Child Day Care Facilities. NAO would like to convey its appreciation to the invaluable collaboration extended by these organisations throughout this study.

All case studies have been successful in providing access to affordable and reliable child care services for a considerable number of public employees. The development of such arrangements was part of an overall management drive and culture to improve work conditions. The operation of child care entailed a range of costs, depending on the type of arrangement that was put in place. In-house services required considerable investment and resources. On the other hand, alternative arrangements, such as offering staff an established allowance for child care or fully outsourcing the service to an external provider, helped to manage and cap annual expenditure on child care support and to limit the various demands placed on an organisation. Only a proportion of the total child care costs were, in practice, recovered. The interviewed employers, nevertheless, considered these expenses as necessary to fulfil their overall strategic and human resource objectives and priorities.

The NAO report presents a number of recommendations based on the critical factors and issues identified through the study. Using the services of the increasing number of existing child care facilities instead of embarking on projects to develop in-house centres at the workplace, in many cases, can be more feasible and a better option to employers for managing risks and the overall running costs to support the initiative. It is also important that regulatory legislation that provides DSWS with the required legal backing to act as a national regulatory body for child care services is enacted.

### ***Performance Audit: Implementing producer responsibility for packaging waste in Malta***

The Auditor General has presented to Parliament a Performance Audit report evaluating Government's efforts to bring about producer responsibility for packaging waste.

The Packaging and Packaging Waste Regulations (LN277/2006) oblige packaging producers (manufacturers and importers) to recycle a set percentage of the packaging waste resulting from the packaging they put on the market annually. The onus to comply with this obligation lies clearly with packaging producers. Government's role in this regard is to spearhead and facilitate the implementation process and to provide the necessary regulatory and enforcement mechanisms.

The Ministry for Resources and Rural Affairs (MRRA) has been the implementation leader and, until 2008, the policy maker with regard to producer responsibility. After this date, the latter role was shifted to the Office of the Prime Minister. The Malta Environment and Planning Authority is designated the regulatory and enforcement role.

This Performance Audit found that Government has provided adequate legislative and infrastructural frameworks to enable producers to implement their packaging waste recycling responsibilities. It has also undertaken the role of facilitator and carried out regular educational campaigns.

The audit report concludes that Government initiatives have enabled producer recycling of packaging waste to take off, particularly since 2009. However, such recycling is still significantly below the legally-set target for 2009, which obliges producers to recycle 50 percent of the packaging waste arising from the packaging they put on the market. This renders it difficult for Malta to reach its national packaging waste recycling targets set by EU legislation.

The audit evaluation indicates that packaging waste recycling by producers is significantly below target for a number of reasons. Generally, Government and producer efforts to date have been start-up in nature and consequently it is likely that more time is needed for these efforts to bear fruit. Recycling opportunities were limited until 2008, since the Government-owned Material Recovery Facility was built behind schedule due to difficulties encountered in the permitting and tendering processes. Additionally, collective producer recycling schemes only started collecting packaging waste from Local Councils in 2009.

In 2004, Government had set up the Eco-Contribution system which aimed to encourage producer responsibility, including that for packaging waste. The audit evaluation indicates that the Eco-Contribution system has had mixed



results in this regard. It has generated sufficient revenue to offset the costs borne by Government due to producers' non-compliance in packaging waste recycling and played a positive role in the modest packaging waste recycling achieved. On the other hand, the majority of the producers subject to Eco-Contribution on packaging waste-related items still do not recycle the packaging waste in question.

The audit report also makes various recommendations aimed at improving the implementation of producer responsibility for packaging waste.

### ***Performance Audit: Malta Communications Authority - Regulation of the Universal Postal Service***

The Auditor General reported on the effectiveness of the Malta Communications Authority (MCA) in ensuring that Maltapost p.l.c., as the designated Universal Service Provider (USP), meets its universal service obligations and achieves the established minimum standards on the quality of service and the protection of mail integrity.

The postal market is vital to the social, cultural and economic life of modern society. Even in an age of widespread use of digital and electronic technology, domestic and cross-border mail and related services remain essential pillars of the country's infrastructure.

MCA actively regulates the USP's postal arrangements and performance by issuing periodic decision notices

and through regular engagement with the USP. These are essential to ensure that the postal operator complies with these decisions as well as with other requirements stipulated in the national and European legislation.

The report found that MCA has taken various measures to guarantee that the USP provides a sufficiently dense network of postal access points and has in place adequate arrangements for daily collection and delivery. The Authority has also defined the minimum standards to be complied with by the USP for the protection and security of mail. MCA has subsequently audited the USP's position concerning mail integrity obligations and drew up a series of observations and recommendations outlining where the USP needed to strengthen systems. Moreover, the Authority also regulates the quality of service by setting various standards and targets for the USP and by monitoring the postal operator's level of achievement.

The Authority is also involved in a number of preparations and actions in order to be in a stronger position to regulate postal services once all legal monopolies in the market are removed by 1 January, 2013. This included the establishment of arrangements for managing common operational issues in a multi-operator environment.

The report evaluates the adequacy of these measures and actions. It also highlights areas where there remains scope to enhance MCA's regulatory efforts, particularly on specific issues related to the measurement of the quality of service standards and to the USP's conformance with all mail integrity obligations.

## Annex D - Summaries of Special Reports and Investigations

### ***Enemalta Corporation Tender for Generating Capacity***

#### **Executive Summary**

This inquiry concerns the tender issued by Enemalta Corporation for the supply of new power generating plant at Delimara. Its terms of reference, as laid down by the Public Accounts Committee and agreed to with the National Audit Office, were essentially to investigate whether tender procurement procedures had been regular and relative regulations duly adhered to. These terms of reference were approved at the PAC meeting of the 26 May, 2009. Eventually, during a PAC meeting held on 22 March, 2010, NAO was also directed to deal with allegations appearing in *It-Torca* of the 14 March, 2010.

In view of the various financial, technical and legal issues involved in such a complex project, this inquiry proved to be very challenging. It was conducted in accordance with Para 9(a) of the Auditor General and National Audit Office Act, 1997 (XVI of 1997) and in terms of NAO practices.

All findings presented in this Report are essentially based on the considerable number of meetings and interviews, some of which under oath, with various officers and other persons who were either involved in the tendering process or offered to provide information related to this inquiry. Findings are also based on voluminous documentation, as supplied by the main parties involved, which was painstakingly analysed by the investigating team.

In line with its guiding principles of independence, fairness and objectivity, NAO was determined to ensure that the allegations brought to its attention were evaluated, investigated and objectively reported upon. The investigating team endeavoured to establish the facts, based solely and exclusively on hard evidence at its disposal. NAO sought to identify any possible shortcoming or irregularity and put forward feasible and relevant recommendations, as indicated hereunder, essentially meant to ensure that best use is made of public funds, especially through the full compliance with relative public procurement regulations and procedures.

The NAO's inquiry did not come across any hard and conclusive evidence of corruption, even though, for record's sake, one cannot fail to mention the lack of cooperation from certain stakeholders who contended that they could not recall certain events or information. A case in point is the local representative for the tenderer awarded this contract, who was considered one of the key players throughout this inquiry. Although summoned by the NAO

on three separate occasions, he repeatedly cited lack of memory when asked certain questions.

At the same time, various cases of administrative shortcomings, especially on the part of Enemalta Corporation and the Department of Contracts, were identified. As the Report highlights, in a number of instances, this was due mostly either to lack of experience in the procurement process adopted during this tender and/or insufficient coordination between the two entities, both considered as key stakeholders in the procurement process.

The following are some of the main conclusions referred to in the Report:

- i. EMC failed to directly inform the unsuccessful bidders of the outcome of adjudication as clearly established in the Invitation to Tender. This gave rise to the claim made by Bateman that the appeal facility was thus effectively denied to any bidder wishing to appeal from such decision.
- ii. The selection of Lahmeyer International, through a direct order, as an independent consultant leaves much to be desired especially when one keeps in view that (a) it is presently blacklisted by the World Bank; (b) it had been previously engaged in a joint project with BWSC (one of the bidders on which LI is supposed to have drawn up an independent analysis); and (c) the agent of the company which eventually won this tender, had also worked as Lahmeyer's agent up to 2007.
- iii. Once the original tender specifications referring to emission levels were changed through the legislative amendment made in January, 2008, the decision by EMC and DoC to continue with the ongoing tender is questioned by the NAO. With the benefit of hindsight, it is felt that much of the controversy surrounding this tender could have been avoided had the tendering process been stopped and reissued to reflect such change in specifications.
- iv. The decision by Enemalta Corporation to go for a prototype combination instead of the required 'tried and tested' as clearly stipulated in the Invitation to Tender is considered to have put EMC in a position of high risk.
- v. DoC could have carried out the role stipulated by the pertinent legislation in a more proactive manner. This is evident when the Department did not vet the Request for Proposals and the Invitation to Tender (ITT) documents before these were published. Lack of involvement by the DoC occurred also in the final contract, which was subject to heavy changes brought about through negotiations, before this was signed.

vi. DoC's late decision to change the tendering model used from negotiated procedure to the three package model was ill-timed. This was because, by the time the bidders were made to re-submit their financial offer, EMC had already evaluated the original financial offers, negotiated these with the bidders and had even selected a preferred bidder.

vii. Once Enemalta Corporation (EMC) realised, after the submission of the technical bids, that its original specification for tried and tested combinations of equipment that are compliant with emission legislation did not exist in the case of Diesel Engine Combined Cycle (DECC) engines, the Corporation brought on board the services of a consultancy firm. The firm, Lahmeyer International, declared a prototype combinations, to date untested as one complete unit, to be plausibly able to comply. Although the consultant's advice was qualified, EMC went ahead and declared the DECC combinations as technically compliant.

viii. The NAO questions the undue haste with which the agreement was signed.

As stated above, this Report includes a number of recommendations put forward by the NAO with the principal objective of improving the procurement process. The following are the main recommendations:

i. A more collaborative and co-operative attitude especially between Enemalta Corporation, as the contracting authority, and the Department of Contracts, as the regulator of the tendering process. This necessitates that the latter in particular is adequately resourced so as to be in a position to perform its challenging role in an effective manner.

ii. More extensive consultation with relative stakeholders is required, possibly even at the planning stage of such complex projects, thus possibly avoiding unnecessary confrontation and allegations at the tendering and implementation phases.

iii. Rules and regulations must be rigorously applied and followed without exception or fail. Quoting reasons of urgency does not per se provide the necessary authorisation for not following such rules and regulations.

iv. Contracting agencies must ascertain that optimal value for money has been attained even after choosing the preferred bidder. Value for money essentially means that prices being ultimately quoted are in line not only with competing bids, but also in relation to prevailing market prices. Such scrutiny and safeguard, which is applied by various contract departments, entities and agencies in other countries, is obviously meant to ensure that public funds are used in the best manner possible.

v. Due monitoring is necessary to ensure the highest levels of transparency, fairness and integrity when identifying

and appointing independent evaluators whose findings and recommendations may have a direct bearing on final adjudication, as in this particular case.

Cases of potential conflict of interest must be duly managed to ensure full transparency, fairness and equity in the procurement process and all decisions related thereto. In certain cases, this may necessitate the resignation of officer/s involved in the best long-term interest of both the person/s as well as the public entity involved.

The NAO intends this Report's findings and recommendations to serve as a useful practical learning process for future procurement assignments, especially where such complex and costly projects are involved.

### ***Malta's Renewable Energy Contingent Liability - Potential Costs Relating to the Non-Attainment of Targets***

The Auditor General reported to Parliament on Malta's potential contingent liability in the event that renewable energy targets, outlined in Directive 2009/28/EC on the promotion of the use of energy from renewable sources, are not attained. This study was undertaken following a request raised by the Public Accounts Committee during its deliberations of the Performance Audit report Renewable Energy and Energy Efficiency in Malta, which was published in September, 2009.

As an EU Member State, Malta is required to produce 10 percent of its energy consumption from renewable energy sources by 2020. In June 2010, the Malta Resources Authority updated this position and outlined in its draft National Renewable Energy Action Plan various measures that will enable Malta to marginally exceed its obligatory renewable energy targets.

Through the consideration of different presumed scenarios and assumptions this study sought to estimate Malta's contingent liability in the event that this mandatory EU target is not attained. This report estimated Malta's contingent liability on three alternative bases, namely (i) financial penalties that could be imposed by the European Court of Justice; (ii) statistical transfers; and (iii) cooperation agreements.

For each of the three alternative approaches indicated in the preceding paragraph, a best and worst case scenarios were presumed. The best case scenario presumes that Malta will only marginally fail to attain the relative renewable energy targets and thus will produce nine percent of the gross final consumption of energy from renewable sources by 2020. This implies that Malta's contingent liability will relate to one percent of gross final energy consumption. The worst case scenario presumes that in 2020 the exploitation of

renewable energy sources would have reached one percent and thus the contingent liability will relate to nine percent of gross final energy consumption.

The results and conclusions presented in this study are subject to significant qualifications which render the estimates and conclusions presented strictly hypothetical. A major limitation of this study related to certain overseas scarce data and information available on the subject matter. Another major limitation related to the unknown potential impact of technological advancements in the renewable energy field. Moreover, assumptions were made with regards to the duration of Malta's non-compliance with the relevant Directive and the gravity assumed by the European Court of Justice in imposing financial penalties on Malta. Other major assumed situations related to Malta's energy demand and the potential impact of future fossil fuel prices on statistical transfers, the impact on the statistical transfers market and green energy tariffs through the potential surplus or deficit of renewable energy generated by Member States in relation to the EU's overall targets.

The report presents a range within which the contingent liability will fall in the presumed best and worst case

scenarios when estimated on the basis of the three alternative scenarios relating to financial penalties, statistical transfers and cooperation agreements. At the top end of the range of the presumed worst case scenario it was estimated that the contingent liability could amount to around €2.9 million (based on a five-year lump sum penalty and a subsequent periodic payment based on a presumed five-year period of non-compliance) for financial penalties, €6.5 million for statistical transfers, and €36.1 million for cooperation agreements for a one percent shortfall from the renewable energy targets. Additionally, in the event that renewable energy targets remain unattained, the risk also exists that Malta would face further non-compliance costs, in terms of other EU Directives, such as Directive 2001/81/EC regarding carbon dioxide emissions.

Despite its inherent limitations, this study provided an indication as to the potential range of Malta's contingent liability under various scenarios. The Government entities responsible for the implementation of the Renewable Energy Directive evidently need to keep abreast of developments to ensure that the provisions of the Directive are fully respected while keeping Malta's contingent liability to a minimum.

## Annex E - Evaluating the Development of Child Care Arrangements for Public Employees

### *Article for the Sunday Times on 1 August, 2010 (cover page of the Classified Pages Supplement)*

Since the early 1990s, a small number of organisations across Government have taken the initiative to offer child care arrangements for their employees. These can be provided either through in-house services or by financially assisting those employees using external facilities during working hours. Child care at the workplace complements other family-friendly measures already being offered on a wider scale to public employees. In addition, staff can benefit from other initiatives launched by Government to encourage and facilitate access to child care.

The National Audit Office (NAO) has recently concluded a comprehensive review of child care initiatives tailored for employees in the public service and in the wider public sector. The study evaluated:

- (a) how different child care solutions were introduced, developed and managed over the years;
- (b) the systems and resources that were required to operate such initiatives; and
- (c) the respective challenges, risks, costs and benefits of each measure.

Fieldwork included structured interviews and consultations with the following organisations:

- *Six case study organisations*: namely, the Employment and Training Corporation, the Malta Information Technology Agency, Mater Dei Hospital, the Rehabilitation Hospital Karin Grech, the University of Malta and the Water Services Corporation. These organisations have been successful in providing, over the years, access to affordable and reliable child care services for a considerable number of public employees.
- *The Department for Social Welfare Standards (DSWS) within the Ministry of Education, Employment and the Family (MEEF)*: DSWS is the Department that assists child care service providers in developing their facilities in line with established standards as well as for registering those child care facilities that meet all the criteria. MEEF is the lead Ministry responsible for the Government's policy on child care and on the development of standards for the provision of such services.

- *The Management and Personnel Office*: This Department is responsible for formulating, launching and monitoring policies that improve the work conditions of public officers.

In all six case studies child care initiatives were part of an overall management drive and culture to improve work conditions as well as to provide a more supportive work environment. In addition, three organisations indicated that such arrangements were specifically introduced to retain key employees and to attract new staff. One of the case studies also had pressure from staff and a trade union to give priority to child care.

Experience has shown that it is difficult to accurately and reliably estimate take-up of child care arrangements in the medium and long term. Demand can be higher than expected and this might lead to detrimental waiting lists. On the other hand, requests to use these services can dwindle over the years making an in-house service too expensive to maintain.

The internal function responsible for corporate services was found to be usually the most involved in the preliminary evaluation and the development of these initiatives. The feasibility of an in-house child care centre needs to be carefully assessed due to the stringent requirements of various authorities and the costs involved. Securing an appropriate area for child care can be a major obstacle. In addition, specialised staff need to be engaged and rigorous policies and systems must be developed to ensure adequate safety, security and protection. Alternative arrangements, such as outsourcing child care to a third-party service provider or giving staff an allowance, can be easier to plan and manage. In all cases, only a proportion of the total child care costs are, in practice, recovered.

The results of this study have been published in a report that was tabled in Parliament last month. The document includes a number of key recommendations of how organisations - depending on their individual circumstances - can exploit opportunities to offer child care. It also lists the aspects that need to be carefully reviewed before embarking on such initiatives. NAO opines that guidelines that define the objectives and conditions of such arrangements should be developed for the public administration. Furthermore, NAO recommends that Government expedites the introduction of legislation to adequately regulate the provision of child care services on a national scale. Current incentives to the private sector and other interested parties to develop and operate child care should also continue to be sustained.



## Annex F - Child Care Arrangements for Public Employees

### *Article for the Economic Update of August 2010*

The National Audit Office (NAO) has published a Performance Audit report that comprehensively evaluated the development and management of child care arrangements for employees in the public service and in the wider public sector.

NAO used six case studies to examine the operation of such arrangements, as well as to identify the lesson learned. Five of these organisations offer full-scale services which are either provided internally or outsourced. The other case study chose instead to reimburse part of the child care fees paid by the employees themselves.

The study included an in-depth comparative assessment of the costs incurred and the measures that have been taken to recover part of the running cost. NAO also assessed the physical and human resources that were required to provide in-house services and examined the internal structures, systems and procedures that were put in place to ensure effective administration and management.

Overall, the introduction of a child care facility at the workplace entails considerable investment and effort both for the setting up of the operation and for ensuring that the service continuously meets the requirements of various authorities apart from the expectations of parents. The study suggest that it may be more feasible for organisations to use the services of existing child care centres instead of embarking on projects to develop in-house facilities. The latter can ultimately prove to be too expensive to maintain, especially if take-up is low. The report presents a step-by-step approach that can be adopted by organisations when evaluating different options.

NAO also recommends that Government expedites the introduction of legislation to adequately regulate the provision of child care service. Moreover, a policy outline that defines the objectives and conditions of such arrangements should be developed in order to provide guidance on these issues to public service and public sector organisations.

## Annex G - Physical Education and Sport

### *Article for the Education Feature Page on the Sunday Times of 16 May, 2010*

Physical Education (PE) and Sport is a distinguishable subject by its very nature and scope. It is the main educational experience in schools where the focus is on the body, its movement and physical development, as well as on helping children to respect and value their own bodies and abilities, and those of others. The National Minimum Curriculum (NMC) framework published in 1999 lists PE and Sport as a basic subject to be studied and practiced in all schools at compulsory educational levels.

Participation by all is key to a quality PE and Sport programme and students should be engaged in Moderate-to-Vigorous Physical Activity (MVPA) for most of the lesson period, whatever their individual aptitudes and abilities. The programmes should be oriented to the success of every student by providing a non-threatening environment in which participants are never subjected to the humiliation of being chosen last or being dropped from a team.

Quality PE and Sport should aim to systematically and progressively:

- (a) develop the knowledge, attitudes, skills and competence needed to enjoy a variety of physical activity experiences and to adopt a healthy lifestyle;
- (b) build students' confidence in their individual physical abilities and encourage them to become involved in lifelong sport and other physical activity;
- (c) provide students with opportunities for enjoyable and worthwhile physical activity; as well as
- (d) contribute to students' social and moral development, including leadership skills, perseverance and commitment, coping with both success and failure in competitive and cooperative environments, interpersonal skills and teamwork.

The National Audit Office (NAO) has recently published a report on PE and Sport in State Primary and Secondary Schools. Using various research and analytical techniques, this report evaluated the type of PE lessons and sport activities held, the level of frequency and regularity, the issues and factors affecting delivery and quality, as well as the overall importance being given in schools to the subject and physical activity in general. The main research tools used for the study included meetings with key officials; consultations with experts, practitioners and stakeholders;

on-site visits; an examination of forwarded documentation and data; as well as surveys. The latter included the use of eight customised questionnaires to collect information and views from all the College Principals, the Heads of Primary and Secondary Schools, the PE Peripatetic Teachers, the Primary School Teachers and the PE Teachers in Secondary Schools, as well as from parents of children attending mainstream State Primary Schools and State Secondary Schools.

The report by the Auditor General concluded that good progress has been made in State Primary and Secondary Schools, particularly following the appointment of an Education Officer (EO) for PE to monitor delivery in schools, and the establishment of a Sport Promotion Unit within the Malta Sports Council (KMS) to organise physical and sport activities during school hours. Complementary programmes outside school hours are also offered by KMS. Nonetheless, a number of issues still need to be addressed.

In State Primary Schools, the teaching of PE is being mainly carried out by Peripatetic Teachers. Few Class Teachers hold additional PE lessons, although many carry out simple physical exercises and games between lessons, or integrated (in a broad sense) related themes and movements in other lessons. As a consequence, in many State Primary Schools, fewer lessons were found to be held than the four thirty-minute weekly sessions recommended by the Department for Curriculum Management and eLearning.

Moreover, PE lessons delivered by Class Teachers may not always be of the expected quality and standard. Delivery is influenced by the degree of creativity and commitment of the individual class teacher and it also depends on personal abilities and aptitudes.

In State Secondary Schools, lessons are taught by specialist PE Teachers who are allocated to specific schools. Although lessons are being held regularly as determined by the Education Authorities, the number of PE lessons decrease in higher years.

The study also found that few Primary Schools organised structured activities during lunch breaks. This contrasts with the situation in Secondary Schools where such activities were found to be held regularly in many schools.

Investment in new sport facilities and equipment has led to significant improvements in certain State Schools. At the same time, serious limitations persist in a number of other schools with regard to the suitability, maintenance and availability of facilities, in particular indoor areas. Some of these constraints are linked to the restrictive

structural limitations of existing school premises and would require reconstruction. Overall, more investment is needed, particularly in Primary Schools, in order to reach the required standards and ensure equal opportunities in each school.

The NAO study also demonstrated the considerable pressure being placed on children, teachers, parents and school management to give overriding priority to examined subjects at both primary and secondary level of education. Moreover, the relatively short school day is a decisive limiting factor. More intensive ongoing campaigns, through the media and events in schools, are needed to influence parents' views on the importance that their children are physically active and to nurture the attitude among all those involved that PE is an important component of a quality education and long-term health. School environments, teachers and parents play a critical role in shaping children's experiences in physical activity and sport.

The NAO report presents a number of recommendations. Their effective implementation and achievement requires

strong leadership, commitment of resources, a gradual culture shift, and effective coordination among the different partners involved in this sector.

One of the proposals made by NAO is the development of a single consolidated Delivery Plan on how PE, sport and physical activity in schools can be increased and improved in the medium term (e.g. over a three year period). The Delivery Plan should clearly outline the principal steps and measures to be taken by all those involved to achieve established goals. It should also specify the expected outcomes and timeframes. In support of this Delivery Plan, consideration must also be given towards securing the required human and financial resources. The Plan is essential as effective solutions need the engagement and commitment of a wide range of stakeholders involved in this sector. Its development and coordination should involve key officials at the Directorates for Education, College Principals, Heads of School, KMS and the main stakeholders. Champions should also be identified at College level and/or at school level. The Delivery Plan should also be updated regularly to enable more effective progress and delivery.

## Annex H - Malta - Performance Audit on Physical Education in State Schools

### *Article for the INTOSAI International Journal of Government Auditing (October 2010)*

Malta has a high percentage of children and young people who are either obese or overweight. In 2010, the National Audit Office of Malta (NAOM) published a comprehensive Performance Audit report on the practice of physical education (PE), sports, and other physical activities in state schools across the country and made recommendations on areas for improvement. The NAOM report brought to the forefront a number of long-standing issues related to the organisation of physical activity, PE and sports in schools. It received considerable media attention, and the authorities responsible indicated that they would take steps to address the main shortcomings identified.

The study focused on distinctive elements that can affect the regularity, frequency, intensity, nature, and quality of PE, sports, and physical activities in schools.

First, the report studied national educational policies and goals in this field. Although authorities have committed themselves to improving the quality, delivery, and frequency of PE and related activities in schools, no consolidated strategy was in place to ensure that sufficient measures and initiatives were implemented to achieve overall goals. NAOM recommended that a single national plan be developed to clearly outline the principal steps, required resources, and expected outcomes and time frames.

Second, the report analysed the level of partnership, coordination, and participation between the key players

responsible for delivery of PE and sports activities. NAOM found room for further engagement, collaboration, and synergies among the key organisations to develop stronger delivery chains.

Third, the report analysed the efficient and effective use of financial, human, and physical resources for teaching PE and organising sports and other physical activities across the state school system. Critical concerns were identified, such as the shortage of PE teachers, inappropriate facilities, inadequate space, and insufficient equipment. Other complex issues, such as the limited involvement of primary school teachers, together with the pressures on teachers, parents, and children to give overriding priority to other subjects, were also assessed. The report also highlighted best practices that could be emulated in other schools, such as existing arrangements to share and maximise the use of limited resources.

Finally, the report evaluated how the time schools allocated for PE, sports, and other physical activities is being used and monitored. Schools face considerable challenges in balancing the teaching of various subjects and the organisation of different activities in a typical school day. The report noted that the relatively short school days in Malta led to the need to compensate for lost time through after school physical activity programs. Moreover, the report assessed school syllabi, the priorities teachers set when developing individual lesson plans, and the systems in place to monitor the quality of delivery. The study also captured parent views on the quality of PE, sports, and structured physical activities organised by the schools and national sport organisations.



## Annex I - Performance Audit on Procurement Capabilities across Government

### Article for the 2010 Edition of the EUROSAI Magazine

*Audits carried out over the years by the National Audit Office of Malta (NAOM) have shown that, in certain instances, procurement systems and processes have not been adequate and needed to be strengthened. This has prompted NAOM to carry out a comprehensive study that examines procurement capabilities and practices applied across the Maltese public administration, as well as to identify areas where there is scope for improvement and adoption of best procurement practices. In this article, the authors outline the approach and criteria that were used to carry out this study and discuss the key issues that were addressed.*

#### Why focus on procurement capability?

Public procurement includes much that supports the work of public administration and plays a central role in delivering all Government priorities, from health and education to regulation and revenue collection. Having in place sound procurement capabilities throughout the public administration helps ensure the continuity of public services and the optimal use of Government's limited resources in a fair and transparent way.

It is, therefore, important that appropriate structures and systems are in place to successfully manage the procurement of different types of goods, works and services. Inefficient procurement methods can result in paying higher prices

for goods and services procured at short notice. Moreover, essential items may not be available in the right quantities and of the right quality when required. This can potentially lead to Government operations and service being delayed or being of a sub-standard quality.

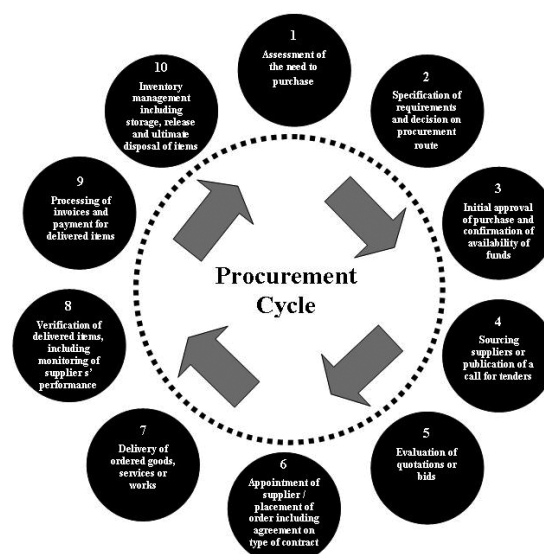
The procurement process spans the whole cycle from the identification and specification of a required item or service, to its purchase, delivery, payment for, storage, release and monitoring of supplier performance<sup>1</sup>. It also covers the conclusion of a service contract or the end of the useful life and subsequent disposal of an asset (Figure 1).

#### Scope and Methodology

The study focused on twelve distinctive elements of procurement capability (Figure 2). A group of twelve entities, selected to reflect different types of organisations within the public administration, were chosen as case studies for the purposes of this exercise.

Prior to the launch of the full study, extensive research was carried out on procurement capabilities and good practices. Consultations were also held with the National Audit Office and the Office of Government Commerce of the United Kingdom and with the Working Group on Public Procurement of the Contact Committee of the Supreme Audit Institutions of the European Union. In addition, good practice visits were organised to three leading local commercial organisations.

**Figure 1: Typical Stages in Public Procurement**



Source: NAO Working Papers (2009)

<sup>1</sup> Gershon, P., Review of Civil Procurement in Central Government, April 1999

<b>Figure 2</b>	<b>Aspects of public procurement covered by the NAOM study</b>
Structure and Resources	The organisation and strategic importance of the procurement function.
	Staff with required knowledge and skills in procurement. Training of staff involved in procurement in this area of expertise.
	Development of policies and procedures to govern procurement. Internal controls to ensure compliance.
	Planning of procurement requirements.
	Technology to enhance and facilitate the procurement function.
Information Management and Monitoring	Stock management system to help keep track of inventories and to set efficient stock order volumes.
	Data on procured items and on levels of consumption to identify where there is potential for cost savings.
	Information on suppliers. Monitoring of suppliers' performance.
	Sharing of information within the public administration.
Continuous Improvement and Development	Initiatives to review and continuously improve procurement activities.
	Management of procurement risks.
	Opportunities for collaborative procurement and framework agreements.

In parallel, preliminary pilot meetings were held to test and assess the:

- *feasibility* of the considered exercise;
- *relevance* and *significance* of the selected audit questions;
- *interviewing techniques* that could be used to successfully carry out this audit;
- *type of information and supporting documentation* that could be potentially collected from the identified case studies;
- *typical challenges faced by the public administration* using current approaches to procurement;
- *the interest of the targeted organisations* to participate in this exercise; and
- *added value* that can be obtained from the full study.

The fieldwork of the main study consisted of structured in-depth interviews with officials directly involved in procurement processes. Supplementary documentary evidence was also collected to enable further evaluation of the reported measures. The NAOM study was limited to identifying the use and prevalence of specific procurement measures and did not test the reliability or soundness of the discussed systems and practices.

**Findings from the study**

*Structure and Resources*

The study evaluated the extent to which the management of the procurement function was structured centrally. In cases where the processes were separated along product

category lines, by value of purchases or by budget holders, NAOM identified issues related to consistency, efficiency, monitoring and control.

The audit report recommended that decentralisation, although not necessarily a bad practice, had to be supported by a coherent set of policies and procedures that are followed by all. Moreover, NAOM recommended that there had to be open communication channels between those responsible for the different areas of procurement as well as frequent sharing of knowledge and information on procurement decisions and activities.

Another key finding of the study was the need for fully resourced procurement teams in each organisation. These teams should have sound commercial experience, adequate knowledge, as well as appropriate professional skills. This was found to be essential in order to minimise procurement risks. Such risks include buying requirements not being reliably determined, contract strategies not being well developed, contracts not being properly managed, and opportunities to get the best deals being missed.

The Skills Framework for Procurement Practitioners produced by the Office of the Government Commerce in the United Kingdom was found to be particularly useful during this audit for benchmarking key requirements with what is available in practice in the local scenario. In the audit report, NAOM recommended that the Maltese public administration should aim for year-on-year increases in the proportion of staff trained on procurement through more structured training and professional development programmes.

NAOM also recommended that individual organisations across Government could further strengthen their internal systems and controls through the development

and maintenance of internally generated documented standard operating procedures related to the procurement processes. Such measures help to ensure good governance, accountability, transparency, fairness, lawfulness, integrity and value-for-money. Moreover, NAOM also emphasised the importance that these policies and procedures are systematically updated and easily available to all staff who need to access them.

Another key area that was thoroughly examined as part of this study was how organisations across the Maltese public administration were planning for their procurement requirements. Successful practices in the private sector were benchmarked against those reported by the twelve case studies. It was found that although a degree of planning for procurement requirements was being carried out, there was the need for a more strategic approach to be adopted. Systematic planning can help organisations address challenges related to the increasing complexity of public procurement, the effective management of suppliers and supply chains, as well as the need to ensure value-for-money.

The use of electronic methods at each stage of the procurement lifecycle was also assessed. Most organisations were found to apply different forms of electronic tools to support their procurement processes. However, NAOM observed that investment and application of new technology had to be complemented with wide radical changes in business processes and a drive to achieve savings and greater efficiencies.

#### *Information Management and Monitoring*

Importance was also given in the NAOM study to the nature and quality of management information available for sound planning, decision-making and monitoring. The NAOM report proposed a number of recommendations on how organisations can improve their market intelligence, information on supplier performance, inventory management systems as well as spend analysis.

The best practices guide on using spend analysis to take a more strategic approach to procurement published by the Government Accountability Office of the USA in 2004 was used by the audit team to pinpoint areas where organisations across the public administration can strengthen the automation, extraction, organisation and analysis of procurement data.

In addition, NAOM encouraged the organisations across Government to increase the level of collaboration and exchange of procurement-related information. Sharing of information generated from management information systems maintained by individual organisations (such as knowledge on the markets, suppliers, prices and buying arrangements) can, for example, help to identify ways of how to reduce costs and lead to opportunities for more competitive buying.

#### *Continuous Improvement and Development*

The Performance Audit also evaluated the measures undertaken by the twelve case studies to review the procurement function, manage risks, improve efficiency and achieve cost savings.

NAOM found that most of the studied organisations carried out *ad hoc* management reviews of procurement activities only in response to negative feedback from user departments or after a problem had been identified.

Some organisations were also found to be monitoring and reviewing, to varying degrees, the procurement of high-risk expenditure items with the aim of controlling costs and achieving savings. However, none reported to be carrying out in-depth, regular and systematic reviews that cover all aspects of procurement.

Furthermore, NAOM recommended ways of how the public administration could systematically monitor, benchmark and evaluate procurement activities and achieve tangible improvements. A thorough review can also be useful to identify priority areas such as a greater focus on risk reduction, innovation, staff training, sustainability and enhanced quality of purchased goods and services. Moreover, NAOM emphasised the importance of leadership and a strong top management drive to continuously identify and exploit opportunities for cost savings and improved efficiencies.

In addition, NAOM highlighted the steps that could be taken by the public administration to ensure effective management of procurement risks as well as good governance. Various risks were identified in the study and the report focused on how adequate arrangements can be put in place to manage and mitigate these risks.

Another issue raised by the NAOM was the need for more collaborative procurement and framework agreements. Similar goods and services are procured across the public administration. This commonality provides opportunities to purchase collectively, especially where there is high demand for specific goods and services. While there is much that organisations can do on their own, collaborative procurement practices can lead to increased competition, better prices, shared expertise and reduced procurement costs.

#### *Concluding comment*

Overall, the NAOM report concluded that most of the participating organisations were taking certain measures to enhance some aspects of their procurement systems and capabilities. However, a more strategic and systematic approach is needed to sufficiently improve and strengthen public procurement across the public administration.

## Annex J - The Relevance and Use of Audit Manuals by SAIs - the Experience of NAO Malta

### *Article for the 2010 Edition of the EUROSAI Magazine*

#### **The importance of preparing Audit Manuals**

Audit manuals are the primary source of SAI policy and guidance relating to the effective management and performance of audits. They set out the standards and policies that govern the conduct of all audit work, specify the procedures to be carried out at the planning, implementation and reporting phases of audits, and provide guidance to auditors in complying with these standards and policies. They also set the standard of quality expected from staff engaged by the SAI, highlight areas where auditors must exercise professional judgement, and require adherence to auditing standards. Manuals are therefore designed to reflect best practice in the auditing profession, whilst taking into account the SAI existing related policies and procedures. They also encourage the promotion of a consistent, economical, efficient and effective audit practice and ensure a clear and fair allocation of duties and responsibilities.

#### **The experience of NAO Malta**

The decision to prepare an Audit Manual was taken by NAO to facilitate and harmonise NAO policies, practices and procedures concerning the conduct of all audit work and to fulfill EU pre-accession commitments. Consequently, the first comprehensive Audit Manual was prepared and published in 2001. This Manual contained the general principles and policies guiding the performance of all audit work at the time with particular emphasis on the undertaking of Financial and Compliance Audits. This Manual was revised in 2004.

In order to further its policy of promoting wide dissemination of knowledge and information sharing among NAO staff, and to maintain the quality of audits, the Office subsequently felt the need to prepare two *ad hoc* Audit Manuals that would provide guidance on the conduct of Financial and Compliance Audits and Performance Audits (the two main audit categories undertaken by NAO). These Audit Manuals replaced the previous Comprehensive Audit Manual. The Financial and Compliance Audit Manual and Performance Audit Manual were thus prepared and were published this year. The guidelines provided in the new Manuals took into account the provisions of the International Federation of Accountants (IFAC) International Standards on Auditing (ISAs) and International Standards of Supreme Audit Institutions (ISSAIs), as well as good practices of other countries as adapted to the experience of NAO audit practices.

#### **The Financial and Compliance Audit Manual**

The current Financial and Compliance Audit Manual incorporates all NAO policies and practices relating to the carrying out of Financial and Compliance Audits and requires compliance with ISAs, and ISSAIs in the conduct of such audits.

The Manual also describes in depth the different types of Financial and Compliance Audits undertaken by the Office and the related procedures for their implementation, such as the process of understanding the entity and its environment, planning and conducting the audit (including gathering audit evidence), the drawing up of the Management Letter, and the preparation and publication of Financial and Compliance Audit Reports. It also discusses in detail NAO specific issues such as the functions of the Auditor General and the role of the NAO, the organisation structure of the Financial and Compliance Audit Section, training and development of staff and media relations. Moreover, the current NAO Financial and Compliance Audit programmes, as well as standard working papers and forms being utilised by the Section, are included in Appendices.

#### **The Performance Audit Manual**

The NAO Performance Audit Manual provides guidance on the approach to be applied by the Office in the undertaking of Performance Audits and deals with the various aspects to Performance Auditing, such as the legal basis, concept and types of Performance Audit, the organisation structure of the NAO Performance Audit Section, the principles and standards underlying NAO Performance Audit work, the NAO Performance Audit process (planning, execution of work and reporting) and the audit methodology, tools and techniques to be applied during each stage of the audit process. This Manual is supplemented with Appendices that include NAO-related legislation and the Section's standard documentation and forms.

Reference is made in the Manual to the INTOSAI Performance Auditing Guidelines and Standards that constitute the principal source of the policies and guidance included in this Manual, other international auditing standards such as ISSAIs and ISAs, NAO's electronic database on Performance Auditing, as well as good practices in the area of Performance Auditing implemented by other SAIs.

The Performance Audit Manual also discusses the application of a new audit approach to Performance Auditing by NAO namely the Issue Analysis Drawing



Conclusions methodology. This approach involves two specific processes: the Issue Analysis process and the Drawing Conclusions process.

### **Conclusion**

The two Manuals thus provide an outline of the conceptual framework of the NAO Audit Methodology, and describe how audits should be selected, planned, conducted and reported upon. The Manuals serve as a focal point for the continuous improvement of the methodology in the different stages of the audit process. The actual audit operations are

however to be decided on a case specific basis, depending on various factors affecting the individual audit, such as the nature of the audit, the skills available in the Audit Teams and the nature of the audit scope itself. These Manuals are intended to encourage more streamlined and efficient audit operations based on a structured and standardised audit approach whilst providing a degree of flexibility in the exercise of professional judgement and in selecting the appropriate audit tools and techniques. This is essential given the variety of potential audit topics, objectives and data collection and analysis methods available in public sector audit.

## Annex K - The South African Declaration on the International Standards of Supreme Audit Institutions

The XXth Congress of the International Organisation of Supreme Audit Institutions (INTOSAI) in Johannesburg, South Africa considered various aspects of the ISSAIs and wishes to declare as follows:

- Whereas the International Organisation of Supreme Audit Institutions (INTOSAI) has developed and endorsed an ISSAI framework which contains a comprehensive set of International Standards of Supreme Audit Institutions (ISSAIs) and INTOSAI guidance on good governance (INTOSAI GOVs);
- Whereas the ISSAIs lay down the founding principles, prerequisites for the functioning of SAIs, fundamental auditing principles and auditing guidelines;
- Whereas the purpose of the INTOSAI GOVs is to encourage good governance in the public sector;
- Whereas INTOSAI provides to its members and other external partners the ISSAIs, which present the essence of public sector auditing;
- Whereas it is a key strategic priority for INTOSAI to assist SAIs in implementing the ISSAI framework as successfully as possible; and

- Whereas keeping the ISSAIs and INTOSAI GOVs up to date, relevant and on the cutting edge of development is of vital importance to their continued relevance to the INTOSAI community and other interested parties;

In line with the Lima and Mexico Declarations and recognising the independence of each individual INTOSAI member to determine its own approach consistent with national legislation, XX INCOSAI now resolves to call upon its members and other interested parties to:

- Use the ISSAI framework as a common frame of reference for public sector auditing;
- Measure their own performance and auditing guidance against the ISSAIs;
- Implement the ISSAIs in accordance with their mandate and national legislation and regulations;
- Raise the awareness of the ISSAIs and INTOSAI GOVs globally, regionally and at the national level; and
- Share experience, good practice and challenges in implementing the ISSAIs and INTOSAI GOVs with those responsible for developing and revising the ISSAIs and INTOSAI GOVs.