



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

**2011**

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## List of Abbreviations

ARABOSAI	Arab Organisation of Supreme Audit Institutions
ARMS	Automated Revenue Management Services
BWSC	Burmeister & Wain Scandinavian Contractor AS
CDRT	Centre for Development, Research and Training
CIO	Chief Information Officer
DAS	Departmental Accounting System
ECA	European Court of Auditors
ECOSOC	Economic and Social Council (United Nations)
EMC	Enemalta Corporation
ERDF	European Regional Development Fund
ESF	European Social Fund
ESM	European Stability Mechanism
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
FEMA	Faculty of Economics, Management and Accountancy
GAPSE	General Accounting Principles for Smaller Entities
IAID	Internal Audit and Investigations Department
IBM	International Business Machines
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IPSASB	International Public Sector Accounting Standards Board
IRD	Inland Revenue Department
IS	Information Systems
ISA	International Standards on Auditing
ISACA	Information Systems Audit and Control Association
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology

ITSA	Information Technology Self Assessment
LAN	Local Area Network
LGA	Local Government Auditor
NAO	National Audit Office
NGO	Non-Government Organisation
NSO	National Statistics Office
NREAP	National Renewable Energy Action Plan
OPM	Office of the Prime Minister
ORC	Office of the Refugee Commissioner
PAC	Public Accounts Committee
RID	Roads and Infrastructure Directorate
SAI	Supreme Audit Institution
SPSS	Statistical Package for the Social Sciences
UK	United Kingdom
UN	United Nations
VAT	Value Added Tax

# Works and Activities of the National Audit Office – 2011



*Anthony C. Mifsud, Auditor General*

## Overview

The results of the past year indicate that the National Audit Office (NAO) is fulfilling its role as an effective guardian of the public purse. We have produced a number of objective reports that have contributed to improving public sector management and promoted accountability and transparency.

Moreover, we have offered our guidance and expertise in areas which are critical to the success of the public sector, including financial management, value for money, effective service delivery and performance improvement. Through our performance audits, special audits and investigations and Information Technology (IT) audits, carried out in

addition to traditional financial and compliance auditing, as well as through the promotion of best practices, we have enhanced our contribution to the improvement of public service operations.

In order to effectively fulfil our mandate, we select audit areas on the basis of a risk and materiality assessment, issues that are of public concern and key developments within the local and international scenario. In particular, major developments and commitments made with the European Union (EU) are taken into account when deciding on audit subjects.

During 2011, a number of noteworthy developments took place at the Office that merit particular mention. First of all, in addition to publishing our Annual Audit Report on the Public Accounts 2010 and a number of performance audit reports on topical issues, we have published a stand alone IT audit report and two major investigations. As in previous years, the media has reported on the key issues of our publications.

We have engaged new staff members who were previously employed with well-established entities in both the public and private sector. These new employees felt that an audit experience at NAO would contribute significantly towards their career advancement since audit work undertaken by NAO is varied, encompassing the full range of the public sector.

An attractive package is offered to NAO employees, including sponsorships, performance bonuses and responsibility allowances, as stipulated in the Collective Agreement for 2008-2012. The Office has also adopted a number of family friendly measures that assist employees in achieving an effective work-life balance.

At NAO, we continue to invest in the training and development of our employees so that they continuously maintain and upgrade their skills and competencies. Employees have participated in various local and foreign seminars, workshops and other training events. Furthermore, NAO has awarded a number of sponsorships to its employees to further their studies in fields relevant to their work. An induction programme for new employees has been developed in order to enable new recruits to obtain enhanced knowledge of NAO legislation, policies and procedures and gain insight into public sector operations.

I am pleased to note that one of our employees has successfully completed a six week attachment at the Wales Audit Office. This experience was considered beneficial both to the employee concerned as well as to the Office since this development opportunity provided the employee with better knowledge of performance audit methods and techniques employed by the Wales Audit Office, which can be effectively applied to local performance audits. The Office intends to second other NAO employees to the Wales Audit Office or to other Supreme Audit Institutions (SAIs).

In order to continuously update our audit operations, the Information and Communications Technology (ICT) Unit conducted an internal review of the current ICT setup at the NAO. This review was carried out in preparation for the next Information Technology Self Assessment (ITSA) to be carried out at the Office. This exercise ensures that the Office utilises the most effective and efficient ICT and business processes in support of NAO policies, standards and strategy.



Anthony C. Mifsud  
Auditor General

We have also carried out extensive structural and renovation works at the NAO Annex housing the ICT Unit and additional works at the Head Office. These were undertaken to ensure a pleasant work environment for all NAO employees in conformity with the highest occupational health and safety requirements.

As in previous years, we have consolidated our presence in the international scene. We have attended and actively participated in various international conferences, congresses, seminars and workshops. As an Office, we have also contributed to the preparation of international papers and documents on state audit-related issues.

At the Commonwealth Auditors General Conference, held in April 2011 in Namibia, the Malta NAO took over the chairmanship of this Conference. This means that Malta is to host the next Commonwealth Auditors General Conference to be held in 2014. This Conference is to coincide with the bi-centenary since the setting up of the Malta Audit Office in 1814.

I would like to acknowledge the cooperation of the Deputy Auditor General, management and all other members of staff for their constant support in the preparation of this Report and other reports presented to the Speaker of the House of Representatives. My appreciation also goes to other support staff who assist in the every day running of the Office.

31 January, 2012



## 2011 at a Glance

- Annual Audit Report by the Auditor General on Public Accounts for 2010
- Five Performance Audit Reports reporting on the economy, efficiency and effectiveness of a number of Government initiatives, activities and operations across various Ministries and Departments
- Three Reports on Special Audits and Investigations
- One IT Audit Report
- An internal review of the current ICT setup at NAO in preparation for the next ITSA
- Active participating role in overseas Conferences, Seminars and other international meetings
- Contribution to the audit profession by preparing comments to international Exposure Drafts and other documents relating to public sector accounting and auditing
- Participation in a number of foreign training events thus enriching the knowledge and experience of NAO employees
- Upgrading of NAO premises
- Recruitment of thirteen new employees to fill vacancies in the Audit Manager, Principal Auditor and Senior Auditor grades

## The functions and powers of the Auditor General

The functions and powers of the Auditor General and the role of the NAO are defined by Section 108 of the Constitution and the Auditor General and National Audit Office Act of 1997.

The Auditor General is an officer of the House of Representatives appointed by the President acting in accordance with a resolution of Parliament, supported by the votes of not less than two-thirds of all the members of the House. The term of appointment is for five years, renewable once.

The Constitution also provides for the appointment of a Deputy Auditor General, at present Charles Deguara, by means of the same procedure and subject to similar terms of service. In addition, it establishes the NAO consisting of the Auditor General, Deputy Auditor General and such other officers appointed by the Auditor General, as he may consider necessary to assist him in the proper discharge of his office.

The Auditor General is required to audit and report annually to the House of Representatives on the accounts of all Government Ministries and Departments and of such other public authorities or bodies administering, holding or using funds belonging directly or indirectly to the Government of Malta.

Additional duties and operational responsibilities are defined in the Auditor General and National Audit Office Act. Besides examining the books and records of audited entities – a traditional check termed “financial and compliance audit” – the Auditor General is empowered to examine whether the organisation being audited has used the funds and resources available to it effectively, efficiently and economically, without incurring expenditure which is unnecessary. These latter assignments are known as performance audits. However, the Auditor General is precluded from going into the merits of any policy or objective of such Department, office or body.

The Auditor General is also empowered, through the Auditor General and National Audit Office Act, to make special reports to the House of Representatives on any matter of pressing importance or urgency, or dealing with value for money audit relating to efficiency and effectiveness. Such special reports or investigations may be commissioned either on the initiative of the Auditor General, or at the request of the Minister responsible for Finance, or of at least three members of the Public Accounts Committee (PAC) of the House of Representatives.

Although not mandatory, the Auditor General is also entitled to audit the operations of public authorities or

bodies administering, holding or using funds belonging directly or indirectly to Government and of companies or other entities in which the Government of Malta owns not less than 51 per cent of the shares.

## NAO Values

NAO’s role in promoting good governance and the safeguarding of public resources is also reflected in its Mission and Vision Statements. NAO’s mission is “to help promote accountability, propriety and best practices in Government operations” whilst its vision is “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.”

In order to fulfil its mission and work towards achieving its vision, the Office adheres to high professional standards in all aspects of its audit work. It also produces relevant, timely and high-quality reports, based on sound findings and evidence, which address the concerns of stakeholders. Through its independent audits and reports, NAO contributes to the effective improvement of public sector management and to enhanced accountability in the management of public funds. Moreover, the Office endeavours to maximise the efficiency of its work and ensure effective communication with all staff members. It also values individuals, developing their talents and rewarding performance.

## NAO’s Independence

The Office has been established to provide reliable and independent auditing of public funds. This requires special guarantees to shield the Office against improper external



*Charles Deguara, Deputy Auditor General*

influence and ensure that the interest of taxpayers and citizens remain in focus. Consequently, NAO is to ensure that a framework for its independence is in place. NAO's independence is a vital factor that ensures the quality of the Office's work and guarantees the effective fulfillment of its Constitutional role.

This Section on NAO independence is divided into two parts namely:

- International statements of SAIs independence and;
- The implementation of international statements on SAI independence by NAO.

### *International Statements on Independence of Supreme Audit Institutions*

NAO, in its audit work, follows the International Organisation of Supreme Audit Institutions' (INTOSAI) International Standards of Supreme Audit Institutions (ISSAIs), and other international auditing standards. INTOSAI's statements on independence are found in the following ISSAIs:

ISSAI 01: The Lima Declaration of Guidelines on Auditing Precepts

ISSAI 10: The Mexico Declaration on SAI Independence

ISSAI 11: Guidelines and Good Practices related to SAI Independence

The Lima Declaration sets out the basic requirements for independent Government auditing. It stipulates that SAIs are to be independent of the audited entity and are to be protected against external influence. They are also to have the functional and organisational independence as well as the financial means required to accomplish their tasks. The Declaration also states that the establishment of SAIs and the necessary degree of independence are to be incorporated in the Constitution, and details set out in legislation.

The Mexico Declaration on SAI Independence recognises eight core independence principles which flow from the Lima Declaration, comprising the following:

1. The existence and application of an appropriate and effective Constitutional, statutory and legal framework.
2. The independence of SAI Heads, including security of tenure and legal immunity in the normal discharge of their duties.

3. A sufficiently broad mandate and full discretion in the discharge of SAI functions.
4. Unrestricted access to information.
5. The right and obligation to report on SAI's work.
6. The freedom to decide the content and timing of audit reports and to publish and disseminate them.
7. The existence of effective follow-up mechanisms on SAI's recommendations.
8. Financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources.

ISSAI 11, namely Guidelines and Good Practices related to SAI Independence, provides further guidance and examples of best practices with respect to the eight core principles identified in the Mexico Declaration on SAI independence.

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

During the European Organisation of Supreme Audit Institutions (EUROSAI) Congress held in Lisbon, Portugal in 2011, EUROSAI Members approved the EUROSAI Statement of Independence of SAIs, '*Reinforcing the independence of SAIs*'. The objective of this Statement was to raise awareness of Parliaments, Governments, public authorities, the media and citizens on the value and benefits of SAIs and their role as well as to highlight the primary importance of the independence of the public audit function to guarantee transparency and integrity of public administration. It also emphasised the significance of SAIs' independence from audited bodies, their protection against external pressures, as well as the free access to the results of their audits by the public. These requirements identified by the Statement ensure the credibility and transparency of SAIs, the objectivity of their findings, and make it possible for their audits to actually contribute to the improvement of public governance. A copy of this Statement is to be found in **Annex A**.

Other 2011 international resolutions which, *inter alia*, emphasise the importance of SAIs' Independence are those of the UN Economic and Social Council (ECOSOC), and of the UN General Assembly, as indicated overleaf:

## **Resolution of the United Nations Economic and Social Council**

Resolution 2/2011 of the UN ECOSOC of 26 April 2011 relating to the Report of the Committee of Experts on Public Administration, inter alia, *“Takes note with appreciation of the work of the International Organization of Supreme Audit Institutions in promoting greater transparency, accountability and efficient and effective receipt and use of public resources for the benefit of citizens and of the 1977 Lima Declaration of Guidelines on Auditing Precepts and the 2007 Mexico Declaration on Supreme Audit Institutions Independence, which set out the principles of independence in Government auditing, and encourages the wide dissemination of these principles”*

## **United Nations National Assembly Resolution**

The UN National Assembly, in its 66th Session, adopted, on 22 December 2011, a resolution on Promoting Efficiency, Transparency and Accountability of Public Administration by Strengthening SAIs. This resolution makes reference to the resolution of the UN ECOSOC referred to above and recognises SAIs’ important role in promoting efficiency, transparency and accountability of public administration, which is conducive to achieving the internationally agreed development goals, including the Millennium Development Goals. This resolution also encourages Member States to apply the principles set out in the Lima Declaration of Guidelines on Auditing Precepts of 1977 and the Mexico Declaration of SAI Independence of 2007 referred to earlier. The resolution further encourages Member States and relevant UN institutions to continue and intensify their cooperation, including in capacity building, with the INTOSAI in order to promote good governance by ensuring efficiency, transparency and accountability through strengthened SAIs. A copy of the resolution is to be found in **Annex B**.

### ***The implementation of international requirements on SAI independence by NAO***

Independence is maintained by NAO through ensuring transparency, accountability, and high standards of ethics and quality control in all its work.

The Office delivers independent reports to Parliament and makes recommendations to encourage better practice in public sector agencies. It provides an independent opinion on the fair presentation of the Government Annual Financial Statements and prepares special reports and investigations for the information of Parliament and the Executive. It also undertakes a programme of independent performance audits with the aim of improving the economy, efficiency and effectiveness of management of Government programmes and entities.

The Constitution and the Auditor General and National Audit Office Act guarantee the functional independence of both the Auditor General and the NAO from public service management. To ensure this independence, the legislation stipulates that, in the proper exercise of his functions, the Auditor General is not subject to the authority or control of any person. Moreover, the Auditor General recruits and appoints his own staff and determines their numbers, grades, salaries and conditions of service.

## **Specific NAO Policies and Procedures**

NAO has in place a number of policies and procedures designed to ensure that audit work is of the highest quality and complies with relevant legislation and ethical standards. A number of these policies and procedures are discussed in this Section.

### ***Communication with Audited Entities***

NAO gives priority to ensuring good communication with audited entities throughout the entire audit process. Meetings are held between NAO and the auditees, during which, amongst other things, audit findings and risk assessments are reviewed. This gives the auditees a better understanding of the auditors’ work. These meetings also provide NAO with useful input in connection with its auditing work, as well as improve the auditors’ knowledge about the entities’ tasks and how they can be carried out.

### ***Code of Professional Conduct***

The independence, powers and responsibilities of the Auditor General place high ethical standards on all NAO officials. For this reason, the Office has adopted its own Code of Professional Conduct to encourage and ensure a professional work environment.

The Code of Professional Conduct is a comprehensive statement of the values and principles which guide the work of employees. Upon recruitment, all staff receive a copy of the Code which they are required to read and abide by its principles.

Following retirement or termination of employment from NAO, former employees are expected to continue to abide by the relevant provisions of this Code.

The Office also adheres to the professional and ethical standards set by the INTOSAI Code of Ethics for Auditors in the Public Sector.

In addition, NAO employees are also bound by the Code of Ethics for Employees in the Public Sector, to the extent that this is applicable to employment with the Office and subject to the overriding provisions of this Code.

Certified public accountants and auditors are further bound by the Code of Ethics for Warrant Holders in terms of the Accountancy Profession Act (Chapter 281 of the Laws of Malta). The Code of Ethics relevant to other professions is also binding where this is applicable.

### ***NAO's handling of material obtained from Government Administration***

The NAO has established internal procedures designed to ensure that all information obtained from Ministries and Government entities is handled in accordance with statutory requirements, and in a manner that adequately meets confidentiality, integrity and accessibility requirements. Moreover, members of the staff have a duty of secrecy in relation to information of which they become aware through their work, and all employees as well as external consultants sign an oath of secrecy. In addition to "The Code of Professional Conduct", the "Code of Ethics for Employees in the Public Sector", and other Codes mentioned earlier on, NAO employees are to comply with the "NAO Data Protection Guidelines."

## **The National Audit Office and Parliament**

### ***House of Representatives***

The Auditor General and the National Audit Office Act, 1997 regulates the relationship between the NAO and the House of Representatives. All reports prepared by the Auditor General are presented to the Speaker of the House of Representatives who then lays them on the table of the House.

Cooperation between NAO and Parliament contributes to strengthening both Parliamentary oversight of the use of public funds and the role of NAO in public sector financial management, control and auditing. This relationship is further strengthened through the interaction with two bodies within the House of Representatives primarily concerned with the work of NAO; namely, the PAC and the National Audit Office Accounts Committee.

### ***The Public Accounts Committee***

The Parliamentary PAC 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 Government side and three from the Opposition

side. The Committee is chaired by a senior Opposition Member of Parliament nominated by the Leader of the Opposition 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 right 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.

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

The Committee is also empowered to take evidence from senior officials of Ministries and Departments or other Government entities. Permanent Secretaries, Heads of Departments and other senior officers are invited to participate in these PAC meetings to provide any information or explanations that may be required by the Chairman and/or members.

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 can 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 2011, 40 PAC sittings were held during the current legislature. Transcripts of Sittings are available on the website of the House of Representatives.

### **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 chaired by the Leader of the House of Representatives. The other members of the Committee comprise the Chairperson of the PAC, two members from the Government side and one from the Opposition side.

The main responsibility of the National Audit Office Accounts Committee is to review NAO's estimates 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 auditors appointed by the Committee. The Auditor General presents the NAO's audit report 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.

In the 2011 budgetary estimates, an amount of €2.2 million was provided to the NAO. Following the presentation of the NAO 2011 estimates and detailed explanations by the Auditor General, in connection with the planned activities for 2011, the National Audit Office Accounts Committee approved the request for €2.4 million. The Office did not withdraw all the funds as the average staff complement did not reach the expected target.

NAO's audited Financial Statements for financial year ending 31 December 2010 and NAO Estimates for the year 2012, were discussed by the Committee on 16 November 2011.

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.

As stipulated by the Auditor General and National Audit Office Act, the National Audit Office Accounts Committee also discusses motions relating to Government land to be transferred in terms of the "*Disposal of Government Land Act*" in accordance with the relative provisions of the said Act. The Committee reports upon the motions discussed to the House of Representatives.

During 2011, two committee meetings were held on 2 February 2011 and 27 June 2011 respectively, regarding the transfer of Government Property to Seabank Hotel and

Catering Company Limited under temporary emphyteusis for 99 years.

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

### **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**

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

Financial and Compliance Audits provide independent assurance about whether the Treasury, Ministries, Government Departments, and other public entities properly account for the money that Parliament has authorised, and that such funds have been duly expended. Assurance is also sought to ascertain compliance with relevant laws, regulations and other directives. Moreover, through the conduct of these audits, the NAO provides assurance to Parliament and the Executive about the financial administration and accountability of Ministries and Government Departments.

NAO aims to help the public sector, in general, to promote strong and robust financial management practices and prepare relevant and meaningful financial statements.

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 significant cases of serious and material irregularities discovered during the audits.

At the end of an audit, NAO issues a Management Letter to the audited body to outline its findings and, where necessary, recommend improvements to the systems of the entity. An exit meeting may also be held with the objective of ensuring that:

- the facts reported in the Management Letter are not in dispute;
- the presentation and conclusions drawn from these facts are fair; and
- the Management Letter is balanced in coverage, content and tone.

Once the Management Letter is sent to the audited entity, the latter's management has the opportunity to send its comments, explanations or objections to the findings reported in the Letter. This Management Reply should be received by the NAO not more than three weeks after the Management Letter is sent to the auditee.

Upon receipt of the Management Reply, the Lead Auditor responsible for the drafting of the respective Management Letter, after consulting with the Audit Manager, may issue a counter-reply containing any explanations and further clarifications requested by the audited entity's management, as well as the affirmation (or retrieval, if the case may be) of the audit findings.

Extracts from the reply received from the audited entity are included in the summarised version of the Management Letter in the Annual Report, under the heading "*Management Comments.*"

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 2011 in respect of financial year ending 31 December, 2010 were reported upon in the Annual Audit Report on the Public Accounts 2010. This was published and presented to the Speaker of the House of Representatives on 14 December, 2011 and incorporated findings on a number of Ministries and Government Departments as well as public entities (**Annex C** refers).

The following paragraphs will give a brief overview of the audit work being undertaken by the Financial and Compliance Audit Section. Such work includes the following:

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

- Audits of individual Ministries and Government Departments
- Audits on Government Corporate Issues
- Audits of Local Government
- Audits of Non-Government and Non-Departmental Organisations
- EU-Related Audits

### **Certification of the Government Annual Financial Statements**

The Government Annual Financial Statements, prepared by the Accountant General in terms of Article 65 of the Financial Administration and Audit Act (Chapter 174 of the Laws of Malta), comprise the following returns:

- A statement of the Consolidated Fund Account as compared with that of the preceding 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.

These statements are to be prepared not later than three months after the close of the financial year ending 31 December and are to be forwarded to the Auditor General.

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

The Auditor General also certifies these statements and returns them to the Accountant General within two weeks after the receipt thereof. The certification carried out by the Auditor General consists of an examination and reconciliation of 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 accuracy of figures.

When the examination and certification of these Statements has been completed, the Accountant General then presents the Financial Statements to the Minister of Finance, the Economy and Investment to be published in the Government Gazette and eventually presented to the Speaker of the House of Representatives.

Article 1(d) of the First Schedule of the Auditor General and National Audit Office Act stipulates that in the event that the Auditor General objects to any part of these statements, 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.

## Analysis of the Government Financial Report

Section 67 of the Financial Administration and Audit Act requires the Accountant General to submit to the NAO the Government Financial Report statements and accounts, which are prepared on a cash basis. This report is to be published not later than the end of June of the subsequent year.

The NAO undertakes the analysis of the Financial Report based on a risk and materiality assessment at both Financial Statement and Account Balance level, with the aim of:

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

This exercise is carried out through a comparative analysis of figures, verification of accounting entries against supporting documentation (such as Department files and DAS records), interviews with stakeholders, analytical procedures and other relevant tools and techniques.

Audit tests are designed to determine with reasonable assurance whether the Financial Statements are free from material misstatement and irregularity. Following this analysis, as well as the results of the rest of the findings in the Annual Audit Report, the Auditor General expresses an opinion on the Financial Report.

The analysis of the Financial Report is complementary to the audit of individual Ministries and Government 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 by the respective entities.

Comments on the Financial Report which typically feature in the NAO Annual Audit Report on the Public Accounts 2010 (**Annex C**) relate to:

- explanations on the Consolidated Fund shortfalls in actual revenue recorded as compared to the Budgetary Revenue Estimates;
- explanations of excess expenditure over original and revised Estimates;

- the bank reconciliation of the Public Account held at the Central Bank of Malta;
- comments on certain Financial Report Statements such as investments, outstanding advances, court and other deposits, bank and cash year-end balances, public debt, local and foreign loans, statement of abandoned claims, cash losses and stores written off as well as letters of comfort and bank guarantees; and
- results of reviews of internal control procedures.

## Audits of Individual Ministries and Government Departments

The main objective of the audit of individual Ministries and Departments is to ensure that the expenditure incurred by such bodies is accurate, complete and free from material misstatement, is appropriately recorded and accounted for, and has been expended as approved by Parliament.

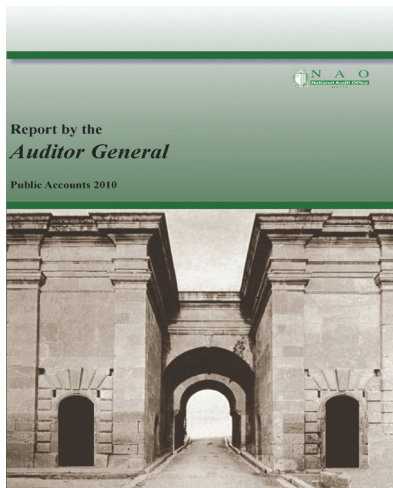
Another objective is to ensure that revenue generated by Ministries and Departments is appropriately recorded and processed, and is in accordance with approved rates and guidelines as stipulated by the relevant legislation and other rules and regulations.

NAO also assesses whether the procurement process adopted by Government bodies is in compliance with the General Financial Regulations 1966 and Public Contracts Regulations. Audits also aim to ascertain whether adequate internal controls are in place for the detection and prevention of material misstatements, arising through fraud and/or error, and for the safeguarding of public assets.

The results of the audits of individual Ministries and Departments are classified into three components: Key issues, Control issues and Compliance Issues. Key issues outline any material findings or outcomes of the NAO audit. Control issues describe any shortcomings within the entity's internal control and internal checking mechanisms (which are intended to serve as an effective safeguard of assets and resources) that came to the NAO's attention during the course of the audit. Compliance issues summarise instances whereby the relative Government body lacked compliance with legislation in force and standing regulations. Recommendations are put forward by NAO to address the weaknesses identified in the Audit Report, in order to improve the internal control systems of Government entities and to promote good practice.

Ministries/Departments are also given the opportunity to provide feedback on NAO's findings and recommendations. The salient points of this feedback are incorporated under "*Management Comments*" for each audit reported upon in NAO's Annual Audit Report on Public Accounts.





*NAO Annual Audit Report on Public Accounts 2010*

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

The audit of Government corporate issues involves the examination of matters of a common nature across Government Divisions, Departments and Offices. Such activities comprise overseas travel on official business, transport, hospitality, training, personal emoluments/allowances, as well as arrears of revenue due to Government.

Audit results of such issues normally incorporate departures from standing rules and regulations and the identification of irregularities. Such results, together with the relative recommendations, are normally brought to Parliament's attention through the Annual Audit Report on the Public Accounts. However, stand-alone reports on corporate issues may also be published.

### **Audits of Local Government**

In terms 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 (LGAs) 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 LGAs, 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 due consideration.

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

### **Annual Financial Audits**

The Annual Financial Audit is the annual audit upon which the opinion on the Financial Statements of a Local Council is based. A management report thereon is also drawn up. By the time the NAO Annual Audit Report on the Public Accounts 2010 was drafted, i.e. mid-October 2011, audits for financial year ended 31 December 2010 were finalised on 66 Local Councils. A summary of the audit results is found in the Annual Audit Report on the Public Accounts 2010 (**Annex C** refers).

### **Mid-Term Audits**

These types of audits are carried out whenever an Executive Secretary terminates his/her 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. This audit should serve as an independent handover exercise to the new incumbent.

### **Interim Financial Audits**

The Interim Financial Audit is an examination 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.

### **Audits of Non-Government Organisations and Non-Departmental Organisations**

Non-Government Organisations (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. 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.

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, this Act also provides 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 the attainment of high standards of accountability, transparency and compliance with the law.

The NAO carries out Financial and Compliance Audits of various NGOs. The main aim of such audits is to ensure that

public funds given in the form of donations or subsidies to organisations are utilised for the specific purpose for which they are donated.

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 Central Government grants them annually. The audit mainly 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.

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 on the Public Accounts 2010 (Annex C refers) for audits reported upon in this category.

### European Union related Audits

Apart from statutory audits, the Auditor General may carry out audits related to EU Funds whenever he is requested by the PAC, or as may be determined by the NAO in its annual Audit Plan.

Audits on EU Funds granted to Maltese entities are also carried out by the European Court of Auditors (ECA). In such cases, 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 SAIs of EU Member States is regulated by Article 287 of the Treaty on the Functioning of the EU.

NAO examiners participate during ECA audits. At times, 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.

During the current year, the ECA carried out an audit on Enemalta Corporation (EMC) relating to the procurement of the Interconnector Malta-Sicily Project.

### Financial and Compliance Audit Manual

The Financial and Compliance Audit Manual is the primary source of NAO's policy and guidance relating to

the performance of its Financial and Compliance Audits. The current Financial and Compliance Audit Manual also requires compliance with International Standards on Auditing (ISAs), and ISSAIs in the conduct of such audits. NAO Financial and Compliance auditors are guided by the policies and practices contained in this Manual in the carrying out of their audit work.

### Performance Audits

Performance Auditing at the NAO is carried out in terms of paragraphs 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. In particular, paragraph 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."

The primary objective of a Performance Audit is to provide Parliament with independent assurance and opinion about the economy, efficiency and effectiveness of public sector related activities. In fact, a performance audit may be defined as an objective and systematic examination of a public sector organisation's programme, activity, function or management systems and procedures to provide an assessment of whether the entity, in the pursuit of predetermined goals, has achieved economy, efficiency and effectiveness in the utilisation of its resources.

Performance audit also provides an independent assessment of the operations and management of Government programmes against objective criteria of performance, and comments on situations or processes where output in terms of service provided is not of the appropriate standard. It also encourages audited bodies to improve their performance and achieve greater value for money from the use of resources.

As a result of the above, Performance Audits assist Governments in the identification of ways of improving value for money out of the use of public funds through:

- more effective utilisation of resources that will generate increased income and/or achieve reduced costs or expenditure, thus resulting in financial savings;
- an improvement in the efficiency of Government operations and services, and in the quality of the services provided;
- the strengthening of management, administrative and organisational processes of public sector entities;
- the identification and use of best practices to address

gaps in performance or areas where there is scope for improvement;

- the achievement of the entity's aims and objectives more cost-effectively; and
- creating an awareness of the need for good accountability and transparency in the use of resources.

### Performance Audit of EU-related topics

Further to the Financial and Compliance auditing referred to earlier concerning EU funds, a number of performance audits also delve into EU-related issues, such as EU commitments and targets to evaluate to what extent these are on track and exploring reasons for shortcomings in this respect.

### Performance Audit Manual

The Performance Audit Manual provides guidance on the approach to be applied by the Office in the undertaking of performance audits. The guidelines contained in the Manual set out the broad framework for the conduct of Performance Audit work and provide a basis for:

- the effective management and conduct of Performance Audits;
- a clear and fair allocation of duties and responsibilities;
- the promotion of a consistent, economical, efficient and effective Performance Audit practice;
- continuous improvement of Performance Audit methodology and professional development;
- the effective analysis of the performance of the public sector entity concerned;
- sound report writing that represents fairly the results of the audit and incorporates accurate conclusions, practical and timely recommendations; and
- effective teamwork and collaboration.

Performance auditors are required to comply with the policies and guidance contained in this Manual in the conduct of performance audit work.

### Performance Audit Publications issued in 2011

During 2011, NAO published the following Performance Audit Reports:

- Renewable Energy in Malta (Follow-Up)
- Road Surface Repairs on the Arterial and Distributor Road Network
- Achieving a Healthier Nutrition Environment in Schools
- Flexible Work Arrangements for Public Employees
- Dealing with Asylum Applications

Summaries of the five reports are found in **Annex D**.

### Special Audits and Investigations

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

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

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

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

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

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

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

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. Subsequently, in February 2011, the PAC requested the NAO to undertake a supplementary investigation on the matter based on seven concerns presented by the Parliamentary Opposition members of the

PAC. These issues were described as being based on facts that emerged after the April 2010 tabling. NAO completed this ancillary investigation and published the report *“Enemalta Corporation Tender for Generating Capacity (Supplementary Investigation)”* in May 2011.

In addition, the Auditor General was requested by the House of Representatives to conduct an investigation into the setting up and staffing of Automated Revenue Management Services (ARMS) Ltd, the level of service delivery offered to its clients, and related matters. The report on *“ARMS Ltd – Setting Up and Operations”* was published by the Auditor General in November 2011.

An enquiry on the Members of Parliament Honoraria was also carried out following the ruling given by the Honourable Speaker during a Parliamentary Sitting held on 7 March 2011. The purpose was to ascertain whether any illegal misappropriation of public funds was involved.

Summaries of the above three reports are found in **Annex E**.



Performance Audit Publications issued in 2011

**Table 1: NAO Reports Downloaded**

2011	Report Description	Downloads
January	Report on the Works and Activities of the National Audit Office 2010	650
February	Performance Audit: Renewable Energy in Malta Follow-up	748
March	Performance Audit: Road Surface Repairs on the Arterial and Distributor Road Network	369
April	Performance Audit: Achieving a Healthier Nutrition Environment in Schools	480
May	Enemalta Corporation Tender for Generating Capacity (Supplementary Investigation)	343
June	Performance Audit: Flexible Work Arrangements for Public Employees	467
July	Performance Audit: Dealing with Asylum Applications	302
October	Information Technology Audit: Inland Revenue Department	201
November	ARMS Ltd. – Setting Up and Operations	247
November	Members of Parliament Honoraria	230
December	Annual Audit Report of the Auditor General – Public Accounts 2010	396

### Information Technology Audits

ICT is being increasingly used for the implementation of Government programmes and the provision of services. The value of good ICT systems is that they can improve the economy, efficiency and effectiveness of existing programmes and contribute towards better services. ICT systems have the potential to deliver existing services at reduced cost (but in reality often do not) and to provide a range of additional services, including programme performance information, with greater efficiency, security, and control than is available in manual systems.

The conduct of IT audits forms an important component of the Office's Audit Strategy given the immense risk involved in ICT projects – huge investments, and systems not fully delivering the intended benefits in terms of envisaged improvement in services, efficiency levels and cost savings. In addition there is the risk brought about by the dependence of Government on suppliers (especially software suppliers) that very often lasts throughout the use of the software purchased.

The major elements of an IT audit can be broadly classified into:

1. *physical and environmental* – this includes the examination of physical security, power supply, air conditioning, humidity control and other environmental factors;
2. *system administration* – involving a security review of the operating systems, database management systems, all system administration procedures and compliance;

3. *application software* – includes the assessment of access control and authorisations, validations, error and exception handling, business process flows within the application software and complementary manual controls and procedures. Additionally, a review of the system development lifecycle should be completed;
4. *network security* – comprises a review of internal and external connections to the system, perimeter security, firewall review, router access control lists, port scanning and intrusion detection;
5. *business continuity* – includes the existence and maintenance of fault tolerant and redundant hardware, backup procedures and storage, and documented and tested disaster recovery/business continuity plan; and
6. *data integrity* – the scrutiny of live data aims to verify the adequacy of controls and assess the impact of weaknesses, as noticed from any of the above reviews. Such substantive testing can be done using generalised audit software (e.g. computer assisted audit techniques).

In 2011, the ICT Unit published a stand alone report relating to an IT Audit at the Inland Revenue Department (IRD). A summary of this report is found in **Annex F**.

### NAO Reports Downloaded

Published audit reports are placed on NAO's website on the day of, or following, their publication. The contents of these reports generate interest from the media and the general public who download these reports. Table 1 shows the number of audit reports downloaded during 2011.

## NAO's Human Resources

At the end of 2011, the staff complement comprised 63 employees, compared to 54 at the end of 2010. In addition to the Auditor General and Deputy Auditor General, the staff complement comprised 2 Assistant Auditors General, 45 auditors and 14 employees in the Support Services Section. Table 2 depicts the Total Staff Complement as on 31 December 2011.

It is to be noted that, out of the total staff complement of 63, as on 31 December 2011, three employees were on Parental Leave and another employee was on long-term unpaid leave. As at year end, the staff complement was therefore effectively made up of 59 employees. Throughout the year, seven officers also availed themselves of their Maternity Leave entitlement.

### *The Audit Function*

NAO's audit function is divided into two main Sections. One Section is responsible for Financial and Compliance

Audits and is headed by Tanya Mercieca, A/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 Audit Section, headed by Brian Vella, Assistant Auditor General, is responsible for Performance Audits and consists of two main Units, each headed by an Audit Manager. This Section is also responsible for International Relations and Research.

Another Unit, comprising two Principal Auditors IT, is responsible for IT Audits.

Forty-three members of the staff are assigned to auditing as depicted in Table 3:

**Table 2: Staff Complement**

<b>Grade Position</b>	<b>In Post</b>	<b>Male</b>	<b>Female</b>
Auditor General	1	1	-
Deputy Auditor General	1	1	-
Assistant Auditor General	2	1	1
<i>Auditing Grades</i>			
Manager	8	6	2
Principal Auditor	11	3	8
Principal Auditor ICT	2	1	1
Senior Auditor	15	8	7
Associate Auditor	5	1	4
Assistant Auditor	3	1	2
Audit Clerk	1	-	1
<i>Support Services</i>			
Manager	1	1	-
Senior Principal	1	1	-
Principal ICT	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>63</b>	<b>32</b>	<b>31</b>

The Organisation Structure of the NAO, as on 31 December, 2011 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 the Finance and Administration Unit and the ICT Unit.



*Brian Vella, Assistant Auditor General*

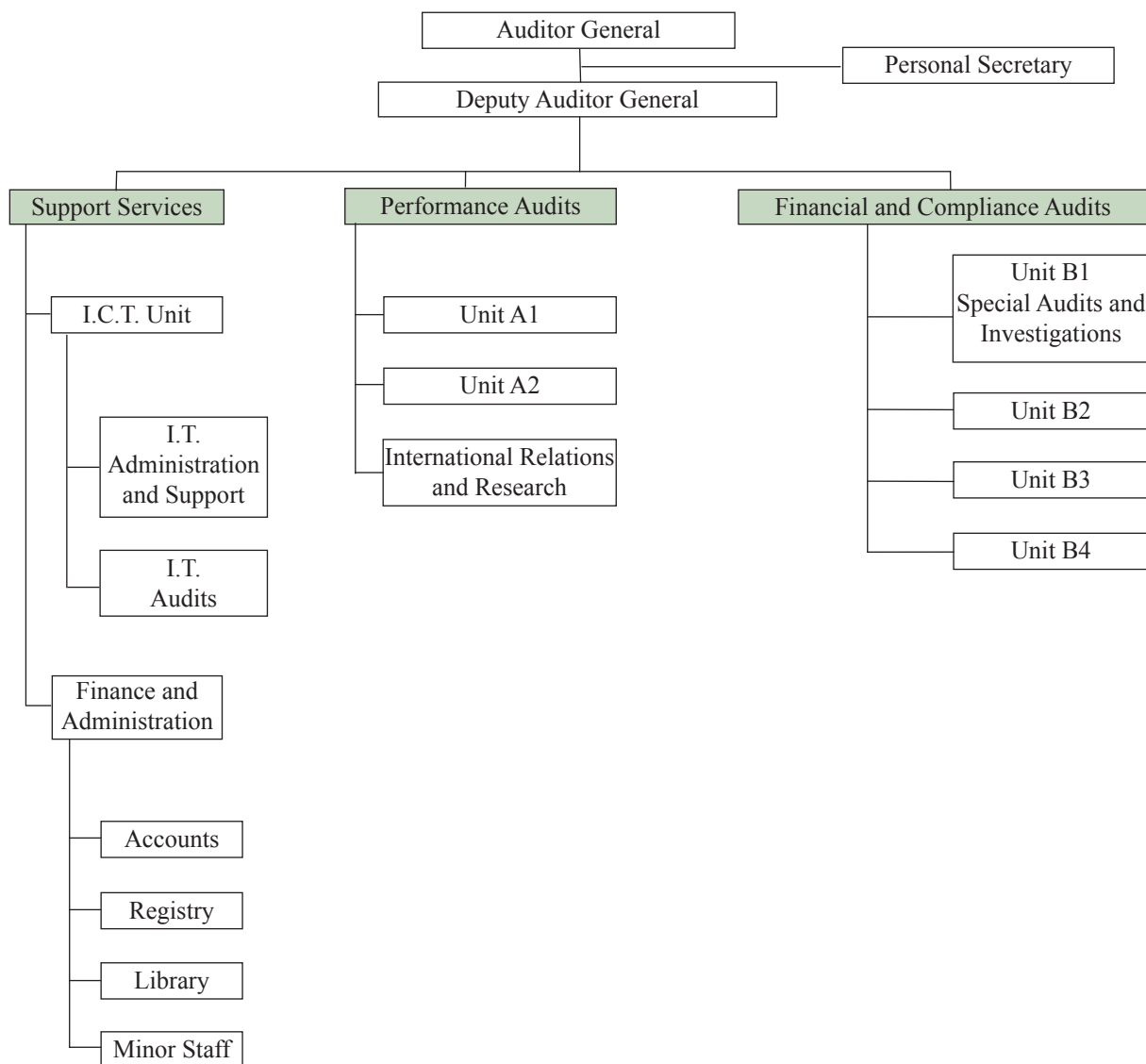


*Tanya Mercieca, A/Assistant Auditor General*

**Table 3: Distribution of Active Audit Staff**

Position	Financial & Compliance Audits	Performance Audits	Special Audits & Investigations	IT Audits	Total
Assistant Auditor General	1	1	-	-	2
Audit Manager	2	2	1	1	6
Principal Auditor	5	4	2	2	13
Senior Auditor	8	6	1	-	15
Associate Auditor	4	1	-	-	5
Assistant Auditor	-	-	1	-	1
Audit Clerk	1	-	-	-	1
<b>Total</b>	<b>21</b>	<b>14</b>	<b>5</b>	<b>3</b>	<b>43</b>

**Diagram 1: NAO Organisation Structure**



**Recruitment**

NAO’s aim in recruitment is to identify intelligent, committed and duly qualified employees to maintain a high performance workforce that it needs to succeed in accomplishing its mission and vision. Retaining such employees, however, is an ongoing challenge. Long-term employee retention is critical to the development and success of the NAO.

Staff turnover is inevitable and steps are being taken to create a positive work environment, where employees feel appreciated and encouraged to work harder, benefiting both themselves and the NAO. This approach leads to greater organisational stability and productivity.

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

During the year a number of external calls for applications were issued to fill vacancies in the Principal Auditor ICT grade and in the Senior Auditor grade within the Financial & Compliance Audit Section, the Special Audits & Investigations Unit and the Performance Audit Section. As a result 13 new employees were recruited while three others resigned. Another employee, retired on reaching pensionable age.





*NAO recruits during 2011 – Elton Camilleri, Maria Camilleri, Krystle Vella, Bryan Pace, Doreen Caruana, Keith Mercieca, Orland Bonavia, Paul Zammit, Neil Zammit, Robert Micallef, Simon Camilleri, Mark Anthony Bonello.*

### ***Gender Equality***

The NAO applies a policy of equal opportunities in its human resource management and recruitment. As on 31 December 2011, the total number of active staff members stood at 31 males and 28 females (Diagram 2 refers).

### ***A Professional and Diverse Workforce***

The quality of NAO's work depends on the commitment and competence of the staff. Auditors within the Financial and Compliance Audit Section are qualified accountants who work with other professional staff within the Performance Audit Section. This Section demands employees with a broad range of expertise and experience and who are trained in such disciplines as statistics, economics, business analysis, public policy, ICT and others. This mixture of academic disciplines contributes to the credibility of our organisation and work.

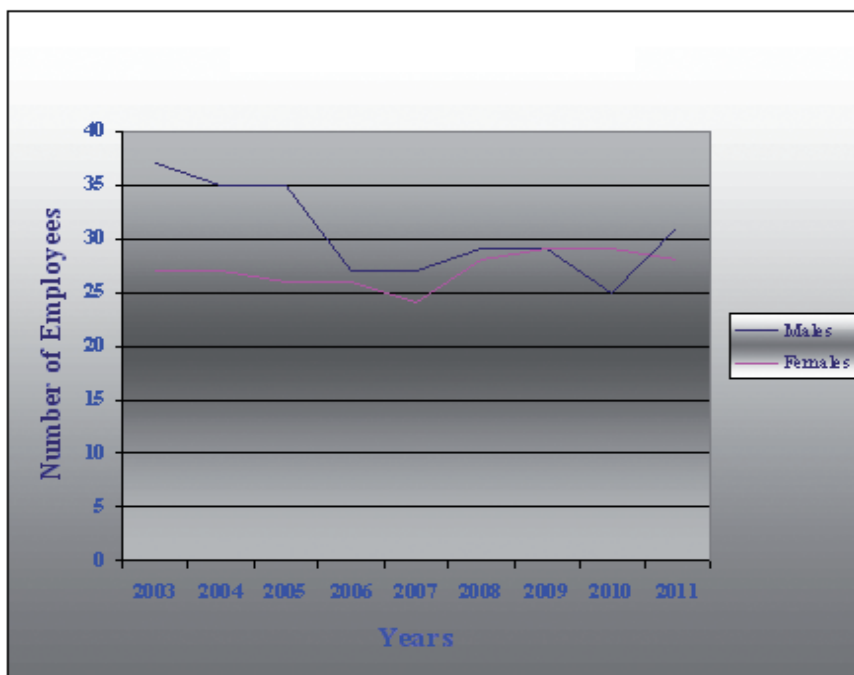
### ***Training and Development***

The continued personal and professional development of our people is fundamental to providing high quality services to our clients. This is achieved by encouraging our staff to take responsibility for their personal and professional development. We provide support to the employees to ensure that they have the skills and knowledge they need to carry out their work, and in so doing meet the same standards we expect of others.

As NAO is committed to maximizing efficiency and achieving sustainable operations, investing in our people, in their abilities and in their knowledge, is vital to the success of our Office.

Training takes different forms, such as induction courses, on the job training and formal courses organised by the Office. Employees are also sponsored to attend seminars, workshops and other audit-related training events both locally as well as abroad. Employees are also encouraged to advance in their careers by being offered sponsorships to follow Degree or Diploma courses on a part-time basis.

**Diagram 2: Staff Complement by Gender**



**Studies Assistance**

NAO strives to ensure that its staff members secure other qualifications and have the skills and knowledge they need to perform their duties to a high standard. The NAO provides financial assistance to any employee who wishes to pursue an educational or professional course of study which is directly related to NAO’s functions and areas of activity.

Before accepting applications, Managers ensure that the course of study will enhance and promote skills and provides additional knowledge to enable the employees to perform their role within NAO. All applications are considered in a fair and equitable manner by senior management.

In 2011, NAO sponsored six employees to follow courses leading to a Master Degree in the subjects listed in Table 4.

**Table 4: Masters Degree courses sponsored by NAO**

- Executive Masters in Business Administration
- Masters of Arts in Public Policy
- Masters in Financial Economics
- Masters in Financial Management
- Masters in Business Administration

### ***Seminars Organised by the Centre for Development, Research and Training***

During 2011, members of the staff attended the following seminars and training sessions (Table 5 refers) organised by the Centre for Development, Research and Training (CDRT) which is responsible for planning the training and development needs of Public Officers in the light of Government priorities and policy directions.

### ***Other Training Organised Locally***

Members of the staff also attended the following seminars and training courses organised by other Institutions locally (Table 6 refers).

**Table 5: Course Title - CDRT**

Theme
Anti Fraud and Corruption
Assertiveness Workshop for Middle Management
Critical Thinking
Dealing with Challenging Co-workers
Delivering Successful Presentations
Departmental Accounting System
Developing Personal Influence and Impact
Dynamic Communication
Effective Briefing and Correspondence
Enhancing Management Control within Public Administration
EU Legislation – Drafting, Adoption and Enforcement
Europe 2020
Europe on the Internet
Freedom of Information Act
Fundamentals of Risk Management for the Public Administration
Information Security Awareness
Key Areas in the Maltese Administration Reform
Management with Leadership
Managing and Improving Performance
Procurement by Contracting Authorities
Project Management
Safety, Health and the Environment when using ICT
Senior and Middle Management: Overcoming Negativity in the Workplace
Skills Towards a Work-life Balance
Speech Writing and Speech Making
The Economic Implications of Pensions
Writing Skills

**Table 6: Courses delivered by Other Organisations**

Theme
Auditing Web Applications
Capital Gains Tax on Property Transfers
Certificate in Proof Reading
Creating Impact During Meetings
Gearing up for the Implementation of the Clarified ISAs
Hot Off the Press: International Financial Reporting Standards (IFRS) Updates
ICT for Executives Conference
Introduction to International Business Machines (IBM) SPSS Statistics Course
Little General Accounting Principles for Smaller Entities (GAPSE) and Simple Companies' Financial Statements
Management Accounting in a Maltese Scenario – The Practical Perspective
Migration into Europe: Rights and Realities
People Engagement – Enticing Employees to Thrive at Work
Performance Management and Appraisal
Public Administration Act
The Economic Implications of Pensions
The EU's Cohesion Policy: Consultation on the Conclusions of the 5th Report on Economic, Social and Territorial Cohesion
The Evolving Role of the Internal Auditor
The Malta Pension Reform Initiatives
The New Industrial Emission Directive
The Value Added Tax Act Case Studies
VAT and the EU Conference 2011
VAT Course

### ***On the job Training***

On the job training is a cost-effective way of rapidly integrating newly hired employees to our workforce. New employees are taught the skills, knowledge, and competencies that are required in their role as public auditors. On the job training reduces learning time and uses in-house expertise. Such training results in a more dynamic workforce that is competent, and knowledgeable in auditing methodologies and techniques and thus enjoys better morale.

### ***Induction Training Programme***

During 2011 NAO updated work on the development of a new Induction Training Programme. The Office recognises that a well planned Programme is absolutely vital for new employees. It also ensures that such recruits are adequately retained, and quickly embrace NAO's mission, goals, personnel practices and job duties for the benefit of both parties.

The Programme incorporates the following topics:

- General introduction to the NAO with particular emphasis on the Auditor General and National Audit Office Act XVI of 1997 and Section 108 of the Constitution.
- Overview of the workings of the public sector, particularly the roles and functions of the Office of the Prime Minister (OPM) and Finance Ministry.
- ICT Administration and Security at the NAO.
- General Registry and Administration Procedures.

### ***Training Workshops in the Applied Use of Econometric Techniques***

A series of training workshops were organised for professional members of our staff aiming to enhance their knowledge and capabilities in the applied use of econometric techniques, leading to a continuous improvement in the credibility enjoyed by the Office. The workshops were delivered by two experienced economists. Fifteen auditors participated in these workshops.

### *Performance Audit Seminar*

A performance audit seminar on “Identifying Performance Audit Subject Areas and Way Forward” was organised by NAO on 27 October 2011. All employees of the Performance Audit Section attended and actively participated in this seminar. During this event, NAO Performance Audit Strategy, as well as the key guidelines to be adopted in selected audit areas, were reviewed. Moreover, each participant delivered a presentation on a proposed new audit area, followed by a discussion on the audit concerns and methodology presented. A group discussion was then held on the way forward and the strategic identification of performance audit subject areas.

### *Secondment with the Wales Audit Office*

During September and October 2011, Gillian Scerri, a Principal Auditor within the Performance Audit Section, was seconded to the Wales Audit Office for a period of six weeks. Her work programme, which was highly varied, introduced her to a number of different work methods of interest to the NAO. Throughout her secondment, the officer was assigned to a number of different projects and her duties which included:

- Writing up 20 energy efficiency case studies based on actual efficiency gains achieved by Local Authorities across Wales through direct communication with the Energy Efficiency Managers of the respective organisations.

- Collating and analysing qualitative data on Medium Term Financial Plans of 16 Local Authorities, and drawing up a report thereof.
- Observing and participating in Post-Project Learning Sessions.
- Observing meetings and Drawing Conclusions Sessions.

The officer also had the opportunity to work in close collaboration with other Departments within the Wales Audit Office, peripheral to the performance auditing function, yet equally important in the publication of its high quality reports, namely, the Editing, Proofreading and Publishing Departments.

### *Study Leave*

The Office supports the staff in their personal development by granting them study leave to prepare for their examinations. Study leave represents a very significant investment in the staff and provides education and training not otherwise easily acquired at the NAO. During 2011, twelve employees availed themselves of study leave.

### *Family Friendly Measures*

In accordance with the Collective Agreement, NAO has adopted a family-friendly work environment enabling employees to balance work commitments with family responsibilities. Family friendly practices help the NAO



*Secondment at Wales Audit Office by Gillian Scerri in September and October 2011*

*Left to right: Gillian Body; Justine Morgan; Gillian Scerri; Hugh Vaughan Thomas, Wales Audit Office Auditor General*

to retain high-quality employees, and reduce staff turnover and absenteeism.

### *Flexible Working Hours Scheme*

This Scheme was designed to provide employees with a degree of flexibility over their working hours within specified limits and help to achieve a “work-life balance”. By introducing flexible working practices, NAO is confident that its employees are benefiting from a better work environment.

### *Performance Reviews*

Although informal monitoring of the performance of the staff is carried out throughout the year, formal performance reviews are carried out twice yearly. 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.

Performance reviews allow Managers to identify and measure trends in the performance of their employees and to get a better understanding of their needs and expectations. This information is used by Managers to assist their employees to make fuller use of their skills. In addition, these reviews present feedback to employees about individual behaviour, and give them an opportunity to provide input to their managers.

### *Contractual obligations*

Where necessary, the NAO contracts external expertise. NAO does so either to fulfill legislative provisions or to be

provided with strategic advice to carry out, in particular, performance audits or special audits and investigations.

During the year NAO engaged:

- private audit firms to carry out statutory audits of Local Councils;
- a legal consultant on a retainer basis;
- a retired Audit Manager who was retained to undertake *ad hoc* audits;
- an audit firm which was engaged to audit NAO’s accounts; and
- another audit firm to assist in a specific area relating to the ARMS Investigation; and

### *NAO Social Activities*

The generosity of NAO employees was once again shown in the various collections and activities held in aid of philanthropic causes throughout 2011. During the month of May three members of staff participated in the annual Swimathon in aid of Inspire, where a total of €245 was collected for this just cause. During November seven members of staff took part in the Movember initiative, a month-long event where individuals worldwide grow a moustache with the aim of collecting funds for charities that work with people undergoing cancer treatment. Through this activity the staff managed to collect €214, which went towards the needs of the Hospice Movement. As has become customary, NAO staff donated €400 towards the needs of those organisations benefiting from L-Istrina. Moreover, a group of 15 NAO employees carried out voluntary work at St. Joseph Institute - a home that provides shelter to young boys with social problems. NAO also collected €615 through other initiatives.



*NAO employees during voluntary work at St. Joseph Institute in December 2011*

In addition, NAO's social committee organised a number of activities throughout the year, including the annual lunch during the month of June, a 5-a-side football match, the Christmas lunch and the Christmas party.

On 22 December 2011 Mr Albert B. Mizzi, Mr Louis C. Spiteri and Mr Joseph G. Galea, former Directors of Audit/Auditors General, as well as Mr John A. Bonnici, former Deputy Auditor General paid a courtesy visit at the NAO. They were greeted by the current Auditor General, Deputy Auditor General and the two Assistant Auditors General. They also took the opportunity to meet NAO staff.

## NAO Annual Senior Management Seminar

A seminar for NAO senior management was held on 9 June, 2011. The objectives of this seminar were to:

- increase the self awareness of participants;
- evaluate how individual personality profiles and temperaments can be employed for the benefit of colleagues;
- discuss current issues and developments at the NAO; and
- determine the way forward for the Office.

The seminar was divided into four parts:

- Introductory speech by the Auditor General.

- Self-Awareness and Team-Building sessions.
- A presentation by a recently recruited Audit Manager on "*First Impressions of the NAO.*"
- A general discussion on the way forward for NAO.

In his introductory speech, the Auditor General provided a brief overview of current developments at the NAO and of the results achieved by the Performance Audit Section and the Financial and Compliance Audit Section during the current year.

The self-awareness and team-building sessions were led by Fr. A. Micallef, SJ. He delivered a presentation on the characteristics of individual functions, attitudes and temperaments in accordance with the Myers Brigg Type Indicator assessment. He then asked participants to determine their individual profile according to this assessment after ascertaining the results of the questionnaire which they had completed prior to the seminar. This was followed by a discussion of the individual profiles and their applicability to the work environment.

Upon conclusion of the self awareness and team-building sessions, the Audit Manager delivered a presentation on "*First impressions of the NAO.*" He commented on the Office's strong positive attributes and identified certain areas where further improvements could be made.

In the final part of the seminar, the Deputy Auditor General requested feedback from managers regarding the earlier parts of the seminar and facilitated a discussion by those present regarding the way forward for the Office.



*NAO Annual Management Meeting held on 9 June 2011*

## ICT Unit Operations and IT Audits

### *ICT Administration and Support Services*

Throughout 2011, the Unit provided internal ICT support to all NAO staff as well as monitoring of ICT services provided by third parties.

Early in 2011, the Unit successfully upgraded the network link between NAO Annex and the main building thus increasing tenfold the data transfer rate between the two buildings.

In May 2011, the Unit was shifted temporarily from NAO Annex building to the main building, to make way for the refurbishing of the Annex. The Unit returned to the upgraded offices in September 2011. The Unit remained fully operational throughout this period. During the planning and implementation of the NAO Annex refurbishment, the Unit provided ICT related technical assistance/advice to the NAO officer who was responsible to oversee the related works and also supervised the reconnection of the networking equipment and testing of the Local Area Network (LAN).

Furthermore, the Unit regularly updated the NAO website thus providing the public access to the latest NAO publications together with related press releases. Similarly, the ICT Unit was also responsible for the updating of the NAO Intranet so that the staff would have quick access to NAO documents and policies.

### *Data Protection*

In March 2011, the ICT Unit made available a new online form to all NAO managers for the Data Inventory submissions. In June all submissions were collected and the Data Register was updated. This exercise was repeated in December.

### *Desktop Publishing Services*

Throughout 2011, the ICT Unit was responsible for the desktop publishing of NAO reports referred to in Table 1:

### *ICT Steering Committee*

The ICT Steering Committee, which deals with the monitoring, review and prioritisation of developments and issues of an NAO IT related nature, is made up of the following members:

- Deputy Auditor General

- Assistant Auditor General - Financial and Compliance Audits
- Assistant Auditor General - Performance Audits
- Manager - Finance and Administration
- Audit Manager - Special Audits and Investigations
- Manager - ICT Audits and Operations

The Committee is chaired by the Deputy Auditor General whereas the Manager of the ICT Unit, with the assistance of one of his auditors, is responsible for the preparation of the meeting agenda, minutes of the last meeting and discussion documents.

In 2011, the NAO ICT Steering Committee held meetings on a monthly basis, which dealt with the following business areas/initiatives:

- Preparations for the next Information Technology Self Assessment (ITSA).
- Preparations for the 2014 Malta Conference for Commonwealth Auditors General.
- Data Protection related matters.
- NAO ICT business requirements.
- Current and planned IT Audits to be carried out by NAO.

With regards to the preparations for the next ITSA, these included a review by the ICT Unit of the following items:

- NAO ICT and business processes which were addressed in the last ITSA.
- Action plan drawn up as a result of the above ITSA.
- NAO ICT Strategic Plan drawn up in 2009.

Once the above reviews were concluded, the Unit carried out an internal review of the current ICT setup at NAO. The report was presented to the Committee, the related findings were discussed and decisions were taken to implement measures which would mitigate risks identified in the report. The next step would then be to formally start the ITSA process by carrying out a fresh review of NAO ICT and business processes as outlined in Control Objectives for Information and related Technology (COBIT) of the Information Systems Audit and Control Association (ISACA).



## **Renovation Works at the Annex housing the ICT Unit**

NAO is committed to take every reasonable effort to ensure a pleasant ergonomic work environment with the highest occupational health and safety standards. A decision was therefore taken to renovate the Annex Building, housing the ICT Unit. Extensive structural and renovation works were thus carried out.

The scope of the project encompassed a variety of tasks, including structural repairs, upgrades to the plumbing and electrical systems, installation of a new fire alarm system and a new air conditioning system, as well as accessibility facilities for persons with special needs. The existing ICT network and the telecommunication system were also upgraded.

## **Relations with other Auditors**

NAO cooperates with the Internal Audit and Investigations Department (IAID) in the performance of its audit work. At the initial stages of an audit, the Office ascertains whether the audit area being examined has already been (or is planned to be reviewed) by the IAID.

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

The Deputy Auditor General and the Assistant Auditor General, Financial and Compliance Audit Section participated in the seminar on *“The Sound Financial Management of EU Funds”* held on 29 March 2011. The event was organised by the ECA in collaboration with NAO and IAID. Further details on this seminar are included under the Section *“Sound Financial Management of EU Funds Seminar”*.

Moreover, the Auditor General and another senior official attended the XX Annual Meeting of European Auditors of Structural Funds *“The Homologues Group”* organised by IAID together with the European Commission held on 17 and 18 October 2011 in Malta. Subject area of Meeting related to developments and challenges in the field of audit of Structural Funds.

When performing an audit of the financial statements or the operations of a public sector entity, NAO auditors may refer to the respective private sector auditor’s report and management letter relating to the entity concerned.

NAO also maintains constant contact with LGAs, as explained under the Section titled *“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 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.

Since 2008, the Auditor General annually 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 FEMA, subject to the desired level being reached. In 2011, the award was presented to an Accountancy graduate for his dissertation on *“Financial Controls relating to selected projects in Malta and Gozo under the European Regional Development Fund (ERDF) and European Social Fund (ESF).”* The prize was awarded to the successful graduate on 13 April 2011 by the Deputy Auditor General, during a presentation ceremony held at the University of Malta.

Requests from University students are frequently received to assist them in the preparation of their dissertation. These students are given the opportunity to interview senior members of staff on the subject of their dissertation.

NAO has also agreed with FEMA that, with effect from the year 2012, senior officials from NAO will provide lectures on public sector related themes during the more advanced stages of the University of Malta FEMA Diploma on Public Sector Accounting and Finance.

On 9 December 2011, the Auditor General gave FEMA students, following a Higher Diploma Course, a presentation at the University of Malta on the role and current activities of the NAO.

## **Relations with the Media**

### **Reporting by Media on NAO reports**

Upon publication of an NAO report, following presentation of such report to the Speaker of the House of Representatives, the report is uploaded on the NAO website and Press Releases (in both English and Maltese) are issued with a summary of the most salient findings and conclusions. These are generally given wide coverage in the local media, through television, radio and newspaper reporting, as well as through the electronic media.

## Visit by ECA Delegation

A delegation from the ECA, including the Maltese Member of the ECA, Dr Louis Galea LLD, paid a courtesy visit to NAO on 28 March 2011. They were welcomed by the Deputy Auditor General, and other senior officials. Dr Galea was in Malta to submit the ECA Annual Report on the Implementation of the EU Budget for the financial year 2009 to the Parliamentary Standing Committees on Foreign and European Affairs and on Public Accounts.

Dr Galea thanked the Auditor General and all his staff for the effective collaboration between NAO and ECA. He affirmed that ECA has a high opinion of the work of the Office.

Dr Galea also referred to public sector audit as an effective tool for the monitoring and control of public funds and assets of the state. He stated that it is through an independent and impartial audit that citizens will be reassured of the accountability of the State.

Dr Galea also spoke about the role of ECA, i.e. that of being the guardian, in the interest of European citizens, of EU income and expenditure and of the effectiveness of the implementation of the EU budget. He also made reference to the EU Treaty that requires that ECA audits are carried out in collaboration with national SAIs in a spirit of mutual trust and respect for their respective independence.

## Meeting with Chief Information Officers Forum Representatives

On 24 August 2011, representatives from the Chief Information Officers (CIO) Forum attended a meeting at NAO, during which the Auditor General, Deputy Auditor General and other senior officers within NAO gave presentations on the audit mandate and duties of the Office. Also explained were the type of IT Audits that the Office was carrying out. This was followed by a discussion between NAO and CIO officials during which management information and ICT-related issues of concern were discussed. It was also decided to continue meeting on a six-monthly basis to exchange views and developments of mutual interest.

## Meeting with National Statistics Office Senior Officials

On 20 December 2011, the Director General and Director, Economic Statistics from the National Statistics Office (NSO) as well as the Director General, Treasury held a meeting at NAO with the Auditor General, Deputy Auditor General and other NAO senior officials relating to possible cooperation between NAO and NSO in accounting and auditing issues for EUROSTAT purposes.



*Visit to the NAO by Dr Louis Galea (centre), Maltese Member of the ECA on 28 March 2011*



*Visit by CIO representatives to NAO on 24 August 2011*

### Visit by Secondary School students

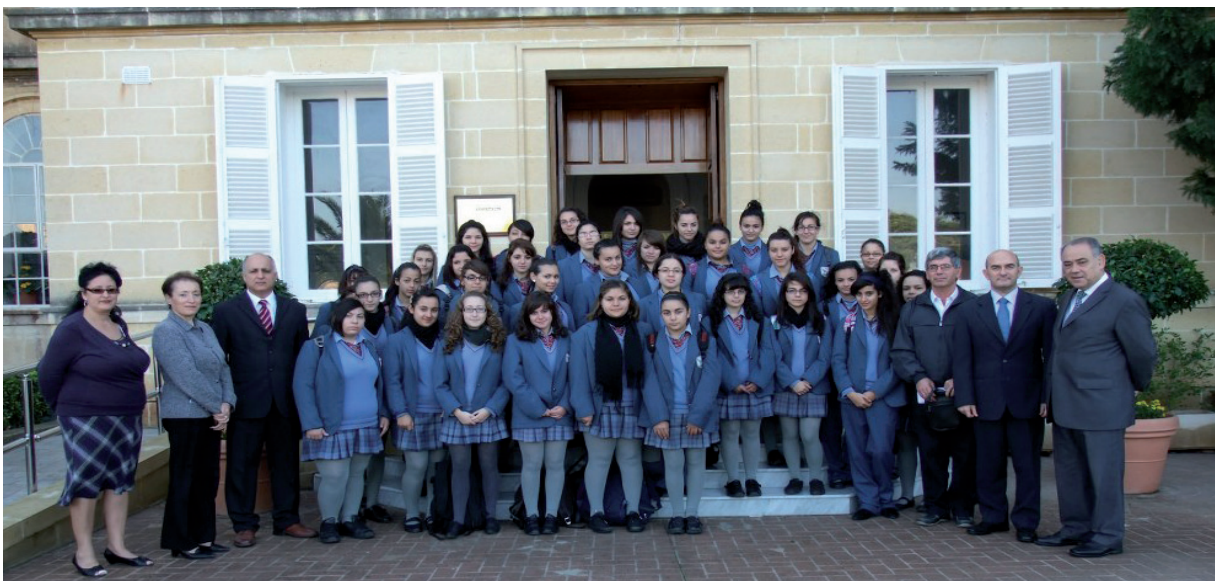
On 6 December, around 40 students from the Imriehel Girls Secondary School paid a courtesy visit to the NAO. They were welcomed by the Auditor General and other members of staff. A presentation was also made to the students by the two Assistant Auditors General on the mandate and activities of NAO.

### Locally Organised Events attended by NAO Senior Officials

The following local conferences and other events were attended by Auditor General and/or other senior NAO officials.

### *Gozo Seminar on Government Financial and Public Procurement Regulations*

A one day seminar was held in Gozo on 7 January 2011. During the seminar, current Government financial and public procurement regulations, the preparation of public tenders using updated templates, as well as the evaluation and appeals process were examined. The Assistant Auditor General, Financial & Compliance Audits delivered a presentation on current Government financial regulations and administration. The latter included an overview of the main sources of Government income particularly those deriving from income tax, customs and excise, and VAT.



*Visit by students from Imriehel Girls Secondary School on 6 December 2011*

The speaker also discussed the relevance and challenges of these regulations to public officers in managerial positions.

### ***Sound Financial Management of EU Funds Seminar***

On 29 March 2011, “*The Sound Financial Management of EU funds Seminar*” was organised by the ECA in collaboration with IAID and NAO. The objective of this seminar was to discuss the lessons learnt from the audits of EU funds carried out both locally and by the ECA. The seminar was attended by several Government officials who are responsible for managing EU funds.

The Assistant Auditor General, Financial and Compliance Audit Section delivered a presentation on “*EU related audits carried out by the NAO*”. She referred to the contacts that exist between ECA and NAO in particular during ECA Audit Missions in Malta and to the EU-related audits undertaken by NAO in recent years.

The Director General, IAID, delivered a presentation on the “*Functions of IAID and lessons learnt from the audits of EU funds.*” She described the role of IAID in auditing such funds and discussed common weaknesses identified during these audits so that such errors/irregularities will not recur in future.

The seminar was also addressed by the Principal Permanent Secretary and Secretary to Cabinet and by Dr Louis Galea, LL.D the current Maltese member of ECA. Both speakers referred to the duties and responsibilities of EU Member States in the monitoring and control of EU funds. Moreover, two representatives from ECA, in their presentations, dealt with the lessons learnt from audits carried out by the latter on EU Structural Funds.

The closing address was delivered by the Deputy Auditor General, who made reference to both financial and compliance audits and performance audits of EU funds completed in 2010 by NAO. He also referred to the important role of the ECA in improving financial management at EU level.

As a result of the success of this seminar, it was proposed that similar events be organised in conjunction with ECA on topical subjects on an annual basis.

### ***Conference on “The Sovereign Debt Crisis and the New Boundaries of the State”***

The Auditor General and Deputy Auditor General were invited by the Hon Mr. Speaker to attend the

European Public Law Organisation conference on “*The Sovereign Debt Crisis and the New Boundaries of the State*”, held on 8 and 9 July 2011 at the Palace, Valletta. During this conference, the following main issues were discussed:

- The sovereign debt crisis and its effects, both on a European level and from an individual country perspective.
- The changing role of the state and the desired reforms of the public sector as a result of the crisis.

### ***Induction course for Potential Executive Secretaries***

The Department for Local Government and the CDRT coordinated an induction course for potential Council Executive Secretaries. This training course was held from August to November 2011 and was targeted towards newly appointed Executive Secretaries. The training provided aimed to impart the necessary knowledge and skills relevant to their responsibilities such as leadership and managerial skills, and the operation of the local Government system. During this programme, a senior NAO official delivered a presentation on “*The Role of the Local Government Audit.*”

### ***International Conference – Malta Forum for Internal Auditors***

A senior NAO official attended the international conference on “*The Evolving Role of the Internal Auditor*” organised by the Malta Forum for Internal Auditors held on 26 October 2011. The aim of this conference was to:

- discuss Internal Audit status and value within the organisation;
- assess the impact on value creation of the Internal Audit process; and
- identify the skills required in an evolving internal audit role.

## International Relations

In 2011, a number of NAO employees participated in international conferences, seminars, workshops and other meetings. The purpose of this participation was to enhance NAO's international profile, participate in the network of EU Member State SAIs, keep abreast of developments in state audit-related issues, enhance cooperation with other SAIs, as well as to participate in overseas training events.

### EU Contact Committee

Cooperation between EU SAIs and ECA principally takes place within the framework of the EU SAIs Contact Committee structure. This structure consists of the Contact Committee, the Committee of Liaison Officers and working groups on specific audit topics.

The EU Contact Committee is an assembly of the Heads of SAIs of EU Member States and of 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 the 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 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 2011, one Liaison Officers' meeting was held in Sofia, Bulgaria in preparation for the 2011 Contact Committee meeting. During the Liaison Officers' meeting, the organisation and governance of the EU Contact Committee, as well as progress reports and accompanying draft resolutions relating to the activities of the Contact Committee Working Groups, were discussed. There was also an exchange of views on potential elements to be considered during the 2011 EU Contact Committee meeting and a discussion on the current status of the Contact Committee co-operation activities for the period 2010 to 2012.

The annual EU Contact Committee meeting was held on 13-14 October in Luxembourg. During this meeting, a seminar on the "Impact for EU SAIs and the ECA of the European Semester and other recent developments in EU economic governance" was held. The seminar discussed various issues including:

- Financial crisis and reform of the economic governance;
- Economic governance and financial stability;
- Experience of the first European Semester, including current and potential role of SAIs and ECA; and
- Other economic governance developments on issues, such as the regulation and supervision of financial systems and institutions, state aid to the financial sector and the Euro crisis management mechanisms



*EU SAI Presidents' Contact Committee Meeting in Luxembourg on 13 – 14 October 2011*

At the end of the seminar, the EU Contact Committee adopted a statement on the *“Impact of the European Semester and other recent developments in EU economic governance on the Supreme Audit Institutions of the Member States of the European Union and the European Court of Auditors.”* The statement was prepared following the adoption of a Resolution by the Contact Committee as described in the following paragraph and is addressed to the European Parliament, the European Council, the European Commission and Parliaments and Governments of EU Member States. The statement states that the new arrangements and instruments set up at national, EU and interGovernmental level (notably among the euro area countries) to tackle the financial crisis could have considerable implications for the use of public funds, including an increased risk of gaps in accountability and public audit. Thus it recommends that arrangements for adequate public external audit of the European Stability Mechanism (ESM) in line with international auditing standards are to be made. It is envisaged that the audit results from such an exercise will be shared between participating SAIs. A copy of the statement is to be found in **Annex G**.

Another statement relating to the ESM, preceding the above statement, was prepared by Eurozone members during their meeting in Bonn in September and transmitted during the EU Contact Committee Meeting in October 2011. This statement also emphasises the need that the ESM be subject to an external audit by SAIs of the Member States based on the ISSAIs. Copies of the statement and the resolution are to be found in **Annex H**.

Other issues of current importance were also debated including:

- improving the quality and reliability of national statistics; and
- revision of the EU Financial Regulation.

A number of other matters were also discussed comprising EU-related audits by Member State SAIs, Contact Committee cooperation framework and activities, activities of the Network of SAIs of Candidate and Potential Candidate Countries, and communication on the 2011 EUROSAI Congress.

During 2011, the EU Contact Committee had seven Working Groups:

- Working Group on Structural Funds IV
- Working Group on Activities on VAT
- Joint Working Group on Audit Activities

- Network on National SAI Reports on EU Financial Management
- Agricultural Experts Network
- Network on Fiscal Policy Audit
- Network on Lisbon Strategy / Europe 2020 Audit

During 2011, the EU Contact Committee’s seven Working Groups performed various EU-related tasks:

The Working Group on Structural Funds IV compiled a draft composite report on the parallel audit of the Costs of Controls of Structural Funds, which audit had been completed in 2010. The Working Group adopted the draft composite report, its draft resolution and the possible topic for a Working Group V (2012/2013). All these documents were presented to the Contact Committee in its October meeting.

The Working Group on Activities on VAT prepared two progress reports. The first report, prepared by Core Group 1, related to the methodologies used for constructing appropriate VAT yield indicators and measuring VAT gap. Core Group 2, in its report, gave an account of the progress made with the evolution of an Anti VAT Fraud Strategy at EU level. Another activity of this Working Group was the elaboration of a questionnaire for the topic *“risk management.”*

The activities of the Joint Working Group on Audit Activities in 2011 included the monitoring of bi-/multilateral audit activities being undertaken by the Network of SAIs of Candidate and Potential Candidates Countries and EU Member State SAIs, including ECA.

During 2011, the Network on National SAI Reports on EU Financial Management focused its activities on two aspects. The first aspect was to identify research areas in which SAIs are willing and able to cooperate in order to produce common elements in their respective reports on EU financial management. The second element related to the new design of the website, made in close cooperation with ECA, so that it would function as the main vehicle for the exchange of information on EU financial management and means of communication for the subgroups working on common elements in their overall reports.

The purpose of the Agricultural Experts Network is to facilitate the informal exchange of operational and professional information between SAIs and ECA.

The Network on Fiscal Policy Audit focuses on developing best practice and information exchange in auditing national fiscal policy. The Network serves as a forum for fiscal policy audit professionals, with the aim to share

methodological questions and know-how. Several annual seminars have been organised by this Network. These events have covered a range of themes, from discussing audit methodology to presenting various audit results or audit topics.

The Network on Lisbon Strategy/Europe 2020 Audit in the EUROSAI Congress held in Lisbon on 31 May 2011 invited SAIs having performed audit works in the context of the Lisbon/Europe 2020 Strategy to share their results. The information is being compiled by the Presidency of the Network.

NAO participated in the Working Groups on Structural Funds IV, VAT, and Agricultural Experts Network.

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/contactcommittee/home>

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

### ***Familiarisation Visit to the National Audit Office, London***

The Deputy Auditor General undertook a two day visit at UK NAO in London on 14-15 February 2011. During this visit, the Deputy Auditor General held various meetings with a number of UK NAO senior officials. Several issues relating to the role and functions of the UK NAO were discussed including:

- the management of the Financial and Compliance Audit Section and the Value for Money Audit Section. A process of bringing together the two sections has been initiated;
- UK NAO Quality Assurance;
- UK NAO's programme of work;
- UK NAO's Anti-fraud work;
- UK NAO's relationship with the UK PAC (including a visit by the Deputy Auditor General to a UK PAC Meeting);
- Monitoring of sub-contracted assignments and the entering into partnership contracts;
- UK NAO Strategy and selection of audit areas; and
- UK NAO recommendations and the quantification of savings.

Furthermore, the Deputy Auditor General visited the UK Audit Commission, the main functions of which is to audit local Government and other local bodies, including police and civil protection authorities as well as the provision of research and consultancy services to such entities.

### ***III EUROSAI/ARABOSAI Conference***

The Auditor General and Assistant Auditor General, Performance Audit Section, attended the EUROSAI/Arab Organisation of Supreme Audit Institutions (ARABOSAI) Conference held in Abu Dhabi on 29 and 30 March 2011. The theme of the seminar was Transparency, Accountability and Fight against Corruption. The sessions on transparency dealt mainly with the implementation of ISSAI 20 – Principles of Transparency and Accountability, and ISSAI 21 – Principles of Transparency – Good Practices, the importance of peer reviews as an instrument of assessing SAIs' capacity and INTOSAI Capacity Building Capabilities.

Presentations related to the theme of Accountability included the value and benefits of SAIs, their effectiveness, and their impact on good governance; the role of SAIs in Ensuring Accountability; performance indicators of SAIs and reporting practices. One of the presentations, relating to the Role of the NAO (Malta) in Ensuring Accountability, was made by the Assistant Auditor General.

Sessions related to the Fight against Corruption comprised Innovations in Approaching and fighting Fraud and Corruption, and the SAI's Experience in the Fight against Corruption.

At the end of the Sessions, a number of points emerged, including the following:

- SAIs are one means of fighting fraud and corruption.
- Risk should be identified when focusing on areas to be audited in order to maximise audit resources efficiently and effectively.
- It is important for the public to be made aware of the importance of transparency, accountability and fight against corruption.
- Promotion of integrity and use of correct tools are important in combating fraud and corruption.



*III EUROSAT/ARABOSAT Conference in Abu Dhabi on 29 – 30 March 2011*

- Socio-economic realities demand more efficiency, economy and effectiveness in Government operations to ensure good public management.
- SAIs need to adapt to changes relating to economic, social, environmental and other changing circumstances.
- Relations with Parliament need to be strengthened, while maintaining one’s independence.
- SAIs must be approachable and pay attention to demands of citizens.
- Solutions are global and should therefore be shared between different SAIs.
- Countries progress not solely in terms of wealth, but in particular when civil consciousness gathers momentum.
- Follow-up of audit work is essential in ensuring that shortcomings of any nature are being addressed.

*The Abu Dhabi Declaration*

The delegates finally approved a Declaration, which made reference to:

- ISSAI framework as a common framework of reference for public sector auditing (approved during INCOSAI in October 2010);
- ISSAI 20 – Principles of SAI Transparency and Accountability, as being fundamental to the

recognition of SAIs as effective independent institutions striving to provide values and benefits to their societies;

- Working Group on Fraud and Money Laundering;
- General support for the Framework for Communicating and Promoting the Value and Benefits of SAIs to be part of the ISSAI framework at level 1; and
- Further cooperation and support between EUROSAT and ARABOSAT in area of this Conference.

***XXI Commonwealth Auditors General Conference***

The NAO was represented at the XXI Commonwealth Auditors-General Conference, which was held in Windhoek (Namibia) between 10 and 13 April, 2011, by the Auditor General and the Assistant Auditor General, Performance Audit Section. The Commonwealth Auditors-General Conferences have been held tri-annually since 1951.

The theme of this XXI Conference was “*Pioneering Excellence in Public Sector Auditing*”. This was discussed through two sub-themes, namely “*Strengthening Financial Management in the Public Sector*” and “*Aligning Institutional Capacity and Performance of SAIs*”. NAO acted as rapporteur for the latter sub-theme.

The Auditor General was invited by the Namibian Auditor General to greet His Excellency Hifikepunye Pohamba, President of Namibia on behalf of the Commonwealth Auditors General. He addressed the Conference





*XXI Commonwealth Auditors General Conference in Windhoek, Namibia on 10 – 13 April 2011*

participants by explaining the important role that Parliaments and Governments have in their supportive role of SAIs. Such support, it was emphasised, is essential to ensure that SAIs have a strong institutional capacity for the effective performance of these institutions, which in turn helps strengthen financial management in the public sector.

Towards the end of the conference, the Auditor General announced that NAO had accepted to host the XXII Commonwealth Auditors-General Conference in Malta in 2014. This would coincide with the 200th Anniversary since the setting up of the SAI in Malta. The offer was unanimously approved.

It is anticipated that around 100 delegates from Commonwealth countries would be participating for this event.

***VIII EUROSAI Congress***

The VIII EUROSAI Congress took place in Lisbon from 30 May to 3 June, 2011. The Auditor General and the Deputy Auditor General attended this congress. Various themes were discussed including:

- challenges and demands faced by public managers today;



*VIII EUROSAI Congress in Lisbon on 30 May – 3 June 2011*

- the role of SAIs in the accountability and responsibilities of public managers; and
- the audit of the Independent Regulatory Agencies by SAIs.

The EUROSAI Strategic Plan for the period 2011-2017 and the EUROSAI Budget for the period 2012 to 2014 were also reviewed during the conference.

The Auditor General delivered a speech in connection with the first theme listed above. In his presentation, he referred to the following issues:

- Extensive management reforms that have been prompted within the Maltese Public Service, partly as a result of EU accession.
- Changes necessary to migrate from an internal process implemented by the Maltese Public Service which emphasises control to an open system facilitating innovation and change.
- Recommendations made in NAO audit reports which are aimed at enhancing effectiveness and efficiency of Government operations and ensuring compliance to financial rules and regulations.

A number of other presentations by different participants were also delivered during the Congress. These related to:

- the coordinated audit on programmes and measures aimed at increasing the employability of persons with disability;

- the coordinated parallel audit of protection of the Black Sea against pollution;
- INTOSAI Development Initiative; and
- Possible cooperation by EUROSAI with other regional organisations.

During the Congress, the EUROSAI Statement of Independence of SAIs: Reinforcing the independence of SAIs (**Annex A**) was approved by all those present. A number of conclusions and recommendations relating to the Congress themes were also adopted by Congress participants.

### *XXI UN/INTOSAI Symposium*

The Auditor General and the Deputy Auditor General attended the XXI UN/INTOSAI Symposium held between 13 and 15 July, 2011 in Vienna. The central theme of the symposium was “*Effective Practices of Co-operation between SAIs and Citizens to Enhance Public Accountability.*” Closer communication between SAIs and the citizens is of mutual benefit since open communication enhances transparency in the workings of SAIs themselves and will enforce SAIs’ credibility particularly in the fight against corruption and bad management of public resources.

A number of papers and presentations were delivered on the conference theme including:

- Communication between SAIs and citizens to improve accountability.



*XXI UN/INTOSAI Symposium in Vienna on 13 – 15 July 2011*

- Raising citizens' awareness for the work of SAIs.
- Communication of audit-specific information to citizens.
- Communication related to audits that citizens channel to SAIs.
- Ways and necessary conditions to include citizens in the audit process.
- Values, benefits and challenges of cooperation of SAIs with parliaments: views from Parliaments.
- Values, benefits and challenges of cooperation of SAIs with citizens: views from citizens and from SAIs.
- Innovative ways of cooperation between SAIs and citizens in the context of the Millennium Development Goals.
- UN Convention Against Corruption and its latest developments.

A number of conclusions and recommendations related to the conference theme were approved by participants.

### ***IX Annual Meeting of EUROSAI Working Group on Environmental Auditing***

The IX annual EUROSAI Working Group on Environmental Auditing meeting was held in Stockholm during 11 to 13 October 2011. The main themes discussed included the auditing of transport related environmental issues and how

environmental audits might further embrace economy, efficiency and effectiveness - the three Es.

The keynote presentations related to 'transport' focused on the environmental impact of transport and on transport related environmental policy instruments. The other key note presentation focused on the challenges of auditing the three Es within an environmental context. Various presentations and workshops enabled further debate on the themes under discussion.

This meeting also provided the opportunity for further cooperation between SAIs. The NAO is currently participating in the coordinated performance audit on adaptation to climate change through the study entitled "Safeguarding Malta's Groundwater". This cooperative audit aims to assess the degree to which the respective countries have progressed in identifying climate change risks, developed strategies and policies and implemented climate change adaptation measures. The topic under review, which was selected by respective SAIs, was one which each of these Institutions considered to pose significant climate change risks to their respective countries. Eight other SAIs are participating in this audit. A meeting for the participating SAIs is scheduled to be held in Malta in June 2012.

### ***Visit to the European Court of Auditors in Luxembourg by the Deputy Auditor General***

The Deputy Auditor General paid an official visit to the ECA from 18 to 21 October 2011. During this visit, the Deputy Auditor General had meetings with the President of the ECA and Dr Louis Galea, LLD, the Maltese Member of the Court. He also participated in a discussion with the



*Official Visit by Deputy Auditor General to European Court of Auditors – Left to right: Dr Louis Galea, Malta's ECA Member, Dr Vitor Manuel de Silva, ECA President, Mr Charles Deguara, Deputy Auditor General*

Maltese Member regarding initiatives to be held in early 2012 relating to the presentation of the ECA Annual Report in Malta. Moreover, he attended a session which focused on issues relating to the Statement of Assurance issued by the ECA. In addition, the Deputy Auditor General gave a presentation on the experience of the Malta NAO in the audit of EU funds followed by a discussion. He also participated in a session on the Court's Audit Approach, particularly its performance audit methodology.

Furthermore, the Deputy Auditor General paid a courtesy visit to the Luxembourg *Cour des Comptes* (Court of Accounts).

### **NAO Contribution to International Studies**

During 2011, in addition to the presentations delivered by this Office referred to earlier, NAO prepared a number of papers, replies to questionnaires, surveys and comments on Exposure Drafts on several themes, including the following:

- State Audit Office of Hungary inquiry on *the Costs of Audits, Proposals for Audit Tasks, and the Assignment of Audit Tasks to Audit Managers on the Basis of Competition*.
- Swedish NAO questionnaire on *Public Debt Management*.
- University of Amsterdam questionnaire on *European Survey on the Organisation of the Government Audit in EU Countries*.
- Supreme Audit Office of the Czech Republic questionnaire on *Direct Access to Accounting Systems of the State*.
- University of Zaragoza, Spain questionnaire on *The Role of the National Audit Institutions' Performance Audits in the Improvement of Public Management*".
- *Institut Universitaire International Luxembourg* questionnaire on *Public Performance Audit*.
- Supreme Audit Office of the Czech Republic survey on *Arrangements concerning the SAIs' Head and Regional Offices*.
- Bulgarian NAO questionnaire on *The Activity of the Ministry of Finance in Malta on the Organisation and Management of the Budget Process*.
- Danish SAI questionnaire on *Emission Trading Registries and VAT Fraud with CO2 allowances in Europe*.
- State Audit Office Republic of Latvia questionnaire on *Exchange of Experience on the Audit of Corporate Governance of State (central Government and local Governments/municipalities) Owned Enterprises*.
- French Court of Accounts questionnaire on *The Golden Rule that provides for the Anchoring in the Constitution obligation to Establish a Ceiling for Public Debt*.
- University of Konstanz, Germany questionnaire on *Auditor Regulation*.
- Commonwealth Parliamentary Association questionnaire on *Information about the Establishment and Maintenance of Malta's Public Accounts Committee and the Auditor General functions*.
- EUROSAI Training Committee Questionnaire on *EUROSAI Training Needs and Priorities*.
- EUROSAI questionnaire on *The Review of the EUROSAI Website*.
- International Public Sector Accounting Standards Board (IPSASB) *Conceptual Framework Exposure Draft 1 on Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.
- IPSASB Consultation Paper on *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*.
- IPSASB Consultation Paper on *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements*.
- International Auditing and Assurance Standards Board Consultation Paper on *Enhancing the Value of Auditor Reporting: Exploring Options for Change*.
- INTOSAI Working Group on Key National Indicators Draft White Paper on *Key National Indicators*.

## Annexes

## Annex A – EUROSAI Statement on SAI Independence



### EUROSAI STATEMENT

#### Reinforcing the independence of Supreme Audit Institutions

**Recalling** the Lima Declaration of Guidelines on Auditing Precepts of 1977 and the Mexico Declaration on Supreme Audit Institutions Independence of 2007, issued by the International Organisation of Supreme Audit Institutions (INTOSAI), setting out the principles of independence in Government auditing;

**Acknowledging** the essential contribution of Supreme Audit Institutions (SAIs) to good governance in safeguarding and sustaining the efficient control functions developed by parliaments, issuing recommendations aimed at reinforcing public management, and providing public bodies and society with information on these matters;

**Highlighting** that independence of public audit function is of primary importance for guaranteeing transparency and integrity of public administration, thereby strengthening public trust in Government institutions;

**Underscoring** that independence of SAIs from audited bodies, being protected against external pressures, as well as the free access to the results of their audits by the public, ensure the objectivity of their findings, their credibility and transparency, and makes it possible for their audits to actually contribute to the improvement of the public governance;

**Remarking** that some member SAIs of the European Organisation of Supreme Audit Institutions (EUROSAI) declare to experience/have experienced threats to their independence and the effectiveness of their mandate, through significantly amending or ignoring their powers and due consideration, controlling their activity, trying to influence their results, limiting their resources, damaging their reputation or questioning their political neutrality;

*The EUROSAI members, gathered at the VIII Congress of the Organisation, held in Lisbon on 30 May–2 June 2011:*

**Recognise** with appreciation and support INTOSAI initiatives developed, at internal and external level, in promoting greater transparency, accountability and effective and efficient receipt and use of public resources for the benefit of citizens;

**Manifest** the full commitment of EUROSAI in strengthening and supporting SAIs' independence, taking active steps in this regard as a key element of its strategy, encouraging a wide dissemination of these principles and contributing to expand and implement the results of INTOSAI efforts in the European Region;

**Express** their openness and willingness to keep open lines of communication with parliaments, public powers, the media and the citizens in order to appropriately and effectively face challenges and respond to their expectations for good governance, by attending properly to their constructive demands;

**Encourage** EUROSAI members to forward this Statement to their national Parliaments and Foreign Affairs Ministries:

- raising awareness of the value and benefits of SAIs, their role and the importance of their independence, taking an active action in safeguarding it; and,
- seeking support for the current activities taking place at UN-level, especially the efforts on the basis of the ECOSOC resolution of 26 April 2011, regarding the adoption of a resolution of the UN-General Assembly recognising the importance of the principle of independence of SAIs as set out in the Lima and Mexico Declarations;

**Encourage** EUROSAI members to inform public powers, the media and the citizens of the importance of preserving and ensuring the independent operation of their SAIs, following the Lima and Mexico Declarations;

**Invite** the President and the Secretary General of EUROSAI to forward this Statement, respectively, to the President and Secretary General of INTOSAI, the Presidents and the Secretaries General of the INTOSAI Regional Working Groups, as well as to other interested stakeholders.

## Annex B - UN National Assembly Resolution

### **A/66/442 Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions**

*The General Assembly,*

*Recalling* Economic and Social Council resolution 2011/2 of 26 April 2011,

*Recalling also* its resolutions 59/55 of 2 December 2004 and 60/34 of 30 November 2005 and its previous resolutions on public administration and development,

*Recalling further* the United Nations Millennium Declaration,<sup>1</sup>

*Emphasizing* the need to improve the efficiency, accountability, effectiveness and transparency of public administration,

*Emphasizing also* that efficient, accountable, effective and transparent public administration has a key role to play in the implementation of the internationally agreed development goals, including the Millennium Development Goals,

*Stressing* the need for capacity-building as a tool to promote development and welcoming the cooperation of the International Organization of Supreme Audit Institutions with the United Nations in this regard,

1. *Recognizes* that supreme audit institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence;

2. *Also recognizes* the important role of supreme audit institutions in promoting the efficiency, accountability, effectiveness and transparency of public administration, which is conducive to the achievement of national development objectives and priorities as well as the internationally agreed development goals, including the Millennium Development Goals;

3. *Takes note with appreciation* of the work of the International Organization of Supreme Audit Institutions in promoting greater efficiency, accountability, effectiveness, transparency and efficient and effective receipt and use of public resources for the benefit of citizens;

4. *Also takes note with appreciation* of the Lima Declaration of Guidelines on Auditing Precepts of 1977<sup>2</sup> and the Mexico Declaration on Supreme Audit Institutions Independence of 2007,<sup>3</sup> and encourages Member States to apply, in a manner consistent with their national institutional structures, the principles set out in those Declarations;

5. *Encourages* Member States and relevant United Nations institutions to continue and to intensify their cooperation, including in capacity-building, with the International Organization of Supreme Audit Institutions in order to promote good governance by ensuring efficiency, accountability, effectiveness and transparency through strengthened supreme audit institutions.

<sup>1</sup> See resolution 55/2.

<sup>2</sup> Lima Declaration of Guidelines on Auditing Precepts, adopted by the Ninth Congress of the International Organization of Supreme Audit Institutions, Lima, 17-26 October 1977.

<sup>3</sup> Mexico Declaration on Supreme Audit Institutions Independence, adopted by the Nineteenth Congress of the International Organization of Supreme Audit Institutions, Mexico City, 5-10 November 2007.

## Annex C – Summary of Audit Report on the Public Accounts 2010

### *Report by the Auditor General on the Public Accounts 2010*

The Auditor General presented to the Hon. Speaker of the House of Representatives the Annual Audit Report on the Public Accounts for 2010 on 14 December 2011. The main observations are reported hereunder.

Following examination of the **Government of Malta Financial Report** for year ending 31 December 2010, NAO noted that:

- a detailed analysis of variations for 2010 is still required by the Ministry of Finance, the Economy and Investment in respect of certain items of Revenue, although an improvement over last year was observed in explanations given;
- variance analysis systems at Ministerial and Departmental levels still need to be improved, as evidenced by the substantial excesses of actual over budgeted figures of certain items of Expenditure;
- notwithstanding reported action being taken by Treasury, Cash Book and Central Bank balances reported in the Financial Report 2010 still do not tally with corresponding figures in the December 2010 Bank Reconciliation Statement; and
- Letters of Comfort and Bank Guarantees have reached €1,037 million (against €893 million in 2009). These constitute Contingent Liabilities for Government.

In contrast to previous years, only four Ministries/ Departments failed to comply to send their annual **Arrears of Revenue Returns for 2010**. However, verification of a number of Returns forwarded to NAO could not be performed, due to the lack of supporting information provided by Departments.

The two Reports on **Fully-Expensed Cars within Extra Budgetary Units** and **Official Travel Abroad** revealed numerous shortcomings across various Ministries.

In contrast with the decreasing trend in the number of **Irregular Immigrants** in Closed Detention Centres, which went down to 58 by the end of 2010, as compared to an average number of 393 as at the beginning of the same year, the contract for the supply of daily meals to these irregular immigrants covered a maximum of 2,500 persons. To honour this agreement, the provision of meals was extended to the more vulnerable of the residents

housed in selected Open Centres and the inmates at the Corradino Correctional Facility.

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

- By mid-October 2011, the **audited Financial Statements** of two out of 68 **Local Councils** were not yet submitted to NAO when these should have been received by 2 May 2011.
- LGA could not express an opinion on the Financial Statements as presented by two of the Local Councils due to the various material shortcomings encountered.
- Another 61 Audit Reports were qualified with an ‘except for’ audit opinion.
- Seven Local Councils recorded a negative Working Capital in the Statement of Financial Position.
- Seventeen Local Councils registered a Financial Situation Indicator below the 10 per cent benchmark.
- Sixteen Local Councils registered a deficit in the Statement of Comprehensive Income.

An examination of the records retained by the Head Office of the Ministry of Foreign Affairs, related to the **Embassies in The Hague and Lisbon**, revealed that at times source documentation was not available or was only kept by the Mission. Consequently, completeness of revenue collected and/or correctness of payments made by the respective Missions, and compliance with standing rules and regulations, could not be ascertained.

Procurement regulations were not always followed by the **Ministry for Gozo**. Certain goods and services exceeding the threshold of €6,000 were procured direct from the open market without a public call for quotations or tenders.

Payments issued to a consultant rendering services to the **Ministry for Infrastructure, Transport and Communications** by-passed the purchases ledger and were not even backed by a fiscal invoice. Lack of control was also noted over the issue of payments relating to cleaning as well as for lift maintenance services.

Due to the considerable number of weaknesses revealed by the audit carried out on the **Students’ Maintenance Grants**, NAO considers that the administration and monitoring of



the Smart Card Scheme is rather ineffective and the costs in administering the Scheme could be outweighing the benefits derived. The provision and administration of the Smart Card Scheme system by a management company was also characterised by a number of shortcomings.

Procurement regulations were not followed by the **Malta College of Arts, Science and Technology** in the engagement of a consultant providing his professional expertise and assistance in the implementation of an ESF project. Payments to this consultant could not be verified by NAO since no attendance sheets were kept. Shortcomings in the management of petty cash were also noted.

A review was performed on the **Fejda Programme** and **Jeanne Antide Home** Financial Statements for 2010 presented to NAO by the Board of Management. Various observations were made, amongst which, include lack of communication between the **Ministry of Education, Employment and the Family** and the Board of Management, the appointment and suspension from employment of the Homes Programme Co-ordinator and the appointment of the Service Executive which was not formalised. Furthermore, an analysis of expenditure was not made available, posing a limitation on the audit scope since the necessary testing could not be carried out.

An audit on **Children's Allowance** payments revealed that the Social Security Act does not provide for penalties when claimants are found to be in breach of its provisions. NAO also noted that when claimants are notified of any overpayments by the Social Security Department, they are not specifically requested to refund the amount overpaid.

Lack of compliance with procurement regulations, as well as inadequate control over expenditure incurred by specific Cost Centres on behalf of other locations, was noted during an audit at the **Health Division**.

The implementation of **Phase Two** of the **Exemption Order Scheme**, launched by the **Minister of Finance**, the

**Economy and Investment** in July 2010, was extended to employers with outstanding balances from the Final Settlement System and Social Security Contribution to regularise their position with the IRD. From a review of the implementation process, it transpired that a complete analysis of taxpayers was still not yet finalised before Notification Letters/Agreements to taxpayers to participate in the Scheme were forwarded to them.

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.

Official standard rates have not yet been established for various professional services rendered to the Criminal Court. The tariffs actually applied are taxed by the Court after negotiating the fee due with the respective **Court Experts**.

From a review on Personal Emoluments at the **Civil Protection Department** a number of shortcomings transpired. These related to incorrect salary payments, incomplete and/or not updated records, specific procedures not backed up by official regulations, certain provisions not being complied with and lack of control over particular administrative procedures.

An audit on **Free Medical Aid** granted to out-patients through the Pink and Yellow Cards revealed poor internal controls with respect to means testing procedures and the issue of Pink cards, especially to diabetic patients in Gozo. In addition, it transpired that the Yellow card was also being approved in connection with certain conditions, other than those officially approved under Schedule V of the Social Security Act.

## Annex D – Summaries of Performance Audit Reports

### *Renewable Energy in Malta - Follow-up*

The Auditor General presented to Parliament a follow-up performance audit on the progress registered in the exploitation of renewable energy sources in Malta. This study was undertaken by NAO as requested by the PAC during its deliberations of the performance audit report: Renewable Energy and Energy Efficiency in Malta, which was published in September 2009.

This follow-up audit noted that current initiatives and plans devised by various Governmental entities, which are intended to further stimulate the use of renewable energy in Malta, appropriately address the recommendations proposed by NAO in 2009. However, Malta's progress amounted to only one third of its 2010 projected renewable energy targets, as indicated in the National Renewable Energy Action Plan (NREAP).

The energy policy development process, which also embraces renewable energy sources, has gathered significant momentum. Work related to policies on the exploitation of renewable energy sources within the transport sector has also commenced. Following scheduling revisions and the recent appointment of the Strategic Environment Assessment Audit Team, the energy policy process is now expected to be concluded in August 2011. Upon conclusion of this process, Government may consider to formally endorse Malta's energy policy. Generally, operational plans have been or are in the process of being developed to support the implementation of policy provisions related to the generation of energy from renewable sources.

Various projects and programmes are currently being undertaken to stimulate the further exploitation of renewable energy. Studies include those relating to the feasibility of wind farms, as well as waste to energy projects that have also recently been commissioned.

Additionally, the industrial and domestic sectors are being encouraged to further exploit solar energy through rebate grant schemes applicable on the installation of photovoltaic panels and solar water heaters. Improved feed-in tariffs have also contributed to stimulate the exploitation of solar energy. This follow-up audit has concluded that the rebate grant schemes and the feed-in tariffs constitute value for money to Government and consumers.

However, the implementation of the renewable energy programme, as outlined in the NREAP was subject to delays. Such delays, which were mainly of an administrative and technical nature, led to the non-attainment of the 2010 renewable energy targets indicated in this document. Despite the implementation delays,

the progress registered to date and revised plans indicate that Malta will be in a position to fulfil its EU trajectory targets – the first of which falls in 2012 – and ultimately its obligatory 2020 EU renewable energy targets. Fulfilling these obligations is, however, dependent on the current drive being sustained to maintain project implementation delays at a minimum. Moreover, the attainment of Malta's 2020 targets remains critically dependent on the feasibility and eventual implementation of major projects, as well as the interest in the proposed projects by potential investors.

### *Road Surface Repairs on the Arterial and Distributor Road Network*

NAO has conducted a study to determine the efficiency, effectiveness and economical underpinnings of the Roads and Infrastructure Directorate (RID) with respect to road surface repair works carried out on the arterial and distributor road network.

The overall standard and quality of roads in Malta is of interest to a broad spectrum of the local population and it is the responsibility of RID to repair and maintain the local arterial and distributor road network. Although the repair of link roads falls under the responsibility of the respective local councils, RID at times intervenes and executes the necessary repairs itself.

NAO's principal concern with regards to this audit was the fact that 37 out of the 43 contracts reviewed were contested by a single bidder. Having the vast majority of the tenders issued by RID feature a sole bidder poses considerable risk of reduced competitiveness and could expose dubious bidding patterns.

During the course of this audit, NAO noted a number of shortcomings with regards to the inspection system used in identifying road surface defects. NAO considers the maintenance of an updated and reliable database of the defects in this road network as a strategic priority for RID. In view of this, NAO urges RID to consolidate and standardise the inspection and documentation process as a means of planning its work interventions in a more ordered manner.

Throughout the review, NAO noted that documentation that was to be submitted by tendering contractors, relating to performance guarantees, insurance policies and other areas, was found to be generally inadequate. This shortcoming presented the obvious risk of RID not being able to comprehensively enforce contract conditions. NAO recommends that RID ensures that all the awarded contracts are covered by the necessary performance guarantees and that contracted works are provided with sufficient insurance coverage.

NAO noted an inconsistency between the standards and specifications concerning skid resistance in local legislation as opposed to the established requirements in tender documents relating to road surface repairs. Given that skid resistance is considered an integral part of the overall quality of road surfaces, NAO strongly urges RID to reconsider its position and aim to, at all times, comply with local regulations. If RID is of the professional opinion that the material currently being used provides sufficient properties to ensure skid resistant surfaces, NAO recommends that it pushes forward an amendment to the specifications in local legislation so as to ensure compliance.

Finally, it is NAO's opinion that all Government entities responsible for commissioning road surface repair works should engage in efforts at coordinating, standardising and formalising a uniform approach in the procurement of such works. NAO strongly supports the Framework Agreement initiative adopted by RID, yet urges the Authority to utilise this tool to its utmost by enforcing the parameters established in the said Agreement in a comprehensive and consistent manner.

### ***Achieving a Healthier Nutrition Environment in Schools***

The Auditor General has conducted a study addressing the achievement of healthier nutrition environments within local schools. Attention in this regard was focused on three major aspects. The first relates to how schools create environments that facilitate the implementation of healthy eating, most notably by means of appropriate policy-setting, planning, monitoring, and through school stakeholder collaboration. At a second level of analysis, NAO evaluated how a flexible school curriculum is central to the integration of health-related themes, which is subsequently manifested through the organisation of activities, events and initiatives. Finally, the importance of delivering clear and consistent messages throughout the school day and across the school environment was examined, and specific attention was focused on the influence of school tuck shops and street hawkers amongst others.

NAO's principal recommendation is the instatement of a policy governing and regulating the school nutrition environment. Relying on the initiative of individuals, or particularly motivated schools will certainly not address the present situation of childhood and adolescent obesity within schools in a comprehensive manner.

NAO is of the opinion that only when the existent policy-related constraints and issues are resolved, can the required coordinating body come into effect. Such an organisation would effectively streamline adopted internal school policies, initiatives and other aspects of the nutrition

environment within schools, whilst being recognised as the official focal point addressing all concerns relating to the subject matter.

It is also recommended that the theme of healthy eating, and the generally healthier lifestyle, be further incorporated and elaborated upon within the curriculum, thereby reflecting current trends and concerns. Although a number of schools provided NAO with detailed information on how the theme of healthy nutrition and lifestyle was integrated across the curriculum, it was also apparent that schools operated independent of one another and did not follow a formal, structured programme. Hence, NAO recommends the establishment of a formalised cross-curricular programme, encompassing all aspects of this theme, with clearly delineated sub-themes assigned to specific subject areas.

Although the level of collaboration between parents and schools merits due attention, and is in fact elaborated upon within the study, NAO is concerned with the unwarranted, negative influence of tuck shops and street hawkers.

The formal monitoring of the nutritional aspect of food and beverage items sold through school tuck shops is a conspicuous absence, and a cause for concern to NAO. This lacuna may be addressed by means of an organised system of nutrition-related monitoring, possibly carried out in conjunction with the already enforced monitoring of other aspects of the tuck shops' operations. NAO recommends that this function is assumed, coordinated and supervised by a central authority within the Directorates for Education.

Despite all efforts by schools at addressing healthy nutrition-related issues within their respective environments, this work is undone by street hawkers and other commercial outlets located in their immediate vicinity. NAO is of the opinion that some form of regulation is necessary in rectifying this situation, which has street hawkers and other vendors selling unhealthy food and drinks just outside the school gate. Other countries have addressed similar circumstances by adopting corrective measures, which include distance bans and regulation by means of special permits.

### ***Flexible Work Arrangements for Public Employees***

Flexible work arrangements allow employees to have a more variable schedule as opposed to complying with the standard eight-hour workday. The application of these arrangements offer creative approaches for completing tasks, whilst promoting balance between work and other personal commitments. Such arrangements are considered as conducive to creating a mutually beneficial work environment for employer and employee alike, positively

contributing to the retention of trained and experienced personnel.

In this context, NAO undertook a performance audit in order to evaluate the implementation and management of flexible work arrangements across Government. This was achieved through three cross-comparative studies focusing on corresponding flexible work arrangements, namely, telework, flexible work schedules and reduced hours.

Providing employees with the opportunity to balance their work and life commitments, whilst still maintaining the same level of performance throughout the organisation, is being given prominence by organisations that offer telework to their employees. Offering this level of flexibility to a workforce implies managing at a distance, which subsequently necessitates a more robust and adaptable system of work measurement.

The impact of the introduction of telework within these case study organisations involved a number of considerations, including cost-related issues, the interface of filing systems with the measure, and training provided to teleworkers. One issue of due importance, was the impact of telework on non-teleworkers. This relationship is one aspect of the monitoring mechanisms implemented by management in the assessment and management of the overall measure, whilst another aspect that warrants management attention is the ongoing monitoring of teleworkers' performance.

Flexible work schedules and reduced hours provide a means by which employees are able to conveniently meet family commitments, personal obligations, and general life responsibilities. The case study organisations selected for this part of the study indicated that their respective core hours were decided upon after careful consideration of the organisations' operational exigencies, including the needs of respective clients. Successful implementation of flexible work schedules was determined by rigorous policies as well as corresponding procedures, adequate control mechanisms of hours of attendance, and required resources. An examination of the extent of usage of the flexible work schedules measure confirmed that it was being widely used in both case study organisations. The average clock-in time of employees shifted to an earlier time following the introduction of the measure. This analysis confirmed that employees found this measure to be practical and useful.

The number of employees who opted for the reduced hours measure was significant in the two case study organisations. Both organisations noted that this measure presented no major difficulties in its administration and management, mostly due to a well-established policy and straightforward monitoring mechanisms.

## *Dealing with Asylum Applications*

The Auditor General reported that over time, the adjudication of asylum applications and the relative appeals have become more efficient. The audit also revealed that adequate mechanisms are in place to ensure that asylum seekers' rights are respected throughout the asylum application processes. However, further progress is required to ensure that more asylum cases are concluded in a shorter timeframe.

Generally, the Office of the Refugee Commissioner (ORC) managed to improve its rate of processing asylum applications to the extent that, on average, applications were adjudicated within six months. As at end 2010, ORC was adjudicating 68 per cent of the asylum applications within this period. This constitutes a significant improvement over the previous years. Such progress was mainly due to the strengthening of ORC's administrative capacity and business processes reengineering.

Various circumstances, however, prolonged the process and prohibited more asylum applications from being concluded within six months. At times, ORC resources were insufficient to deal with the arrival rate of asylum seekers. Consequently, the existent staff complement was not able to cope with the resulting increase in the number of outstanding applications. Case complexity and, in cases, a lack of cooperation by the applicants themselves were amongst the major contributory elements lengthening the asylum application process.

Applicants whose asylum application had been rejected by ORC are entitled to appeal the decision at the Refugee Appeals Board. Apart from 2006, it was only in 2009 that appeals were concluded within six months, which is considered to be a reasonable period for the adjudication of such cases.

The main constraint delaying the appeals process relates to the provision of free legal aid to appellants. A major contributory element, diminishing management control over the provision of services by lawyers, relates to the fact that these professionals are not contractually bound or requested through other formal agreements to provide their services within an agreed timeframe.

Although repatriation was not within the scope of this audit, it is evident that a number of applicants who were not granted any form of international protection continue to reside in Malta. Following the appeals process, the non-repatriation of applicants who were not granted asylum results in extra costs to Government and stretches even further the asylum infrastructure. This situation clearly illustrates that national and international efforts including those in EU forums must be intensified to ensure that decisions reached through a fair and costly process are expediently implemented.

## Annex E – Summaries of Special Reports and Investigations

### ***Enemalta Corporation Tender for Generating Capacity (GN/DPS 8/2006)***

The report Enemalta Corporation - Tender for Generating Capacity (GN/DPS 8/2006), tabled by the Auditor General in April 2010, was the basis of discussion of a number of PAC sessions. During one such session, a PAC member addressed a letter to PAC Chairman. In this communication seven concerns, described as being based on facts that emerged after the April 2010 tabling, were listed. PAC mandated NAO to take up the investigation, on the basis of the letter contents.

NAO's investigative team analysed all seven issues. Documents deemed pertinent to the investigation were likewise analysed. In compiling its report, the team referred to data collected during the original investigation. Additionally, communication with key players as deemed necessary was established and maintained.

Of the seven concerns listed in the letter, two dealing with relationships between key players and with the 2005 loan taken out by EMC respectively, were deemed to bear no impact on the tendering process. Two other concerns, covering changes reputedly effected to accommodate a particular bidder as well as conflicts of interest, had already been extensively reported upon in the original April 2010 report.

NAO identified, however, key issues in the remaining three concerns listed in the letter. One deficiency that transpired was EMC's consistent recourse to direct orders on an ongoing/repeat exercise and the Corporation's surpassing authorised financial capping.

A second concern was the fact that in public procurement of entities dealing in water, energy, transport and postal services, public contracts regulations empowering authorities to control economic operators' participation in tendering on the basis of the latter's professional (mis)conduct, were not applicable under the then prevailing legislation.

Another potential concern was that a partner of the legal firm representing BWSC's local representative had previously been EMC's legal advisor for 20 years. This same firm also (separately) represents BWSC locally.

### ***ARMS Ltd. - Setting up and Operations***

The Auditor General presented to Hon. Speaker the Report titled ARMS Ltd. - Setting up and Operations, which was commissioned by the House of Representatives. The approved motion called for an investigation into the setting

up and staffing of ARMS Ltd., the level of service delivery offered to its clients, and related matters.

One point of cardinal importance is the fact that in reality, the concept behind ARMS Ltd. constitutes a veritable wide-scope, mega project involving both Water Services and Enemalta Corporations. The project includes replacement of critical software in use by the Corporations, addition of new technological aids, and a nation-wide change-over to smart meters.

The Report considered the situation prevailing during the third quarter of 2010 and henceforth. Salient topics addressed are as follows:

- The nature of the project underwent a change during the tendering process. ARMS Ltd. is still facing difficulties clearing problematic accounts which do not get invoiced.
- Although the Company is making use of performance indicators to gauge its output, the indicators deployed merit revisiting to depict a more holistic and truer picture of operations.
- The project deploys state of the art software and hardware solutions. However, by themselves these are no guarantee of success. Data input needs to be up to scratch to enable meaningful and useful output. A case in point is the chronic deficiency in ARMS Ltd. analysis of customer contacts.
- Critical shortcomings in data quality checks prior to migration, and a breakdown in data matching controls in two major modules, were the cause of problematic situations in 2010.
- ARMS Ltd. lacks three key dedicated functions - Customer Care, Human Resource Management and Revenue Assurance.

NAO acknowledges the progress registered since the change-over to the new system. However, any material return on the very significant investment made can only be obtained once smart metering is implemented.

ARMS Ltd. also needs to address the above deficiencies to ensure a tangible improvement in performance.

### ***Members of Parliament Honoraria***

This inquiry was carried out at the discretion of the Auditor General, as emanating from Article 9(a) of the First Schedule of the Auditor General and National Audit

Office Act XVI 1997 (Cap. 396), following the ruling given by Hon. Speaker during Parliamentary Sitting No. 322 held on 7 March 2011. This ruling was requested by an Opposition Member of Parliament during Sitting No. 300 dated 12 January 2011. By way of background information, this matter was extensively discussed by the House of Representatives during the debates held on 10 and 11 June 2011.

On the basis of aforesaid ruling, the inquiry attempted to:

- ascertain whether any illegal misappropriation of public funds was involved and whether the procedure applied was in conformity with financial regulations; and
- verify the correctness, or otherwise, of the procedure whereby the Honoraria of Ministers and Parliamentary Secretaries, as Members of Parliament, is being issued from the respective Ministry's Vote instead of from the House of Representatives Vote.

Following various interviews with the key stakeholders, including the OPM, the Ministry of Finance, the Economy and Investment, the House of Representatives, and the Salaries Section within the Ministry for Gozo, as well as a detailed review of relative exchange of correspondence, mainly e-mail communications, related to this subject, it resulted that:

- 1) although, in NAO's opinion, best practice demands that relative funds should have been appropriated and subsequently accounted for under a different incidence of charge, no evidence of illegal misappropriation of public funds was found; and

- 2) the principle that Ministers and Parliamentary Secretaries receive one single payment, incorporating all amounts due to them, per se, cannot be termed as incorrect. However, NAO strongly feels that from an accounting perspective a transfer voucher to charge the Honoraria payments from the respective Ministry's recurrent vote, from where they were charged in the first instance, to the House of Representatives' one should have then been made by all Ministries.

By way of recommendations, NAO proposed that:

- (i) similar Cabinet decisions, involving Parliamentary remunerative package, are communicated to the House of Representatives, as used to be done in previous instances, to avoid any potential misunderstanding;
- (ii) in future similar cases, clear and unequivocal instructions are given by the responsible authority to ensure that all Ministries invariably adopt a uniform and standard incidence of charge and consequential accounting procedure;
- (iii) for transparency's sake, whilst respecting the need to deal with Cabinet's decisions with the utmost confidentiality, taxpayers should be duly informed of any such increases; and
- (iv) in order to have in place a reliable audit trail, the procedure whereby Government Departments and public entities duly record all documents relative to an issue within an *ad hoc* Ministerial/Departmental file is to be invariably followed.

## Annex F – Summary of ICT Audit

### ***Information Technology Audit: Inland Revenue Department***

The Auditor General presented an Audit Report on the overall operational effectiveness of the ICT and Information Systems (IS) currently being used by the IRD. Amongst other findings, the audit showed that in 2010 the majority of companies used the IRD online facilities to file their tax returns whilst the percentage of individual taxpayers opting to file their tax returns manually between 2008 and 2010 continued to decrease. The IRD taxation programme for the coming years includes a number of ICT/IS projects and following a consultation process the Department is in the process of formalising its ICT strategy. Moreover, IRD has just recruited more ICT staff in order to improve the load distribution within the ICT section and reduce dependencies on key members of staff.

When focusing on ICT management at IRD, NAO made recommendations related to the analysis of IRD ICT/IS operational costs, the participative role that IRD should take in its ICT Projects managed by Malta Information Technology Agency and the management of IRD ICT/IS inventories. The report also includes a review of five IRD software applications of major importance and lists a number of recommendations made by NAO related to software access control, software user friendliness, management of software enhancements and uptake of online services.

With reference to the protection of information assets, the report delves into the use of antivirus software, operating systems software updates, email, internet, wifi, document storage, Closed Circuit Television and related recommendations made by NAO. The report concludes with recommendations by NAO regarding the need to have in place ICT business continuity and disaster recovery plans for IRD.

## Annex G – EU Contact Committee Resolution

### *Statement addressed to the European Parliament, the European Council, the European Commission and Parliaments and Governments of EU Member States*

**Impact of the European Semester and other recent developments in EU economic governance on the Supreme Audit Institutions of the Member States of the European Union and the European Court of Auditors**

The Contact Committee of the Heads of SAIs of the Member States of the EU and ECA met in Luxembourg on 13-14 October 2011. Part of the meeting was devoted to discussing the impact for EU SAIs and the ECA of the European Semester and other recent developments in EU economic governance, including the regulation and supervision of financial systems and institutions, state aid to the financial sector and audit of the euro crisis management mechanisms.

The Contact Committee recognises that the global financial and economic crisis has revealed the close connection between the economies of the EU – both inside and outside the euro area – and emphasised the shared interests and priorities which go beyond the national dimension. The response at EU level has involved a range of measures including: efforts to stimulate economic recovery and growth; new mechanisms to foster fiscal and economic policy coordination; new legislation on economic governance; changes to the supervision of the financial sector; and financial assistance to Member States in need.

#### **Adequate public audit of public funds**

The Contact Committee emphasises that the new arrangements and instruments set up at national, EU and interGovernmental level (notably among the euro area countries) could have considerable implications for the use of public funds, including an increased risk of gaps in accountability and public audit.

The Contact Committee believes that the following principles (helping to promote good governance and the safeguard of assets) should be respected when public funds are at stake:

- sufficient **transparency**, in the form of reliable and timely information (including national statistics) on actual or intended use of public funds, and the risks to which they are exposed;
- appropriate **accountability**, involving public scrutiny of the operations and holding to account decision-makers and those responsible for managing

the processes; and

- adequate **public audit**, to provide assurance and information on the use of public funds and the risks to which they are exposed, thereby contributing to transparency and providing a basis for accountability.

The Contact Committee emphasises the importance of ensuring an effective public audit response to the financial and economic crisis and its aftermath. The new arrangements and instruments have created new responsibilities, opportunities and challenges for EU SAIs and ECA. These institutions will consider – to the extent possible and within their respective mandates – how to adapt their audit work to the new context. In some cases this process has already started, through the introduction of new and updated audit tasks.

The Contact Committee acknowledges the call of the SAIs of the euro area for adequate arrangements for public external audit of the ESM in line with international auditing standards. The Contact Committee has adopted a specific resolution on this issue.

#### **Further developing co-operation between EU SAIs and the ECA**

The Contact Committee emphasises the importance and benefit of learning from the experience of each other. The increasing interdependence of the economies of the EU reinforces the value of the common perspective that can be gained from co-operating closely. This can include:

- sharing the **lessons learned** from recent audit results, and their impact, as a way of accumulating and sharing knowledge;
- identifying and disseminating current **best practices** in auditing the new (and existing) arrangements;
- identifying **public audit gaps** and the potential for **new audit tasks and new partnerships**, and considering how these could be best addressed; and
- considering the development of specific **audit methods** and techniques for use by SAIs, and tools and guidance for implementing them.

The Contact Committee will develop these actions within its existing **networks** covering the audit of Europe 2020 and fiscal policy, and through **parallel or coordinated audits** and by other **co-operative activities** established for the purpose.

Luxembourg, 14 October 2011



## Annex H – Statement and Resolution of SAIs of the euro area on the external audit of the ESM

### STATEMENT of SAIs of the euro area on the external audit of the ESM

From July 2013, a permanent European Stability Mechanism (ESM) will be effective as a permanent rescue arrangement. The purpose of this mechanism will be to provide the Member States of the euro area with external financial grants to ensure long-term stability of the Euro currency zone. To achieve this goal, the euro currency Member States will furnish €700 billion to the ESM. The Member States will pay in €80 billion and, beyond that will enter into guarantee obligations of €620 billion. The repercussions of these commitments on the national budgets have an impact on the SAIs in the exercise of their core functions.

So far, the ESM Treaty does not make any explicit reference to the audit of the ESM by SAIs. Thus, it does not reflect the provisions of the following fundamental principle, which is also explicitly stated in the International Standards for Supreme Audit Institutions (ISSAIs), namely that:

- all international institutions funded or supported from public resources should be subject to audit by the SAIs,
- in order to ensure that the institution performs its mission in a regular, efficient and effective manner,
- hereby promoting transparency and accountability.

SAIs of the Member States of the euro area are convinced of the need to ensure that the ESM is subject to an external audit by them based on the ISSAIs. This is a precondition for ensuring accountability and providing information to parliaments and other relevant stakeholders in an independent and objective manner.

An effective external audit could comprise the following points:

- creation of a board consisting of a predetermined number of representatives from SAIs of the euro area Member States, for example of five; representatives of the SAIs could take turns as board members for fixed, specified time periods;
- this board would review the activities of the ESM's Internal Auditing Board (Art. 24 ESM-Treaty) as well as the audit opinions on the annual financial statements issued by the independent external auditors (Art. 25 ESM-Treaty) and would have the power to conduct any additional audit work, as it deems necessary;
- the board would audit in particular the ESM's financial, risk and programme management;
- the board would submit its reports on audit findings and conclusions to the board of governors and make it accessible to national parliaments.

SAIs of the Member States of the euro area encourage their national parliaments and their national Governments to insert a clause in the by-laws of the ESM, ensuring that the external audit of the ESM would be subjected to the audit of SAIs.

Agreed on 5<sup>th</sup> October 2011 by SAIs of:

Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Italy, Luxembourg, Malta, The Netherlands, Portugal, Spain, Slovak Republic and Slovenia.

**RESOLUTION**  
**on the Statement of SAIs of the euro area on the external audit of the**  
**ESM**  
**CC-R-2011-01**

***The Contact Committee,***

***considering*** the measures designed to overcome the sovereign debt crisis in some countries of the euro area which constitutes a threat to the long-term stability of the euro area as a whole;

***in view of*** the impact the European Stability Mechanism (ESM) will have on the EU's institutions and Member States as a whole, particularly the importance of the single currency as a key EU policy, the interdependence of the 27 economies, the fact that the ESM is addressing overall EU economic governance objectives and the role of the Commission in managing the process;

***having regard*** to the payment and guarantee commitments to be made by the euro area countries by virtue of the establishment of the European Stability Mechanism and their impact on national budgets;

***recalling*** the responsibility of SAIs to promote accountability and transparency in public activities where public funds are at stake;

***recalling*** that a principle for best audit arrangements for international institutions included in the International

Standards for Supreme Audit Institutions (ISSAI) is that all international institutions financed with or supported by public money should be subject to audit by supreme audit institutions, to promote better governance, transparency and accountability;

***recognising*** the rights and obligations of ECA to audit the European Institutions, including the Commission, in accordance with the Treaty on the Functioning of the European Union;

***acknowledges*** the statement of SAIs of the euro area countries developed in Bonn on 27 September 2011 and agreed on 5 October 2011, notably its call for provision of adequate external public audit of the ESM by SAIs in the by-laws currently in preparation and to be adopted by its Board of Governors;

***requests*** the acting Chair to communicate this resolution to the Presidents of the European Parliament, the European Council and the European Commission as well as to the Secretaries General of EUROSAI and INTOSAI;

***decides*** to make this resolution available on the Contact Committee website.

Luxembourg, 14 October 2011

