

# *Work and Activities of the National Audit Office*

**2012**





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## List of Abbreviations

|         |   |
|---------|---|
| AFCOS   | Anti-Fraud Coordinating Service   |
| ARMS    | Automated Revenue Management Services                                   |
| EC      | European Commission   |
| ECA     | European Court of Auditors  |
| EMC     | Enemalta Corporation  |
| ESM     | European Stability Mechanism  |
| ETC     | Employment and Training Corporation                                     |
| EU      | European Union  |
| EUROSAI | European Organisation of Supreme Audit Institutions                     |
| FEMA    | Faculty of Economics, Management and Accountancy                        |
| IAID    | Internal Audit and Investigations Department                            |
| INCOSAI | International Congress of Supreme Audit Institutions                    |
| INTOSAI | International Organisation of Supreme Audit Institutions                |
| IPSAS   | International Public Sector Accounting Standards                        |
| IPSASB  | International Public Sector Accounting Standards Board                  |
| ISSAI   | International Standards of Supreme Audit Institutions                   |
| IS      | Information System  |
| IT      | Information Technology  |
| ICT     | Information and Communication Technology                                |
| KSU     | Kunsill Studenti Universitarji  |
| LGA     | Local Government Auditor  |
| LN      | Legal Notice  |
| MTA     | Malta Tourism Authority   |
| NAO     | National Audit Office   |
| NAP     | Nitrates Action Programme   |
| NCCAS   | National Climate Change Adaptation Strategy                             |
| NGO     | Non-Governmental Organisation   |
| NSI     | National Statistical Institution  |
| OLACEFS | Organisation of Latin American and Caribbean Supreme Audit Institutions |
| PAC     | Public Accounts Committee   |
| PBS     | Public Broadcasting Services  |
| POYC    | Pharmacy of Your Choice   |
| RDP     | Registered Disabled Person  |
| SAI     | Supreme Audit Institution   |
| TM      | Transport Malta   |
| UoM     | University of Malta   |

|      |   |
|------|---|
| VAT  | Value Added Tax   |
| VRT  | Vehicle Roadworthiness Test                             |
| WAO  | Wales Audit Office                                      |
| WCMP | Water Catchment Management Plan for the Maltese Islands |

# Works and Activities of the National Audit Office – 2012



*Anthony C. Mifsud, Auditor General*

## Overview

During 2012, the National Audit Office (NAO) consolidated its constitutional role as the external auditor of the public administration. Once again, there has been a significant increase in the number of published audit reports over previous years, with an average of more than one audit report per month being produced.

In recognition of our contribution to serving the public interest, senior NAO officials were invited to deliver lectures on public sector auditing to

University students. This opportunity enabled our officials to share their knowledge and experience within an academic environment.

NAO also received requests from the Public Accounts Committee (PAC), its principal stakeholder, to review the extent of adherence to laws and regulations by public entities, the appropriateness of their expenditure, and an analysis of the economy, efficiency and effectiveness of their operations.

Throughout the year, NAO increased its international profile by actively participating in parallel audits with other Supreme Audit Institutions (SAIs). One such audit related to the analysis of the extent of individual Governments' adaptation to climate change. Malta's involvement in the combined report was based on NAO's Performance Audit 2012 publication, namely *Safeguarding Malta's Groundwater*.

Another parallel audit currently underway concerns the Simplification of the Regulations in Structural Funds.

The Office's recent audit assignments, as well as developments in the auditing profession, have accentuated the essential need for effective staff training. NAO sponsors employees' attendance at a number of local and foreign seminars, workshops and other audit-related events. Moreover, sponsorships are awarded to a number of members of staff to further their studies in fields relevant to their work.



NAO strives to maintain a good working relationship with audited entities. In most cases, auditees cooperate with NAO auditors throughout audit assignments. However, on some rare occasions, certain conflicting issues arise in connection with the communication of personal and sensitive data to NAO. Such matters are always resolved in the best interest of all the stakeholders whilst ensuring utmost confidentiality of the data/information under scrutiny.

Malta's international contacts and participation have also provided an opportunity for the Office to provide its feedback on very topical EU-related matters such

as on the European Stability Mechanism (ESM), on the Excessive Deficit Procedure, as well as possible enhanced cooperation between Supreme Audit Institutions (SAIs) and National Statistics Offices. Moreover, the adoption of a number of EU Contact Committee resolutions has had a significant impact on the future role and functions of the Office.

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



Anthony C. Mifsud  
Auditor General

31 January, 2013

## 2012 at a Glance

Annual Audit Report by the Auditor General on Public Accounts for 2011

Seven Performance Audit Reports reporting on the economy, efficiency and effectiveness of a number of Government initiatives, activities and operations across various Ministries, Departments and Government Entities

Four Reports on Special Audits and Investigations, as requested by the PAC or as decided by the Auditor General

Two Audit Reports reporting on the overall operational effectiveness of the Information Technology (IT) and Information Systems (IS) currently in use within the Public Sector

Active participation in overseas Conferences, Seminars and other international meetings

Participation in Parallel Audits with other SAIs

Organisation of EUROSAI Working Group Environmental Audit Meeting in Malta

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, enriching the knowledge and experience of NAO employees

Lectures by NAO senior staff to UoM students undertaking Higher Diploma in Public Accounting and Finance

## The Role of the Auditor General and the National Audit Office

The Office of the Auditor General/Deputy Auditor General and NAO were established through an amendment to Article 108 of the Constitution of Malta and the enactment of the Auditor General and National Audit Office Act of 1997 (hereinafter referred to as the 'Act').

The Auditor General, who is head of NAO, and the Deputy Auditor General who assists him, are both appointed by the President, acting in accordance with a resolution of the House of Representatives, supported by not less than two-thirds of all members of the House. This ensures that the Auditor General and his Deputy, charged with the carrying out of state audit, enjoy the confidence of both political parties represented in Parliament.

The Constitution and the Act set out the Auditor General's mandate and empower him to audit the accounts of all Departments and Offices of the Government of Malta, and of such public authorities or other bodies administering, holding, or using funds belonging directly or indirectly to the Government of Malta.

The Act extends the mandate further to cover independent advisory and investigative powers, examination of any matter relating to the use of public funds, as well as performance/value for money audits of Government Offices and public entities and companies where Government is a majority shareholder. These audits are conducted on NAO's initiative, upon request by the Parliamentary Standing Committee for Public Accounts, namely the PAC, or as requested by the Minister responsible for Finance.

### Extent of Audit Work

All direct and indirect public funds fall under the scrutiny of NAO. Any funds received or administered by Government, from whatever source, including EU funds, are within the extent of the mandate of the Office. However, direct Central Government receipts and payments, as well as Local Government revenue and expenditure, constitute the core responsibility of NAO.

Operations of public entities or bodies with majority Government interest only fall under scrutiny of NAO if deemed necessary by the Auditor General, or if requested by the PAC, or by the Minister of Finance to carry out specific audits on such entities.

In terms of local company legislation (for companies with public interest) or statute (for entities set up by law) private sector auditors are engaged by the entities themselves to carry out Financial and Compliance audits.

### NAO Independence

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

The Auditor General and NAO must be, and also seen to be, independent from both the audited entities and other interest groups. In effect, this degree of independence from the audited body strengthens the credibility of its results.



*Charles Deguara, Deputy Auditor General*

## The National Audit Office and Parliament

### House of Representatives

Cooperation between NAO and Parliament helps to strengthen NAO's role in public sector auditing. Parliament refers to the work of NAO for assurance that Government departments are discharging their functions efficiently and effectively. Parliamentary scrutiny of NAO's audit reports serves to enhance transparency and accountability in Government financial operations and ensure sound public spending. By providing this assurance, NAO is making an essential contribution to public accountability.

The relationship between NAO and the House of Representatives is also regulated by the Auditor General and National Audit Office Act, 1997. 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.

NAO interacts with two select committees within the House of Representatives namely, the PAC and the NAO Accounts Committee.

### The Public Accounts Committee

The PAC was instituted in March 1995 through an amendment, unanimously approved by Parliament, to the Standing Orders of the House of Representatives. This Committee consists of seven members of Parliament, four from the Government side and three from the Opposition side. The Chairman of the Committee is nominated by the Leader of the Opposition after consultation with the Leader of the House of Representatives.

The primary roles of the Committee are to:

- examine and assess the management of the public sector;
- promote improvements, where necessary;
- encourage the optimal use of public sector resources; and
- enhance the accountability of Executive Government to Parliament and the public.

The PAC is not concerned with the formulation of Government policy but for ensuring that Government

initiatives, activities and operations are carried out efficiently, effectively and economically, as well as to promote transparency and accountability in Government operations.

To carry out its role effectively, the PAC needs assurance from NAO's independent audits, that public accounts are credible and complete, and that they accurately reflect the results of the activities of Government.

The PAC may scrutinise NAO reports submitted to the House of Representatives. In discharging this function, it is empowered to request evidence from senior officials of Ministries and Departments, or other public entities such as Permanent Secretaries and Heads of Departments. The Auditor General attends PAC Sittings and takes an active role in the proceedings.

The Committee, through at least three of its members, may also request the Auditor General to carry out investigations and other enquiries relating to matters within NAO's mandate. Moreover, the PAC can review the activities of public entities that are required to present their accounts to Parliament.

The PAC and NAO maintain a cooperative and interdependent relationship between themselves. While the PAC depends on professional audit reports to provide it with a firm foundation for its enquiries, NAO's audit reports gain significantly in impact and effectiveness if they are extensively considered and followed through by the PAC.

This Committee is empowered to make its concerns available to the media and the public. As such, all PAC hearings are normally public and the transcripts of the hearings are available to everyone on the House of Representatives' website. Audit reports are also made available on NAO's website.

Up to 31 December 2012, 48 PAC sittings were held during the current legislature.

### The National Audit Office Accounts Committee

NAO Accounts Committee is set up in terms of the Auditor General and National Audit Office Act. It is composed of the Leader of the House of Representatives who is also the Chairperson, the

Chairperson of the PAC, two members from the Government and one from the Opposition side respectively.

NAO, like other public sector organisations, is subject to Parliamentary and public scrutiny. This ensures that NAO applies the same principles of transparency and accountability to itself as it does to its auditees.

To this end, the main function of the NAO Accounts Committee is to review NAO's financial estimates prior to their consideration and approval by Parliament. This Committee also examines NAO's audited financial statements, which are prepared on an accruals basis and audited by private sector auditors appointed by the same Committee. Moreover, the annual report on the Work and Activities of NAO is also submitted to this Committee.

In addition, NAO's annual audit report is presented to NAO Accounts Committee by the Auditor General and is then submitted to the House of Representatives together with any comments by the Committee.

NAO's audited Financial Statements for financial year ending 31 December 2011 and NAO Estimates for the year 2013, were discussed and approved by the Committee on 27 November 2012.

At least once a year, the Committee is also required to present to the House of Representatives a report of its activities, together with its report on NAO's Estimates.

It also discusses motions relating to the transfer of Government land in terms of the *Disposal of Government Land Act* and reports upon the motions discussed to the House of Representatives.

Table 1 indicates Committee meetings held during 2012.

**Table 1: Details of National Audit Office Accounts Committee Meetings**

| Date         | Details of Transfer of Government Property   |
|--------------|--|
| 9 January    | <ul style="list-style-type: none"> <li>• Transfer of property to various local clubs and associations under rent or temporary emphyteusis</li> </ul>   |
| 6 March      | <ul style="list-style-type: none"> <li>• Transfer of Selmun Palace Co Ltd under temporary emphyteusis to the private sector</li> <li>• Transfer of GO Property to Tecom Investments in exchange for property owned by the latter in Qawra</li> </ul>   |
| 27 April     | <ul style="list-style-type: none"> <li>• Transfer of GO Property to Tecom Investments in exchange for property owned by the latter in Qawra</li> <li>• Transfer of property to Malita Investments plc under temporary emphyteusis</li> </ul>   |
| 9 July       | <ul style="list-style-type: none"> <li>• Transfer of property to Malta Community Chest Fund under temporary emphyteusis</li> <li>• Transfer of property to various local clubs and associations under rent or temporary emphyteusis</li> <li>• Resolution regarding number of immovable properties in various localities in Malta which belong to the Government of Malta and/or Enemalta Corporation or else kept, occupied or utilised by the Corporation for the generation, distribution and provision of electrical energy in Malta and Gozo</li> </ul> |
| 19 September | <ul style="list-style-type: none"> <li>• Transfer of property (Medical School) to Augustinian Fathers under temporary emphyteusis in exchange for property adjacent to the school</li> </ul>   |
| 3 October    | <ul style="list-style-type: none"> <li>• Extension of the present emphyteutical grant relating to transfer of property to MCP Company Ltd</li> </ul>   |
| 27 November  | <ul style="list-style-type: none"> <li>• Transfer of property to Malta Fairs and Convention Centre Company Ltd under temporary emphyteusis for 65 years</li> <li>• Transfer of property to various local clubs and associations under rent or temporary emphyteusis</li> <li>• NAO'S Annual Report &amp; Financial Statements for year ending 31/12/2011, and Estimates for 2013</li> </ul>  |
| 5 December   | <ul style="list-style-type: none"> <li>• Transfer of property to various local clubs and associations under rent or temporary emphyteusis</li> <li>• Transfer of property to Verdala International School Foundation</li> <li>• Transfer of property to Malta Employers' Association</li> </ul>  |

## Public Sector Audits

NAO carries out four types of audit activities, namely Financial and Compliance Audits, Performance Audits, Special Audits and Investigations and IT Audits (Figure 1 refers).

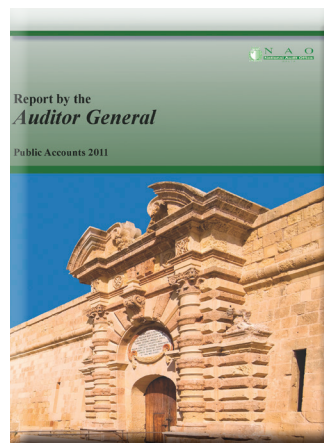
Figure 1: Types of Audit Activities



### Financial and Compliance Audits

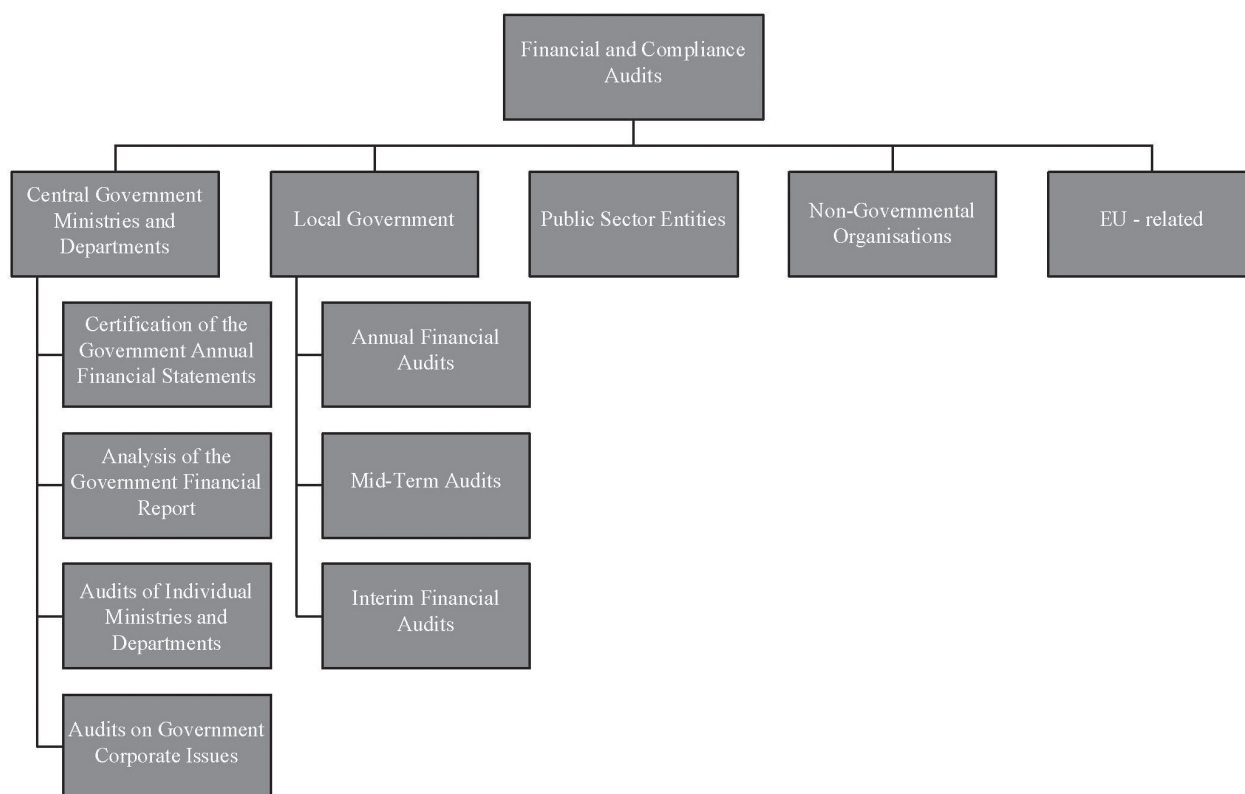
The Financial and Compliance Audit Section is responsible for auditing the financial statements of Central Government Ministries and Departments and other public bodies, to provide independent assurance of whether the financial statements were fairly presented in accordance with Government’s accounting policies, and that the transactions that underlie the statements abide by the relevant rules and regulations. 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.

NAO auditors notify audited organisations of the issues raised through their work, expressing their independent view on areas where the audited entity could improve its governance, controls and financial management. NAO also presents its recommendations that encourage the auditee to implement improvements where shortcomings are identified.



NAO Annual Audit Report on Public Accounts 2011

Figure 2: Types of Financial and Compliance Audits



Audits carried out in 2012 relating to financial year 2011 were reported upon in the Annual Audit Report on the Public Accounts 2011. This report was published and presented to the Speaker of the House of Representatives on 3 December, 2012 and incorporated findings on a number of Ministries and Government Departments as well as public entities (**Annex A** refers).

Figure 2 illustrates the types of Financial and Compliance audits that may be undertaken by NAO.

#### Financial and Compliance Audit Manual

The Financial and Compliance Audit Manual is the primary source of NAO's policy and guidance to the employees during Financial and Compliance Audit assignments. In accordance with the Manual, NAO auditors are required to comply with International Standards on Auditing (ISAs), and International Standards of Supreme Audit Institutions (ISSAIs) in the conduct of such audits.

#### Certification of the Government Annual Financial Statements

The Government Annual Financial Statements are prepared by the Accountant General by not later than three months after the close of the financial year ending 31 December, and are forwarded to the Auditor General for examination and certification. This process consists of a 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. The Financial Statements are returned to the Accountant General within two weeks of receipt thereof.

The latter then presents the Financial Statements to the Minister responsible for Finance, to be published in the Government Gazette and eventually presented to the Speaker of the House of Representatives.



## Analysis of the Government Financial Report

The Government Financial Report statements and accounts are prepared on a cash basis and referred to NAO by the Accountant General for analysis. NAO undertakes this exercise based on a risk and materiality assessment at both Financial Statement and Account Balance level. This is performed through a comparative analysis of figures, verification of accounting entries against supporting documentation, interviews with stakeholders, analytical procedures and other relevant tools and techniques.

Comments on the Financial Report, which typically feature in NAO Annual Audit Report on the Public Accounts 2011 (**Annex A**), relate to:

- reasons explaining shortfalls in Consolidated Fund actual revenue as compared to the Budgetary Revenue Estimates;
- explanations relating to excess expenditure incurred 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 (assets and liabilities, 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, letters of comfort and bank guarantees); and
- results of reviews of internal control procedures.

## Audits of Individual Ministries and Government Departments

The key objectives of these audits is to ensure that Government revenue and expenditure comply with the relevant legislation, rules and regulations and that they are accurate, complete, free from material misstatement and appropriately recorded and accounted for.

The audits also ascertain that Government expenditure has been expended as approved by Parliament and that procurement has been carried out in accordance with the provisions of the General Financial Regulations 1966 and the Public Contracts Regulations.

The audits also assess whether there are adequate internal controls in place for the detection and prevention of material misstatements, arising through fraud and/or error, and for the safeguarding of public assets.

## Audits on Government Corporate Issues

The audit of Government corporate issues entails the assessment of matters of a common nature across the public sector. Results from such audits may often comprise lack of internal controls, lack of compliance with standing rules and regulations and the identification of errors. During 2012, issues relating to arrears of revenue due to Government, as well as procurement of supplies and services obtained directly from the open market, were identified and commented upon.

## Audits of Local Government

In adherence to 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 effected following a public call for tenders by 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 intended to lend support to auditors and to ensure that their observations are given serious consideration and recommendations implemented in a timely manner.

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

### *Annual Financial Audits*

The Annual Financial Audit is the annual audit exercise on which the opinion on the Financial Statements of a Local Council is formed. LGAs also draw up a management report upon conclusion of the audit. By the time NAO Annual Audit Report on the Public Accounts 2011 was drafted, i.e. mid-November 2012, audits for financial year ended 31 December 2011 were finalised on the 68 Local Councils and four out of the five Regional Committees. A summary of the

audit results is found in the Annual Audit Report on the Public Accounts 2011 (**Annex A** refers).

#### Mid-Term Audits

These audits are carried out whenever the Executive Secretary terminates his employment with the Local Council and is replaced by a new Secretary. 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 serves as an independent handover exercise to the new incumbent. In 2012, two mid-term audits were carried out at the Fgura and Mtarfa Local Councils.

#### Interim Financial Audits

The Interim Financial Audit is 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. In 2012, no such audits were carried out.

#### Audits of Public Entities

Audits of Public Entities, as well as of Public Corporations and Authorities, may also be carried out by this Office. Section 108(5)(b) of the Constitution stipulates that the Auditor General is to audit and report upon annually to the House of Representatives on the accounts of public authorities or other bodies administering, holding, or using funds belonging directly or indirectly to the Government of Malta as may be prescribed by local legislation.

These audits are also carried out in compliance with paragraphs (iii) and (iv) of Article 9(a) of the First Schedule to the Auditor General and National Audit Office Act that empower the Auditor General to inquire into and report on:

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

Audits of financial year 2011 were carried out on *Aġenzija Sapport*, Mount Carmel Hospital and WasteServ Malta Limited. Reference may be made

to the Annual Audit Report on the Public Accounts 2011 (**Annex A** refers) for audits reported upon in this category.

#### Audits of Non-Governmental Organisations

Non-Governmental Organisations (NGOs) are constituted under various forms, namely foundations, church or private agencies or entities, voluntary associations, philanthropic institutions and societies. These NGOs maintain their own accounting systems and, although they are directly or potentially financed by Government through subsidies, grants or subventions, are bound to follow their *ad hoc* regulations. Presently, the Voluntary Organisations Act (Chapter 492 of the Laws of Malta) regulates the establishment and activities of NGOs. 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. The Commissioner is responsible for monitoring the activities of NGOs in order to ensure observance of both the provisions of the Act and the attainment of high standards of accountability and transparency.

NAO carries out Financial and Compliance Audits of NGOs receiving Government funds. The main aim of such audits is to ensure that public funds given in the form of donations or subsidies to these organisations are utilised for the specific purpose for which they were 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 the Final Settlement System (FSS), Income Tax, Value Added Tax (VAT) and applicable licenses.

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 in order to bring it to the attention of the House of Representatives.

During 2012, NAO audited the accounts of *Conservatorio Vincenzo Bugeja* in respect of financial year 2010.

## EU-related Audits

The Auditor General may, on his own initiative or at the request of the PAC carry out audits related to EU funds granted to Maltese entities. Similarly, the European Court of Auditors (ECA) may also audit these funds. In such cases, NAO makes all the necessary arrangements with the entity to be audited and ensures that all information requested by ECA has been made available. The relationship between ECA and SAIs of EU Member States is regulated by Article 287 of the Treaty on the Functioning of the EU.

In February 2012, ECA carried out an audit on the procurement of the Interconnector Malta-Sicily Project by Enemalta Corporation (EMC). During the audit, a representative of NAO accompanied the ECA audit team.

In December, NAO took the role of a coordinator in an audit by the ECA on the Internal Audit and Investigations Department (IAID), relating to latter's role as the audit body with respect to Structural, Cohesion and Fisheries Funds and as certifying body of the European Agricultural Guidance and Guarantee Fund.

## Performance Audits

### Performance Audit Mandate

Performance Auditing at 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."*

Performance auditing entails an independent examination of the economy, efficiency and effectiveness of Government undertakings, programmes or organisations. It may include the audit of administrative activities, utilisation of human, financial and other resources, and an examination to check whether the objectives of the audited entities are being achieved. Such an audit may also examine whether a public entity is complying with its statutory obligations.

NAO's mandate allows us to carry out performance audits throughout the public sector.

### Performance Audit Manual and Standards

The Office uses its own Performance Audit Manual, which 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 include:

- the legal basis and concept of Performance Audit;
- structure of NAO Performance Audit Section;
- principles and standards underlying NAO Performance Audit Work;
- NAO Performance Audit Process (audit planning, implementation and reporting); and
- audit methodology to be applied during each stage of the audit process.

NAO also uses ISSAI 3000 (Implementing Guidelines on Performance Auditing) and ISSAI 3100 (Performance Audit: Key Principles) as guidance in its performance audit activities. Furthermore, the so called 'Issue Analysis Drawing Conclusions' approach is used in the conduct of performance audit work.

### Conduct of Audits and Use of Experts

Each Performance Audit is ordinarily carried out by two audit staff members who together bring forward a mix of skills and experience from diverse fields. Experts from outside the Office are consulted when certain expertise is required, to evaluate specific technical issues in audit assignments.

### Surveys

A number of tools and techniques are also used in undertaking audit assignments. These include the use of surveys, through questionnaires, which are communicated to selected persons within the population. During the current year, questionnaires were submitted to participating pharmacies in the Pharmacy of Your Choice (POYC) Scheme, as well as to patients using this service. A survey was also conducted on a number of persons with the assistance of the National Statistics Office, which interviewed the sample population on behalf of NAO.

## Focus Groups

NAO has also started using the 'Focus Group' evaluation system, wherein experts or knowledgeable persons from different entities are brought together to discuss specific audit issues on the same subject area, during the audit execution and reporting stages of the assignment.

## Common Issues Identified

Shortcomings identified during Performance Audit assignments are of a varied nature. Some of the following are examples of the types of weaknesses identified in past years:

*Management shortcomings* - Absence of a clear strategy to implement Government set targets and address issues of concern, unclear delineation of responsibilities, inadequate management structures, insufficient planning and management control, inadequate decision-making skills, limited capacity to plan and manage contracts effectively, and project management weaknesses.

*Resource deficiencies-related findings* - Unavailability of sufficient resources that prevent the achievement of organizational objectives, inadequate distribution of physical resources, misallocation of resources and skills mismatches, excess of human resources in some instances, or insufficient human resources in other cases.

*Performance management issues* – Lack of investment in cost-effective information technology, performance management and accounting systems not always being sufficient, departments lacking clearly defined quantitative objectives and performance indicators to monitor control on their operations, lack of performance targets, incomplete or inaccurate data and a lack of, or inadequate, management information systems, as well as insufficient progress in reaching targets relating to EU commitments.

*Communication and coordination concerns* – Need for increased communication and collaboration between various stakeholders in operation of projects and public entities, inadequate coordination of Government entities performing complementary operations, ineffective communication channels and resulting conflicting information.

*Lack of standards and non-compliance with rules and regulations* – Inadequate enforcement of rules and regulations, especially procurement regulations, and lack of comprehensive standards and procedures to promote good practices in public entities.

*Lack of documentation of standards and policies* – Not all critical policies and procedures are documented, such as, for instance, Standard Operating Procedures, documentation relating to the introduction of measures not being always available.

*Employee training and development issues* – Lack of sufficient development of employees' knowledge and skills, unqualified key personnel, ineffective training programmes.

Other types of weaknesses include *Risk management issues*, such as absence of adequate implementation of risk management techniques in the public sector, *internal control weaknesses*, *process-related issues*, such as inefficient operations leading to high operational costs or insufficient environmental considerations, and *customer care issues*, such as services provided to Departments' clients not always being consistent with quality service charters.

## Cooperation by Auditees

Although, in general, auditees fully cooperate with NAO audit examiners throughout the audit assignments, the following concerns occasionally arise:

- Information from auditees not always readily forthcoming or completely accurate.
- Insufficient and incomplete documentation and evidence submitted.
- Inconsistent replies from different auditees.
- Delays by auditees in fixing meetings to discuss audit-related issues.
- Difficulties in acquiring information of a personal or sensitive data from auditees, in view of latter's overcautious approach to submit such information in line with the Data Protection Act.

## EU-related Audits

Further to the Financial and Compliance auditing of EU funds referred to earlier, a number of performance audits also delved 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. One such audit during 2012 related to *Safeguarding of Malta's Groundwater*, which examined, *inter alia*, EU commitments relating to groundwater. This audit also formed part of the parallel audit on Climate Change Adaptation Measures by a selected number of European SAIs within the EUOSAI Working Group on Environmental Auditing. This parallel audit was published in November 2012. Further details are found in page XX under 'EUOSAI Working Group Environmental Audit Meeting in Malta'.

### Follow-up Audits

Follow-up Audits are conducted on a number of Performance Audits, following the lapse of one or more years. During the current year, one follow up audit was conducted on the audit relating to Vehicle Emission Control Schemes. It is intended to increase the number of follow-up audits during 2013.

### Published Reports

During 2012, NAO published the following Performance Audit Reports:

- Safeguarding Malta's Groundwater
- Employment Opportunities for Registered Disabled Persons
- Contract Management Capabilities across Local Councils

- An Analysis of the Pharmacy Of Your Choice Scheme
- Vehicle Emissions Control Schemes – Follow-up
- Tackling Problem Drug Use in Malta
- Advertising Malta as a Tourist Destination – A case study of the Italian Market

Summaries of the seven reports are found in **Annex B**.

### Special Audits and Investigations

Article 9(a)(i) of the First Schedule of the Auditor General and National Audit Office Act empowers the Auditor General to carry out special audits and investigations on any matter relating to Government finances, property or funds administered or under the control of any Government Department or body.

Special audits and investigations may be carried out following reports of alleged violations of Government policies and regulations and other established procedures, mismanagement, misconduct, waste of resources or abuse of authority with a view to proposing corrective management and administrative measures.

Special audits and investigations are usually carried out by a specialized Unit whose staff also have a mix of skills and experience.



Performance Audit Reports issued in 2012

In its work, the audit team uses objective and independent methods for gathering and evaluating evidence, and in developing conclusions and recommendations. During the investigation, the data and evidence collected is safeguarded to protect it from both modification and destruction.

During 2012, NAO published the following Special Audits and Investigations Reports:

- Public Broadcasting Services: Extended Public Service Obligation 2009/10
- University of Malta: Concession of parts of University House to the Kunsill Studenti Universitarji
- ARMS Ltd: Follow-up to the 2011 Auditor General Report 'ARMS Ltd. – Setting up and operations' and ancillary topics
- Public procurement analysis through case studies: 2007 to 2009

Summaries of the above four reports are found in **Annex C**.

### Information Technology Audits

In 2012, the Information and Communication Technology (ICT) Unit published two stand-alone reports relating to IT Audits at Heritage Malta and the Medicines Authority. A summary of these reports can be found in **Annex D**. These IT audits included a general review of the management of the IT systems at the auditee sites. The audit methodology was based on internationally recognised audit frameworks and looked at the following aspects of IT management:

- organisational setup – review of the auditee’s IT management setup, including the roles and responsibilities of the various sections;
- software applications – review of a selection of the major software applications currently used by the auditee;
- protection of information assets – review of the current security measures maintaining integrity, confidentiality and availability of data at the auditee site; and
- business continuity – review of the IT related business continuity and disaster recovery plans currently used by the auditee.

During the execution of the above audits, NAO listed a number of audit findings which could pose a possible threat to normal IT operations and made recommendations to mitigate the risks identified. The above mentioned audit findings were identified following the issuance of a preliminary questionnaire to the auditee, interviews carried out with officials from auditee’s IT management team and execution of on-site audits.

### Selection of Audits

By the end of the year, Audit Managers are required to present a draft Audit Programme for implementation during the following year. Each Audit Programme includes all audit tasks expected to be undertaken during the period by the respective Unit, as well as the



Special Audits and Investigations Reports issued in 2012



IT Audit Reports issued in 2012

determination of audit objectives, methodologies, staff to be employed and planned time frames for each audit.

In preparing the Audit Programme, precedence is to be given to those audit tasks that must be undertaken by law. Furthermore, adequate attention is to be given to the audit of Government-wide issues, as well as to the audit of specific weak and high risk areas identified in Government Ministries and Departments.

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

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

Once completed, each Manager's Audit Programme is reviewed by the Assistant Auditor General, who may approve or amend the Programme following discussion with the respective Manager. This stage is applicable only to the Financial and Compliance Audit Section and the Performance Audit Section. Plans in respect of the IT Unit and Special Audits and Investigations Unit are referred directly to the Deputy Auditor General and Auditor General for approval.

The combined individual Audit Programmes form NAO Corporate Plan. As soon as the Corporate Plan is approved by the Assistant Auditor General, where applicable, this is submitted to the Deputy Auditor General and Auditor General for their approval.

Throughout the year, the Auditor General, Deputy Auditor General, Assistant Auditors General, Audit Managers and other audit staff periodically hold meetings to discuss the progress in the implementation of Audit Programmes.

## NAO Reports Downloaded

All published audit reports are immediately placed on NAO's website. The contents of these reports generate interest from the media and the general

**Table 2: NAO Reports Downloaded**

| 2012      | Report Description  | Downloads |
|-----------|---|-----------|
| January   | Report on the Work and Activities of the National Audit Office 2011                               | 610       |
| February  | Performance Audit: Safeguarding Malta's Groundwater   | 585       |
| March     | Performance Audit: Employment Opportunities for Registered Disabled Persons                       | 305       |
| April     | Information Technology Audit: Heritage Malta  | 503       |
| April     | Performance Audit: Contract Management Capabilities across Local Councils                         | 577       |
| May       | Performance Audit: An Analysis of the Pharmacy Of Your Choice Scheme                              | 381       |
| June      | Performance Audit: Vehicle Emissions Control Schemes – Follow-up                                  | 239       |
| June      | Public Broadcasting Services: Extended Public Service Obligation                                  | 244       |
| July      | University of Malta Concession of parts of University House to the Kunsill Studenti Universitarji | 264       |
| July      | Information Technology Audit: Medicines Authority   | 452       |
| August    | ARMS Ltd. – Follow-up   | 203       |
| September | Tackling Problem Drug Use in Malta  | 229       |
| October   | Public Procurement Analysis through Case Studies 2007 to 2009                                     | 232       |
| December  | Advertising Malta as a Tourist Destination – A Case Study of the Italian Market                   | 97        |
| December  | Annual Audit Report of the Auditor General – Public Accounts 2011                                 | 1,125     |

Table 3: Staff Complement (2012)

| Grade Position            | In Post   | Male      | Female    |
|---------------------------|-----------|-----------|-----------|
| Auditor General           | 1         | 1         | -         |
| Deputy Auditor General    | 1         | 1         | -         |
| Assistant Auditor General | 2         | 1         | 1         |
| <b>Auditing Grades</b>    |           |           |           |
| Manager                   | 6         | 5         | 1         |
| Principal Auditor         | 11        | 3         | 8         |
| Principal Auditor ICT     | 2         | 1         | 1         |
| Senior Auditor            | 13        | 8         | 5         |
| Associate Auditor         | 5         | 1         | 4         |
| Assistant Auditor         | 2         | -         | 2         |
| Audit Clerk               | 1         | -         | 1         |
| <b>Support Services</b>   |           |           |           |
| 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               | 3         | 3         | -         |
| <b>Total</b>              | <b>57</b> | <b>29</b> | <b>28</b> |

public who download these reports. Table 2 shows the number of audit reports downloaded during 2012.

## Human Resources

NAO strives to be a professional organisation enjoying the full confidence of both Parliament and the general public. To rise to these challenges, NAO aims to attract, recruit and maintain a highly motivated and adequately skilled professional staff.

At the end of 2012, the active staff complement comprised 57 employees. In addition to the Auditor General and Deputy Auditor General, the staff complement comprised two Assistant Auditors General, 40 auditors and 13 support staff. Table 3 depicts the total staff complement as on 31 December 2012.

In addition to these 57 employees, some of whom work on a reduced hours timetable, there were six employees who were on Parental Leave, Career Break or Pre-retirement Leave.

## The Audit Function

NAO effectively has four different key audit functions, as outlined earlier. One Section is responsible for Financial and Compliance Audits and is headed by Tanya Mercieca, Assistant Auditor General. The Section consists of three Audit Units, each led by an Audit Manager. These Units have a portfolio of a number of Ministries, Departments and other bodies holding, using or administering public funds. One of the Units is also responsible for the audit of Local Government.

The other Audit Section, headed by Brian Vella, Assistant Auditor General, is responsible for





Brian Vella, Assistant Auditor General



Tanya Mercieca, Assistant Auditor General

Performance Audits and consists of two main Audit Units, each led by an Audit Manager. This Section is also responsible for International Relations and Research.

The ICT Section is responsible for conducting IT audits in public sector entities. This Section is also responsible for the IT administration of the office and provides its support. Furthermore, this section is responsible for the publishing of NAO reports in hard copy format and an electronic copy for NAO website.

Another Section is responsible for Special Audits and Investigations, in particular (though not exclusively) those requested by the PAC.

The Organisation Structure of NAO, as shown in Figures 3 and 4, reflects the division of duties in terms of the statutory audit of Financial and Compliance Audits, Performance Audits, Special Audits and Investigations, and IT Audits.

Other Units and functions fall under the Finance and Administration Unit and the ICT Unit.

### Employees Assigned Audit Work

During the year, 40 employees were assigned audit work (Table 4 refers). Employees undertaking Financial and Compliance Audits are mostly qualified accountants, while employees assigned Performance Audits, IT Audits and Special Audits and Investigations have a broad range of expertise and are proficient in such disciplines as statistics, economics, business analysis, public policy, and ICT.

### Recruitment

NAO recruits people with suitable academic qualifications, experience and skills to maintain a high performance workforce capable of carrying out audits of Government programmes and initiatives. In



New Recruits: Duncan Spiteri, Keith Gauci, Maressa Zahra

fact, NAO engages people from different academic backgrounds who seek a career in public sector auditing. Retaining this category of employees, however, is an ongoing challenge as long-term employee retention is critical to the development and success of NAO.

To attract and retain the right employees, NAO has created a work environment, where employees feel appreciated and highly motivated. NAO strives to offer, within the range of available budgets, competitive conditions of employment, together with ample training and development opportunities and a number of family friendly measures.

In 2012, NAO recruited three Senior Auditors whereas one Audit Manager and two Senior Auditors resigned. A messenger driver was also recruited to replace one who had retired. The staff complement on 31 December 2012 stood at 57.

### Age Structure

The age structure shows that 37% of the employees are within the 25-30 age group, while 30% are in the 31-40 bracket. The remaining employees are within the 41-50 and 51-60+ age groups, that is 16% and 17%, respectively.

The average age of the employees is 39 years. Average age of the male employees is 42 years while that of the female employees is 36 years.

### Gender Equality

NAO's policy on gender equality promotes the equal status of women in the field of recruitment and training and eliminates any form of discrimination. The Office strives to create a work environment where all the employees are encouraged to continuously develop their potential.

### Professional Conduct

NAO aims to foster a culture where employees are encouraged to behave with honesty, integrity and professionalism. This is backed up by NAO's Code of Professional Conduct that regulates the behaviour of the employees in their day-to-day activities and dealings with auditees. The employees sign a confidentiality declaration and take the oath of secrecy.

### Using and Protecting Client Information

NAO has access to a wide range of information that is required for the purposes of the audit. To safeguard the integrity and confidentiality of the information, NAO takes all the necessary steps to acquire the information in a secure manner and handle it in accordance with good practice. The information is kept secure from unauthorised access and used solely and exclusively for the purpose it was intended. Information about an audited entity acquired in the course of an audit is not used for purposes outside the audit's scope or disclosed to third parties.

**Table 4: Distribution of Audit Staff (2012)**

| Position          | Financial & Compliance Audits | Performance Audits | Special Audits & Investigations | IT Audits | Total     |
|-------------------|-------------------------------|--------------------|---------------------------------|-----------|-----------|
| Audit Manager     | 2                             | 2                  | 1                               | 1         | 6         |
| Principal Auditor | 5                             | 4                  | 2                               | 2         | 13        |
| Senior Auditor    | 4                             | 7                  | 2                               | -         | 13        |
| Associate Auditor | 4                             | 1                  | -                               | -         | 5         |
| Assistant Auditor | 2                             | -                  | -                               | -         | 2         |
| Audit Clerk       | 1                             | -                  | -                               | -         | 1         |
| <b>Total</b>      | <b>18</b>                     | <b>14</b>          | <b>5</b>                        | <b>3</b>  | <b>40</b> |

Figure 3: Organisation Chart by Function

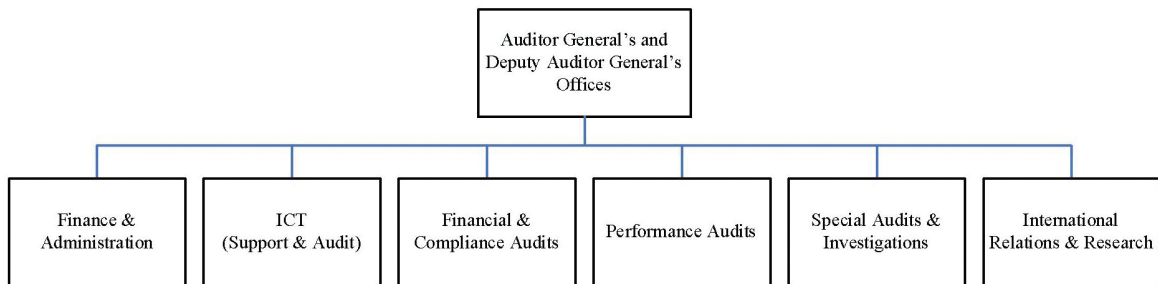
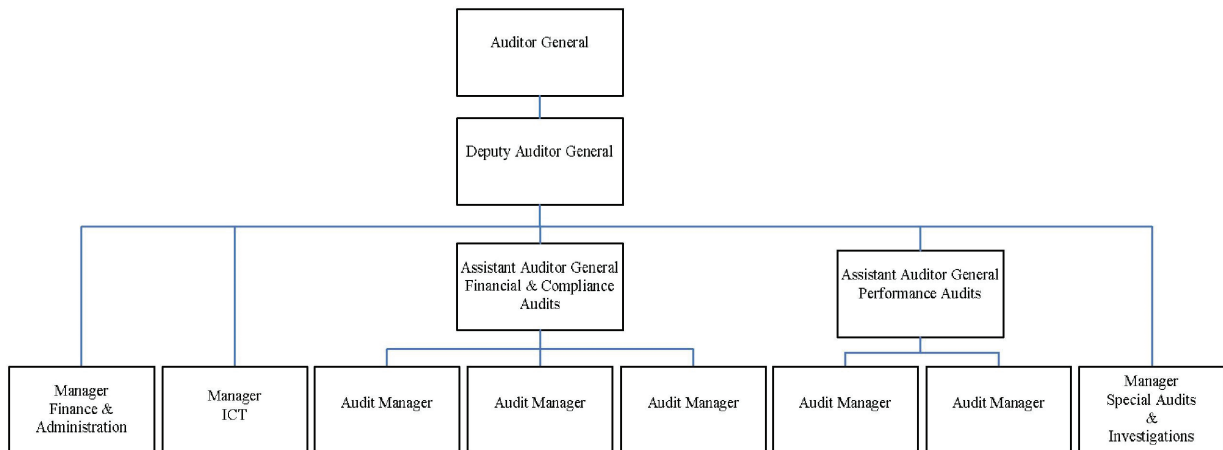


Figure 4: Organisation Chart by Management Structure



It is essential that NAO maintains confidentiality regarding audit matters and information arising from its audit tasks. Unauthorised disclosure of official information or its use for personal reasons is strictly prohibited and is subject to disciplinary action.

In addition, staff members have a duty to protect information recorded in correspondence, documents and files, and data held on computers. This applies to both information obtained from audited bodies and that generated within the Office.

Upon retirement or moving to other employment, former NAO employees have a continuing duty to respect the confidentiality of information, including personal data security acquired as a result of their work at the Office.

### Use of Consultants

When NAO encounters situations requiring skills in areas of specialisation that are not available in-house, it engages the services of an expert after ensuring that he/she has the competence and aptitude for the particular task involved.

NAO also ensures that the selected consultant is independent of the tasks involved and is required to sign a declaration to this effect. A formal Agreement is drawn up stating the terms of engagement, the audit scope and any other necessary requirements. Although NAO uses the expert's work as evidence, it retains full responsibility for the opinions and conclusions reached on the audit task.

During the year, NAO engaged an audit firm in the audit of Enemalta Corporation's derivative transactions and a consultant to provide advice on the Corporation's fuel-related activities as well as commissioning of the Delimara Power Station Extension equipment.

The Office also engages a lawyer on a 'retention' basis to provide advice on legal matters.

### Training and Development

To maximise its efficiency and provide high quality service to Parliament and the public, NAO invests in its people, in their abilities and in their knowledge, by providing a culture of continuous personal development that is conducive to achieving high levels of professionalism. In essence, NAO invests

time and resources to train employees to reach their full potential.

On taking up employment with NAO, new employees are given on the job training to help them integrate within the audit team and to embrace NAO's mission and goals.

To further their development, employees are encouraged to continue with their professional development and attend seminars and conferences organised by competent bodies relevant to their profession.

NAO also provides financial assistance to employees who wish to pursue courses of studies on a part-time basis. Currently, NAO is sponsoring the following courses:

- Maltese Financial Regulations – Institute of Financial Services
- VAT Compliance Diploma – Institute of Indirect Taxation
- Masters in Public Policy – University of Malta (UoM)
- Executive Masters in Business Administration – UoM
- MSc in Financial Management – Heriot Watt University
- BSc (Hons) Information Systems and Management – University of London
- Certificate in Basic Proof reading – The Publishing Training Centre

In addition, employees are granted paid study leave to prepare for their examinations.

During the year, employees also attended several lectures organised by the Centre for Development, Research and Training (CDRT). Part of the training is co-financed by the European Social Fund and is intended to improve the skills of public officials, as well as to enhance the administrative capacity across Public Administration.

One principal auditor and two senior auditors followed the INTOSAI (International Organisation of Supreme Audit Institutions) International Development Initiative e-Learning course titled 'Risk based Approach to Financial Auditing'. This five-week course was followed online from 4 November to 14 December 2012.

A number of NAO employees attended a training course on hedging between 16 and 17 February 2012. The two training sessions were delivered by senior representatives of a major Maltese audit firm. Issues discussed comprised fuel and currency risk exposures, and related hedging instruments.

Four NAO staff attended *PRINCE 1* Training Course, an IT tool to assist in the application of project management techniques.

### Secondment at Wales Audit Office

During August and September 2012, a certified public accountant with a practising certificate in audit from the Financial and Compliance Audit Section was seconded for seven weeks with the Wales Audit Office (WAO) to gain experience with other State Audit Institutions abroad. The work programme was varied and provided him with an understanding of the role and functions of the WAO. It also enabled him to obtain practical experience in the work and procedures of financial and compliance auditing, as practised by the WAO.

### Family-Friendly Policy

NAO's policy of a family-friendly work environment enables employees to balance work commitments with family responsibilities. The policy applies to all NAO employees, whether engaged on a definite or indefinite contract of employment. The policy includes flexible working hours, reduced hours of work, home-working, parental leave and career breaks.

### Performance Review System

The Performance Review System, though continuous throughout the year, is essentially carried out over three parts. The first part is the Performance Plan, which incorporates the individual tasks of employees to be carried out in a particular year. This is usually finalised during December/January. The Mid-Year Performance Assessment is then prepared by each employee in July and relates to work performed during the first six months. The Performance Review loop is then concluded with the End-of-Year Performance Assessment that is prepared by each employee in January/February and relates to the review of tasks performed throughout the preceding year.

The Performance Review System provides the supervisor an opportunity to evaluate the employee's performance and provides the former with constructive feedback and guidance on problem areas where the employee can make improvement. The review also serves to identify any particular training that the employee may need to improve his/her performance. The review, in particular the End-of-Year Performance Assessment, also serves as the key basis for Performance Bonuses to be given to NAO employees.

### Social Responsibility

NAO employees expressed their solidarity with persons in need through the various collections organised in support of philanthropic causes in 2012. Moreover, during the year, NAO employees donated €500 to Dar tal-Providenza. In appreciation of the Office's contribution, the Director of the Home presented NAO with a certificate of thanks for undertaking this social responsibility initiative. A total of €500 was also collected from NAO staff in aid of organisations benefiting from *L-Istrina*.

### NAO Annual Senior Management Seminar

A seminar for NAO senior management was held on 13 June 2012.

Four formal presentations were delivered during this seminar. In his introductory speech, the Auditor General referred to the fundamental role of SAIs in upholding the principles of good governance, transparency and accountability. He also highlighted the important relationship between SAIs and national Parliaments and co-operation between SAIs and citizens.

The Manager, ICT gave a presentation on the *Role of the IT Unit within NAO*. He provided an overview of the services offered by this Unit to the rest of the Office. He also recommended that collaboration between the Audit Sections and the IT Unit with respect to report publishing be enhanced.

A presentation was also delivered by Prof. Josef Bonnici, Chair of the Central Bank of Malta, on the *Background to the Present Financial Crisis – Current developments in the Euro Area and the Maltese Economy*. He provided a highly informative overview



Secondment of Christopher Micallef at Wales Audit Office

of the factors that led to the current financial crisis. The challenges facing the euro area and the policy options to resolve such challenges were also discussed.

The seminar also included time allotted for general discussion by the Management Team on the way forward for the Office, and how the Office can improve its relations with the public through possible use of the social media.

The Auditor General then delivered the concluding address, focusing on current NAO performance and output.

## Relations with Other Auditors

The IAID is the centralised and internal audit function of Government and falls under the Office of the Prime Minister. This Department is an integral part of the Executive Branch and reports directly to the Internal Audit and Investigations Board, whose chair is the Secretary to the Cabinet.

Although NAO and IAID have differing and clearly defined roles, both organisations promote good governance and accountability practices in the use of public resources, and enhance management understanding of the importance of internal control and to promote an efficient and effective public administration.

The good relationship that exists between the two organisations helps them to exchange ideas and knowledge. In addition, the likelihood of unnecessary duplication of audit work is reduced, to minimise disruption to the audited entity.

At the initial stages of an audit, the Office ascertains whether the audit area under scrutiny has already been, or is planned to be, reviewed by IAID. Moreover, NAO may hold meetings with senior representatives of IAID to discuss relations between the two entities and the proposed yearly audit work programme. The purpose of these meetings is to enhance cooperation between both institutions and avoid unnecessary overlap of audit effort. NAO may also discuss with IAID, audits carried out by the latter that would be of relevance to NAO during the audit fieldwork.

In February, NAO participated in a study visit hosted by the IAID, for a delegation from the Ministry of Finance from Croatia, on the functioning of the EU Anti-Fraud Coordinating Services (AFCOS). On 23 February 2012, two officials from NAO gave a presentation to the Croatian delegation on the set up, powers and functions of NAO, its relations with ECA and its relations with IAID, and on the role of NAO in combating fraud and irregularities. Further details of this visit are included in the Section *Croatian Delegation on the Functioning of Anti-Fraud Coordinating Service Malta*.

In July, three NAO officers attended a seminar on Public Procurement organised by IAID. More information on this seminar can be obtained from the Section Seminar/Workshop on Public Procurement.

IAID hosted a study tour from the Montenegro between 4 and 7 September 2012. The Assistant Auditor General, Performance Audit Section delivered a presentation to this delegation on 5 September 2012 on the Role of NAO, its relations with IAID, and Performance Audit Function. More details on this event can be found in the Section *Montenegro Study Visit hosted by IAID*.

NAO also maintains good relations with private sector auditors. When performing an audit of the financial statements or the operations of a public sector entity, NAO auditors refer to the respective private auditor's report and management letter relating to the entity concerned.

Moreover, NAO maintains constant liaison 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 Auditees

NAO attempts to maintain good relations with auditees. Audited entities, on their part, very often show recognition of NAO's constitutional role since NAO services are acknowledged and appreciated by senior management of the public service and the Government authorities. In rare instances the auditees have challenged NAO's right to carry out certain audits (particularly where sensitive data was concerned). However, when such challenges occur, these are discussed and, to date, such issues have always been resolved.

It is to be noted that the Constitution, in which the Auditor General's right of access is entrenched, overrides any provision in any other Act of Parliament. Notwithstanding this, NAO always endeavours to arrive at mutually acceptable resolution of differences with auditees, in the interest of preserving good relations since collaboration and cooperation are essential ingredients of every effective and productive audit.

In the interest of upholding mutual cooperation, the audited entity is expected to undertake a number of duties. The latter has the prime responsibility for ensuring that it maintains proper accounting records and adheres to all applicable laws and regulations. Those charged with governance must also make sure that the entity's internal control system is sound and that the public funds for which they are responsible are used efficiently and effectively.

An auditee's responsibilities are not limited to those relating to the entity and its operations. Other responsibilities are expected from the auditee during the audit. These can be summarised as follows:

- Inform all relevant employees about the objectives and scope of the audit to be carried out.
- Identify suitable officials with whom NAO auditors will mostly interact when requesting information.
- Provide all resources needed for the audit team in order to ensure that the audit process is as effective and efficient as possible.
- Provide access to the facilities and evidential material as requested by the auditors. This includes allowing NAO auditors full access to information and to consultation with all its officials and providing adequate office space to the auditors.
- Cooperate with NAO auditors so that the audit objectives can be achieved without undue delay and/or disruption. Auditees are therefore to devote enough time to clear problems or issues that arise during an audit.
- Determine and initiate corrective actions based on the weaknesses highlighted in the Audit Report. Auditees are to provide feedback on NAO recommendations and keep NAO informed of the status of their implementation. In particular, recommendations made during PAC meetings are to be taken on board immediately by the entities concerned. Reasons for non-implementation are to be forwarded in writing to NAO.



NAO Management Meeting held on 13 June 2012

## Relations with the University of Malta

Relations with the UoM are maintained through discussions with the Faculty of Economics, Management and Accountancy (FEMA) on how further collaboration between the two institutions can be strengthened.

Since 2008, the Auditor General annually presents an award for the best dissertation in Public Sector Accounting/Auditing submitted in partial fulfillment of the requirements of the accounting degree run by the Department of Accountancy at FEMA, subject to the desired level being reached. In 2012, the award was presented to an Accountancy graduate for her dissertation entitled *Two Auditors, One Public Client: The NAO/IAID Relationship in Malta*. The prize was awarded to the successful graduate on 28 March 2012 by the Deputy Auditor General during a presentation ceremony held at the UoM.

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.

Following an agreement with FEMA, since October 2012, senior officials from NAO have been delivering lectures on *Public Sector Audit and Assurance and on Public Sector New Public Management* during the more advanced stages of the course reading for a Higher Diploma in Public Sector Accounting and Finance organised by UoM.

## Relations with the Media

Openness and transparency in NAO's reporting are fundamental to our independence and integrity. Upon publication of an NAO report and following its subsequent presentation to the Speaker of the House of Representatives, a full version of the audit report is made available on NAO's website (<http://www.nao.gov.mt>). Such report can be downloaded free of charge by the public and other interested parties.

Copies of the audit report are also forwarded to the media. In addition, in order to reach as wide an audience as possible, Press Releases (in both English and Maltese) are issued with a summary of the main findings and conclusions. These are generally given extensive coverage in the local media, through television, radio and newspaper reporting, as well as through the electronic media. This procedure puts Government activities and operations under scrutiny by the public, which demands more accountability, better work practices and better management of public funds by the public sector.

## NAO Senior Management Presentations in Locally Organised Events

### **“Ending Repetitive Weaknesses Reported in Local Government Audits” – Seminar Organised by the Department for Local Government**

The Deputy Auditor General, and the Assistant Auditor General, Financial and Compliance Audit Section attended and actively participated in the



Charles Deguara, Deputy Auditor General, presenting Prize Award Certificate to Sharon Zammit on 28 March 2012



seminar organised by the Department for Local Government held on 16 January 2012 titled *Ending Repetitive Weaknesses Reported in Local Government Audits*. Two other NAO officials were also present.

The purpose of this seminar was to provide training to Local Government Executive Secretaries and Potential Executive Secretaries on the importance of their role, and to draw attention to recurring weaknesses observed and reported upon in Local Councils' audits.

The Deputy Auditor General gave a speech on the *Role of NAO and the Purpose of Auditing Local Government*.

The Assistant Auditor General, Financial and Compliance Audit Section delivered a presentation on LGA's findings: *The repetitive weaknesses by Local Councils*.

### Information Seminar on Local Councils

An information seminar for Local Councils was organised by the Ministry of Finance, the Economy and Investment in collaboration with the Department for Local Government. The scope of this seminar, which was held on 24 October 2012, was to give the opportunity to a number of Departments/Units, to brief the participants on matters which are of direct relevance and which require further explanation. Such Departments/Units included the Financial Policy and Management Division within the Ministry of Finance, the Economy and Investment, the Inland Revenue Department and NAO.

During this seminar, the Assistant Auditor General, Financial and Compliance Audit Section, delivered a presentation on the main issues arising out of Local Councils' audits.

### International Relations

#### Meetings with Foreign Delegations by NAO Senior Officials

##### Croatian Delegation on the Functioning of Anti-Fraud Coordinating Service Malta

The EU Directorate-General Enlargement requested the IAID, as AFCOS Malta, to host a study visit for a

delegation from the Independent Department for Combating Irregularities and Fraud of the Ministry of Finance – Republic of Croatia, on the functioning of AFCOS, between 20 and 24 February 2012. The purpose of the visit was for the delegation to become familiar with the anti-fraud/corruption bodies in Malta including NAO, their role in combating fraud and irregularities (in particular those affecting the financial interests of the EU), their relations with the pertinent EU institutions, and their relations with IAID.

NAO participated in this study visit by giving two presentations to the Croatian delegation on the set-up, powers and functions of NAO, relations with ECA and relations with IAID, and on the role of NAO in combating fraud and irregularities.

##### Council of Europe Delegation

A delegation from the Council of Europe paid a familiarisation visit to NAO to discuss the state of Local Government in Malta. During this meeting, NAO declared that, in addition to its core auditing function, the Office is also willing to extend its expertise and experience to actively assist the Local Government Department in the organisation of training programmes and initiatives. NAO expressed its belief that such training opportunities are a critical factor through which the efficiency and effectiveness of Local Councils in Malta and Gozo could be enhanced.

##### EUROSTAT's Excessive Deficit Procedure Mission – Meeting at National Statistics Office

EUROSTAT undertook an Excessive Deficit Procedure dialogue visit to Malta that took place between 22 and 23 May 2012 at the National Statistics Office. The Deputy Auditor General attended this meeting in an observer capacity. Various items were discussed including developments in a number of public entities, such as Malita Investments plc, AirMalta, Enemalta Corporation and ARMS Ltd, together with a number of technical issues regarding statistics classification, accounting and Government financial reporting. Towards the end of the meeting EUROSTAT provided its opinion and feedback regarding the items discussed.



Visit of Croatian delegation to NAO on 23 February 2012

### Montenegro Study Visit hosted by IAID

During a study tour from Montenegro as part of an EU funded project titled *Strengthening the Management and Control Systems for EU Financial Assistance in Montenegro*, the Assistant Auditor General, Performance Audit Section delivered a presentation to the delegation on 5 September 2012 on *the Role of NAO, its relations with IAID, and the Performance Audit Function*. The aim of the study tour was to ensure the efficient and effective use of the EU financial assistance and public funds in accordance with the law and EU Standards. The delegation was from the Internal Audit Unit, within the Central Harmonisation Unit at the Ministry of Finance of Montenegro, an EU candidate country.

### ECA Audit Missions

ECA undertook an audit mission in Malta between 6 and 10 February 2012 relating to the Statement

of Assurance for financial year 2011, in respect of European Agriculture Fund for Rural Development Expenditure—Council Regulation (EC) No. 1698/2005. The audit involved site inspections and analysis of documentation for a sample of Maltese beneficiaries from this Fund. It also included a review of internal control procedures and the examination of audit trail at the Paying Agency. The results of the audit mission were then communicated to NAO for its feedback, and to obtain respective feedback from the auditee. Following submission of such response, ECA submitted a follow-up reply to the audit preliminary findings.

The ECA conducted another audit mission in Malta between 10 and 14 December on the Audit Authority of EU funds in Malta, namely IAID. In line with Article 287 of the Treaty on the Functioning of the EU, NAO cooperated with the ECA in this audit by serving as liaison between the ECA Audit Mission delegation and IAID. An NAO auditor also attended parts of the audit mission.



Visit by Council of Europe delegation to NAO on 23 May 2012

NAO is also acting as liaison between the ECA and the Managing Authority of EU Funds in Malta, in preparation for an ECA audit mission to be carried out on the Managing Authority during 2013, relating to Operational Programmes on Renewable Energy Products.

## EU Contact Committee

Collaboration between EU Member State SAIs and the ECA is primarily attained within the framework of the EU Member State SAIs Contact Committee Structure. This structure is composed of the Contact Committee, the Liaison Officers' network and Working Groups/Task Forces on specific audit topics.

The EU Contact Committee is an assembly of the Heads of EU Member State SAIs and of the ECA. It is an autonomous, independent and non-political forum that holds annual meetings, with a mission is to enhance cooperation among its members, aiming to improve the external audit and accountability in the EU field. It also acts as a medium through which issues of common interest are discussed.

Cooperation is promoted and implemented through practical joint initiatives, designed to develop audit methodologies and strengthen the operational effectiveness of Member State SAIs. Moreover, 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 audit issues,

initiates and coordinates common activities in the EU field, and provides mutual support.

The annual EU Contact Committee meeting was held between 18 and 19 October 2012 in Estoril, Portugal. Two seminars were held during this Contact Committee meeting, namely:

- A seminar on Challenges for SAIs in preparing for the next EU financial framework period; and
- latest developments in responding to the financial crisis and SAIs' experience of related audits.

### *Seminar on Challenges for SAIs in preparing for the next EU financial framework period*

Various issues were discussed during the first seminar relating mainly to the challenges of competitiveness, sound financial management and cost-effective public audit within the next EU financial framework period. Other matters reviewed included the Fiscal Compact and its Developments in the Italian Corte dei Conti's view, the report of the Network on Lisbon Strategy/Europe 2020 Audit, and the Tasks and Roles of EU Member State SAIs and the ECA, in the light of recent developments in the EU as regards the financial and economic crisis.

### *Latest developments in responding to the financial crisis and SAIs' experience of related audits*

During the second seminar, various reports were



EU SAI Presidents Contact Committee Meeting in Estoril (Portugal)  
between 18 and 19 October 2012

presented and examined including the report of the Task Force to explore the possibilities for cooperation with EUROSTAT and National Statistical Institutions, the report of the Working Group on Public Audit Deficits, and the Fiscal Policy Audit Network Progress report. The state of play of the joint initiative of the Euro-area SAIs regarding the external audit of the ESM was also analysed. Moreover, the financial crisis implications on accounting standards and the suitability of International Public Sector Accounting Standards (IPSAS) for EU Member States were assessed. Presentations were also made on the effects of the financial crisis on a number of SAIs. Other areas discussed incorporated the Hungarian budgetary rules with special attention to the Hungarian Fundamental Law and the Stability Act, and the Audit of the income side of the State Budget – role and challenges for SAIs.

In addition to the above seminars, the Contact Committee cooperation framework and activities, both current and future, were reviewed. Information of common interest, such as EU related audits and current status of EUROSAI activities, was also debated.

### Contact Committee Resolutions

A number of resolutions were adopted, namely on:

1. Network on Europe 2020 Strategy Audit
2. SAIs' cooperation with EUROSTAT and NSIs
3. Results of the Pilot Study on the Access of SAIs to the Main Financial Supervisors in EU
4. 2013 Future Activities of the EU SAI Contact Committee
5. Public Accounting Standards
6. Tasks and Roles of the External Public Audit

Liaison Officers' meetings of EU Member States are convened in preparation for the annual Contact Committee meeting. The Assistant Auditor General responsible for the Performance Audit Section, is the Liaison Officer in EU-related matters and participates in such Liaison Officers' meetings. In 2012, a Liaison Officers meeting was held in Rome, Italy between 19 and 20 April 2012 in preparation for the 2012 Contact Committee meeting. During the meeting, there was an exchange of views on the organisation and governance of the EU Contact Committee, progress reports and accompanying draft resolutions relating to the activities of the EU Contact Committee

Working Groups, and potential elements to be considered during the 2012 EU Contact Committee meeting. A discussion on the current status of the EU Contact Committee cooperation activities for the period 2011-2012 was also held.

During 2012, the EU Contact Committee had nine Working Groups, namely:

- Structural Funds V
- Activities on Value Added Tax
- Public Audit Deficits
- 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
- Task Force to explore the possibilities for cooperation with EUROSTAT and NSIs

### Contact Committee Working Groups and Networks

The EU Contact Committee's nine Working Groups performed various EU-related tasks throughout the year 2012:

The **Working Group on Structural Funds V** adopted a common audit plan and an audit schedule for the parallel audit titled *Simplification of the regulations in Structural Funds*. This audit was mandated by the EU Contact Committee in 2011 with the field work starting in May 2012 and lasting until the end of October 2012. The respective draft composite report is planned to be discussed by the Working Group in a plenary meeting in April 2013.

The **Working Group on Activities on Value Added Tax** continued its work on two reports initiated in 2011. The first report, prepared by Core Group 1, related to the methodologies used for constructing appropriate VAT yield indicators and measuring VAT Gap. The report prepared by Core Group 2 gave an account of the current state of play on the preparation of an Anti-VAT Fraud Strategy at EU level. An in-depth discussion on the outcomes of a questionnaire for the topic Risk Management was also held.

The **Working Group on Public Audit Deficits** was mandated by the Contact Committee to carry out, in a pilot project, a parallel assessment of prudential

supervision on banks in the EU Member States. In 2012, members of the Working Group each carried out in their own country a brief assessment of their mandate in practice regarding the main financial supervisor. The results of the assessments were integrated by the Chair (Netherlands Court of Audit) into an overall report for the Contact Committee. A resolution to identify gaps in public sector auditing and ways to address them was also prepared and adopted during the 2012 EU Contact Committee Meeting.

The **Joint Working Group on Audit Activities** prepared its Annual Activity Report for the EU Contact Committee on bilateral and multilateral audit activities. A poster was also prepared by the Group informing on key achievements since the last meeting. The Working Group participated actively in the seminar on the Audit of Budgetary Accounts and Consolidated Financial Statements, the seminar on Achieving Audit Quality, a meeting of the Liaison Officers of the Presidents' Network and in the first preparatory meeting for the seminar on performance auditing. This Working Group was also involved in the preparations for the re-edition of the 2005 State Audit in the EU publication.

The **Network on National SAI Reports on EU Financial Management** has continued to develop its parts of the Contact Committee website and is collecting some basic country comparative information on the set up of management, control and audit regarding the EU agricultural funds. In addition, a group of SAIs, led by the Czech SAI, started discussing which information is indispensable for the development of (overall) EU reports and how this can be structured and made accessible to all EU SAIs. Of the thirteen SAIs that in recent years have published an overall report, nine have also done so in 2012. Moreover, two meetings of the Network were held to exchange experiences among SAIs. The first meeting took place in Copenhagen between 2 and 3 February and reviewed the audit of the Common Agricultural Policy area. The second meeting was held in The Hague between 6 and 7 December and dealt with the results of ten years of overall EU reports. It also incorporated a discussion of ways that SAIs can assist each other when developing their reports in the future.

The **Agricultural Experts Network** did not undertake any activities in 2012.

The **Fiscal Policy Audit Network's** focus is to improve the methodologies and practices in auditing national fiscal policy, by making use of best practice and sharing of information between SAIs active in this subject area. The Network also serves as a forum for fiscal policy audit professionals, with the aim of sharing methodological questions and knowhow. The main theme of the Network for 2012 was the sovereign debt crisis and the assurance of the information on the financial position of Government, as well as state and development of public finances. The Network organised a series of annual seminars over the past years. The Network's Fourth Annual Seminar was hosted by the French Cour des Comptes in Paris, France, between 18 and 19 June 2012. During the seminar, discussions on the recent developments of ESM, the European Semester and new EU Fiscal Governance were held. Other topics covered follow-up on themes, including national fiscal rules and fiscal frameworks, the sustainability of public finances and tax policy audit. In addition, in the context of the annual seminar, a questionnaire was sent to EU SAIs, covering the fiscal policy audit and financial markets' audit competence management by SAIs.

The **Network on Lisbon Strategy/Europe 2020 Audits** held a workshop in Paris, France on 19 June 2012 in order to share professional views and experiences among SAIs concerning on-going, completed or planned audits of Lisbon Strategy and related topics. Moreover, information compiled by the Presidency of the Network, on a global assessment on the audit works made by SAIs, in the context of the Lisbon/Europe 2020 Strategy, was presented to the 2012 Contact Committee.

In February 2012, the **Task Force to explore the possibilities for cooperation with EUROSTAT and NSIs** sent a questionnaire to 27 EU Member State SAIs to map the current state of affairs of the relationship between the SAIs, NSIs and EUROSTAT. SAIs were encouraged by the co-chairs of the Task Force to establish contact with NSIs, and exchange views on possible areas of cooperation. The results of the questionnaire were used as background information to the discussions of the Task Force meeting which was held between 21 and 22 June 2012 in Copenhagen, Denmark and attended by Task Force members, and representatives from EUROSTAT and the Danish statistical office. Discussions during this meeting considered in detail the potential areas of cooperation between SAIs, NSIs and EUROSTAT.



Second Westminster Workshop on the Public Accounts Committee in London between 12 and 15 March 2012

The SAIs of the euro area have also set up a **European Stability Mechanism Working Group**. Due to the coordinated action of these SAIs, the ECA, and the support by the Contact Committee, a significant improvement on the ESM Treaty and its respective by-laws has been achieved. A Board of Auditors has been provided for, and will consist of five members with at least three representatives of SAIs. The Board of Auditors will independently examine the ESM in accordance with international standards and will draw up a report to be submitted to the Board of Governors on an annual basis. The Board of Governors will make the report accessible to national Parliaments and SAIs of the ESM Member States.

NAO participated in four Working Groups, namely those on Structural Funds V, VAT, National SAI Reports on EU Financial Management, and ESM. It is also a member of the Task Force entrusted to explore the possibilities for cooperation with EUROSTAT and NSIs.

### Second Westminster Workshop on the Public Accounts Committee

A Maltese delegation composed of the Chairman of the PAC, the Auditor General, and the Clerk to the PAC attended the second Westminster Workshop on the PAC held at the House of Commons. This workshop was sponsored by the Commonwealth Parliamentary Association.

The four-day programme, held between 12 and 15 March, was an intensive period of study for all participants. They were involved in identifying

factors that made a successful PAC as well as providing recommendations for further improving the functioning of PACs.

Sessions for PAC Members discussed how the Committee can be adequately supported through sufficient resources, make an impact and monitor its recommendations. Sessions for PAC Clerks explored the skills and knowledge required by them to effectively support their Committee in interpreting audit reports and in carrying out the relevant programmes.

The Maltese Auditor General addressed participants on what makes an effective SAI while the PAC Clerk elaborated on the skills and knowledge required by Committee Clerks to effectively support their Committees in interpreting the reports produced by the respective National Audit Offices.

The Chairman of the Maltese PAC made several interventions during this workshop, mainly concerning the composition of the PAC.

### EUROSAI Working Group Environmental Audit Meeting in Malta

A EUROSAI Working Group on Environmental Auditing held a meeting in Malta between 26 and 27 June 2012 regarding the parallel audit: *Adaptation to Climate Change – Are Governments Prepared?* Sixteen representatives from the SAIs of Bulgaria, Cyprus, Hungary, Malta, Netherlands, Norway, the Russian Federation, Ukraine and ECA attended the meeting.



EUROSAI Working Group Environmental Audit Meeting in Malta between 26 and 27 June 2012

The main aim of the cooperative audit was to contribute to knowledge on how adaptation policies are implemented at a national level across Europe. For this purpose five areas were assessed in the national audits, namely the (i) identification and quality of risk and vulnerability assessments; (ii) identification and quality of strategy; (iii) extent and function of coordination; (iv) implementation; and (v) results and impacts of actions taken.

The participating SAIs designed and carried out the national audits, addressing key climate change adaptation issues, which are considered important in the respective countries. The joint audit report brings together these findings and identifies cross cutting themes relevant across Europe.

The purpose of the event indicated above was to discuss the draft report which was jointly compiled by the participating SAIs.

The event was officially opened by the Auditor General, who stated that Malta has long recognised the necessity of adapting to the changing climate conditions and that it helped place the subject of climate change on the United Nations Agenda, over 20 years ago. He also indicated that Malta has hosted various international meetings related to climate change, such as the International Roundtable of Parliamentarians on Disaster Risk Reduction and Climate Change Adaptation in November 2009, organised by the United Nations International

Strategy for Disaster Reduction in partnership with the Mediterranean Parliamentary Assembly.

The eight national audit assignments, on which the coordinated audit is based, have already been published. Malta's contribution to the joint report was based on NAO's Performance Audit publication, namely *Safeguarding Malta's Groundwater*, which was published and presented to the Speaker of the House of Representatives in February 2012.

A brief NAO article, titled *EUROSAI Working Group on Environmental Auditing – Cooperative Audit on Climate Change Adaptation Meeting in Malta*, provided an overview of the proceedings and outcomes of the event. This article was published in the EUROSAI newsletter.

On 29 November 2012, the joint report was officially launched at the 18th United Nations Framework Convention on Climate Change Adaptation (COP 18) at the Qatar National Convention Centre - Doha, Qatar.

## VII EUROSAI-OLACEFS Conference

The VII EUROSAI-OLACEFS Conference titled Good Governance in Public Sector: Role of SAIs was held in Tbilisi (Georgia) between 17 and 19 September 2012 and was attended by the Auditor General and Deputy Auditor General. Two sub-themes were discussed extensively during the conference

namely: *Enhancing Stakeholder Confidence: Auditing Management Integrity, Accountability and Tone at the Top* and *Public Finance Management Reform: Trends and Lessons Learned*.

A resolution was adopted at the end of the conference that referred to SAIs' contribution to good governance and to safeguarding and sustaining the efficient control functions developed by Parliaments. It also recognised SAIs' duty to develop sound strategies for internal and external communication, ethical requirements, quality control mechanisms and monitoring that assist SAIs in attaining a 'tone at the top' operation.

### Preparation for 2014 Commonwealth Auditors General Conference to be Held in Malta

NAO is in the initial process of preparing for the XXII Commonwealth Auditors General Conference to be held in Malta in March 2014. A couple of meetings were held between NAO Malta senior officials and NAO UK International Relations officials during 2012. These meetings concerned technical and organisational issues relating to the event.

In addition, NAO Malta in conjunction with NAO UK, will endeavour to propose a communiqué on SAIs and PACs to be adopted in the forthcoming Commonwealth Heads of Government Meeting (CHOGM) in 2013.

### Other International Meetings

During 2012, a number of NAO employees actively participated in other international Conferences, Seminars, and Workshops. The objective of attending these activities was to enhance the international profile of the Office. Taking part in such events also gives NAO participants an opportunity to keep themselves updated with developments in state audit-related issues and encourages our effective contribution to maximise cooperation with other SAIs.

### NAO Contribution to International Studies

During 2012, NAO prepared a number of papers, replies to questionnaires, surveys and comments on Exposure Drafts on several themes, including the following:

- EU Contact Committee Survey on *Exchange of Experience on the Corporate Governance Audit of State and Municipality Owned Enterprises*
- Czech SAI Questionnaire on *Public Accounts Committees/Budgetary Committees*
- ECA Survey on *SAIs in the field of Press Relations and Communication 2012*
- EU Contact Committee Network on National SAI Reports on EU Financial Management Questionnaire to *Identify the Use of Commission's Documents Helpful for the SAIs*
- EU Contact Committee Task Force to explore the possibilities for cooperation with EUROSTAT and NSIs Questionnaire on *Cooperation between Supreme Audit Institutions and National Statistical Institutions*
- EU Contact Committee Task Force to explore the possibilities for cooperation with EUROSTAT and NSIs Questionnaire on *'Golden Rule' in Public Finances*
- EU Contact Committee Working Group on Financial Management Questionnaire on the *Audit of Agricultural Funds*
- Questionnaire by EUROSAI Goal Team 3 'Knowledge Sharing' on *Possible Areas for Cooperative Activities and Needs of SAIs*
- EUROSAI Secretariat Survey on *Actions Taken in Relation to the Strengthening of Public External Control and the SAIs independence within EUROSAI*
- EUROSAI Goal Team 2 'Professional Standards' Survey on the *Implementation of ISSAI within EUROSAI*
- EUROSTAT Questionnaire on *Assessment of the Suitability of the International Public Sector Accounting Standards for the Member States – Public Consultation*
- EUROSTAT Questionnaire on *Overview and Comparison of Public Accounting and Auditing Practices – Nature of the Scope and Power of the Audit Authorities*



- EUROSTAT Questionnaire on *Overview and Comparison of Public Accounting and Auditing Practices – Nature and Scope of the Auditing Process – Government Ministries and Departments, Extra Budgetary Units, Public Corporations and Local Councils*
- EUROSTAT Questionnaire on *Overview and Comparison of Public Accounting and Auditing Practices – Accounting Standards – Local Councils*
- Ghent University Questionnaire on *Accrual Accounting and IPSAS in the Public Sector*
- International Journal of Government Auditing Article on *Audit Reports by the National Audit Office (Malta)*
- International Journal of Government Auditing Article on *XXII Commonwealth Auditors General Conference 2014*
- INTOSAI Subcommittee on Internal Control Standards Questionnaire on *Reporting on Internal Control*
- INTOSAI Subcommittee Questionnaire on the *Implementation of Risk Management in the Public Sector*
- Questionnaire by State Audit Office of Hungary on *Risk Assessment*
- INTOSAI Working Group on Programme Evaluation Questionnaire on *Good Practices*
- INTOSAI Working Group on the Value and Benefits of SAIs Questionnaire on the *Identification of Good Practices where cooperation between the SAI, the Legislature, the Judiciary and the Executive is effective as measured by the Implementation of the SAI's Audit Recommendations and Administrative and/or Corrective Sanctions*
- IPSASB (International Public Sector Accounting Standards Board) Consultation Paper on *Reporting Service Performance Information*
- IPSASB Consultation Paper on *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports*
- IPSASB Exposure Draft on *Financial Statement Discussion and Analysis*
- Malta Country Paper for INTOSAI 60th Anniversary Publication on *Developments of the international cooperation of SAIs since 1953/1963 – 60 years of INTOSAI/50 years of General Secretariat*
- Malta Country Paper on *Enhancing Stakeholder Confidence: Auditing Management Integrity, Accountability and Tone at the Top* for EUROSAI/OLACEFS Conference
- Ministry of Finance - Department of Accountancy and Audit of the Czech Republic Questionnaire on *Request for Information about Supreme Audit Institutions*
- Netherlands Court of Audit Questionnaire on *Audit of Financial Statements of Central Government*
- Netherlands Court of Audit Questionnaire on *EU Excessive Deficit Procedure*
- Netherlands Court of Audit Questionnaire on *Public Accounts Committees*
- Netherlands Court of Audit Questionnaire on the *Application of IPSAS for State Finances*
- INTOSAI Sub-committee on Accounting and Reporting survey on *Key Focus Areas, Tasks and Challenges for the INTOSAI Professional Standards Committee from 2013 and the years ahead*
- Paper on *What Makes an Effective SAI* for the Commonwealth Parliamentary Association (UK Branch) Conference for Members of Parliament and Parliamentary staff drawn from across the Commonwealth
- State Audit Office of Hungary Questionnaire on *Audit of State Enterprises held by Local and Central Government*
- State Audit Office of Hungary Questionnaire

on *The Transition to Accrual Accounting in the Public Sector*

- State Audit Office of Hungary Questionnaire related to the *Discussion of Working Documents/Draft Audit Reports*
- State Audit Office of Hungary Survey on *Follow Up Activities of Supreme Audit Institutions*
- Submission of NAO Country Paper relating to *SAIs and Governance* for INCOSAI XXI to be held in Beijing in 2013
- Universities of Sonora (Mexico) and Zaragoza (Spain) Questionnaire to Central Governments on *The Accrual Basis of Accounting and the International Public Sector Accounting Standards*

## Annex A - Summary of Audit Report on Public Accounts 2011

The Annual Audit Report on the Public Accounts for 2011 was presented by the Auditor General to the Speaker of the House of Representatives on 3 December 2012. This Report comprises 21 reports on the workings of various Departments and other Government entities, including an analysis of the Financial Report 2011. Some of the main observations are reported hereunder.

Following a detailed analysis of the Financial Report 2011, the NAO noted that:

- Letters of Comfort and Bank Guarantees reached €1,142 million (against €1,037 in 2010). These constitute Contingent Liabilities for Government; and
- Substantial excess of actual over the budgeted figures of various items of Expenditure was once again reported; in some instances identical to previous year.

From the verification of Arrears of Revenue Returns forwarded to NAO, it transpired that most entities failed to reach Government's budgetary target of reducing arrears in 2011 by 10%.

Audit Reports and Management Letters prepared by LGAs revealed that a number of weaknesses and concerns reported in previous years still prevail. The following concerns were also noted:

- For the second consecutive year, no audit opinion was expressed on the Financial Statements of one Council, due to the various material shortcomings encountered.
- Seventeen Local Councils and two Regional Committees recorded a negative Working Capital in the Statement of Financial Position.
- Twenty-three Local Councils and two Regional Committees registered a deficit in the Statement of Comprehensive Income.

From a review on Personal Emoluments at the Gozo General Hospital, it transpired that the related payments are not always backed-up with proper records to substantiate the expenditure, especially in the case of Consultants where no records are kept to indicate the number of sessions performed. Internal controls in various areas relating to salaries were weak or entirely lacking. Inadequate budgetary control on overtime was also noted.

An audit of capital and recurrent expenditure incurred by Wasteserv Malta Ltd. revealed long delays and substantial cost variations on capital projects. Lack of transparency and non-compliance with procurement regulations were also noted, especially regarding sub-contracted labour. The inadequacy of the overall internal controls was a major concern.

Internal controls by the then Ministry of Education, Employment and the Family were not sufficient to ensure efficient administration of public funds in line with standing laws, regulations and policies. Various control weaknesses were identified, including inadequate verifications resulting in incorrect payments, lack of proper stock records, and in the procurement process for Professional, Medical as well as Cleaning Services.

Shortcomings in various areas, including management of fixed assets and payroll, were noted following a review at Aġenzija Sapport, within the Foundation for Social Welfare Services. Inadequate control on fuel consumption was also evident in the use of general-use cars, while, in a number of instances, the procurement regulations were not followed.

Action taken by the VAT Department in relation to Fiscal Receipt Defaulters reported by Government Departments during 2011 was rather limited. The audit, which also examined complaints from the general public, revealed other shortcomings, such as long outstanding complaints not being acted upon, as well as minimal follow-up on missing quarterly submissions reporting defaulters by Government entities in line with the applicable directives.

Insufficient supporting documentation, evidencing the utilisation of funds granted to beneficiaries, was encountered during a review of the National Lotteries Good Causes Fund administered by the Ministry of Finance, the Economy and Investment, for the years 2006 to 2010. Other shortcomings included funds distributed before completion of projects, receipt of funds not always backed-up by a signed declaration from the respective beneficiaries, and incomplete application forms, if at all.

An analysis of Direct Order approvals, granted by the Ministry of Finance, the Economy and Investment during 2011, highlighted a number of concerns. These included the incidence of retroactive approvals, as well as failure by entities to take the necessary actions to comply with Procurement Regulations, thus resorting to purchasing from the open market.

An audit of Personal Emoluments was conducted on a sample of different classes of employees working within Mater Dei Hospital. Testing revealed that salary payments of Consultants were not substantiated with records of attendance. Substantial amounts were expensed on staff allowances, with the highest allowance paid to a Consultant in 2011 exceeding €80,000. However, insufficient controls were observed in this area and on the overall salary payments. Various other shortcomings as well as significant overpayments were revealed during the audit.

In view of the claimed urgency to acquire Medicines and Surgical Materials, the Government Health Procurement Services within the Ministry for Health, the Elderly and Community Care disregarded financial limits approved for direct orders. The excessive and expired stock of medicinal items that the entity is many times ending up with, is also a matter of concern.

Lack of compliance with procurement regulations, expired contracts, as well as inadequate controls over expenditure incurred for specific services rendered to Mater Dei Hospital, were the main findings emerging from an audit on Non-medical Equipment Facilities Management.

Procurement regulations were not always followed by Mount Carmel Hospital, particularly in the provision of nursing services. Furthermore, certain services were not covered by a formal agreement and/or Bank Guarantee. Various other shortcomings were noted, amongst which at times payments were not adequately substantiated.

## Annex B – Summaries of Performance Audit Reports

### ***Performance Audit: Safeguarding Malta's Groundwater***

The report concluded that the prevailing and climate change threats to groundwater have generally been identified. The performance audit report: *Safeguarding Malta's Groundwater* concluded that although the implementation of various initiatives have commenced, efforts must be stepped up to ensure the sustainability of this resource.

The risks and vulnerability assessments undertaken classified the overall status of Maltese groundwater bodies as being 'at risk'. These assessments attributed this status to excessive over abstraction as well as high nitrates and chlorides levels. These assessments were based on a number of assumptions, due to limited groundwater abstraction data.

At the time of audit reporting, the groundwater regulatory framework was mainly reflected in the four key documents, *A Proposal for a Water Policy for the Maltese Islands* (Water Policy), *The National Climate Change Adaptation Strategy* (NCCAS), *The Water Catchment Management Plan for the Maltese Islands* (WCMP), and *The Nitrates Action Programme* (NAP). Significant progress had been registered in the implementation of measures listed in the WCMP, and to a lesser extent, in the NAP. However, the Water Policy was still in draft form and the NCCAS had only recently been officially approved by Cabinet and was awaiting Parliamentary discussion. Although a number of measures listed in these two documents were being implemented through other plans, a number of initiatives remained outstanding awaiting their formal adoption.

Legal and technical complexities hindered the implementation of groundwater metering. This measure was considered critical for providing groundwater abstraction information and for control purposes. The installation of meters had progressed significantly in the commercial sector but that related to agricultural sources had been re-scheduled for completion by mid-2013. Thus for the time being, groundwater metering in terms of L.N. 241 of 2010 could not proceed.

Generally, enforcement of the EU obligatory NAP had been limited to measures listed in the 2004 programme rather than extended to encompass the initiatives included in the revised and updated version published in 2011. Although the use of nitrates had recently been legally regulated, the relative enforcement was not proceeding since the farming community was deemed not to be fully aware of its NAP obligations.

The current status of Malta's groundwater implied that over time the regulation of this resource was not appropriate. The status of groundwater could be improved and sustained through long-term investment which necessitated that current cross-sectoral efforts were sustained and augmented.

### ***Performance Audit: Employment Opportunities for Registered Disabled Persons***

The report concluded that the initiatives undertaken by the Employment and Training Corporation (ETC) tend to positively influence the employment opportunities of registered disabled persons (RDPs). However, the opportunity exists to further enhance the impact of training courses and work exposure schemes, which are intended to improve the participation rate of registered disabled persons in the employment market.

Potential barriers to RDP employment include unfounded perceptions on disability. Moreover, RDPs may also deem it to be more opportune to forego employment in instances where the gap between social benefits entitlements and potential earnings from employment is considered marginal. Towards this end, Malta Budget 2012 introduced measures aimed at addressing issues related to the benefit trap. Other factors impeding RDP employment relate to educational levels and physical accessibility. Such barriers translate themselves in a lengthier registration period than their mainstream counterparts.

To varying degrees, various operational issues hinder the ETC's initiatives to enhance the employment opportunities of disabled persons. The opportunity exists for the Corporation to enhance its internal procedures for reviewing and monitoring initiatives undertaken. Furthermore the ETC has acknowledged and is taking action to strengthen its analysis of the labour market.

The efficiency and effectiveness of ETC initiatives is also hindered through the lack of facilities which enable the Corporation to determine the abilities of disabled persons, and consequently, be in a better position to identify their suitability for particular employment. Moreover, the ETC does not maintain a full audit trail of its activities. Such circumstances may impinge on business continuity and performance evaluations.

The ETC aims to enhance the employment opportunities of disabled persons through various services, which include an advisory service, training courses and job exposure schemes. A weak correlation, however, exists between courses offered by the ETC successfully completed by RDPs and employment. The full completion of job exposure schemes, including subsidised employment, significantly increases employability prospects. However, the possibility exists for more RDPs to be engaged in such programmes.

The envisaged business process re-engineering at the ETC seeks to optimise the use of the Corporation's human resources whilst broadening its relationships with registrants, including disabled individuals, and employers. These changes would address many of the concerns observed through this performance audit. This restructuring exercise also provides the opportunity to address the strategic, management and operational concerns raised in this report. To complement these initiatives, NAO proposed a number of recommendations aimed at enhancing the employment opportunities of Registered Disabled Persons.

#### ***Performance Audit: Contract Management Capabilities across Local Councils***

The audit sought to determine the effectiveness of contract management capabilities and practices applied across Local Councils. For the purpose of this performance audit, the NAO adopted a comprehensive view of the entire contract management process, commencing at the initial determination of specifications/requirements in tender/contract documentation, to the tendering/contract award process and the actual management of the contracts. This audit focused on two types of contracts, those relating to road resurfacing and the collection of mixed household waste. Two Local Councils were selected from each of the five regions, one with a budgetary allocation of above or equal to €350,000, and another below the same indicated amount.

NAO concluded that no formal systems designed for the effective identification of needs have been implemented by the majority of sampled Local Councils. The process of need identification is overly reliant on informal sources of information feeding into the decision-making process. Consonant with the above are the findings relating to the systems of prioritisation, or absence thereof. Furthermore, the design of tender specifications is an area of significant concern to NAO. Particularly relevant in this regard are the Local Councils (Tendering) Procedures, which have not been updated to adequately address current needs and realities.

One of NAO's most pressing concerns relates to the significant number of active contracts that are in effect expired. In addition, issues emerge regarding the award of contracts, particularly with respect to the evaluation criteria employed. The system utilised in the selection of road resurfacing contracts ensures reliability of method as it closely ties in with the role of the technically proficient Council Representatives. On the other hand, NAO's analysis of the evaluation criteria, utilised in the collection of mixed household waste tenders, provided contrasting results. Scoring on performance criteria was carried out in a reliable manner, due to the guidance provided by the Department for Local Government, specifically in the form of an addendum to the Tendering Procedures. However, the scoring system employed with regard to the financial criteria failed to appropriately classify the various tender bids, resulting in a method of classification that was heavily skewed. While a few Local Councils exhibited significant good practices in the compilation of detailed evaluation reports, others were rendered conspicuous by their poor or inexistent documentation.

Two distinct systems of performance measurement characterise the evaluation of technical and non-technical contracts. Externally appointed Council Representatives were entrusted with the evaluation of technical contracts, whereas other non-technical contracts were internally addressed, primarily through the input of Executive Secretaries, Councillors and Mayors.

Another issue of significant concern to NAO is the situation where contractual variations exceeded the twenty per cent capping. Such circumstances should imply the immediate termination of the contract and the issue of a fresh call for tenders, or the issuing of a call specifically corresponding to the variations.

### ***Performance Audit: An Analysis of the Pharmacy Of Your Choice Scheme***

The purpose of the report was to assess the efficiency, effectiveness and economy with which the Pharmacy Of Your Choice (POYC) Scheme operates. To this end, the NAO elicited feedback from POYC Scheme end-clients and participating pharmacies. This feedback yielded interesting yet contrasting results. While the end-client feedback on the Scheme was by and large positive, participating pharmacies expressed a number of concerns. The majority of the interviewed end clients indicated that they considered the POYC Scheme to be an improvement over the older system of dispensation through health centre pharmacies. On the other hand, while the participating pharmacies commented positively on the support afforded to them by the POYC Unit, they nonetheless indicated a number of challenges relating to their role in the administration of this Scheme. Most notable in this regard, though not within the POYC Unit's control, was the issue of having pharmaceutical products out of stock, which subsequently strained the pharmacist-client relationship.

Central to the perceived overall success of the POYC Scheme was feedback received by NAO relating to the significant reduction in end-client waiting time. This was coupled with a favourable response indicating the better accessibility of service provided by the numerous pharmacies participating in the Scheme, as opposed to the limited number of health centre pharmacies previously addressing such a function. Limitations emerged with respect to the manner in which the Scheme was designed, specifically relating to the attainment of a doctor's prescription by the end-client. In effect, end clients were faced with the option of calling at a private doctor, or resorting to the health centre option, thereby somewhat mitigating the benefits of accessibility and convenience notionally addressed by the POYC Scheme.

Despite the above limitations, the POYC Scheme clearly emerged as a client centred means of pharmaceutical entitlement dispensation, particularly when compared to the health centre pharmacy system. Improved quality of service inevitably results in increased costs and, in this context, NAO gauged the POYC Scheme's costs to represent a substantial increase over that previously incurred by the health centre pharmacy system of dispensation.

Further to the aforementioned feedback elicited from POYC Scheme end-clients and participating pharmacies, NAO also reviewed the internal processes of the POYC Unit. In this context, this Unit clearly emerged as a professionally managed entity, suitably equipped to administer a Scheme of this magnitude and importance. NAO concluded that the system of Standard Operating Procedures employed by the Unit was commendable, ensuring high levels of consistency thereby contributing towards the reduction of errors. In addition, NAO concluded that the manner by which stock was handled and managed during all the internal and delivery processes was rigorous and very proficient, which ensured high quality service levels.

### ***Performance Audit Follow-up: Vehicle Emissions Control Schemes***

This follow-up performance audit concluded that, to varying degrees, Transport Malta (TM) strengthened its major control mechanisms aimed at reducing air pollution from vehicles, as proposed by the NAO in the Performance Audit Report: *Vehicle Emissions Control Schemes* (2009). Towards this end, various initiatives relating to the Vehicle Roadworthiness Test (VRT), the Emission Alert Campaign and Roadside Technical Inspection were implemented. However, further improvements are required to ensure that these

mechanisms further complement the regulatory and fiscal measures introduced in recent years, which embrace the polluter-pays principle. Moreover, the compilation of policies relating to further educating and incentivising owners to undertake regular vehicle maintenance, as was proposed by NAO in 2009, have not yet fully materialised.

TM increased the number and type of inspections aimed at ensuring the proper administration of VRT tests. Such initiatives led to a significant increase in VRT emissions failure rates. The monitoring of VRT stations by TM now includes the retesting of vehicles at TM's facilities (Post-VRT Checks) as well as surprise Spot Checks and Full Day Inspections at VRT stations. VRT station operators are also obliged to photograph vehicles during testing. The various types of inspections carried out at VRT stations are designed to complement each other. However, when individually evaluated, it transpired that some of these enforcement mechanisms were found to be more effective at identifying shortcomings. Moreover, despite the increased monitoring, there is still significant variation in the emissions test pass and failure rates between the different VRT stations.

Public participation in the Emission Alert Campaign, by reporting potentially polluting vehicles through text messages (sms), has decreased over time. This declining trend was temporarily reversed following an ad hoc campaign, which was undertaken by TM in 2011. Due to financial constraints, this campaign is still not supported by the appropriate IT infrastructure. Moreover, it is also subject to operational limitations, such as the lengthy periods to process text messages received and to summon potentially polluting vehicles for emissions testing. A significant number of owners did not always subject their vehicle to the relative emissions testing as requested by TM. However, in such circumstances the Authority was not always able to prevent these potentially polluting vehicles from continued circulation on the road through the timely imposition of a vehicle road license restriction.

Road Technical Inspections aim to ensure that vehicles are appropriately maintained at all times. The target of such inspections is highly dependant on the acumen of TM's enforcement officers since the Authority only provides its officials with general established guidelines. TM has, over time, increased the number of inspections carried out, where vehicles are at least subject to a visual emissions test. Such coverage, however, has not fully absorbed the lacuna that materialised after the curtailment of Roadside Emissions Tests in 2008 which used to be carried out by Local Wardens.

At the operational level, the vehicle emissions control schemes discussed above are still not fully feeding and appropriately complementing each other, namely in terms of targeting and enforcement action. The further synchronisation of these mechanisms will contribute towards sustaining the improvements registered in Malta's ambient air quality.

### ***Performance Audit: Tackling Problem Drug Use in Malta***

The report addressed the manner by which problem drug use is tackled in Malta on a national level. For the purpose of this performance audit, NAO reviewed the residential rehabilitation services available as well as the supporting functions in place. The reviewed rehabilitation homes included those managed by Caritas, OASI Foundation, and Sedqa; whereas the supporting roles of the Department for Social Welfare Standards, the National Commission for Drugs, Alcohol and Other Dependencies, the National Coordinating Unit for Drugs and Alcohol, the National Focal Point, as well as the ETC, were also assessed.

NAO concluded that, although standards of services were generally perceived as positive by the clients, arrangements specifically targeted at addressing reintegration into society from an employment perspective were generally limited across service providers. Such arrangements include training offered to clients with regard to enhancing opportunities when they enter the job market.

Employment of former problem drug users emerged as a clear concern during the course of the performance audit. An analysis of data on the employment history of persons who identified themselves as former



problem drug users and, therefore, formed part of the Special Cases Unit at the ETC revealed a number of concerns. More specifically, over half of the clients registered with this Unit within ETC between 2007 and February 2012 had never been in employment during this period. Bridging the Gap, a scheme aimed at helping disadvantaged groups find employment, registered a success rate of 22 per cent, representing a marginal improvement over the wider population's success rate of 16 per cent.

NAO is also concerned with the number of training courses attended by persons registered as Former Substance Abusers, which progressively and drastically declined as their length of registration with this Unit increased. The issue of poor training attendance is accentuated in the case of the 106 persons who never attended any course while being simultaneously unemployed during their time registered as Former Substance Abusers. While 61 of the 106 persons were enlisted for training yet failed to attend, the remaining 45 ETC clients were never provided with a training opportunity, which is of concern and negatively impacted upon ETC performance.

A clearly apparent lacuna in terms of service delivery related to the provision of services targeted at minors who have a problem of drug abuse. The absence of appropriately corresponding services tailored for this age group was highlighted by the various stakeholders involved in this audit, who unanimously put forward and supported the need for specialised services addressing this subgroup of problem drug users.

In light of the exponentially increasing drug-related offences (from 70 in 1999, to over 1,200 in 2012), NAO supports the work of the National Commission for the Abuse of Drugs and Other Dependencies with respect to the divisionary system represented by the Arrest Referral Scheme. Distinguishing between first-time and repeat offenders is beneficial, mostly for the former, due to the more efficient resolution of cases.

#### ***Performance Audit: Advertising Malta as a Tourist Destination – A case study of the Italian Market***

This performance audit concluded that the advertising campaigns carried out in Italy by the Malta Tourism Authority (MTA) during the period 2008 to 2011 generally led to positive results. The advertising and promotion campaigns undertaken in this market generally effectively addressed its dynamics. Nevertheless, a minor decline in tourist arrivals from Italy materialized during 2011. Moreover, the opportunity exists to continue to address Malta's low season potential and niches markets to further enhance the Authority's performance.

The MTA budgetary allocation for advertising was significantly increased to counter the economic downturn experienced in Italy, as well as unforeseeable international events in recent years, and to support the introduction of new routes from Italy. Consequently, the intensifying of advertising campaigns resulted in higher costs per Italian tourist visiting Malta.

The MTA sought to promote Malta as a destination offering a wide range of leisure activities through generic advertising. Through this approach, the Authority sought to capitalise on the tourism niches in which Malta is considered to have a competitive advantage over other destinations. However, generic and all segment advertising do not fully take into account specific niche areas to attract more specialised tourism.

In recent years, the Authority has succeeded in maximising capacity during the peak season. Simultaneously, the MTA increasingly intensified its advertising to attract more Italian tourists during the low season. Despite the generally positive results of this strategy, the opportunity exists to further address Malta's low season potential.

The implementation of advertising campaigns in Italy was generally within budget and enabled the attainment of the most critical predetermined performance targets. Advertising services procured through direct orders were always within MTA's authorised procurement levels. However, audit trails were weakened as the Authority did not fully document the relative decision-making processes in the services procured through direct orders, or when financial support was awarded to operators through the Tour Operator Support Scheme. In the

latter case, the Authority also lacks documented operational guidelines regarding the disbursement of such financial support. Moreover, due to technical and financial reasons, substantial delays have materialised in the engagement of an advertising agency to assist the MTA in its marketing activities. Such circumstances may potentially compromise the quality and timeliness of advertising content and material in future campaigns.

The Authority's analysis of its advertising campaigns is generally limited to a macro review since cost effectiveness issues did not enable the evaluation of specific campaigns. Consequently, the outcome of advertising is generally assessed against various tourism performance indicators, which provide an assessment on a general level.

This audit acknowledges that MTA's efforts and initiatives to attract tourism from Italy have led to significant progress in arrival rates and earnings. However, the opportunity exists to address the areas of concern highlighted in this audit to further ascertain the industry's sustainability. Towards this end, the Report proposes a number of recommendations.

## Annex C – Summaries of Special Reports and Investigations

### ***Public Broadcasting Services: Extended Public Service Obligation 2009/10***

The report, tabled in June 2012, was in response to the mandate given to the Auditor General by the PAC to report on 2009/10 expenditure figures covering PBS's Public Service Obligation to offer non-commercially viable programmes of a social, cultural or educational nature.

PAC's attention to apparent discrepancies in such expenditure had been previously drawn by a letter from an Opposition Member of Parliament.

The report gave a background of the manner and scenario within which PBS operates, with particular emphasis on the management of the Public Service Obligation. The funding mechanism, as established by the prevailing National Broadcasting Policy, is explained in detail.

Estimates, allocations, adjustments and actual expenditures are featured. By way of a concise summary:

- The original requested/approved estimate amounted to €1.16M. This was eventually adjusted in line with the prevailing market situation, as perceived by PBS, to €2.72M. Ultimately, €1.69M was utilised.
- The report features recommendations covering the funding model operated in the case of the Public Service Obligation. Through this model, excess funds are considered to be due to the application of best practices. As an incentive, the operator of the funds is allowed to retain all or part of the unutilised funds.

### ***University of Malta: Concession of parts of University House to the Kunsill Studenti Universitarji***

Tabled in July 2012, this report was the Auditor General's response to PAC's request of February 2012. PAC had mandated the Auditor General to determine the *Kunsill Studenti Universitarji's* (KSU) rights/responsibilities where Students' House (on campus) was concerned. The PAC mandate also demanded analysis of the various issues related to KSU's leasing of parts of the conceded space to (commercial) third parties. PAC's attention to the matter had been drawn by a letter from an Opposition Member of Parliament.

The report establishes that the University Senate's concession to KSU was 'precarium', enabling UoM to take back the property at will. Hence, it was established that KSU had no legal title over the space in question. This implies that KSU was in no position to lease any part of the conceded space.

The report showed how KSU deviated from the originally declared use of the conceded space – from a student-related activity area, commercial use of parts of the space was made by third parties accorded such use by KSU. The latter being 'ultra vires', UoM had attempted, over the years, to 'clarify' the original agreement, without success.

Quite apart from the conceptual faults, it transpired that the manner with which KSU went about leasing the property was lacking accountability and transparency, with disregard to the concept of a level playing field, processes that were not formally documented, and with an obvious lack of consistency even in contracts of lease signed.

The report also commented negatively on UoM's abdication of a control and monitoring function over the administration of its property by third parties (KSU). Recommendations included the formulation of a legal framework that will accurately define the concession and the rights/obligations of all concerned. Such framework is to be supported by an administrative structure that will define processes and procedures in

detail. The report likewise recommended that UoM monitors KSU financial statements once a substantial part of KSU's income is being generated through use of UoM assets.

On a wider scale, the report voices NAO's concern that the prevailing legislation, namely the Disposal of Government Land Act, does not preclude autonomous bodies from disposing of immovable assets without the monitoring function of competent authorities.

***ARMS Ltd: Follow-up to the 2011 Auditor General Report 'ARMS Ltd. – Setting up and operations' and ancillary topics***

In October 2012, the Auditor General tabled this report, being an extended follow-up exercise with three objectives: (1) to determine what/whether action had been taken by ARMS Ltd. following the Auditor General original report on ARMS Ltd. setting-up and operations, as well as to the Malta Resources Authority's second technical review of ARMS Ltd. operations, both published in 2011; (2) to determine the status of smart meter deployment as at end May 2012; and (3) to investigate concerns arising in the media dealing with smart meter tampering.

Salient findings emanating from the exercise as at August 2012 and featuring in the report follow:

***ARMS Ltd.***

- Improved debtor days since 2009 to date. EMC heavy consumers debtors have also decreased since ARMS Ltd. take-over of their responsibility
- Bills' reversals remains a concern for NAO at over 7 per cent of bills issued
- Reduction in locked readings from over 50,000 in 2011 to 20,000
- Failure to implement its own set of Key Performance Indicators designed in 2009
- Low level of online activity by clients – the absence of 'smart' connections handicaps portal functionality. Self-set targets for online payments not reached and number of clients making use of direct debit facility deemed low
- Lack of a Revenue Assurance Unit
- Improved level of calls taken , but increased amount of abandoned calls
- Waiting and service time for consumers calling in person at ARMS Ltd has decreased
- Continued lack of heeding of NAO's recommendation to carry out statistical analysis of consumer data to enable precise identification of problems and setting of trends
- Lack of initiatives to gauge customer satisfaction
- Improvement in the deployment of the one-stop-shop concept
- Lack of Service Level Agreements quantifying ARMS Ltd. performance
- Continued heavy reliance on the system contractor – the prevailing contract expires in 2013 and no action has been taken to ensure service continuity

- Shortcomings in meter readers' interface to the new system have been addressed

### ***Smart meter tampering***

- EMC claims that various local reports describing instances of meter tampering are untrue. Many of the adverts/articles on Internet are described as 'gimmicks'
- While a small subset of (EMC) meters are susceptible to magnetic tampering, this gets recorded and can be discovered at a later stage when the meter is queried
- EMC meters have built-in protections against tampering
- EMC plans to reinforce its Revenue Protection Section need to be prioritised and coordinated with a similar initiative on the part of ARMS Ltd
- Practical examples of meter tampering techniques submitted to EMC by NAO were proved to be ineffective, incompatible with the meters installed or to leave traces
- Hardware obsolescence, for the expected lifetime of the meters, is covered contractually with the suppliers

### ***Smart meter programme – local implementation***

- The go-live date for 'smart' connection (meter to back-end) has been postponed by twelve months from January to December 2013
- Implementation is currently behind the revised schedule
- Connection to the back-end is based on the big-bang approach

In conclusion, NAO emphasised the need for EMC/Water Services Corporation/ARMS Ltd to prioritise efforts to set up/boost revenue protection units capable of detecting/investigating meter fraud; NAO also urged ARMS Ltd to reconsider its decision not to carry out statistical analysis of consumer data. The Office expressed itself reasonably assured, basing on the technical information supplied by EMC, that as long as the necessary steps to ensure a continuous function of 'detect and inspect' are taken, meter fraud will reduce through a combination of prevention and corrective techniques.

### ***Public procurement analysis through case studies: 2007 to 2009***

The report, tabled November 2012, examined procurement through tenders issued by the Department of Contracts. The objective of the exercise was to provide an insight into the regularity of the tendering processes. A case study approach was adopted, with five tenders issued under LN177/178 (2005) and awarded prior to 2010 being selected. The exercise also included testing the selected case studies under the more modern LN296 (2010) and LN107 (2011) legislation.

In general, the Department of Contracts maintained its role of tendering process overseer, resulting in a high degree of legislative compliance. Contracting Authorities acted in line with their enabling Acts and in general upheld ethical considerations during the process of appointing the evaluation and adjudication boards. The Department of Contracts and the Contracting Authorities also maintained a high degree of liaison between themselves, this being conducive to a smoother implementation of the process.

The General Contracts Committee was burdened with a load potentially higher than its technical capability, due to repeated non recourse to the setting up of an ad hoc Special Contracts Committee.

At operational level, organisational amnesia was a common phenomenon. Maintenance of the centralised filing/archiving/minuting systems was often flawed.

Most Contracting Authorities showed difficulty in arriving at realistic estimates for project cost, potentially impinging negatively on the attainment of value for money.

Urgency was claimed even in instances where the emergency situation was partly induced. In such cases, provisions in the prevailing legislation allowing for procedures to be executed more expeditiously are usually applied. These however may be conducive to a restriction of the bidder outreach.

In all five cases selected, the same members served on both the evaluation and the adjudication boards. While legally acceptable, such an approach potentially reduces the boards' effectiveness.

Cases of post award negotiations were encountered quite commonly. However, none of the instances could have disrupted the bidders' order of merit and/or otherwise changed the proceedings of the tendering processes.

The NAO concluded that, basing on its review of the five case study tendering processes, legal compliance level was high. However, there were a number of issues and concerns, clearly identified in the report, that the Office felt merited thorough analysis by the Department of Contracts, with the aim of implementing corrective measures.

## Annex D – Summaries of ICT Audits

### ***Information Technology Audit - Heritage Malta***

The report evaluated the overall operational effectiveness of the Information Technology (IT) and Information System (ISs) currently being used by Heritage Malta.

The NAO noted that Heritage Malta invested in a number of IT applications to process and maintain the considerable amount of data that is being generated within every unit. The Report reviewed the four major applications, including:

- the MUSES Collection Management system, a web-based software application to capture the information related to collections and artefacts in all Heritage Malta sites and museums;
- the Condition Assessment System, a database with an on-line data entry to document the condition assessment of artifacts at Heritage Malta;
- the Hardware Inventory System, an in-house web-based system used to facilitate day-to-day operations of the ICT Support Team; and
- the Ticketing System (TIXPOINT), a ticketing system for Heritage Malta sites and museums.

NAO listed a number of recommendations related to software access controls, user friendliness and the management of software enhancements.

The Report also reviewed the operational and security aspects of IT whereby Heritage Malta drafted a number of policies and procedures in this regard. Notwithstanding the above, the NAO still recommended that the entity should have a set of policies and procedures related to the classification of information assets, data retention periods, disposal of IT hardware that may contain data and the backup and recovery of data.

Furthermore NAO recommended that Heritage Malta should provide adequate physical and environmental access controls to its main server room and formalise official business continuity and disaster recovery plans.

### ***Information Technology Audit: Medicines Authority***

The report assessed the overall operational effectiveness of the IT and ISs currently being used by the Medicines Authority.

Amongst other issues, the NAO examined the manner in which the Authority plans and implements its IT investments, the user friendliness, maintenance and security of its IT systems, and the supplier management business continuity and disaster recovery measures presently in place.

During this audit, NAO reviewed various systems presently used by the Authority, including the Malta Drug Information System, the EU Telematics System and the Authority's Intranet and websites. In this regard, NAO noted that the Authority intends to implement a new website and will be investing in a new IT system. A number of recommendations, related amongst other things to software access controls and workflow management, have been proposed by NAO.

Furthermore, the Authority's IT supplier maintenance agreements were examined and it was recommended that these are duly updated to reflect present practices. A positive development noted during this audit refers to the fact that the Authority managed to reduce the amount of documents printed and the overall use of paper by 26%. This resulted from the introduction of dual screens to facilitate the review of documents by the assessors.

NAO also reviewed the method by which the Authority disposes of its IT hardware and recommended that a formal policy is drawn up which includes data wiping procedures.

Recommendations were further made on the use of antivirus software, operating systems and application software updates as well as on the need for the Authority to formalise and document its IT business continuity and disaster recovery plans.



## Recent NAO Publications

### NAO Audit Reports

|                |  |
|----------------|--|
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| July 2011      | Performance Audit: Dealing with Asylum Applications  |
| October 2011   | Information Technology Audit: Inland Revenue Department  |
| November 2011  | ARMS Ltd. – Setting Up and Operations  |
| November 2011  | Members of Parliament Honoraria  |
| December 2011  | Annual Audit Report of the Auditor General – Public Accounts 2010                                  |
| February 2012  | Performance Audit: Safeguarding Malta's Groundwater  |
| March 2012     | Performance Audit: Employment Opportunities for Registered Disabled Persons                        |
| April 2012     | Information Technology Audit: Heritage Malta   |
| April 2012     | Performance Audit: Contract Management Capabilities across Local Councils                          |
| May 2012       | Performance Audit: An Analysis of the Pharmacy Of Your Choice Scheme                               |
| June 2012      | Performance Audit: Vehicle Emissions Control Schemes – Follow-up                                   |
| June 2012      | Public Broadcasting Services : Extended Public Service Obligation                                  |
| July 2012      | University of Malta Concession of parts of University House to the Kunsill Studenti Universitarji  |
| July 2012      | Information Technology Audit: Medicines Authority  |
| August 2012    | ARMS Ltd. – Follow-up  |
| September 2012 | Performance Audit Report: Tackling Problem Drug Use in Malta                                       |
| October 2012   | Procurement analysis through case studies 2007 to 2009   |
| December 2012  | Annual Audit Report of the Auditor General – Public Accounts 2011                                  |
| December 2012  | Performance Audit: Advertising Malta as a tourist destination - a case study of the Italian Market |

### NAO Work and Activities Report

|              |   |
|--------------|---|
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|--------------|---|