

Work and Activities of the National Audit Office

2013





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List of Abbreviations

AFROSAI	African Organisation of Supreme Audit Institutions
ARABOSAI	Arab Organisation of Supreme Audit Institutions
ASOSAI	Asian Organisation of Supreme Audit Institutions
BWSC	Burmeister Wain Scandinavian Contractor AS
CAROSAI	Caribbean Organisation of Supreme Audit Institutions
CC	Contact Committee of the Supreme Audit Institutions of the European Union
CC-R	Contact Committee Resolution
DA	Direct Action
ECA	European Court of Auditors
EMC	Enemalta Corporation
EN	English
EPSAS	European Public Sector Accounting Standards
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
FEMA	Faculty of Economics, Management and Accountancy
FGD	Flue Gas Desulphuriser
FPC	Fuel Procurement Committee
G20	Group of Finance Ministers and Central Bank Governors from 20 major economies
IAID	Internal Audit and Investigations Department
ICT	Information and Communications Technology
IDI	INTOSAI Development Initiative
IFAC	International Federation of Accountants
IIA	Institute of Internal Auditors
INCOSAI	International Congress of Supreme Audit Institutions
INTOSAI	International Organisation of Supreme Audit Institutions
INTOSAI GOV	INTOSAI Guidance for Good Governance
IPPC	Integrated Pollution Prevention and Control
IPSASB	International Public Sector Accounting Standards Board
IPU	Inter-Parliamentary Union
IS	Information System
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
ITS	Institute of Tourism Studies
ITSA	Information Technology Self Assessment
LGA	Local Government Auditor

MEPA	Malta Environment and Planning Authority
MoU	Memorandum of Understanding
MP	Member of Parliament
NAO	National Audit Office
NGO	Non-Governmental Organisation
NLGCF	National Lotteries Good Causes Fund
NOx	Nitrogen Oxide
ODZ	Outside Development Zone
OECD	Organisation for Economic Cooperation and Development
OLACEFS	Organisation of Latin American and Caribbean Supreme Audit Institutions
PAC	Public Accounts Committee
PAHRO	Public Administration Human Resources Office
PASAI	Pacific Association of Supreme Audit Institutions
PPCD	Planning and Priorities Coordination Department
PSC	Public Service Commission
RID	Roads and Infrastructure Directorate
RMC	Risk Management Committee
SAI	Supreme Audit Institution
UK	United Kingdom
UN	United Nations

Works and Activities of the National Audit Office – 2013



Anthony C. Mifsud, Auditor General

Overview

The role of the National Audit Office (NAO) is to improve public sector performance and accountability through independent reporting on Government financial statements, operations, programmes and activities. My Office's unique view of the entire public sector puts us in a very good position to help improve the performance of the public sector, and promote good accountability for that performance.

The year 2013 proved to be particularly challenging for the Office. We concluded two complex audits which attracted significant media and public interest. A number of routine financial and compliance,

performance, and Information Technology (IT) audits, together with other special audits and investigations were also undertaken by NAO.

One of the major reports referred to above is the performance audit titled *An Analysis of the Effectiveness of Enemalta (EMC) Corporation's Fuel Procurement*. This report was extensively discussed at Public Accounts Committee (PAC) level and a long list of witnesses was summoned to give evidence to the Committee. PAC meetings on this audit report are still ongoing.

Moreover, the Office was requested by the Hon. Minister for Finance to prepare, for the EU Commission, *An Assessment of the Macroeconomic Forecasts on the Maltese Economy prepared by the Ministry for Finance*. In its resulting independent report, which was a first for its kind, NAO presented its views on the reliability of this forecast and on the methodology used in its preparation.

In addition to the assignments referred to above, during 2013, NAO has prepared the Annual Audit Report on Public Accounts 2012, five performance audit reports, three special audits and investigations, and two IT audits. The two major audits referred to above, together with other auditing assignments, contributed to a high workload during 2013.

The above results could not have been achieved without the availability of professional and competent staff members. Most NAO employees

are qualified in various academic disciplines relevant to their work, including accounting, auditing, management, economics and public policy. In order to retain such staff, the Office does its utmost to, as far as possible, offer competitive remuneration packages supplemented by other financial incentives such as sponsorships, performance bonuses and responsibility allowances. In addition, wherever possible, the Office has also adopted a number of family friendly measures that assist employees in achieving an effective work-life balance. After extensive negotiations with the Union representing NAO employees, a new Collective Agreement covering the period 2013 to 2016 was signed in November 2013.

Moreover, NAO awards sponsorships to its employees to further their studies in fields relevant to their work. NAO also finances employees' attendance at local and foreign seminars, workshops and other audit-related events.

In recognition of the good work undertaken by NAO, the term of Office of both myself and the Deputy Auditor General was extended to a second period of five years. Both my Deputy and I will continue to strive to achieve even better audit outcomes from current and future NAO resources.

Preparations for the XXII Commonwealth Auditors General Conference to be held in March 2014 are now at an advanced stage. This Conference will take place

when NAO will be marking an important milestone in its history, that is the 200th Anniversary from the establishment of the original audit institution in 1814. A very good number of Auditors General and other senior officials from various Commonwealth Audit Offices have already confirmed their attendance.

The Office has once again also been active in the international field, including the EU network of Supreme Audit Institutions, namely the EU Contact Committee. The major international event relating to public sector auditing that took place during 2013 was the XXI International Congress of Supreme Audit Institutions (INCOSAI) that was held in October in Beijing, China. NAO officials also actively participated in a number of international meetings on, amongst others, Environmental Auditing, Auditing and Ethics, and International Standards of Supreme Audit Institutions (ISSAIs). These activities provide an opportunity for NAO staff to network with colleagues from other SAIs, share their experiences with their counterparts and keep abreast with current international developments in the auditing field.

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

Anthony C. Mifsud
Auditor General

12 March, 2014

The Status and Functions of the Auditor General and National Audit Office

The Auditor General's primary mandate is set out in Article 108 of the Constitution of Malta. Through this mandate, the Auditor General is required to carry out an annual audit examination of the accounts of:

- *all Departments and Offices of the Government of Malta, including the Offices of the Public Service Commission, and that of the Clerk of the House of Representatives and of all Superior and Inferior Courts of Malta; and*
- *such public authorities or other bodies administering, holding, or using funds belonging directly or indirectly to the Government of Malta as may be prescribed by or under any law for the time being in force in Malta.*

The Auditor General and National Audit Office Act, 1997 and Standing Order No. 120 of the House of Representatives of 1995 extend the Auditor General's mandate to cover independent advisory and investigative powers, examination of any financial matter concerning the use of public funds, as well as the undertaking of performance audits that

The Auditor General is head of the National Audit Office. He and the National Audit Office are independent of Government. The Auditor General examines the accounts of all Government Ministries and Departments and may also examine other public sector bodies. He also has the statutory authority to report to the House of Representatives on the economy, efficiency and effectiveness with which Government Ministries and Departments and other bodies have used the resources voted annually to them in the Estimates. Furthermore, the Auditor General may also carry out Special Audits and Investigations as well as IT audits. Local Councils also fall under the remit of the Auditor General.

assess the economy, efficiency and effectiveness of Government offices, public entities and companies where Government is a majority shareholder (i.e. holds 51 per cent or more of shares). These audits are conducted on NAO's initiative, or upon request by at least three members of the Public Accounts Committee, or as requested by the Minister responsible for Finance. The Minister responsible for Local Councils may also request the Auditor General to conduct an investigation relating to Local Government. In terms of Local Government legislation, the Auditor General is also responsible for the audit of Local Government.

The Auditor General and all authorised officers of the NAO have free access to information from public officers that is required for the proper conduct of audits. Moreover, in the proper exercise of his mandate, the Auditor General is not subject to the authority or control of any person.

Status of the Auditor General

The Auditor General is the head of NAO and an officer of the House of Representatives.

Recruitment within NAO is regulated by Article 108(10)(a) of the Constitution of Malta which provides for the setting up of NAO. These provisions empower the Auditor General to appoint such officers as he may consider necessary to assist him in the proper discharge of his office.

Recruitment is further regulated by Article 1 of Part 1 of the Second Schedule of the Auditor General and National Audit Office Act (Chapter 396 of the Laws of Malta) which authorises the Auditor General to set the terms and conditions when appointing such number and such classes of officers as he may consider necessary to assist him in the discharge of his functions according to law.

NAO expenses, including the salaries and allowances of the officers, are charged to the Consolidated Fund. The Auditor General prepares an annual estimate of the sum which he considers to be required for the proper functioning of the Office. Such estimate is reviewed by the National Audit Office Accounts Committee for approval by the House of Representatives.

Appointment of the Auditor General

Under Article 108 of the Constitution of Malta, the Auditor General is appointed by the President, acting in accordance with a resolution of the House of Representatives, supported by the votes of not less than two-thirds of all members in the House.

The Auditor General may at any time be removed or suspended from his office by the President, upon an address from the House of Representatives, supported by the votes of not less than two-thirds of all members in the House, on the grounds of proved inability to perform the functions of his office (whether arising from infirmity of body or mind or any other cause) or proved misbehaviour.

The Auditor General holds office for a period of five years from the date of his appointment and is eligible for re-appointment for one further period of five years.

Appointment of the Deputy Auditor General

Article 108 of the Constitution of Malta also provides for a Deputy Auditor General, who is appointed in the same manner as the Auditor General. The Deputy Auditor General's functions are those that the Auditor General may, from time to time, delegate to him. He performs the functions of the Auditor



Charles Deguara, Deputy Auditor General

General whenever the latter is absent from Malta or on vacation leave, or is for any reason unavailable to perform the functions of his office. The Deputy is required to perform the functions of an Auditor General whenever such office is temporarily vacant, and until a new one is appointed.

Auditor General and Deputy Auditor General re-appointed for a Second Term

With effect from 7 August 2013, the Auditor General, Anthony C. Mifsud, was re-appointed by the President of Malta following unanimous approval by Parliament for a second five-year period in terms of the Constitution of Malta. In a similar measure, the Deputy Auditor General, Charles Deguara, was re-appointed for a second five-year term with effect from 3 November 2013.

Achieving NAO's Operational Objectives

NAO plays a critical role in auditing the financial statements and activities of public institutions and in promoting a healthy financial administration of public funds. In achieving these objectives, NAO is guided by:

- its mission, vision and values;
- its quest for achieving impact from audit work;
- the consideration of its operating environment; and
- constant refinement of its audit methodology.

NAO Mission, Vision and Values

NAO mission, vision and values are outlined in Figure 1.

NAO's mission spells out our current role and describes what the Office is doing today; i.e. promoting accountability, transparency and good governance through high quality auditing. The Office provides independent assurance to our stakeholders, in particular the Legislature, the Executive and the public, that public funds are being used efficiently and for the intended purposes.

Figure 1: NAO Mission, Vision and Values

NAO's vision represents what the Office aspires to become: the initiator of best practices in public sector auditing and a recognised institution for independent, credible, balanced and timely reporting on public finance and governance.

NAO values are the guiding inspirations for all our work and serve as benchmarks for assessing our performance.

Achieving Impact from NAO's work

NAO aims to achieve maximum impact from its audit work. NAO's work helps save public funds and leads to positive change in audited entities. Through such audits, the Office strives to drive lasting improvements in public services by enhancing the audited entity's financial management and reporting processes, organisational performance and service delivery.

Such audits also result in increased accountability and transparency, thus resulting in better scrutiny and greater understanding by key audiences, particularly Parliament, Government, the media and the public, about the utilisation of public funds. In fact, NAO is a recognised authority in its core areas of expertise

– more specifically auditees in general acknowledge the value of its work, and Parliament has confidence in NAO's independent assurance.

Thus, the carrying out of an audit is not to be viewed by the audited entity as an exercise to exclusively detect fraud and issue negative reports on the operations of the entity. NAO's audit approach is designed to add value to the auditee. To achieve this objective, NAO and its auditors strive to maintain and build on existing good relationships that the Office has with the various Government Ministries, Departments and entities it audits. The aim of adding value is considered at each stage of the audit process, so as to enhance the reputation of NAO.

NAO's Operating Environment

In order to deliver its mandate more economically, efficiently and effectively, NAO aims to understand the environment in which it operates. Through such an environmental analysis, NAO has identified the key external and internal factors, as well as risks that have material impact on the effective performance of its duties.

Legislative Context

As enshrined in the Constitution, NAO is an independent institution. Exercising its mandate without fear, favour or prejudice and with utmost integrity is critical to ensuring NAO independence. Moreover, NAO performs its audits in compliance with rigorous statutory and regulatory frameworks.

Public Sector Context

Due to the fact that NAO audits Government Ministries and Departments and other public entities, its understanding of the public sector at all levels will impact on the extent to which the Office achieves its overall objectives. NAO is to continuously strive to develop and adopt the necessary specialised skills and competencies to conduct audits focused on Government goals and objectives.

Economic Context

NAO fulfils an important role in ensuring effective stewardship of public funds by highlighting instances of wasteful expenditure in the public sector. Moreover, it ensures strict application and utilisation of its own financial resources.

Social Context

NAO strives to understand the needs of stakeholders and key audiences of its audit reports so that its communication of audit findings, conclusions and recommendations would be more effective. The Office also maintains awareness with respect to key national challenges that may affect service delivery by auditees and considers such areas as potential audit topics.

Technological Context

Adopting advanced technology affects the opportunities available to NAO. The rapid improvement in information technology enhances the quality of audit reports and the ease with which they can be produced. Today, our reports are more user friendly with an attractive reporting style. They include relevant illustrations such as tables, diagrams and graphs to explain complex relationships and summarise key audit observations and results. Technology also plays a critical role in streamlining

operations, eliminating bottlenecks and enhancing workforce collaboration.

Environmental Context

As a result of legislation, public pressure and best practice influence, NAO has, particularly in recent years, widened the scope of its audits to include environmental audits. Through the conduct of such audits, the Office plays an increasingly important role regarding the responsible treatment of the environment.

NAO's Auditing Process

NAO's auditing process, that is broadly applicable to all NAO audits, is described in detail in Figure 2.

The National Audit Office and Parliament

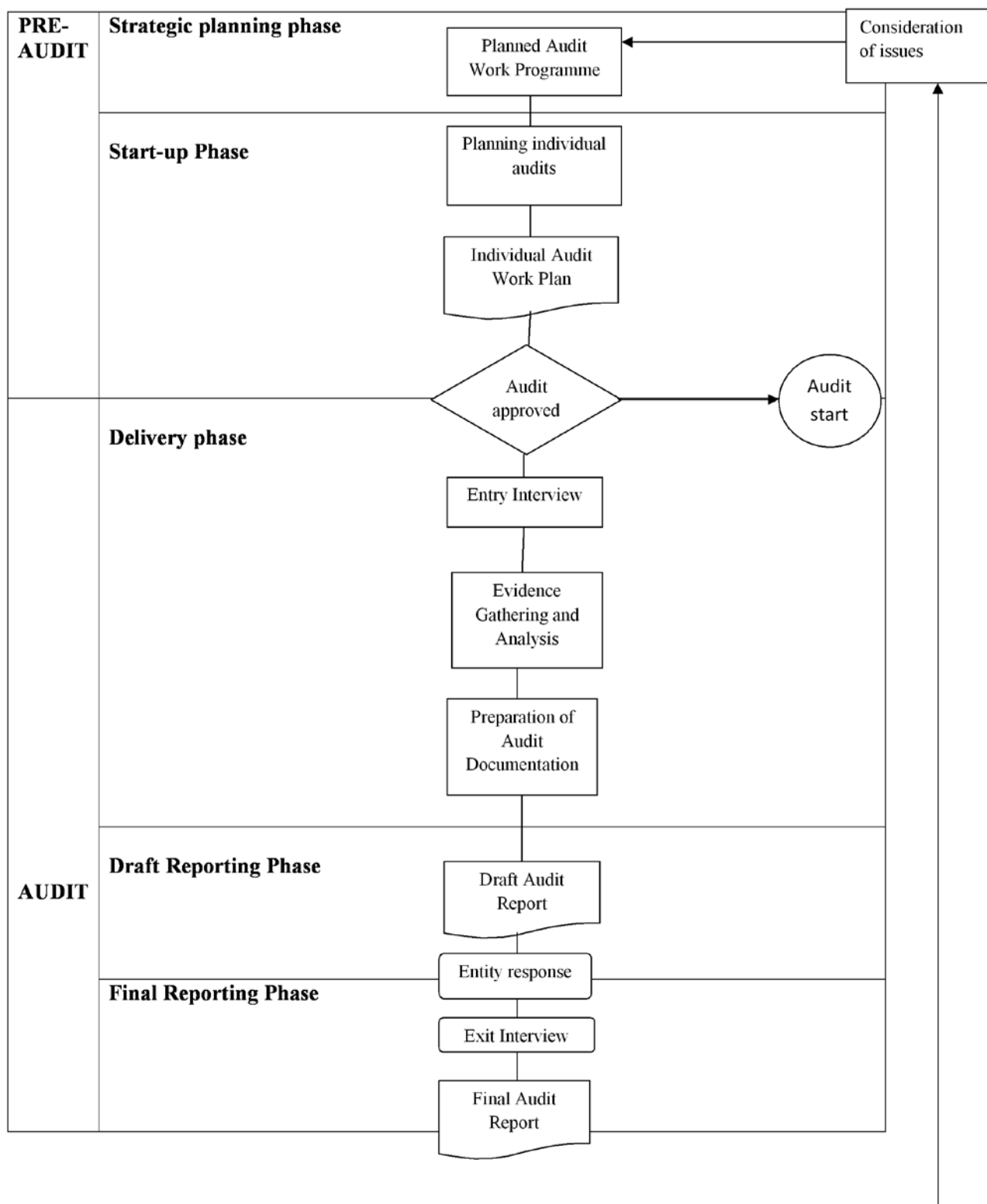
The relationship between NAO and the House of Representatives is regulated by the Auditor General and National Audit Office Act, 1997. Reports prepared by the Auditor General, including the Annual Report on Public Accounts, Performance Audit Reports, Special Audit and Investigation Reports, and the Annual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

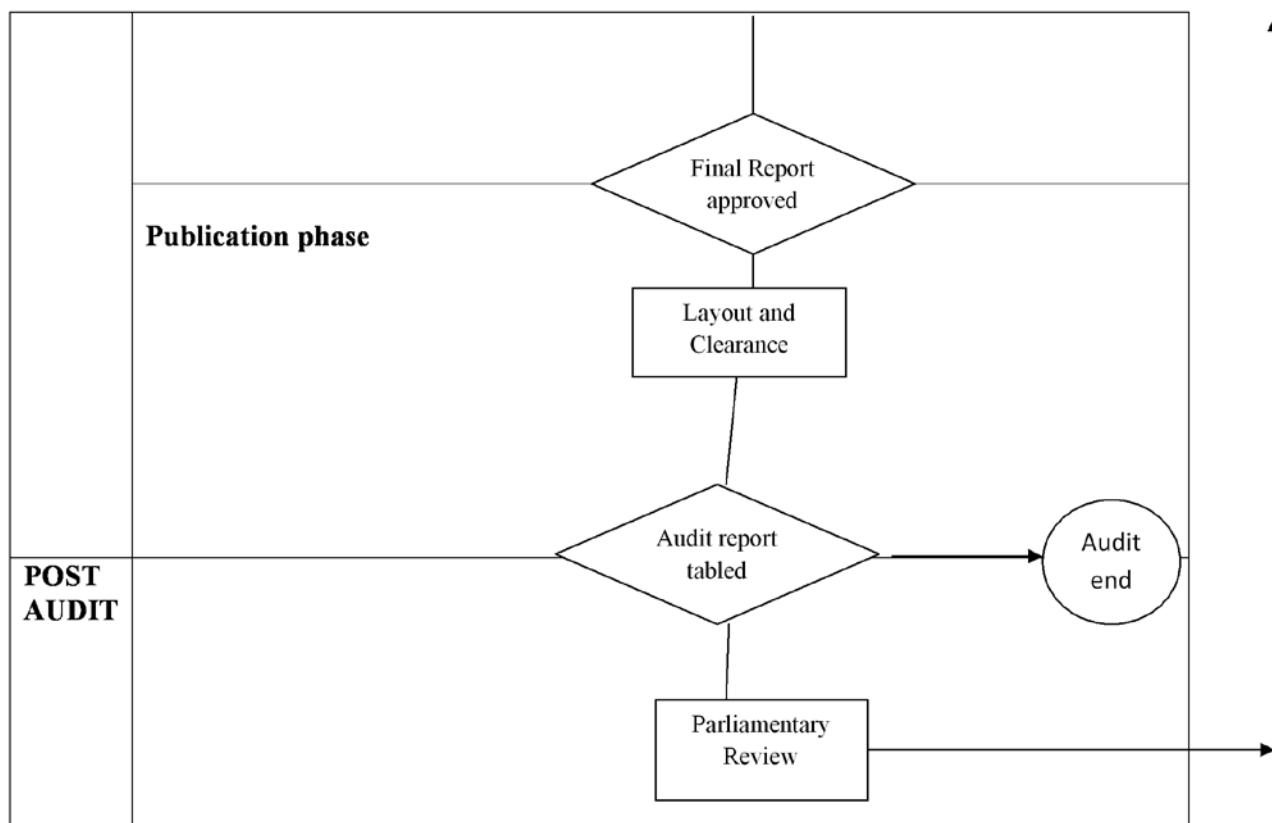
Cooperation between NAO and Parliament contributes to strengthening the role of NAO in public sector financial management, control and auditing. This relationship is further strengthened by the fact that there are two bodies within the House of Representatives primarily concerned with the work of NAO,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

The Public Accounts Committee (PAC)

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

Figure 2: NAO's Auditing Process





Adapted from Australian National Audit Office procedures

The powers of the PAC emanate from Standing Order 120E of the House of Representatives and include the authority to:

- inquire into matters relating to public accounts referred to it by the House of Representatives, a Minister or the Auditor General;
- examine the accounts of statutory authorities, including parastatal organisations;
- request the Auditor General to submit memoranda on any matter, provided that this is requested by at least three members of the Committee, and consider such memoranda;
- examine and act on reports made by the Auditor General; and
- report and make recommendations thereon to Parliament.

The PAC is charged with examining, *inter alia*, reports of the Auditor General, and hold hearings on these reports. In fact, most of the Committee meetings are

focused on issues raised in the Annual Audit Report on Public Accounts, Performance Audit and Special Audit Reports. Permanent Secretaries, Heads of Departments and their assistants are invited to participate in these PAC meetings to provide any information or explanations that may be required by the Committee. The PAC thereby ensures that NAO's findings and recommendations are given due attention.

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

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

Up to 31 December 2013, thirty one PAC sittings were held during the current legislature. Out of these, twenty three sittings were allotted to the

discussion of the performance audit: *An Analysis of the Effectiveness of Enemalta Corporation (EMC)'s Fuel Procurement*. An extensive list of witnesses was drawn up and invited to give evidence during these Sittings. The Auditor General, his Deputy and the audit team were also interviewed on the audit.

Other audit reports discussed were the Performance Audit Reports *Employment Opportunities for Registered Disabled Persons and Tackling Drug Use in Malta*. In another meeting, the Annual Report of the European Court of Auditors (ECA) on the Budget for the financial year 2012 and the work of the Maltese Member of this Court were presented. Extracts from NAO's Annual Audit Report on Public Accounts 2011 were also discussed.

The Committee is currently also examining the contract signed between the Commissioner of Lands and Malta Shipbuilding dated 20 August 1979 and that signed between the Malta Shipbuilding and Malta Labour Party on 22 August 1979.

Minutes of Sittings are available on the website of the House of Representatives.

National Audit Office Accounts Committee

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

The main responsibility of the National Audit Office Accounts Committee is to review NAO's estimates prior to their consideration and approval by Parliament.

The audited financial statements of the NAO are also referred to the Committee. These Financial Statements, which are prepared on an accruals basis, are audited by certified private sector auditors appointed by the Committee. The Auditor General presents the audited accounts to the National Audit Office Accounts Committee which is then submitted to the House of Representatives together with any comments thereon by the said Committee.

NAO's audited financial statements for financial year ending 31 December 2012, and NAO Financial Estimates for 2014 were reviewed by the Committee on 11 December 2013. The Committee also appointed the respective external auditors over a five-year period. NAO's financial estimates were approved by the House of Representatives on 18 December 2013 in Parliamentary sitting number 105. At least once a year, the Committee is also required to present to the House of Representatives (through its Leader) a report of its activities and a report of its examination of any estimates prepared by the Auditor General.

As stipulated by the Auditor General and National Audit Office Act, the National Audit Office Accounts Committee also discusses motions relating to



PAC meeting at NAO on 22 April 2013

Government land to be transferred in terms of the *Disposal of Government Land Act* in accordance with the relative provisions of the said Act. The Committee reports upon the motions discussed to the House of Representatives.

In 2013, there were no meetings in relation to the disposal of Government land.

Public Sector Audits

In order to fulfil its mandate effectively, NAO undertakes various types of audits designed to provide assurance to Parliament on the accounting and use of public funds. NAO carries out four key types of audit activities, namely:

- Financial and Compliance Audits
- Performance Audits
- Special Audits and Investigations
- IT Audits

NAO undertakes various types of audits designed to provide assurance to Parliament on the accounting and use of public funds

The components, objectives and outcomes of each type of audit performed by NAO are included in Figure 3. The overall desired outcome from the audit components and objectives is to provide a wide-ranging audit programme that deals with high risk and material issues in the public sector in a comprehensive and timely way.

The above audit framework will be discussed in more detail in the following pages.

Financial and Compliance Audits

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

To this effect, NAO undertakes Financial and Compliance Audits of all Government Ministries and Departments in terms of Article 108 of the Constitution of Malta, and paragraphs 1 and 2 of the First Schedule of the Auditor General and National Audit Office Act. The results of these audits are reported to Parliament. Audits of public funds constitute the core and mandatory work of the Office.

In fact, such audits provide independent assurance of whether

- the Treasury, Ministries, Government Departments, and other public entities properly account for the money that Parliament has authorised;
- such funds have been duly expended;
- Government financial statements are fairly presented in accordance with Government's accounting policies, and
- compliance with relevant laws, regulations and other directives has been achieved.

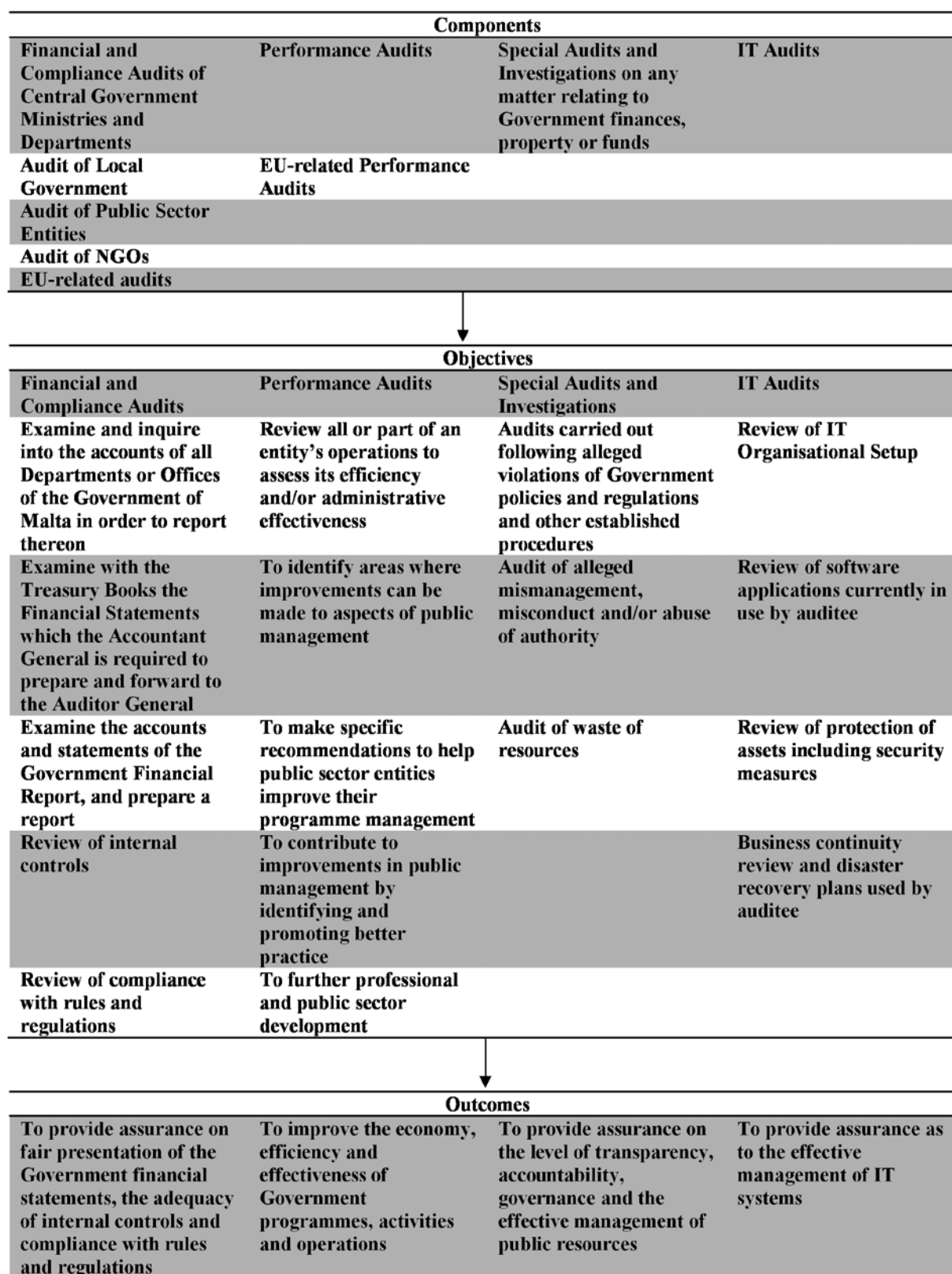
Assurance is also sought about the financial administration and accountability of Government Ministries and Departments.

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 as described earlier. 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 such audits.

Certification of the Government Annual Financial Statements

The Accountant General prepares the Government Annual Financial Statements by not later than three months after the close of the financial year ending 31 December, and forwards them to the Auditor General for examination and certification. This audit procedure involves a reconciliation of the figures in the Treasury Books against the relative figures

Figure 3: Audit Components, Objectives and Outcomes



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 Accountant General 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 Accountant General prepares the Government Financial Report statements and accounts on a cash basis and refers them to NAO for analysis. NAO undertakes this exercise based on a risk and materiality assessment at both Financial Statement and Account Balance level, with the aim of:

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

The above audit process is implemented through a comparative analysis of figures, verification of accounting entries against supporting documentation (such as Department files and Departmental Accounting System records), 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 2012 (**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, letters of comfort and bank guarantees); and
- results of reviews of internal control procedures.

Following this analysis, as well as the review of other financial and compliance audit findings, the Auditor General expresses an opinion on the Financial Report.

Audits of Individual Government Ministries and Departments

The key objectives of these audits are to ensure whether:

- Government revenue and expenditure comply with the relevant legislation, rules and regulations and are properly recorded;
- expenditure incurred by individual Government Ministries and Departments is accurate, complete and free from material misstatement; is appropriately recorded and accounted for, and has been expended as approved by Parliament;
- the procurement process has been carried out in accordance with the provisions of the General Financial Regulations 1966 and the Public Contracts Regulations;
- 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.

The results of audits of individual Ministries and Departments are classified into three components: Key Issues, Control Issues and Compliance Issues. Key Issues outline the most material findings or outcomes of the NAO audit. Control Issues describe any shortcomings within the entity's internal control and internal checking mechanisms (which are intended to serve as an effective safeguard of assets and resources) that came to NAO's attention during the course of the audit. Compliance Issues summarise instances whereby the relative

Government body lacked compliance with legislation in force and standing regulations. Recommendations are put forward by NAO to address the weaknesses identified in the Audit Report, in order to improve the internal control systems of Government entities and to promote good practice.

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

Audits on Government Corporate Issues

The audit of Government corporate issues comprises the assessment of matters of a common nature across the public sector. Results from such audits often include lack of internal controls, lack of compliance with standing rules and regulations and the identification of errors. During 2013, issues relating to arrears of revenue due to Government as at year end 2012 were identified and commented upon.

Audits of Local Government

In terms of Article 65(1) of the Local Councils Act (Chapter 363 of the Laws of Malta), the Auditor General appoints duly qualified persons, known as Local Government Auditors (LGAs) to audit the accounts of Local Councils. This appointment, which is carried out following a call for tenders under the auspices of the NAO, is for a period of one year, renewable each year, for a total period of not more than five consecutive years.

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

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

Annual Financial Audits

The Annual Financial Audit is the audit exercise upon which the opinion on the Financial Statements of a Local Council is based. LGAs also draw up a management report upon conclusion of the audit. By the time NAO Annual Audit Report on the Public Accounts 2012 was concluded, i.e. mid-October 2013, audited Financial Statements for financial year ended 31 December 2012 were forwarded to NAO by 66 out of 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 2012 (**Annex A** refers).

Mid-Term Audits

These audits are carried out whenever the Executive Secretary terminates his/her 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. The audit serves as an independent handover exercise to the new incumbent. In 2013, three mid-term audits were carried out.

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 2013, 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 on public entities for financial year 2012 were carried out on the Housing Authority, Malta Enterprise, Malta Resources Authority, Malta Statistics Authority, Malta Tourism Authority, Medicines Authority, Transport Malta – Land Directorate, Employment and Training Corporation and G.F. Abela Junior College.

Audits of Non-Governmental Organisations

The establishment and activities of Non-Governmental Organisations (NGOs) are regulated by the Voluntary Organisations Act (Chapter 492 of the Laws of Malta). Besides delineating 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.

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.

During 2013, an audit at the Conservatorio Vincenzo Bugeja for financial year 2011 was carried out.

Financial and Compliance Audit Manual

The Financial and Compliance Audit Manual is the primary source of NAO's policy and guidance relating to the performance of its Financial and Compliance Audits. NAO Financial and Compliance auditors are guided by the policies and practices contained in this Manual when carrying out their audit work. The Financial and Compliance Audit Manual also requires Financial and Compliance Auditors to comply with International Standards on Auditing, and International Standards of Supreme Audit Institutions (ISSAIs) in the conduct of audits.

Performance Audits

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 audit also provides an independent assessment of the operations and management of Government programmes against objective criteria of performance, and comments on situations or processes where output in terms of service provided is not of the appropriate standard.

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

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

- the identification and use of best practices to address gaps in performance or areas where there is scope for improvement;
- the achievement of the entity's aims and objectives more cost-effectively; and
- creating an awareness of the need for good accountability and transparency in the use of resources.

Follow-up Audits

The main purpose of follow-up audits is to ascertain whether, or to what extent, recommendations or observations made by the PAC or the Auditor General have been implemented by the audited body concerned. As a result, one can determine the impacts which can be attributed to Performance Audit examinations and demonstrate added value from Performance Audit work.

Elements of a follow-up audit include:

- a timely review of the action taken by the management of the audited body on the recommendations made by the PAC or the Auditor General;
- an evaluation of the adequacy of the action in achieving performance improvement;
- an assessment of any problems that may have arisen in relation to implementation;
- an assessment of the impacts of the examination; and
- consideration of the need or scope for further audit work in the same or a related area.

Through follow-up audits, the interest of stakeholders, such as the PAC, the audited body, the media and the general public, in the audit topic may be revived after a pre-determined timeframe. This increases the possibilities of ensuring that audit findings and recommendations are given due consideration. A Performance Audit on Road Surface Repair Works on the Arterial and Distributor Road Network follow-up was carried out in 2013.

Published Reports

During 2013, NAO published the following Performance Audit Reports:

- Simplification of the Regulations in Structural Funds
- Managing Public Service Recruitment
- The Management of Elective Surgery Waiting Lists
- An Analysis of the Effectiveness of EMC's Fuel Procurement
- Enforcement Action by MEPA within the Outside Development Zone
- Road Surface Repair Works on the Arterial and Distributor Road Network – Follow-up

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

Performance Audit Manual

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

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

accurate conclusions, practical and timely recommendations; and

- effective teamwork and collaboration.

NAO also applies ISSAI 300 (Fundamental Principles of Performance Auditing), ISSAI 3000 (Implementing Guidelines on Performance Auditing) and ISSAI 3100 (Performance Audit: Key Principles) as guidance in its performance audit activities. Furthermore, the “Issue Analysis Drawing Conclusions” approach is utilised in the conduct of performance audit work.

During 2013, Chapter 5 titled “Strategic Planning of Performance Audit Work” was updated. The process of selecting performance audit areas namely the determination of the external environment within which public entities operate, the identification of entities, functional areas and sectors to be examined over time, and the choice of entities, programmes or activities to be examined has been streamlined and is more focused on key criteria for audit selection. Moreover, in order to assist NAO in prioritising audit issues, a ranking system for selecting audits to be included in an Audit Programme has also been introduced.

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. These may be of a Financial and Compliance Audit nature and/or of a Performance Audit nature. A Performance Audit on the *Simplification of the Regulations in Structural Funds* was carried out in 2013. This was undertaken as a Parallel Audit with a number of other EU Member State SAIs.

The European Court of Auditors (ECA) audits the European Commission. During such audits, the ECA may also audit EU funds granted to EU Member States, including Malta, as part of the activities of the Commission.

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 case of ECA Audits carried out in Malta, NAO makes all the necessary

arrangements with the entity to be audited and ensures that all information requested by ECA has been made available.

In April 2013, ECA carried out an audit mission on the External Border Funds at the Funds and Programmes Division within the Office of the Prime Minister. Another audit was carried out in September 2013 relating to European Agricultural Fund for Rural Development at the Paying Agency. During these audits, a representative of NAO accompanied the audit team.

Special Audits and Investigations

Article 9(a) 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. The Special Audits and Investigations Unit within NAO serves this dual role. The Unit undertakes investigations commissioned by at least three members of the Public Accounts Committee or the Minister responsible for Finance, or as directed by the Auditor General. The Unit also carries out special audits as a secondary function, since commissioned investigations are given priority, and are generally embarked upon when excess resources are available within the Unit.

Special audits and investigations may be carried out following reports of alleged infringement of government policies and regulations, as well as other established procedures. In addition, such reports also address issues relating to mismanagement and misconduct, inefficient and ineffective use of resources, as well as abuse of authority. All such reports are executed with a view to proposing corrective management and administrative measures. NAO, however, does not comment on the merits of government policy.

Reports of investigations and special audits are presented to the Speaker for tabling in Parliament. Special audits and investigations are ordinarily carried out by a specialised Unit whose staff have an eclectic mix of skills and experience.

During 2013, NAO published the following Special Audits and Investigations Reports:

- EMC: Delimara Extension Implementation
- An Analysis of the National Lotteries Good Causes Fund

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

Another special audit commissioned by the Minister for Finance assessed the macro-economic forecasts of the Government of Malta for the years 2013 and 2014 underpinning Government's fiscal plans, prepared by the Economic Policy Department within the Ministry of Finance.

Information Technology Audits

In 2013, the Information and Communications Technology Unit published a stand alone report regarding an IT audit carried out at the Primary and Secondary State Schools followed by a second report covering another IT audit carried out at the Institute for Tourism Studies. A summary of these reports can be found in **Annex D**. The above 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
- 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, the 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 the auditee's IT management team and execution of on-site audits.

Information Technology Self Assessment (ITSA)

The NAO successfully carried out an **ITSA** between the 7 and 10 October 2013, with the assistance of a moderator from the Austrian Court of Audit. Representatives from all sections of the NAO were selected and given an initial overview of the whole process.

The objective of the ITSA was to establish the level of current and expected level of maturity of NAO's IT processes and business processes. The participants ranked the maturity level of the above mentioned processes and inputted their feedback in the related forms.

On completion of this exercise, the participants and NAO senior management were given a presentation giving an overview of the outcomes the ITSA exercise. A list of related action items was then drawn up for discussion during the NAO IT Strategy Committee meeting held in November 2013.

Human Resources

In order to fulfil its mandate as an objective and professional institution, NAO expects the highest level of ethical behavior from its staff. All NAO employees are expected to behave in a manner that promotes independence, objectivity and impartiality. All of our auditors are responsible for the quality of their work and ensure that audit assignments are performed in accordance with the best auditing practices of the NAO.

The NAO is committed to creating and maintaining a work environment that encourages and promotes growth, development and empowerment of our people.

The Staff Complement

In addition to the Auditor General and Deputy Auditor General, the staff complement consisted of two Assistant Auditors General, one Head of Special Audits and Investigations, 38 auditors and 14 support staff. Table 1 depicts the total staff complement as on 31 December 2013.

At the end of 2013, the active staff complement stood at 57. In addition, there were three employees who were on career break, one employee who was on parental leave, and another employee was on retirement leave. Eleven others (which are included within the figure of 57 active employees) were on reduced hours.

The Organisation Structure of NAO, as shown in Figures 4 and 5, 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.

Age Structure

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.

Table 1: Staff Complement (2013)

Grade Position	In Post	Male	Female
Auditor General	1	1	-
Deputy Auditor General	1	1	-
Assistant Auditor General	2	1	1
Head of Investigations	1	1	-
	5	4	1
Auditing Grades			
Manager	6	4	2
Principal Auditor	16	5	11
Principal Auditor ICT	2	1	1
Senior Auditor	11	4	7
Associate Auditor	1	-	1
Assistant Auditor	1	-	1
Audit Clerk	1	-	1
	38	14	24
Support Services			
Manager	1	1	-
Senior Principal	1	1	-
Principal	2	2	-
Technician ICT	1	1	-
Personal Assistant	1	-	1
Assistant Principal	3	-	3
Senior Executive	-	-	-
Receptionist	1	-	1
Minor Staff	4	3	1
	14	8	6
Total	57	26	31

Recruitment

Internal Promotions

Vacant positions are filled after an internal call for applications has been issued. Employees who have the required qualifications and experience may apply. Once the interviews have been completed, a report by the Selection Board is referred to the Auditor General for his approval.

During 2013, NAO issued eight Office Circulars for the filling of the vacant positions listed in Table 2.

External Recruitment

External calls for applications are made when no NAO employees are found with the required qualifications and/or experience to fill in vacant positions within the Office.

An external call for applications was issued for the filling of vacancies in the Senior Auditor grade. Four of the candidates were successful in the interview and appointed Senior Auditors on the recommendation of the Selection Board.

One candidate was assigned to the Performance Audit Section, two to the Financial and Compliance Audit Section and another one to the Special Audits and Investigations Section.

Resignations

During the year, two Audit Managers and two Principal Auditors resigned.

The Selection Board

The Selection Board is appointed by the Auditor General in terms of Article 14 of the NAO Collective Agreement 2013-2016 *Promotions and Filling of Vacancies* to interview applicants.

The Terms of reference of the Selection Board is to seek employees who have the knowledge, abilities and skills of auditors, and who are professionally and technically qualified. These auditors are capable of completing efficient and relevant audit assignments. Our aim is to have a professional workforce dedicated to their work, competent and having the potential to carry out complex audits.



New Recruits: Rebecca Vassallo, Christine Saliba, Clayton J. Mifsud, Fleur Marie Calleja Ghirxi, Lindsey Galea (Left to right)

Table 2: Office Circulars Issued for the Filling of Vacancies

Office Circular	Position	Sections	Date
3/2013	Audit Manager	Special Audits & Investigations	07/02/2013
4/2013	Head of Section	Special Audits & Investigations	07/02/2013
5/2013	Audit Manager	Performance Audits	27/02/2013
6/2013	Principal Auditor	Performance Audits/Financial and Compliance Audits	01/03/2013
7/2013	Principal Auditor	Special Audits and Investigations	01/03/2013
8/2013	Senior Auditor	Performance Audit/Financial & Compliance Audits	22/05/2013
9/2013	Principal	Finance & Administration	22/05/2013
10/2013	Assistant Principal	Finance & Administration/ICT Unit	19/06/2013

Figure 4: Organisation Chart by Function

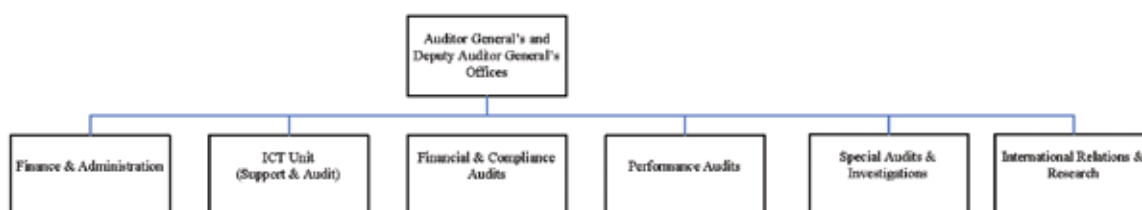
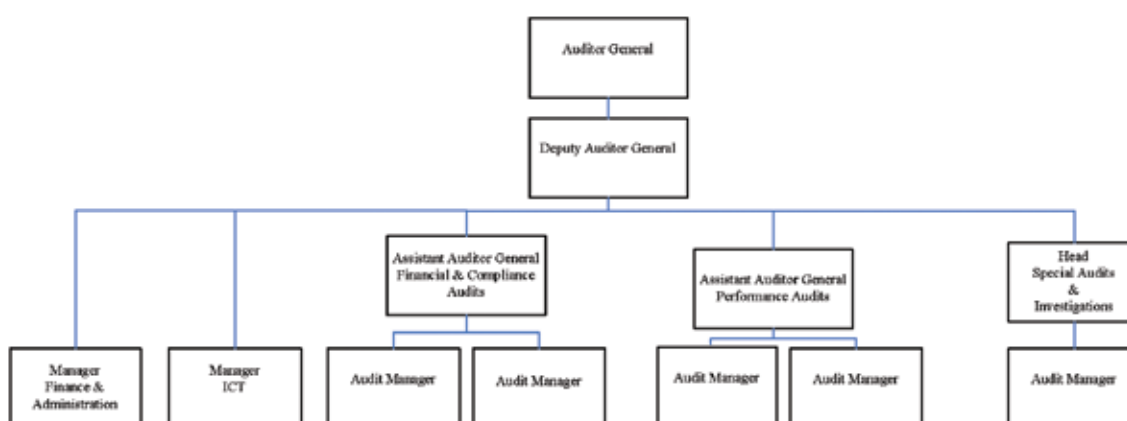


Figure 5: Organisation Chart by Management Structure



Contract of Employment

On joining NAO, new employees enter into a three-year contract of employment. After completing successfully the initial three-year period, the employee enters into a new contract of employment. On successfully completing four years at the NAO, the employee is offered an indefinite contract.

Family Friendly Policy

It is NAO's policy to uphold a family-friendly work environment. As far as possible, NAO is guided by the family-friendly measures applicable across the Public Service. This gives the employees the opportunity to balance work commitments with family responsibilities.

NAO promotes and actively encourages the employees to balance work and outside interests and commitments. As the welfare of the employees is crucial for NAO, we have introduced a number of family-friendly measures that meet both the employee's personal needs and those of NAO. Family friendly measures are applicable to all the employees.

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 working environment where all the employees are equally valued and work in an atmosphere of dignity and respect.

As well as complying with the law on equality, NAO is committed to follow all employment related procedures impartially and objectively. This includes decisions relating to training and development, performance management, reward and benefits and promotion.

NAO is committed that all of its employees have equal opportunity to participate in and make worthwhile contributions to NAO's work, using their talents and skills.

The Office assesses and keeps under review employment procedures such as recruitment, selection of new employees, performance,

reward together with training and development opportunities, welfare and attendance.

Training and Development

Due to the nature of audit tasks, the quality of NAO's work depends upon having professional auditors. Senior auditors within the Financial and Compliance Audit Section are all qualified accountants. The Performance Audit Section requires employees with a broad range of expertise and experience. Auditors within the Performance Audit Section possess professional qualifications in a variety of disciplines which include statistics, economics, accountancy and public policy.

Local Seminars and other Locally Organised Training Events

The new auditors are given in-house training in those areas that will help them to improve their auditing capability and enhance NAO's credibility. The auditors also attend training given by local training institutions.

By developing and promoting a strong learning culture, the knowledge gained can be utilized by the auditors to improve their skills and experiences and the overall quality of audits and investigations.

NAO auditors attend courses organised by the Malta Institute of Accountants relating mainly to accounting, auditing and associated disciplines. They also participate in seminars organised by other professional institutions that normally would be accredited as fulfilling continuous professional education requirements by the Malta Institute of Accountants. Through such participation, employees keep themselves updated with the latest issues in the auditing and related fields.

As part of their training, employees also attend training sessions organised by the Centre for Development and Training which is responsible for the training and development needs of public officers.

The training is divided into two sections, one for Managerial grades and another for Clerical and Supervisory grades.

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

Financial Support to Employees

To further their advancement, employees are encouraged to continue with their professional development and attend seminars and conferences organized 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:

- Masters Degree in Forensic Auditing - University of Portsmouth
- Masters of Science Degree in Sustainable Infrastructure - University of Malta
- Degree in Information Systems and Management – St. Martin’s Institute
- Masters Degree in Public Policy – University of Malta

- Executive Masters in Business Administration – University of Malta.
- Diploma in Social Science - St. Martin’s Institute
- Diploma in VAT Compliance - Institute of Indirect Taxation

Performance Review

The performance review provides Managers with an opportunity to evaluate the performance of employees within their Unit and provide them with constructive feedback and coaching on particular areas where performance improvement may be required. The review also serves to identify any particular training that the employee may need to perform more effectively, thereby ensuring that NAO’s targets and objectives are met in a timely and efficient manner.

New Collective Agreement

The Deputy Auditor General chaired the negotiations with the employees’ Union for the new Collective Agreement between NAO and the employees’ Union for the period 2013-2016. This was signed on 13 November 2013. The agreement regulates improved terms and conditions of employment and contemplates additional family friendly measures that facilitate the achievement of a work-life balance by NAO employees.



Signing of New Collective Agreement on 13 November 2013

The Audit Function

NAO has four different audit functions. One Section is responsible for Financial and Compliance Audits and is under the responsibility of Tanya Mercieca, Assistant Auditor General. The Section consists of two 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.

A second Audit Section, headed by Brian Vella, Assistant Auditor General, is responsible for 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.

Another Section headed by Keith Mercieca, Head of Special Audits and Investigations, is responsible for Special Audits and Investigations normally requested by the Public Accounts Committee or by the Minister responsible for Finance. He was appointed in this post on 1 March 2013.

The ICT Section headed by Simon Camilleri, Manager ICT is responsible for conducting IT audits. The administration and support of the IT infrastructure also falls within its remit.



*Tanya Mercieca,
Assistant Auditor General*



*Brian Vella,
Assistant Auditor General*



*Keith Mercieca, Head, Special Audits
and Investigations*

Employees Assigned Audit Work

During the year, 38 employees were assigned audit work. Of these employees, 19 were assigned to the Section responsible for Financial and Compliance Audits. These employees are qualified accountants. Employees assigned to the Performance Audit Section amounted to 10 auditors who are qualified in various disciplines. The ICT Audit Unit is made up of three employees holding IT professional qualifications. A further six employees are assigned to the Special Audits and Investigations Unit. Members of this Unit have a broad range of expertise and are proficient in such disciplines such as statistics, economics, business analysis, public policy, and ICT.

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. Such 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.

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

The Protection of the Whistleblower's Act 2013

The Protection of the Whistleblower Act, 2013 came into force on 15 September 2013 through the publication of Legal Notice 235 of 2013. The purpose of the Act is to promote the public interest by facilitating the disclosure and investigation of serious wrongdoing in or by an organisation. The Act protects the employee who makes the disclosure of information about serious irregularities in or by an organisation in accordance with the provisions of the Act. Any individual can make a disclosure reporting misconduct in the public or private sector since both sectors are subject to the law.

The main objectives of the Act are:

1. to promote the integrity and accountability of the Public Service;
2. to encourage and facilitate the making of public interest disclosures by public officials and private individuals;
3. to ensure that whistleblowers are protected from victimisation, discrimination or intimation for revealing on malpractice by his employer or somebody else at the place of work; and
4. to ensure that disclosures by public officials are properly investigated and dealt with.

Under the First Schedule of the Act, the Auditor General is described as a prescribed person, to whom external disclosures can be made by the whistleblower relating to failure to observe laws, rules and regulations relating to public finance and misuse of public resources.

The final goal of the Act is to achieve good governance for our country. It is hoped that the Act will promote change in culture amongst employers, and encourage them to establish procedures to receive disclosures in good faith and act on them appropriately.

NAO Organised Events

In order to improve the quality of output at NAO and continuously foster a well-organised and harmonious work environment, the following two seminars were organised by NAO.

NAO Annual Management Seminar

The Annual Management Seminar was held on 13 June 2013.

The Auditor General delivered the opening speech during this seminar. He gave an overview of the commendable results achieved by NAO during his and the Deputy Auditor General's first term of Office. He indicated that 65 reports had been issued by the Office during the previous five years from date of his appointment up to the date of this Meeting. The Auditor General also referred to the contribution

of senior and middle management and staff in the preparation of such reports.

As a confirmation for the excellent results achieved by the Office, he affirmed that the term of Office of both the Auditor General and the Deputy Auditor General has been renewed by the President of Malta, acting on the advice of Parliament, for a second five-year period.

The Auditor General also made reference to preparations that are underway relating to the organisation of the Commonwealth Auditors General Conference to be held in March 2014 in Malta. The year 2014 coincides with the 200th anniversary of the setting up of a public auditing institution in Malta.

The Hon. Prof. Edward Scicluna MP, Minister for Finance delivered a presentation on *The Relationship between the Ministry for Finance and the National Audit Office*. He affirmed that although NAO is an independent institution, the relationship between the Ministry for Finance and NAO is to be strengthened. He also stated that Government is currently looking towards the establishment of a formal framework that would increase cooperation between independent institutions like the National Audit Office and the rest of Government.

The Minister referred to the strategy for managing public finances, as well as to the establishment of

an independent Fiscal Council that would ensure that Malta remains on track to achieve a balanced budget. Moreover, he affirmed that Government is looking towards the acceleration of the merger between the Inland Revenue Department, the VAT Department, and the Customs Department, to speed up the consolidation of their respective revenue-generation functions.

The Minister also referred to a number of EU recent developments, including the banking union, bailout funds to Greece, and the European semester.

Simon Vassallo, a recently appointed audit manager presented a theme titled *Maintaining High Levels of Staff Motivation*. He affirmed that the motivation of subordinate staff can be considered as one of the main duties of a manager. Reference was also made to the importance of professional development as a motivational tool. Three components of professional development, namely: training, exposure to different work experiences, and an ongoing and engaging performance management programme, were discussed at length.

The above speeches were followed by round table discussions on the topics of staff motivation and the implications of family friendly measures on Efficiency within NAO.



NAO Annual Management Seminar held on 13 June 2013

2013 NAO Performance Audit Seminar

A seminar on *Identifying Performance Audit Subject Areas for 2013 and Beyond* was held on 31 January 2013. The main aims of the seminar were to:

- identify the major issues that merit performance audit attention; and
- identify the objectives of future audits to assist auditors to place their focus on key issues.

During the seminar, the Assistant Auditor General, Performance Audit Section exchanged a few thoughts about NAO Performance Audit Strategy. This speech was followed by a number of presentations by NAO auditors within this Section on proposed audit areas for the future, for consideration by senior management. During the final part of the seminar, a discussion was held relating to problems encountered during fieldwork and how they can be addressed in future audit assignments.

NAO Relations

Relations with Other Auditors

The Internal Audit and Investigations Department (IAID) is the centralised 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.

The IAID functions consist of the following:

- Audit of EU funds and Bilateral Funding Instruments
- Financial Investigations
- Internal Audits
- Risk Management and Assurance Assignments

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

Establishing a professional working relationship between internal and external auditors delivers benefits to both parties by helping them to exchange ideas and knowledge. In addition, the likelihood of unnecessary duplication of work is reduced, in particular to minimise disruption to the audited entity.



NAO Performance Audit Seminar held on 31 January 2013

At the initial stages of an audit, the Office ascertains whether the audit area under review has already been, or is planned to be, examined 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.

NAO also maintains good relations with private sector auditors. When the Office undertakes an audit on 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 Auditees

NAO attempts to maintain good relations with auditees. Prior to commencing the audit, the Assistant Auditor General and the Audit Manager inform the auditee of the purpose of the audit, together with the scope, criteria and methodology to be used. They also inform the auditee of the information that may be required, meetings to be arranged, and the proposed timing of the audit. During the audit fieldwork, the auditee is continuously updated with the audit progress by the audit team. The ensuing audit report is also sent to the auditee for its feedback prior to publication.

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 Government authorities. Auditees particularly value audit communications that provide:

- an objective opinion on the extent to which auditee management is fulfilling its responsibilities for the preparation of the financial statements;

- insight into the audited entity's financial reporting practices, including the operation of internal control and recommendations for improvement to the entity's financial reporting process;
- information that enables management of audited entities to effectively fulfil their governance responsibilities;
- insights into, and recommendations for improvement in, particular areas of the entity's business and systems;
- observations on regulatory matters; and
- global perspectives and trends relating to public sector issues.

In rare instances, auditees have challenged NAO's right to carry out certain audits (particularly where sensitive data was concerned). However, when such instances occur, these are discussed with the audited entity 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.

Relations with the University of Malta

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

Since the year 2008, the Auditor General annually presents an award for the best dissertation in Public Sector Accounting/Auditing submitted in partial fulfilment of the requirements of the accounting degree run by the Department of Accountancy at FEMA, subject to the desired level being reached. In 2013, the award was presented to an Accountancy graduate for her dissertation on "The Maltese Perspectives on the Conceptual Framework for the

Public Sector proposed by the IPSASB". The prize was awarded to Bernardette Zammit on 13 March 2013 by the Auditor General, during a presentation ceremony held at the University of Malta.

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

Moreover, senior members of NAO staff have lectured to University of Malta students reading for the Higher Diploma in Public Accounting and Finance within the Institute of Public Administration and Management, on the types of public sector audits and the concept of new public management.

Relations with the Media

The importance of communicating effectively with the media stems from the latter's potential to stimulate public discussion on the issues raised by the auditor. In this respect, the media may publish write-ups and articles on the content of the audit report, as well as comments by regular newspaper correspondents. Another by-product of media exposure is that SAIs may obtain insights into the quality and impact of the audit report.

NAO maintains open relations with the media. Once an NAO report is presented in the House of Representatives by the Hon. Speaker, 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 most salient findings and conclusions. These are generally given considerable coverage in the local media, through television, radio and newspaper reporting, as well as through the electronic media. They also provide a significant impetus to auditees to undertake the necessary corrective action. As a result, the principles of transparency and accountability are promoted.

Relations with Civil Society and the Public

Both civil society and the public play an important role in public governance. Consequently, NAO keeps in view the needs of civil society and citizens when planning and conducting audits. Such views are taken into account as one of a number of selection criteria in the choice of audit areas. Thus, NAO ensures that its work is relevant to these audiences.

In this respect, findings, conclusions and recommendations included in Supreme Audit Institution (SAI) audit reports generally address some of the concerns voiced by civil society and the general public. Towards this end, NAO ensures that audit reports are accessible to civil society and the public by conveying the message in, as far as possible, a non-technical and jargon free manner. As indicated earlier, NAO reports are uploaded on its website to be accessed by everyone. Hard copies of NAO reports can also be purchased at minimal cost from the Department of Information.

Local Activities

A number of local activities took place in 2013 with the participation of NAO. An outline of these activities is given hereafter.

Visit to His Excellency, the President of Malta by NAO staff

His Excellency, the President of Malta, Dr George Abela, invited the Auditor General, the Deputy Auditor General and all NAO staff to pay a courtesy visit to the Presidential Palace in San Anton Gardens in Attard on 30 January 2013. During the visit, the Auditor General introduced NAO staff individually to the President. In his speech, the President praised the integrity of NAO staff and commended the professional work undertaken by the Office. The Auditor General delivered a brief speech on the good relations that exist between NAO and Parliament, in particular the Office relations with the Public Accounts Committee and the National Audit Office Accounts Committee. He then presented to the President a donation to the Malta Community Chest Fund.



*Visit to His Excellency, the President of Malta,
Dr George Abela, on 30 January 2013*

Visit by the Honourable Speaker Dr Anġlu Farrugia at NAO

The Honourable Speaker of the House of Representatives, Dr Anġlu Farrugia, paid an official visit to NAO on 23 July 2013. He was welcomed by the Auditor General, Deputy Auditor General, and all staff. In his welcoming speech, the Auditor General gave an account of published reports for the five years from his date of appointment to date of visit and thanked all employees for their work and commitment. He also referred to the Commonwealth Auditors General Conference that will be hosted by this Office in 2014.

The Hon. Speaker expressed his appreciation for the reports presented to him by the Office that would subsequently be placed on the table of the House of Representatives, a number of which are discussed by PAC. He stated that these reports are the result of the good work undertaken by NAO staff, and are vital in ensuring the best use of public resources.

The Auditor General presented the Audit Manuals on Financial and Compliance Auditing and Performance

Auditing to the Hon. Speaker. A meeting was also held by the latter with NAO management.

Official Visit at NAO by Dr Louis Galea, the Maltese Member at ECA

Dr Louis Galea, the Maltese Member at ECA paid an official visit to NAO on 2 December 2013. During the visit, Dr Galea expressed his appreciation to the Maltese Auditor General and his officers for the full and constant collaboration that exists between the two institutions. He emphasised the importance of NAO as established by the Constitution of Malta.

Dr Galea also highlighted the various developments that are recently taking place in the European Union (EU) that are creating new challenges for Supreme Audit Institutions all over Europe. He affirmed that this requires that the Office builds all the necessary resources, especially well-trained staff, in order to be able to execute its constitutional mandate in the best way possible. He stated that NAO is a key tool not only to ensure that Parliament performs its duties to guarantee accountability and scrutiny but also as an unbiased and independent guardian of public financial interests.



Visit by the Hon. Speaker, Dr Anglu Farrugia, on 23 July 2013

ECA Audit Seminar

A joint seminar between ECA and NAO on *EU developments Implications for Public Audit* was held at the PAC Office within the House of Representatives on 3 December 2013. The Conference was chaired by the Deputy Auditor General. Various speakers presented their views on the conference topic. The Auditor General referred to the issue of accountability and control of EU funds. He opined that citizens should expect to receive the necessary assurances that EU funds are being spent in terms of EU rules and soundly managed. He noted that Malta has been allocated the sum of circa €1.3 billion for the next programming period (2014-2020) which will be utilised to further spur Malta's economic, environmental, agricultural and social development. He also referred to the excellent collaboration that exists between NAO and the House of Representatives, the IAID and with ECA.

The Deputy Speaker, Hon. Censu Galea, MP, made reference to the impact of the financial and economic crisis on EU citizens and the measures undertaken by

the EU to counter the effects of the crisis and stabilise and strengthen the European financial system. Particular mention was made of the proposed single supervisory mechanism led by the European Central Bank and its role in monitoring all banks in the Union. He also spoke about the role of Government and national Parliaments in safeguarding public funds in the interest of citizens.

The Maltese member of ECA, Dr Louis Galea, spoke about the crucial role of accountants and auditors in both the private and public sectors, and their duty to act in the public interest. He noted that the robustness of enterprises, the banking system and the financial system as a whole, depends critically on accurate audit opinions given by auditors.

Zacharias Koliass, Director, of ECA, then delivered a presentation on the *EU financial and economic governance – key developments and the ECA's audit work*. This was followed by a speech by Jacques Sciberras, Head of Secretariat of ECA on *Public Accountability and Audit in a Changing EU landscape*.



Joint ECA and NAO Seminar at the PAC Office within the House of Representatives on 3 December 2013

International Activities

NAO was also active in the international field during 2013. An overview of NAO participation in such activities is given below.

International Organisation of Supreme Audit Institutions (INTOSAI) Working Group on Environmental Auditing Meeting

William Peplow, Audit Manager at NAO attended the 15th Meeting of the INTOSAI Working Group on Environmental Auditing held in Tallinn, Estonia on 3-6 June 2013. The latest trends, developments and challenges influencing Environmental Auditing were discussed during this meeting. The SAI of Estonia, as chair of the Working Group, renewed the Progress Report outlining the key issues. The Working Group's Work Plan for 2014-2016, together with the training modules and activities, were analysed.

The Maltese participant delivered a presentation on *Challenges in Environmental Auditing in my SAI*. The presentation focused on challenges faced by NAO when conducting environmental audits including those relating to administrative capacity, data and management information, audit planning, audit

methodology, audit findings and recommendations, and measuring audit impact and results.

Conference on Civil Society and Citizens in the External Audit Process

The Serbian European Policy Centre in conjunction with the Republic of Serbia State Audit Institution, conducted a study regarding the participation of Civil Societies and Citizens at large in the External Audit Process of Government Institutions. In developing their research, the European Policy Centre has solicited information from a number of EU member states, including Malta. To this end, an officer from the Maltese NAO was invited to participate in a conference in which he gave the Office's views and outlined practices employed by the institution on the subject matter.

The conference was held in Belgrade on 7 June 2013, and was categorised in three main panels, each comprising of officials from various Serbian entities (including the President of the Serbia State Audit Institution and the Serbian Ombudsman) as well as representatives from foreign SAIs. The first panel gave introductory information intended at setting the context and orienting the attendees in some

detail about the subject at hand. The second panel, which included Simon Vassallo, Audit Manager at NAO, presented experiences relating to the relationship between SAIs and the general public while the last panel similarly presented the views on the association between SAIs and civil societies.

During his intervention, the NAO official highlighted the challenges encountered by the Maltese SAI in dealing with requests received by individual private claimants.

This half-day conference was attended by a good number of journalists from the international community. The resultant publication from this study, entitled *Civil Society and Citizens in the External Audit Process: Comparative Study of International Practices with Recommendations for Serbia*, was issued in August 2013. This document can be accessed online through <http://cep.org.rs/en/documentation-centre/cep-editions/357-study-civil-society-and-citizens-in-the-external-audit-process.html>

European Organisation of Supreme Audit Institutions (EUROSAI) Seminar on Auditing Ethics

This seminar was attended by the Deputy Auditor General and Keith Mercieca, Head Special Audits and Investigations Unit. It was organised under the auspices of the EUROSAI Task Force on Audit and

Ethics and was held on 17-18 September at ECA in Luxembourg.

The main objectives of this meeting entailed: raising awareness of the audit on ethics-related issues and how to include them in audit tasks; an exploration of aspects of methodology and other elements associated with audit preparation, such as mandate, areas to be covered, audit criteria and questions; the sharing and exchanging of views on existing experiences of SAIs auditing ethics-related issues; and finally, the eliciting of lessons learnt from such experiences. The Maltese representative at this Task Force meeting delivered a presentation addressing many of the above issues, yet making specific reference to audits bearing an ethical dimension that have recently been carried out by the National Audit Office.

EUROSAI Working Group on Environmental Auditing Meeting

William Peplow attended the 11th Annual EUROSAI Working Group on Environmental Auditing Meeting in Prague, Czech Republic on 15-17 October 2013. Two main themes were discussed during this meeting namely *Sustainable Land Use and Assessing Validity and Reliability in Quantitative and Qualitative Analyses*.

The meeting also provided the opportunity for SAIs from the Mediterranean to discuss coastal



Conference on Civil Society and Citizens in the External Audit Process in Belgrade on 7 June 2013



EUROSAI Seminar on Auditing Ethics held in Luxembourg at the ECA between 17 and 18 September 2013

management issues. To this end, the Maltese representative delivered a presentation titled: *Is Malta Appropriately Prepared to Deal with Oil Pollution in Maltese Territorial Waters?* The presentation provided information on the audit objectives, scope and methodology adopted in the conduct of this performance audit.

XXI INCOSAI Congress

The Auditor General and Brian Vella, Assistant Auditor General, attended the INCOSAI Congress that was held from 22-26 October 2013 in Beijing, China. The Congress was attended by 591 participants from 154 SAIs, 3 associated members and 22 observers.

Two themes were discussed during this Congress: National Audit and National Governance and the Role of Supreme Audit Institutions on Safeguarding Long-Term Sustainability of Finance Policies.

The Congress also adopted recommendations on audit work concerning the theme areas discussed above.

Congress participants adopted twelve new standards and expressed support for the plans to intensify cooperation with the United Nations in the framework of the Post-2015 Development Agenda.

With regard to the adoption of new audit standards, the focus was on three areas:

- ISSAI 12 "Value and Benefits of SAIs – Making a difference in the lives of citizens";
- The fundamental auditing principles on financial, performance and compliance auditing revised by the harmonisation project (Level 3, four ISSAIs: 100, 200, 300 and 400); as well as
- Auditing Guidelines with regard to audit of disaster-related aid (Level 4, five ISSAIs: 5500, 5510, 5520, 5530 and 5540 and one INTOSAI GOV: 9250).

The Congress explicitly called upon INTOSAI members to pursue and step up the cooperation with the United Nations. To this end, the fundamental principles of external government audit as laid down in the Lima and Mexico Declarations as well as in the United Nations (UN) Resolution A/66/209 shall be implemented at the national level and, in particular, included in the Post-2015 Development Agenda in order to strengthen transparency and accountability – as prerequisites for the sustainable development of public finances.

Moreover, the Congress noted the adoption of the UN Resolution "Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme

audit institutions" in a highly positive way and called upon members, development organisations and other stakeholders to implement the principles of the Lima and Mexico Declarations contained therein at the national level.

An official document on "Communicating and Promoting the Value and Benefits of Supreme Audit Institutions – An INTOSAI Guideline" was also adopted.

INCOSAI XXI in Beijing was concluded with the adoption of the "Beijing Declaration" on 26 October 2013. In the "Beijing Declaration", the congress participants call in particular for the implementation of the UN Resolution A/66/209 on strengthening the independence of Supreme Audit Institutions (SAIs).

A copy of the declaration is to be found in **Annex E**.

EUROSAI Seminar on “Improving Performance Audit in SAIs by using the Performance Audit Guidelines (ISSAI 300 and 3000-3999)”

William Peplow attended the EUROSAI Seminar on *Improving Performance Audit in SAIs by using the Performance Audit Guidelines (ISSAI 300 and 3000-3999)* held in Bonn, Germany on 4-5 December 2013.

The NAO official delivered a presentation on *Improving Performance Audit in SAIs by using the Performance Audit Guidelines (ISSAI 300 and 3000-3999)*. This presentation utilised the performance audit report published in 2010 *Evaluation of Implementing Renewable Energy Sources and Energy Efficiency in Malta* as a case study. The presentation concluded that ISSAI guidelines proved to be a valuable tool in producing a high quality performance audit report. Their implementation, however, still necessitated a high degree of input and administration by the audit team.

Commonwealth Heads of Government Meeting

The 23rd Commonwealth Heads of Government Meeting was held in Colombo, Sri Lanka, from 15 to 17 November 2013. During this meeting, a communiqué was approved by all Heads of Government in attendance. Articles 45 and 46 of this communiqué relate to Audit Institutions and

Public Accounts Committees respectively and are reproduced hereunder:

Audit Institutions

45. Heads recognised the contribution that strong, properly resourced and independent supreme audit institutions play in improving transparency, accountability and value for money to ensure that public funds are appropriately spent.

Public Accounts Committees

46. Heads of Government further reaffirmed that strong and independent Parliamentary oversight plays an important role in preserving the trust of citizens in the integrity of government, through Public Accounts Committees that are effective, independent and transparent.

These Articles had been prepared by this Office, in cooperation with the United Kingdom NAO.

22nd Commonwealth Auditors General Conference in Malta in March 2014

Organisational and technical preparations are underway for the 22nd Commonwealth Auditors General Conference to be held in Malta on 25-27 March 2014. The main theme of the conference is *Securing Independence of SAIs to improve the Effectiveness of Reporting and Communication of Audit Findings*. The main theme is divided into two sub-themes, namely:

- Ensuring Independence of SAIs for effective SAI Reports
- Effective Communication of Audit Findings to Key Audiences

EU Contact Committee

ECA and National Audit Institutions have different external audit remits but they share a common interest in working together to improve the audit of EU funds and other matters concerning good governance for the benefit of EU citizens.

Cooperation between EU Member States 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 annual EU Contact Committee meeting was held on 10-11 October 2013 in Vilnius, Lithuania and was attended by the Auditor General and Brian Vella. The meeting was split into three main components, namely:

1. Seminar on the Latest Developments
2. Contact Committee Cooperation Framework and Activities
3. Activities of the Network of SAIs of Candidate and Potential Candidate Countries

During the seminar on the latest developments, various issues were discussed including:

- The role of SAIs in auditing EU expenditure under shared management, while preserving their independence;
- The role of the Committee on Budgetary Control within the Union's wider financial control and public auditing system;

- The new financial framework for 2014-2020 and the new financial regulation – the role of SAIs in improving accountability in the EU;
- New economic governance – the Role and Tasks for SAIs; and
- EUROSAI Survey on SAI Independence.

Under the theme Contact Committee Cooperation Framework and Activities, various reports were presented including the:

- report of the Working Group on Structural Funds;
- report on the survey on "The Spending Review in EU Countries – Analysis of the best practices, the findings and the perspectives";
- report on the seminar on Public Accounting Standards;
- joint report on the coordinated audit on the enforcement of EU waste shipment legislation; and
- report on cooperative audit of national parks.



EU SAI Presidents Contact Committee Meeting in Vilnius, Lithuania between 10 and 11 October 2013

A presentation relating to the third theme was also delivered namely on *Information on the network of the SAIs of Candidate and Potential Candidate Countries and ECA with the participation of Support for Improvement in Governance and Management, and Joint Working Group of Audit Activities.*

In 2013, the EU Contact Committee was active in the following Working Groups/Networks/Task Forces:

- Working Group on Structural Funds V
- Working Group on Activities on Value Added Tax
- Joint Working Group on Audit Activities
- Network on National SAI Reports on EU Financial Management
- Network on Fiscal Policy Audit
- Network on Lisbon Strategy/Europe 2020 Audit
- Task Force on the tasks and roles of the external public audit in the light of recent developments in the EU economic governance

EU Contact Committee Working Group on Structural Funds V Meeting

The Working Group on Structural Funds V came to its natural end during 2013 with the finalisation of its parallel audit report entitled 'Simplification of the Regulations in Structural Funds'. The final meeting relating to this Working Group took place in Sofia, Bulgaria on the 16 and 17 April 2013. The meeting was attended by Keith Mercieca. The main focus of this meeting was that of finalising the parallel audit report that was later to be presented to the Contact Committee of the Supreme Audit Institutions of the EU.

The Maltese National Audit Office assumed an active role in this finalisation process, particularly in terms of quality control of the parallel audit report that was to be published. Publication in this respect was preceded by the issuing of a country audit report on the same subject matter, that the National Audit Office released in April 2013.

EU Contact Committee VAT Working Group Meeting

Tanya Mercieca, Assistant Auditor General, attended the Contact Committee VAT Working Group Meeting held in Bucharest, Romania on 9-10 September 2013.

The results of the VAT Working Group were discussed during this meeting. Speeches were delivered by the Romanian Court of Accounts, the Romanian Tax Administration, ECA, Directorate-General for Taxation and the Customs Union, Europol and a number of EU Member States on the latest developments in the VAT field.

Ms Mercieca delivered a presentation on current VAT issues in Malta including VAT local legislation and new VAT fraud trends, audit experiences and findings relating to the Customs Procedure 42 Audit conducted for financial year 2011, the key issues resulting from such an audit and the related recommendations.

EU Contact Committee Resolutions

A number of resolutions were adopted, namely on:

- Continuation of the Fiscal Policy Audit Network;
- Audit of the Working Group on Structural Funds;
- Public Sector Accounting Standards for European Member States; and
- Publication of the final report of the coordinated audit on the enforcement of the European Waste Shipment Regulation.

A copy of the Resolutions is to be found in **Annex F**.

Other International Meetings

During 2013, a number of NAO employees actively participated in other international Conferences, Seminars and Workshops. The objective of attending these activities was to enhance the professional 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 2013, NAO prepared a number of principal and country papers, replies to questionnaires and comments on Exposure Drafts as follows:

- 2014 Commonwealth Auditors General Conference principal paper on *Effective Communication of Audit Findings to Key Audiences*
- 2014 Commonwealth Auditors General Conference country paper on *Effective Communication of Audit Findings to Key Audiences*
- 2014 Commonwealth Auditors General Conference principal paper on *Ensuring Independence of SAIs for Effective SAI Reports*
- 2014 Commonwealth Auditors General Conference country paper on *Ensuring Independence of SAIs for Effective SAI Reports*
- Belgian Court of Audit Survey on *Information Management in Supreme Audit Institutions*
- ECA Questionnaire on *Clearing of Findings and Replies*
- European Parliament Committee on Budgetary Control Questionnaire on *Comparison of Audit Opinions by Supreme Audit Institutions in the Framework of Parliamentary Control of the Implementation of National Budgets*
- European Policy Centre (Serbia) Inquiry on *Civil Society and Citizens in the External Audit Process*
- EUROSAI Questionnaire on Training Needs
- EUROSAI Survey on *Independence of Supreme Audit Institutions*
- EU SAI Contact Committee Survey on The Spending Review in EU countries – *Analyses of the Best Practices, the Findings and the Perspectives*
- INTOSAI Accounting and Reporting Subcommittee *Work Plan 2014-2016*
- INTOSAI Exposure Draft to ISSAI 12 on *The Value and Benefits of Supreme Audit Institutions – Making a Difference to the Lives of Citizens*
- INTOSAI Exposure Draft to ISSAI 100 on *Fundamental Principles of Public Sector Auditing*
- INTOSAI Exposure Draft to ISSAI 200 on *Fundamental Principles of Financial Auditing*
- INTOSAI Exposure Draft to ISSAI 300 on *Fundamental Principles of Performance Auditing*
- INTOSAI Exposure Draft to ISSAI 400 on *Fundamental Principles of Compliance Auditing*
- INTOSAI Exposure Draft to ISSAI 5800 on *Guide for Cooperative Audit Programmes between Supreme Audit Institutions*
- INTOSAI International Journal of Government Auditing article on *Auditor General and Deputy Auditor General Re-Appointed for a Second Term*
- INTOSAI Questionnaire on *Supreme Audit Institutions Information Database*
- IV EUROSAI/ARABOSAI Conference Country Paper on *Importance of Specifying the Boundaries and Targets of External and Internal Public Financial Control in Improving Public Financial Management*
- Peruvian SAI survey on *SAI Regulation and Financing in Malta*

- Polish Supreme Audit Office Survey on *NAO Participation in Parliamentary Committees Meetings*
- Netherlands Court of Audit brief questionnaire on *The Annual Accountability Process in EU Countries*
- Slovenian Court of Audit request on *Provisions and Practice Regarding the Audit of your SAI*
- Tilburg University Netherlands questionnaire on *Cooperation International Research Project relating to the Theoretical Effectiveness of all 27 SAIs in the EU*

Annex A – Summary of Audit Report on Public Accounts 2012

The Auditor General presented to the Hon. Speaker of the House of Representatives, the Annual Audit Report on the Public Accounts for 2012 on 10 December 2013. It comprises 23 reports on the operations of various Departments and other Government entities, including an analysis of the Financial Report 2012. Some of the main observations are reported hereunder.

Following a detailed analysis of the Financial Report, the National Audit Office (NAO) noted that:

- Letters of Comfort and Bank Guarantees reached €1,242 million (against €1,142 million in 2011). These constitute Contingent Liabilities for Government; and
- substantial excess of actual over budgeted figures of various items of Expenditure was once again reported.

By mid-October 2013, i.e. when the respective write-up was concluded, the audited Financial Statements of two Local Councils and one Regional Committee were still not forwarded to NAO.

Audit Reports and Management Letters prepared by Local Government Auditors revealed that a number of weaknesses and concerns reported in previous years still prevail, and have been included again in this Report. The following concerns were also noted:

- a) For the third consecutive year, no audit opinion was expressed on the Financial Statements of Mosta Local Council, due to the various material shortcomings encountered.
- b) The Audit Reports of another 57 Local Councils and four Regional Committees were qualified with an 'except for' audit opinion.
- c) 25 Local Councils and a Regional Committee recorded a negative Working Capital in the Statement of Financial Position.
- d) 31 Local Councils registered a Financial Situation Indicator below the established benchmark of 10%.
- e) 32 Local Councils and a Regional Committee registered a deficit in the Statement of Comprehensive Income.

Internal controls in various areas at the Malta Tourism Authority were weak or entirely lacking. It transpired that officers working at the Head Office were not always recording their attendance through the recognition device in place, thus attendance records and overtime claims could not be verified. On the other hand, manual records maintained at certain Tourist Information Offices were incomplete and unreliable. Weak budgetary control on overtime, as well as variances in the basic pay, was also encountered.

The procurement of services by the Malta Tourism Authority, the Housing Authority, the Malta Enterprise and the Land Transport Directorate within Transport Malta, were not always in line with standing regulations. At times, such procurement was made directly from the open market without a public call for quotations or tenders, and on occasions, without Finance approval.

Completeness of revenue generated by the Medicines Authority could not be ascertained due to the absence of an integrated IT system. Besides other control issues, testing also revealed concerns with employees' employment contracts.

An audit of the expenditure incurred by the Ministry for Resources and Rural Affairs, for Upgrading works at Main Touristic Areas, revealed that the majority of capital projects experienced unplanned changes, as well as additional work after the issue and adjudication of the tenders, thus defining the planning as inadequate. This caused substantial cost variations to the budgeted tendered amounts, which could also trigger lack of transparency and unfair competition for the amounts in question.

The Ministry of Education and Employment did not have a reliable system in place to reconcile the actual refunds of overpaid Students' Maintenance Grants, against that actually deposited at the Central Bank of Malta. The inadequacy of the overall internal controls and lack of audit trail were a major concern. The main shortcomings included refunds not deposited at Bank, missing receipt books and official receipts not issued. The lack of information made available to NAO by the G.F. Abela Junior College limited the scope of audit. Delayed responses to audit queries also hindered the course of the auditors' planned tasks. Furthermore, shortcomings were noted in purchases effected by academic staff from the Academic Resources Fund, and the reporting of such expenditure. Formal approval for overtime was invariably sought retrospectively. Moreover, no inventory records pertaining to the College were made available for audit purposes.

Inadequate practices and procedures at the Social Security Department created unnecessary overpayments of Social Benefits and limited the recoverability of such amounts, which at times were substantial.

The Malta Statistics Authority lacked a formal system for authorising its procurement activities. The audit also revealed that the rates charged by the National Statistics Office for customised requests were not transcribed by law in accordance with pertinent legislation.

Figures provided by the Government Property Department, covering accrued rent on Government property, were distorted and at times could not be corroborated. Other weaknesses related to rent collectable from commercial tenements were encountered. These included expired lease contracts that were not renewed and reminders for overdue rent that were overlooked.

Various shortcomings in the procurement, administration and payment of a number of services were revealed during an audit at the Department of Correctional Services within the Ministry for Justice and Home Affairs. Several internal control issues, particularly relating to stores, were identified. Amongst others, these comprised lack of transparency in the procurement process, material discrepancies between the balance as per bin cards when compared to those recorded in the computerised system, as well as lack of control on food provisions. Inventory records were also not available for Government-owned assets. Moreover, the completeness of the audit was hindered as Management failed to present the requested information in a number of instances.

The Welfare Committee, within the Ministry of Health, Elderly and Community Care, has been operating without a Chairman and the respective Board for the past five years, in breach of the Social Security Act. Several shortcomings were noted in a number of contracts in force and other long-expired contracts that were still in use. An inefficient system was also observed for the collection of the contributions due by elderly persons. Such contribution is payable for their care and upkeep in state-owned residential homes and institutions.

Annex B – Summaries of Performance Audit Reports

Performance Audit Report: Simplification of the Regulations in Structural Funds

The Auditor General carried out a joint audit that analysed the manner by which simplification measures of structural funds regulations were being transposed into national regulations and managed by the relevant authorities. NAO had agreed, together with 13 other EU member states, to participate in a study mandated to the Working Group on Structural Funds V.

Further to widespread reported errors, misunderstandings, time consuming and intensive administrative procedures, as well as the wrong application of funding regulations across EU member states, the European Parliament and the European Court of Auditors requested the European Commission to simplify regulations, to which it acquiesced. Against this background, NAO examined the simplification measures corresponding to the 2007-2013 programming period with respect to European Regional Development Fund and European Social Fund projects. Apart from focusing on how the simplification measures were transposed on a national scale, NAO sought to determine why certain measures were not implemented and simultaneously elicited feedback on future simplification measures.

Of the existent nine simplification measures, NAO noted that Malta had transposed and applied only one, within the Operational Programme corresponding to the ESF. This measure essentially consisted of the recouping of project indirect costs according to a predetermined rate calculated on actual project direct costs. Overall, the applied simplification measure proved valuable to the stakeholders, especially to the beneficiaries. The latter commented positively on the fact that administrative burdens were not a component of this measure. NAO commends the manner by which the Planning and Priorities Coordination Department (PPCD) worked towards determining applicable rates for the 'indirect costs, declared on a flat-rate basis' simplification measure. Outsourcing a feasibility study constituted good practice and curbed the risk of introducing an element of subjectivity to the process.

One of the main reasons afforded to NAO with regard to the fact that certain optional simplification measures were not applied was the time and cost associated with carrying out studies that determine applicable rates and justify the use of such measures. PPCD does not manage a large enough volume of projects to be in a position to justify studies carried out in this regard. This situation is further compounded by the fact that the size and nature of projects undertaken in Malta are highly divergent from one another and, therefore, inferences made would most likely be unrealistic.

The beneficiaries whose opinions were assimilated into this study alluded to an apparent lacuna in terms of information sharing with regard to project implementation and leadership. All beneficiaries were keen on imparting their knowledge and experience to new and inexperienced Project Leaders who would most likely encounter difficulties already mastered and addressed by other Project Leaders.

NAO established that beneficiaries needed greater simplification in terms of record-keeping procedures, as well as an increased overall flexibility in view of complications arising from unforeseen changes in circumstances. With respect to this latter point, the institution of safeguards that provide flexibility would be an ideal avenue for further exploration in the context of possible future simplification. NAO noted that beneficiaries were not satisfied with the level of support afforded by their respective line ministries, particularly in the address of arising difficulties and challenges. NAO considers the need to coordinate assistance provided by PPCD and the various involved line ministries as a matter of paramount importance, which if not actively managed, may easily prove to be detrimental to all involved.

The Report lays down further conclusions and recommendations based on critical factors and issues identified through the study.

Performance Audit Report: Management of Public Service Recruitment

The Auditor General has conducted a performance audit addressing the management of Public Service recruitment, the main objective of which was the analysis of the management mechanisms and structures utilised in controlling this key function. Central in attending to this responsibility are the Public Service Commission (PSC) and the Public Administration HR Office (PAHRO). However, equally important is the role played by the various Ministries involved in Public Service recruitment, and it is in this context that NAO also explored the good practices and challenges faced by three particular Ministries, that is, the then Ministry for Health, the Elderly and Community Care, the Ministry of Education and Employment, as well as the Ministry for Resources and Rural Affairs. These three former Ministries were chosen on the basis of their considerable number of employees, and the subsequent implication of replenishing such staff levels through recruitment. Summarily, this Report adopts three main perspectives of analysis. The first perspective essentially provides a process-oriented overview of the entire recruitment process. NAO's main concern in this respect relates to the overall duration of the recruitment process, as calls for non-General Service grades issued in the period 2008 to 2010 took an average of 38 weeks from commencement to completion. In NAO's opinion, this lengthy period of time to complete a standard call for recruitment is one that leaves ample scope for improvement. NAO's concern regarding the excessive time taken to complete calls for recruitment further intensifies with respect to the resourcing of staff in General Service grades. The reported average of 71 weeks is, in NAO's opinion, a highly unacceptable duration of what in effect are straightforward standardised calls.

NAO put forward a number of recommendations intended at addressing efficiency and effectiveness considerations in relation to the adopted process-oriented overview of recruitment. In the main, NAO's recommendations focus on measures intended at rectifying the inadequate information management infrastructure, particularly apparent in the case of PAHRO, yet also prevalent in varying extents in the case of PSC and the reviewed Ministries.

The second perspective adopted in this performance audit addresses key issues emerging with respect to the management of Public Service recruitment. Foremost among these issues was the delegation of authority, which is, in principle, fully supported by NAO. In essence, the delegation of authority with respect to human resource management envisaged the shift of various aspects relating to recruitment, away from central control (embodied by PAHRO and PSC), and more towards a decentralised setup (that is, Ministry-level control). This delegated recruitment function has, in fact, now come into effect. Nonetheless, NAO's concerns relating to this evolving resourcing environment still bear direct relevance in the minimisation of risks and maximisation of benefits associated with such a fundamental shift in Public Service recruitment. Aspects of NAO's analysis that have been addressed in considerable detail in this Report include, among other issues, the Ministries' over-reliance on PAHRO as a means of ensuring quality control; the need to transfer PAHRO's vast institutional knowledge to Ministry-level human resource executives; the implementation of Service-wide standard operating procedures; as well as the critically important information management infrastructure that supports such a delegated environment.

Finally, the third perspective provides insight with respect to Ministry-level views on issues relating to recruitment. Various concerns emerged in this regard, largely mirroring issues identified with respect to PAHRO and PSC, albeit from a different perspective. Various key issues were brought to the fore, one of the most relevant relating to concerns on the level of recruitment-related technical expertise prevalent at Ministry-level. These concerns are exacerbated by the, now in place, delegated recruitment function, which further increases the responsibilities of human resource officers operating at Ministry-level.

These issues are comprehensively addressed, along with others, in the Performance Audit Report entitled *Management of Public Service Recruitment*.

Performance Audit: The Management of Elective Surgery Waiting Lists

The Auditor General reported that prolonged intervention waiting times come at a cost for both the patient and Mater Dei Hospital. Excessive waiting times may also, in the near future, increase Government's financial liability in terms of the Cross Border Health Directive. The Report acknowledges the high levels of patient satisfaction with the services provided. However, it notes that despite the increase in the number of elective operations carried out at MDH over recent years, around one fifth of patients have been waiting for their intervention for over one year.

The rise in the demand for elective surgery is mainly brought about by the increasing healthcare requirements of an ageing population, the constant introduction of new operative technology dealing with previously untreated conditions, as well as the extent of facilities available at MDH. The demand for operations was alleviated by the increase in the number of interventions carried out at MDH and outsourcing initiatives. However, a number of strategic and operational issues are limiting MDH from increasing further its intervention throughput.

Patient demand in the private sector coupled with the attraction of better remuneration packages make it more difficult for MDH to encourage its pool of consultants and other professionals to extend their working hours at the Hospital. Furthermore, MDH's obligation to conform to the centralised Public Service recruitment procedures tends to prolong the engagement process of staff.

MDH is still in the process of computersing its waiting lists in a centralised system. This project, which commenced three years ago, has focused on the Cardiology, Ophthalmic, Orthopaedics and Surgical Departments. This System is considered as a pre-requisite to effective waiting lists management since it transfers the ownership of waiting lists to the Hospital's Management. The project also helps to strengthen transparency and management oversight.

The management function of elective surgery waiting lists is hampered by the non-integration of the relative stand-alone information systems. The resultant data fragmentation impinges on the administrative and management aspects of elective surgery. Despite the importance of integrating the various datasets, efforts to determine the feasibility of the Integrated Health Management System 2 (IHIS2) appear to have stalled. This state of affairs is prohibiting MDH from evaluating and investing in other IT alternatives.

In July 2012 the 18 Main Operating Theatres and five Endoscopy theatres reviewed showed that, on average, each operating theatre was used for 31 and 27 hours per week respectively. The utilisation of the operating theatres is effected, amongst others, by bed-turnover limitations, especially due to a 12 per cent occupancy of the Hospital's bed-stock by patients awaiting to be transferred to other healthcare institutions. This situation is limiting the daily number of operations carried out at MDH. At the operational level, a number of process inefficiencies were noted. In some cases interventions started later than scheduled, operation turnaround times were prolonged, and in some instances under-running surgery lists led to early session finishes. The lack of a central authority within the Operating Theatres Department to assume full responsibility for this function weakens management control over this critical and most valued asset within the Hospital.

To date, the increase in intervention throughput can be attributed to the Hospital identifying and addressing specific areas of inefficiencies. Although the continuous changes to work-practices have led to positive results, these efforts need to be complemented with the adoption of the strengthening of strategic, operational and public private partnerships policies, as well as the availability of comprehensive and integrated information systems. This will strengthen management direction and control over the elective surgery processes, as well as contribute to the sustainability of this sector.

The Report puts forth a number of recommendations based on the critical issues identified and other audit findings.

Performance Audit Report: An Analysis of the Effectiveness of Enemalta Corporation (EMC)'s Fuel Procurement

The Auditor General has conducted a performance audit addressing the effectiveness of EMC Corporation's fuel procurement. NAO focused on the procurement process as a whole, and the Corporation's hedging function.

From an essentially strategic perspective, NAO's primary concern with respect to the operations of the Fuel Procurement Committee (FPC) centres on the fact that no policy framework was in place during the period 2008 up to end 2010. Prior to the formulation of the Corporation's Fuel Procurement Policy in January 2011, EMC's fuel procurement function was effectively operating in a policy vacuum.

NAO's concerns relating to the operations of the FPC intensify with respect to meetings held in 2008 and 2009. Corresponding FPC meeting minutes reviewed by NAO lacked the most rudimentary level of detail and bore no information relating to meeting discussions and decisions taken. Besides being handwritten and mostly undecipherable, these minutes also lacked a basic record of Committee members present.

The above-discussed implications associated with the systems of poor record-keeping and documentation that characterise and pervade the operations of the FPC prior to May 2011 rendered it impossible for the NAO to effectively audit the decision-making process employed by the Committee in adjudicated tender bids received and evaluated. The implications of such severe limitations in the availability of records documenting the FPC's decision-making process are brought to the fore in those instances when the Committee awarded tenders to bidders who (based on severely limited information at the NAO's disposal) did not submit the most favourable offer.

Although NAO has no major concerns relating to the reconciliation of fuel procured in terms of quantity, quality-related concerns have emerged. With specific reference to instances of incongruence between employed standards and test methods, albeit addressing the same parameter, NAO is somewhat concerned with the absence of any documentation indicating equivalency checks. On the other hand, other instances of incongruence between test methods established as per contractual specifications, and those presented in the various analysis reports reviewed by the Office, were not in fact addressing the same parameter. It is in this context that NAO's concern intensifies, as such occurrences are clearly indicative of a system fraught with gaps and weaknesses in terms of quality control, attributable to EMC, and its various suppliers. NAO is also concerned with whether EMC is instituting the necessary corrective action when missing property test results are received, and what corrective action is taken in instances of out-of-spec results.

NAO's principal concern emerging in relation to the transfer of diesel, during the period 2008 up to mid 2011, centres on the poor contract management practices exhibited by EMC. Such shortcomings were rendered amply evident through the series of contractual extensions directly conceded to an oil bunkering company, which at best, may be considered as representing an affront to the principles of good governance. This already highly tenuous situation is further exacerbated by the considerable increase in the rate payable to the contractor. The revision in rate, irrespective of excuses regarding the cleansing of barges put forward by EMC on behalf of Island Bunker Oils Ltd is, in NAO's view, unacceptable justification for bypassing the most fundamental principles of good practice with respect to procurement.

The second component of this audit focused on hedging, which succinctly put, is the process of removing undesirable risks. EMC Corporation undertakes hedging with respect to its fuel and foreign currency (forex) requirements and entrusts this task to the Risk Management Committee (RMC). NAO's primary concern with respect to EMC's hedging policy essentially relates to the absence of an appropriate policy framework against which the Corporation may subsequently set its strategic orientation.

The Office considers the overlap between hedging policy and hedging strategy as counterproductive in terms of the Corporation's governance structures. In effect, NAO noted inconsistencies in eliciting who was ultimately responsible for the setting of EMC's hedging policy and strategy, with the apparent overlap between the Ministry's and Corporation's input on the matters obfuscating an already complex state of affairs. NAO's concern in this respect further intensifies with regard to instances when Ministerial interventions directly impacted on the setting of the RMC's hedging strategies.

In NAO's opinion, EMC's adopted hedging strategy relating to the defence of the set tariff is a contentious position. The Office supports the notion that working at securing hedges below the established tariff effectively constitutes working towards a false target. NAO considers it the ultimate responsibility of the RMC to seek to profit from all market scenarios, irrespective of their relative relation to the established tariff.

NAO's main concern with respect to the scheduled frequency of RMC meetings relates to the prolonged period of inactivity registered in 2009 with no documentation, meeting minute, email or record being provided to the NAO justifying the ten-month lull in RMC activity. NAO's concern further intensifies with respect to a number of forex hedging transactions that were undertaken by EMC during this ten-month period of RMC inactivity without any clear indication provided as to who was responsible for authorising such deals.

The Office's concern with respect to the RMC's governance structure, as well as the mechanisms intended at ensuring its accountability, centres on the absence of key documentation, particularly so in cases of discrepancies arising between hedged volumes and hedged prices vis-à-vis the Committee's established targets. An equally important issue of concern identified by NAO with respect to governance and accountability relates to instances when the RMC was informed of hedging-related decisions as a *fait accompli* by one of the Committee's members.

Attention is also directed towards other instances when the RMC failed to capitalise on favourable market conditions. NAO's contention in this regard is with respect to the rationale employed by the RMC in deciding not to hedge, despite the near ideal market conditions, and further accentuated when seen in light of the respective recommendations put forward by its forex and fuel consultants.

The Office considers the limited information provided as poor evidence of the actual quotations sourced by the RMC. With regard to crude oil hedging, quotations that were provided narrowly and exclusively corresponded to Committee activity registered in 2008, with no evidence put forward in relation to the other years under audit review. In its review of the limited information made available by EMC in this respect, NAO noted that EMC did not employ a systematic approach in its endeavours at sourcing quotations from investment banks/oil companies. NAO's concern further intensifies with regard to forex hedging, in which case no quotations were made available by EMC for the Office's review.

Concern with respect to the Corporation's hedge coverage is twofold. Barring 2008, when EMC's hedged volume percentage was adequate and well-aligned with its requirements, the years 2009, 2010 and 2011, provide a somewhat contrasting scenario. The Office's first concern in this respect relates to instances when the Corporation had a low hedge coverage, most notably in 2009, yet also the case in 2011. NAO considers such periods as inconsistent with EMC's stated risk-averse approach towards hedging, leaving the Corporation exposed to price surges in the crude oil market. The second concern emerging in this regard relates to 2010, in which case EMC was effectively over-hedged.

NAO's primary concern with regard to forex exposure relates to shortcomings identified in relation to the completeness and organisation of data. NAO considers the noted discrepancies and variations in hedged volume percentages as possibly linked to gaps in coordination between the Corporation's fuel procurement arm and its hedging function.

Notwithstanding the above, EMC's crude oil hedging activity with respect to the period 2008 up to 2011 resulted in a net gain of approximately €744,000, while corresponding forex hedging activity similarly resulted in a gain of approximately €18.6 million.

These issues are comprehensively addressed, along with others, in the performance audit report entitled *An Analysis of the Effectiveness of EMC Corporation's Fuel Procurement*.

Performance Audit Report: Enforcement Action by MEPA within the Outside Development Zone

The Auditor General reported that recent efforts to strengthen MEPA (Malta Environment and Planning Authority)'s enforcement function within the Outside Development Zone (ODZ) demonstrate that this important role is still in the process of evolvement. The limited availability of land and the increasing demands for a better environment render the Authority's enforcement role critical. The MEPA Reform of 2010 can be seen as the most recent effort to address enforcement related issues. However, various factors prevented the Authority from fully implementing the polluter pays principle or adopting a zero tolerance approach regarding environmental and planning infringements within this zone, advocated therein.

The Enforcement Directorate, established in 2011, inherited an enforcement function characterised by a backlog of cases, including 2,065 outstanding Executable Enforcement Notices. Moreover, administrative processes were prolonged and delayed the conclusion of cases. Other factors, as indicated below, also inhibited the full attainment of the Reform objectives outlined above.

The enforcement function was not supported by documented strategic and operational policies. This constrained the Authority to react to prevailing circumstances rather than proactively target areas posing the highest planning and environmental risks. Consequently, these circumstances impinged on case processing consistency and efficiency.

Over a number of years, the enforcement function lacked the adequate level of resources and administrative capacity. Resource deployment priority was generally allocated to MEPA's other functions, such as its Planning arm. The main justification being that the latter function was obliged to fulfill development Planning Application processing duration targets.

Only a proportion of the required funds were made available for Direct Action (DA) initiatives. In many cases, this prohibited MEPA from taking the necessary action to remove irregularities itself, at the contraveners' expense. In addition, the Authority is still to recoup around 84 per cent of the invoiced expenses, with respect to DAs taken between 2006 and 2012 within the ODZ. This amounted to €438,329 up to March 2013.

The Enforcement Directorate still lacks the support of a comprehensive IT infrastructure. Such a situation hinders operational throughput, prohibits the formal application of risk analysis in enforcement work, and does not enable the maintenance of robust audit trails. IT related concerns have also weakened management control over the enforcement function.

MEPA is sustaining its efforts to encourage contraveners to self-regulate their own position in cases of breaches of environmental and planning legislation. Such an initiative, as of 24 November 2012, has been supplemented with the introduction of Daily Fines, up to a maximum of €50,000 when the Authority's direction is not heeded and irregularities prevail. These initiatives constitute a paradigm shift from historical practices. The long-term success of these initiatives is, however, dependant on the Enforcement function being supported by the appropriate organisational structures and the internal control framework.

The Report puts forth a number of recommendations based on the critical issues identified and other audit findings.

Performance Audit Report: Road Surface Repair Works on the Arterial and Distributor Road Network - Follow-up

The overall standard and quality of roads in Malta are considered to be of widespread national interest for varying reasons, particularly due to health and safety considerations as well as the practicality and efficiency of the population's daily mobility. To this end, following the publication of the Performance Audit report in March 2011 entitled 'Road Surface Repairs on the Arterial and Distributor Road Network', the Auditor General deemed it fit to conduct a follow-up study to assess whether the concerns highlighted in the original report were adequately addressed. As a consequence, NAO once again reviewed the operational systems of the Roads and Infrastructure Directorate (RID), being the entity assigned with the responsibility to repair and maintain the local arterial and distributor road network. While conducting its review, this Office has also taken into account other considerations which emerged during the period in between the two NAO studies.

After conducting its review, NAO was positively impressed by significant improvements to the Directorate's operational systems. Among others, NAO commends RID for the efforts invested in streamlining the process by which road surface defects are identified and logged for consequent processing and prioritisation. This Office also notes the evident improvement in the traffic management system as well as the enhanced approach to the monitoring routine adopted during the progression of the reviewed works. In addition, whereas contracts reviewed during the 2011 exercise allowed the engaged contractors to forego skid resistance specifications, NAO positively noted that no such allowance was found in the works reviewed for this follow-up audit.

On the other hand, however, NAO has identified a number of prevailing and emerging concerns which, in its opinion, significantly undermine the Directorate's efficiency and effectiveness while impinging on economical considerations. The predominant emerging concern relates to the issue of RID opting to commission works through the emergency works provision allowed under the Framework Agreement (which governs the procurement of asphaltting interventions). While this provision requires works to be carried out outside normal working hours, it also allows for a fifty per cent mark-up on agreed prices. In availing itself of this proviso, RID intended to address consistent contestations by contractors on price levels as quoted in the Framework Agreement. In addition, in using such a system, road users also benefited from reduced inconvenience since works were carried out during night hours. NAO is however concerned about the fact that the mark-up permissible under this provision is, significantly higher than the results of a report compiled by external consultants (who were commissioned by RID) intended at determining fair and reasonable prices for the works in question. NAO estimates that, in the case of the forty-four contracts for works which were procured in this manner (since the implementation of the Framework Agreement) and reviewed by this Office, the difference between the rates as validated by RID's commissioned consultants and the higher mark-up permissible in the emergency works provision, approximates €400,000.

Two principal concerns recur from the 2011 audit report. NAO once again observed that, in the majority of competitive tenders issued by the Directorate, individual tenders were still attracting a single bidder each. Such state of affairs poses risks on possible economical benefits usually associated with a normal competitive tendering process from which the Directorate might stand to benefit. In addition, such a situation also raises concerns on the competitive behaviour of the bidders in question. Furthermore, this Office also noted that performance guarantees were not solicited by RID from contractors engaged in emergency works, thereby presenting axiomatic risks to the Directorate.

These issues are comprehensively addressed, along with others, in the performance audit report entitled *Road Surface Repair Works on the Arterial and Distributor Road Network - Follow-up*. A number of recommendations which could assist RID in mitigating the identified concerns also feature in this study.

Annex C – Summaries of Special Audits and Investigations

EMC Corporation Delimara Extension Implementation

The Delimara extension project has been surrounded by controversy since an offer for an electricity generating plant submitted by Burmeister Wain Scandinavian Contractor AS (BWSC) was accepted and the tender awarded in May 2009. Numerous allegations had, at the time, been put forward, including those of insider information, unorthodox changes in emission legislation mid-way during the period for the submission of offers and deviations from the original demand for tried and tested solutions to the eventual acceptance of untried combinations. Other allegations surrounded the controversial appointment of foreign consultancy firm Lahmeyer International by EMC Corporation (EMC), as well as allegations by one of the bidders of serious shortcomings in the tendering process and the considerable changes between tender dossier and contract signed. These had been investigated by the National Audit Office (NAO) and a report was published in April 2010.

Controversy over the project has again resurfaced during the commissioning phase, when extensive faults in the plant were alleged by the then Opposition and subsequently reported in sections of the media. The faults and damages to the plant raised concerns as to whether:

- a. it was normal for a project of this nature and entity to have so many teething problems;
- b. this implied that the plant had serious defects; and
- c. EMC acted correctly in the address of all these occurrences.

In view of the technical issues involved, NAO engaged the services of an expert adviser to assist in the investigation. NAO thoroughly investigated and reported on every fault which was brought to its attention, or that emerged during the investigation. The report reflects developments as at end February 2013, unless otherwise indicated.

The main faults and defects identified and corrective measures taken were:

- a. Leakages

One of the major problems encountered was that of leakages, or rather the excessive loss of cooling water. Although a degree of evaporative loss and possibly some small leakages were to be expected, in this case these were extensive and could not be attributable to evaporative loss. Although BWSC and the original equipment manufacturer Wartsila took several measures to identify the source of, and address the problem of leakages, this was never wholly resolved. The latest reports available at the closing-off of this investigation suggest that the problem might be due to manufacturing defects.

- b. Damage to the Steam Turbine due to Failure of the Strainer

The incident that caused most damage to the plant was the failure of the strainer in the steam stop valve and the consequent damage to the steam turbine. The failure was attributed to a manufacturing error, not helped by poor design, which allowed a possibly minor fault to cause major damages. The strainer was re-designed and replaced. The steam turbine was also re-built and re-commissioned. No other problems have since ensued.

c. Rupture of Filter Bags

When the plant was operated in the first test run, a number of filter bags in the abatement system started to fall. This was blamed on the speed of the exhaust. The system was redesigned and the problem seemed to have been addressed until a rise in emissions was observed and a number of torn filter bags was discovered. To solve this problem BWSC decided to cap these bags, in effect making them redundant. This did not appear to affect emission levels since data for the months of January, February and March 2013 indicated that emissions of dust were well within limits.

d. Damage to the Dump Condenser

The dump condenser developed cracks in its internal paintwork with clear signs of corrosion quite early on. EMC insisted for a permanent solution and BWSC decided to redesign the dump condenser from a horizontal unit to a vertical one. The new dump condenser is expected to be delivered in June 2013. The considerable delay in the replacement of the damaged dump condenser seems unwarranted.

e. Failure of the Limit Switch on Silo

The failure of the limit switch on one of the silos containing sodium bicarbonate caused the spillage of a considerable quantity of this substance which, being in powder form, ended up covering a large area around the silo. However, no real damage was caused by the spillage. The limit switch was since reset in a lower position to prevent similar occurrences.

f. Failure of Steam Valve to Open Fully

In December 2012, the steam stop valve on the turbine failed to open fully. Although not necessarily a major fault, this took longer to repair due to the delay in sourcing the replacement part.

g. Breaking of Gear Wheel on the Flue Gas Desulphurisers (FGDs).

According to EMC this was due to the sodium bicarbonate powder in the FGD units which solidified on absorbing water while the plant was on shutdown following the damage to the steam turbine. This seemed to be the result of a lack of proper knowledge in operating the FGDs at the time, and therefore should not reoccur.

h. Level of Emissions

Although there were no problems with emission levels of dust, sulphur dioxide and carbon monoxide, there is a problem with the De-Nitrification of Nitrogen Oxide Emissions system. Nitrogen Oxide (NOx) values exceeded the limit on several occasions, particularly for stack B, and the situation does not seem to be improving. There also seems to be a discrepancy between the diurnal and monthly values for NOx. EMC was not in a position to explain these discrepancies and had contacted BWSC to clarify the matter. Moreover, contrary to the conditions of the Integrated Pollution Prevention and Control (IPPC) permit, emission data was not being published on-line. Following interventions by NAO, data as from December 2012 was made available on EMC's website. Although outside the scope of this investigation, NAO questions why MEPA failed to monitor requirements that it itself had established when issuing the IPPC permit. Neighbouring local councils, who initially were vociferous about a plant running on heavy fuel oil, were also conspicuously missing in their non-insistence of having emission data made available to the public.

Through parliamentary interventions, the Opposition had alleged that the damages to various components of the plant, resulting from faults and failures during the testing phase, would have a long-lasting effect in that these impinged negatively on the expected life of the plant. On the basis of the technical advice obtained, NAO opines that the claim of a compromised plant lifetime cannot be substantiated.

NAO also investigated other breaches that were alleged by the Opposition, namely:

- a. that at various instances during the implementation phase, BWSC personnel ordered EMC's project team members off site; and
- b. that BWSC personnel had locked the plant's computer systems, effectively disabling the power station extension, because of a dispute with EMC over the testing procedure.

In view of EMC's version of events and the substantiating evidence produced, the allegation concerning the project team ordered off site is plausible in that, while the allegation was not totally discredited, clarifications as to who was instructed off site and the reasons for such action were provided. Furthermore, EMC insisted that the Corporation's Project Team had complete access to all activities. Nonetheless, NAO looks askance at the fact that EMC was not in a position to supply a simple official document proving the composition of a defined team of workers (in this case the Project Team).

The allegation that, following the dispute on the testing procedure, BWSC locked the power station computers is upheld by NAO. However, clarifications provided by EMC and NAO's technical expert indicate that this is normal in such circumstances and form part of damage preventive measures taken by BWSC.

Due to the dynamic environment in which the investigation was conducted, other issues emerged. For this reason, NAO widened the scope of the investigation and in addition to the above-mentioned allegations investigated the issue of partial taking over, claims and counter-claims for delay and liability charges by EMC and BWSC, the status of the maintenance agreement and the appointment of EMC consultants DNV KEMA.

Despite the various shortcomings encountered, the major concern remains whether or not the BWSC plant has serious faults that will impinge on its lifetime. On the basis of the technical advice obtained, NAO concludes that despite the fact that not all defects have been resolved, all have or are being dealt with. Moreover, there does not appear to be enough evidence to suggest that EMC was hasty in the taking over process.

An Analysis of the National Lotteries Good Causes Fund

The Auditor General presented to Hon. Speaker the Report entitled 'An Analysis of the National Lotteries Good Causes Fund' (NLGCF), commissioned by the Hon. Minister for Finance. The investigation addressed the concerns raised by the Minister, namely the manner in which the NLGCF was administered and the alleged fact that at the time of change in administration, the Fund was significantly over-committed.

The NLGCF was set up under the Lotteries and Other Games Act (2008, Cap 438) and is intended to support and partially fund projects and initiatives of a philanthropic, cultural, sports, educational, social, religious or civic nature, or other deserving causes, proposed by individuals and non-governmental organisations. An Advisory Board is appointed to administer the Fund. Applications for funding are reviewed by the Board and are recommended for the approval or refusal of the Minister for Finance. The Fund generates its income through a percentage contributed from tax payable on gaming activity, unclaimed prizes and interest earned on its account. The average annual income of NLGCF amounts to approximately €1.7 million.

In addition to other shortcomings identified, the National Audit Office (NAO) concluded that commitments made out of NLGCF effectively bound funds well into the future, to the possible detriment of other deserving causes. NAO's analysis indicated that honouring all commitments entered into between January 2011 and March 2013, that are plausibly or actually due by 2013 and 2014, will entail the utilisation of approximately all of the NLGCF's available funds up to end 2014.

Although NAO is fully aware of the fact that the Guidelines for the approval of projects and initiatives are not legally binding, good governance would dictate further efforts at adhering to the Guideline's provisions. Shortcomings in this regard including instances where the funding parameters were not respected with instances where the thresholds for grants out of NLGCF were surpassed. Reasons for approval of funding outside of the parameters established by the Guidelines were not always clearly indicated in the Board's report. Data relating to the NLGCF, although maintained, was fragmented, with no one comprehensive source that included all the relevant information for each application. Since the NLGCF is accounted for on a cash basis, it rendered the task of keeping track of all commitments that had previously been made when approving new applications even more onerous.

Various recommendations put forward by NAO are directed at addressing the shortcomings identified with respect to the administration of this fund, including provisions intended at regulating how the total of commitments not yet settled should not exceed a certain amount above or a percentage of the actual balance held in the NLGCF account at any given time. Furthermore, NAO recommends that a time limit on commitments be introduced, whereby a date from the issue of the commitment letter is stipulated as the deadline for the completion of the project and consequent entitlement to funding. As things stand, commitments never effectively become time barred. Finally, the provisions of the Guidelines should be adhered to with regard to thresholds and parameters of funding out of the NLGCF, including the requisite co-financing by beneficiaries and the presentation of evidence of the completed project.

Annex D – Summaries of ICT Audits

IT Audit: Primary and Secondary State Schools

The Auditor General has conducted an audit on the overall operational effectiveness of the IT and Information Systems (IS) currently being used by the Primary and Secondary State schools within the State Colleges. To date, nine Colleges in Malta and one in Gozo have been established to cater for around 5,600 Kindergarten students, 13,500 Primary School students and 12,800 Secondary students, totalling nearly 32,000 students.

The main aim of this IT Report was to collect and analyse evidence to determine whether State Colleges have in place the necessary controls to ensure that their IT and IS maintain data integrity, safeguard assets, allow organisational goals to be achieved effectively and assist in making efficient use of the Government IT related resources.

The National Audit Office recommended that an IT Strategy for State Schools be drawn up to meet the related objectives highlighted within the National Information and Communications Technology (ICT) Strategy. Another recommendation referred to the need that the Ministry commissions a study to assess the impact of the increased Internet usage following the introduction of interactive white-boards for future capacity planning. Other recommendations related to software access controls and the management of ICT resources were highlighted in the report.

The National Audit Office noted with satisfaction that overall, all the four software applications reviewed in this IT audit are being managed effectively by the respective users.

The Report also reviewed the operational and security aspects of IT. In this regard, the National Audit Office recommended that State Colleges should continue to invest in the physical and environmental controls in order to provide a more secure environment for the IT related resources within the Primary and Secondary State schools. The National Audit Office also noted that State Colleges do not have, or refer to, an information classification policy or an information retention and storage policy. Furthermore, the National Audit Office feels that State Colleges should have a formally documented business continuity and disaster recovery plan at a school level. Thus, the report suggests that the Ministry should perform a business impact analysis as well as a risk assessment exercise in State Colleges, so that the above plans can be drafted and eventually adopted and followed.

IT Audit: Institute of Tourism Studies

The Auditor General has conducted an IT Audit at the Institute of Tourism Studies (ITS). This audit sought to analyse the Institute's IT operations, optimise the Institute's IT-enabled investments and ensure that IT is successful in delivering the Institute's business requirements.

Thus, the aim of this Report was to collect and analyse evidence to determine whether the ITS has the necessary controls to ensure that its IT and Information systems maintain data integrity, safeguard assets, allow organisational goals to be achieved effectively and assist in making efficient use of the Government IT related resources. The Report makes recommendations to, as far as possible, mitigate the risks identified therein. The IT audit was conducted at the Institute's Head Office in St. Julians and the Martin Luther King building in Pembroke.

The National Audit Office recommended that the ITS drafts and adopts a formal IT strategy and carries out a cost/benefit analysis of its current IT and Information Systems investments. Furthermore, the National Audit Office recommended that the Institute follows a formally structured and documented software project life cycle when developing or procuring new software or enhancements on existing software. It was also

suggested that senior management should consider installing a local area network and a dedicated server in the Martin Luther King building in Pembroke.

The IT audit Report includes a review of nine software applications used within the ITS, as well as of its website and face-book page, in terms of ease-of-use, the security controls in place, account management, hosting services and back-ups. The National Audit Office also recommended that all software applications are hosted centrally on the ITS servers and that the Institute carries out a business process re-engineering exercise to try to eliminate duplication of work. The National Audit Office suggested that the ITS establishes a training program for lecturers to promote the further use of the e-learning software application.

The Report also includes a review of the Institute's IT operations as well as recommendations regarding software antivirus management, back-up procedures, physical location of the ITS servers and a review of the ITS wi-fi network.

Annex E - Beijing Declaration on Promotion of Good Governance by Supreme Audit Institutions

1. Since 1953 the International Organization of Supreme Audit Institutions (INTOSAI) has worked with increasing vitality and innovation in accordance with its motto of “Mutual Experience Benefits All” by extensively disseminating the ideas and standards of national audit through the exchange of ideas and cooperation in the international audit community. In 2013 INTOSAI is proudly celebrating its 60th anniversary.
2. INTOSAI, as an autonomous, independent, professional, and non-political organization, has provided mutual support, fostered the exchange of ideas, knowledge, and experiences, acted as a recognized voice of Supreme Audit Institutions (SAIs) within the international community and promoted continuous improvement among its member SAIs.
3. INTOSAI has promoted good governance by enabling SAIs to help their respective governments improve performance, enhance transparency, ensure accountability, maintain credibility, fight corruption, promote public trust, and protect the interests of their citizens.
4. INTOSAI is – with its Committees, Working Groups, Task Forces and Regional Working Groups – the worldwide forum for international exchange of knowledge in the field of public sector auditing, the setter of Auditing Standards in the public sector and the international voice of external government auditing.
5. INTOSAI’s achievements in knowledge sharing, standards setting and the raising of status of public sector auditing are well-known. INTOSAI elaborated and implemented its first Strategic Plan which was adopted in 2004 in Budapest and was updated in 2010. Under the guidance of the Strategic Plan, INTOSAI adopted the International Standards of Supreme Audit Institutions (ISSAI) framework and has been successful in capacity building projects and result-oriented exchange of knowledge in diverse audit fields throughout the world. It also has a long standing agenda to be itself a model of good organizational governance.
6. In 2011, the General Assembly of the United Nations recognized the work of INTOSAI and its members in Resolution A/66/209 titled “Promoting the Efficiency, Accountability, Effectiveness and Transparency of Public Administration by Strengthening Supreme Audit Institutions”. In this Resolution the United Nations General Assembly
 - took note with appreciation of the work of INTOSAI in promoting greater efficiency, accountability, effectiveness, transparency and efficient and effective receipt and use of public resources for the benefit of the citizens;
 - took note with appreciation of the Declarations of Lima and Mexico and encouraged Members States to apply, in a manner consistent with their national structures, the principles set out in those declarations and encouraged Member States and relevant United Nation’s institutions to continue and intensify their cooperation with INTOSAI in order to promote good governance by ensuring efficiency, accountability, effectiveness and transparency through strengthened SAIs.
7. INTOSAI held its XXI Congress (INCOSAI) in Beijing in 2013, recalling the development of INTOSAI over the last six decades and summarizing the practical experience of its member SAIs, unanimously declared that:
 - In the 21st century society, information and globalization has become a surging tide, with SAIs facing new challenges to improve national governance and with INTOSAI facing new opportunities to tackle global issues.

- SAIs agree that effective national governance is fundamental for maintaining stable economic development and social progress, and improving the lives of citizens, and are willing to contribute to the fulfillment of the responsibilities set out in the United Nations Millennium Declaration, which states that:

“We will spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty, to which more than a billion of them are currently subjected. We are committed to making the right to development a reality for everyone and to freeing the entire human race from want. We resolve therefore to create an environment – at the national and global levels alike – which is conducive to development and to the elimination of poverty. Success in meeting these objectives depends, inter alia, on good governance within each country. It also depends on good governance at the international level and on transparency in the financial, monetary and trading systems”.

- SAIs can help by enhancing transparency, ensuring accountability, promoting performance, and fighting against corruption and thus improve national good governance and increase fairness.
- The long-term sustainability of financial policies is an undeniable prerequisite for national good governance. SAIs, through independent professional auditing, can help decision-makers to safeguard the long-term sustainability of and adherence to the financial policies by enhancing transparency, reporting on the performance of public finance and highlighting systemic risks.
- In a world of intense globalization, no country can successfully improve its own national governance without understanding how it might be affected by external factors. While promoting good governance at home, SAIs must remain dedicated to improving governance globally through international and regional cooperation. In meeting the global challenges, SAIs will continue to build their strength to undertake common responsibilities, manage common risks, take common action and deliver a recognized and respected voice under the auspices of INTOSAI and its Regional Working Groups.
- As an organization with broad representation, a strong independent position and high professional standards, INTOSAI will continue to cooperate with its Regional Working Groups and the individual SAIs to establish the use of ISSAIs consistent with their national legal frameworks for the purpose of promoting good governance while remaining independent and enhancing performance.

8. Against this background the Congress discussed two issues of global importance under the following theme headings:

- Theme I: National Audit and National Governance
- Theme II: The Role of SAIs in Safeguarding Long-Term Sustainability of Finance Policies

The outcome of the Congress discussion on these themes is contained in the Beijing Accords at **Annex I**.

9. In addition, the Congress reviewed progress against the INTOSAI Strategic Plan 2011-2016.

Achievements and Experiences of INTOSAI

10. From the foundation of INTOSAI in 1953 to the XXI Congress in China in 2013, INTOSAI has experienced many and varied positive developments and made substantial progress and changes. In the spirit of

INTOSAI's motto "Mutual Experience Benefits All", its work is based on the indispensable voluntary commitment and contribution of each and every member SAI. This globally connected, structured and goal-oriented, effective modern international organization has expanded from an initial 34 members to today's 192 full members and 5 associated members.

11. INTOSAI's seven Regional Working Groups – AFROSAI, ARABOSAI, ASOSAI, CAROSAI, EUROSAI, OLACEFS and PASAI – subscribe to the mission of INTOSAI and at the same time take account of regional differences and heterogeneous needs.
12. As the executing bodies of INTOSAI's professional work, its Committees, Working Groups and Task Forces have touched on a great variety of strategic themes and subjects.
13. The outstanding milestones and achievements of INTOSAI include the 1977 Lima Declaration which established the founding principles of independent, efficient and effective public sector auditing, the elaboration of INTOSAI's first Strategic Plan (2005-2010) which established the Organization's overarching strategic goals as standard setting, capacity building, knowledge sharing and developing as a model international organization, the Mexico Declaration on SAIs Independence of 2007, and developing a framework of ISSAIs which will benefit and enhance public sector auditing worldwide.
14. The recognition by the United Nations General Assembly Resolution A/66/209 in 2011 is a logical result of the hard and successful work of INTOSAI during recent years. It puts INTOSAI – including its standard setting work and public sector auditing – at the focus of international community concerns. Public sector auditing institutions, with the character of being independent, have been recognized as an essential part of good governance. SAIs now have an effective tool at hand to require that national governments recognize and give legislative and executive effect to the basic principles of SAI independence from legislative and the executive. Concrete successes have already been recorded by SAIs from all INTOSAI regions.
15. The cooperation of INTOSAI with external partners such as the United Nations and international organizations such as World Bank, OECD, IPU, IFAC or IIA has increased its reputation, global visibility and recognition as a high-level professional organization. Since the 1970s 22 joint UN/INTOSAI Symposia and Seminars have been organized disseminating knowledge and training materials on a series of high interest topics concerning public sector auditing.
16. Capacity building has been and remains one of the main areas of INTOSAI interest. This field includes the development of new structures for acquiring knowledge and professional training and institutional development for SAIs. Currently there are many capacity building and knowledge sharing activities active in INTOSAI for the purpose of enhancing the capabilities and performance of SAIs.
17. INTOSAI has signed a Memorandum of Understanding (MoU) with 21 donors and has conducted a series of cooperation activities with the donor community, through which the stated common goals in the MoU are achieved, the successful implementation of INTOSAI's Framework of Professional Standards [consisting of the International Standards of SAIs (ISSAIs) and INTOSAI Guidance for Good Governance (INTOSAI GOVs)] is ensured, and the knowledge of the importance of SAIs and INTOSAI in the global development community is increased.
18. In the last 60 years, INTOSAI has successfully taken up the challenges facing public sector auditing and, with the support and active collaboration of all of its members, will maintain its foresight and relevance through its future oriented and outward looking vision and mission.
19. In 2013, INTOSAI also celebrates 50 years of the General Secretariat, headquartered in Vienna since 1963 in the Austrian Court of Audit. The General Secretariat is of vital importance to the organization,

acting as a driver for innovation and an information hub and a contact point for INTOSAI members throughout the world and for other globally active partners.

20. In celebration of these important milestones, the Organization has published a book “60 Years INTOSAI – 50 Years General Secretariat. Transparency, Accountability, Good Governance”.
21. On the basis of a comprehensive understanding of emerging issues and continuous changes and development in today’s society, INTOSAI will do its utmost to continue to promote good governance and sustainable development of human society.

Promotion of Good National Governance by SAIs

22. From the very beginning the central aim of INTOSAI was to promote good governance. SAIs can only perform this task well, if they are independent from the agencies they audit and are protected against any form of outside influence. INTOSAI also recognized that it is crucial that the audit methods of SAIs are based on current scientific and technical knowledge and that their auditors have the necessary professional qualification and moral integrity.
23. Therefore in 1977 INTOSAI adopted the Lima Declaration and with the Mexico Declaration in 2007 determined the 8 principles of independence of external government auditing in methodological and professional terms.
24. The governments and citizens of all countries call for the promotion and improvement of national governance so as to enable the sustainable development of society, economies and the environment. As an indispensable part of national governance, national audit performs its functions in accordance with law and regulations and provides, in an objective manner, audit supervision, verification, evaluation and recommendations that national decision-makers use to make policy and program decisions. SAIs should strive to stand as champions of trust, honesty and integrity in public life. In doing so, SAIs will continue to contribute to efforts to:
 - Safeguard democracy and the rule of law by promoting honest and clean government and administration, maintaining legal order, disclosing illegality, curbing the abuse of power through the supervision of public power. In some cases SAIs are also advisors, playing a constructive role by suggesting improvements to legal systems. SAIs help to build communication and trust between the public sector and citizens, by promoting open government and thereby enable citizens to actively participate in the public decision making process.
 - Increase governmental efficiency by supervising and evaluating government activities and disclosing shortcomings in national governance and control. SAIs provide independent and objective insight and guidance to support beneficial change in government and public entities, and encourage governments to strengthen control. SAIs also promote rational utilization of public resources, good practice and the creation of performance-focused government.
 - Play an important role in fighting corruption and preventing fraud at both the national and international levels. SAIs’ audit-based knowledge and experience not only boosts accountability but can also provide valuable advice for future anticorruption initiatives, including the United Nation’s Post-2015 Development Agenda.
 - Safeguard national interests, by using their independent position, unique foresight and professional capacity to provide timely, objective and reliable information to reveal risks to national economic and social operation, and national interests.

- Promote the improvement of people's livelihoods by helping to ensure that public funds and projects relating to people's livelihood are under strict supervision and achieve the desired impact which improves the livelihoods and equal opportunities of all citizens including vulnerable groups.
- Increase transparency and accountability, by auditing and publishing audit results that help to hold the public sector to account, and encourage governments and public organizations to fulfill their responsibilities for using and safeguarding public resources. SAIs provide society and citizens with verified information about how responsibilities have been fulfilled by government organizations and officials, and by doing so help promote transparent government.

Safeguarding Long-Term Sustainability of Finance Policies

25. Broadly stated, sustainable public finances are about meeting current and future obligations without passing on excessive debt to future generations.
26. The sustainability of public finances has been on the INTOSAI agenda for many years now. In 1991 the INTOSAI Public Debt Committee started its work and was reorganized in 2007 into a Working Group. In 2008, as its immediate reaction to the financial crisis, INTOSAI established the Task Force Global Financial Crisis, which was reorganized in 2012 into the Working Group on Financial Modernization and Regulatory Reform.
27. Much has been done in the past. A series of International Standards of Supreme Audit Institutions on public debt has been published (ISSAIs 5410 to 5450). Nevertheless, the financial, economic and budget crisis poses for SAIs special challenges which, in the public interest, could be addressed by SAIs as part of their audit function.
28. Lessons derived from the global financial and economic crisis of the early 21st century, have underlined the strategic importance of governments maintaining sound public finances in order to create conditions for economic growth, employment and social wellbeing. Through independent and robust audits which encourage transparency about the use of public financial resources and sound approaches to fiscal management, SAIs contribute to attaining fiscal soundness, medium and long-term sustainability of financial policies, safeguarding public interest and enhancing national governance in each country. Recognizing the mandate of each individual INTOSAI member to determine its own approach consistent with its national legislation, aspects to consider when addressing the issues of financial stability may include:
 - Strengthening government financial statement audits, with the aim to establish and improve institutional financial framework and financial reporting standards, so as to present fairly the financial performance and position of government.
 - Improving public finances performance audits, in order to encourage medium and long-term fiscal sustainability associated with good governance.
 - Reinforcing public debt audits, considering direct commitments as well as other liabilities and financial contingencies, with the objective to identify issues and risks in the management and expected developments of sovereign debt and financial deficits.
 - Building the ability to audit the stage of planning public finances, with the aim of prompting Executive and Legislative branches assessing medium and long-term prospective scenarios or projections associated to expected developments of economic cycles, debt servicing, public programs and other commitments such as social security, pensions, education and health care, as well as contingencies like natural disasters, climate change and financial shocks.

- Assessing government’s planning assumptions related to economy, public finances and public debt, thus identifying potential risks and providing constructive recommendations.
 - Enhancing the audit of compliance with fiscal rules, financial regulation and accepted standards of oversight, as well as adherence to the whole government budgetary process. The objective is to ensure accountability throughout the phases of planning, execution, performance evaluation and outcomes achieved. Moreover, effective internal controls are to be improved with a risk management system.
 - Fostering the evaluation of public financial policies. SAIs will continue to conduct audits over the soundness, effectiveness and sustainability of financial policies in order to promote economic development and social welfare in the context of each country.
29. The underpinning importance of the Lima and Mexico Declarations, and the United Nations General Assembly Resolution in strengthening the independence of SAIs was recognized as was the proven value of SAI’s support for each other internationally through INTOSAI and its Regional Working Groups. It was also acknowledged that when audits in relation to the sustainability of finance policies are to be conducted by SAIs their mandate may need to be enhanced.

Achieving Good Governance Globally – A Common Goal

30. Through its sustained, proactive effort INTOSAI has developed successfully into an autonomous, independent, professional, and non-political organization recognized as the voice of SAIs within the international community and promoting continuous improvement among diverse member SAIs.
31. INTOSAI’s international reputation is founded on a range of major milestones and achievements including most recently:
- Recognition of the importance of SAIs by the United Nations;
 - Establishment of a comprehensive framework of professional standards based on due process;¹¹
 - Building a highly productive relationship with international donors to promote capacity building in member SAIs;
 - Constructing a highly effective global network for sharing knowledge and good practice;
 - Furthering cooperation with international and supranational organizations;
 - Continually improving its governance arrangements towards model international organization status.
32. INTOSAI has also recognized that in a world where challenges are increasingly global in their extent and impact there is a need for the international SAI community to join together in developing collective responses to achieve better outcomes for all. INTOSAI’s history and strong foundations in international collaboration between SAIs mean that it is ideally positioned to play a key role in developing and delivering solutions to current significant challenges and thematic issues such as national debt crisis, ecological crisis, worldwide financial security and anti-corruption agendas.

33. INTOSAI and SAIs have a proven capacity and duty to drive forward good governance nationally and globally in accordance with their respective mandates and legislative frameworks. The Congress encourages SAIs to:
- **Accept common responsibilities:** SAIs' audit work on their governments' international commitments, such as responding to climate change, reviewing trade barriers, maintaining financial stability, and by fighting corruption and money laundering, can serve to encourage full compliance with those obligations. INTOSAI also enables SAIs to extensively participate in international cooperation and play roles in such international affairs as implementing financial disciplines, detecting economic risks, fighting corruption and maintaining the stability of the world economy.
 - **Manage common risks:** SAIs have a continuing role to play in promoting risk identification and timely disclosure of major risks. INTOSAI will continue to focus its attention to research on major issues of global and regional phenomena and provide SAIs with effective guidance and reference for response.
 - **Take common action:** SAIs are encouraged to continue to conduct joint audit and parallel audit in order to address the common challenges and issues such as climate change, regional pollution and financial crisis. SAIs are encouraged to participate in such governance activities as evaluating social progress, involvement in the external audit of international and regional organizations, drive performance audit to be conducted in international and regional organizations to improve accountability, transparency and performance. INTOSAI will continue to work with other international organizations and sovereign countries to strengthen cooperation in international audit and identify best solutions for regional and global issues.
 - **Speak with a common voice:** SAIs and INTOSAI will continue to adapt to the change of our times and positively adopt effective measures to collaborate and cooperate with multilateral organizations like the United Nations, the World Bank, the OECD and the G20, to attend multilateral activities, to enhance international auditing and accounting standards for public sectors, to establish national key indicators for the evaluation of social progress, to participate in the continuous improvement of governance globally, and to deliver an independent and unanimous voice on international and regional thematic issues in the international community.

Congress Conclusions

34. The Congress discussed many issues but agreed that a guiding principle for INTOSAI's philosophy was that it should be future orientated and outward looking. The Organization has the opportunity to contribute to global and regional agendas based on its expertise and experience in good governance and public sector auditing.
35. The Congress noted with appreciation the excellent work carried out by all of its Committees, Working Groups and Task Forces. It expressed its profound thanks to those Chairs whose tasks were completed or whose remits have ended and welcomed with appreciation those who were taking up new responsibilities.

36. The end of 2013 marks the half way point of the second INTOSAI Strategic Plan covering the period 2011-2016. In the deliberations during the XXI INCOSAI the INTOSAI members expressed their satisfaction with the organization's progress to date against the plan. In addition, the members reached the following specific conclusions and agreements:

Professional Standards

- Welcomes the enhancement of the ISSAIs framework by the revision of the fundamental auditing principles and other standards (Annex II), and the greater focus on the needs of auditors and users which these achievements represent;
- Approves the revised mandate of the Committee and its determination to find sustainable solutions that will provide sufficient guarantees that the Framework and Due Process of INTOSAI's Professional Standards are maintained and developed for the future.

Capacity Building

- Applauds the Organization's greatly improved capability to support SAIs in building their capacity in particular the progress made by the Regional Secretariats and the INTOSAI Donor Cooperation;
- Appreciates the IDI's continued contribution to INTOSAI in supporting its member SAIs in their efforts to enhance their own performance, independence and professionalism; and
- Endorses IDI's strategic plan 2014-2018 and its revised mandate reflecting its expanded role, working across all INTOSAI goals.

Knowledge Sharing

- Commends the work highlighting the value and benefits of SAI: making a difference to the lives of citizens (Annex III) and the creation of guidance for SAIs engaging in work on accountability for and audit of disaster related aid (Annex II);
- Encourages SAIs to develop capabilities to respond to the challenges posed by the fiscal and economic challenges current in many parts of the world, for example by enhancing or expanding their audit of supervisory and regulatory mechanisms; and
- Encourages members to apply vigorously the INTOSAI communications strategy and guidelines, and actively use the tools designed and developed for this purpose.

INTOSAI – A Model Organization

- Welcomes the plans for developing INTOSAI's Strategic Plan for the period 2017-2022 and for addressing the Organization's future resourcing needs;
 - Notes the establishment of a supervisory committee on emerging issues (Annex IV).
- Other Issues
- Agreed that INTOSAI should take a role in the United Nation's Post-2015 Development Agenda.

37. Further, the Congress called upon the Organization's members to:
- Prioritize the adoption and implementation of the ISSAI framework as encouraged in the United Nations Resolution, and request donors and other development partners to give it the same status;
 - Respond positively to the Second Global Call for proposals issued by the INTOSAI Donor Cooperation;
 - Actively promote the value and benefits of SAIs;
 - Seize the opportunity to contribute fully to defining the Organization's future; and
 - Consider contributing further to the resources available to the Organization.
38. At the conclusion of its XXI INCOSAI the Organization and its members reaffirm an unwavering ambition to make INTOSAI a model organization, delivering quality programmes that are underpinned by the highest professional standards and by humanitarian ideals.

Annex F – EU Contact Committee Resolutions

RESOLUTION on the Continuation of the Fiscal Policy Audit Network

The Contact Committee,

Recalling the Resolution on bench-marking of methodologies and practices of SAIs in fiscal policy audit and Lisbon strategy audit adopted in its meeting in Budapest in 2009 (CC-R-2009-03);

Recalling the Fiscal Policy Audit Network Work Plan 2013-2014 adopted in its meeting in Estoril in October 2012;

Acknowledging the seminar hosted by the SAI of Germany in Potsdam in June 2013 under the themes "EU fiscal policy coordination, fiscal councils and aspects of fiscal policy auditing";

Acknowledging the work of the Contact Committee Task Force set up in the last Contact Committee meeting in Estoril in identifying the tasks and roles of SAIs in respect of recent EU developments;

Takes note of the progress report and the Chairman's Conclusions presented on the work done at the Potsdam seminar;

Encourages all interested EU SAIs to participate and contribute to the work of the Fiscal Policy Audit Network to share knowledge and working methods, discuss audit of the sustainability of public finances and to take part in the 2014 mapping exercise on the implementation of the EU Fiscal Compact;

Decides on the continuation of the Fiscal Policy Audit Network with special focus on the following themes:

- the sustainability of public finances;
- the effectiveness of tax policy; and
- the implementation of the Fiscal Compact and SAI activities linked to the audit of their national implementation;

Decides to add two new areas to the remit of the Network i.e. Banking Union with special focus on Single Supervisory Mechanism (rapporteur: SAI of Germany) and European Economic Governance (rapporteur: SAI of Austria);

Decides that the Fiscal Policy Audit Network can in the future incorporate new reporting areas within its special focus themes. These areas are reported to the Contact Committee through the Fiscal Policy Audit Network;

Decides to make this resolution available on the public part of the Contact Committee website.

Vilnius, 11 October 2013

SAI Rapporteur: SAI of Finland

Original language: EN

RESOLUTION on the Audit of the Working Group on Structural Funds

The Contact Committee,

Recalling that the Working Group on Structural Funds is undertaking a progressive programme of collaborative work which began in 2000 and has continued since with reports presented to this Committee in December 2004, December 2006, December 2008 and October 2011;

Recalling the current mandate, given to the Working Group by the 2011 Contact Committee, to build on their earlier work by carrying out a parallel audit on the “Simplification of the regulations in Structural Funds”;

Welcomes the report now presented by the Working Group and particularly:

- the proposed recommendations for the simplification measures by the Working Group members,
- the wide coverage of the different Structural Funds and Operational Programmes that the Working Group has achieved,
- the detailed findings that the Working Group have put forward,
- the fact that this chosen topic has attracted contributions from both old and new Member States’ SAIs;

Considers that the audit approach based on a common Audit Plan and the reporting of the findings by the SAIs of the Working Group makes the report very accessible to potential users;

Considers that the results are likely to be of significant value both to current and future Contact Committee members in their own work on the audit of Structural Funds as well as to the administrative authorities nationally or at an EU level in developing or improving the underlying systems;

Urges each Contact Committee colleague:

- to publicise and distribute the report and its findings to a wider audience within their Member State and within the scope of their own reporting mandates; and
- to notify the Working Group (through the Liaison Officer network) of any actions taken to publicise the report including the audience targeted and any impact or feedback received;

Recommends that the report should also be posted on the Contact Committee’s Website;

Thanks the SAIs of Austria, Bulgaria, Germany (Chair), Hungary, Italy, Malta, the Netherlands, Poland, Portugal, Republic of Slovenia, the Slovak Republic and Sweden and the SAI of the Czech Republic as Observer for their input to the report; and is especially grateful to the Working Group’s Core Group of Germany, the Netherlands and Slovenia for their additional role in developing the approach and coordinating the final report;

Recognises the Working Group’s achievement in maintaining its widely inclusive group of participants;

Welcomes

- the Working Group's proposal to continue its work in the years 2014 and 2015 with a focused review on "Analysis of the errors in public procurement within the Structural Funds programs";
- that the Working Group aims to present the report on this audit to the Contact Committee in 2015; and
- the fact that this subject has the potential to be of immediate and direct interest to all Contact Committee Members.

Invites all SAIs to participate in the Working Group and to join the Core Group;

Mandates the Working Group to develop its ideas further and to take forward this work;

Decides that this Resolution should be posted on the Contact Committee website.

Vilnius, 11 October 2013

SAI Rapporteur: SAI of Germany

Original language: EN

RESOLUTION on Public Sector Accounting Standards for European Member States (EPSAS)

The Contact Committee,

Recognizes that with the Council directive 2011/85/EU the question of common public accounting standards has become of considerable relevance also for the EU SAIs;

Having agreed in Resolution CC-R-2012-05 to closely monitor any discussion on this issue as a matter of prime importance in terms of cooperation within the EU-SAIs Contact Committee;

Knowing that the European Commission is taking steps to prepare the development of Public Sector Accounting Standards for European Member States (EPSAS);

Taking into account that the European Commission is planning to open a public consultation on the EPSAS key principles and governance from the End of October until the end of January 2014;

Being aware that the European Commission is planning to organize a Task Force meeting on the basis of the results of the public consultation mid-February 2014, followed by the Communication of the Commission by the end of June 2014 and a proposal for a framework regulation on EPSAS by the end of 2015;

With regard to the plans of the European Commission to establish a Working Group for the development of EPSAS;

Decides to establish a Task Force composed of interested SAIs

- to closely monitor the process;
- to take an active part in the foreseen Working Group on EPSAS of the European Commission;
- and to report in front of the Contact Committee;

Decides that the resolution should be posted on the Contact Committee website.

Vilnius, 11 October 2013

SAI Rapporteurs: SAIs of France and Germany

Original language: EN

RESOLUTION on the Publication of the final report of the Coordinated audit on the enforcement of the European Waste Shipment Regulation

The Contact Committee,

Recalling its decision CC-R-2010-2 to launch a common audit activity on the enforcement of the European Waste Shipment Regulation;

Recalling that the SAIs of Bulgaria, Greece, Hungary, Ireland, Poland, the Netherlands, Norway and Slovenia participated in this coordinated audit that resulted in eight national reports and a joint report;

Acknowledging that the final report meets the approval of the eight participating SAIs;

Acknowledging the close collaboration with the EUROSAI Working Group on Environmental Auditing;

Considering the importance of adequate enforcement of this regulation to prevent that waste is dumped illegally or processed without protecting humans and the environment;

Considering the wide discrepancies in the enforcement of the regulation that were identified by this coordinated audit;

Invites the participating SAIs to bring the results of this coordinated audit and those of their respective national audit to the attention of the stakeholders in their country;

Calls upon the CC members to participate in the future in similar international audits with the objective to compare and benchmark the results of the individual member states;

Agrees that the joint report of this audit be placed on the public part of the Contact Committee website in three CC working languages: English, French and German;

Decides to make this resolution available on the public part of the Contact Committee website.

Vilnius, 11 October 2013

SAI Rapporteur: SAI of the Netherlands

Original language: EN

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NAO Audit Reports

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September 2013	Performance Audit: Enforcement Action by MEPA within the Outside Development Zone
November 2013	An Analysis of the National Lotteries Good Causes Fund
December 2013	Performance Audit: Road Surface Repair Works on the Arterial and Distributor Road Network Follow-up
December 2013	Annual Audit Report of the Auditor General - Public Accounts 2012
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February 2014	Information Technology Audit: Armed Forces Malta
March 2014	An Analysis of the Sourcing of Legal Services with respect to the Granting of Concessions to Operate Two Casinos