

# *Work and Activities of the National Audit Office*

2014





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of the  
National Audit Office

2014

## Table of Contents

<b>List of Abbreviations</b>	<b>6</b>
<b>Auditor General's Overview</b>	<b>9</b>
<b>Organisational Overview and Business Model</b>	<b>11</b>
NAO Organisational Overview	11
Mission and Vision	11
Audit Scope	12
Resources	12
Performance	13
Business Model	13
Appointment of Auditor General	13
Appointment of Deputy Auditor General	14
<b>Public Sector Audits</b>	<b>14</b>
Financial and Compliance Audits	14
Certification of the Government Annual Financial Statements	14
Annual Audit Report	15
Audits of Local Government	16
Performance Audits	16
Special Audits and Investigations	16
Information Technology Audits	17
EU-related Audits	17
<b>Some Key Issues identified in Audit Reports</b>	<b>18</b>
<b>Human Resources</b>	<b>21</b>
The Audit Function	21
Staff Complement	24
Employees assigned Audit Work	25
Age Structure	25
Professional Conduct	25
Using and Protecting Client Information	26
NAO Human Resource Management Practices	26
Recruitment	26
Internal promotions	27
External recruitment	27
Contract of employment	27
Staff retention	27
Family Friendly Policies	28
Continuous Professional Development	28
Use of Consultants	28
Individual Auditors' Experiences	28
<b>Managing our Physical Resources and Sustainability</b>	<b>31</b>
Administrative and Support Services	31
IT Infrastructure and Operations	31
ICT Steering Committee	31
Archiving Facilities	32
Occupational Health and Safety	32
Green Leader/Waste Reduction	32

<b>Communication and Stakeholder Management</b>	33
NAO Annual Management Seminar	33
External Communication	34
NAO Relations with Parliament	34
Relations with the Auditee	35
Relations with Internal Auditors and other External Auditors	36
Relations with the University of Malta	36
Relations with the Media	37
Relations with Civil Society and the Public	38
Participation in Committees	38
<b>Local Events</b>	39
NAO Participation in study visits organised by IAID (as AFCOS Malta) for Croatian and Montenegro Delegations	39
Second Edition of NAO Publication titled <i>Guardian of the Public Purse</i>	39
Visit by H.E. the President of Malta	41
NAO/ECA Joint Audit Seminar	41
<b>International Events</b>	43
Commonwealth Auditors General Conference	43
EUROSAI Goal Team 1: Capacity Building Committee Seminar on <i>Independence of Supreme Audit Institutions</i>	46
EUROSAI Task Force on Audit and Ethics – Fifth Meeting	46
Meeting of the Working Group on EU Structural Funds VI	47
Seminar on EU Banking Union	47
IX EUROSAI Congress in the Netherlands	48
12th Annual EUROSAI Working Group on Environmental Auditing Meeting	48
EU Member State SAIs Liaison Officers’ Meeting	49
EU Contact Committee	49
EU Contact Committee Working Groups	49
EU Contact Committee Resolutions	50
UN Resolution on Strengthening Supreme Audit Institutions	50
NAO Contribution to International Studies	50
<b>Annex A – Summary of Audit Reports for year 2013 on Public Accounts and the Workings of Local Government</b>	52
<b>Annex B – Summaries of Performance Audit Reports</b>	54
<b>Annex C – Summaries of Special Audits and Investigations Report</b>	57
<b>Annex D – Conclusions of Special Audits Commissioned by Minister for Finance</b>	61
<b>Annex E – Summaries of ICT Audit Reports</b>	65
<b>Annex F – ECA Audit Missions</b>	67
<b>Annex G – Articles by NAO officials</b>	70
<b>Annex H – 22<sup>nd</sup> Commonwealth Auditors General Conference Conclusions</b>	79
<b>Annex I – EU Contact Committee Resolutions</b>	82
<b>Annex J – United Nations Resolution on <i>Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions</i></b>	85
<b>Annex K – Articles on Foreign Journals</b>	87

**Tables**

Table 1: Number of Reports published over the past three years	13
Table 2: Staff Complement as at 31 December 2014	24
Table 3: Distribution of Active Audit Staff as at 31 December 2014	25

**Figures**

Figure 1: Organisation Chart by Function	23
Figure 2: Organisation Chart by Management Structure	23
Figure 3: Age Categories of NAO Employees	26

## List of Abbreviations

AFCOS	Anti-Fraud Coordination Service
AFM	Armed Forces of Malta
AG	Auditor General
BFID	Benefit Fraud and Investigation Department
CC	Contact Committee of the Supreme Audit Institutions of the European Union
CC-R	Contact Committee Resolution
CHOGM	Commonwealth Heads of Government Meeting
CSN	CleanSeaNet System
DSS	Department of Social Security
EBU	Extra-Budgetary Units
EC	European Commission
ECA	European Court of Auditors
EDP	Excessive Deficit Procedure
EN	English
EPD	Economic Policy Department
EPSAS	Public Sector Accounting Standards for European Member States
ESA	European System of Accounts
ETC	Employment and Training Corporation
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
FTS	Foundation for Tomorrow's Schools
GDP	Gross Domestic Product
HA	Housing Authority
IAID	Internal Audit and Investigations Department
ICT	Information and Communications Technology
INCOSAI	International Congress of Supreme Audit Institutions
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IS	Information System
IT	Information Technology
MEIB	Ministry for the Economy, Investment and Small Business
MIMCOL	Malta Investment Management Company Limited
MSL	Malta Shipyards Limited

NAO	National Audit Office
NGO	Non-Governmental Organisation
OSR	Oill Spill Response
PAC	Public Accounts Committee
PCRB	Public Contracts Review Board
PU	Privatisation Unit
RES	Renewable Energy Sources
SAI	Supreme Audit Institution
SGP	Stability and Growth Pact
SIGMA	Support for Improvement in Governance and Management
TM	Transport Malta
UK	United Kingdom
UN	United Nations
VAT	Value Added Tax
WSM	WasteServ Malta Limited





## Works and Activities of the National Audit Office – 2014



*Anthony C. Mifsud, Auditor General*

### **Auditor General's Overview**

In 2014, a number of significant developments took place at the National Audit Office (NAO) that merit particular mention. First of all, during the year, this Office celebrated the 200th anniversary since the setting up of a state audit institution by British rule in Malta. Throughout this period, the role of this institution has evolved from a Government Department performing routine audit tasks to a fully-fledged Supreme Audit Institution undertaking the complete range of audits stipulated by national legislation and employing professional standards in its audit work and reporting.

Various events throughout the year were held to commemorate this bi-centenary anniversary. The XXII Commonwealth Auditors General Conference was held in Malta between 25 and 27 March 2014. It was attended by 87 delegates, including Heads of SAIs, from 35 countries throughout the Commonwealth. The themes of this Conference emphasised the importance of creating audit impact through effective reporting of audit findings to key audiences whilst maintaining independence. Presentations and discussions focused on what delegates considered to be some of the key legal and practical barriers to full independence, challenges associated with legal reporting obligations and the need to find improved ways of reaching different audiences.

Another important milestone for the year was the publication of the revised *Guardian of the Public Purse: 1814 - 2014*. The updated publication, which was prepared by Prof Edward Warrington and Prof Godfrey Pirota, incorporated Office developments that have occurred during the period 1998 to 2014. It also recounts in detail the re-organisation of state audit as a result of the amendments to the Constitution and the enactment of the Auditor General and National Audit Office Act (Chapter 396 of the Laws of Malta) in 1997. The publication was launched during a visit to NAO by H.E. Marie-Louise Coleiro Preca, President of Malta on 3 December 2014.

The annual joint European Court of Auditors(ECA)/ National Audit Office Seminar took place in December. The focus of this seminar was on the importance of accountability in the EU and Member States through sound and relevant auditing. It also offered the opportunity for ECA to present the salient points on the ECA Annual Report, and two ECA innovative reports that concerned a landscape review of EU accountability, parliamentary scrutiny and public audit arrangements, as well as of risks to the financial management of the EU Budget. Cooperation between NAO and ECA was also discussed. The outcome of this seminar was for the ECA and NAO to further explore and enhance bi-lateral relations through stronger cooperation between both institutions.

During 2014, for the first time, the audit results by the Financial and Compliance Audit Section were split into two separate reports: the Annual Audit Report on Public Accounts 2013, and the Report on the Workings of Local Government for 2013. Apart from these reports, a mix of nine stand alone Performance Audits, Special Audits and Investigations and IT Audits were published. Furthermore, we have prepared two reports on assessments of the macroeconomic forecasts for the Maltese Economy performed by the Ministry for Finance in April and September 2014. NAO also published two reports in May and November 2014 relating to the reliability of the Main Fiscal Forecasts prepared by the Ministry for Finance and presented in the Update of the Stability Programme for Malta 2014-2017 and in the Draft Budgetary Plan 2015 respectively.

The efficient and effective recruitment, retention, development and remuneration of staff are top priorities for NAO. Staff members are qualified in

various disciplines and have accumulated experience in a wide range of areas in the public sector. In spite of reduction and shortage of staff during 2014, the overall level of output of audit work was comparable to that of previous years. No recruitment was carried out during the year. However, the Office is now consolidating its resources through a call for applications in early 2015 in the Senior Auditor grade in the different Audit Sections.

The Office is supported by adequate IT infrastructure and equipment, physical facilities, support services and procures external expertise when required in its audit tasks.

NAO is concerned with sustainability issues. An internal Committee has been set up to plan for the migration to a fully electronic filing system at the Office. This measure would assist the Office in reducing paper consumption. NAO also endeavours to make efficient use of Office equipment, thus reducing electricity consumption.

During 2014, the Office also presented its recommendations to the relevant authorities on further strengthening NAO legislation especially to grant further powers to the Office intended to consolidate its investigative role. These amendments were proposed to add value to our work and further ensure the effective utilisation of taxpayers' funds.

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

Anthony C. Mifsud  
Auditor General

12 May, 2015

*"...A Supreme Audit Institution, in the Commonwealth at least, is both 'dignified' and 'efficient'. One could go further, to regard these two aspects of the SAI's institutional character as two facets of independence. As a dignified institution of Government, the SAI is necessarily detached, aloof from political controversy, aloof from administration, a model of integrity - perhaps a beacon of integrity - in a public sphere in which integrity does not figure prominently; indeed, a public sphere increasingly characterised by scandal throughout the world.*

*The Auditor General forms part of the majestic ritual of the modern state; the independent Auditor General is also an efficient governing institution. The Office is necessarily engaged with public administration, with policy making. It is active or pro-active. It seeks to be relevant to modern problems of governance. It is technically accomplished. It is ready to respond to scandal, to controversy, to failure."*

Prof Edward Warrington, Rapporteur

Summary of Key Issues on Sub-Theme 1  
'Ensuring Independence of SAIs for Effective SAI Reports'

XXII Commonwealth Auditors General Conference

## Organisational Overview and Business Model

This Section introduces the role and functions of the Auditor General and the National Audit Office (NAO), which is the Maltese Supreme Audit Institution. It also highlights information on key performance for 2014. Moreover, reference is made to the legislative and regulatory environment in which NAO operates and its type of business model.

## NAO Organisational Overview

NAO is the audit institution entrusted by the Constitution and relevant legislation to undertake public sector audits and report on the results thereon. It is headed by the Auditor General.

The Auditor General examines the financial statements of Government Ministries and Departments. He may also review the financial statements of public sector bodies. Moreover, he has the statutory authority to report to the House of Representatives on the economy, efficiency and effectiveness with which Ministries and Departments and other bodies have used the resources voted annually to them in the Estimates. He is also entitled to carry out special audits and investigations, as may be requested by the Public Accounts Committee, by the Ministry responsible for Finance, or decided upon by himself. The audit of Local Government also falls under the remit of the NAO. Moreover, the Auditor General is also empowered to carry out Information Technology Audits.

NAO is an independent audit institution. Its work is regulated by a Professional Code of Ethics and International Auditing Standards. It discharges its full audit mandate as stipulated by NAO legislation, is accountable and transparent, and strives to achieve positive change. NAO operates under strong leadership, a sound organisation structure and clear rules for audit, human resources, and security procedures. It establishes open, accountable, transparent and professional relationships, with all stakeholders especially Parliament.

### Mission and Vision

NAO's mission defines the Office's primary role namely:

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

It is NAO's key objective to promote a healthy financial administration of public funds. This aim can be achieved mainly through encouraging

effective utilisation of resources that will generate increased income and/or attained by reduced costs, also ensuring accurate and reliable reporting of Government revenue and expenditure, assets and liabilities. NAO also determines whether revenue is generated and expenditure is incurred as approved by Parliament.

Our aspiration is for our work, undertaken by teams formed of professionals from different fields, to provide the necessary impetus to the public sector to achieve excellence. In fact, our vision statement states:

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

### *Audit Scope*

NAO audit scope is specified hereunder:

**Central level:** NAO has the authority to audit the accounts of Central Government Departments and Offices and may examine whether such Departments and Offices have used the funds and resources available to them effectively, efficiently and economically.

**Local level:** The audit of Local Government is also included within the mandate of the Auditor General as amplified and described in the legislation regulating Local Government.

**Public bodies:** The Office mandate also includes the audit of the accounts of Public Authorities and Corporations, and other public entities 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.

**Private entities:** NAO is also empowered to audit Government assistance received by non-Governmental organisations.

**Natural persons:** Natural persons may be audited if they form part of an audit sample designed

to assess either the level of service/financial aid provided to individuals by Government entities; or the obligations of individuals to comply with relevant rules and regulations; or remuneration to public sector officials. In all cases, the identity of individuals is kept confidential and protected from unauthorised disclosure.

**EU funds:** NAO has no separate mandate for the audit of EU funds. Its mandate to audit such funds is implicitly derived from current legislation. The Office uses the same competence, scope, principles and procedures that it uses for the audit of national funds.

### *Resources*

NAO's human and financial resources for 2014 are presented hereunder:

- 57 active members of staff as at 31 December 2014
- 5 private audit firms were appointed to carry out audits of Local Government
- The amount of €2,600,000 was approved by Parliament, following the recommendation of NAO Accounts Committee, to be transferred to NAO to finance the Office's operations for 2014.
- € 2,566,613 actually spent (on a cash basis) by NAO in 2014
- NAO reports on its own financial performance by preparing annual accruals based financial statements. These financial statements are independently audited by private sector auditors. The auditors of NAO financial statements for the year 2014 were KPMG as appointed by the National Audit Office Accounts Committee. The audited financial statements were presented to the Office on 6 March 2015.

Notwithstanding the extent of NAO's remit as explained above, the Office remains a remarkably lean and compact organisation, with 41 audit examiners conducting audit work, out of a staff complement of 57 as at 31 December 2014.

**Table 1: Number of Reports published over the past three years**

Types of audits	2012	2013	2014
Statutory Annual Audit Report	1	1	1
Separate Report on the Audits of Local Government	-	-	1
Stand Alone Audit Reports - Performance Audits, Special Audits; Investigations requested by PAC; I.T. Audits; Reports requested by Minister of Finance	13	11	13
Work and Activities Report	1	1	1
Total number of reports published	15	13	16

### Performance

Table 1 provides a snapshot of the number of audit reports published in 2014.

Apart from the publication of the above reports, NAO carries out other audit work including the certification of Government of Malta financial statements.

During 2014, we strengthened our audit methodology to provide added value to stakeholders and demonstrate our commitment to the achievement of accountability, propriety and value for money from our operations and those of Government. We issued a separate report on the audit of Local Government to highlight the amount and persistence of shortcomings in this area. A significant number of stand alone audit reports were published some of which, particularly investigations reports, received wide-ranging media coverage. Moreover, the performance audit report titled *An Analysis of the Effectiveness of Enemalta Corporation's Fuel Procurement* was discussed extensively by the Public Accounts Committee.

### Business Model

Supreme Audit Institutions can form part of one out of three constitutional frameworks: the Westminster model, the Judicial or Napoleonic Model, or the Board or Collegiate Model. The Westminster model incorporates a National Audit Office headed by an independent Auditor General or equivalent. Such

a Supreme Audit Institution submits its reports to Parliament. NAO follows this type of business model. It was set up in its present form in July 1997, through an amendment to Section 108 of the Constitution of Malta and the enactment of the Auditor General and National Audit Office Act (Chapter 396 of the Laws of Malta). It succeeded the Audit Department, which was a Government department falling within the responsibility of the Minister for Finance.

NAO is an independent Supreme Audit Institution. It is headed by an independent Auditor General with the assistance of a Deputy Auditor General; both are officers of the House of Representatives. The Auditor General has the power to recruit staff to assist him in the efficient discharge of his duties. He and all authorised officers of 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.

### Appointment of Auditor General

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 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 Deputy Auditor General*

The Deputy Auditor General 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 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.



*Charles Deguara, Deputy Auditor General*

### **Public Sector Audits**

In fulfilling its mandate, NAO carries out the following types of audit examinations:

- Financial and Compliance Audits
- Performance Audits
- Special Audits and Investigations
- Information Technology Audits
- European Union (EU)-Related Audits

### **Financial and Compliance Audits**

Financial and Compliance Audits aim to ensure that the Government of Malta Financial Report is fairly presented in all material respects, that transactions reflected therein are in agreement with financial rules and regulations, and that proper internal controls are in place to ensure that funds voted by Parliament in the Estimates are used appropriately. The Auditor General carries out an examination and certifies the

annual Government Financial Statements. Moreover, upon completion of financial and compliance audits, the annual audit report is prepared.

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

The Auditor General examines and certifies the Government Annual Financial Statements submitted to him by the Accountant General, by not later than three months after the close of the financial year ending 31 December. This audit procedure involves a reconciliation of the figures in the Treasury Books against the relative figures found in the records of the consolidated data in the Departmental Accounting System.

The Accountant General then presents the certified 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.

In 2014, the Annual Financial Statements 2013 were certified by NAO on 21 March, and eventually forwarded to the Accountant General. These were laid on the Table of the House of Representatives by the Minister for Finance on 7 April 2014.

*"The way in which the SAI conducts its business can help it solidify its role in society as a credible, trustworthy institution. The professionalism of staff, the rigour behind its methodology, the use of independently established standards, and the fairness of its audit process are important characteristics that will demonstrate independence and commitment to fairness in its work."*

Clyde MacLellan, Assistant Auditor General, Office of the Auditor General of Canada

Canada Country Paper on Sub-Theme 1 'Ensuring Independence of SAIs for Effective SAI Reports'

XXII Commonwealth Auditors General Conference

### Annual Audit Report

The Annual Audit Report comprises the following sections:

- An analysis of the Government Financial Report
- Audits of individual Government Ministries and Departments
- Audits of Government Corporate Issues
- Audits of Public Entities and Non-Governmental Organisations

### Analysis of the Government Financial Report

The Analysis of the Government Financial Report is based on a risk and materiality assessment at both Financial Statement and Account balance level, with the aim of:

- providing an analysis of the figures reported upon in the Government Financial Report, including the detailed 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 Departmental 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 2013 (**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 and Ministerial/Departmental Bank Accounts;

- 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, creditors analysis and cash management); 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, which is then presented to the House of Representatives.

### 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; and
- there are adequate internal controls in place for the detection and prevention of material misstatements, and for the safeguarding of public assets.

### Audits of 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 2014, issues

relating to arrears of revenue due to Government as at year-end 2013 were identified and commented upon.

### Audits of Public Entities and Non-Governmental Organisations

Audits of Public Entities, as well as of Public Corporations and Authorities, are also carried out by NAO. In 2014, audits of public entities for financial year 2013 were carried out in respect of Heritage Malta, Kunsill Malti għall-iSport, University of Malta and Junior College, Gozo Channel Company Limited, St Vincent de Paul Residence, Mater Dei Hospital and Rehabilitation Hospital Karin Grech. Furthermore, NAO also carries out financial and compliance audits of Non-Governmental Organisations regulated by the Voluntary Organisations Act. In 2014, NAO audited the financial statements of Conservatorio Vincenzo Bugeja and the Co-operatives Board.

A summary of the results of financial and compliance audits is included in **Annex A**.

### Audits of Local Government

Financial and compliance audit duties relating to Local Government are contracted out to private sector auditors. The role of the Auditor General in terms of the Local Councils Act is twofold. The first is an administrative role concerned with the appointment and remuneration of private sector auditors, known as Local Government Auditors. The second role is a technical one which is intended to lend support to auditors and to ensure that their observations and recommendations are given due consideration.

In 2014, the Report by the Auditor General on the Workings of Local Government for the year 2013 was issued as a separate report. A summary of the findings of this report can also be found in **Annex A**.

### Performance Audits

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

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.

During 2014, NAO published the following Performance Audit Reports:

- Addressing Social Benefit Fraud
- Malta's level of preparedness to deal with Oil Pollution at Sea
- Housing Authority's Procurement of Repair Works on Residential Units

Summaries of these reports are found in **Annex B**.

By year end, various other Performance Audit assignments were works in progress, some at an advanced stage.

### Special Audits and Investigations

Special Audits and Investigations are carried out on any matter relating to Government finances, property or funds administered or under the control of any Government Department or body. Such audits may be carried out on the own initiative of the Auditor General, at the request of the Minister responsible for finance, or at the request of at least three members of the Public Accounts Committee of the House of Representatives.

During 2014, NAO published the following Special Audits and Investigation Reports:

- An Analysis of the Sourcing of Legal Services with respect to the Granting of Concessions to Operate Two Casinos
- An Analysis of WasteServ Malta Limited's Procurement: A Case Study Perspective
- An Investigation into the Procurement of Legal Services by the Privatisation Unit between 2008 and 2013
- Foundation for Tomorrow's Schools: Regularity Audit on Procurement

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



Four other special audits commissioned by the Minister for Finance related to:

- An Assessment of the Macroeconomic Forecasts for the Maltese economy performed by the Ministry of Finance in April 2014;
- An Assessment of the Main Fiscal Forecasts prepared by the Ministry of Finance and presented in the Update of the Stability Programme for Malta 2014-2017;
- An Assessment of the Macroeconomic Forecasts for the Maltese economy prepared by the Ministry for Finance in September 2014; and
- An Assessment of the Main Fiscal Forecasts prepared by the Ministry for Finance and presented in the Draft Budgetary Plan 2015.

Conclusions of these Reports are found in **Annex D**.

### Information Technology Audits

In 2014, the Information and Communications Technology (ICT) Unit published two reports covering IT audits carried out at the Armed Forces of Malta (AFM) and the Employment and Training Corporation (ETC). A summary of these reports can be found in **Annex E**. 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; and
- business continuity – review of the IT related business continuity and disaster recovery plans currently used by the auditee.

During the execution of the above audits, NAO listed a number of audit findings which could pose a possible threat to normal IT operations and made recommendations to mitigate the risks identified. The above-mentioned audit findings were identified

following the issuance of a preliminary questionnaire to the auditee, interviews carried out with officials from auditee’s IT management team, and execution of on-site audits.

### EU-related Audits

The Auditor General may, on his own initiative or at the request of the Public Accounts Committee (PAC), carry out audits related to EU funds granted to Maltese entities. Such audits may be of a Financial and Compliance Audit nature and/or of a Performance Audit nature. Except for Parallel audits on EU-related funds conducted with other EU Member State SAIs, audits planned by this Office normally do not focus exclusively on EU-related funds. However, the EU component, if applicable, is taken into account in any audit that the Office may carry out.

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

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

The following ECA Audit Missions were carried out in 2013 and reported upon in 2014:

- Performance Audit on the Effectiveness of the External Borders Fund (including Malta)
- Performance Audit of the European Regional Development Fund and Cohesion Fund Investments in the field of Renewable Energy through the Operational Programme I – Investing in Competitiveness for a Better Quality of Life (including Malta)
- Audit in respect of the Statement of Assurance concerning the financial year 2013: European Agricultural Fund for Rural Development Expenditure (including the Paying Agency in Malta)

During 2014, an ECA Audit Mission on the Excessive Deficit Procedure (EDP) was also carried out.

A summary of these audits is found in **Annex F**.

### Some Key Issues identified in Audit Reports

In this part of the Report, NAO highlights the key findings raised in audit reports issued during the period 2012-2014.

*“We do find departments who might have shortages of staff or ones that do not have the appropriate competencies. On the other hand, we also know that junior people sometimes need more training and direction. And those who develop policies should explain them clearly to people further down the line. We usually find that there is a lack of communication.*

*Sometimes there is considerable staff movement and departments suffer from a lack of institutional memory. They rely on the memory of one particular individual who has been there for a number of years.*

*However, there are cases of carelessness. An area which bothers us is the high level of arrears of revenue.*

*This obviously leads to sums of money which are non-collectible. That is an area that the Ministry of Finance follows closely. If departments realise that they are wasting their time and energy trying to get these arrears, they have to seek approval from the Finance Ministry to write those amounts off.”*

Interview with Auditor General, National Audit Office Malta

Article ‘Ensuring Better Value for Money’  
The Business Observer, Times of Malta on  
20 November 2014

### Government Financial Report Findings

- Significant decrease in actual revenue received by Government as compared to budgeted revenue.
- Substantial excess of actual over budgeted figures of various items of expenditure.
- Letters of Comfort and Bank Guarantees constituting Contingent Liabilities for Government have been on the increase over the past years.
- Central Bank of Malta Public Account Reconciliation Statements not updated.
- Although a number of public debt risk procedures are in place, there is the need for the creation and regular updating of an implicit risk management framework by Debt Management Directorate, to provide the necessary evidence that the structured risk plan is carried out. To address this issue, the draft Government Borrowing and Public Debt Management Act, when enacted, would require that for every financial year, the Minister is to prepare a medium-term debt management strategy.
- Debt management activities are carried out through the use of Excel spread sheets. These activities should be supported by a reliable, accurate and comprehensive IT management system with proper safeguards and be fully integrated with the Government’s accounting system.
- A significant amount of creditor balances have been overdue by over 360 days.

### Control Issues

- Lack of adherence to policies.
- Weak tendering provisions.
- Completeness of revenue could not always be verified.
- Weak internal control structures, with limited checks and balances, and lack of proper audit trail.
- Inaccurate figures reported as revenue in arrears, as well as risk of substantial amounts becoming statute barred.
- Lack of proper inventory management.
- Inadequate controls in the payroll process.

- Overtime not always backed up with proper records of attendance.
- Lack of control across Government in other areas, including expenditure on transport, travel, and telecommunication services.

### Compliance Issues

- Procurement Regulations not followed:
  - Goods and services procured directly from the open market rather than through a public call for quotations or tenders.
  - No formal agreements to regulate a number of contractual services.
  - No new tenders issued upon expiry of existing contracts.
  - Rate charged for certain items was overstated when compared to the rate agreed upon in the submitted quotations.
  - No Bank Guarantees traced in file for tenders or non renewal of Bank Guarantees.
  - Open-ended tenders provided for extensions for unlimited future periods.
- Non-compliance with Value Added Tax (VAT) legislation.

### Local Government Issues

- Auditors unable to express an opinion on the financial statements of a few Local Councils.
- Local Councils qualified with an 'except for' audit opinion.
- Local Councils recording a negative Working Capital in the Statement of Financial Position.
- Local Councils registering a deficit in the Statement of Comprehensive Income.
- Accounting records not properly updated, with the result that the Financial Statements drawn up do not reflect a true and fair view of the actual financial situation.
- Income and expenditure accounted for on cash rather than accruals basis.
- Payments made not substantiated by a proper invoice and/or fiscal receipt.
- Fixed Assets Registers either lacked necessary details or not maintained at all.

### Low management and decision-making skills

- Inadequate or crude planning.
- Overall inadequate management structure and lack of ownership of specific functions.
- Inefficient operations leading to high operational costs.
- Insufficient resources to carry out operations.
- Weaknesses in project and contract management.
- No formal systems designed for the effective identification of citizen needs.
- Strategies' timelines not adhered to.
- Lack of adequate risk assessment and risk management.
- Inadequate monitoring over operations.
- Lack of enforcement of sanctions and penalties on law infringements.
- Services provided to Departments' clients not always of appropriate standard.
- Insufficient environmental/sustainability considerations.
- Inadequate marketing and/or marketing research.

### Lack of clearly defined objectives, and commitments not reached

- Departments lacking clearly defined objectives and lack of performance indicators to monitor and control operations.
- Falling behind in EU related targets and commitments, particularly in the area of the environment.

### Human Resource Management deficiencies

- Unclear job descriptions and level of accountability as well as undefined lines of responsibilities.
- Job descriptions not commensurate with the actual work being carried out by employees.
- Lack of continuity when key staff changes.
- Unqualified key personnel and insufficient and/or ineffective training programmes.
- Excessive Human Resources in some instances and lack of sufficient human resources in other areas.

- Output levels of employees not easily determined and monitored.

#### Communication and coordination concerns

- Lack of synergy between the various units within an entity.
- Ineffective communication channels and resulting conflicting information.
- Inadequate coordination of government entities performing complementary operations.

#### Lack of standards

- Documentation relating to the introduction of measures not always available, or not available in an organised manner.
- Lack of written Standard Operating Procedures.
- Inadequate management information systems.
- Cases of incomplete and/or inaccurate data on Departmental functions forwarded to NAO.
- Poor documentation and record keeping practices.
- Lack of appropriate certification of services prior to processing for payment.
- Non standardised reporting approaches in relation to public officials performing the same function.
- Lack of documentation of prioritisation processes relating to service delivery.

#### Key concerns resulting from investigations

- Evaluation Committees not formally appointed and/or furnished with clear terms of reference.
- The lack of adequate award criteria other than the basic criterion of price, and instances where evaluation based solely on price provided an incomplete analysis of offers received.
- The failure to establish adequate assessment mechanisms when eligibility requirements were extended.
- Lack of adherence to the stipulated evaluation criteria.
- Requests for tenders not adequately advertised and/or resort to direct contracts.
- Instances of tenders not awarded to the cheapest, compliant bidders.
- The re-ranking of offers received detracting from the level of transparency expected.

- Contracts awarded despite ambiguity in tender instructions.
- Concluded tender awards not rendered public.
- Significant divergences from initial estimation of costs to actual contracted amounts, implying a lack of reliable benchmarks against which to gauge the financial viability of offers received.
- Substantial variations stemming from changes in project design after contract award.
- Incongruence between contractual specifications and test methods in the quality control process.
- Lack of corrective action in cases of out-of-specifications results.
- Stock movements recorded by simple spreadsheets, accessed by multiple users.
- Poor record keeping of decisions taken.
- Instances when departments exercised administrative discretion beyond the parameters established by the national law.
- Weak enforcement function characterised by in-existent or weak deterrents.
- Systems fail to flag possible risk of particular users, thereby detracting from corrective mechanisms that should automatically come into force.

#### IT Issues

- Absence of a formalised ICT Strategy Plan.
- No business continuity and recovery plans.
- Absence of IT related business impact analysis, as well as IT related risk assessment exercise that form the basis for the preparation of the IT business continuity plans.

NAO also encounters limitations to its scope of audit work due to a number of factors noted below.

#### Limitations on Scope of Audits

- Lack of audit trail due to insufficient supporting evidence/documentation.
- Fragmented information with no unique cross-reference.
- Vague or lack of contracts and unclear definitions/criteria.

*“Ultimately, the NAO can only continue to meet its constitutional mandate in the future if it manages to safeguard the high level of credibility and trust that it has successfully developed and consolidated, particularly since it was set up in its present format through the extremely important legislative amendments of 1997...”*

*Indeed, although auditing within the local scenario does on occasion present its fair share of problems and constraints – very often relating to the relatively small size of our administration, and all that goes with it – the office’s staff, through their commitment and resilience, have always managed to execute their mandate in the best interest of the Maltese taxpayer...*

*I strongly believe that the Malta NAO possesses the necessary leadership and human resources to ensure its sustained relevance to an ever-changing social, economic and political context.”*

Deputy Auditor General, National Audit Office of Malta

Article ‘National Audit Office – The Way Forward’

The Sunday Times of Malta, 28 December 2014

## Human Resources

NAO employs effective and efficient human resource management practices, including strong leadership, to encourage continuous development and the introduction of innovative audit practices, where necessary.

## The Audit Function

To carry out its audit work effectively, NAO requires competent and dedicated auditors, who act with integrity at all times and can apply their knowledge and professional experience to effectively carry out public sector audits. Auditors should have

a working knowledge of current developments in audit methodology, management techniques, qualitative investigation methods, statistical sampling, quantitative data gathering techniques and data analysis. They should also be familiar with public policy, economics, other social sciences and information technology. NAO audit staff members are also to possess knowledge of NAO’s statutory requirements and applicable directives, rules and regulations.

Moreover, due to the distinctive nature of our mission, NAO requires auditors capable of efficiently and effectively dealing with different government programmes, operations and activities. These may be in extremely complex and sophisticated areas of expertise.

Utmost weight is attributed to the above qualities when selecting and retaining NAO auditors.

Audits are normally carried out by a team of auditors who, through a coordinated effort, achieve the desired audit results. Together, the knowledge, abilities and skills of the team are sufficient to fulfill the requirements of the particular audit. The audit team operates under the guidance of an Audit Manager and an Assistant Auditor General.

Equally important are the proper development and training of the audit workforce to enable them to maximise their talents and potentials.

NAO has four key audit functions. One Section, which is split in two Units, is responsible for the carrying out of Financial and Compliance Audits. The two audit Units are each led by a manager. One Unit ultimately falls under the overall responsibility of Tanya Mercieca and the other Unit reports to Vanessa A. Tonna, both Assistant Auditors General.

Another Audit Section, led by Brian Vella, Assistant Auditor General, is tasked with carrying out performance audits. This Section consists of two audit Units, one headed by a senior audit manager and another Unit headed by an audit manager.

The ICT Section, which is headed by a Manager, performs IT audits in Government Ministries, Departments and public entities. This Section is also responsible for the IT Operations within NAO as well as the desktop publishing of NAO reports.



Special Audits and Investigations, whether initiated on the Auditor General's initiative, upon request by the Minister for Finance or through the PAC, are assigned to the Special Audits and Investigations Section. This Section is led by Keith Mercieca, Head Special Audits and Investigations Section, and includes one audit Unit, headed by a manager.

The Organisation Structure of NAO, as shown in Figures 1 and 2, reflects the division of duties in terms of statutory audits, namely Financial and Compliance Audits, Performance Audits, Special Audits and Investigations, and IT Audits.



*Brian Vella,  
Assistant Auditor General*



*Vanessa A. Tonna,  
Assistant Auditor General*

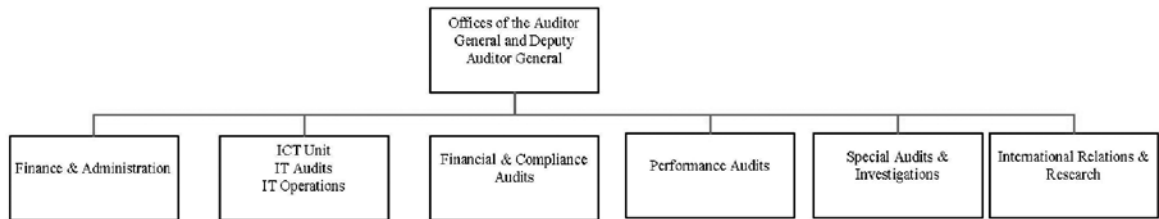


*Tanya Mercieca,  
Assistant Auditor General*

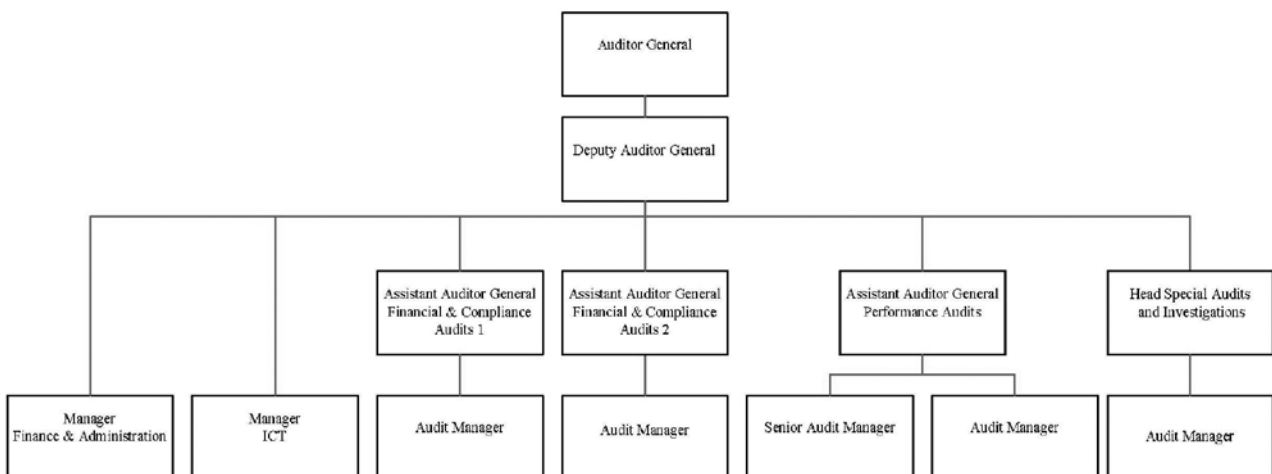


*Keith Mercieca, Head, Special Audits  
and Investigations*

**Figure 1: Organisation Chart by Function**



**Figure 2: Organisation Chart by Management Structure**



## Staff Complement

As stated under the Section 'Resources', at the end (Table 2 refers) of 2014, the active staff complement stood at 57. In addition, there were two employees who were on maternity leave and one employee who was on career break. Fourteen employees (which are included within the figure of 57 active employees) were on reduced hours.

The majority of employees within the Financial and Compliance Audit Section are female accountants.

Audit staff of different grades work in teams. It is the objective of the Office to achieve an optimal grade mix within teams to ensure a more effective balance of skills, maintain sufficient capacity to carry out NAO's current work requirements and also to be proactive in implementing developments and improvements.

**Table 2: Staff Complement as at 31 December 2014**

Grade Position	In Post	Male	Female
Auditor General	1	1	-
Deputy Auditor General	1	1	-
Assistant Auditor General	3	1	2
Head of Investigations	1	1	-
	<b>6</b>	<b>4</b>	<b>2</b>
<b>Auditing Grades</b>			
Senior Manager	1	1	-
Manager	5	3	2
Principal Auditor	18	6	12
Principal Auditor ICT	2	1	1
Senior Auditor	7	1	6
Associate Auditor	2	1	1
Assistant Auditor	1	-	1
Audit Clerk	1	-	1
	<b>37</b>	<b>13</b>	<b>24</b>
<b>Support Services</b>			
Manager	1	1	-
Senior Principal	1	1	-
IT Systems Administrator	1	1	-
Principal	2	2	-
Personal Assistant	1	-	1
Assistant Principal	3	-	3
Receptionist	1	-	1
Minor Staff	4	3	1
	<b>14</b>	<b>8</b>	<b>6</b>
<b>Total</b>	<b>57</b>	<b>25</b>	<b>32</b>



**Table 3: Distribution of Active Audit Staff as at 31 December 2014**

Position	Financial & Compliance Audits	Performance Audits	Special Audits & Investigations	I.T. Audits	Total
Assistant Auditor General	2	1	-	-	3
Head	-	-	1	-	1
Senior Audit Manager	-	1	-	-	1
Audit Manager	2	1	1	1	5
Principal Auditor	10	5	3	2	20
Senior Auditor	5	1	1	-	7
Associate Auditor	2	-	1	-	3
Audit Clerk	1	-	-	-	1
	22	9	7	3	41

### Employees assigned Audit Work

During the year, 41 employees were assigned audit work (Table 3 refers). Of these, 22 were allocated to the Section responsible for Financial and Compliance Audits. These employees are qualified accountants. Nine (9) auditors were part of the Performance Audit Section. Another seven (7) auditors were assigned to the Special Audits and Investigations Section. Employees in the latter two Sections are qualified in various disciplines such as management, statistics, economics and public policy. The ICT Unit has a team of three (3) auditors who possess the Certified Information Systems Auditor (CISA) qualification.

### Age Structure

The age structure of active NAO staff is represented in the diagram (Figure 3) overleaf.

On 31 December 2014, 25 employees were in age group 31-40, representing 44% of all staff. The highest number of female staff was also in this age group, amounting to a total of 19 employees or 33% of all staff. Moreover, the majority of NAO staff is female, amounting to 56% of the entire workforce. Eleven employees are in each of the age groups 20-30 and 51-60. Only 7 members of staff, or 12% of the workers are in the age group 41-50, and only 3 members of staff or 5% of all staff are in the 61-70 category.

In 2014, the average age of all NAO employees was 40 years, the average age of all NAO male employees

was 44 years, while that of female employees was 37 years.

### Professional Conduct

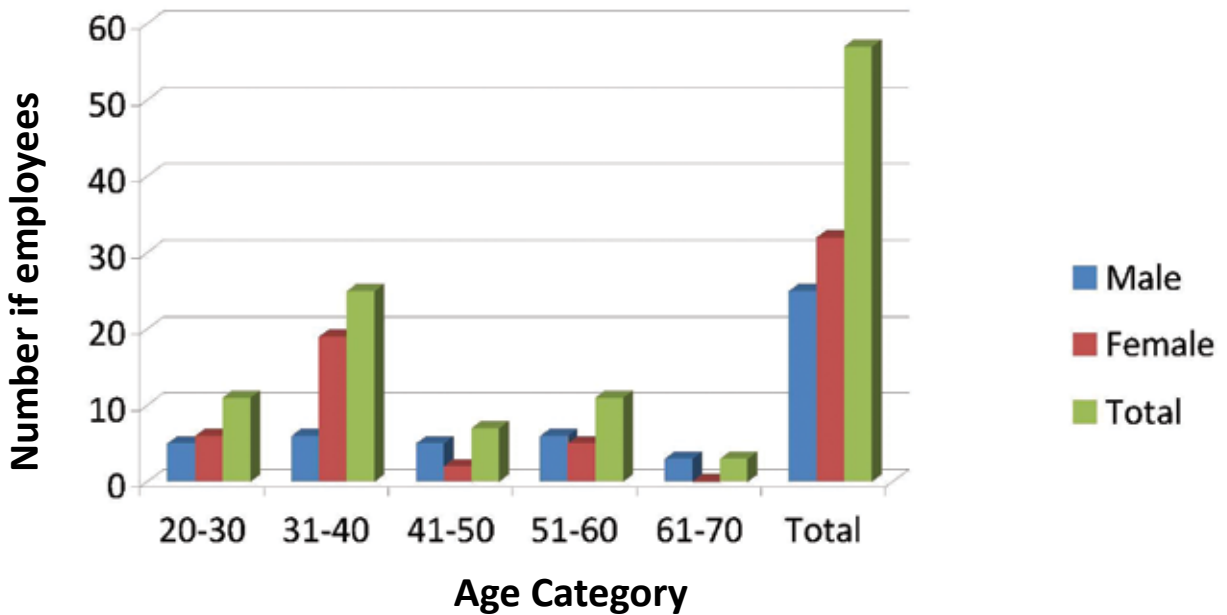
The NAO Code of Professional Conduct is a comprehensive statement of the values and principles that guide the daily work of NAO auditors and outlines the principles and rules regarding ethical and professional conduct within NAO.

NAO employees are expected to abide by NAO's Code of Professional Conduct which requires them to act honestly and with integrity, and demonstrate professional behaviour in their day-to-day activities and in their dealings with auditees. In particular, they are to comply with the provisions of the Code in the conduct of all audit work. Moreover, upon taking up employment with the Office, employees sign a confidentiality declaration and take the oath of secrecy.

Moreover, every NAO employee is expected to devote his normal working time solely and exclusively to the service of NAO. Employees wishing to undertake remunerative work outside office hours are required to obtain NAO's prior written authority in line with article 20 of the Collective Agreement dated 13 November 2013.

If the activity is, in the opinion of NAO, in conflict with the interest of NAO or the employee's duties, or may result in lower productivity or performance, authority will be withheld.

**Figure 3: Age Categories of NAO employees**



**Using and Protecting Client Information**

During the course of audit work, NAO has access to a wide range of information that is required for audit purposes. To safeguard the integrity and confidentiality of information received during an audit, NAO takes all the necessary steps to acquire it in a secure manner and handle it in accordance with best practice. The information is kept safe from unauthorised access and used solely and exclusively for the purpose it was intended. Moreover, 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.

In addition, staff members have a duty to protect information recorded in correspondence, documents and files, as well as data held on computers. This applies to both information obtained from audited bodies and that generated within the Office. Unauthorised disclosure of official information or its use for personal reasons is strictly prohibited and is subject to disciplinary action.

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

**NAO Human Resource Management Practices**

NAO endeavours to build a workforce that is committed to the achievement of Office, audit team and individual goals and values. It also attempts to create an environment where staff have opportunities to participate fully in NAO’s work. The Office also strives to enhance the leadership and management skills capability of NAO, through improving internal management and communications, and by helping individuals make the most of their talents through better delegation and taking on responsibility. In order to achieve the above objectives, NAO has established efficient and effective recruitment, retention, remuneration, as well as training and development policies.

*Recruitment*

In today’s rapidly changing business environment, the Office looks for professional people who want to work towards achieving improvements in government operations and activities. The ability to recruit the right staff is a critical factor. Because of the unique nature of our mission, NAO needs to recruit people who possess the right academic qualifications and expertise to carry out complex audit assignments and investigations, efficiently and effectively.

The abilities of NAO auditors help to create and maintain a work environment that promotes their growth, development and empowerment. As a result, the contribution of these professional employees will ultimately promote the well-being of the NAO and its operations.

Equally important is the proper development and training of the audit workforce to enable them to maximise their talents and potentials.

#### *Internal promotions*

Initially, an attempt is made to fill vacant or new posts, by an internal call for applications. Details relating to the filling of vacant positions are issued by means of an Office Circular distributed to all staff. Employees who possess the required qualifications and experience may apply. Applicants are required to attend an interview and undergo a written test to assess their analytical and writing skills and hence their suitability for the post.

The Selection Board looks for professional people who share NAO's values and vision, are high achievers and possess the necessary drive to undertake audit work. The Board also seeks people with integrity and who are not afraid to embrace change.

The Selection Board requests applicants to possess academic qualifications in areas such as social science or broader investigative and evaluation work.

The people selected must be persons with the right personal qualities including creativity, judgement, analytical skills and oral as well as written communication skills.

The Selection Board takes into consideration the qualifications, experience and personal attributes of the applicants when evaluating candidates. Once the selection process is complete, a report by the Selection Board is referred to the Auditor General for his approval.

During 2014, six employees at NAO were promoted to a higher grade.

#### *External recruitment*

External calls for applications are normally resorted to when filling vacancies at the entry grades, in particular at senior auditor level. Entries into other grades are normally filled in internally. Employees who are under probation may submit an application in response to an External Call for Applications.

Applications received following an external call are assessed in the same manner as in the case of an internal call for the filling of vacant posts and the best candidate selected.

#### *Contract of employment*

Upon recruitment from outside NAO, all new employees are offered a three-year definite contract of employment. The contract of employment of employees on a definite contract may be converted to an indefinite contract of employment after completing four years service with NAO. This is subject to the employee's performance and output meeting NAO standards.

During their employment on a fixed-term contract, these employees are not treated in a less favourable manner than comparable permanent employees.

Out of 55 active employees (excluding the Auditor General and Deputy Auditor General), 42 employees were on an indefinite contract of employment, while 13 employees were on a definite contract of employment. Of the remaining three employees who are on long leave, one is on an indefinite contract of employment and two are on a definite contract.

#### *Staff retention*

NAO practises effective staff management and retention that involves maintaining and developing a dynamic workforce, increasing and managing talent, as well as setting up and implementing a fair and objective system for the retention, rotation, succession planning and promotion for all staff. In 2014, only one NAO employee resigned and another one retired on reaching pensionable age.

### *Family Friendly Policies*

A number of NAO employees have availed themselves of a number of family friendly measures in order to achieve a better work-life balance. As at 31 December 2014, a total of 14 employees worked on a reduced hours basis, two employees were on maternity leave and one employee on career break.

### *Continuous Professional Development*

NAO employs a range of training and development options. These include:

- on-the-job training, coaching and mentoring;
- attendance at seminars and courses organised by local and foreign professional institutions, including the local Centre for Development, Research and Training; and
- sponsors to attend post graduate degree courses.

The above training and development options and related financial support covering the second and third option convey the message to staff that NAO has full confidence in their skills and abilities. The support given presents employees with an opportunity to increase their career advancement prospects within NAO.

Moreover, a qualification allowance is paid to those employees in possession of diplomas/degrees that are considered relevant to NAO's mandate, are recognised by the Malta Qualification Recognition Centre, and are relevant to their duties. Any employee who obtains more than one diploma or degree only qualifies for one annual allowance.

In addition, NAO senior management delivered presentations on *Auditing in the Public Service – National Audit Office* during a Senior Principal Induction Training held by the Centre for Development, Research and Training in May and September 2014.

### *Use of Consultants*

Where the required skills to perform parts of the audit are not available in-house, NAO engages the services of an expert. Great care is exercised when employing the services of a consultant. An expert is only selected after ensuring that s/he has the competence and aptitude for the particular task involved. The expert may be a single individual or a firm possessing special skills, knowledge and experience in the required field of competence.

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

### *Individual Auditors' Experiences*

A number of recent recruits have described their experience at NAO. Their feedback is reproduced overleaf.



Clayton J. Mifsud

Experience of Clayton Joseph Mifsud  
Senior Auditor  
Financial and Compliance Audit Section

*After six years working with an audit firm, the need of a new challenge was becoming quite strong. On assessing several possibilities that were available to me, I wanted to ensure that any possible move would give me a new motivation, as well as provide me with new responsibilities that were different from those I had at the time.*

*In summer 2013, I came across the National Audit Office (NAO)'s call for the post of Senior Auditor. I decided that this option could be the right one for my career since it could provide me with all the elements I was looking for.*

*During my first year at NAO, I feel that I have managed to integrate successfully with my colleagues in a short period. Additionally, my post with NAO has also helped me to discover another dimension of the accountancy profession, namely the public sector, thus enabling me to enhance further my career.*

*Overall, I feel that my first year at NAO has been a positive one. It has helped me venture into new areas of the profession, as well as giving me the opportunity to meet new people and work with fantastic colleagues.*

Experience of Fleur Marie Calleja Ghirxi  
Senior Auditor  
Financial and Compliance Audit Section

*I applied to work at NAO attracted by the opportunity of working for an independent public body that provides direct assurance to Parliament on the accounting and use of public funds. I always regarded NAO's work as exceptionally value adding and influential, bringing about direct improvements to the governance, controls and financial management of the entities being audited. Being a financial auditor, I have joined the Financial and Compliance Audit Section within NAO and, from the very first day, my work experience has always been very positive. Employees at NAO are extremely friendly and always willing to share their knowledge; in fact, I never fall short of some useful guidance and advice. Senior staff is also very approachable, creating a culture where issues can be easily discussed. Moreover, the work assigned is always challenging and interesting, making me feel a valued and responsible individual. Work-life balance is also one of the greatest attributes of working at NAO. In a nutshell, for me, working at NAO is not only enjoyable, but also extremely satisfying given that our work contributes positively towards society.*



Fleur Marie Calleja Ghirxi



**Experience of Lindsey Galea  
Senior Auditor  
Performance Audit Section**

*Upon commencing my employment within NAO in October 2013, I immediately integrated with my work colleagues, given the friendly atmosphere and genuine sense of help that exists within the teams. Furthermore, the opportunity of working on diverse audit topics continues to enhance the working experience at the NAO. This is additionally complemented by meeting new persons, learning new things and making new experiences related to the audit topic. In addition to this are the working conditions wherein the flexibility in the working hours and other measures help to balance work and family commitments. Training opportunities provided by the Office also offer a means of promoting continued learning and opportunities for career development.*



*Dr Rebecca Vassallo*

**Experience of Dr Rebecca Vassallo  
Senior Auditor  
Special Audits and Investigations Section**

*Since joining the National Audit Office in October 2013, my work within the Special Audits and Investigations Section has been versatile and interesting. There is a good collaborative working environment within our Section, which is composed of employees with a diverse range of academic backgrounds, experience and skills, all of whom are valued and add a different perspective to the auditing process. Working in a team, which encourages new ideas and is responsive to suggestions, is rewarding. The Section team have been supportive in my transition from academic to working life, and have been instrumental in my learning process.*



*Lindsey Galea*

*“SAIs should have available necessary and reasonable human, material, and monetary resources—the Executive should not control or direct the access to these resources. SAIs manage their own budget and allocate it appropriately.”*

Article 8

Mexico Declaration on SAI Independence, 2007

## Managing our Physical Resources and Sustainability

In addition to guaranteeing an effective audit function, NAO ensures that it obtains utmost value for money from its employment of physical resources as explained below. NAO is also committed to managing its environmental impact and sustainability issues at the Office.

### Administrative and Support Services

The administration and support services manage NAO facilities. They are responsible for the safeguarding and upkeep of NAO premises, including the provision of cleaning services, maintenance and upgrade, where necessary, of furniture, fittings, and equipment, and the conservation of NAO archives, including the safekeeping of manual audit files and working papers. They are also in charge of Finance, the Registry services and the maintenance of the library. The IT Section is responsible for the management of computer hardware and software applications in use by the Office. Transport services are also provided by support staff.

### IT Infrastructure and Operations

The IT Operations Unit within the IT Section is responsible for the maintenance of the Office IT infrastructure, including NAO servers, local area network, and software applications. It also coordinates the production of NAO publications.

Throughout 2014, the IT Operations Section was involved in a number of initiatives, which included amongst others:

- Migration of the operating system of all the desktops at NAO to Windows 8
- Implementation of new server folder structures used by each Section of the NAO
- Provision of support services during the Commonwealth Auditors General Meeting held in March 2014, which included:
  - Inclusion of related web pages and content on the NAO website
  - Provision of a secure repository for meeting documents through NAO extranet
  - Desktop publishing of a booklet which was then distributed to the meeting attendees
- Desktop publishing of 16 NAO publications which were tabled in Parliament comprising:
  - the Annual Audit Report
  - Report on the Workings of Local Government
  - Work and Activities Report
  - a number of reports covering Performance, IT, Investigative and Special Audits

### ICT Steering Committee

The ICT Steering Committee deals with the monitoring, review and prioritisation of developments and issues of an NAO IT related nature.

The Committee is made up of the Deputy Auditor General, the three Assistant Auditors General, Head of Special Audits and Investigations Section, Manager, Finance and Administration and Manager – ICT Audits and Operations.

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

A sub-Committee of the Steering Committee, as explained under 'Archiving Facilities' coordinated the switch to an electronic filing system within the Office.

### Archiving Facilities

Up to 31 December 2014, NAO operated a manual filing system. Upon conclusion of an audit all files, including audit working papers, were transferred to NAO physical archives. An electronic copy of working papers was also stored on the NAO network by the audit unit carrying out the audit. In particular, an electronic copy of all drafts of the Management Letters and Audit Reports leading up to the final documents is saved by the different Sections.

An NAO internal sub-Committee was set up and met regularly in 2014 to coordinate the switch to an electronic filing system, with effect from 2015. This move is to result in significant savings to the Office from a substantial reduction in paper consumption and a decrease in printing costs.

Audit personal data is retained in accordance with the Office data retention policy as regulated by the Data Protection Guidelines issued by the Office in July 2009.

### Occupational Health and Safety

NAO has always recognised the importance of ensuring the health and safety of its employees. In particular, NAO senior management has ensured a harassment free environment, improved the quality of employee recruitment and retention processes and enhanced the levels of motivation, cooperation and morale in the workforce, resulting in more productive employees and more efficient working methods. NAO also aims to reduce business costs and disruption through business continuity planning.

NAO has provided a health insurance scheme for its employees, their spouses/partners, as well as dependants who are less than 18 years of age. The health insurance covers the reimbursement of primary care and/or hospitalisation expenses

incurred as a result of a number of eligible physical and mental illnesses.

### Green Leader/Waste Reduction

It is the role of the green leader at NAO to create environmental awareness within the Office and to act as a catalyst for action to promote eco-friendly practices. A number of measures have been taken by NAO over the years to reduce or recycle different types of waste and for the Office to become more energy efficient. NAO is also committed to become,

*"We ... aim to write reports so that they can be readily understood by members of the public. Towards this end, we attempt to convey messages in, as far as possible, a non technical and jargon free manner.*

*It is critical to the effective and timely completion of all audits that a professional and constructive relationship is established with the entity and maintained throughout all phases of the audit.*

*Traditional audit approaches need to evolve with the times, while maintaining the fundamental elements so important to audits, such as professional skepticism, evidence-based findings and clarity in reporting.*

*A related issue facing all SAIs is a need to ensure our work is relevant and meets the evolving needs, preferences and expectations of stakeholders. This requires us to periodically review how we conduct our audits and review the presentation of our products, particularly our performance audit reports, taking account of feedback we receive."*

Ian McPhee, Auditor General, Australian National Audit Office

Australia Country Paper on Sub-Theme 2: 'Effective Communication of Audit Findings to Key Audiences'

XXII Commonwealth Auditors General Conference





NAO Annual Management Seminar held on 12 June 2014

as far as possible, a paperless office: introducing an electronic filing system, sending material electronically and restricting printing to a minimum.

### Communication and Stakeholder Management

Communication and Stakeholder Management constitute key elements that ensure the effective functioning of NAO. This Section deals with NAO's communication strategy with its internal (NAO management and employees) and its external stakeholders.

#### NAO Annual Management Seminar

The Annual Management Seminar was held on 12 June 2014.

The opening speech was delivered by the Auditor General who affirmed that the Office is commemorating its 200 years from the setting up of the first Audit Institution. Throughout this period, the role of NAO has evolved from a Government Department performing routine audit tasks, to a Supreme Audit Institution employing professional standards. However, one should not only look at past developments but also look forward to future

opportunities. He also noted that a long period of tenure of the Auditor General's Office brings stability to the Audit Institution.

Prof Ian Refalo, Professor of Public Law at the University of Malta, delivered the keynote address on *Consolidating NAO's autonomy through Constitutional/Legislative Amendments*. He affirmed that the development of democracy and Supreme Audit Institutions are interlinked. NAO and the Public Accounts Committee are an integral part of Parliamentary democracy. Without both these institutions, Parliamentary democracy would be impaired.

Prof Refalo highlighted the critical distinction between a Court of Law and a Supreme Audit Institution. A Court of Law must arrive at a conclusion – a judgement. The objective of the review of NAO reports and the resultant Parliamentary debate is not to discuss criminal and civil charges or arrive at a sentence, but to provide an opinion and fuel Parliamentary debate. This debate has assumed critical importance due to EU membership.

Prof Refalo affirmed that the above concepts should underpin the rationale for any amendments to the Constitution/NAO legislation.

Josephine Vella, an audit manager at the Special Audits and Investigations Section, delivered a presentation on *Team Building for Success – Building Teams that Work*. Ms Vella delved into the characteristics of effective teams and highlighted the benefits of teamwork. She noted that teams create the right atmosphere for collaboration. They can satisfy important membership needs and are sound problem-solving tools. They are also useful in promoting innovation and creativity. As organisations grow, small groups appear to be useful mechanisms for fending off many of the negative effects of size.

The above speeches were followed by round table discussions on the matters raised during these presentations.

### External Communication

In order to maximise the anticipated impact of NAO reports, NAO maintains professional relationships with key audiences of its audit reports. The major recipients of this Office's reports are the Public Accounts Committee, auditees, other internal and external auditors, the University of Malta, the media and civil society and the public.. NAO's relations with the National Audit Office Accounts Committee is also reviewed in this Section of the Report.

#### *NAO Relations with Parliament*

There are two bodies within the House of Representatives primarily concerned with the work of NAO. These are the Public Accounts Committee (PAC) and the National Audit Office Accounts Committee.

#### *The Public Accounts Committee (PAC)*

The seven-member Committee, which is chaired by a member from the Opposition, constitutes Parliament's main mechanism for the scrutiny of public funds. The Committee fulfills this role by ensuring that accountability pervades the expenditure of public funds, and that such disbursement is incurred in line with Parliamentary decisions.

The Public Accounts Committee is charged with examining reports of the Auditor General, and holds hearings on these reports. Senior officials of the audited entities are invited to participate in these PAC meetings, to provide any information or explanations

that may be required by the Committee. PAC thereby ensures that NAO's findings and recommendations are given due attention.

A major strength of the Committee emanates from its facility to commission investigations or audit follow-up activities through the vote of any three members of the PAC. It 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, together with other members of his staff, as may be required.

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

NAO values its privileged relationship with PAC since such relation is considered vital for the effective discharge of both institutions' oversight function. In order to be in a better position to cooperate with PAC, the following assistance is provided by NAO:

- As Officer of the House, the Auditor General is sensitive to serve Parliamentary needs and concerns, and therefore incorporates, to the extent possible, PAC's request for audit examinations in the audit programme. Such examinations may also include the review of value for money aspects of a particular Government programme or activity.
- NAO ensures that its staff members have the necessary knowledge and skills to undertake the full range of audits, including Performance Auditing. As a result, training needs are oriented towards this goal. NAO also ensures that effective review procedures are in place in accordance with auditing standards.
- NAO members of staff are encouraged to maintain the highest ethical standards, including objectivity and professionalism, in conducting audits, and reporting thereon. In this respect, all NAO employees are required to adhere to NAO Code of Professional

Conduct and Data Security Guidelines as well as all other Codes and Guidelines issued by the Office, a copy of which are found on NAO Intranet.

- Follow-up audits on issues raised during previous sittings are also conducted by NAO.

Up to 31 December 2014, 55 PAC sittings were held during the current legislature. Sessions held during 2014 related to:

- the discussion on the performance audit: *An Analysis of the Effectiveness of Enemalta Corporation's Fuel Procurement*;
- a review of the contract signed between the Commissioner of Land and Malta Shipbuilding, dated 20 August 1979, whereby the Commissioner of Land granted Malta Shipbuilding title under perpetual emphyteusis to three developed plots of land in Pembroke, as well as two contracts signed between the Malta Shipbuilding and Malta Labour Party on 22 August 1979, whereby Malta Shipbuilding transferred to the Party perpetual beneficial ownership of the three developed plots of land in Pembroke referred to in the above mentioned contract and the Party transferred to Malta Shipbuilding title under perpetual sub-emphyteusis to the Freedom Press Property site in Marsa.
- the Annual Audit Report on Public Accounts for the year 2012 (Malta Tourism Authority Operative and Marketing Expenditure, as well as Social Security Department – Overpayment of Social Security Benefits).

The Public Accounts Committee, the Foreign and European Affairs Committee, and the Economic and Financial Affairs Committee, met on 15 December 2014 to discuss ECA Annual Audit Report on 2013 Budget as well as the work and activities of the Maltese Member of ECA.

Minutes of Sittings are available on the website of the House of Representatives on <http://www.parlament.mt/sittingarchive?legcat=13&forcat=4>

### 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. Moreover, the Auditor General presents the audited financial statements of NAO, prepared on an accruals basis, to the National Audit Office Accounts Committee, that are then submitted to the House of Representatives together with any comments thereon by the Committee. NAO's audited financial statements for financial year ending 31 December 2013, and NAO Financial Estimates for 2015 were reviewed by the Committee on 11 November 2014. Moreover, NAO's Financial Estimates were approved by the House of Representatives (Motion Number 178) on 18 November 2014 in Parliamentary Sitting number 201.

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

### Relations with the Auditee

Auditees constitute a key audience of NAO Malta's audit reports, since established audit findings and proposed recommendations are referred to them, as one of the primary users of NAO reports, for remedial action. In view of their critical importance, NAO maintains constant communication with the auditee throughout the audit. Moreover, establishing a good working relationship with auditees at the outset ensures the integrity and prompt communication of information, which ultimately is reflected in the quality and timeliness of audit reporting.

Towards this end, audit findings are presented in a clear and unambiguous manner, and are supported by robust audit evidence justifying conclusions reached. When discussing audit findings, attention is duly directed towards establishing the cause of identified shortcomings and their subsequent effects. In this respect, NAO Malta's reporting maintains full cognisance of the important role played by the context within which shortcomings are identified. Furthermore, in fulfilling its wider role, the reports include recommendations intended to address the concerns highlighted, while simultaneously indicating the potential benefits of corrective action.

The process of finalising reports allocates due importance to auditee's feedback with respect to

findings being reported upon. The opportunity to discuss audit findings is formalised through the exit process, which is mainly carried out through management letters or by means of a scheduled exit meeting, where the auditees are invited to submit feedback, which in turn is taken into consideration when concluding the final draft. Auditee submissions in this regard prove useful, particularly with reference to recommendations that are notionally agreed to. To this end, this Office capitalises upon such circumstances by instigating follow-up action, which serve as an ideal tool in the maximisation of audit impact of its reports.

#### *Relations with Internal Auditors and other External Auditors*

NAO maintains regular communication with the Internal Audit and Investigations Department (IAID). Although the latter and NAO have differing and clearly defined roles, both organisations promote good governance and accountability practices in the use of public resources, enhance management understanding of the importance of internal controls, and promote an efficient and effective public administration.

The good relationship that exists between the two organisations contributes towards the exchange of ideas and knowledge. In addition, the likelihood of unnecessary duplication of audit work is reduced,

thereby minimising disruption to the audited entity and allowing for broader audit coverage. To this effect, regular meetings are held, where audit plans and findings are discussed. With respect to the latter, this provides the opportunity for either of these institutions to be fully cognisant of issues that may be followed-up or considered for future audit assignments.

Contributing to the wider audit environment, NAO reports may also be useful to private sector auditors who have been engaged in conducting external audits for public sector entities.

#### *Relations with the University of Malta*

In view of the socio-economic implications that may be raised through audit findings, communication with academic and professional bodies, in particular the University of Malta, is considered as important. NAO reports can be a source of practical information potentially applicable to various academic disciplines. NAO also maintains good relations with the University of Malta through discussions with the Faculty of Economics, Management and Accountancy, 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 fulfillment of the requirements of the accounting



*Auditor General presenting Prize Award Certificate to Ms Deborah Abela on 2 April 2014*



degree run by the Department of Accountancy at the Faculty of Economics, Management and Accountancy. In 2014, the award was presented to an Accountancy graduate for her dissertation on *Public -Private Partnerships in Maltese Healthcare: An Evaluation of the Financial Aspects*. The prize was awarded to Deborah Abela on 2 April 2014 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.

The Deputy Auditor General and Assistant Auditor General provided support to a University student Ms Vanessa Gauci in preparing her dissertation on *Weaknesses disclosed in the NAO Audit Report regarding Local Councils: A 2007-2011 Analysis*. Such support consisted in the sharing of knowledge and experiences. Following submission of her dissertation to the University of Malta, Ms Gauci presented a copy to the Deputy Auditor General and Assistant Auditor General in recognition of their assistance.

### *Relations with the Media*

NAO considers the media as a vital element in reaching its key audiences. In fact, the media contributes to

the widespread dissemination of NAO audit reports. Such media exposure has often stimulated public debate on the issues highlighted, thereby serving to expedite corrective action thereto.

NAO issues press releases in Maltese and English with respect to each audit published which, coupled with the actual audit report, are forwarded to the media. Invariably, they are the starting point of media coverage, which includes specific articles, editorials, and other opinion pieces. In some instances, media coverage is subject to specific agenda-bias and sensationalism. Thus, despite the attention attributed to objective reporting, NAO audit reports risk being misinterpreted by the public and other audiences as a result of the ensuing media spin.

During the year, to mark the 200th anniversary since the setting up of a Maltese State Audit Institution, a number of NAO officials published articles on the history of the Office and latest developments, namely:

- *National Audit Office – The Way Forward* by the Deputy Auditor General, appearing on the Sunday Times of Malta newspaper on 28 December 2014
- *Independent Auditing* by the Assistant Auditor General, Performance Audit Section, appearing on the Times of Malta newspaper on 24 May 2014



*Ms Vanessa Gauci presenting a copy of her dissertation to Deputy Auditor General and to Tanya Mercieca, Assistant Auditor General*

- *Celebrating Two Centuries of Public Auditing in Malta* by the Public Relations Officer, appearing on the Sunday Times of Malta newspaper on 12 October 2014.

A copy of the above articles is to be found in **Annex G**.

This Office considers its communication practices with the media as areas that merit possible further development. To date, NAO has not fully explored other modern communication tools, such as press conferences and innovative social media. Such communication strategies could serve to facilitate the conveyance of its message, as well as mitigate the potential risk of misinterpretation in media reporting.

#### *Relations with Civil Society and the Public*

Civil society and the general public are critically important stakeholders in the democratic process, and consequently, are considered as key audiences of NAO audit reports. In this respect, such reports are rendered freely accessible through the Office's corporate website.

In the case of civil society, NAO actively seeks to communicate its audit findings through its report distribution policy. The benefits associated with such a targeted approach include the facilitation of the taxpayers' ability to apply pressure to correct identified shortcomings where circumstances so warrant.

The accessibility of NAO reports by the general public positively contributes to the democratic process, and ensures that taxpayers are kept informed on the management of public funds. This Office aims to communicate its findings in a manner that is suitably and clearly understood, avoiding excessively technical jargon, and thereby seeking to attract a wider readership. The concept of accountability to the general public assumes particular relevance given the national context, namely the elevated level of political participation within which NAO operates.

#### *Participation in Committees*

The Deputy Auditor General participates in an observer capacity in the Government Finance Statistics Committee meetings. This Committee discusses latest developments relating to ensuring the accuracy and reliability of Maltese Government Finance Statistics. In 2014, members of the Committee were present during EUROSTAT visits relating to Upstream Data, Excessive Deficit Procedure reporting and other matters relating to Government Finance Statistics.

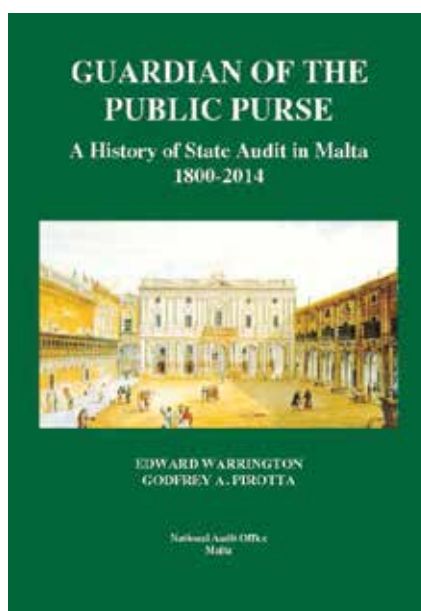
Moreover, an Assistant Auditor General participates, in an observer capacity in the Financial Management Committee and International Public Sector Accounting Standards (IPSAS) Project Board Meetings. The objectives of the former Committee is to innovate and re-engineer current financial management practices and improve the current financial reporting framework whilst the latter Board is responsible for

*"In the presence of fuzzy boundaries, wicked problems and diffused governance arrangements, interdependence becomes a way of discharging an SAI's constitutional mandate."*

Prof Edward Warrington, Rapporteur

Summary of the Key Issues on Sub-Theme 1  
'Ensuring Independence of SAIs for Effective  
SAI Reports'

XXII Commonwealth Auditors General  
Conference



Front Cover of the NAO Publication titled  
"Guardian of the Public Purse"

the strategic direction and overall management of the implementation of IPSAS across Government Departments and Ministries. It is also the role of the IPSAS Project Board to provide guidance and assign project work to the Project Team, as well as to discuss and approve recommendations presented by the latter.

Economics Crime Unit within the Malta Police, Managing Authority, Agriculture and Rural Payments Agency and Certifying Authority.

During these study visits, a number of senior NAO officials delivered presentations on the following areas:

## Local Events

In order to consolidate the relationship with its stakeholders as explained above, NAO has taken part in a number of initiatives, organised by itself or one of its external stakeholders. A brief description of these activities is given in this Section of the Report.

- The Set-up, Powers and Functions of the National Audit Office
- The Role of the National Audit Office in Combating Fraud and Irregularities
- NAO's relations with Parliament and other audit institutions such as IAID and ECA

## NAO Participation in study visits organised by IAID (as AFCOS Malta) for Croatian and Montenegro Delegations

### Second Edition of NAO Publication titled *Guardian of the Public Purse*

The Internal Audit and Investigations Department, in its capacity as Anti-Fraud Coordination Service (AFCOS) Malta, hosted two delegations from Croatia and Montenegro for one week study visits on 24-28 March 2014 and 24-28 November 2014 respectively. The objective of the programme was to familiarise the delegates with the entire Maltese set-up in place to prevent and combat fraud namely the Contracts Department, Customs Department, Attorney General, National Audit Office, Audit Authority,

The Publication *Guardian of the Public Purse* was updated to reflect NAO's role and functions in the twenty-first century. The most significant change was the introduction of a new chapter to reflect NAO's responses to the challenges of this century, especially those arising out of EU membership. These consisted in the carrying out of performance audits, special audits and investigations and IT audits. A further response resulted in the methodology of the Financial and Compliance Audit Section being strengthened due to new revenue and expenditure sources as well as more elaborate rules of financial administration and public procurement arising from





*Visit by the President of Malta, H.E. Marie-Louise Coleiro Preca at the National Audit Office on 3 December 2014*



the co-existence of several tiers of government (sub-national, national, supra-national and inter-governmental). Malta's relationship with the Public Accounts Committee and related isolated instances of controversy were also reviewed in this chapter. The new chapter also refers to threats to the independence of NAO and how these can be addressed.

### Visit by H.E. the President of Malta

To mark the 200th anniversary since the Audit Office was set up in 1814, the President of Malta, H.E. Marie-Louise Coleiro Preca, visited NAO on 3 December 2014. The President was welcomed by the Auditor General, Deputy Auditor General, and all NAO staff.

During her visit, the President unveiled a commemorative plaque after addressing NAO staff, in reply to a welcome address by the Auditor General. An updated edition of the publication *Guardian of the Public Purse*, co-authored by Professors Edward Warrington and Godfrey Pirotta, was presented to Her Excellency.

Twenty-five NAO staff who have been serving the Office for over 15 years were awarded a long service medal by the President.

Moreover, Her Excellency was presented with a cheque for the Malta Community Chest Fund from funds donated by NAO Staff.

### NAO/ECA Joint Audit Seminar

On 15 December 2014, public sector auditors from NAO and the Internal Audit and Investigations Department attended a Seminar on European Court of Auditors developments and initiatives in connection with the audit of the European Union budget. The role of NAO in performing audit work on funds from the EU budget spent in Malta was also taken into account. The Seminar's title was *Reflections on Recently Published ECA Annual Report 2013 and Landscape Review*, and was organised jointly by ECA and NAO.

The Seminar, chaired by the Deputy Auditor General, was addressed by the Auditor General, Dr Louis Galea, ECA Member, Jacques Sciberras, Team Leader at ECA, and the Assistant Auditor General, Performance Audit Section.

The Auditor General affirmed that the principal aim of the Seminar was to enable ECA to have the opportunity to present the salient points on ECA Annual Report and other special reports in Member States.

Dr Galea delivered a presentation concerning the ECA Annual Report on the implementation of the EU Budget for the financial year 2013. He explained how, in its work, the Court identified errors in payments from the EU budget that were not carried out in conformity with EU rules.



*Joint ECA and NAO Seminar at the Mediterranean Conference Centre in Valletta on 15 December 2014*

He also stressed the importance of accountability through sound and relevant auditing. Dr Galea asserted that the aims of the European Union are not met solely by virtue of EU funds but also through national funds invested in certain policy instruments and activities of the European Union in the various Member States. Examples of these areas comprise: the Europe 2020 strategy; different aspects of economic coordination within the European Semester; and new developments relating to Banking Supervision, such as the Single Supervisory Mechanism.

Dr Galea stated that ECA seeks ways to support Parliamentary scrutiny in these areas through cooperation with national audit authorities in Member States. He maintained that ECA monitors the responsibility of national authorities not only to ensure that these implement the budget in larger conformity with the rules, but also that these deliver value added to citizens. The purpose of national Parliamentary scrutiny and NAO is to have a pronounced effect on performance and controls of all entities and systems involved in the management of EU expenditure in Malta.

Jacques Sciberras spoke about two ECA innovative reports that perform a landscape review of two important themes:

1. Gaps, Overlaps and Challenges: a Landscape Review of EU Accountability, Parliamentary Scrutiny and Public Audit Arrangements; and
2. Making the Best of EU Money: a Landscape Review of the Risks to the Financial Management of the EU Budget.

The first review identifies important areas on a European level where Parliamentary scrutiny faces important challenges. Mr Sciberras referred, *inter alia*, to the fragmented system of Parliamentary scrutiny and public audit of coordinated actions between the European Union and Member States, based mainly on intergovernmental agreements. He spoke about the challenges to simplify processes of governance, of accountability, and audit obligations implemented at Member States level – both for revenue, and particularly for expenditure under shared management. The primary level of controls in several Member States is weak and fails to identify and correct errors.

This landscape review concludes that there needs to be collaboration between all Parliaments in order to achieve more consolidated Parliamentary scrutiny and public audit; more consistency in rules; better management and control systems in relation to EU activities and funds; more emphasis on the measurement of impact and results of EU policies; and reducing instances of duplication in controls and audit through cooperation between auditors and Parliaments for this purpose.

The second landscape review examines the risks to the financial management of the EU budget. The risks to sound financial management of the European Union Budget may well be due to lack of compliance with the law, as well as the lack of proper keeping of public accounts. Other risks may be that the funds are not spent wisely (economy, efficiency and effectiveness) and may not add value on a European level.

The Assistant Auditor General, in his presentation, spoke about the existing cooperation between public audit institutions in the European Union and ECA, as well as cooperation between NAO and these institutions.

On the same day, Dr Galea also addressed a joint session of three Parliamentary Committees – Foreign Affairs, Economic and Financial Affairs, and Public Accounts. In his speech, Dr Galea affirmed that the EU was becoming increasingly concerned about

*“The NAO gives due importance to its international relations, especially with other supreme audit institutions, and regularly participates in various international working groups.”*

*Whenever requested, the NAO’s views are also submitted on standards, guidelines and other studies undertaken by INTOSAI, EUROSAI and other international audit institutions.”*

Mario Sant, Public Relations Officer, National Audit Office of Malta

Article ‘Celebrating Two Centuries of Public Auditing in Malta’ The Sunday Times of Malta, 12 October 2014

ensuring positive outcomes from the money spent on projects. Moreover, he referred to the challenge arising from the fragmentation of scrutiny among EU Member States. He noted that addressing such a challenge would enhance transparency and accountability.

## International Events

NAO has also participated in a number of international events during 2014. This enables the Office to increase its international exposure and network with foreign audit institutions, thus promoting the mutual sharing of experience. A description of NAO involvement in the most important international activities is provided below.

### Commonwealth Auditors General Conference

NAO hosted the XXII Commonwealth Auditors General Conference which was held between 25 and 27 March 2014. It was attended by 87 delegates, including Heads of Supreme Audit Institutions (SAIs), from 35 SAIs throughout the Commonwealth. The main theme of the conference was: *Securing Independence of SAIs to Improve the Effectiveness of*

*Reporting and Communication of Audit Findings* and was divided into two sub-themes, namely:

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

The Auditor General, Deputy Auditor General and NAO senior management actively participated in the Conference. Prof Edward Warrington was conference rapporteur. In addition, a number of NAO officials, under the direction of the Deputy Auditor General, provided their support for the smooth running of the Conference.

#### *Opening Speech by Auditor General*

The Auditor General of Malta welcomed the Conference delegates and gave a brief history of state auditing in Malta. He acknowledged that 2014 is the 200th anniversary of the establishment of an SAI in Malta. He referred to the challenges faced by Supreme Audit Institutions in delivering public auditing in small states, with particular reference to the situation in the Maltese SAI.



*Auditor General introducing the Hon Speaker and the Hon Minister for Finance at the Commonwealth Auditors General Conference*



*Participants at the XXII Commonwealth Auditors General Conference held in Malta on 25-27 March 2014*



*President Emeritus, H.E. Dr George Abela meeting Mr Shashi Kant Sharma, Auditor General of India at the Commonwealth Auditors General Conference*



*Address by His Excellency, Dr George Abela, President Emeritus of Malta*

The President Emeritus of Malta also greeted conference participants and emphasised that the SAI is one of the key pillars of a healthy democracy. Dr Abela observed that SAIs serve as connection points in complex relationships that often involve the legislature and the executive on one side, and Governments and citizens on another.

*Speech by Brian Vella, Assistant Auditor General, Performance Audit Section*

Brian Vella introduced the conference theme, stating that it concerned three key interlinked elements: 1) independence of SAIs; 2) effective SAI reporting; and 3) effective communication of SAI reporting. He referred to the following international documents in relation to the conference theme:

- The Lima Declaration of Guidelines on Auditing Precepts
- The eight core principles in the Mexico Declaration on SAI Independence
- 2011 United Nations (UN) Resolution on SAI independence

*First Conference Subtheme: Ensuring Independence of SAIs for Effective Reporting*

The first conference subtheme, *Ensuring Independence of SAIs for effective Reporting*, was chaired by Mr Thembekile Makwetu, Auditor General of South Africa. Mr Amyas Morse, Comptroller and Auditor General of the United Kingdom (UK), delivered a keynote address, and the SAIs of Canada, Lesotho, New Zealand, and Zambia offered their presentations.

Discussions focused on what delegates considered to be some of the key barriers to full independence, particularly the lack of control over financial and human resources, and weaknesses in the legislatures' ability to hold the Executive to account.

Participants discussing this subtheme concluded that SAI independence is not a means to an end; it is a continual work in progress. Independence is conferred by the legislature and then put into effect, nurtured, and maintained by the SAI.

*Second Conference Subtheme: Effective Communication of Audit Findings to Key Audiences*

The second subtheme, *Effective Communication of Audit Findings to Key Audiences* was chaired by



*Professor Edward Warrington presenting a summary of main issues discussed at the Commonwealth Auditors General Conference*

Mr Shashi Kant Sharma, Comptroller and Auditor General of India. Speeches on the second subtheme were delivered by the heads of SAIs, or their representatives, from Australia, Bangladesh, Cyprus, Malaysia, the Maldives, and the United Republic of Tanzania.

Presentations focused on challenges associated with legal reporting obligations, audit findings reported upon by SAIs, key audiences for reports, reporting tools and techniques, audit report content, and effective reporting on follow-up audits. Discussions on this subtheme also focused on the legal and institutional impediments to reporting, the need to find improved ways of reaching different audiences, the quality and clarity of SAI messages, and the development of more systematic approaches to following up on the implementation of recommendations.

Conclusions were also reached on new challenges in traditional and new reporting relationships. Traditional relationships are still vital, as they relate to the communication of audit results to Parliament, the Executive, and the media. New reporting relationships entail more intense interactions, and communication with auditees – some of which may be new to a SAI's jurisdiction. Other relationships SAIs must cultivate are with oversight bodies – such as regulatory organisations, Central Banks, and anti-corruption agencies – that need to both understand the work of the SAI, as well as how their areas of interest overlap and interact.

#### *Other presentations*

In addition to discussing the conference themes, participants also attended presentations on state audit and good governance, reflections on experiences of SAIs, and a workshop on future directions for Commonwealth Auditors General. It was agreed that the forthcoming Commonwealth Auditors General Conference in 2017 will be hosted by the SAI of India.

Additional information may be obtained from the NAO website on <http://www.nao.malta@gov.mt>

A Statement of Conference Conclusions is to be found in **Annex H**.

#### *EUROSAI Goal Team 1: Capacity Building Committee Seminar on Independence of Supreme Audit Institutions*

The Assistant Auditor General, Performance Audit Section attended the European Organisation of Supreme Audit Institutions (EUROSAI) Goal Team 1: Capacity Building Committee Seminar on *Independence of Supreme Audit Institutions* that was held on 28 March 2014 in Budapest, Hungary. A number of themes relating to independence were discussed during this event namely:

- The importance of the Lima and Mexico Declarations on Independence;
- The significance of UN Resolution A/66/209 on SAI Independence;
- Surveys on SAI Independence; and
- Independence in Practice

Three roundtable discussions were also held with a number of SAIs delivering presentations during each discussion. The themes reviewed comprised:

- the prerequisites of independence;
- the consequence of independence in terms of real 'capabilities'; and
- the roadmap to (more) independence

The Assistant Auditor General gave a presentation on the second roundtable discussion topic. He focused on NAO Malta legislative, functional, organisational, and financial independence, and how this independence is exercised in practice.

During this seminar, it was concluded that SAIs should strive to bridge the gap between formal and theoretical independence and real and practical independence.

#### *EUROSAI Task Force on Audit and Ethics – Fifth Meeting*

The fifth EUROSAI Task Force on Audit and Ethics Meeting, organised by the Court of Audit of Portugal and hosted by the Court of Accounts of Romania, was held on 2-3 April, 2015. It was attended by a Principal Auditor from the Special Audits and Investigations Section.

The principal aim of this seminar was to review draft reports drawn up, collectively, by the participating SAIs. Such reports included:

- *Supporting SAI to Enhance their Ethical Infrastructure – Part I, A General Overview of SAI's Ethical Strategies and Practices* (Court of Audit of Portugal)
- *Supporting SAI to Enhance their Ethical Infrastructure – Part II, Managing Ethics in Practice* (Court of Audit of Portugal)
- *Auditing Ethics in the Public Sector* (State Audit Office of Croatia)

A representative of the National Audit Office of Poland and a representative of the European Court of Auditors also delivered two presentations on International Standard of Supreme Audit Institutions (ISSAI) 30 review and the line between ethics and law, respectively.

Particularly relevant to NAO was a request by the Chair to have an article written by the Office presented in Part I, which request NAO consented to. This article provides a comprehensive backdrop of the ethical role assumed by NAO, while also outlining the inherent limitations and risks pegged with being a small organisation.

The final component of the seminar focused on future projects for the next three years. This part of the seminar was interactive, with all participants split into four random groups. Future projects had to fall under two distinct but related subjects - *Managing Ethics within SAIs and Auditing Ethics*. The resultant prioritised tasks were subsequently openly discussed with the rest of the participants. With regard to the *Managing Ethics within SAIs*, a common suggestion among all groups was the introduction of standardised self-assessments (INTOSAINT), including peer reviews. On the other hand, the predominantly suggested task with regard to *Auditing Ethics* was that of drafting common guidelines for the adoption of a common methodology.

### Meeting of the Working Group on EU Structural Funds VI

In 2013, the Contact Committee of the Supreme Audit Institutions of the European Union mandated the Working Group on Structural Funds to continue

its reviews of Structural Funds issues and specifically to carry out an audit on *Analysis (of types) of errors in EU and national public procurement within the structural funds programmes*. The Supreme Audit Institutions of the Czech Republic, Estonia, Germany, Italy, Latvia, Malta, the Netherlands, Poland, Portugal and Slovak Republic agreed to participate in the 2014-2015 period activities of the Working Group.

Information on the Current Working Group and the draft audit plan relating to the above audit theme were the matters discussed during the Meeting which was held on 8 and 9 April 2014 in the Hague, the Netherlands and attended by a principal auditor from the Special Audits and Investigations Section.

### Seminar on EU Banking Union

The Deputy Auditor General attended the seminar organised by the Netherlands Court of Audit on *EU Banking Union* held at the Hague, Netherlands on the Court premises on 19 May 2014. The objectives of this seminar was to:

- enable the exchange of information regarding which national SAIs have the power to audit what aspects of the supervisory tasks of their central banks, both now and after the European Central Bank has taken on the task of direct supervision on the 130 largest banks of the Eurozone, and what audit work has actually been done so far on the supervisory tasks of central banks by SAIs;
- assess whether the introduction of the Single Supervisory Mechanism possibly creates a significant new audit gap; and
- determine what appropriate actions for the future are, in audit or otherwise.

The seminar dealt with an overview of the state of play of the Single Supervisory Mechanism from the viewpoint of the Bundesrechnungshof, the European Court of Auditors, and the European Central Bank. A discussion was then held to elicit the reactions of participating SAIs on the state of play of the Single Supervisory Mechanism as perceived by them, the identification of a possible audit gap, potential joint activities by SAIs relating to the Single Supervisory Mechanism; and other emerging issues on the topic.





*IX EUROSAI Congress held in the Hague on 16-19 June 2014*

### IX EUROSAI Congress in the Netherlands

The IX EUROSAI Congress took place from 16 to 19 June 2014 at The Hague, in the Netherlands and was attended by the Auditor General. During this Congress, the 41st and 42nd EUROSAI Governing Board Meetings were held on 16 June and 19 June respectively.

The 2011-2014 EUROSAI Activity Report, the 2013 EUROSAI Financial Report and the 2013 Report of the EUROSAI Auditors, the draft EUROSAI budget 2015-2017, the Practical Guide for organising EUROSAI events, the 2011-2014 Activity Reports of the EUROSAI Working Groups, and EUROSAI Cooperation were among the documents and areas discussed during the 41st EUROSAI Governing Board Meeting.

At the 42nd EUROSAI Governing Board Meeting, the main results of the IX Congress, along with the Conclusions and Recommendations adopted in its thematic sessions (explained below) and developments relating to the EUROSAI Strategic Plan 2011-2017 were reviewed.

During the IX EUROSAI Congress held on 17 and 18 June 2014, four seminars were held, each incorporating a number of workshops. The seminar themes consisted of:

1. Innovation and Leadership of SAIs in the Twenty-First Century
2. Predicting Integrity Incidents: How Assessment of Organisational Culture and Boardroom Behaviour Can Make Your Oversight More Farsighted

3. About Young EUROSAI (YES)
4. Auditing the Financial Crisis

The Auditor General of Malta as well as two representatives from the Netherlands Court of Audit moderated the workshop titled: *Public Private Partnerships: Audit Challenges and Findings* within the Innovation and Leadership SAIs in the Twenty-First Century seminar.

### 12th Annual EUROSAI Working Group on Environmental Auditing Meeting

The 12th Annual EUROSAI Working Group on Environmental Auditing met in Vilnius, Lithuania on 6-9 October 2014. The agenda for the meeting included the following:

- Training seminar on Auditing Infrastructure
- Biodiversity
- Survey data analysis in Environmental Auditing
- Business Meeting and Adoption of the Strategy and Activity Plan 2015-2017 and New Steering Committee

A number of issues related to the audit of infrastructure were discussed, namely familiarising participants with International Organisation of Supreme Audit Institutions (INTOSAI) material on Environmental Issues Associated with Infrastructure Development, assessing environmental impacts arising from infrastructure, and evaluating governance approaches for managing the sustainability aspects and environmental impacts of infrastructure.

The issue of biodiversity was reviewed at length during the Meeting. Presentations on this topic comprised the significance of biodiversity, practices of nature protection management, emerging challenges of national governments to maintain the favourable status of natural habitats, and experiences in auditing biodiversity.

Another area extensively examined during the meeting was Survey Data Analysis in Environmental Auditing. Speeches delivered on this area were aimed at maximising the outcome of surveys in environmental audits, looking for alternative survey methods in environmental audits and the sharing of experiences in this field.

During the business meeting, reporting on cooperative activities and progress of EUROSAI Working Group on Environmental Auditing took place. Reporting on INTOSAI Working Group on Environmental Auditing was also carried out in the final part of the Meeting under Adoption of the Strategic and Activity Plan 2015-2017 and New Steering Committee.

It was agreed that the 13th Annual EUROSAI Working Group Environmental Audit Meeting be held in Malta in October 2015.

### EU Member State SAIs Liaison Officers' Meeting

A Liaison Officers' Meeting was held on 10-11 April 2014 in Copenhagen, Denmark. The meeting took place in preparation for the EU Contact Committee Meeting held in October 2014 and was attended by the Assistant Auditor General, Performance Audit Section.

Themes discussed included: Key Issues and Recent EU Developments for Consideration by the Contact Committee; Organisation and Governance of the Contact Committee; Activities of the other Contact Committee Working Groups, Networks and Task Forces; Information on the Activities of the Network of SAIs of the Candidate and Potential Candidate Countries; and Recent trends in the EU audit field.

Three draft resolutions relating to the Public Sector Accounting Standards for European Member States; Establishment of an Early Warning Mechanism of the Contact Committee; and the Updating of the Contact Committee Procedural Guidance and Contact Committee Statement on the role of 'Acting Chair'

were approved by the Liaison Officers for forwarding to the Contact Committee Meeting held in October 2014.

### 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 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 15-17 October 2014 at the European Court of Auditors in Luxembourg and was attended by the Auditor General and Assistant Auditor General, Performance Audit Section.

Heads of EU Member State SAIs and ECA discussed the following themes during the meeting:

1. Seminar on enhancing cooperation between national SAIs and ECA
2. Activities of the Contact Committee, including work of its Working Groups, Task Forces and Networks; and
3. EU-related Audits by Members of the Contact Committee

The seminar on *Enhancing Cooperation between National SAIs and ECA* was divided into the ensuing sub-themes:

- Opportunities for enhancing cooperation between national SAIs and ECA
- Monitoring the implementation of the Europe 2020 Strategy: How can SAIs contribute?
- The Single Supervisory Mechanism of the EU Banking Union: What can SAIs do together?

### EU Contact Committee Working Groups

In 2014, the EU Contact Committee was active in the following Working Groups/Networks/Task Forces:

- Working Group on Structural Funds VI
- 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 Europe 2020 Strategy Audit
- Task Force on the Tasks and Roles of the External Public Audit in the light of Recent Developments in the European Union Economic Governance
- Task Force on Public Sector Accounting Standards for European Member States

### EU Contact Committee Resolutions

A number of resolutions were adopted during the EU Contact Committee Meeting, namely on:

- Public Sector Accounting Standards for European Member States (EPSAS)
- Establishment of an early warning mechanism of the Contact Committee
- Contact Committee Procedural Guidance and Contact Committee Statement on the role of 'Acting Chair'

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

### UN Resolution on Strengthening Supreme Audit Institutions

On 19 December 2014, the 69<sup>th</sup> UN General Assembly adopted a new Resolution titled *Promoting and Fostering the Efficiency, Accountability, Effectiveness and Transparency of Public Administration by Strengthening Supreme Audit Institutions*.

This Resolution *inter alia* encourages UN Member States to give due consideration to the independence and capacity-building of Supreme Audit Institutions in a manner consistent with their national institutional structures, as well as to the improvement of public accounting systems in accordance with national development plans in the context of the Post-2015 Development Agenda. This UN Resolution also provides an opportunity for SAIs to engage in international and regional meetings and conferences where discussions of these goals will be held.

A copy of the Resolution is to be found in **Annex J**.

### NAO Contribution to International Studies

During 2014, NAO prepared a number of papers, replies to questionnaires and comments on international publications as follows:

- Ad Hoc Working Group on the EU Banking Union Questionnaire on *An Inventory of Prudential Supervision on Banks in the EU Member States*
- Audit Office of the Republic of Cyprus questionnaire on *Financial Independence – Legal Provisions*
- Brazil Federal Court of Accounts Survey on *Financial Audit Materiality in the Public Sector*
- Commonwealth SAIs Questionnaire on *Independence of Commonwealth SAIs*
- Czech Republic Supreme Audit Office Enquiry on *SAI Powers to Audit Municipalities and Enterprises with State Shares*
- European Court of Auditors Journal Article on NAO Experience on *Ten Years of EU Enlargement (Annex K)*
- European Healthcare Fraud and Corruption Network 2014 Counter Fraud Management Survey Follow-Up
- EUROSAI Communication Framework
- EUROSAI/European Confederation of Institutes of Internal Auditing Questionnaire on *Coordination and Cooperation between SAIs and Internal Auditors in the Public Sector*
- INTOSAI Capacity Building Committee publication on *Guidelines for Internship Programs*
- INTOSAI Development Initiative Global Survey 2013

- INTOSAI Journal Article on *22nd Commonwealth Auditors General Conference in Malta (Annex K)*
- INTOSAI Questionnaire on *Internal Scan Survey Questions for all INTOSAI Members*
- National Audit Office of Finland Enquiry on *Coordination of EU Matters*
- National Audit Office of Lithuania Survey on *Audit Planning and Reporting*
- Office of the Comptroller General of Peru Questionnaire on *Information about Financial Audits*
- Polish Supreme Audit Office Enquiry on *Legal Instruments of SAI's Impact on the Activities of the Auditees*
- Supreme Audit Court of Iran Inquiry on *The Audit of Municipalities as well as those Non-Governmental Institutions that provide Public Services to Citizens*

## **Annex A – Summary of Audit Reports for year 2013 on Public Accounts and the Workings of Local Government**

The Auditor General presented to the Hon Deputy Speaker of the House of Representatives, the Annual Audit Report on the Public Accounts for 2013 on 15 December 2014. It comprises 22 reports on the operations of various Ministries, Departments and other Government entities, including an analysis of the Financial Report 2013. 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, constituting Contingent Liabilities for Government, reached circa €1,258 million;
- substantial excess of actual over budgeted figures of various items of Expenditure was once again reported, these being similar to those reported last year; and
- following the enactment of the new legislation governing Government's borrowing and public debt management, a number of measures will be implemented thereby introducing a risk management framework, together with a code-of-conduct and conflict-of-interest rules.

All Ministries/Departments submitted the Arrears of Revenue Return for 2013. Similar to previous years, a review of these returns revealed several issues in the collectability of outstanding balances.

A revenue audit at Heritage Malta revealed a weak internal control system, leaving ample room for abuse and other undetected shortcomings. The concerns include no independent ticket scanning, high level of dependence on the integrity of front office staff and significant number of cancellations not adequately supported by documentation.

The University of Malta and Junior College ended the year with a Capital Expenditure adverse variance of €1,275,271 and €2,075,271 when comparing the actual to the original and revised budgets respectively. Cash flow shortfalls were being temporarily funded by delaying amounts payable to the Inland Revenue, in respect of income tax collected from employees' salaries and National Insurance Contributions.

A review of expenditure of the Ministry for Sustainable Development, the Environment and Climate Change, revealed lack of sufficient audit trail and documentation. Other key shortcomings consisted of a retrospective approval for a variation order and non-adherence to Procurement Regulations with respect to consultancy services.

The financial sustainability and going concern of Gozo Channel Company Ltd were very critical. A weak control environment prevailed within a number of areas, including several expired contracts, weak budgetary control, inefficient utilisation of personnel, lack of control on overtime, and lack of synergy between the Management team, as well as between the various Units within the Company.

An analysis of the expenditure incurred by St Vincent de Paul Residence within the Elderly and Community Care Department, revealed that procurement was not always compliant with standing regulations. Food items were often procured following repetitive calls for quotations. Substantial payments for Operational and Maintenance Expenses, related to invoices outstanding from the previous year.

Minimal action was taken by VAT Department to recoup outstanding Eco-Contributions. An overview of the collection process of this tax, also revealed a discrepancy between payments received compared with income

recorded in the Government's Departmental Accounting System. Shortcomings in the investigation process were also noted.

The significant changes to the original contractual agreement of the Car Park and Traffic Management and External Security Services at Mater Dei Hospital led to considerable loss of revenue to Government, amounting to over one million euro per year. Another major concern related to the lack of control on cleaning services' expenditure, on which the hospital paid close to six million euro in 2013.

Considering the substantial amount of funds allocated by Government to Local Councils, exceeding 31 million euro, as well as the fact that the five Regional Committees generate around another eight million euro, this year for the first time ever the NAO deemed it appropriate to issue a separate Report dedicated solely and exclusively to the workings of Local Government.

Following a review of the Financial Statements, as well as the relative Management Letters prepared by Local Government Auditors (LGAs) for Local Councils and Regional Committees, a number of concerns and weaknesses prevailed from previous years and have been reported in this Report.

The main common shortcomings that were encountered in the Management Letters included:

- a. Accounting records not properly updated, with the result that the Financial Statements drawn up, do not reflect a true and fair view of the actual financial situation.
- b. Income and expenditure accounted for on cash rather than accrual basis.
- c. Payments made not substantiated by a proper invoice and/or fiscal receipt.
- d. Fixed Assets Register either lacks necessary details or not maintained at all.
- e. Budgeted expenditure for certain categories of expenditure exceeded.
- f. Procurement not in line with the pertinent regulations.

In addition, similar to the preceding period, none of the nine Joint Committees submitted the respective audited Financial Statements covering the year under review. Furthermore, both the Central and the North Joint Committees also failed to file the Financial Statements for the year ended 31 December 2011, with the latter not even submitting those covering the preceding year. Since these entities were entrusted with the collection of public funds, it is felt that such situation is unacceptable.



## Annex B – Summaries of Performance Audit Reports

### Addressing Social Benefit Fraud

The Auditor General conducted a performance audit addressing Government efforts at curbing social benefit fraud. NAO focused on the operations of the Benefit Fraud and Investigation Department (BFID), which is tasked with gathering evidence key in determining whether benefit fraud is being committed. BFID's reports are then submitted to the Department of Social Security (DSS), whose role is that of adjudicating submitted cases.

The relationship between BFID and DSS is strained by their divergent views with respect to the administration of social policy. DSS prefers to err on the side of caution and only revoke benefits when absolute certainty of irregularity is attained. On the other hand, BFID relies on evidence that is logical and factual, yet not necessarily irrefutable.

This divergence in socio-political alignment is manifested in the disagreement that arises on a number of cases. NAO reviewed all such cases, and expressed concern in this respect. A case that drew NAO's attention was that of a trader caught effecting transactions that ran into millions of Euro while simultaneously in receipt of a disability pension and sickness assistance, among other benefits. Aside from other interesting cases, such as that of the boxer in receipt of a pension for the visually impaired, are multiple cases featuring beneficiaries whose children are registered as having an unknown father while BFID investigations proved otherwise.

NAO's audit report also identified various management issues deemed to be of concern. The level of feedback provided by DSS to BFID in the adjudication of cases was inadequate and undermined the process' expected level of accountability and transparency. A similar source of contention were instances when DSS exercised administrative discretion beyond the parameters established by the Social Security Act. In addition, NAO noted that no system of flagging risk with respect to individuals who had previously committed benefit fraud and reapplied for benefits shortly thereafter existed.

In addition to investigations carried out following BFID's receipt of reports on alleged fraud, the Department also conducts desk-based exercises, which entail the review and analysis of data in order to establish potential cases of fraud. NAO believes that the future of benefit fraud investigations lies in improvements directed at such exercises, as such analysis would more fairly and comprehensively target beneficiaries presenting most risk rather than focusing on those who have 'unfortunately' had a report lodged against them.

Clearly emerging from findings presented in this NAO report is DSS's weak enforcement function in relation to the collection of undue benefits paid. This is largely attributable to the premise that one repays outstanding overpayments only if in receipt of social benefit payments. Further compounding this situation was the fact that repayment rates were at times wrongly applied, with inappropriate documentation supporting these deviations from the legally stipulated parameters.

Deterrents against benefit fraud are, in NAO's opinion, weak and insignificant, and certainly do not aid enforcement efforts. Moreover, NAO established that the magnitude of the overpayment bears no effect on the amount of repayment enforced, and increasing the overpayment due in absolute terms (through successive instances of benefit fraud) simply extends the period of time required to settle such dues.

### Malta's level of preparedness to deal with oil pollution at sea

The Auditor General reported that, to varying degrees, the implementation of the National Marine Pollution Contingency Plan is subject to administrative and operational limitations. Government approved the Plan, which covers Malta's territorial waters and beyond, in 2010. However, the Plan is based on environmental and

socio-economic risk assessments, which only extend to four rather than the twelve nautical miles from the coastline demarcating Malta's territorial waters. Although the Plan also lists the required specializations to effectively carry out an oil spill response (OSR) operation, the relative contact details are not always indicated.

Transport Malta (TM), as the Competent Authority, has limited influence over the contribution of other key players namely the Armed Forces of Malta, the Civil Protection Department as well as the Malta Environment and Planning Authority. This situation materialises since TM does not have jurisdiction over the prioritisation of respective operations managed by the key players. Moreover, historically, insufficient funds have been allocated to enable national entities to strengthen their capabilities, in terms of organisational structures, operational processes, technical and administrative capacity, as well as oil combating craft and equipment.

Maltese entities managed to verify 57 per cent of the alert reports received through the CleanSeaNet system (CSN). This compares favourably with verification initiatives undertaken by some of the other countries signatories to this system. Maltese entities, however, do not always verify these alerts within the optimal time window recommended by CSN to the potential detriment of pursuing liability claims in terms of the polluter pays principle.

TM is hindered from maintaining a detailed national inventory of OSR expertise and capabilities as the Competent Authority is not kept abreast of all the oil response training initiatives undertaken by other key players. Moreover, despite its importance, some key players opt not to participate in the national annual OSR simulation coordinated by the Competent Authority, thus diminishing the benefits of such an exercise. To further strengthen the OSR personnel development function, TM is implementing an EU funded project to carry out training gap analysis and to deliver the relative training by end 2015.

Irregular maintenance and inadequate storage conditions brought about the accelerated deterioration of Government owned OSR vessels and equipment. This situation coupled with the lack of personnel to maintain these assets led national entities to lease three OSR vessels and other equipment to third parties at varying rates. These agreements stipulate that these assets are to be maintained fully serviceable and made freely available to national entities in the eventuality that oil spill incidents are declared as national disasters. However, the appropriate mechanisms were not invoked to ascertain that the Competent Authority is kept fully informed of the relative inventory movements and the respective serviceability status of the leased assets.

The Report proposes a number of recommendations, including that the Plan is revised to better reflect developments since its formal approval.

### Housing Authority's Procurement of Repair Works on Residential Units

In view of the significant social implications that social housing entail, NAO has conducted a Performance Audit to assess whether the Housing Authority (HA) carries out its responsibilities relating to the procurement of repair works on residential units in a manner which maximises efficiency, effectiveness and economy considerations. Although such repair works are acquired through a number of different procurement methods, this study was scoped to cover works acquired through call for quotations and direct orders during the year 2013.

Although NAO noted a number of good practices employed by the HA, some concerns on its modus operandi have also emerged. Most notably, this Office observed that significant weaknesses were identified in the manner by which the Authority maintains its databases listing complaints lodged by residing tenants. NAO's concern was further compounded when it observed that the Authority does not keep a comprehensive compilation of all the residential units under its responsibility, making the task of identifying whether a residential unit falls under its responsibility or otherwise considerably more onerous.

This Office also identified a number of concerns on the manner by which the Authority engages in the reviewed procurement processes. Of the more salient findings, NAO noted that, as at end 2013, HA had approximately 700 pending requests for works to be carried out and, in an attempt to address this backlog, the Authority drafted a Framework Agreement so that it could start commissioning works to address this accumulation by direct orders, each not exceeding €6,000 (excluding VAT) in value. While this Office acknowledges the urgency of such a situation, it is nonetheless concerned about the fact that, by utilising such a procurement system, a considerable number of interventions are being awarded to selected contractors without the introduction of a competitive element, thereby forfeiting potential savings. NAO is also concerned on the manner by which the fixed prices quoted in these contracts were determined by the Authority as, rather than carrying out a study to establish fair and reasonable prices, HA based its rates on past bids submitted by contractors, subjecting itself to the risk of quoting inflated market prices.

In an Expression of Interest, where contractors wishing to carry out works through calls for quotations were to apply and be subsequently considered to be included in a contractors' list, NAO noted that the applications of ten contractors were accepted by the Authority after the expiration of the set deadline for submissions, while a further two were accepted even-though they did not fully meet the requirements set in the application. Furthermore, NAO is also concerned by a number of instances in which it could not find any documented approvals for issuance of calls for quotations.

Notwithstanding these identified concerns, NAO acknowledges the Authority's challenges while inspecting reported damages as HA Officials can sometimes find themselves taking no more than an educated guess on the extent and nature of works required in view of the ever present possibility of hidden defects. Furthermore, NAO also understands the difficult challenge faced by HA of having to contend with a prevailing perception harboured by a portion of residing tenants of not feeling obliged to carry out any maintenance whatsoever in their housing units. This outlook is often the cause of the occurrence of significant damages to the residential structures due to the lack of simple, regular and largely inexpensive maintenance.

These issues, along with others, are comprehensively addressed in this audit report. A number of recommendations also feature.

## Annex C – Summaries of Special Audits and Investigations Reports

### An Analysis of the Sourcing of Legal Services with respect to the Granting of Concessions to Operate Two Casinos

On 16 August 2013, the Opposition Members of Parliament (MPs) on the Public Accounts Committee (PAC) formally requested the Auditor General (AG) to investigate the procurement procedure whereby the Privatisation Unit (PU) engaged the services of a legal firm. The firm was to support and advise during the process for a call for expressions of interest for the concession of two casino licences, which the Ministry for the Economy, Investment and Small Business (MEIB) was embarking on assisted by a number of other entities, including the PU. The AG was also to report on the intervention of Minister MEIB during this procurement process.

According to the request, which was citing parliamentary reportage and media sources, it appeared that the award decision of the Evaluation Committee was overturned by Minister MEIB, who had publicly declared that he had revised the evaluation criteria decided on in the selection process and changed the legal firm chosen by the Evaluation Committee. It was further alleged that the Minister, aware that he could not effect such changes, then requested the Ministry for Finance to sanction the change through the approval of a direct order. In its investigation, NAO identified various shortcomings, presented hereunder.

The Evaluation Committee was not formally appointed by MEIB, nor was it furnished with clearly defined terms of reference outlining its expected functions and responsibilities. In NAO's opinion, these shortcomings created a sense of ambiguity that manifested itself at various stages throughout the legal firm selection process.

NAO commends MEIB's initial endeavours at designing a selection process that was open and transparent, most notably so in terms of efforts intended at widening eligibility by removing past experience of privatisation processes as an eligibility requirement. Such efforts, if seen through, would have served to promote good governance. However, the removal of past experience as an eligibility requirement subsequently created the need to establish another mechanism whereby the interested legal firms' quality could be assessed and ascertained.

MEIB's failure in providing adequate guidance regarding evaluation criteria, despite the numerous attempts at sourcing such assistance by the Evaluation Committee, contributed to the difficulties that subsequently surfaced. This guidance was critically required in view of changes implemented with respect to eligibility criteria. NAO is of the opinion that attempts made by members of the Evaluation Committee to seek guidance from this Ministry were warranted and certainly merited attention, which unfortunately, was never forthcoming. On the other hand, failure on the part of the Evaluation Committee to proactively propose and utilise comprehensive criteria other than the price criterion eventually employed, was deemed as constituting a shortcoming on the Committee's behalf, as was the evaluation based on price alone, which resulted in an incomplete analysis of offers received.

The ranking process as carried out by the Evaluation Committee was not deemed acceptable on the above grounds, and a re-ranking process was carried out directly by Minister MEIB and Parliamentary Secretary MEIB. In NAO's opinion, this re-ranking detracted from the process's overall level of transparency. It was impossible for NAO to establish a clear understanding of the re-ranking as per documentation provided, especially how each of the firms fared with regard to the individual elements that constituted the qualitative review. The relevance of such documentation in relation to the re-ranking process assumes critical importance given the significant changes to the original rank order established by the Evaluation Committee.

NAO noted that MEIB was effectively constrained in having to resort to the placement of a direct order due to the fact that no advertisement in the Government Gazette had been placed with respect to this request for legal services.

NAO was requested to widen the scope of this investigation by the Government MPs on PAC by reviewing the award of direct orders for legal services by PU between 2008-2013. This request is to be reported on under separate cover and will be concluded in due course.

### An Analysis of WasteServ Malta Limited's Procurement: A Case Study Perspective

The Auditor General presented to Hon Speaker the Report entitled *An Analysis of WasteServ Malta Limited's Procurement: A Case Study Perspective*. The main objective of this audit was to determine whether WasteServ Malta Limited (WSM) procurement practices were compliant with and adhered to pertinent public procurement regulations. In view of the numerous contracts awarded during the period under review (2006-2012), NAO adopted a case study approach. The contracted value corresponding to the five case studies selected was that of €34.32 million. In addition to the five case studies, NAO reviewed the appeals lodged by third parties in relation to WSM contracts with the Public Contracts Review Board (PCRB) during the period 2011-2012.

An essential component in ascertaining value for money is a realistic initial project estimate. In the cases reviewed, NAO noted that there were significant divergences from WSM's initial estimation of costs to actual contracted amounts. Shortcomings in this regard imply that WSM did not have a reliable benchmark against which to gauge the financial viability of offers received.

NAO considered such substantial differences between WSM estimates and contracted amounts, ranging from 42 per cent over-estimation to 15 per cent under-estimation, attributable to two possible factors. First, such discrepancies may have been indicative of poor estimate compilation, with insufficient attention directed towards the sourcing of essential market intelligence. Second, discrepancies of this magnitude may also have resulted from vast changes to project scope and/or design.

Aside from reservations in determining value for money emerging in relation to the reliability of project estimates, NAO noted significant variations that mainly stemmed from changes in project design after contract award. Variations between contracted amounts and final project costs were most pronounced in two case studies, that is, the construction of a leisure area at the Marsaskala Family Park and the improvement undertaken with respect to the Sant' Antnin Waste Treatment Plant and Material Recycling Facility. In these two cases, the recorded variations amounted to approximately €600,000 (53 per cent over the contracted amount) and €6,000,000 (23 per cent over the contracted amount), respectively.

Various audit concerns emerged with respect to the other case studies analysed. The Gozo Waste Treatment and Transfer Facility project at Tal-Kus was being reviewed by WSM, with the possibility of major changes in project scope and design. At this early stage, the cumulative value of variations is indicated as 23 per cent of the contract value. The main audit concern of the contract for the supply and maintenance of play equipment at the Marsaskala Family Park was WSM resorting to a negotiated contract, and the fact that this process involved only one contractor. The concern arose from the justification presented, since the nature of the procurement did not warrant the claimed urgency. With reference to the period contracts for the removal and export of filter cake and boiler dust, NAO questioned the resort to such contracts rather than a longer term tender.

Out of the 15 appeals lodged against WSM during the period 2011-2012, 10 of these objections were upheld by PCRB. In NAO's opinion, this situation left much to be desired, particularly so when one considered the process of review that such procurement is subjected to. It transpired that PCRB overturned the award decisions for a variety of reasons. Most notable were instances where the contract was awarded to a non-



compliant bidder, the award of a contract despite ambiguity in tender instructions, a lack of adherence to the stipulated evaluation criteria, and a case where an appellant had to lodge three appeals with respect to the same contract.

### An Investigation into the Procurement of Legal Services by the Privatisation Unit between 2008 and 2013

On 20 August 2013, the Government Members on the Public Accounts Committee (PAC) formally requested the Auditor General (AG) to investigate the practice of utilising direct contracts for legal services, particularly within the Ministry of Finance, the Economy and Investment, and specifically in relation to privatisation processes undertaken between March 2008 and March 2013.

Three privatisation processes were carried out during the period under review, namely, the privatisation of Malta Shipyards Limited (MSL), the yacht marinas privatisation processes, and the re-concession for the rights of the National Lotteries. Various legal firms were engaged by the Privatisation Unit (PU) and the Malta Investment Management Company Limited (MIMCOL) in order to support the aforementioned privatisation processes. In its investigation, NAO identified various shortcomings, presented hereunder.

NAO noted a general lack of clarity in the delineation of responsibility between PU and MIMCOL with respect to the privatisations under analysis. This was mainly manifested in the payment processes reviewed, which lacked a coordinated system of invoice endorsement, key in ensuring the appropriate disbursement of funds. NAO considered the system of checks employed as weak, with different parties involved assuming that the other party was responsible for specific processes and tasks. Furthermore, NAO noted that no clear responsibility with regard to the issuance of the letter of engagement to firms engaged to provide legal services existed.

NAO is cognisant of the fact that no direct contract approval was required owing to MIMCOL's Schedule 3 status under the public procurement regulations. NAO acknowledges that such provisions serve to expedite sensitive processes and imbue MIMCOL with the required flexibility; however, NAO contends that the responsibility of appropriately documenting processes is not exempted through such provisions, and instead renders its need even more pronounced.

Although PU and MIMCOL stated that the terms of engagement relating to the MSL privatisation were discussed with the legal firm engaged to assist in this process, no formal letter of engagement was drawn up. This point of contention further intensifies when considering that this agreement was extended to the Ricasoli Tank Cleaning Facility and the yacht marinas privatisations. NAO considers the appropriate documentation of contractual arrangements entered into as a basic aspect of management, more so when one considers that the expense incurred exceeded €390,000. The justification put forward by PU and MIMCOL with respect to the resort to a direct contract for legal services in the case of the MSL privatisation centred on the urgency required in adhering to EU-imposed targets, among others. Recourse to a direct contract in the case of the yacht marinas privatisations was contextualised in terms of the legal services required to address perceived risks posed by a consortium on the rights of other berth holders.

The procurement of legal services in relation to the granting of a re-concession of the lotteries licence essentially constituted a direct contract, with PU contacting five firms of its choice and eventually selecting the cheapest offer submitted. Justifications supporting the decision to proceed with the award of a direct contract mainly centred on the urgency for the required legal service. However, NAO notes that the need for renewal could have been foreseen, thereby allowing for the selection of a legal firm through a more competitive tender process.

NAO noted that, although the Letter of Engagement stipulated that the legal firm engaged in this privatisation process was to obtain approvals from MIMCOL when a certain number of hours were to be exceeded, such

approvals were not always sought, or alternatively, the documentation was not retained. Furthermore, the legal firm was to seek PU's approval for the incurrence of other fees, yet such approvals were not sought, or the documentation was not maintained. The absence of such approvals is not commendable and detracts from the process's system of financial control.

### Foundation for Tomorrow's Schools: Regularity Audit on Procurement

The Auditor General presented to Hon Speaker the Report entitled *Foundation for Tomorrow's Schools: Regularity Audit on Procurement*. The audit focused on aspects relating to compliance to procurement legislation, inconsistencies in contract management, cost variations as well as delays in completion dates. During 2012 and 2013, the Foundation for Tomorrow's Schools (FTS) awarded 140 contracts, which in sum accounted for a contract value of €9.6 million. This review focused on a sample of 22 projects, which represented a total contract value of in excess of €1.4 million.

A number of shortcomings were identified, with audit concern centring upon instances of significantly higher FTS estimates compared to the tender bids received, considerable changes in the scope of planned works, substantial extras and variations, and notable delays in the completion of works.

The deviation of compliant bids from the FTS estimate drew NAO's attention. Of particular interest were those cases featuring an estimate that was significantly higher than all compliant bids received, which was often indicative of the Foundation's poor awareness of market rates. Another shortcoming identified related to the significant changes in project design, evidenced by the substantial changes with respect to the Bills of Quantities. The underlying implication of this concern was that the project had been poorly planned, which then necessitated changes during the implementation phase, although not necessarily resulting in cost overruns.

Delays were experienced with respect to a considerable number of projects. In the case of delays arising out of FTS action, NAO considers this as indicative of poor planning and project management. On the other hand, NAO noted that delays caused by the various contractors were never followed up by the imposition of delay charges and penalties as contemplated in the contract.

NAO is of the opinion that the resort to direct contracts should be restricted to instances of genuine urgency and unforeseen circumstances and not serve as a safety net for poor planning and ineffective management. While certain direct contracts reviewed satisfied these criteria, others clearly did not, as contracted works could have been anticipated, appropriately planned for and undertaken through open procurement methods. Other shortcomings identified with respect to these direct contracts, as well as the other projects reviewed, are presented in the Report.

## Annex D – Conclusions of Special Audits Commissioned by Minister for Finance

### An Assessment of the Macroeconomic Forecasts for the Maltese economy performed by the Ministry of Finance in April 2014

The achievement of the projected rate of Gross Domestic Product (GDP) growth for 2014 in the macroeconomic forecast within the Stability and Growth Pact (SGP) document very much depends on the risks associated with the expected developments within each of the GDP aggregates. In particular, developments over the remaining part of 2014 with respect to gross fixed capital formation will be crucial. The projected contribution of the final domestic demand component for 2014 (3.8%) also hinges on an expected sustained increase in private consumption activity. The expected negative contribution to GDP growth for 2014 from the net export component is also heavily dependent on the balance of risks associated with the import component of the projected gross fixed capital formation expenditure. One however notes that this forecast is based on a slightly better expectation for 2014 with regards to developments in Malta's main trading partners. As to the other years in the forecast horizon the projected trajectory for real GDP growth in the SGP shows a relatively constant rate of growth underpinned by the continued expected impetus to the economy from the final domestic demand side. It is our view that this might well be a plausible trajectory for growth given the assumed underlying developments within the separate GDP aggregates for the forecast years. There are however a number of risks which might put the achievement of such targets to the test. In particular one notes the expected absorption rate for the implementation of government projects, the developments in the export and import deflators, and the assumptions imposed on the inventories component.

Whilst acknowledging the risk associated within the macroeconomic forecasts presented in the SGP (April 2014), it is positive to note that through the use of the macro-econometric model and the expert inputs into the forecasting process the presented forecasts are internally consistent and follow sound economic principles. It is positive to note that the exogenous variables within the forecasting exercise carried out by the Economic Policy Department (EPD) for the SGP are based on the views of international reputable organizations and that all possible ad-hoc information available from local sources has been evaluated and taken on board in the preparation of the forecasts in this exercise.

### An Assessment of the Main Fiscal Forecasts prepared by the Ministry of Finance and Presented in the Update of the Stability Programme for Malta 2014-2017

As regards the methodology and processes used to produce the budgetary forecasts, the authors of this report positively note the detailed level at which these projections are generated and the involvement of expert inputs, as necessary. In particular, one notes the close collaboration between the Budget Office and the Economic Policy Department which should facilitate consistency between the fiscal and the macroeconomic projections. We recognise that the process of generating fiscal projections for the medium-term is complex and necessitates various assumptions, which entail a certain degree of uncertainty. However, the transition from Consolidated Fund cash data to projections in ESA95 terms necessitates additional assumptions and the fragmentation in the process of generating the fiscal projections can result in higher forecast errors.

The Stability Programme presents a gradual but consistent fiscal improvement over the 2014-2017 period. This fiscal consolidation is subject to some downside risks, but there are also some upside risks.

As regards the macroeconomic outlook, the projections in real terms might well be a plausible trajectory for growth and the main identified sources of uncertainty do not concern the major tax-rich components of GDP and thus do not represent a significant risk to the fiscal projections. However, one notes some uncertainty since the European Commission's Winter 2014 forecasts for nominal GDP and private consumption growth are lower than the Ministry's projections.

On the revenue side, the main downside risks to the projections involve the relatively high elasticities for taxes on production and imports and social contributions in 2014. On the other hand, the assumed elasticity for current taxes on income and wealth over the forecast period appears cautious.

The estimated impact of 2014 discretionary measures concerning taxes on production and imports indicates some element of prudence. On the other hand, the impact of the widening of the income tax bands may be slightly underestimated in 2014, but it may be somewhat lower than expected in 2015.

There are some risks of slippages on the expenditure side of the budget. In particular, outlays on compensation of employees could be higher than projected, since the planned measure of restrictions on recruitment appears challenging compared to the experience in past years. There are downside risks also for the projections of subsidies for public transport and as regards the *ex gratia* payment in relation to tax on vehicles. Furthermore, the fact that some of the measures underpinning the fiscal consolidation are not specified in the Programme constitutes a further element of downside risk. No additional risk is foreseen from the conversion of the loan repayment by the national airline into an equity injection, though this is conditional on the company turning profitable in 2016 as planned.

On the positive side, savings in expenditure could result from the implementation of the Ministerial Spending Review. Cost savings from the pension reform initiatives could also be higher than estimated, though to a limited extent. Moreover, proceeds from the International Investor Programme may be higher than that included in the Programme, if the authorities' expectations materialise. Another element of upside risk emanates from the fact that the revenue-increasing impact of the tax rate on rental income and the Asset Registration Scheme was not included in the fiscal projections.

The abovementioned risk factors also apply to the debt projections presented in the Programme. The debt forecasts are subject to additional uncertainties reflecting the assumptions for aggregate cash balances and borrowing by Extra-Budgetary Units (EBUs). The repayment of accumulated tax arrears by Enemalta is not considered to be a significant risk, as long as the restructuring of the utility company progresses as planned. An improvement in the financial position of this company would also reduce the risk to the debt projections stemming from government-guaranteed debt. If potential proceeds from privatisation materialise, the debt ratio would improve even further than projected.

Overall, we consider that the fiscal targets presented in the Programme are attainable, subject to the risks highlighted above, but require strong commitment by the authorities to achieve the projected revenue targets and adhere to the forecasted expenditure ceilings.

### An Assessment of the Macroeconomic Forecasts for the Maltese economy prepared by the Ministry for Finance in September 2014

The realization of the expected growth in real GDP for 2014 and 2015 clearly depends on the risks associated with the projected developments in each of the GDP aggregates, particularly the components for gross fixed capital formation and general government consumption expenditure. Given the latest developments in the first six months of 2014, the trajectory expected for the rest of the year is of particular importance. One notes the relatively strong contribution of the domestic demand component for GDP growth in 2014 and 2015. This has been a characteristic of the Maltese economy for the recent history years. Of significant importance within the current short term forecast is the projected positive contribution expected from the net exports sector in 2015. Indeed, such developments clearly depend on the assumed interlinkages between the developments in the local economy and the international expectations in the short term horizon. In view of the latest available information, the realization of the overall GDP growth rates for 2014 and 2015 may indeed be feasible, although subject to a number of risks. These risks are mainly linked to expectations relating to the implementation of a number of investment projects and developments in the various expenditure component deflators.

This forecast has been prepared under very particular circumstances. In view of the national accounts data publication by the National Statistics Office this forecast incorporates the new data methodology adopted (ESA 2010) for the national accounts compilation. This forecast also includes a number of other revisions carried out in the historical data series as part of the benchmarking exercise carried out by the national statistics office. One also acknowledges the efforts undertaken by the EPD and by the other institutions in ensuring that a smooth transition takes place in terms of incorporating the new data within the existing forecasting framework. Nevertheless, one still notes the need for further improvements in the overall planning and co-operation channels between the various institutions involved in the forecast preparation exercise.

To this effect the macro-econometric model used by the EPD incorporates where possible all the new methodology data available up to and including the cut-off date for this forecast. It is positive to note that the structured process adopted in previous forecasting rounds to internalize into the forecast all ad-hoc information available from a number of sources has been maintained. Furthermore, the use of assumptions adopted by international reputable organizations to serve as a base for the exogenous assumptions taken on board by this forecast is also acknowledged as good practice.

### An Assessment of the Main Fiscal Forecasts prepared by the Ministry of Finance and Presented in the Draft Budgetary Plan 2015

On a positive note, the methodology and process by which fiscal forecasts are formulated entails the involvement of experts and each category of the fiscal budget is projected in significant detail. However, the process is characterised by significant fragmentation particularly since the projections of every line item based on the Consolidated Fund and then transposed to ESA 2010 terms are generated by different entities. Furthermore, this process gives rise to the need of various assumptions entailing a certain degree of uncertainty. The authors consider that these established processes are resulting in a disjointed forecasting exercise.

The fiscal consolidation which is forecasted to continue during 2014 and 2015 is subject to some risks. Firstly, the assumptions for the macroeconomic scenario and the uncertainty that surround the growth prospects of the Maltese economy may constitute a risk to the attainment of the fiscal targets. In particular, the projections for general government consumption expenditure and various expenditure component deflators are surrounded by an element of uncertainty.

On the revenue side, the actual outturn for the first half of the year for the main tax components indicates that the attainment of the annual fiscal target is on track. However, projections for taxes on production and imports for 2014 reflect relatively high elasticity emanating an element of downside risk. This is also evident from the comparison to the Commission's Autumn Forecasts. Some risk to the revenue targets also relates to the relative high reliance for the increase in the total revenue on one particular measure, namely the International Investor Programme. On the upside, an element of prudence is noted as any proceeds that may emanate from the revision in the tax rate on rental income announced in the Budget for 2014 are not included in the fiscal forecasts.

On the expenditure side, there are risks of slippages particularly for compensation of employees both for 2014 and 2015. The projected wage bill appears ambitious compared to recent developments as also reflected in the European Commission's (CION's) projections. Some element of downside risk is also noted for social payments especially in 2014 as well as in the projections for Malta's contribution to the EU budget for 2015.

On the other hand, the implementation of the spending review may result in additional cost savings to those projected in the Draft Budgetary Plan though the impact of this exercise is difficult to quantify at this early stage. We also positively note the introduction of a contingency reserve which could be used to offset slippages in the targets, though to a limited extent.



The debt projections are also subject to the risk factors mentioned above. Moreover, the expected debt ratio is also subject to the assumptions for aggregate cash balances for 2014 and the assumptions of the debt of the EBUs for both 2014 and 2015. Some element of risk is also evident from the fact that a relatively high percentage of government guaranteed debt relates to Enemalta whose financial position hinges on the success of the planned restructuring process.

Overall, whilst the set fiscal targets could be attainable, they are subject to important risks as highlighted above.

## Annex E - Summaries of ICT Audit Reports

### Information Technology Audit: Armed Forces of Malta

An Information Technology (IT) audit has been carried out by the Auditor General within the Armed Forces of Malta (AFM). This audit sought to examine AFM's IT operations and investments and their alignment or otherwise with the AFM's strategic objectives.

In line with other IT audits, one of the principal aims of this Report was to collect and analyse evidence to determine whether the AFM has the necessary controls to ensure that their 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 AFM IT Strategy highlights, amongst other things, the importance of having an autonomous operational Wide Area Network, which would have sufficient bandwidth to eventually support the AFM operations and administration. In this regard, the National Audit Office (NAO), which incidentally this year will be celebrating the 200th anniversary since the establishment of a public auditing institution in Malta, recommends that the Headquarters AFM Communications Information Systems Section should ensure that this plan is followed through and implemented.

The NAO also observed that although the AFM maintain the overall IT inventory in a very efficient and structured way, the AFM should ideally invest in an electronic IT inventory application. Overall, the NAO commended the number of IT related internal policies and operating procedures that were issued by the AFM.

Moreover, although the AFM took a number of initiatives to mitigate the risks involved in the event of a disruption or total failure in the IT systems within the organisation, the NAO noted that the AFM, like various other entities, which have been audited, does not have formalised IT Business Continuity plans. Thus, the NAO recommended that the AFM carries out a Business Impact Analysis to identify the business and operational impacts of IT related incidents in order to determine a recovery strategy. The NAO also recommended that the AFM carry out a risk assessment to analyse critical IT assets to identify possible threats to those assets and assess the level of vulnerability.

### Information Technology Audit: Employment and Training Corporation

The Auditor General issued another Information Technology Audit Report today. The Report deals with the overall operational effectiveness of the Information Technology (IT) and Information Systems (IS) currently being used by the Employment and Training Corporation (ETC).

One of the principal aims of this Report was to collect and analyse evidence to determine whether the ETC has the necessary controls to ensure that their IT and IS maintain data integrity, safeguard assets, allow organisational goals to be achieved effectively and are conducive to making efficient use of the Corporation's IT related resources.

During this extensive audit, the NAO reviewed 13 software applications presently used by the Corporation as well as the entity's e-Forms, Website, and Facebook page. The audit report includes a number of key findings and recommendations related, amongst other things, to the need for a formally documented ICT strategy, IT system manuals, as well as the increased usage of e-Forms.

Furthermore, the NAO examined the Corporation's IT operations and made recommendations regarding the more efficient use of existing multifunction printers whose full potential is not being exploited, the need for backup logs and improved physical security in some ETC branches.

The NAO also made recommendations on information security. In this regard, the NAO suggested that an IT Business Impact Analysis and an IT Risk Assessment exercise is carried out as early as possible so that an IT Business Continuity Plan for the entity can be drafted and eventually adopted by the Corporation. The NAO is satisfied that a number of the above-mentioned recommendations are already being implemented as stated in the management comments presented by the ETC.

## Annex F – ECA Audit Missions

### Performance Audit on the Effectiveness of the External Borders Fund (including Malta)

In April 2013, ECA carried out an audit mission on the External Borders Fund at the Responsible Authority for Solidarity and Management of Migration Flows Programme within the Funds and Programmes Division which at the time formed part of the Office of the Prime Minister. The Court's audit focused on processes related to the External Borders Fund's effectiveness, EU added-value, and the achievement of the objectives of programmes and projects. It examined the design, programming and implementation, as well as the monitoring and evaluation of the projects in question.

ECA reported the following results concerning Malta:

- ECA found evidence that the External Borders Fund was not appropriately coordinated with other EU funds or with other international funds. This risked a loss in efficiency and effectiveness for the funds involved since they could each have been targeting similar actions.
- The responsible authorities' verification of procurement procedures in Malta was inadequate or non-existent, despite large parts of External Borders Fund being spent using procurement.
- ECA examined the procedure used by Member States to select projects. Serious weaknesses in the project selection procedures were found for the early years in Malta, putting into question whether the most relevant projects were selected.
- The Commission had drawn up strategic guidelines to define priorities, complemented by the requirement of specific priorities for implementing the External Borders Fund in the Member States which had EU added-value and to provide incentives therefor. Malta confirmed to ECA that specific priorities were not a factor in designing their programmes.
- Some projects had low or unknown EU added-value. ECA identified the case of Malta wherein the latter was not able to demonstrate why certain significant costs (mainly relating to building works) were apportioned to a 2007 annual programme project..
- The Court sought to determine whether Member States and the Commission used monitoring and evaluation to assess and improve the effectiveness of External Border Funds. It found that monitoring and evaluation were seriously constrained by the lack of Specific, Measurable, Achievable, Realistic and Timebound (SMART) objectives and measurable indicators, that there was a lack of adequate monitoring and reporting of projects at Member State level (including Malta), and that evaluation was delayed and suffered from serious deficiencies.
- None of the Member States in the Court's sample had set up an appropriate IT system from the start of the fund to record indicators. Malta has started developing an IT system in the second half of the funding period.

The audit showed that the External Borders Fund had contributed to external border management and that it had fostered financial solidarity. However, further EU added-value was limited and the overall result could not be measured due to weaknesses in the responsible authorities' monitoring and deficiencies in evaluations by the Commission.

### Performance Audit of the European Regional Development Fund and Cohesion Fund Investments in the field of Renewable Energy

Another ECA Audit Mission was carried out in Malta in the period May/June 2013 re: performance audit of European Regional Development Fund and Cohesion Fund Investments in the field of Renewable Energy through the Operational Programme I – *Investing in Competitiveness for a Better Quality of Life*. The results of this audit mission were published in April 2014.

The following results were reported upon:

- Malta had embarked on Renewable Energy Sources development only during the 2007-2013 period whereby a market for Renewable Energy Sources had not yet developed to maturity. An effective administration system also had not yet developed in full.
- Implementing bodies and project beneficiaries lacked sufficient expertise on Renewable Energy Sources (RES) technologies, their markets and procurement frameworks. This resulted in the inefficient organisation of procurement, cancellation of tenders due to the submission of technically or administratively non-compliant bids, temporary suspension of projects in Malta and no or non-reliable data available on the actual generated energy in some of the projects audited. Malta also devoted a large part of available EU funding for supporting RES installations of public institutions, thereby not sufficiently leveraging private funding sources. It was also observed that RES investments only had a limited effect on building managerial capacities – in general no far-reaching contributions to improving project planning, implementation and operation could be demonstrated.
- In Malta, the selection criteria used applied to multiple sectors covered by the operational programme but not specifically to the RES sector. Though one criterion provided scores in relation to the projects' 'contribution towards indicators beyond minimum required', the selection criteria did not include any cost-effectiveness or cost-benefit criteria for RES generation.
- Clear guidelines about planning permission and permits, where required, were available concerning solar and PV installations in Malta. However, in 2010 and 2011, when multiple EU co-funded projects were commissioned, these frequently encountered difficulties with feeding-in of their generated electricity – usually the electricity in excess of producers' own consumption. Since meters had not been installed by the grid operator the producers were not compensated for their electricity by the feed-in tariff for periods of up to four months.
- Malta allocated 10% of total European Regional Development Fund and Cohesion Fund spending for RES. ECA noted that this was not significant to reaching its national RES target of 10% by the year 2020, when considering that the country had practically no RES in 2007 and attained less than 2% of RES in final energy consumption by 2012.
- The Court found that the audited RES generation projects delivered outputs as planned. However, it found that the overall value for money of cohesion policy funds support to RES generation projects had been limited in helping achieve the EU RES 2020 target due to cost-effectiveness not being the guiding principle in planning and implementing the RES generation projects; and due to Cohesion policy funds having a limited EU added value. As a result, the Court concluded that improvements were needed if funding under these programmes were to make the maximum possible contribution to achieving the RES 2020 targets.

### Audit in respect of the Statement of Assurance concerning the financial year 2013: European Agricultural Fund for Rural Development Expenditure (including the Paying Agency in Malta)

In September 2013, ECA carried out its third audit mission in Malta. This related to the examination of the effectiveness of national supervisory and control systems operated by the Paying Agency in Malta in relation to support for local rural development financed from the European Agricultural Fund for Rural Development Expenditure. The results of this audit were published in the ECA Annual Report on the Implementation of the EU Budget in November 2014.

The ECA noted the following results:

- Regarding rural development measures audited, administrative checks related to eligibility conditions and commitments, as well as on-the-spot checks and sample selection, were only partially effective.
- Follow-up of irregularities, including the application of reductions or recoveries, was not effective. Consequently, the overall assessment of this procedure resulted in a qualified audit opinion, since controls were only partially effective.



- Moreover, during the above mission, an audit of the cross-compliance scheme was carried out. In this regard, controls relating to follow-up of irregularities, including the application of reductions or recoveries, the implementation of cross-compliance standards and good agricultural and environmental condition, as well as on-the-spot checks and sample selection, were also partially effective. The overall assessment in this case resulted in a similar qualified audit opinion.

### Excessive Deficit Procedure (EDP)

A performance audit on the Excessive Deficit Procedure (EDP) by the ECA was carried out in Malta during the period 30 June till 2 July 2014. Various Local Government entities, apart from NAO, took part in this audit mission. These included senior representatives from the Central Bank, National Statistics Office, Malta Statistics Authority, Ministry for Finance, Budget Office, Economic and Policy Department, Office of the Permanent Secretary for Ministry for Finance, and Treasury Department.

The objective of the audit was to assess the implementation of EDP, including the review of the:

- institutional organisation related to the compilation of the necessary data;
- process of verification of the quality of the transmitted Government Financial Statistical Data;
- cooperation with Eurostat in terms of guidance and support provided to the process of compilation and transmission of Government Financial Statistical data; and
- relations with the services of the Commission as far as the implementation of the process of EDP is concerned.

## Annex G - Articles by NAO officials

Sunday Times 28 December 2014

Charles Deguara

National Audit Office – the way forward

The National Audit Office has been commemorating the 200th anniversary since the setting up of a State audit institution in Malta.

Everyone agrees that commemorating such important anniversaries is commendable. However, it is equally true that such occasions should also serve to project the institution into the future, particularly through the development of a clear vision, which would enable and facilitate the timely attainment of its goals and objectives.

Ultimately, as American president Thomas Jefferson once said: “I like the dreams of the future better than the history of the past.”

One of the most important challenges the NAO faces is ensuring that the office remains relevant. Unless its audits and assignments remain relevant to Parliament – to which it reports, enabling adequate parliamentary scrutiny, and to the taxpayer, whose interests it seeks to safeguard – it surely would not be in a position to meet its objectives.

Fundamentally, this necessitates that the subjects chosen for scrutiny are indeed ones which could improve the operations of government entities in terms of efficiency, effectiveness and economy and which therefore result in an enhanced service delivery to their clients – that is, the taxpayer.

To cite just one practical example of how the NAO can use the knowledge and information acquired through its audits and apply such insight at the implementation phase, one must simply refer to the audit report on social benefit fraud issued by the office earlier this year.

Following publication of this audit report, the then family and social solidarity minister Marie-Louise Coleiro Preca set up a task force to analyse, study and provide recommendations on the reform of social security issues of abuse and fraud, taking in consideration the findings and recommendations of the aforementioned NAO Report.

As the NAO representative on this committee, working with my colleagues within the task force proved to be a most satisfying and invaluable learning experience, especially on account of our numerous consultation meetings with various senior officials in the field, as well as members of NGOs working in this particular area.

Indeed, under the chairmanship of Maurice Mullard, this assignment constituted a unique opportunity for all stakeholders involved in one way or another in social security to come together so that, in an open and frank manner, we could discuss and propose policies meant to reform the management of social security benefits in Malta. Various recommendations included in the task force’s report were eventually taken on board during this year’s budgetary process, contributing to the tackling of benefit fraud and abuse.

Participation in forums of this sort is a source of positive feedback in terms of the work carried out by this office.

In this particular case, the audit report served its purpose in instigating the review of the social benefits system, considering its sustainability, and whether it truly was addressing the needs of those considered most

vulnerable in our society, those who are really in need of such assistance.

As a result of Malta's EU membership and particularly its membership within the eurozone, the NAO needs to closely monitor international developments, particularly those relating to the financial and economic sectors.

This necessitates a close working relationship with the European Court of Auditors (ECA), an EU institution that was set up in Luxembourg in 1975 essentially to audit the accounts of EU's institutions.

Since the ECA's strategy is based on the need to remain at the forefront of developments in public sector auditing, maintaining such a relationship is considered of paramount importance in order to keep abreast of such developments. Indeed, on the initiative of the current Maltese Dean and member of the ECA, Louis Galea, annual seminars are held so that all NAO staff are duly updated on ongoing ECA developments that could have a bearing on their local auditing assignments.

Ultimately, the NAO can only continue to meet its constitutional mandate in the future if it manages to safeguard the high level of credibility and trust that it has successfully developed and consolidated, particularly since it was set up in its present format through the extremely important legislative amendments of 1997. This is based on two critical factors which are equally important and necessary.

The first one relates to the NAO's operational independence from all political parties and any other pressure group.

Ultimately, as rightly stated by the present Auditor General Anthony Mifsud, in a recent interview, our staff has to "maintain our objectivity and always have to report factually". From experience, I can state that successive governments have *de facto* fully respected the autonomy granted by the Constitution itself.

It is undoubtedly a *sine qua non* condition to have in place an effective and relevant auditing institution which could carry out its mandate without any interference or hindrance.

The second critical factor is the need to maintain the unconditional commitment and professionalism shown by past and present NAO management and staff in carrying out their duties – irrespective of whether the assignment at hand was an audit initiated by the office or an investigation carried out at the request of a third party, such as the Public Accounts Committee.

Indeed, although auditing within the local scenario does on occasion present its fair share of problems and constraints – very often relating to the relatively small size of our administration, and all that goes with it – the office's staff, through their commitment and resilience, have always managed to execute their mandate in the best interest of the Maltese taxpayer.

Acknowledging that its qualified, competent and dedicated human resources constitute its most important and valuable asset, the office is committed to extend its full support, even financially, to all those staff who seek to further their academic and professional development. This is clearly specified in the Continuous Professional Development Policy, incorporated in the recently signed NAO collective agreement, which, among other initiatives, promotes the participation of its staff at various work-related conferences, courses or in-house training events.

The challenge of remaining relevant to the society within which one operates is an issue that is faced not only by the local NAO but by practically all Supreme Audit Institutions (SAI), particularly when one considers the context of the recent crisis, which triggered the need for urgent containment or reduction of government expenditure in certain countries.

In this regard, it is felt that the message that emerged during last year's opening ceremony of the Management Development Programmes supported by African Organisation of Supreme Audit Institutions (AFROSAI) is loud and clear: "SAIs must reposition themselves and adapt to new public expectations to remain relevant as the custodians of public interest in the expenditure of public funds."

To do this successfully, SAIs need to be fully responsive to change such as – to give just one practical example – through the enhanced use of social media to communicate their findings and recommendations.

I strongly believe that the Malta NAO possesses the necessary leadership and human resources to ensure its sustained relevance to an ever-changing social, economic and political context. The commitment towards relevance is a critical aspect in ensuring the successful performance of the office's constitutional mandate, thereby enabling timely and objective parliamentary scrutiny, the safeguarding of the Maltese taxpayer's interests, and therefore justifying its 'guardian of the public purse' status.

The Times, 24 May 2014

Brian Vella

Independent auditing

Independence of supreme audit institutions is not a means to an end. It is not achieved once for all time, either, but is a continuous work in progress. It is conferred by the legislature and put into effect, nurtured and maintained by the institution itself.

That was one of the conclusions reached at the 22nd Conference of Commonwealth Auditors General, which the National Audit Office hosted a few weeks ago. Entitled *Securing the independence of SAIs to improve the effectiveness of reporting and communication of audit findings*, the conference was attended by 87 delegates from 35 Commonwealth countries.

Most Commonwealth countries appear to adhere to the core principles of SAI independence, which have been formalised in legislation, perhaps partly or wholly, incorporated into the constitutional fabric. However, in practice, the auditors general of many jurisdictions encounter practical limitations to their independence.

It seems that, within the Commonwealth, at least, while constitutional and legal safeguards focus on the Office of the Auditor General and, in some cases, on the Deputy Auditor General, as well as on the protection of the office holder from undue influence, there is a far less degree of protection for the organisation itself and its staff.

Independence in many jurisdictions is limited when SAIs cannot recruit and manage their own staff, where budgets are determined by ministries of finance and/or when they cannot put the results of their work into the public domain in a reasonable period of time.

Many new issues are arising which impinge on SAIs' independence and their capacity to provide assurance to legislatures and citizens. For example, to what extent do SAIs have the right to directly audit private contractors (such as those engaged in public-private partnerships or those providing services to the public)?

As governments have responded to the financial crisis of recent years and the levels of public indebtedness, parliaments and others have turned to the SAIs for advice and reassurance, seeing such institutions, in a number of countries, as guardians of fiscal prudence.

It was argued that SAI independence does not mean isolation because this actually corrodes their independence. Instead, independence provides a platform from which SAIs can engage actively with the apparatus of State.

In using their independence, it was argued, SAIs need to carefully consider the following four elements of communication:

Content – reports must be of good quality and readily understandable.

Medium – consideration needs to be given to how, and through what media and other means, messages are communicated.

Audiences – who is the SAI seeking to influence? The Public Accounts Committee, legislators, the President or the Cabinet, public service managers, specific constituencies within the public?

Image – what picture do we want to project of the SAI? Something which makes the Auditor General visible, credible, knowledgeable, integral or honest, impartial and, at the same time, sensitive to the legitimate interests of those delivering public services, those spending or collecting public monies?

It was also concluded at the conference that traditional core reporting co-exists with new reporting relationships.

Traditional reporting relationships are vital because they relate to communication of audit results to Parliament, the Executive and the media.

New reporting relationships concern more intense interaction and communication with auditees, some of which may be new to NAO's jurisdiction.

Other relationships are with similar oversight bodies, such as regulatory bodies, central banks and anti-corruption agencies.

These need to both understand the work of the SAI but also how their areas of interest overlap and interact.

Forms of communication were also deemed to be both formal and informal.

Formal communication relates to the statutory reporting of findings, conclusions and, possibly, recommendations whereas informal communication concerns providing informal discreet dialogue with the government on the transparency, integrity and performance of the State's governance systems.

It was stressed that communication with external peers and donors provides opportunities for self-reflection, peer reviews, capacity building, dissemination of good practices and breaking out of isolation.

Communication with a highly-politicised public and media is a challenge. A SAI's presence in this arena is uneasy and fraught with risk. However, engaging with such stakeholders is essential if the SAI is to continue to be seen as relevant, in touch, and useful.

At the same time, however, the SAI needs to act with discretion and be astute to risks of independence being lost.

The next Commonwealth Auditors General Conference in 2017 will be hosted by the Supreme Audit Institution of India.



The Sunday Times, 12 October 2014

Mario Sant

### Celebrating Two Centuries of Public Auditing in Malta

This year marks the 200th anniversary since the establishment of the Audit Office in Malta in 1814 by Governor Thomas Maitland to address lax accounting practices, corruption, poor financial information, competence of officials and inadequate remuneration. Maitland wrote to Lord Bathurst, Secretary of State for the Colonies, on October 24, 1814, on measures taken to ensure “a permanent and settled mode of administering the expenditure of the public money in the various departments of this island”.

There was a great deal to criticise in the way public accounts in Malta were kept and rendered during the first years of British rule prior to 1814, but possibly the most unsatisfactory feature was the total absence of proper audit in Malta in any shape or form.

Sir Alexander Ball, who was the British Civil Commissioner of Malta between February 1799 and February 1801, has been blamed for much of the financial muddle of those early years, but blamed very unfairly. Records show that, as early as 1801, the London authorities had undertaken to furnish Malta with guidelines for the regulation of financial business but had subsequently failed to do so.

Ball took the matter up with London early in 1805 and suggested that the Auditor of Military Accounts would also audit the civil accounts on a regular basis. On several subsequent occasions, he again urged the appointment of a resident auditor, while stressing that he had received no financial guidelines, and was forced to work on the systems he found in place, which were those in force in the time of the Knights.

London failed to respond to Ball's urgent concern. After Ball's death in 1809, his insistence was taken up by Sir Hilderbrand Oakes, the British Civil Commander of Malta between May 1810 and July 1813, with further multiple reminders. This eventually bore fruit in 1812, when an Examiner of Civil Accounts, James Toole, was appointed for duty with the government of Malta.

Toole's appointment was, in fact, part-time, because he had to couple his civil audit function with his other duties as an Army Commissary of Accounts. On this basis, the civil examiner (later renamed auditor) could not adequately cope with current audit business, let alone tackle the pre-1812 muddle, which remained far from sorted out.

With arrears further building up, and with the added confusion generated by the plague outbreak of 1813-1814, the decision was taken to appoint a second auditor specifically to examine all accumulated 'arrear accounts' over the period 1800 to 1814, with responsibility for current audits remaining with Toole.

This cleaning up of past accounts was assigned to William Thornton in 1815, who eventually completed the mammoth task in 1824. In the meantime, Toole, who had been virtually incapacitated by ill health for several years, had retired and the two posts of civil auditor were unified under Thornton in 1822.

Thornton's particular merit is that he not only managed to unravel the obscure financial transactions of the earliest days of the British connection and the chaotic accounts of the plague period, but also had a major hand in introducing systems of regularity and accountability which were the basis of all subsequent financial administration through reforms introduced by Maitland (1813-1824), and later under the UK Treasury regulations of 1824.

He was a solid rock of dependability in financial matters throughout his long career (1815-1858) and, indeed, he was a major government player throughout this period, not just in his capacity as auditor but effectively also as the government's financial adviser and trouble-shooter throughout his tenure of office, and particularly after Maitland's time, from the mid-1820s onwards.

Thornton was the only auditor to earn a knighthood, a tribute, perhaps, to his long service as much as to his ability.

After age and pressure of work began to tell on Thornton, in November 1857 he informed the governor of his wish to retire. The governor approved his request and proposed that John Collings should be appointed auditor general in Thornton's place. Collings was an English doctor who had received his education at the University of Malta. But he was not to last long in his new position, for four months after his appointment as auditor general, he died at Southampton while on leave in England.

As the office of auditor general fell vacant with Collings's death, the governor thought he could make some changes in the distribution of offices. He decided that Richard Legh, at the time assistant secretary in the Chief Secretary's Office, should be appointed auditor general. Legh occupied the post of auditor general from June 1858 till his death on January 10, 1876. Frederick Hoare was the next person chosen to fill the vacant post of auditor general. Hoare was the Collector of Revenue and Treasurer of Gibraltar.

Neither Legh nor Hoare brought lustre to the auditor-general's office, though between them they held it for 28 years; indeed, Hoare endured the humiliation of being the only auditor eased out of office for incompetence. George Cousin replaced Hoare in May 1885. He was the first Maltese auditor general.

Until after World War II, it was not uncommon for heads of departments to hold a military rank, generally as officers in the King's Own Malta Regiment, a territorial force.

The accelerated promotion of Lieutenant Colonel Alfonso Trapani, auditor general from April 1922 till June 1937, aroused disquiet in 1922. Trapani was a part-time soldier. So too was Major Stephen Sammut Tagliaferro, who led the Audit Office during the first phase of post-war reconstruction (December 1942-February 1948).

On the other hand, many heads of the Audit Office, along the years, spent the formative years of their careers in other departments of the public service, as members of the administrative class.

As, for most of the past 200 years, the Audit Office was a department of the public service, there can be little doubt that the administrative culture of the Malta civil service established the foundations of the Audit Office's tradition.

During the first half-century of British rule, British officers led the Maltese civil service. Influenced by the British, the civil service was soon transformed into a governing institution.

However, Malta's small size, economic insecurity and electoral system encouraged intense political competition, clientelism and governmental paternalism. The unusual combination of comparative abundance of money, wealth and economic vulnerability encouraged ambitious development plans.

Political convenience and the urgency of governmental programmes were unfavourable to rule-based administration. The partisanship that infected political thought and action competed for a civil servant's attachment to the values of impartiality and neutrality.

The incidents recounted in the auditor's annual reports disclose the consequences for day-to-day administration of tensions and ambiguities, opportunities and constraints. Over a span of two centuries, they reveal the distinctive pattern of governance.

These ambiguities and constraints hindering Maltese public administration always worried successive auditors general.

However despite their limited independence, the restraints on their jurisdiction, the chronic shortage of suitably qualified staff and the enduring inability or unwillingness of successive governments to address the auditor's pleas, the auditor's own reluctance to impose sanctions on defaulters led to successive auditors developing a tradition of independence, integrity and professional ability. They kept in close touch with developments at home and abroad. They always showed tenacity and persistence in discharging their statutory obligations.

In short, the history of state audit in Malta is unavoidably associated with constitutional and administrative development. Throughout the past two centuries, alterations to the auditor's status marked more fundamental changes in the constitutional order. The auditor's annual reports aired broader official concerns with a view to promoting scrutiny, debate and action.

The constitutional amendments that re-established the office of the auditor general in 1997 set the seal on the reform of central government inspired by the Public Service Reform Commission a decade earlier.

They brought to a close a period spanning almost two centuries during which the Maltese experience of paternal, centralised government reached its peak between 1964 and 1989, with the birth and consolidation of a sovereign state heavily engaged in planned socio-economic development.

Following the coming into force of these important legislative amendments on July 25, 1997, the National Audit Office obtained a clear mandate and empowerment to encourage accountability of public officers and to contribute towards better management of public funds and resources.

In this emerging scenario, it was felt necessary to establish a mechanism which facilitated and encouraged discussion and corrective measures to be taken on audit issues through the House of Representatives. This was finally established in March 1995 in the form of the Parliamentary Public Accounts Committee (PAC). This was carried out by means of an amendment, unanimously approved by Parliament, to Standing Orders of the House of Representatives.

The committee consists of seven members of Parliament, four from the government side and three from the Opposition. The chairman of the committee is nominated by the Leader of the Opposition after consultation with the leader of the House of Representatives. The PAC has the power, inter alia, to examine and act on reports made by the auditor general.

At least three members of the committee may request the auditor general to submit memoranda on any matter. Moreover, the committee is empowered to report and make recommendations thereon to Parliament.

The PAC represented an important development to the concept of accountability of the executive and legislative branches of government to Parliament. In addition, the PAC served as a catalyst to strengthen the state audit function in Malta.

The revised legal framework sought to enhance and consolidate the independence of the state audit function. This was primarily achieved by establishing that the auditor general be an officer of Parliament. Furthermore, the dependence on the Ministry of Finance and the Office of the Prime Minister for resourcing the office was removed. The NAO Act further empowered the auditor general to recruit staff for the office under conditions that he or she decides upon. NAO employees are not government employees, as was the case before the constitutional and legislative amendments relating to the office.

The constitution recognised that the independence of the state audit function would be strengthened and given more credibility if the auditor general and the deputy auditor general were 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 the members in the House.

This procedure ensures that the auditor general and his deputy are accepted as politically unbiased figures. In fact, the appointments of both the present auditor general and deputy auditor general won the unanimous support of the House of Representatives.

The independence of the NAO has been further guaranteed through new funding arrangements. The annual estimates considered necessary for the running of the NAO are reviewed by the National Audit Office Accounts Committee prior to consideration and approval by Parliament.

Members on this committee include the leader of the House of Representatives and the chairman of the Public Accounts Committee. The Act also provides for the accountability of the office. The committee is obliged to appoint private sector auditors to audit the accounts of the NAO.

To enhance the effectiveness of the audit reports the NAO Act stipulates that the auditor general is to submit his annual report to the Speaker of the House not later than one year following the closing of the financial year under review.

The auditor general can also submit other reports to the Speaker of the House on any other issue of significance, materiality or value for money nature. All reports are tabled in the House of Representatives by the Speaker of the House.

Although previous legislative provisions did not exclude value for money (also referred to as performance) audits, these were given increased prominence with the new legislation.

Value for money audits are a natural consequence of the increased demands by the public for more economic, efficient and effective public service operations. Such demands for value for money and accountability in public service operations are catered for in the Act.

The mandate had been extended to cover more clearly all entities holding, administering or using, directly or indirectly, public funds.

The NAO uses the International Auditing Standards of Supreme Audit Institutions (ISSAIs) as guidelines of practices to be followed in the conduct of its audits. The office has also developed, and continues to develop, more detailed auditing guidelines in line with these international auditing standards.

The remodelling and strengthening of the state audit function had proved to be timely and of increased significance in view of Malta's accession to the European Union on May 1, 2004. Such membership carries the obligation to ensure that EU funds transferred to/from Malta are properly controlled and accounted for.

The principal function of state audit is to promote accountability, propriety and best practice in government operations and activities and to provide independent and objective analysis, assurances and advice to Parliament on the way Treasury, government departments and other entities in receipt of public funds use and account for taxpayers' monies.

Consequently, one of the main challenges faced by the NAO is to continuously ensure that it has adequately trained professional staff to enable the office to carry out its constitutional mandate in the most effective and efficient manner.

The NAO gives due importance to its international relations, especially with other supreme audit institutions, and regularly participates in various international working groups.

Whenever requested, the NAO's views are also submitted on standards, guidelines and other studies undertaken by INTOSAI, EUROSAI and other international audit institutions.

The democratic process demands that the achievement of proper financial reporting, accountability, propriety and value for money in public administration need to be insisted upon and followed up constantly and vigorously.

Through the constitutional and legislative provisions referred to above, the NAO has the necessary mandate and empowerment to execute in an appropriate manner its primary function of serving as the guardian of the public purse, contributing to a stronger public sector for the benefit and in the interest of all Maltese citizens.

## References

Guardian of The Public Purse – A History of State Audit in Malta 1800-2000 by Godfrey A. Pirotta & Edward Warrington.

Governing Malta in the First Half of the Nineteenth Century – Some Perspectives by Patrick G. Staines

<http://www.friendsofcoleridge.com> (Samuel Taylor Coleridge, English poet/Acting Public Secretary of Malta under the Commissioner, Alexander Ball)

National Archives, Rabat, Malta

National Library of Malta, Valletta

<http://www.nao.gov.mt>



## Annex H – 22<sup>nd</sup> Commonwealth Auditors General Conference Conclusions

### 1.0 Conference Theme

- 1.1 NAO hosted the 22<sup>nd</sup> Conference of Commonwealth Auditors General between 24 and 27 March, 2014. The Conference, entitled *Securing Independence of SAIs to improve the Effectiveness of Reporting and Communication of Audit Findings*, was attended by 87 delegates from 35 Commonwealth countries. The Conference theme was sub-divided into two sub themes, namely *Ensuring Independence of SAIs for Effective Reporting*, and *Effective Communication of Audit Findings to Key Audiences*.

### 2.0 CHOGM Communiqué

- 2.1 Delegates at the Malta conference recalled the communiqué issued by the Commonwealth Heads of Government (CHOGM) at the end of their meeting in Sri Lanka in November 2013 reaffirmed the importance of strong and independent SAIs and Public Accounts Committees:

#### *Supreme 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.

- 2.2 This declaration, which constitutes a landmark in the Commonwealth's promotion of good governance, was secured by the collective efforts of the Commonwealth Auditors General.

### 3.0 Conclusions on Conference Theme

- 3.1 The following Conclusions emerged from the discussions on the two Sub-Themes:

#### **3.2 Conclusions on Sub-theme 1: Ensuring Independence of SAIs for Effective SAI Reporting**

- 3.2.1 SAI Independence is not a means to an end. It is not achieved once for all time but is a continuous work in progress. It is conferred by the legislature and put into effect, nurtured, and maintained by the SAI. SAI independence does not mean isolation as this actually corrodes independence. Instead, independence provides a platform from which SAIs can engage actively with the apparatus of state in fulfilment of their multiple roles.
- 3.2.2 Most Commonwealth countries appear to comply with the core principles of SAI independence, which have been formalised in legislation, and are perhaps partly or wholly incorporated into the Constitutional fabric. However, in practice, the Auditors General of several Commonwealth states encounter practical limitations to their independence. It seems that, within the Commonwealth at least, while constitutional and legal safeguards focus on the Office of the Auditor General, and in some cases on the Deputy Auditor General, as well as the protection of the Office holder from undue

influence, the degree of protection for the organisation itself - that is, the SAI, and its staff – is notably less. Independence is limited –

- when SAIs cannot recruit and manage their own staff, or
- when budgets are determined by Ministries of Finance, and
- when SAIs cannot put the results of their work into the public domain within a reasonable period of time.

**3.2.3** The conference noted the appearance of significant new issues which impinge on SAIs' independence and their capacity to provide assurance to legislatures and citizens. One example is the extent to which SAIs have the right to directly audit private contractors which are engaged in public private partnerships or providing services to the public.

**3.2.4** As governments have responded to the financial crisis of recent years and the levels of public indebtedness, parliaments and others have turned to the SAIs for advice and reassurance – seeing the SAIs, in a number of countries, as guardians of fiscal prudence.

### **3.3 Conclusions on Sub-theme 2: Effective Communication of Audit Findings to Key Audiences**

**3.3.1** In using their independence, the conference found that SAIs need to carefully consider the following four elements of communication:

- Content – reports must be of good quality and readily understandable;
- Medium – consideration needs to be given to how, and through what media and other means, messages are communicated;
- Audiences – the SAI must be clear about which audience or constituency it is seeking to influence: the Public Accounts Committee, legislators, the Head of Government or the Cabinet, public service managers, and specific constituencies within the general public; and
- Image – In a world saturated with vivid images, Commonwealth SAIs must reflect carefully on the image which their reports project of the institution, its role and the content of their report. In communicating reports, SAIs must project an image which makes the Office visible, credible, knowledgeable, integral or honest, impartial, and at the same time, sensitive to the legitimate interests of those delivering public services, those spending or collecting public monies.

**3.3.2** The conference noted that traditional core reporting co-exists with new reporting relationships. Traditional reporting relationships remain vital as they extend to Parliament, the Executive and the media.

**3.3.3** Newer reporting relationships involve more intense interaction and communication with auditees, some of which may be new to NAO's jurisdiction. Reporting or cooperative relationships may extend to other oversight bodies, such as regulatory authorities, Central Banks and anti-corruption agencies. These oversight bodies, which are increasingly independent, need both to understand the work of the SAI as well as recognising how their areas of interest overlap and interact.

**3.3.4** The conference also addressed forms of communication, both formal and informal. Formal communication relates to the statutory reporting of findings, conclusions and possibly recommendations, whereas informal communication is more appropriate to engaging in discreet dialogue with governments and other oversight bodies on the transparency, integrity and performance of the State's governance systems.

3.3.5 Communication with external peers and donors provides opportunities for self-reflection, peer reviews, capacity building, dissemination of good practices, and breaking out of isolation.

3.3.6 The conference singled out the challenges posed by the need to communicate with a highly politicized public and media. A SAI's presence in this arena is somewhat uneasy and fraught with risk. However, engaging with these stakeholders is essential if the SAI is to continue to be seen as relevant, in-touch, and useful. At the same time, however, SAIs must act with discretion and be alert to the risks entailed.

#### 4.0 Future Directions for Commonwealth Auditors General Conferences

4.1 The delegates explored what actions could be taken forward by Commonwealth SAIs to honour the commitments made in the CHOGM Communiqué and to increase efforts to progressively strengthen the independence of Commonwealth SAIs. Delegates highlighted the need to:

- give priority to understanding more fully the extent of independence among Commonwealth SAIs;
- focus capacity-building efforts on two or three key aspects of independence, for example financial independence and/or the capacity to recruit and manage staff; and
- work with the Commonwealth Secretariat to ensure other key Commonwealth organisations are supportive.

#### 5.0 XXIII Commonwealth Conference

5.1 It was agreed that the forthcoming Commonwealth Auditors General Conference in 2017 is to be hosted by the Supreme Audit Institution of India.

## Annex I – EU Contact Committee Resolutions

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

*CC-R-2014-01*

#### **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 primary interest in the context of cooperation within the EU-SAIs Contact Committee;

**Having agreed** in Resolution CC-R-2013-04 that the Task Force on EPSAS shall closely monitor the process; take an active part in the foreseen Working Group on EPSAS of the European Commission; and to report in front of the Contact Committee;

**Knowing** that the European Commission is preparing the development of Public Sector Accounting Standards for European Member States (EPSAS);

**Taking into account** the activities of the Eurostat Task Forces on EPSAS;

**Being aware** that the European Commission is planning to submit a 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** ask the Contact Committee Task Force on EPSAS to continue to monitor the developments with respect to EPSAS;

#### **Encourages SAIs to**

- keep in contact with the national finance ministries concerning this issue;
- make contributions to the work of the Eurostat EPSAS Task Forces on Governance and Standards where appropriate;
- share the information within the Members of the Contact Committee.

**Decides to** post the resolution on the Contact Committee Website.

Luxembourg, 16 October 2014

SAI Rapporteur: SAIs of France and Germany

Original language: EN

## Resolution on the establishment of an early warning mechanism of the Contact Committee

*CC-R-2014-02*

### **The Contact Committee,**

**Recalling** that at its 2012 meeting the Contact Committee established a task force mandated to consider the tasks and roles of SAIs in the light of the new economic, fiscal and financial architecture, and to assess prerequisites for an effective fulfilment of these tasks;

**Recalling** the Contact Committee discussions of May and October 2013 on the report presented by the task force, and notably the proposals it contained for the effective and timely reaction of the Contact Committee to developments and legislative processes in relevant fields of interest at the earliest opportunity;

**Agrees** on the necessity to establish an early warning mechanism as set out in the Annex of this resolution, in order to support an effective and efficient operation of the Contact Committee to the benefit of all its member SAIs by identifying developments early and enabling a timely reaction thereto;

**Recognises** the merits of starting the early warning mechanism as quickly as possible, initially for a trial period, and, when doing so, making best use of existing structures and arrangements reflecting the joint nature of, and the mutual ownership and responsibility for, the activity;

**Encourages** all its member SAIs to take up the opportunity afforded by the flexible arrangements for contributing – on a voluntary basis - to the effective operation of the early warning mechanism;

**Welcomes and accepts** the proposal for the early warning mechanism to be initially coordinated by the European Court of Auditors;

**Decides** to evaluate the early warning mechanism at its meeting in 2017 at the latest, based on input from all Contact Committee members;

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

Luxembourg, 16 October 2014

SAI Rapporteur: European Court of Auditors

Original language: EN

Annex



Resolution on the updating of the CC Procedural Guidance and CC Statement on the role of 'Acting Chair'

CC-R-2014-03

**The Contact Committee,**

**Recalling** that at its 2012 meeting the Contact Committee established a task force mandated to consider the tasks and roles of SAIs in the light of the new economic, fiscal and financial architecture, and to assess prerequisites for an effective fulfilment of these tasks;

**Recalling** the Contact Committee discussions of May and October 2013 on the report presented by the task force, and notably the proposals it contained for the effective and timely reaction of the Contact Committee to developments and legislative processes in relevant fields of interest at the earliest opportunity;

**Agrees** on the necessity to update the Contact Committee documents on the procedural guidance and the role of the Chair;

**Adopts** the updated documents *Procedural Guidance of the Contact Committee (2014)* and *Statement on the role of the Chair of the Contact Committee (2014)* (see Annexes I and II), which introduce conditions for making the work of the Contact Committee more effective;

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

Luxembourg, 16 October 2014

SAI Rapporteur: SAI of Poland

Original language: EN

Annexes I and II

## **Annex J – United Nations Resolution on *Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions***

United Nations General Assembly  
Sixty-ninth session  
Second Committee  
Agenda item 21  
Globalization and interdependence

*Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions*

*The General Assembly,*

*Recalling* its resolution 66/209 of 22 December 2011,

Recalling also the commitments in the outcomes of all the major United Nations conferences and summits in the economic, social and environmental fields, including the outcome document of the United Nations Conference on Sustainable Development entitled “The future we want”,<sup>1</sup> the United Nations Millennium Declaration,<sup>2</sup> the 2005 World Summit Outcome,<sup>3</sup> the Monterrey Consensus of the International Conference on Financing for Development,<sup>4</sup> the Doha Declaration on Financing for Development: outcome document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus,<sup>5</sup> the outcome document of the high-level plenary meeting of the General Assembly on the Millennium Development Goals,<sup>6</sup> as well as the outcome document of the special event to follow up efforts made towards achieving the Millennium Development Goals,<sup>7</sup> the Programme of Action of the International Conference on Population and Development,<sup>8</sup> the key actions for the further implementation of the Programme of Action of the International Conference on Population and Development<sup>9</sup> and the Beijing Declaration<sup>10</sup> and Platform for Action,<sup>11</sup>

*Further recalling* General Assembly resolutions 67/290 of 9 July 2013 and 68/1 of 20 September 2013, and the ministerial declaration of the high-level segment of the 2014 session of the Economic and Social Council and the high-level political forum on sustainable development,

*Recalling further* its resolution 68/309 of 10 September 2014, in which it welcomed the report of the Open Working Group on Sustainable Development Goals and decided that the proposal of the Open Working Group contained in the report shall be the main basis for integrating sustainable development goals into the post-2015 development agenda, while recognizing that other inputs will also be considered, in the intergovernmental negotiation process at the sixty-ninth session of the General Assembly,

<sup>1</sup> See resolution 66/288.

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

<sup>3</sup> See resolution 60/1.

<sup>4</sup> *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

<sup>5</sup> Resolution 63/239, annex.

<sup>6</sup> See resolution 65/1.

<sup>7</sup> Resolution 68/6

<sup>8</sup> *Report of the International Conference on Population and Development, Cairo, 5-13 September 1994* (United Nations publication, Sales No. E.95.XIII.18), chap. I, resolution 1, annex I.

<sup>9</sup> Resolution S-21/2, annex.

<sup>10</sup> Report of the Fourth World Conference on Women, Beijing, 4-15 September 1995 (United Nations publication, Sales No. E.96.IV.13), chap. I, resolution 1, annex I.

<sup>11</sup> *Ibid.*, annex II.

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

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

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

1. *Recognizes* that supreme audit institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence;
2. *Also recognizes* the important role of supreme audit institutions in promoting the efficiency, accountability, effectiveness and transparency of public administration, which is conducive to the achievement of national development objectives and priorities as well as the internationally agreed development goals;
3. *Takes note with appreciation* of the work of the International Organization of Supreme Audit Institutions in promoting greater efficiency, accountability, effectiveness, transparency and efficient and effective receipt and use of public resources for the benefit of citizens;
4. *Also takes note with appreciation* of the Lima Declaration of Guidelines on Auditing Precepts of 1977<sup>12</sup> and the Mexico Declaration on Supreme Audit Institutions Independence of 2007,<sup>13</sup> and encourages Member States to apply, in a manner consistent with their national institutional structures, the principles set out in those Declarations;
5. *Encourages* Member States and relevant United Nations institutions to continue and to intensify their cooperation, including in capacity-building, with the International Organization of Supreme Audit Institutions in order to promote good governance at all levels by ensuring efficiency, accountability, effectiveness and transparency through strengthened supreme audit institutions including, as appropriate, the improvement of public accounting systems;
6. *Acknowledges* the role of supreme audit institutions in fostering governmental accountability for the use of resources and their performance in achieving development goals;
7. *Takes note* of the interest of the International Organization of Supreme Audit Institutions in the post-2015 development agenda;
8. *Encourages* Member States to give due consideration to the independence and capacity-building of supreme audit institutions in a manner consistent with their national institutional structures, as well as to the improvement of public accounting systems in accordance with national development plans in the context of the post-2015 development agenda;
9. *Stresses* the importance of continuing international cooperation to support developing countries in capacity-building, knowledge and best practices related to public accounting and auditing.

<sup>12</sup> Adopted by the Ninth Congress of the International Organization of Supreme Audit Institutions, Lima, 17-26 October 1977.

<sup>13</sup> Adopted by the Nineteenth Congress of the International Organization of Supreme Audit Institutions, Mexico City, 5-10 November 2007.

## Annex K – Articles on Foreign Journals

European Court of Auditors Journal Article on NAO (Malta) experience on ten years of EU Enlargement  
 Brian Vella and Maria Attard – Performance Audit Section,  
 National Audit Office (Malta)

### *Introduction*

This year coincides with the 200th anniversary since the setup of a state audit institution in Malta. It is also the tenth anniversary since Malta became an EU member state.

Malta's accession to EU membership, with its resulting access to EU funds, the implementation of EU rules and regulations, the harmonisation of EU directives into Maltese legislation, and the setting of financial, environmental and social targets, has brought about significant progress in consolidating the country's institutions and infrastructure, as well as regulating the economy and in raising the overall standard of living. In particular, EU membership has reinforced the Maltese public sector auditor's role in promoting key values, such as value for money, quality of service, transparency, accountability and good governance.

However, EU membership has also presented its own challenges. Maltese public administration and public financial management have become more complex. In addition, core areas like, for example, public procurement, the budget deficit and public debt are now not simply matters of concern to the national government; but are subject to strict European legislation and oversight. Regulatory frameworks (health and safety, environmental rules, consumer rights, fair competition, gender rights, non-discrimination, subsidies) have also been strengthened as a consequence of EU membership. Latter has also led to modernisation of laws in various sectors, to improvements in the collection and collation of statistics and to other changes in the administration of the country. Organisations of civil society and NGOs have also been strengthened. These challenges also had an effect on the state audit function in Malta.

### *Impact of EU Enlargement on State Audit in Malta*

#### NAO Audit of EU component in national funds

The demand for improved accountability and greater transparency within EU Member States has resulted in a call for more information about government programmes and services and enhanced financial and performance reporting. Thus, the existence of two independent audit bodies to audit EU funds helps strengthen citizens' trust in effective public management and reporting by EU Member States. The National Audit Office of Malta (NAO) is responsible for the external audit of central and local Government on behalf of Parliament. Although NAO is not the Audit Authority for EU Funds (this being the Internal Audit and Investigations Department within the Office of the Prime Minister with respect to Structural, Cohesion and Fisheries Funds, as well as being the certifying body of the European Agricultural Funds), NAO, as the state's independent auditor, also conducts stand alone EU-related audits (whether financial and compliance audits and performance audits), and takes into account the EU component in any audits it carries out, where applicable. During these audits, EU rules, regulations, directives and established targets serve as audit criteria.

#### Preparing for EU membership

In the line-up to EU membership, a number of meetings were held to determine the suitability of state audit legislation and NAO organisation structure to EU requirements. For instance, during a familiarisation visit at NAO in the year 2000, two senior officials from the European Court of Auditors discussed the role and functions of NAO, the compatibility of NAO with best European practices, the role of ECA in the audit of EU funds and the implications of the Acquis Communautaire on NAO with NAO senior management staff. In

2001, a European Court of Auditors delegation visited Malta to familiarise themselves with the activities of the various Maltese authorities concerned with external and internal financial control. The outcome of such meetings consisted in EU representatives being satisfied with the progress made by Malta in consolidating its external and internal audit structures and enhancing state audit legislation.

### The strengthening of NAO key audit functions

Over the past decade, NAO continued to strengthen its key audit functions, namely in financial and compliance auditing, performance auditing and special audits and investigations. These were originally consolidated following a white paper that was published in 1993, entitled “The Change Continues...”, which culminated (as regards public state auditing) in a change in NAO legislation in 1997, and ensuing major organisational change in the Office. Although changes carried out were not specifically related to EU Accession, these changes came at the right time as they ensured that the Office was well prepared for EU Accession in 2004.

### Shifts in NAO audit focus

It is also to be noted that EU membership has had an effect on NAO audit focus since membership necessitated significant reappraisals of policy and public finance: the goal is now sustainability and the key words are fiscal prudence, national competitiveness, environmental stewardship, and welfare reform. All financial and compliance audits as well as special audits and investigations performed by NAO continue to aim to safeguard public assets and revenue, and assist Government entities in containing public expenditure, thus ensuring fiscal prudence, whilst performance audits address issues of an economic, efficiency and effectiveness nature with the aim of improving government initiatives, operations, controls, systems and structures and providing the Office’s perspective on the sustainability issues referred to above.

### The drafting of NAO Audit Manuals

To fulfil one of the commitments relating to EU membership and to facilitate and harmonise NAO policies, practices and procedures concerning the conduct of all audit work, NAO had drafted two Audit Manuals to regulate its audit methodology: the Financial and Compliance Audit Manual and the Performance Audit Manual. These manuals are the primary source of SAI policy and guidance relating to the effective management and performance of audits. They set out the standards and policies that govern the conduct of all audit work, specify the procedures to be carried out at the planning, implementation and reporting phases of audits, and provide guidance to auditors in complying with these standards and policies.

### Developments in NAO Reporting

In line with developments in other EU Member State SAIs and the European Court of Auditors, NAO has also improved its reporting of audit findings to key audiences. Reports are presently more attractive in design and style, and are succinct in reporting audit findings and conclusions, and proposing recommendations. Such reporting is aimed to cater for the needs of a number of key audiences such as Parliament, auditees, anti-corruption agencies, and the general public. In the last decade, NAO has further consolidated its role as guardian of the public purse.

Despite the extent of its remit, partly necessitated by EU membership, NAO remains a remarkably lean and compact organisation with, on average, 40 audit examiners conducting audit work out of a staff complement of 55.



### ECA Training Activities

Membership of the Union also facilitated the attendance by NAO employees of a number of ECA training activities, including seminars and workshops as well as secondment opportunities with ECA. The *ECA/SIGMA Workshop on Audit of Public Sector Financial Statements* was held in Malta in October 2005. A number of study visits to other European Union SAIs were also undertaken.

Joint ECA/NAO Seminars were also held in Malta, the most recent one being in December 2013 on *EU Developments Implications for Public Audit*. Reference was made during this seminar to the impact of the financial and economic crisis on EU citizens, the measures undertaken by the EU to counter the effect of the crisis and stabilise and strengthen the European financial system, and the role of national Parliaments and Supreme Audit Institutions in this regard.

### EU Contact Committee

EU membership has also provided an opportunity for senior members of NAO staff to participate in EU Contact Committee Meetings, including Liaison Officers' Meetings and related Working Group Meetings. This participation enables the Office to keep abreast of European developments affecting public sector auditing and encourages networking, co-operation and the sharing of experiences in the auditing field.

This Office has participated, in particular, in the Working Group on Structural Funds, in which it took part in a number of Parallel Audits with other EU Member States. It also took part in the Working Group on Activities on Value Added Tax, Network on National SAI Reports on EU Financial Management, the Working Group on Common Auditing Standards and the European Stability Mechanism Working Group. NAO also participated in the Task Force entrusted to explore the possibilities for cooperation with Eurostat and National Statistical Institutions. A senior NAO official was also involved in the drafting of the Guidelines on Audit Quality by the respective Expert Group on Audit Quality. The latter task was carried forward to the EU Contact Committee from the EU Candidate Countries' relative Working Group prior to the 2004 EU Accession.

### EU-related audits carried out by NAO

The following table provides examples of EU-related audits carried out by the Office since EU membership.

**Table 1: EU-related stand alone audits**

Type of audit	Single/ Parallel Audit	Audit Title	Audit objectives	Date of publication
Performance	Single	Renewable Energy Sources and Energy Efficiency in Malta	To determine the extent to which Malta is minimising its dependence on fossil fuels by increasingly exploiting renewable energy sources and adopting energy efficient measures. This audit also sought to benchmark Malta's progress in this regard against EU targets.	September 2009
Special	Single	Malta's Renewable Energy Contingent Liability - Potential Costs Relating to the Non-Attainment of the EU's Mandatory 2020 Targets	The report sought to determine Malta's contingent liability in the event that EU renewable energy mandatory targets are not attained.	June 2010
Performance	Single	Renewable Energy in Malta – Follow-Up	The purpose of the audit was to follow up the progress registered since the previous publication in relation to the original report's audit objectives.	February 2011
Financial and Compliance	Single	Malta South Sewage Treatment Infrastructure Project Co-Funded under the EU Cohesion Fund 2007-2013	The audit sought to verify that, during the period under review, funds earmarked for this project were appropriately disbursed out of the relative Capital Vote of the then Ministry of Infrastructure, Transport and Communications.	November 2010
Performance	Parallel	Structural Funds: Environmental Programme	The objectives of this audit were to ascertain the extent to which Structural Funds allocated for the period under review were implemented and monitored to ascertain the sustainable success of the funded measure; and the extent of corrective action taken to ensure that concerns arising will not recur in the following period.	October 2008

Type of Audit	Single/ Parallel Audit	Audit Title	Audit objectives	Date of Publication
Performance	Parallel	Safeguarding Malta's Groundwater	The audit examined EU commitments relating to groundwater and the status of implementation of such commitments.	February 2012
Performance	Parallel	Simplification of the Regulations in Structural Funds	The principal objective of this audit was to examine whether simplification measures relating to regulations in Structural Funds have been implemented in Malta.	March 2013

Due to increasing public concern regarding environmental issues and the achievement of sustainable development targets in line with current agreements with the EU, the Office has included within its work programme, a number of EU related audits on the theme of the environment. Some of these audits were carried out in parallel with other EU Member States.

However, the predominant criteria for the final selection of EU-related topics, both stand alone and those performed in parallel with other EU Member States, depended on audit feasibility including possessing the necessary capacity and resources to carry out the proposed audit to the appropriate time, cost and quality standards; visibility; added value and potential impact.

The results of audits listed in Table 1 related mainly to project management issues. These included: delays in planning processes and in certain instances in tender awards, inadequate monitoring of the implementation of the various projects and measures due to insufficient resources at the regulatory body, variations to the original estimates, minor deficiencies in payment processes, difficulty in reaching targets due to insufficient administrative capacity at different departmental levels and lack of adequate management information systems.

The above audits have had a significant impact on audited entities as they spurred them to implement the necessary reforms in order to conform to best practice. The media also gave extensive coverage to most of the above audits sparking consistent public debate on the above issues.

#### ECA Audit Missions in Malta

Another effect of EU Membership on the NAO is the participation by the Office before, during and after audit missions of the European Court of Auditors (ECA). NAO examiners are mainly involved in an observer capacity basis during parts of ECA audits by accompanying the Audit Mission during these audits. NAO also ensures that all information requested by the ECA auditors, during any phase of the audit, is timely submitted by the audited body. NAO also undertakes limited additional system overviews prior to, during, and/or subsequent to some of these audits and may report upon them in its Annual Audit Report.

Audits carried out by ECA in Malta in recent years included the following:

**Table 2: ECA Audit Missions in Malta**

Audited entity	Audit title	Audit objectives	Date of Mission
Paying agency of the Ministry for Resources and Rural Affairs	Audit of the documentary and on-the-spot check of three Single Payment Scheme beneficiaries	The objective of this audit was to assess the effectiveness of systems established and operated by Malta and other EU Member States to recover undue payments made under the Common Agricultural Policy	February 2010
Enemalta Corporation	Audit on the procurement of the Interconnector Malta-Sicily Project	The objective of this audit mission was to review the accounting systems and supporting documentation of the contractors involved in delivering this project to ensure compliance with contractual terms	November 2011
Internal Audit and Investigations Department (IAID)	Audit of the IAID's role as the audit body with respect to two Operational Programmes titled <i>Investing in Competitiveness for a Better Quality of Life and Empowering People for More Jobs and a Better Quality of Life</i>	The main objective of the Court's audit enquiry was to obtain reasonable assurance that the work carried out by the Department, as Malta's Audit Authority, was compliant with the requirements of Council Regulation (EC) No 1083/2006	December 2012
Funds and Programmes Division within the Office of the Prime Minister	Audit Mission on the External Border Funds	The objective of this audit mission was to review the effectiveness of the procurement and contract management processes relating to the acquisition of equipment by a number of public entities, including the Immigration Police and the Armed Forces of Malta	April 2013
Agriculture and Rural Payments Agency, Ministry for Sustainable Development, the Environment and Climate Change	Audit of the European Agricultural Fund for Rural Development at the Paying Agency	The aim of this audit mission was to examine the effectiveness of the supervisory and control systems, in particular the effectiveness of the administrative, on-the-spot and cross compliance checks, relating to rural development expenditure in Malta, partly financed from the European fund, in question	September 2013

Audited entity	Audit title	Audit objectives	Date of Mission
Ministry for Finance and National Statistics Office, Malta Statistics Authority, Central Bank of Malta	ECA Audit Mission on the Excessive Deficit Procedure	The objective of this audit was to assess the implementation of the Excessive Deficit Procedure, including the review of the institutional organisation related to the compilation of EDP data; cooperation with Eurostat in terms of guidance and support provided to the process of compilation and transmission of Government Financial Statistical data; and the relations with the Commission services as far as the implementation of the process of excessive deficit procedure is concerned	June/July 2014

### Evaluations by NAO relating to Excessive Deficit Procedure

In 2013, the European Commission recommended that Malta be placed under an Excessive Deficit Procedure, calling for reforms in pensions and healthcare and sustainable public finances. The Commission recommended to the European Council that Malta should address the Excessive Deficit situation by 2014 by reaching a deficit target of 3.4% of GDP for 2013 and 2.7% of GDP in 2014. This adjustment path would result in bringing the deficit below 3% of GDP reference value by 2014 while at the same time ensuring that the debt ratio will approach the 60% of GDP reference value at a satisfactory pace.

A recent NAO task requested by the Honourable Minister for Finance, was to carry out an evaluation and endorsement of the macro-economic forecasts for the Maltese economy for the years 2013 and 2014 underpinning Government's fiscal plans in relation to the Excessive Deficit Procedure.

NAO was also required to provide an assessment of the main fiscal forecasts prepared by the Ministry of Finance and presented in the Update of the Stability Programme for Malta for the period 2014 to 2017.

NAO concluded in these studies that the presented forecasts were attainable subject to strong commitment by the authorities, internally consistent and followed sound economic principles. To this effect, NAO has provided an opinion on the reliability of these macroeconomic and fiscal forecast projections.

### Participation by NAO representative in Government Finance Statistics Committee Meetings

Moreover, the Deputy Auditor General participates in an observer capacity in the Government Finance Statistics Committee meetings that discuss issues relating to ensuring the reliability of Maltese Government Finance Statistics. Members of this Committee were present during Eurostat visits relating to Upstream Data, Excessive Deficit Procedure reporting and other matters relating to government finance statistics.

### Strengthening of public sector administrative capacity

In addition, the process of EU enlargement has led to an improvement in public sector administrative capacity. Most audited entities now employ technical people who share a common goal with NAO, that of managing Ministries, Departments and entities in an economic, efficient and effective way whilst complying with the relevant rules and regulations, and fulfilling reporting obligations. Thus, NAO communication with auditees

has been enhanced, the respective roles and responsibilities of both parties have been more clearly defined, and auditee management is more responsive to NAO's audit approach.

### Conclusion

EU membership has brought about significant changes to Maltese public administration and state audit. Following EU membership, public administration has had to adapt to new structures and decision-making processes to fulfil EU obligations and manage and absorb EU funds. The successful introduction of the euro on 1 January 2008 has forced Malta to consolidate its public finances by reining in the fiscal deficit and government debt. EU membership has also led to a general improvement in governance particularly through the strengthening of the regulatory framework.

All the above developments have resulted in the widening of the NAO audit mandate as explained in this article. Its audit approach and methodology have been strengthened over the past decade. EU membership has, furthermore, encouraged the Office to broaden its audit scope and collaborate further with other SAIs, thus strengthening interdependence without impinging on NAO Malta's and other individual EU Member State SAIs independence.

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*Performance Audit: Structural Funds: Environment Programme.* NAO, October 2008.

*Performance Audit: Safeguarding of Malta's Groundwater.* NAO, February 2012.

*Performance Audit: Simplification of the Regulations in Structural Funds.* NAO, March 2013.

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*An Assessment of the Macroeconomic Forecasts for the Maltese Economy performed by the Ministry of Finance in April 2014: An independent report presented by the National Audit Office.* April 2014

*An Assessment of the main Fiscal Forecasts prepared by the Ministry of Finance and presented in the Update of the Stability Programme for Malta, 2014-2017: An independent report presented by the National Audit Office.* May 2014.



## International Journal of Government Auditing Article on *22nd Conference of Commonwealth Auditors General*

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The National Audit Office (NAO) of Malta hosted the 22nd Conference of Commonwealth Auditors General held March 24 - 27, 2014. The conference, entitled: *Securing Independence of SAIs to Improve the Effectiveness of Reporting and Communication of Audit Findings*, brought together 87 delegates from 35 Commonwealth countries. This year's conference theme was sub-divided into two themes:

1. Ensuring independence of SAIs for effective reporting
2. Effective communication of audit findings to key audiences

The conference was opened by the Maltese former President H.E. Dr George Abela, who emphasized that the supreme audit institution (SAI) is one of the key pillars of a healthy democracy. Dr Abela said that SAIs serve as connection points in complex relationships that often involve the legislature and the executive on one side, and governments and citizens on another.

Auditor General Mr Anthony C. Mifsud acknowledged that 2014 is the 200th anniversary of the establishment of an SAI in Malta. He described the NAO's development over the years, especially since the former Department of Audit was re-established as the National Audit Office in 1997.

Mr Mifsud also noted the great success which had been achieved by the Commonwealth Auditors General when, as a result of their collective efforts, the communique issued by the Commonwealth Heads of Government at the end of their 2013 meeting in Sri Lanka reaffirmed the importance of strong and independent SAIs and Public Accounts Committees:

### *Supreme Audit Institutions*

45. Heads recognized 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.

### *Securing independence of SAIs to improve the effectiveness of reporting and communication of audit findings*

Mr Brian Vella, Assistant Auditor General, gave a general introduction to the conference theme, saying that it concerned three key intertwined elements: 1) independence of SAIs, 2) effective SAI reporting, and 3) effective communication of SAI reporting. Mr Vella referred to the following international documents related to the conference theme:

- The Lima Declaration of Guidelines on Auditing Precepts, which was adopted in Lima at the 9th International Congress of Supreme Audit Institutions (INCOSAI), and
- the eight core principles in the Mexico Declaration on SAI Independence, which was approved in the 19th INCOSAI in 2007.

Mr Vella also cited the 2011 UN Resolution on SAI Independence, which recognized that SAIs can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.

The first conference subtheme, *Ensuring independence of SAIs for effective reporting*, was chaired by Mr Thembekile Makwetu, Auditor General of South Africa. Mr Amyas Morse, Comptroller and Auditor General of the UK, gave a keynote address, and the SAIs of Canada, Lesotho, New Zealand, and Zambia offered presentations.

Discussions focused on what delegates considered to be some of the key barriers to full independence, particularly the lack of control over financial and human resources, and weaknesses in the legislatures' ability to hold the Executive to account.

Participants discussing this subtheme concluded that SAI independence is not a means to an end; it is a continual work in progress. Independence is conferred by the legislature and then put into effect, nurtured, and maintained by the SAI.

Most commonwealth countries appear to adhere to the core principles of SAI independence, which have been formalized in legislation and incorporated into the constitutional fabric. However, in practice, the auditors general of many jurisdictions encounter practical limitations to their independence. It seems that, within the Commonwealth at least, while constitutional and legal safeguards may focus on protecting the Office of the Auditor General and the Deputy Auditor General from undue influence, there is a far less protection for the organization itself—that is, the SAI and its staff. Independence in many jurisdictions is limited when SAIs cannot recruit and manage their own staff, where their budgets are determined by Ministries of Finance, and/or when they cannot put the results of their work into the public domain within a reasonable timeframe.

Many new issues are arising which impinge on SAIs' independence and their capacity to provide assurance to legislatures and citizens. For example, to what extent do SAIs have the right to directly audit private contractors (such as those engaged in public-private partnerships, or those providing services to the public)? Also, as governments have responded to the financial crisis of recent years, in some countries parliaments have turned to SAIs for advice and reassurance—recognizing that SAIs are often viewed as guardians of fiscal prudence. Finally, SAI independence does not mean isolation, as that could actually corrode independence; instead, independence provides a platform from which SAIs can engage actively with the apparatus of state.

The second subtheme, *Effective communication of audit findings to key audiences*, was chaired by Mr Shashi Kant Sharma, Comptroller and Auditor General of India. Speeches on the second subtheme were delivered by the heads of SAIs, or their representatives, from Australia, Bangladesh, Cyprus, Malaysia, the Maldives, and the United Republic of Tanzania. Presentations focused on challenges associated with legal reporting obligations, audit findings reported upon by SAIs, key audiences for reports, reporting tools and techniques, audit report content, and effective reporting on follow-up audits. Discussions on this subtheme also focused on the legal and institutional impediments to reporting, the need to find improved ways of reaching different audiences, the quality and clarity of SAI messages, and the development of more systematic approaches to following up on the implementation of recommendations.

Participants discussing subtheme two concluded that, in exercising their independence, SAIs need to carefully consider the following four elements of communication:

- Content - reports must be of good quality and readily understandable
- Medium - consideration needs to be given to how, and through what media and other means, messages are communicated
- Audience - consists of the Public Accounts Committee, legislators, the President or the Cabinet, public service managers, and/or specific constituencies within the general public

- Image - projecting a picture of the SAI that renders the Auditor General visible, credible, knowledgeable, honest, impartial, and, at the same time, sensitive to the legitimate interests of those delivering public services and spending or collecting public monies

Conclusions were also reached on new challenges in traditional and new reporting relationships. Traditional relationships are still vital, as they relate to the communication of audit results to Parliament, the Executive, and the media. New reporting relationships entail more intense interactions, and communication with auditees—some of which may be new to a SAI's jurisdiction. Other relationships SAIs must cultivate are with oversight bodies—such as regulatory organizations, central banks, and anti-corruption agencies—that need to both understand the work of the SAI as well as how their areas of interest overlap and interact.

Forms of communication, according to participants, are both formal and informal. Formal communication relates to the statutory reporting of findings, conclusions, and possibly, recommendations, whereas informal communication can entail engaging in discreet dialogue with government officials on the transparency, integrity, and performance of the nation's governance systems.

Participants also stressed that communication with external peers and donors provides opportunities for self-reflection, peer reviews, capacity building, dissemination of good practices, and the opportunity to resist isolation. Communication with a highly politicized public and media is a challenge, and an SAI's presence in this arena can be uneasy and fraught with risk. Engaging with these stakeholders is essential, however, if the SAI is to continue to be seen as relevant, in-touch, and useful.

In addition to discussing the conference themes, participants also attended presentations on state audit and good governance, reflections on experiences of SAIs, and a workshop on future directions for Commonwealth Auditors General. It was agreed that the forthcoming Commonwealth Auditors General Conference in 2017 will be hosted by the SAI of India.

## 2014-2015 (to date) Reports issued by NAO

### NAO Work and Activities Report

January 2014 Work and Activities of the National Audit Office 2013

### NAO Audit Reports

January 2014 Performance Audit: Addressing Social Benefit Fraud

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

April 2014 An Analysis of WasteServ Malta Limited's Procurement: A Case Study Perspective

April 2014 An Assessment of the Macroeconomic Forecasts for the Maltese Economy Performed by the Ministry for Finance in April 2014

May 2014 An Assessment of the main Fiscal Forecasts prepared by the Ministry for Finance and Presented in the Update of the Stability Programme for Malta 2014-2017

June 2014 An Investigation into the Procurement of Legal Services by the Privatisation Unit between 2008 and 2013

July 2014 Performance Audit: Malta's Level of Preparedness to Deal with Oil Pollution at Sea

July 2014 Information Technology Audit: Employment & Training Corporation

October 2014 Foundation for Tomorrow's Schools: Regularity Audit on Procurement

October 2014 An Assessment of the Macroeconomic Forecasts for the Maltese Economy prepared by the Ministry for Finance in September 2014

November 2014 Performance Audit: Housing Authority's Procurement of Repair Works on Residential Units

November 2014 An Assessment of the main Fiscal Forecasts prepared by the Ministry for Finance and presented in the Draft Budgeted Plan 2015

December 2014 Annual Audit Report of the Auditor General - Public Accounts 2013

December 2014 Annual Audit Report of the Auditor General - Local Government 2013

## 2014-2015 (to date) Reports issued by NAO cont/...

### NAO Audit Reports

January 2015	Information Technology Audit: Commerce Department
February 2015	An Analysis of Types of Errors in Public Procurement within the Structural Funds Programmes
February 2015	An Investigation of Government's Acquisition of the Café Premier
March 2015	An Analysis of Enemalta Corporation's Hedging Activity during 2014
April 2015	Performance Audit: Provision of residential long-term care (LTC) for the elderly through contractual arrangements with the private sector