

NATIONAL AUDIT OFFICE

ANNUAL REPORT & FINANCIAL STATEMENTS

2023





National Audit Office
Annual Report and Financial Statements

2023

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List of Abbreviations

AAG	Assistant Auditor General
ADPD	Merger of Democratic Alternative and Democratic Party - Green Party
AG	Auditor General
AI	Artificial Intelligence
BCU	Benefits Compliance Unit
CAB	Climate Action Board
CCP	Climate Change Platform
CFMS	Corporate Financial Management System
CIPFA	Chartered Institute of Public Finance and Accountancy
CoA	College of Auditors
CPD	Continuing Professional Development
COS	Conditions of Service for Officers Posted Overseas
CRISP	Crisis and Risk Management for Supreme Audit Institutions
CSO	Civil Society Organisation
CTMS	Corporate Travel Management System
DAG	Deputy Auditor General
DAS	Declaration of Assurance
DG	Directorate-General (EU)
DG CLIMA	Directorate-General for Climate Action (EU)
DNA	Deoxyribonucleic acid
DR	Democratic Republic
DRC	Democratic Republic of Congo
EC	European Commission
ECA	European Court of Auditors
ECIIA	European Confederation of Institutes of Internal Auditing
ECL	Expected Credit Losses
ELoGE	European Label of Governance Excellence
ESA	European System of National and Regional Accounts
ESG	Environmental, Social and Governance
EU	European Union
EUISS	EU Institute for Security Studies
EUNA	EU Network Audit
EUPACK	European Public Administration Country Knowledge
EUROSAI	European Organisation of Supreme Audit Institutions
EXPO	Exposition
EY	Ernst & Young Malta Ltd
F&A	Finance and Administration

List of Abbreviations continued

FDRS	Financial Data Reporting System
FEMA	Faculty of Economics, Management and Accountancy
FM	Frequency Modulation
HR	Human Resources
IAID	Internal Audit and Investigations Department
IAS	International Accounting Standard
ICT	Information and Communications Technology
IDI	INTOSAI Development Initiative
IESBA	International Ethics Standards Board for Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
INTOSAI	International Organisation of Supreme Audit Institutions
INTOSAI-P	INTOSAI Principle
IPSAS	International Public Sector Accounting Standard
ISA	International Standard on Auditing
ISACA	Information Systems Audit and Control Association
ISAM	IDI SDGs Audit Model
ISSAI	International Standard of Supreme Audit Institutions
IT	Information Technology
ITWG	IT Working Group
LESA	Local Enforcement System Agency
LGA	Local Government Auditor
LGGWG	Local Government Good Governance Working Group
MCESD	The Malta Council for Economic and Social Development
MITA	The Malta Information Technology Agency
NAO	National Audit Office
NAOAC	National Audit Office Accounts Committee
NAS	Network-Attached Storage
NCSB	Non-Contributory Social Benefits
NGO	Non-Governmental Organisation
NSO	National Statistics Office
OECD	Organisation for Economic Co-operation and Development
OGP	Open Government Partnership
PA	Planning Authority
PAC	Public Accounts Committee
PESA	Professional Education for SAI Auditors
PMF	Performance Measurement Framework
PPS	Principal Permanent Secretary

List of Abbreviations continued

SA&I	Special Audits and Investigations Section
SAI	Supreme Audit Institution
SAO	State Audit Office
SDG	Sustainable Development Goal
SEPA	Single Euro Payments Area
SG	Strategic Goal
SIC	Standards Interpretation Committee
SIGMA	Support for Improvement in Governance and Management
SPMR	Strategy, Performance Measurement and Reporting
SWOT	Strengths, Weaknesses, Opportunities and Threats
TV	Television
UNESCO	The United Nations Educational, Scientific and Cultural Organisation
UK	United Kingdom
UNDP	United Nations Development Programme
WGEA	Working Group on Environmental Auditing
WGFES	INTOSAI Working Group on Financial and Economic Stability
VPN	Virtual Private Network

Foreword

Auditor General's Overview

2023 - Another eventful year for our National Audit Office

Making our critical contribution to good governance across the public sector

Looking back at the year under review, with all due humility, I am pleased to acknowledge that, thanks to a collective team effort, the National Audit Office has had another eventful year. Together, we have consolidated our Office's reputation as a relevant, trusted and vibrant institution, established under the Constitution. Our work provides Parliament, and ultimately our citizens, with the assurance that public funds and resources are being utilised efficiently and effectively, and in compliance with prevailing rules and regulations. This is in line with our traditional though still very relevant vocation as 'the guardians of the public purse'.

Our core duty remains to provide a fair, objective, professional and evidence-based public sector auditing service, consistently aligned with established international auditing standards. Indeed, through our auditing service, we continue to make our critical contribution to good governance across the public sector. Suffice it to state that, throughout 2023, we issued 14 publications addressing a variety of diverse themes and issues, encompassing audits of over a hundred departments and public sector entities that utilise public funds to conduct their operations.

These NAO Reports include our five annual publications, the NAO Annual Report and Financial Statements, 2022 (July), the NAO Follow-Up Audits



Auditor General
Charles Deguara

Report (two volumes – June and November), the Report by the Auditor General on the Workings of Local Government for the year 2022 (November), and the statutory Report by the Auditor General on the Public Accounts for the year 2022 (December). These reports have ensured the successful completion of our Audit Plan for 2023, with audit subjects meticulously selected by our audit teams based on an internally developed risk assessment framework, including, inter alia, materiality and public interest. Additionally, we conducted special and investigative audits following specific requests from the Public Accounts Committee, the Minister responsible for Local Government or the public.

Another significant accomplishment during 2023 was the compilation of a new Strategic Plan for 2024-2028. The last official visit to the NAO by the former President of Malta, Dr George Vella, on 14 December 2023, provided the perfect occasion for the formal launch of our new NAO Strategic Plan, titled 'Enhancing Audit Impact'. This focused and ambitious document incorporates five fundamental strategic goals aimed at enhancing good governance across the public sector. These five goals are:

- Strengthening Institutional Capacity;
- Enhancing Audit Impact;
- Communication with Stakeholders;
- Optimising NAO's Profile and Public Visibility; and
- Advancing Methodology and Technology.

This extensive, excellent document was drafted by an internal NAO team, practically representing all the sections within our Office, following a comprehensive consultation process involving both internal and external stakeholders, whose invaluable feedback and proposals are greatly appreciated. I thank the Chair and Members of our Strategic Committee for the excellent work that they are still carrying out up to the present day, essentially to draw up the necessary Action Teams, thus ensuring the timely and effective implementation of these goals.

I am confident that these strategic goals will help us focus on the most essential requirements to ensure our Office will continue to achieve its challenging objectives. To quote some useful examples from our Plan, we are committed to adhering to international best practices while maintaining the highest levels of professionalism and integrity. We

will also continuously review our audit processes and procedures, thus enhancing even further our effectiveness and relevance in the area of public sector auditing.

As always, emphasis will be made on the quality, not the quantity, of staff within the NAO. Hence, our firm commitment to duly provide ongoing opportunities for our employees by way of continuous professional development. Strengthening our ties with academic institutions, schools, non-governmental institutions and the public is also a key aspect of these goals. Our excellent working relationship with the Department of Public Policy within the University of Malta is a case in point.

Despite being the national audit institution of the smallest Member State within the European Union (EU), our Office has also been very active internationally, particularly within the European Organisation of Supreme Audit Institutions (EUROSAI) fora. Some of my colleagues and I have been invited to take an active part during these events abroad, mainly by delivering presentations, moderating interactive sessions and participating in discussion fora based on public sector audit emerging issues.

Just to mention some of the most significant events:

- in October, we signed a bilateral co-operation agreement with the State Audit Office of Croatia, with whom we have developed an excellent working relationship; and
- in November, we had a most fruitful meeting in Malta with our colleagues from the Italian Corte dei Conti during which we agreed in principle to actively enhance our bilateral co-operation. This includes jointly carrying out a parallel audit focusing on the Interreg Malta-Italy programme. We also agreed to host two international EUROSAI events during the

first half of 2024, namely the Spring Session Meeting of the EUROSAI Working Group on Environmental Auditing (May 2024) and the final meeting of the EUROSAI Strategic Goal 1 project group, 'Travelling Club of Experts' (June 2024).

Also, of particular importance to our NAO, in October 2023, the President of the European Court of Auditors, Mr Tony Murphy, formally accepted my invitation to make his first official visit to our Office during the first half of 2024

Towards the end of 2023, it was also confirmed that a high-level delegation from the Chinese National Audit Office was to visit our Office for bilateral discussions at the end of January 2024. Moreover, following the successful negotiation of a new bilateral agreement during the year under review, in March 2024, we were also to host a high-level delegation from the State Audit Office of North Macedonia to sign this agreement.

We look forward to another challenging and eventful year in 2024. While our audit teams focus their efforts to once again complete in a timely manner our ambitious Audit Plan for this year, we will also continue our ongoing internal change management programme. In this regard, I am confident that we will have the courage to continue reviewing and changing, as deemed necessary, our audit work strategies, procedures and methodologies. We will also consider introducing new structures, already adopted successfully in foreign national audit institutions, with the scope of enhancing even further our internal corporate governance, thus strengthening our own internal oversight mechanism.

Essentially, practising what we preach in our audit assignments.... Always keeping in view the preamble to INTOSAI-P-12 *'The Value and benefits of Supreme*

Audit Institutions – making a difference to the lives of citizens'. I quote: "SAIs only deserve trust if they themselves are objectively judged as being credible, competent and independent, and can be held accountable for their operations. In order to make this possible, they need to be model institutions, setting an example from which others in the public sector and the auditing profession at large can learn."

As always, I am extremely thankful to our highly competent, knowledgeable and resilient NAO team, comprising both the audit and support services sections; undoubtedly, our staff constitute the most valuable resource within our Office.

Indeed, acknowledging and greatly appreciating our teams' high level of commitment, professionalism and motivation, I am confident that in the coming years we will be able to continue to fulfil our Constitutional mandate in the best manner possible, providing the expected level of public sector audit service to Parliament, and ultimately to our citizens.

This is reflected in the inspiring quote from the former President of Malta, Dr Vella, during his last visit to our Office, referred to above.

"I have always admired the useful and professional work conducted by this Office, that is an indispensable tool in ensuring financial accountability in our country."

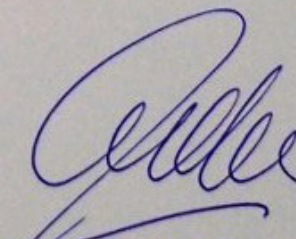


Charles Deguara
Auditor General
July 2024



Dr. Shreejoni tal-aktar orke tiegħi
b'tale President lill-Uffiċju tal-Benzjone
Nazjonali.

Sejjen Ammirajt ix-kaptal tiegħi
u proporzjonalment li jgħidli dan l-Uffiċju.
Li huwa għadde b'nett, uhe ta' fue b'ix
ta' għadni il-kontabilita' għan-zjara
għall-pajjżne.


14/12/23

Interview with the Deputy Auditor General



Deputy Auditor General

Noel Camilleri

Five Strategic Goals

At the beginning of the current Strategic Plan 2024-2028, National Audit Office Deputy Auditor General Noel Camilleri outlines its five strategic goals and discusses the next steps.

Institutional capacity

The first goal of the 2024-2028 National Audit Office Strategic Plan focuses on **strengthening institutional capacity**. Aside from the overall staff complement which may need to increase, this involves enhancing the quality of work to align with international

best practices and standards, particularly ISSAIs (International Standards of Supreme Audit Institutions), set by INTOSAI (the International Organisation of Supreme Audit Institutions).

“One approach to achieving this is by strengthening our quality controls and **establishing a quality assurance function** to oversee audit processes, ensure consistency, conduct methodology reviews and assessments, and ascertain that all audit activities are properly documented, among others,” explained Deputy Auditor General Noel Camilleri.

“In other words, when certain audits are reviewed, and the underlying methods and approaches examined through ‘quality assurance’ the same audit conclusions should essentially be reached,” he said.

Apart from this function, the need for ‘**audit support**’ has long been recognised within the Office and frequently mentioned by staff during the consultation phase of the Strategy development process. This will be challenging since it requires deploying internal resources without compromising the existing audit stream structures.

Mr Camilleri pointed out that establishing ‘audit support’ will unavoidably entail recruiting new human resources, who possess expertise not only in audit but also in disciplines such as quantitative analysis, data interpretation and analytical methodologies. Furthermore, implementing training programmes and fostering continuous professional development will be crucial for maintaining high standards and adjusting to evolving best practices.

Audit impact

Mr Camilleri focused on two areas: **good, actionable recommendations** and the **introduction of new products**. He stressed that audit recommendations could either render an audit report extremely valuable to the auditee or render it entirely futile if it merely reiterated what the auditee already knew. “We need to dig deeper, find the root causes of the problems we identify and suggest solutions,” he said. Addressing this aspect is part of the strategy that is to be implemented over the next five years.

New products need not only be associated with audit. “We could come up with recommendations or guidelines on which are the best systems for the Government to use,” Mr Camilleri suggested.

“Our products don’t always have to be audits. We could carry out landscape reviews, conduct studies on topics of interest to citizens or, say, issue guidance on aspects concerning good practice in financial management.”

“We should be a catalyst for change within the public sector and this means that we should tackle it in various ways,” he said.

Communication with auditees

Within the ambit of the third goal concerning **Communication with Stakeholders**, Mr Camilleri noted that, besides a few instances related to access to information, the primary issue with auditees typically revolves around timeframes. “They have their reasons, and we have ours. It’s reassuring to see that we’ve established a protocol for this, and both parties are in agreement. Thus, it’s now merely a matter of putting it into practice,” he remarked.

While acknowledging the protocol, he emphasised that it does not compromise the Office’s independence. “Its purpose is to facilitate progress without hindering urgent tasks or immediate actions that may be required,” he clarified.

To promote information exchange, Mr Camilleri mentioned the further utilisation of memoranda of understanding, such as those signed with the National Statistics Office and the Office of the Parliamentary Ombudsman.

Regarding the latter, given their shared objectives, he identified significant potential for collaboration. “If you look at what is happening in other countries, they even issue joint publications. Joint projects could be developed collaboratively between institutions within our ‘accountability ecosystem,’” he added.

While emphasising collaboration and information sharing, he reiterated the importance of respecting each institution’s independence.

Optimising the NAO’s profile

Survey results show that, while people are aware that there is an Auditor General’s Office, they do not know what the NAO is or what the Office does. “The public in their vast majority believe that the Office is there to investigate virtually anything under the sun. This perception isn’t necessarily negative, as it underlines the public trust that the NAO enjoys,” Mr Camilleri said soberly.

“So, we need to work hard at informing the public on what the NAO is, what its remit is and how it operates,” he added.

Most officials within the public sector are very well acquainted with the NAO's functions, as the Office regularly conducts audits on their departments and agencies. Similarly, many NGOs, civil society organisations and other entities, such as the Malta Chamber and the Malta Council for Economic and Social Development (MCESD), are familiar with its operations.

"We now aim to extend our outreach efforts to other entities and institutions. This will involve implementing outreach initiatives. We are currently discussing and enhancing our online presence," he remarked.

Use of technology

Turning to **advancement of methodology and technology**, Mr Camilleri stressed the importance of innovation. "Unless we innovate, we become stifled and stagnate," he cautioned. "I believe that innovation encompasses more than just technology; it involves internal discussions, teamwork and idea generation."

He said he has always viewed the Office as a learning organisation. "We learn together, fail together and succeed together, and I think that is the way it should be," he noted. "Everyone, regardless of their position, should feel empowered to share their ideas. No idea should be dismissed outright; even seemingly flawed ideas could spur improvements."

"On the other hand, it is essential to acknowledge that not every idea will be adopted, but each contributes to nurturing a culture characterised by creativity, productivity and meaningful impact."

Mr Camilleri firmly believes in the potential for innovation within the NAO. "Technological advancements, such as Artificial Intelligence (AI), are invaluable tools," he asserted.

"We must view AI as a supplement to human input. So, let's start by leveraging its capabilities for basic tasks, gradually gaining confidence to utilise it in more complex matters," he suggested.

Finally, Mr Camilleri emphasised the necessity for additional resources and the implementation of appropriate changes to achieve the desired outcomes. Regarding the next steps, he highlighted that the Office is finalising the formulation of action plans to realise these five strategic goals.

The action points will be continuously monitored and evaluated over the course of the strategy's five-year term, ensuring adaptability and responsiveness to evolving circumstances.

Audit quality, accountability, and the political appetite of the legislator

by Professor Dr Josette Caruana

Throughout my academic career at the University of Malta, I have had the opportunity to liaise with the National Audit Office (NAO), gaining insights into the public sector audit function. The ethical and regulatory environment of the audit profession commands respect, which is compounded for professionals involved in public sector audit due to the complicated social and political context in which they operate. In this contribution, I shall highlight factors that I deem relevant for public sector audit quality and accountability, providing food for thought for the legislator.

The Ambassadors of the Office

The reputation of any institution is dependent on the skills and integrity of its employees and officials. My academic duties include, among others, the supervision of students' dissertations. Sometimes the area of research requires collaboration with the NAO. In such instances, the officials concerned never fail to support the research and are always willing to participate, providing invaluable reflections that enhance the quality of the resulting studies.

The professionalism of the NAO officials is also demonstrated when they themselves directly supervise students' work. This is more evident when they deliver lectures to our students, since their

practical experiences constitute precious insights into the operations of such an important institution. The students, as prospective accounting professionals, are given the opportunity to appraise the crucial role of the NAO as the external auditor of the largest and most important organisation of the country, being the government apparatus. As such, these NAO officials are 'ambassadors' of the Office, hopefully attracting fresh talent to join the NAO team.

Great expectations vs independence

One of the requirements of my research work is to review articles for international journals on accounting and auditing, including articles relating to public sector audit in various jurisdictions. What I have noted is that what we call the audit expectations gap is much wider in the public sector than in the private sector, and it is nuanced with inevitable social and political elements.

Independence is in the DNA of the audit profession. It is the factor that gives substance and credibility to the auditor's work and reports. Even public sector auditors must be independent and also be seen to be so. This is quite difficult to fathom when one takes into consideration the inherent closeness to the client and the nature of the auditees.

Despite this, the expectations placed on public sector auditors supersede those from private sector auditors. A Supreme Audit Institution (SAI) cannot be effective without independence from the audited entity (the government) and without protection from outside influence. Independence is necessary for SAIs to reach their full potential of building trust with citizens on how public funds are being spent.

The enabling legislation, accountability and audit quality

The professional skill of the auditor is an important factor underlying the quality of an audit. I have already commented on the high level of professionalism resident in the culture of NAO officials. The personnel skills, while fundamental, are not enough on their own and need to be supported by underlying legislation that provides for, inter alia, a sufficiently broad mandate, unrestricted access to information, freedom to decide content, timing and publication of reports, effective follow up, and financial and administrative autonomy.

In this respect, the Auditor General and National Audit Office Act, together with relevant provisions of the Constitution, are quite extensive and compare well with the legal framework provided by our European counterparts. But there is always room for improvement, particularly when it comes to the liaison of the NAO with other government units. Here I shall highlight the relationship with the National Statistics Office (NSO) and with the Public Accounts Committee (PAC).

Accountability is the foundation of good governance. And audit is the tool that hones accountability by encouraging report preparers to be more onerous and careful, deterring fraud and carelessness. The scope of public sector audit in Malta is quite wide. There is a limitation relating to entities in which the government's interest is less than 50%, in which case the NAO can only audit that part pertaining to public funds.

There is another limitation in scope, which, in my opinion requires some debate. I am referring to the process of reporting the deficits and debts of the General Government according to the European System of Accounts (ESA). This reporting is the responsibility of the NSO. Without undermining the integrity of the NSO, the fact remains that there is no oversight over the conversion process of the data.

It is true that the main source of the financial data is the government's accounting system (including that of the local government), and this is subject to a thorough audit by the NAO. It is also true that the NSO is subject to peer reviews, but these are not done on an annual or other regular basis. In fact, the Memorandum of co-operation between the NSO and the NAO is just that – an agreement to share data that concerns both institutions. At the end of the day, both institutions are autonomous and independent.

The fact remains that the process that the NSO undertakes to convert the financial data to ESA figures is not audited, raising the question of whether this causes an accountability deficit. Can the NAO be more involved? Perhaps this is not a matter of national legislation but needs to be tackled at EU level since the situation is the same in all EU jurisdictions.

Legal back-up

Audit quality requires legal back-up. Across the EU and beyond, there is no uniformity in such laws, even though SAIs operate in the same audit universe. According to INTOSAI, SAIs are an important component of a democratic system since they ensure that government and public entities are held accountable for their stewardship over, and use of, public resources by providing effective, credible and independent scrutiny.

A contentious aspect relates to the reporting lines of the NAO. Maltese legislation points to Parliament

and refers as well to related committees, like the PAC. Harmonious relations should exist between the NAO and the PAC because they share the common objective of overseeing the use of the public purse. However, research reveals that the demands of the PAC on the NAO are at times too onerous, resulting in excessive utilisation of resources that are already stretched.

More co-operation between the two bodies would result in a win-win situation, like the relationship between audit committees and external auditors in the private sector. For example, the NAO could present an annual scheme of work to the PAC, prioritising the topics, like the audit plan presented by the external auditors to the audit committees in the private sector. The scheme of work could be discussed and agreed by the two parties, and even extended for a longer period, say three years.

More importantly, the NAO should confirm that all concluding PAC reports are presented in Parliament, and that there is effective follow-up.

More tools needed

Audit quality is a complex issue. It is even more so in the public sector due to the particular social and political environment. In fact, audit quality is

affected by the enabling legislation, but there is no one-size-fits-all and adjustments that consider local circumstances are required.

The NAO is bound by the legal framework in which it operates. Its duties and powers emanate from the law, and even its ability to liaise with government units. Some time ago, the NAO proposed a number of amendments to Section 108 of the Constitution and to the Auditor General and National Audit Office Act. The proposed amendments aim to further strengthen the legislative framework of the Office by providing it with, inter alia, more power of access to information requested from any person, whether or not the latter is a public official.

Legislators, at both national and supranational level, are aware that audit quality is an important function of accountability mechanisms. Legislators need to have the political appetite to provide the Office with more tools that enable it to enhance the quality of its work, better fulfil its obligations to the client, and thus strengthen the accountability of the auditee – the Government.

Disclaimer: *The views expressed in this contribution represent those of the author and not of the institution with which the author is affiliated.*

NAO probe could hit brick wall as entities are not providing information

An Auditor General investigation requested by Parliament's Public Accounts Committee risks hitting a brick wall soon, as the concerned entities are not providing the necessary information for the audit, the Auditor General said on Wednesday.

He told Parliament's National Audit Office Accounts Committee that if the situation persists, his office could seek a remedy from the PAC.

Times of Malta, 10 October 2023



PART ONE

Introduction

The first part of the Report provides an overview of our monitoring of the external environment within which the NAO operated in 2023. This mainly relates to public finances in 2023 as prepared on both a cash and accruals bases.

Public Finances



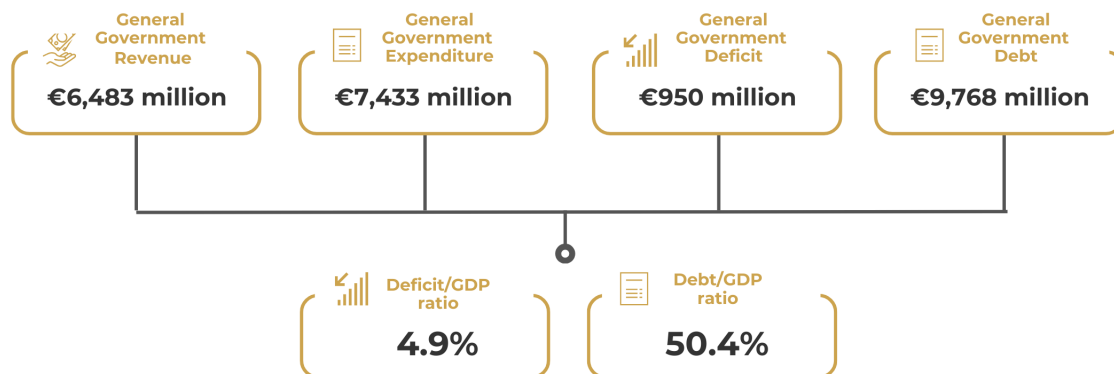
2023 Figures on a Cash Basis



Source: NSO Malta News Release NRO59/2024 dated 28 March 2024



2023 Figures on an Accrual Basis



Source: NSO Malta News Release NR070/2024 dated 22 April 2024

Governance

NAO Organisation

The diagram in the next page depicts the organisational structure of the NAO. The Office's overall direction, in accordance with the NAO Strategy 2019-2023, along with management and the oversight of audit progress, policy directives, and other pertinent issues at the senior management level, are deliberated and determined during senior management meetings. In 2023, a total of 14 such meetings were held.

The senior management team, chaired by AG Charles Deguara, consists of DAG Noel Camilleri, AAG Financial and Compliance Audits Section Tanya Mercieca, AAG Performance Audits Section William Peplow (appointed on 1 June 2023), AAG Special Audits and Investigations Section Keith Mercieca, and External Affairs and Research Officer Brian Vella.

Day-to-day operations of the NAO are overseen by Line Managers under the guidance of senior management. The Line Managers are Audit Managers Sharon Borg Finn and Orland Bonavia from the Financial and Compliance Audits Section (who report to Ms Mercieca), Audit Managers Simon Vassallo and Maria Azzopardi (appointed on 1 November 2023) from the Performance Audits Section (who report to Mr Peplow), Audit Managers Josephine Vella and Maressa Stivala from the Special Audits and Investigations Section (who report to Mr Mercieca), and Simon Camilleri from the IT Audit and Operations Section and Ian Rizzo from the Finance and Administration Section (who report to DAG Mr Camilleri).

Organisational Overview and Section Results

The NAO, as Malta's Supreme Audit Institution (SAI), is responsible for external public sector auditing. According to International Standard of Supreme Audit Institutions (ISSAI) 100, public sector auditing is defined as a methodical process aimed at impartially acquiring and assessing evidence to ascertain whether information or actual circumstances adhere to predetermined standards or criteria.

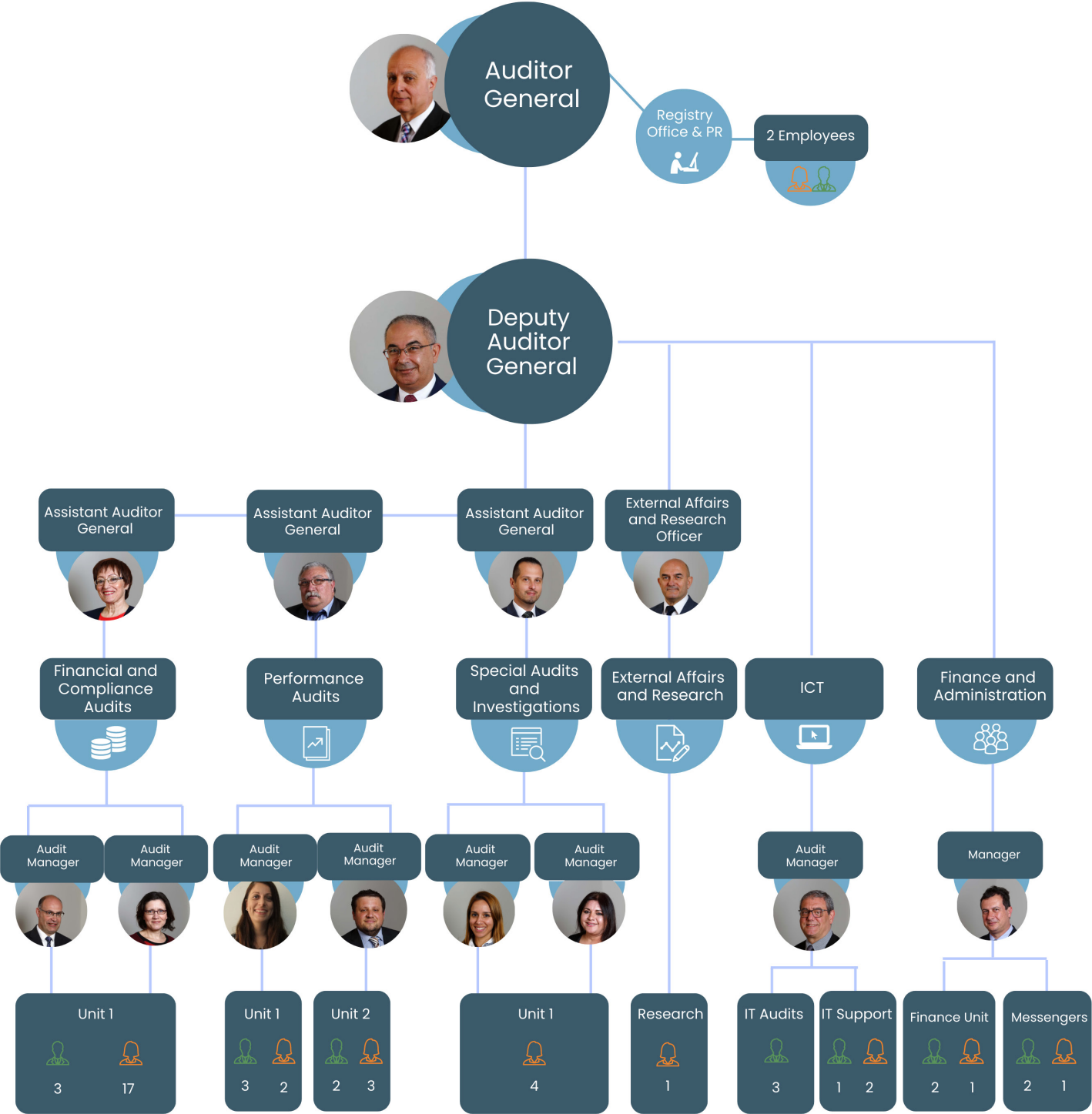
This practice furnishes legislative bodies, oversight entities, governance authorities and the public with impartial and objective evaluations of the management and efficacy of the implementation of government policies, programmes or activities, as well as on the effective receipt and use of public funds, and their true and fair reporting.

The NAO conducts various forms of public sector audits, including:

- financial and compliance audits;
- performance audits;
- special audits and investigations; and
- IT audits.

Each of these audit categories has a dedicated audit section within the NAO, with support from the Finance and Administration Section. The results of each section are presented in this part of the Report.

NAO Organisation



Financial and Compliance Audits



Annual Report on Public Accounts

Audit Opinion on the Financial Report

Audit Opinion on Compliance Audits



26 financial and compliance audits/management letters issued



11 financial and compliance audits in government departments in **9** ministries



15 financial and compliance audits in government entities covering **11** ministries



250+ recommendations

Follow-up audits

9 previous year audits followed up

79 recommendations followed up

37 recommendations that were fully implemented

20 recommendations that were partly implemented or on which significant progress was made

20 recommendations on which insignificant progress was made or not implemented

1 recommendation no longer applicable

1 recommendation not accepted

Reports on Local Government

60

(out of **68**) local councils audited

6

(out of **6**) Regional Councils audited

1

Local Councils Association audited

750+

recommendations

Review by the Auditor General on Fixed Assets and Stocks

19

ministries reviewed

21

recommendations

Financial and Compliance Audits Section

Definition

Financial audits and compliance audits serve distinct but equally important purposes in ensuring the integrity, accuracy and legality of a public entity's operations.

Financial audits are systematic examinations of a public entity's financial records and transactions, aiming to verify their accuracy, completeness and adherence to relevant accounting standards and regulations. These audits assess internal controls, adherence to accounting principles and the overall financial health of the entity, providing confidence to stakeholders, including Parliament, creditors, the financial system and the public, in the reliability of financial reports.

Compliance audits, on the other hand, focus on evaluating a public entity's adherence to laws, regulations, policies and procedures governing its operations. They ensure that the public entity operates within legal boundaries, follows best practice, propriety and regularity guidelines, and meets contractual obligations. Compliance audits are essential to identify and address non-compliance issues that could pose legal or financial risks to the organisation.

Reports issued by the Financial and Compliance Audits Section

In 2023, the Financial and Compliance Audits Section published these reports:

- Report by the Auditor General – Public Accounts 2022;

- Report by the Auditor General on the Workings of Local Government for the year 2022;
- Review by the Auditor General on Fixed Assets and Stocks; and
- Follow-up Audits Report by the National Audit Office 2023 – Volume I.

These reports contained a thorough analysis of financial and compliance audit issues, offering recommendations to address shortcomings and promote good governance across the public sector.

Results of Financial and Compliance Audits

Key findings from these audits included:

- limited internal controls and segregation of duties;
- non-compliance with procurement regulations, including irregular use of procedures and lack of approvals;
- weaknesses in payroll systems, leading to incorrect calculations and unauthorised overtime;
- insufficient enforcement of amounts due to the government; and
- lack of audit trails and standard operating procedures.

Key result of the Report on Fixed Assets and Stocks

Over the past years, the NAO carried out various audits to assess the level of preparedness of ministries and departments on accrual accounting.

The result of a review by the Auditor General on Fixed Assets and Stocks was published in 2023 after an extensive exercise covering all ministries and departments.

The key result highlighted in this report was the lack of official procedures to identify ownership of government land and buildings, affecting the inclusion of valuable assets in the government's accounting system. Recommendations were made to formulate comprehensive policies addressing ownership rights and enhancing transparency.

In the light of this finding, the review strongly recommended that the responsible authority formulates a comprehensive policy to be adopted for both land and buildings. This policy should encompass the valuation process and clearly define ownership rights. Such a policy would not only enhance accountability and transparency but also ensure the proper inclusion of valuable assets in the Government's accounting framework.

Preparation for Accrual Accounting

In pursuit of the eventual transition to accrual accounting, the Office took a proactive approach to enhancing the expertise of its auditors and, in November 2023 and February 2024, it organised two one-week training courses in this respect.

In collaboration with CIPFA, this training was offered to the Financial and Compliance Audits Section, as well as to qualified accountants working in other sections in the NAO. The training was delivered by Ms Manj Kalar, a professional accountant with almost 30 years' experience gained across the public sector, including several large UK central Government departments, on the implementation of accrual accounting.

The training sessions focused on various aspects, such as risk assessment, internal controls, and International

Public Sector Accounting Standards (IPSAS). These sessions aimed to equip auditors with the necessary expertise to adapt to the new accounting framework effectively.

Report on Local Government

The audit of the financial statements of local government is the responsibility of the Auditor General. Due to a lack of human resources within the Office, this task is subcontracted to private audit firms, designated as Local Government Auditors (LGAs), which are appointed following a public tender process.

These audits focus purely on the financial aspect; however, the NAO also has the right to undertake compliance audits of local councils. These are conducted on a sample basis. In fact, for financial year 2022, compliance audits were undertaken at four local councils, the results of which were incorporated in the Report by the Auditor General on the Workings of Local Government (2022).

The lack of compliance in procurement was the main concern across all four councils. Eventually, this Office also intends to follow up on the shortcomings identified during these audits, thereby ascertaining that necessary action is taken in a timely manner to address the observations.

Challenges encountered in the area of Local Government

Challenges in local government audits included untimely submission of financial statements and lack of co-operation from some councils, leading to delays and hindrances in the audit process. Compliance audits also faced challenges due to a lack of substantiating documentation in some councils, highlighting the importance of improving compliance environments.

Participation in international activities

In September 2023, AAG Tanya Mercieca attended the annual Fiscal Policy Audit Network, which was held in Berlin. This was organised by the SAI of Germany, together with the SAI of Finland. Around 40 participants from 17 EU Member States and the European Court of Auditors attended this event.

The parties discussed aspects of the enforcement of EU financial regulations and the planned reform. The main topics of discussion were the following:

- Sustainability of public finances in the EU;

- Significance and benefits of EU budget rules;
- Proposals for reform of the European Commission;
- Fiscal policy measures to combat crises and achieve climate goals; and
- Opportunities for co-operation between EU audit organisations.

Overall, financial and compliance audits play crucial roles in ensuring accountability, transparency and legal compliance within organisations, benefiting stakeholders and promoting good governance practices across the public sector.

Biljuni f'taxxi dovuti lill-Gvern tul is-snin ma jistgħux jingabru

Skont l-istess rapport kien hemm zieda ta' €190 miljun fit-total ta' taxxi dovuti fl-2022 meta mqabbel mal-2021, zieda ta' €14-il miljun fit-taxxi dovuti li jistgħu jingabru, waqt li fl-istess ħin it-taxxi li mhux se jingabru minħabba diversi raġunijiet żdiedu b'€175 miljun fl-istess perjodu ta' żmien.

L-istess rapport juri li €1.9 miljun f'taxxi dovuti qed ikunu kkontestati waqt li €358 miljun huma kkontestati u hemm każi dwarhom quddiem il-Qorti.

Fir-rapport tiegħu l-Awditur jirrikonoxxi li l-awtoritajiet għaddejnin b'ħidma biex jiġbru lura flus dovuti lill-Gvern.

TVM News, 19 December 2023

Performance/Value for Money Audits

2



performance audits

23



recommendations in performance audits

Areas: education, social protection

Follow-up audits



4

previous year audits followed up in Volume II of the Consolidated Follow-up Audit Report



54

recommendations followed up



23

recommendations fully implemented



22

recommendations partly implemented or on which significant progress was made



8

recommendations on which insignificant progress was made



1

recommendation not accepted

Performance/Value for Money Audits Section

Definition

Performance audits focus on assessing whether public interventions, programmes and institutions adhere to the principles of economy, efficiency and effectiveness, while also identifying areas for enhancement.

The Operations of the Performance Audits Section

The Performance Audits Section aims to contribute to improved economy, efficiency and effectiveness in the public sector. It also aims to contribute to good governance, accountability and transparency. To this end, this Section, in accordance with the NAO's vision and mission statements, aims to be a catalyst for change by providing new information, analysis and insights, as well as proposing recommendations for improvement. All assignments undertaken by this Section follow INTOSAI standards, referred to as ISSAIs (International Standards of SAIs).

Performance audit work at the NAO is undertaken by a multi-disciplinary team of 10 persons, or 9 full-time equivalents. Following a headship of nearly 17 years, Brian Vella moved on to other duties within the Office – the Office takes the opportunity to thank Mr Vella for his sterling work throughout this period. As a direct result of this development within the Section, on 1 June 2023, William Peplow was appointed Assistant Auditor General and, on 1 November 2023, Maria Azzopardi assumed the position of audit manager.

The annual performance audit programme is based on a comprehensive risk assessment identifying high-risk areas or those of significant public interest, taking into account factors like financial significance, previous audit results, societal impact and legislative

changes. Audit topics are selected based on this assessment and considering available resources and strategic goals.

Reports by the Performance Audits Section

During 2023, the Performance Audits Section worked on 8 assignments, of which 2 were published. The published audits were:

- An assessment of capital projects at the University of Malta (April 2023); and
- Ensuring fair Non-Contributory Social Benefits and safeguarding against related fraud (May 2023).

An assessment of capital projects at the University of Malta

The objectives and scope of this performance audit were innovative for the NAO since one of the two projects analysed, the Sustainable Living Complex (SLC), constituted a project of 10,118 m² and had an estimated cost of around €48 million. The structure was designed to house several University faculties, institutes and research facilities within a prototype resource-efficient, low-carbon building, using a variety of experimental and innovative construction techniques and materials. The audit related to the SLC entailed the development of performance audit criteria related to sustainable buildings and the engagement of an expert in the matter to assist the audit team.

Ensuring fair Non-Contributory Social Benefits and safeguarding against related fraud

This performance audit addressed a social theme of key importance: non-contributory social benefits

(NCSBs). This audit found that more effort needs to be undertaken for the delicate balancing act in the NCSB system to be achieved between ensuring that deserving individuals are provided with sufficient income to secure a minimum decent standard of living, while ascertaining that the availability of these benefits is not extended to individuals who can either engage in gainful employment or who are in possession of significant wealth.

To this end, this performance audit found that the Benefits Compliance Unit (BCU), in its capacity as the monitoring and enforcement body insofar as NCSBs are concerned, needs to be strengthened in terms of manpower. Moreover, this performance audit proposed that the BCU is to increasingly employ risk analysis techniques to complement its monitoring and enforcing work, which at the time was mostly based on reports received by the BCU from external sources. Another recommendation related to the consideration of reviewing eligibility thresholds for NCSBs.

The six remaining audits have been carried over to the 2024 auditing programme. In some cases, the scope of the original audits was extended to address new information or PAC requests.

In addition, four follow-up reports were published in November 2023 in Volume II of the Follow-up Reports by the NAO – 2023. Included in this publication were these follow-up reports:

- Tackling Child Abuse;
- Is LESA suitably geared to perform its traffic enforcement function adequately?;
- Fulfilling obligations in relation to asylum seekers; and
- Community Care for Older Persons.

Participation in local and international activities

Local and foreign presentations relating to the Risk Assessment Framework

The NAO Strategy 2019-2023 Action Point Team on Risk Assessment Framework – comprising AAG William Peplow and Principal Auditors George Calleja Gera, Doreen Caruana, Lindsey Galea and Maria Ferriggi – has concluded its work related to the latest phase of developing the risk-based model, a very important tool that will assist senior management in the preparation of the NAO Audit Plans for 2024 and beyond, and will enable the Office to allocate its resources better to tackle the riskier audit areas. This latest phase entailed the further development of the NAO’s audit universe by including financial data recorded in the Financial Data Reporting System (FDRS) and in the Annual Government Financial Estimates. As a result, the audit universe now comprises the vast majority of governmental organisations and entities.

Additionally, the model also incorporates risk weightings for direct orders and negotiated procedures affected by the various organisations during 2023. All AAGs and audit managers were then requested to complete a risk scoring template on various risk attributes.

On 18 January, Mr Peplow delivered a presentation to INTOSAI Development Initiative (IDI) representatives giving them an overview on the extensive work undertaken by himself and his team on the Risk Assessment Framework.

On 7 February, Mr Peplow – assisted by DAG Noel Camilleri and Principal Auditor George Calleja Gera – held an online meeting with Mr Muhammed M. Dabo, Manager Capacity Development at the IDI,

who is supporting the SAI of DR Congo in the areas of capacity development, annual audit planning and risk assessment.

Mr Peplow delivered a presentation on the NAO's work in incorporating risk in the annual audit planning process.

Mr Peplow also delivered a presentation as part of a panel discussion on the theme 'Towards a risk management approach in public procurement in Malta' during the final conference organised on 3 April on 'Strengthening the public procurement system in Malta through advancing the professionalisation of the public procurement workforce and developing risk and performance measurement'.

More information on the above meetings is to be found under the section on Stakeholder Relations.

Local and foreign meetings related to the Environment and Energy

On 25-26 May, AAG William Peplow, Audit Manager Maria Azzopardi and Principal Auditor Keith Gauci participated in the EUOSAI Working Group on Environmental Auditing Spring Session, held in Warsaw and organised in a hybrid format. The theme of this Seminar was 'Climate Change: Progress Made in Adaptation Efforts'.

At the 2023 Contact Committee Meeting in Lisbon, the heads of EU SAIs deliberated on how their respective institutions could contribute to a better, sustainable implementation of national and EU policies towards the achievement of the EU's 2030 energy goals. To this end, the Contact Committee co-operation framework proposed a new activity, the EU Network Audit (EUNA) on Energy.

Within this context, our Office has decided to join and actively participate in this network and nominated Principal Auditor Elton Camilleri as its representative.

Mr Camilleri attended the kick-off meeting of the EUNA on Energy in The Hague, Netherlands, on 30 November. Eighteen SAIs and the European Court of Auditors participated in this event.

On 23 August, AAG William Peplow, Audit Manager Maria Azzopardi and Principal Auditor Elton Camilleri met Prof. Simone Borg (Chair), Prof. Maria Attard and Dr Stefano Moncada in their capacity as representatives of the Climate Change Platform (CCP).

On 11 September, Mr Peplow, Ms Azzopardi and Mr Camilleri again met Prof. Simone Borg, this time in her capacity as Chair of the Climate Action Board (CAB).

More information on these meetings are to be found under Stakeholder Relations.

Other participation in international activities

In August, AAG William Peplow was approached to participate in the EU's Public Administration Country Knowledge (EUPACK) project, which falls under the remit of DG Reform. This is a multi-annual initiative of the EU Commission aimed at developing its country and thematic knowledge on the EU Member State public administrations' functioning and reforms.

On 30-31 October, Mr Peplow participated in the EUOSAI Symposium on Emerging Issues in Lisbon. The meeting included SAI presentations and workshops that recognised the importance for SAIs to continue to address emerging issues and to widen the scope of sustainability-related audits.

In 2023, the IDI completed the Pilot phase of the Professional Education for SAI Auditors (PESA) initiative, certifying over 250 SAI auditors from around the world, including from Malta. The next step was the creation of a network dedicated to offering Continuing Professional Development (CPD)

opportunities to these SAI auditors. A meeting with PESA graduates in 2023 led to the suggestion of forming a committee, known as the 'Founders Meeting for the IDI PESA Learning Circle'. Pursuant to an expression of interest, Principal Auditor Keith Gauci was selected to represent our Office in this Committee. Mr Gauci attended the inaugural meeting of the Learning Circle held in London in November.

On 12 July, Audit Manager Simon Vassallo delivered a presentation on the Office's relations with its stakeholders, including civil society, during the fifth webinar organised by the EUROSAI Strategic Goal 1

Project Group, known as the Travelling Club of Experts. The theme chosen for this webinar was 'How SAIs communicate with their stakeholders and civil society'.

The Performance Audits Section's strategic approach, expert team and proactive stakeholder engagement are instrumental in promoting accountability and efficiency in the public sector. The section's work not only identifies areas for improvement but also provides actionable recommendations, driving meaningful change and enhancing public trust in governmental operations.

Staying vibrant and relevant for the next five years

Essentially, the NAO's strategic goals are structured around the need of strengthening of its institutional capacity, enhancing audit impact, improving stakeholder communication, optimising public visibility, and advancing methodological and technological practices. These goals are geared towards strengthening the NAO's role as a vigilant guardian, ensuring quality work in line with auditing standards, and fostering effective communication and collaboration with stakeholders.

Article by Charles Deguara, Auditor General, MaltaToday, 14 January 2024

Special Audits and Investigations



2

special audits



1

investigation and 1 abridged report

Areas of Special Audits and Investigations



Health



Education

Special Audits and Investigations Section

Definition

Article 9(a) of the First Schedule of the Auditor General and National Audit Office Act empowers the Auditor General to undertake inquiries following a request by the Minister responsible for finance or at least three members of the Public Accounts Committee. This Article specifies that the Auditor General can inquire into and report on:

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

Audits referred to the NAO through this mechanism are normally assigned to the Special Audits and Investigations Section by the Auditor General. For ease of reference, these audits are referred to as 'investigations'. However, the assignment is still a

compliance, performance or financial audit (often a mix thereof) that is, in effect, carried out by the NAO.

On occasions when the Special Audits and Investigations Section has no active investigation under way, the Section identifies other matters to audit. Subject areas of interest range from wide-ranging audit areas such as the sustainable development goals to other more focused initiatives addressing ethical conduct in the public sector or procurement. Of particular interest to the Section are audits that tap on or provide an opportunity to utilise new methodologies or allow for innovation in one way or another.

Also feeding this branch of work are requests for audits received from civil society organisations, members of the public or any other third party. All the audits referred to in this and the preceding paragraphs are collectively referred to as 'special audits'. However, here too, the verification carried out is either a performance, compliance or financial audit.

Reports prepared by the Special Audits and Investigations Section

The Special Audits and Investigations Section concluded three audits in 2023:

- An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 3 | Steward Health Care assumes control of the concession (Full and abridged);
- A review of the implementation of Sustainable Development Goal 2: Addressing pre-obesity and obesity; and

- A review of the employment agreement of the Consultant to the Chief Executive Officer, Institute of Tourism Studies.

These three audits capture the breadth of work undertaken by this Section. In particular, that relating to the concession of three public hospitals, first to Vitals Global Healthcare and then to Steward Health Care, was the third and final part of a complex and extensive audit mandated by the PAC. The reliance of the Law Courts on the reports published by the NAO on this matter, at first instance and appeal, are testament to the validity of the work undertaken.

PAC meetings on SA&I reports

All meetings of the PAC, except one, focused on the SA&I report issued in 2018 titled 'An Investigation of Matters Relating to the Contracts awarded to ElectroGas Malta Ltd. by Enemalta Corporation.' A total of 23 meetings were held on this report, with the SA&I official occasionally called on to explain or clarify technical matters arising.

Assistance to investigating authorities

At several points throughout the year, officials of the Special Audits and Investigations Section were requested to testify during judicial proceedings bearing some connection to audits undertaken and to assist the Courts by providing information obtained during verifications carried out.

Furthermore, the Special Audits and Investigations Section held meetings with the Malta Police Force, particularly with the Financial Crimes Investigations Department. These meetings allowed the NAO to assist the Department with its work through the provision of information concerning audits undertaken.

Professional development of SA&I employees

In terms of professional development, in mid-2023, Principal Auditor Felicity Rayner completed training on anti-fraud and anti-corruption for appointed officials from the national authorities forming part of the Co-ordinating Committee. Towards the end of 2023, Ms Rayner and Senior Auditor Clare Caruana attended other training intended to equip practitioners with the tools to effectively conduct corruption risk assessments. Both these courses were led by CIPFA.

In addition, Senior Auditor Amanda Borg completed the certification process in terms of the Professional Education for SAI Auditors (PESA) compliance stream.

Presentations by SA&I staff

Presentation of report on obesity

Following an invitation by the Malta Association of Public Health Medicine, Principal Auditor Rebecca Vassallo gave a presentation on the NAO's published audit of SDG implementation relating to Government's address of pre-obesity and obesity. The event was organised by the Association as a Continuous Professional Development event for its members.

The presentation included details of the assignment objectives, the methodology employed, as well as the main findings and conclusions of the NAO. Interest in this audit assignment was evident from the high attendance, and the discussion that ensued following the presentation.

Support to United Nations Development Programme relating to SDG implementation

AAG Keith Mercieca and Principal Auditor Rebecca Vassallo, together with colleagues from the SAI of Slovakia, prepared and delivered a three-day training programme focusing on the methodology to be used in audits of SDG implementation. This training programme formed part of an initiative being undertaken by the UNDP office of Bosnia & Herzegovina to assist SAIs to undertake such audits, following referral from the IDI. The material for this training programme was developed over the summer by Mr Mercieca and Ms Vassallo with their Slovakian colleagues, with detailed input and feedback from UNDP.

The event took place from 17-19 October in Malta. A contingent of approximately 20 persons attended this training programme from the SAIs of Bosnia &

Herzegovina, other public officials and representatives of the UNDP.

The training programme consisted of presentations, panel discussions, group exercises, reflection sessions and quizzes. The programme was based on IDI's SDG Audit Model (ISAM) and focused on the unique characteristics of audits of SDG implementation that render them distinct from performance audits.

The main outcome of this event consisted in the drafting of proposals for undertaking audits of SDG implementation within the respective offices.

Mr Mercieca and Ms Vassallo's involvement in this event followed their contribution to the development of the ISAM as part of the IDI team that crafted this methodology in 2020-2021.

More information on this assignment can be found under Stakeholder Relations.



Delivery of training programme on methodology of SDG implementation audits on 17-19 October 2023

Challenges experienced during the year

Some challenges were experienced during 2023, a few of which are recurring limitations inherent and intrinsic to the work undertaken, while others are newly emerging. As regards the former, the Special Audits and Investigations Section remains a small unit, accounting for no more than five full-time equivalent employees, whose duty it is to investigate any function of government referred to it by the PAC.

Complex and extensive audits, such as that relating to the concession of three public hospitals to Vitals Global Healthcare, later Steward Health Care, and the ElectroGas power station, and other substantial government projects strain the Section's resources, albeit for good reason and to an end of considerable impact.

Participation in international activities

Keith Mercieca attended the kick-off meeting of the EUROSAI Project Group on the Benefits and Methodologies of Real Time Audit. A real time audit involves the verification of a transaction very close to the date of the transaction. The meeting was held in Rome on 11 May.

On 24-25 May, Principal Auditor Felicity Rayner attended the 2023 Global Anti-Corruption and Integrity Forum, organised by the OECD in Paris. The main theme of this two-day conference was that of bringing action to impact by working together to strengthen integrity and fight corruption.

With representatives from 14 other SAIs as well as the European Court of Auditors, Rebecca Vassallo and Principal Auditor, Performance Audits Section, Elton Camilleri, attended the course on 'investigations' (otherwise known as 'focus/responsive/flash/rapid'

audits), organised by the Netherlands Court of Audit with the support of the UK National Audit Office.

This training course provided attendees with knowledge on what constitutes an investigation, details of successfully completed investigations and information on the organisational structure and processes in place within the two organising SAIs to allow for the effective use of investigations.

Outlook for the Section

In 2024, the Section will concentrate its efforts on the conclusion of the two remaining PAC-mandated audits. These relate to the Marsa Junction and the American University of Malta projects. When these audits are concluded, subject to no further requests being received, the SA&I will undertake other audits and ad hoc assignments.

The preference is to focus on tasks involving the analysis of data concerning public funds disbursed, the address of shortcomings in public administration and governance, the review of the Office's ethical framework and the revision of internal procedures regulating how audits are carried out.

The Special Audits and Investigations Section plays a pivotal role in ensuring transparency, accountability and good governance within the public administration. Empowered by legislation and spurred by a commitment to thorough investigation, the Section tackles a diverse array of audits, ranging from complex concession agreements to sustainable development initiatives. The results of their work, as evidenced by the reliance of the judiciary and the engagement of civil society, underscore the significance of their efforts in upholding public trust.

IT Audits and Operations



2

information technology audits



32

recommendations

Areas of Information Technology Audits



Economic Affairs



Social Protection

Follow-up Audits

2 previous year audits followed up - **1** stand-alone and **1** included in Volume II of the Consolidated Follow-Up Audit Report

39 recommendations followed up

10 recommendations fully implemented

15 recommendations partly implemented

13 recommendation not implemented or on which insignificant progress made

1 recommendation not applicable

IT Audits and Operations Section

Definition

Information Technology (IT) audits examine whether an organisation's IT infrastructure, policies and operations are in line with IT industry best practices. These audits also determine whether IT controls protect public sector assets, ensure data integrity and are aligned with the audited entity's overall goals.

Work undertaken by the Section

The work conducted by the IT Audits and Operations Section in 2023 covered the execution of IT audits, management of IT Operations and the publication design of NAO reports.

Reports prepared by the IT Audits Unit

The NAO IT Audits and Operations Section had a productive year in 2023, marked by various accomplishments and contributions across its different units. The IT Audits unit within the IT Audits and Operations Section successfully completed several significant audits:

- IT Audit – Active Aging and Community Care;
- IT Audit – Malta Food Agency;
- Follow-up IT Audit – Armed Forces of Malta, which was included in Volume II of the Follow-up Audits Report 2023;
- Stand-alone Follow-up IT Audit – A Follow-up on the 2020 IT Audit ICT across Local Councils.

Results achieved by the IT Operations Unit

In parallel, the IT Operations Unit managed the monitoring and maintenance of all NAO IT systems and infrastructure. This included executing essential tasks, such as:

- replacement of a networked printer in the Annex;
- review of new IT software solutions for the office;
- project management of the new audio-visual system in the NAO boardroom from an IT perspective;
- liaison with MITA during the upgrade of the core infrastructure related to the WAN fibre connection;
- updating of the VPN software on all workstations;
- implementation of the two-factor authentication set-up on all users;
- server upgrade to migrate data from the NAS drive followed its decommissioning;
- laptop maintenance and repairs; and
- provision of first-line desktop support.

These efforts ensured the smooth functioning and security of the NAO's IT infrastructure.

The IT Audits and Operations Section also actively contributed to strategic initiatives within the Office. They participated in drafting the new NAO Strategic Plan, assisted in compiling the NAO Audit Risk Register and contributed to a performance audit on Government leasing property. These endeavours were integral to aligning the NAO's IT functions with broader organisational objectives and priorities.

Results achieved by the NAO IT Publishing Unit

The Publishing Unit within the IT Audits and Operations Section also had a productive year, completing the desktop publishing of 14 NAO publications and producing the NAO Calendar for 2024, incorporating photos taken by NAO staff. Additionally, the team created a mini video providing an overview of the NAO Annual Report and Financial Statements for 2022, enhancing communication and dissemination efforts.

Participation in international activities

On the international front, the IT Audits and Operations Section actively engaged in various fora and meetings. The IT Audit Manager Simon Camilleri represented the Office in both in-person and online meetings, contributing to discussions and preparations for future events.

In September and December, Mr Camilleri participated in two online meetings as part of the preparations for the EUROSAI SG1 Project group 'Travelling Club of Experts' meeting planned to be held in Malta in 2024.

He also participated in other EUROSAI meetings, including the 16th EUROSAI ITWG meeting in Warsaw in October, where he served as a panellist; as well as in an online meeting held a month later, organised by the EUROSAI ITWG, to discuss the upcoming ITWG events in 2024.

An article submitted by the NAO IT Audits Section was published in the second edition of the 2023 EUROSAI ITWG newsletter, highlighting the NAO's IT audit at the Malta Food Agency.

Overall, the NAO IT Audits and Operations Section demonstrated excellence and dedication in its operations throughout 2023. Their efforts in conducting audits, maintaining IT infrastructure, contributing to strategic initiatives and engaging internationally underscore their commitment to ensure transparency, accountability and efficiency within the Office and beyond.

NAO: Only 7% of recommendations on ICT fully implemented by local councils

This follow-up audit discovered that, of the 28 recommendations made following the 2020 audit, 7% had been fully completed, 50% had been partially implemented, and 43% had not been implemented at all.

Among its findings, the audit noted that when it comes to having an ICT strategy, much was left to be desired. In fact, of the 54 local councils that took part in the NAO survey, eight stated that their ICT strategy is discussed but not formally documented, and 46 did not have any ICT strategy.

MaltaToday, 11 December 2023

Finance and Administration



Income

€4,200,000 government subvention

€14,537 bank interest receivable and other income



Expenditure

€2,918,779 spent on salaries and other social security contributions

€489,285 spent on administrative and other overheads

€317,378 spent on subcontracted audit fees of local councils

€36,227 provision for service pensions and gratuities



Surplus

€452,868 surplus for the year



Assets, Liabilities and Reserves

€1,677,016 total assets under administration

€470,429 non-current assets at net book value

€1,206,587 current assets

€711,491 total liabilities

€168,908 non-current liabilities

€542,583 current liabilities

€965,525 reserves

Finance and Administration Section

The Finance and Administration (F&A) Section serves as the backbone of the Office, overseeing a spectrum of crucial responsibilities that include:

- **Finance Management:** handling budget allocations and financial reporting;
- **Accounting:** maintaining financial records, effecting payments, managing fixed assets inventory, and ensuring compliance with internal and Government policies;
- **Human Resources:** managing payroll, time and attendance, monitoring of job performance, learning and development, recruitment, promotions and retention, and ensuring compliance of all employee conditions with the Collective Agreement;
- **Administration:** overseeing logistics, asset maintenance, data protection, health and safety, registry and archiving, as well as public relations; and
- **Software Management:** managing the following software programs:
 - *SAGE Pastel Evolution* integrated with a SEPA Payment Mechanism and a Fixed Assets Inventory System that is used primarily for accounting, financial reporting, payments and management of fixed assets inventory;
 - *Indigo* for payroll, time and attendance, and other HR matters;
 - *Eunoia* for monthly monitoring and analysis of timesheets;

- *StOry* for monthly monitoring progress of audit plans; and
- *Corporate Travel Management System (CTMS)* for travel advances.

The F&A Section managed a budget allocation of €4.2 million from Central Government funds, out of which €3.72 million were utilised to meet operational expenditure. The surplus balance of €452,868 at the end of 2023 was added to the Reserves. These funds are required to partly finance the urgently required construction of our building extension, referred to below.

Achievements

Throughout the past year, the F&A Section has achieved significant milestones, demonstrating its commitment to innovation and improvement of its human resources function and workflow processes:

- (i) **Implementation of Corporate Travel Management System:** Successfully implemented the CTMS that was introduced recently by the Ministry for Finance to enable Government to automate the processing and settlement of travel advances.
- (ii) **Recruitment and Career Progression:** The F&A Section issued calls for key positions in the Assistant Auditor General and the Audit Manager grade, and facilitated the progression of three officers in the Performance Audits Section from Senior Auditor grade to Principal Auditor grade, using the Professional Competency Framework as a benchmark. The Office also issued an external call for vacancies in the posts of Senior Auditors with the IT, Performance and Special Audits and Investigations Sections, which were filled by three new recruits.

(iii) **Equality Mark Recertification:** Obtained recertification of the Equality Mark on 24 January and was granted use of the logo by the National Commission for the Promotion of Equality for another three years. This recertification reaffirmed the NAO's commitment to uphold principles of equality, inclusivity and non-discrimination in the workplace.

(iv) **Office Infrastructure Enhancement:** Completed the refurbishment of the top floor of the main building that included the installation of modern furniture and fittings, environmentally friendly air-conditioning equipment and the overhaul of the Boardroom's sound and visual equipment.

(v) **Building Extension Project:** During the year, the Office continued ongoing discussions with the architect on the building extension project, which was finally approved by the Planning Authority on 12 January 2024.

(vi) **Training Co-ordination:** In collaboration with the Financial and Compliance Audits Section, the F&A Section organised a training programme on IPSAS with CIPFA. The training programme, delivered by Manj Kalar (a UK consultant with expertise in IPSAS and public finance), was spread over two weekly sessions: the first between 21 and 24 November 2023 and the second between 26 February and 1 March 2024. The first part of the training programme consisted of four daily sessions of seven hours each at the Grand Hotel Excelsior, which was attended by all the 25 financial auditors and accountants of the Office.

Challenges

Despite its accomplishments, the F&A Section faces two notable challenges that warrant strategic attention:

- **Building Extension Project:** Following the approval of the significant building extension project by the Planning Authority, it falls upon the responsibility of the Section in collaboration with the architect to ensure the timely and cost-effective implementation of the project while minimising disruptions to daily operations.
- **Human Resources Development:** As the Office seeks to expand its auditing operations in all fields (especially in financial auditing), the demand for skilled professional auditors necessitates the enhancement of human resources functions that effectively recruit, train and retain talent, particularly in alignment with the Professional Competency Framework.

Outlook

Looking ahead, the F&A Section feels confident in assuming a more prominent role in corporate strategic planning while aiming to leverage its financial acumen and administrative expertise in its drive towards growth and innovation for the whole organisational set-up of the Office.

The section is dedicated to upholding high standards in financial management and human resources development. Its goal is to become a respected example of excellence within the Public Service and the wider public sector.

Stakeholder Relations

Collaboration with Local Stakeholders

The relationships between the NAO and its local external and internal stakeholders are crucial for promoting transparency, accountability and good governance in the public sector. Stakeholders include Parliament, auditees, the Internal Audit and Investigations Department (IAID), educational institutions, the media, civil society, non-governmental organisations (NGOs), the general public, domestic working groups and committees, and NAO employees. Collaboration and communication with stakeholders are key to achieving the Office's mission of promoting public trust and accountability, as is mutual respect between the NAO and related parties; this without impairing the NAO's independence.

Throughout 2023, the NAO held numerous meetings with officials from ministries and departments of the public service. The meetings served multiple purposes, including informing auditees of prospective audits, presenting audit results and other information, discussing issues of common interest, encouraging the implementation of NAO recommendations, addressing cross-cutting issues within the diverse ministries, and obtaining feedback on planned initiatives and proposals.

In addition to maintaining dialogue with the executive arm of government, the NAO sought to strengthen its engagement with other key stakeholders, including advisory councils, the media and civil society organisations. To this end, throughout 2023, the NAO participated in seminars, addressed several organisations and contributed to various initiatives organised by diverse entities. The NAO maintains that

this collaboration with local bodies outside the public service leads to greater audit impact and enables the Office to deliver the envisaged value and benefits emanating from its work.

Interaction with Parliament and its Committees

The relations between the NAO and Parliament are crucial for ensuring transparency, accountability and effectiveness in government operations. The NAO interacts mainly with two Parliamentary Standing Committees: the Public Accounts Committee (PAC) and the National Audit Office Accounts Committee (NAOAC).

One of the key functions of the PAC is the scrutiny of NAO reports. The PAC, drawing on the work of the NAO, ensures that public funds are used economically, efficiently and effectively. The PAC summons government officials and other individuals involved in the delivery of public services and initiatives, and projects financed through public funds. The Auditor General, the Deputy Auditor General and NAO officials involved in the reports issued by the Office regularly attend PAC sittings.

During 2023, the Committee held 24 meetings. In 23 of these sittings, the PAC reviewed the NAO's report 'An investigation of matters relating to the contracts awarded to ElectroGas Malta Ltd by Enemalta Corporation'. In the other meeting, the Maltese Member of the European Court of Auditors (ECA), Dr George Hyzler, presented the ECA's Annual Report for 2022.

The NAO also interacts with the NAOAC which, among other responsibilities, reviews the Office's audited financial statements, appoints auditors to verify the NAO's financial statements and approves the allocation of public funds to the Office. On 11 October 2023, the NAOAC reviewed the NAO financial statements for 2022 and approved the Office's financial estimates for 2024. The Committee also approved the extension of EY's term as the Office's auditors to 31 December 2027. The Auditor General also attended all other NAOAC meetings during which proposals for the allocation of public property to third parties were discussed.

Relations with auditees

This Office strives to maintain a good working and professional relationship with auditees without impairing its independence. Audited entities, on their part, invariably acknowledge the NAO's constitutional mandate and recognise that, through its work, the Office aims to promote improvement, encourage the economic, efficient and effective use of public sector resources, and enhance accountability of the executive government to Parliament and the public.

In rare situations of disagreement with auditees, the NAO invariably endeavours to reach a mutually acceptable resolution of the differences, in the interest of preserving good relations with auditees, since collaboration and co-operation between the two remain crucial.

For the third consecutive year, the NAO assessed its own performance through a survey submitted to auditees on the conclusion of each audit in which feedback on the quality of the NAO's work was sought. In 2023, 56 responses were received following 28 audits. Survey results demonstrated an overall positive performance, in line with that of previous years.

In 2023, the NAO held considerable meetings with officials from ministries and departments of the public service. In addition to the discussions on planned or completed audits, the meetings served other objectives, including reviewing mutual concerns, fostering the adoption of NAO recommendations, tackling cross-cutting issues across diverse ministries, and gathering feedback on proposed initiatives and plans. Apart from introductory meetings held at the beginning of each audit, and the exit conferences in which auditees' feedback on audit findings is solicited, meetings with auditees in 2023 included:

- The Auditor General, the Deputy Auditor General and the Assistant Auditor General (Financial and Compliance Audits) Tanya Mercieca had an introductory meeting with the newly appointed Chief Executive Officer of the Malta Tourism Authority, Mr Carlo Micallef, and the Authority's senior officials Mr Leslie Vella and Architect Louis Fsadni. The meeting was held on 23 January.
- On 7 February, the Auditor General and the Deputy Auditor General had a meeting with the Permanent Secretary Ministry for Health, Mr Joseph Chetcuti, on the setting up of an internal audit function within the Ministry. The Director General (Compliance and Inspections), Mr Kevin Francica, was to assume responsibility for this function.
- A meeting was held on 8 March with the Permanent Secretary Ministry for Finance and Employment, Mr Paul Zahra, and the Commissioner for Revenue, Mr Joe Caruana, on the possible write-off of uncollectible dues and taxes. Reference was made to the correspondence that the Ministry for Finance, in liaison with the NAO, had sent to the PAC on 4 August 2020 on the endorsement of

a mutually acceptable system to write off these dues. This initiative aimed to ensure that the financial statements provided as 'fair and true' a view as possible, as repeatedly recommended in the NAO annual reports on public accounts.

- The Assistant Auditor General (Performance Audits) William Peplow gave a presentation during a panel discussion on 'Towards a risk management approach in public procurement in Malta' during the closing conference of the project 'Strengthening the public procurement system in Malta through advancing the professionalisation of the public procurement workforce and developing risk and performance measurement', organised by the Department of Contracts in collaboration with the Organisation for Economic Co-operation and Development (OECD), held on 3 April. The considerable effort and hard work that was put into this project, which the NAO was committed to continue supporting particularly through the continued exchange of experiences and knowledge acquired during audit assignments focusing on public procurement, was highlighted during the conference.
- On 19 April, the Auditor General and other NAO officials held a meeting with senior officials from the Ministry for Foreign and European Affairs and Trade on the new Conditions of Service (COS) for Officers Posted Overseas. The COS were amended as a result of recommendations made by the NAO during an audit in 2021.
- Following a request made by the Auditor General to the Principal Permanent Secretary, Mr Tony Sultana, the Auditor General and

the Deputy Auditor General addressed all Permanent Secretaries during the monthly Permanent Secretaries' Forum held on 20 April. Among various issues raised, reference was made to the unacceptable delays at times faced by the NAO when seeking information or documentation which ministries and departments ought to have readily in hand, such as attendance sheets or agreements. These delays disrupted the NAO's audit plans and created complications in the work of the Office. It was emphasised that, ultimately, both the NAO and the public administration shared one common objective: the continued enhancement of good governance within the public service, ultimately in the best interest of citizens.

- The Deputy Auditor General attended the conference 'Delivering transformation', held on 9 May, which marked the launch of the Tax and Customs Administration's three-year strategic plan. The strategy outlined the transformation of the Office of the Commissioner for Revenue and the creation of a cohesive Tax and Customs Administration. The strategy aims to modernise the organisation into one that was data- and technology-driven and more taxpayer-centric. It set out the amalgamation of corporate services, the introduction of innovative risk-based approaches in tandem with the digitalisation of tax administration processes and the establishment of an Artificial Intelligence platform.
- On 10 May, the Deputy Auditor General attended the inaugural conference of the Public Service EXPO, organised by the Office of the Principal Permanent Secretary within the Office of the Prime Minister. During the conference, PPS Tony Sultana addressed

senior management from the diverse government departments and entities. He emphasised the importance of the public service in today's society, noting that those present were responsible for and managed 50,000 employees, constituting 20 per cent of Malta's labour workforce. Mr Sultana stressed the need for all civil servants to embrace technological advances and to make use of the data available. Following the PPS's address, several panel discussions were held. In the evening, the Auditor General and the Deputy Auditor General attended the Public Service Awards 2023 ceremony, marking the conclusion of the EXPO.

- On 28 September, the Auditor General, the Deputy Auditor General and other management members of the NAO had a meeting with the Chief Executive Officer Lands Authority, Mr Robert Vella, and senior officials of the Authority. Among the topics discussed was the gradual valuation of all public land in Malta and Gozo. The NAO emphasised the critical significance of this initiative in ensuring the proper management of government's most valuable asset. Moreover, such a measure would enhance transparency and accountability within the Authority.

Results of the annual Governance Action Report

A meeting was held with PPS Tony Sultana, Permanent Secretary Kevin Mahoney, Director General (Implementation) Oreste Cassar and Director (Governance Action) Jacqueline Bonnici within the Office of the Prime Minister on 22 November. During this meeting, the Auditor General and the Deputy Auditor General were presented with the 'Governance

Action Report on the NAO's Annual Report on Public Accounts 2021 and other NAO Reports 2022' issued by the Office of the Principal Permanent Secretary. The report outlined the issues identified by the NAO in its reports and detailed the action taken by ministries and departments to address the recommendations put forward to mitigate or resolve these issues. The report outlined the rate of implementation of NAO recommendations, which was determined following a review of the actions taken by the audited ministries as reported on by the Governance Action Directorate within the Office of the Principal Permanent Secretary and the IAID.

Relations with the Local Government Division and the Local Councils Association

On Saturday 11 November, the Auditor General, Mr Charles Deguara, presented the Good Governance Award to three local councils, namely those of Qormi, Naxxar and Pembroke during a well organised evening of recognition for all stakeholders involved in the area of local government in Malta during these 30 years. These three Councils have managed to achieve the European Label of Governance Excellence (ELOGE) - a prestigious award that is given solely to municipalities that have achieved a high level of good governance, strictly measured against a Council of Europe benchmark. In a brief intervention, the Auditor General emphasised that throughout our annual statutory auditing of all local and regional councils in Malta and Gozo, we invariably focus on our principal objective, namely to be of service to our auditees so as to continuously enhance good governance across this important sector that has a direct impact on the lives of our citizens. He focused on the need that local and regional councils implement our recommendations in a timely manner so that ultimately all residents in the respective communities are given the service that they rightly expect.



The Auditor General makes a brief address prior to the presentation of the Good Governance Award to three local councils during an event to celebrate the 30th Anniversary of the setting up of local government

Collaboration with the Internal Audit and Investigations Department

The NAO and the IAID have complementary roles in government financial control, with the former being responsible for the public sector external audit function and the latter for the internal audit function. However, the reporting responsibilities of the NAO and the IAID differ. While the NAO is autonomous from the executive branch of government and reports to the Speaker of the House of Representatives, the IAID is an integral part of the executive branch and reports directly to the Secretary to the Cabinet.

The IAID is also the audit authority for EU funds. Notwithstanding this, the NAO may carry out financial, compliance and performance audits with EU-related components. Whereas the EU counterpart of the NAO is the ECA, in the case of the IAID, the EU equivalent institution is the European Commission (EC). Any audit missions by the EC are therefore co-ordinated by the IAID.

Co-operation between the NAO and the IAID involves participation in joint training activities and the sharing of knowledge and experiences; this without infringing or impairing each other's independence. To avoid any unnecessary overlap of audit work, the NAO may request the IAID for a schedule of its planned audits.

Relations with educational institutions

The NAO co-operates with educational institutions, in particular the University of Malta. The Office, in collaboration with the University's Department of Accountancy within the Faculty of Economics, Management and Accountancy (FEMA), awards an annual National Audit Office prize to a Masters in Accountancy graduate for the best dissertation in an area related to public sector accounting. On 28 March, the Auditor General presented the award to Ms Kelly Vassallo for her dissertation 'An Analysis of Green Public Procurement Across Maltese Government Ministries'. Collaboration with the University of Malta involved



Presentation of the award to Ms Kelly Vassallo for her dissertation 'An Analysis of Green Public Procurement Across Maltese Government Ministries'

the delivery of lectures to students by NAO officials, including:

- Lectures on 'Audit and Assurance and the Public Sector' to third-year students following a Bachelor of Arts (Honours) course in Public Sector Accounting organised by FEMA. The lectures were delivered by the Assistant Auditor General (Financial and Compliance Audits) Tanya Mercieca and the Assistant Auditor General (Performance Audits) William Peplow.
- The Assistant Auditor General (Special Audits and Investigations) Keith Mercieca and the Principal Auditor (Special Audits and Investigations) Felicity Rayner delivered lectures to second-year undergraduate students of social policy within the Department of Social Policy and Social Work that forms part of the Faculty of Social Wellbeing. The study unit was titled

'Governance and Administration in Social Welfare' and delved into the characteristics of governance across the public, private and nonprofit sectors.

- Audit Managers (Performance Audits) Simon Vassallo and Maria Azzopardi, and the Principal Auditor (Special Audits and Investigations) Rebecca Vassallo, delivered a lecture on evaluative analysis to third-year undergraduate students of social policy.

Another initiative undertaken by the University of Malta that the NAO wholly supported related to efforts aimed at addressing climate change. On 23 August, the Assistant Auditor General (Performance Audits) William Peplow and other NAO officials met representatives of the Climate Change Platform (CCP) Prof. Simone Borg, Prof. Maria Attard and Dr Stefano Moncada. The CCP's main functions are to facilitate collaboration between entities and individual academics within the University of Malta

interested in climate change issues, and to promote research and teaching initiatives in that area. The meeting provided important insight into various aspects of climate change adaptation, a topic that was also being reviewed by the NAO. A follow-up meeting was held on 11 September with Prof. Borg in her capacity as Chair Climate Action Board, established under the 2015 Climate Action Act (Cap. 543 of the Laws of Malta), to monitor progress and to facilitate the coherent implementation of Malta's legal commitments relating to climate action under international and EU law.

Other events organised by the University of Malta endorsed by the NAO were:

- On 22 April, the Auditor General attended an event organised jointly by the Department of Public Policy and the Department of Maltese Language within the University of Malta titled 'Il-Qawwa tal-Kelma: Ir-Retorika Politika'.
- On 16 May, the Auditor General attended another event organised by the Department of Public Policy of the University of Malta. This included a speech by Prof. Edward Warrington titled 'Leisure, Silence and Solitude: The Lost Public Goods'.
- On 24 November, the Auditor General attended the Public Policy Research Symposium organised by the Department of Public Policy within FEMA. Following the opening address by the Faculty's Dean Prof. Emanuel Said, presentations on various dissertations submitted in partial fulfilment of tertiary degrees offered by the Department were made.

Relations with the media

The importance of communicating effectively with the media stems from the latter's potential to stimulate public discussion on the issues raised by the Auditor General. On publication of an audit report and following its presentation to the Speaker of the House of Representatives, a full version of the report is made available on the Office's website (<https://nao.gov.mt>) on the same day. NAO reports can be downloaded free of charge by the public and other interested parties. Electronic copies of audit reports are also forwarded to the media houses.

To reach as wide an audience as possible, press releases in both Maltese and English are issued with a summary of the main findings and conclusions of each published NAO report. These are generally given extensive coverage in the local media, through television, radio and newspaper reporting, as well as through the electronic media. This further places audit reports in the public domain, generating discussion, with citizens possibly demanding more accountability, better work practices and better management of public funds. Through its Public Relations Officer, the NAO is also committed to, as far as possible, answer any media enquiries in a timely manner.

While the active participation by the NAO in television and radio programmes remains infrequent, the NAO's publication 'State Audit in Times of Transition – Reflections on Change and Continuity, Challenge and Opportunity from Malta and Beyond' was the subject of a discussion programme aired by Campus FM. On 1 April, the Auditor General and Prof. Edward Warrington, the book's editor, participated in the programme 'Agora', conducted by Dr Mario Thomas Vassallo. The discussion focused on the role of the Auditor General within the context of Prof. Warrington's new book.

Relations with civil society, non-governmental organisations and the public

In addition to maintaining dialogue with the executive arm of government, the NAO seeks to strengthen its engagement with other key stakeholders, including advisory councils, the media and civil society organisations. Both civil society and the public play an important role in public governance, shaping government policy and holding government to account. The Office maintains that collaboration with local bodies outside the public service leads to greater audit impact and enables it to deliver the envisaged value and benefits emanating from its work.

The NAO keeps the needs and demands of civil society, NGOs and citizens in view when planning and conducting audits, ensuring that its work is relevant to these audiences. Findings, conclusions and recommendations reported on in NAO reports generally address some of the concerns voiced by these groups. To this end, the NAO ensures that audit reports are accessible to civil society, NGOs and the public by reporting in, as far as possible, a non-technical and jargon-free manner.

To enhance its collaboration with NGOs, throughout 2023 the NAO participated in seminars, addressed several organisations and contributed to various initiatives organised by diverse entities outside the Executive. These included:

- On 20 January, the Auditor General met Architect David Xuereb, the recently appointed Chair of the Malta Council for Economic and Social Development (MCESD). The meeting delved into the potential collaboration between the Office and the Council. The Chair of the MCESD conveyed his appreciation for the sterling work carried out by the NAO. Subsequently,

on 14 April, during a meeting of the MCESD, the Auditor General delivered a presentation on the Office's experiences in the area of public procurement. Concluding the address, the AG emphasised the Office's commitment to increasing collaboration with civil society, citing the article 'Expanding collaboration between Public Audit Institutions and Civil Society' by Vivek Ramkumar. The Deputy Auditor General was present at the meeting.

- A meeting was held on 5 April with the outgoing President of the Malta Chamber Ms Marisa Xuereb, and her successor Mr Chris Vassallo Cesareo, who serves as the Chamber's 72nd President. The Auditor General and the Deputy Auditor General thanked Ms Xuereb for her excellent work throughout her three-year tenure. During the meeting, the NAO's and the Chamber's 'common' objective of enhancing the level of good governance within the public sector, as well as the further collaboration between the two entities, were discussed.
- On 3 May, the Auditor General attended a Business Breakfast organised by the Malta Development Bank in connection with the launch of its Annual Report for 2022.
- The Deputy Auditor General attended the 2nd EY ENGAGE Conference themed: 'Automate. Integrate. Innovate.' Held on 1 June, the conference focused on digital transformation and delved into issues relating to organisations' digital agenda, key technology trends and other matters contributing to business transformation.
- On 27 June, the Deputy Auditor General participated in a webinar organised by the Malta Stock Exchange Institute on 'Generative Artificial Intelligence'.



Speech by the Auditor General during the Public Procurement Law Conference organised by Ganado Advocates on 19 September 2023

- On 31 July, the Deputy Auditor General participated in a webinar organised by the Malta Forum of Internal Auditors on ‘Auditing Corporate Governance’.
- On 4 August, the Auditor General, the Deputy Auditor General and the Assistant Auditor General (Performance Audits) William Peplow had an introductory meeting with the new Chairperson of the ADPD – the Green Party, Ms Sandra Gauci, and other party officials.
- On 19 September, the Auditor General took part in the Public Procurement Law Conference organised by Ganado Advocates.

Together with the Director General Contracts, Mr Anthony Cachia, the AG participated in the panel discussion ‘Transparency in Government Contracts and Fair Competition’. During his interventions, the AG referred to various reports on public procurement issued by the NAO and to a UK NAO report issued in July 2023, titled ‘Competition in Public Procurement’, which made extensive

reference to a new Procurement Bill being debated by the Westminster Parliament.

- On 25 October, the Auditor General and the Deputy Auditor General attended the Future Realised 2023 Conference, an annual event organised by EY, this year being the 19th edition.

Participation in constitutional and other government boards and committees

In terms of Article 96A of the Constitution, the Auditor General is a member of the Judiciary Appointments Committee, which is chaired by the Chief Justice. The Committee evaluates all candidates responding to ad hoc calls for applications to the post of judges and magistrates, and submits its recommendations to the President of Malta, who subsequently appoints the Members of the Judiciary.

During 2023, the Auditor General attended all the meetings of the Judicial Selection Committee, including those related to the three calls for

applications for the posts of judges and magistrates issued during the year. As a result of these selection procedures, three judges and nine magistrates were appointed by President George Vella.

The Auditor General is also a member of the Co-ordinating Committee set up in terms of Article 23 of the Internal Audit and Financial Investigations Act (Cap 461). The Committee held one formal meeting in February; however, the AG and External Affairs and Research Officer Brian Vella participated in other informal meetings organised by the Committee.

On 23 February, the Auditor General and Mr Vella participated in the 6th meeting of the Co-ordinating Committee against Fraud and Corruption, set up in terms of the Internal Audit and Financial Investigations Act (Cap. 461 of the Laws of Malta). Representation on the Co-ordinating Committee comprised all the main stakeholders involved in the fight against fraud and corruption, including the Malta Police Force, the Office of the Attorney General, the Commission Against Corruption, the Office of the Commissioner for Revenue, the NAO and the IAID. The significant input of the NAO to the National Risk Assessment on Fraud and Corruption was acknowledged. The Assessment presented a holistic analysis of the fraud and corruption risk appraisal undertaken by the members of the Co-ordinating Committee in the area under their competence and responsibility. The meeting was chaired by the Director General IAID Mr Stefano Manicolo.

The Auditor General and the Assistant Auditor General (Financial and Compliance Audits) Tanya Mercieca are members of the Local Government Good Governance Working Group (LGGGWG). The key objective of the Working Group is to address issues identified in the 'Annual Report by the Auditor General on the Workings of Local Government' in a harmonised and co-ordinated manner. In view of the retirement of the Director General Local Government Mr Natalino Attard, and the appointment of his successor Mr Emil Vassallo,

no formal meetings of the LGGGWG were held in 2023. However, the AG and the AAG attended several informal consultative meetings with the various stakeholders on the Working Group, particularly the Local Government Division, the Local Councils Association and the National Association of Executive Secretaries. In the first official meeting with the new Director General Local Government in January 2024, the AG emphasised the importance of resuming these meetings representing the main stakeholders involved in local government. This would also facilitate the implementation of the NAO's recommendations in its annual report on the workings of local government. On his part, the incoming Director General Local Government indicated that meetings would resume in 2024.

In July, the Auditor General was appointed on the Public Inquiry Board set up to explore systemic shortcomings that led to the tragic workplace death of Jean Paul Sofia on a construction site. The Board was chaired by Judge Emeritus Dr Joseph Zammit McKeon and the other member was Architect Mario Cassar, a Court expert. Following the evidence and explanations presented to the Board, the final report was delivered to the Prime Minister on 28 February 2024.

The Deputy Auditor General attends the Corporate Financial Management System (CFMS) Implementation Board as an observer. The Board's mandate is to oversee the implementation of new accrual accounting software, the CFMS, across government departments. While executive decisions are taken by the other members of the different stakeholders on the Board, as observer, the NAO's participation is focused on highlighting risks associated with the critical path of the project. The Office's contribution also includes insights into problem areas in public financial management identified through its various audits conducted in accordance with its mandate.

The Assistant Auditor General (Financial and Compliance Audit) Tanya Mercieca participates in the International Public Sector Accounting Standard (IPSAS) Implementation Project Board as an observer. The Board is responsible for the strategic direction and overall management of the implementation of the Standards across government ministries and departments. The IPSAS Implementation Board convened twice in 2023. Seven standards were finalised during the year, increasing the total approved standards to 25. Eleven finalised standards still had to be uploaded on the Treasury's website at end 2023 and another standard, IPSAS 23 – Revenue from Non-Exchange Transactions (which was also being discussed with the Commissioner for Revenue), was still work in progress.

Collaboration with other constitutional institutions

Although the NAO typically functions as an independent body tasked with auditing government institutions to ensure transparency, accountability and efficiency in the use of public funds, the Office seeks to collaborate with other constitutional institutions that play a role in promoting good governance within the public sector. These include the Offices of the President and the Parliamentary Ombudsman. By partnering with these institutions, the NAO aims to foster a culture of transparency, integrity and effectiveness in the public sector. Through collective efforts, they can identify areas for improvement, recommend reforms and ultimately enhance public trust in government institutions.

While the President's role is largely ceremonial, this can still have significant influence, particularly in matters related to governance and national unity. Collaborating with the Office of the President allows the NAO to align its audit objectives with broader national goals and priorities. Additionally, the President often offers support for and endorsement

of the NAO's work, enhancing its credibility and impact.

The Parliamentary Ombudsman is an official appointed to investigate complaints from citizens against government agencies or officials. His Office serves as an independent advocate for fairness and accountability in public administration. Collaborating with the Parliamentary Ombudsman enables the NAO to exchange information, co-ordinate efforts and address systemic issues that may hinder good governance. By working together, both entities can strengthen oversight mechanisms and ensure that public institutions operate in accordance with legal and ethical standards.

Instances of the NAO's collaboration with such institutions in 2023 were:

- On 9 January, NAO senior management met the Minister for Justice, Dr Jonathan Attard, the Permanent Secretary Ministry for Justice, Mr Johan Galea, and the State Advocate, Dr Chris Soler. The discussion focused on the legislative amendments initially proposed by the NAO in November 2020. The Auditor General provided an overview of the reasons for the proposed changes, referring to the Constitutional amendments that the Office had presented to President George Vella in February 2020.
- On 14 February, the Auditor General presented a copy of the NAO's publication 'State Audit in Times of Transition – Reflections on Change and Continuity, Challenge and Opportunity from Malta and Beyond' to the then President George Vella. The Deputy Auditor General and the book's editor Prof. Edward Warrington were also present. In his address, Dr Vella conveyed his appreciation for the work carried out by the Office, emphasising that

institutions of oversight such as the NAO were of critical importance within every democracy, especially through their promotion of accountability and transparency – the two basic pillars of good governance.

- On 21 April, the Auditor General and the Deputy Auditor General held an introductory meeting with the recently appointed Parliamentary Ombudsman, Judge Emeritus Dr Joseph Zammit McKeon. The parties agreed in principle to identify areas and initiatives where the two Offices could collaborate and exchange experiences since, ultimately, they shared a common objective – the continued enhancement of good governance across the public sector.
- During a conference organised by Parliamentary Ombudsman Judge Emeritus Zammit McKeon on the theme ‘The Right to Good Administration – Myth, Aspiration or Reality?’ on 31 October and 1 November, the Auditor General delivered a presentation on improving relations between independent state offices and the public administration. He emphasised the commitment to engage and co-operate with stakeholders like the Office of the Parliamentary Ombudsman to enhance good governance. The AG stressed the importance of a positive working relationship based on trust and respect with the public service leadership, despite occasional differences in perspective. He highlighted the need for independence in auditing, in accordance with ISSAI 12 ‘The Value and Benefits of Supreme Audit Institutions – Making a Difference in the Lives of Citizens’, while fostering communication and co-operation. The AG advocated for a service-oriented approach during audits, focusing on feasible recommendations rather than just criticism.

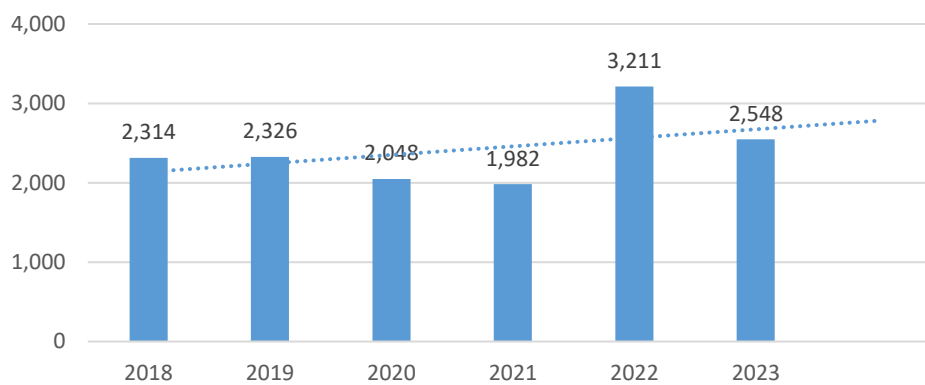
- On December 14, then President George Vella made his final official visit to the NAO as his term of office was nearing an end. In the meeting with the Auditor General, the Deputy Auditor General, and NAO management, President Vella commended the NAO for diligently fulfilling its constitutional mandate, and enhancing accountability, transparency and good governance in the use of public resources. He expressed gratitude for the NAO’s valuable contributions through detailed reports and acknowledged its international reputation. The AG thanked Dr Vella for his support and assured continued commitment from the NAO to provide high-quality auditing services aimed at promoting good governance. The AG also presented the President with the NAO’s strategic document outlining its plans for the next five years. Additionally, Dr Vella thanked NAO staff for their ongoing support to the Malta Community Chest Fund.

Relations with employees

Employees represent the NAO’s most valuable asset. Therefore, the Office allocates significant resources towards enriching their competencies, abilities and expertise through extensive training initiatives, including on-the-job guidance and participation in formal workshops and training programmes. These efforts are directed towards the effective fulfilment of the Office’s Constitutional and legal mandate.

Figure 1 illustrates the breakdown of training hours offered to NAO staff members between 2018 and 2023. Over these past six years, training hours amounted to 14,429, evidencing the importance that the Office attaches to employee learning and growth. Training hours for 2023 were slightly higher than those for each of the four years 2018-2021. This was due to the CIPFA training course provided to all accountants and auditors within the NAO. Training hours exceeded the 3,000 mark in 2022, mainly due

Figure 1: Training Hours 2018-2023



Source: NAO records

to the lengthy Professional Education for Supreme Audit Institution Auditors (PESA) training programme organised by the IDI.

The NAO sought to acknowledge the success of its participants in the PESA training. The Speaker of the House of Representatives, Dr Anġlu Farrugia, paid an official visit to the NAO on 31 May during which he presented certificates to seven members of staff who obtained this qualification. During his welcome address, the Auditor General congratulated the successful participants for their achievement, highlighting that the NAO was the only supreme audit institution to achieve a 100% success rate in this challenging and extensive training programme. He reiterated the management's commitment to continue providing the best opportunities for ongoing professional development to all NAO staff. The IDI's Deputy Director General, Ms Archana Shirsat, sent a recorded message since she could not be present for the award ceremony. She congratulated the NAO for the outstanding success obtained by its auditors. The Speaker, while also congratulating the successful staff members, conveyed his appreciation for the sterling work carried out by the Office. He emphasised the fundamental importance of ongoing training to all staff, as was the case within the House of Representatives. The Speaker presented the certificates issued by the IDI to the successful staff members.

Throughout 2023, the NAO Social Committee, in line with its ongoing commitment to nurture a friendly workplace culture within the Office, organised various social activities and events for NAO staff.

Many of the social activities organised were held in-house, with the primary purpose of enhancing team building and networking in an enjoyable, pleasant atmosphere. The Committee organised the traditional lunch at the start of the Office's summer itinerary. In fulfilment of the NAO's social responsibilities, philanthropic and other fund-raising activities were included in the Office's calendar of events, marking its commitment to help the needy in our society. NAO staff collected €1,500, which was donated to the L-Istrina campaign in December 2023.

As in previous years, the NAO Social Committee organised Pink October and Movember activities, raising funds for breast cancer awareness, men's health, and research in these areas. All NAO employees were invited to wear pink or blue on the respective days and take part in an employee social gathering at the NAO reception area. The sum of €190 was collected during these events, which was donated to the Malta Hospice Movement.

On 20 December, in a commendable act of altruism, six NAO officers generously donated blood at the National

Blood Transfusion Centre, with some individuals participating for the first time. The Office hopes and anticipates that more NAO employees will engage in this initiative in future.

For the second consecutive year, during Lent and Advent, the NAO participated in the Reverse Lent/Advent Calendar during which staff were encouraged to provide food items by way of support to another worthy initiative – the Foodbank Lifeline Foundation. The Foundation provides food to over 300 families per week through the donations and support received.

Collaboration with Foreign Stakeholders

While SAIs may vary in organisational structures, legal mandates and type of public audit institution, which can influence the overall functioning of the institutions, SAIs are largely bound by one overarching objective to serve as public oversight bodies responsible for auditing government's use of public funds. This overarching goal underscores their role in ensuring that public finances are managed efficiently, effectively and in accordance with relevant laws and regulations.

Acting as a crucial component within a country's accountability framework, SAIs promote transparency, accountability and good governance in the public sector. These common aims foster co-ordination, co-operation and mutual support among SAIs. Through international fora and other collaborations, SAIs engage in the exchange of ideas, knowledge and experiences, promoting continuous improvement in their performance. This is often facilitated through umbrella organisations for the external government audit community such as INTOSAI, EUROSAI, and the EU Contact Committee, as well as other organisations that support SAIs, such as the OECD.

Collaboration with the INTOSAI community

To ensure that the NAO is at the forefront of developments in the auditing field, the Office co-operates with the International Organisation of Supreme Audit Institutions (INTOSAI), an umbrella organisation comprising all SAIs; the IDI, which is the INTOSAI's training arm; the European Organisation of Supreme Audit Institutions (EUROSAI), which is one of INTOSAI's regional organisations; as well as other SAIs within INTOSAI on a bilateral or multilateral basis. This interaction also enhances the NAO's international profile and visibility.

On an ongoing basis, the NAO participates in a number of INTOSAI and EUROSAI working groups, especially in the areas of IT and the environment. It also assists the IDI in a number of initiatives, particularly those related to the audit of the United Nations 2030 Sustainable Development Goals. The NAO also undertakes joint audits with other SAIs, especially those related to the environment, and has signed several memoranda of understanding with other SAIs to enable the professional exchange of staff between the respective audit institutions.

This networking among SAIs produces numerous benefits. It enables the Office to keep abreast of emerging audit issues and encourages further NAO capacity building initiatives. The latter include participation in overseas training events, seminars, conferences and other meetings, the sharing of best practice audit methodologies and reporting, as well as collaboration on common issues of concern.

The following are some of the collaborative initiatives that the NAO participated in with INTOSAI and its affiliates during 2023.

- Presentation to the IDI on the Risk Assessment Framework:** On 18 January, Assistant Auditor General William Peplow gave a presentation to the IDI on the risk assessment framework developed by the NAO to assist senior management in the selection of audits from the defined audit universe. He highlighted that the framework now integrated financial data from the Financial Data Reporting System, as well as direct orders and negotiated procedures awarded by public sector entities, extending coverage to the majority of governmental organisations. The framework also incorporated risk weightings and a risk scoring template for the diverse risk attributes to be considered in audit planning. He emphasised that the framework would continue to be reviewed and developed on the basis of the experience gained by the Office. On his part, the Auditor General affirmed that the framework was an important management tool that would supplement professional judgment in the decisions taken, particularly in the formulation of the NAO's work plan.
- The EUROSAI Project Group initiative 'Capacity building on non-SAI stakeholder engagement':** The Latvian SAI, in its capacity as EUROSAI Governing Board member and holder of the portfolio on EUROSAI's co-operation with non-SAI stakeholders, initiated a new EUROSAI Project Group titled 'Capacity building on non-SAI stakeholder engagement'. The aim of the Group was to expand on previous work on civil society engagement and to develop information for EUROSAI members on engaging civil society during the various stages of audit work. This initiative was undertaken in collaboration with the OECD/SIGMA, to consolidate efforts in this area. During 2023, the OECD/SIGMA

was in the process of developing guidelines for increasing impact through external engagement, The guidelines were to present an overview of practices from all over the EU and Network countries and provide guidance for the Network SAIs in developing effective relationships with their external stakeholders, in particular civil society organisations. In this regard, the NAO participated in a survey on co-operation with external stakeholders that was sent out to all EUROSAI members. The initial feedback obtained through the survey was further discussed in an online meeting attended by External Affairs and Research Officer Brian Vella. The OECD's paper 'Increasing the impact of supreme audit institutions through external engagement' was subsequently published in April 2024.

- The IDI supported the SAI of DR Congo with capacity development, annual planning and risk assessment:** On 7 February, Assistant Auditor General (Performance Audits) William Peplow and other NAO officials had an online meeting with Mr Muhammed M. Dabo, Manager Capacity Development at the IDI, who was supporting the SAI of DR Congo in these three areas. In this initiative, the IDI was being assisted by peer SAI partners of Hungary, Senegal, Sweden and Tunisia. During the meeting, Mr Dabo gave an overview of the initiatives underway, and Mr Peplow delivered a presentation on the NAO's work on incorporating risk in its annual audit planning process. In view of IDI's interest, the DAG expounded on other supporting initiatives being undertaken by the NAO, including those related to audit hours' management and monitoring through timesheets, and the monitoring of progress on all audits through the StORY platform. In conclusion, the NAO indicated its willingness

to, within its capacities, share the knowledge and experience accrued on these issues.

- **The ‘Travelling Club of Experts’ organised by the EUROSAI Strategic Goal (SG)1 Project Group:** On 15 February, the Auditor General and the Manager (Financial and Compliance Audits) Sharon Borg Finn participated in the 4th webinar in the series ‘Travelling Club of Experts’ organised by the EUROSAI SG1 Project Group, focusing on the theme ‘Future Challenges for Supreme Audit Institutions: Auditors’ Perspectives’. Interesting presentations on this theme were given by Ms Julia Petrevsova from the SAI of the Czech Republic, Mr Denys Nihitin from the Accounting Chamber of Ukraine and Ms Ausrine Asanaviciene from the NAO of Lithuania.

The NAO participated in the next webinar organised by the ‘Travelling Club of Experts’ on 12 July. Audit Manager (Performance Audits) Simon Vassallo gave a presentation on the theme chosen for this session, ‘How SAIs communicate with their stakeholders and civil society’. Mr Vassallo gave an overview of the various stakeholders of the NAO and highlighted how the Office interacts and co-operates with these third parties, including Parliament, the government, the NAO’s auditees, civil society and the public.

Another webinar was hosted by the Project Group on 31 October titled ‘Auditor Training: Harnessing Internal Resources’. Insightful presentations were given by the SAI of Ireland, which focused on its approach to performance audit manuals and training methodologies; the European Court of Auditors (ECA), where its competency framework was discussed;

and the SAI of Lithuania, during which its approach to auditor training was expounded on. In essence, the webinar provided insights into best practices in auditor training and underscored the importance of comprehensive and adaptable training approaches for a well-rounded and effective audit workforce. The Auditor General, the Deputy Auditor General, the External Affairs and Research Officer Brian Vella and Manager (Performance Audits) Maria Azzopardi attended the webinar.

- **The EUROSAI Project Group on the ‘Benefits and Methodologies of Real-Time Audit’:** On 11 May, Assistant Auditor General (Special Audits and Investigations) Keith Mercieca attended the kick-off meeting of the EUROSAI Project Group on the ‘Benefits and Methodologies of Real-Time Audit’, organised by the Italian Corte dei Conti. The meeting was largely exploratory, with the different SAIs seeking to clarify what is precisely understood by the term ‘real-time audit’ and which ISSAIs apply. The consensus view that emerged was that, when the verification occurred very close to the date of a transaction, this effectively qualified as a real-time audit. Other aspects discussed related to the competencies of auditors undertaking real-time audits as well as on how to manage situations where an audit opinion on a project was expressed early on in its lifespan, only for the project to require further verification at a later stage. Representatives from 24 SAIs participated in this event.
- **The EUROSAI Working Group on Environmental Auditing (WGEA) Spring Session:** Assistant Auditor General William Peplow, Audit Manager Maria Azzopardi

and Principal Auditor Elton Camilleri from the Performance Audits Section attended the EUROSAI WGEA Spring Session held in Warsaw, Poland, on 25-26 May. The theme of the seminar was 'Climate Change: Progress Made in Adaptation Efforts'. Keynote speeches were presented by the European Regional Centre for Ecohydrology under the auspices of UNESCO, the European Commission DG CLIMA, the ECA, and the European Environment Agency.

- **The EUROSAI Annual WGEA Meeting:** EUROSAI held its annual WGEA meeting in Prague, the Czech Republic, on 25-27 September. The Auditor General and the Assistant Auditor General (Performance Audits) William Peplow attended. The NAO had been participating in the Group's activities since its inception in 1998 when it was still a regional working group within the INTOSAI structure. In 1999, the Group was formally endorsed in its current format under the EUROSAI umbrella. The Group's co-ordinator in 2023 was the SAI of Poland, while the NAO formed part of the Steering Committee. This year's annual meeting focused on the topical theme of sustainable energy. Keynote speeches highlighted the risks and benefits associated with energy sustainability, and a number of SAIs presented results of recently published audits in this area. A common theme was on the outcomes of governments' initiatives and investments on decarbonising the power sector. As was the case with the NAO, these audits highlighted issues with smart metering, subsidies and feed-in tariffs related to renewable energy, contingent liabilities tied to falling short of EU renewable energy targets and other externalities arising from public or private investments in this field.

- **Webinar organised by IDI titled 'Well Governed SAIs Workstream – Awareness-raising Session':** On 3 July, the Auditor General and the Deputy Auditor General participated in a webinar organised by IDI titled 'Well Governed SAIs Workstream – Awareness-raising Session'. The webinar showcased all that is being done by the IDI under this strategic workstream, as well as an overview of the various initiatives underway. These included the SAI Performance Measurement Framework (PMF), related to SAIs' performance; the Strategy, Performance Measurement and Reporting (SPMR) initiative, aimed at supporting SAIs to better assess, plan, manage and report on their performance throughout an entire strategic management cycle; the piCTure, which supports SAIs in strengthening their ICT governance; TOGETHER, a human resource management, ethics, gender and inclusion project; CRISP, which addresses risk and crisis management by SAIs; and MASTERY, which specifically concerns Heads of SAIs.
- **EUROSAI IT Working Group (ITWG):** Audit Manager (IT) Simon Camilleri attended the 16th meeting of the EUROSAI IT Working Group, held in Warsaw, Poland, on 10-11 October. The event consisted of a seminar titled 'Digital Sovereignty in a Cloudy Environment', which was open to both EUROSAI and INTOSAI members, and was followed by a business meeting of the ITWG. The seminar included presentations on diverse aspects of governments' use of cloud computing, such as cloud strategy, IT and data sovereignty, the take-up of government cloud services, and the use of open source in the cloud environment. Mr Camilleri was appointed one of the main panellists for the subsequent discussion held, themed

‘Standing for digital sovereignty – a thin border between protection and over regulation’. The panellists took turns to answer a series of questions made by the Head of the ITWG Secretariat during live streaming, this being a hybrid event. During the ITWG business meeting, the various project leaders gave updates on the Working Group’s initiatives, including the training hub and the online IT audit manual.

- **The EUROSAI and ECIIA ‘Working Together Forum’:** On 6 October, the Auditor General attended the EUROSAI and ECIIA ‘Working Together Forum’, held in Brussels, Belgium. The themes discussed focused on the key challenges for auditors in the public sector and emerging environmental, social and corporate governance (ESG) challenges in the public sector. The AG took part in a discussion forum focusing on the possible collaboration between SAIs and national

internal audit entities, as external and internal auditors of government, respectively. During his interventions, the AG underlined the excellent collaboration prevailing between the NAO and the Internal Audit and Investigations Department, both bound by the common objective of continued enhancement of good governance across the public service. The Auditors General of the Czech Republic, Portugal and Latvia also participated in the forum.

- **EUROSAI Symposium on Emerging Issues:** On 30-31 October, Assistant Auditor General (Performance Audits) William Peplow participated in the EUROSAI Symposium on Emerging Issues, held in Lisbon, Portugal. Keynote presentations were made by Mr Peter Welch, Senior Advisor OECD, and Ms Noemia Goulart, Member of the Portuguese Public Finance Council. During the symposium, the discussion focused on various prevailing



EUROSAI and ECIIA ‘Working Together Forum’, held in Brussels, Belgium on 6 October 2023

themes, including the impact of the evolving economic environment on public spending, the implications of rising borrowing costs and inflationary pressures on government projects and the management of public budgets. In addition, good practice in financial sustainability and the possible collaboration with stakeholders to better understand existing pressures were analysed.

- **The INTOSAI Working Group on Financial and Economic Stability:** On 8-9 November, the INTOSAI Working Group on Financial and Economic Stability (WGFES) held its 10th annual meeting in Rome, Italy. The meeting, hosted by the Italian Corte dei Conti, focused on the topical theme of 'Promoting Accountability in Times of Crisis'. The Auditor General was one of nearly 60 attendees from 23 SAIs. The line-up of distinguished speakers included Mr Gene Dodaro, Comptroller General, United States Government Accountability Office; Mr Guido Carlino, Presidente, Corte dei Conti; Mr Paolo Angelini, Deputy Governor, Banca d'Italia; Ms Archana Shirsat, Deputy Director General, IDI; and Dr Seyed Ahmadreza Dastgheib, President, Supreme Audit Court of Iran.
- **The 'Founders Meeting for the IDI PESA Learning Circle':** In 2022, the IDI completed the pilot phase of the Professional Education for SAI Auditors (PESA) initiative, certifying over 250 SAI auditors from around the world. A meeting with the PESA graduates in early 2023 led to the founding of a network dedicated to offering CPD to these graduates; hence, the 'Founders Meeting for the IDI PESA Learning Circle'. The Committee, comprising individuals from diverse audit backgrounds and regions, was tasked with the design and development of future CPD

initiatives. At the request of the IDI, the NAO was a founding member, contributing to shaping PESA CPD according to SAI needs. The Assistant Auditor General (Special Audits and Investigations) Keith Mercieca and Principal Auditor (Performance Audits) Keith Gauci attended the inaugural meeting held in London on 13 November. This preceded the IDI's Global Summit for Professionalisation of SAI Auditors, held over the next two days. The UK NAO hosted the summit. This aimed to provide a global platform for the INTOSAI community and stakeholders to come together to exchange views of upcoming trends, such as sustainability reporting and assurance in the public sector, the future scale-up of the PESA initiative, and the prerequisites to setting up and maintaining sustainable audit practices in SAIs in diverse contexts.

- **Audit Methodology Meeting:** On 15-16 November, the Deputy Auditor General attended an Audit Methodology Meeting held in Warsaw, hosted at the Supreme Audit Office of Poland. The meeting was directly aligned with Strategic Goal 2 of the EUROSAI Strategic Plan 2017-2024. During the meeting, various thematic areas on audit methodologies, the selection of audits and audit standards, as well as effective communication strategies with stakeholders, were delved into. The DAG delivered a presentation on 'Developing a Risk Assessment Framework for the Identification of Audit Areas and Resource Allocation', eliciting substantial interest among participants. The presentations and discussions by other SAIs provided an invaluable insight and enriched an understanding of evolving audit practices and their broader impact across the public sector and society at large.

Relations with the Organisation for Economic Co-operation and Development (OECD)

The OECD is an international organisation dedicated to developing better policies that promote prosperity, equality, opportunity and well-being for all. In collaboration with governments, policymakers and citizens, the Organisation works on establishing evidence-based international standards and devising solutions to various social, economic and environmental challenges. It serves as a unique forum and knowledge hub for data and analysis, facilitates the exchange of experiences, shares best practices and provides advice on public policies. The OECD also supports SAIs as the lead public sector audit organisations focusing on accountability and transparency of public funds.

During 2023, the NAO participated in various initiatives undertaken by the OECD, including:

- **OECD Conference on Public Procurement:** On 30 January, the Auditor General and other NAO officials participated in the OECD virtual conference ‘Improving the efficiency and transparency of public procurement with a focus on strengthening the control framework in Portugal’, held in conjunction with the Tribunal de Contas of Portugal. The Tribunal oversees the legality, regularity, economy, efficiency and effectiveness of the public procurement processes in Portugal, whose economic impact is significant. Over 500 participants took part. During the conference, discussions were held on the use of data and advanced methodologies to achieve public procurement goals that could contribute to improving data governance, data infrastructure and the institutionalisation of the procurement function, all aimed at enhancing the efficiency and effectiveness within the procurement process.

The analogous local conference, also carried out in collaboration with the OECD and other entities, was held on 3 April, with a focus on ‘Strengthening the Public Procurement System in Malta’. Opening remarks were made by Mr Paul Zahra, Permanent Secretary, Ministry of Finance and Employment. The key achievements attained by the project were presented by officials of the Department of Contracts, followed by discussions on ‘Towards a risk management approach in public procurement in Malta’ and ‘Promoting innovative procurement in Malta’. The Assistant Auditor General (Performance Audits) William Peplow participated in the first discussion. The conference was brought to a close by Mr Anthony Cachia, Director General, Contracts.

- **The OECD Public Procurement Risk Register:** At the request of the Department of Contracts, in January, the NAO submitted feedback on a draft Public Procurement Risk Register prepared by the OECD. The Register was one of the initiatives being undertaken by the Organisation in connection with the project ‘Strengthening the Public Procurement System through Advancing the Professionalisation of the Public Procurement Workforce and Developing Risk and Performance Measurement’. Subsequently, on 2 February, the Auditor General, the Deputy Auditor General, External Affairs and Research Officer Brian Vella, and Assistant Auditor General (Performance Audits) William Peplow attended a virtual meeting, organised jointly by the Department of Contracts and the OECD, during which the NAO’s feedback was discussed.

- **The OECD’s ‘Improving the Integrity and Transparency Framework in Malta’:** On 18-19 April, the Auditor General, the Deputy Auditor General, and Assistant Auditor General (Special Audits and Investigations) Keith Mercieca attended meetings with a Mission from the OECD working on the project titled ‘Improving the Integrity and Transparency Framework in Malta’. The first day focused on issues related to asset and interest declarations, and transparency, lobbying and conflicts of interest were considered on the second day of the discussions. The meetings were chaired by the Commissioner for Standards, Chief Justice Emeritus Dr Joseph Azzopardi.

A workshop on the project was later organised by the Office of the Commissioner for Standards in Public Life on 31 May. The workshop focused exclusively on building an effective system of asset declarations for elected officials. It included the sharing of practical experiences of counterparts in Lithuania and Romania. The Auditor General and the Deputy Auditor General attended the workshop.

- **The OECD Auditors Alliance Annual Meeting:** On 23 May, the Deputy Auditor General attended the OECD Auditors Alliance annual meeting on its fifth anniversary. The Alliance brings together internal and external auditors from around the world to share good practices, methodologies, expertise and innovations aimed at overcoming challenges and pursuing excellence. This year’s meeting included five sessions: ‘Innovative accountability: oversight in the modern era’; ‘Enhancing co-operation between internal and external auditors’; ‘Performance Auditing: How to get better value for money’;

‘New global internal audit standards’; and ‘Auditors’ role in preventing and detecting fraud and corruption: Opportunities and risks’.

Some of the main takeaways of the conference were:

- innovation is inevitable, even in retrospective-looking organisations such as SAIs, and the emergence and impact of AI could not be ignored;
- while internal and external auditors had different roles, they shared a common language and the same goals;
- there are difficulties in conducting good performance audits, and the possibility of adding another dimension to economy, efficiency and effectiveness – the environment;
- the key changes, as well as the next steps, in the new Global Internal Audit Standards; and
- the risks and opportunities of auditors in preventing and detecting fraud and corruption, considering that most SAIs did not have a specific mandate to ‘search’ for fraud and fraudulent activities.

- **The 2023 OECD Global Anti-Corruption and Integrity Forum:** On 24-25 May, Principal Auditor (Special Audits and Investigations) Felicity Rayner participated in the OECD Global Anti-Corruption and Integrity Forum. The conference focused on translating efforts into impactful actions by collaboratively enhancing integrity and combating

corruption. Among the topics discussed was the evaluation of governmental measures to strengthen integrity and fight corruption. In this regard, specific reference was made to three OECD Public Integrity Indicators: conflicts of interest, lobbying and political finance. Another key theme was 'Zero tolerance for corruption: What does it mean in practice for development co-operation?'

- **The OECD Forum Series 2023 webinar 'How AI Might Change our Jobs and what we can do about it':** On 20 July, the AG followed a webinar in the OECD Forum Series 2023 during which the topical theme of the impact of AI on the labour market, as well as what could be done to mitigate emergent risks and enhance opportunities, were explored.

Eurocontrol and the Eurocontrol Audit Board

Eurocontrol: Eurocontrol is an international European organisation. Located in Brussels, it works to achieve safe, efficient and environmentally friendly air traffic across the European region and provides a unique platform for civil-military aviation co-ordination in Europe. The organisation also delivers quality training in air traffic management to a variety of actors in the aviation community, including Malta.

Founded in 1960 under the Eurocontrol Convention that was ratified three years later, it currently comprises 41 member states and two states with observer status. The governance structure of the organisation comprises three organs: two governing bodies, the Permanent Commission and the Provisional Council; and one executive body, the Agency.

The Eurocontrol Audit Board: The Audit Board of Eurocontrol examines and reports annually on the

Agency accounts, the Route Charges System Accounts and the Pension Fund accounts, and reports to the Permanent Commission, via the Council. With regard to the financial management of the Route Charges System, it also reports via the Enlarged Committee. The Board also reviews the level of transparency of the Agency's procedures and decisions. It is independent from the Agency, as well as from the national civil aviation authorities and air navigation service providers. It has financial resources specifically dedicated to its work, provided through the Agency Budget and approved by the Commission.

The Eurocontrol Audit Board is composed of six members designated by six contracting states, on a rotating basis, for a period of four years. Every two years, three members step down and another three join. The Rules of Procedure of the Audit Board stipulate that its members shall be professional auditors. For the past four years, the NAO was a member of the Board.

Assistant Auditor General (Financial and Compliance Audits) Tanya Mercieca was the member representing Malta on the Audit Board for the four years up to end June 2023. In 2023, she attended three Audit Board meetings, in March, May and June. She also headed a subcommittee of the Audit Board responsible for the Audit of the Route Charges System for the period January to June 2023.

Involvement in EU committees and the European Court of Auditors

The EU has several boards and committees in which representatives of national audit oversight bodies collectively collaborate at EU level. The NAO participates in several of these groups, either as a member, a participant or an observer.

The EU Contact Committee: Co-operation between the SAIs of the EU and the European Court of Auditors

(ECA) principally takes place within the framework of the EU Contact Committee structure. The Committee is an assembly of the Heads of SAIs of EU member states and of the ECA. It is an autonomous, independent and non-political assembly that meets annually. The Committee's three-tier structure consists of the Contact Committee itself, composed of the Heads of the EU SAIs and the ECA, the Liaison Officers, who provide an active network of professional contacts around Europe, as well as working groups, networks and task forces on specific audit topics.

During 2023, the NAO participated in the EU Liaison Officers' Meeting of EU Member States and the ECA held in April, and in the EU Contact Committee held in June.

- **The EU Liaison Officers' Meeting of EU Member States and the ECA:** On 28 April, External Affairs and Research Officer Brian Vella attended online the EU Liaison Officers' Meeting of EU Member States and the ECA. The agenda included the preparations underway for the EU Contact Committee meeting to be held the following June in Lisbon; exchange of progress on EU Contact Committee working groups and task forces; and information on future EU Liaison Officers and EU Contact Committee meetings.
- **Contact Committee of the Supreme Audit Institution of the EU Meeting:** On 21-22 June, the Auditor General, the Deputy Auditor General, and the External Affairs and Research Officer Brian Vella participated in the annual meeting of the Contact Committee of the SAIs of the EU, organised in Lisbon by the Portuguese Tribunal de Contas. Together with the other Heads of SAI of the EU, the AG participated in the in camera meeting. This year, discussions focused on the challenges being faced by the EU, including the energy

crisis, inflation and migration. A joint communiqué was officially approved by all participating SAIs during the plenary session of the Contact Committee.

ECA Audit Missions in Malta: Article 287(3) of the Treaty on the Functioning of the EU stipulates that European Court of Auditors audits in Member States are to be carried out in liaison with national audit bodies. This co-operation is to be undertaken in a spirit of trust while maintaining their respective independence. In 2023, the ECA undertook a compliance audit on the digitalisation of healthcare and a performance audit on the framework to fight harmful tax competition. The audits were carried out in liaison with the NAO.

- **ECA Audit on the digitalisation of healthcare:** The ECA undertook an audit mission in Malta on the digitalisation of healthcare, which included an examination of whether:
 - the Maltese authorities had used EU funds to digitalise their healthcare systems in an effective way;
 - the Maltese authorities had adopted strategies coherent with the EU policy framework and ensured complementarity and co-ordination between national and EU funds; and
 - the EU-funded projects achieved their expected outputs and results, were in line with the national strategies and helped reinforce Malta's digitalisation of its healthcare systems.

Auditees included the Ministry for Health, the Ministry for European Funds, Equality and Social Dialogue, and governmental IT

authorities. Audit Manager (Performance Audits) Maria Azzopardi and Principal IT Auditor Robert Micallef accompanied the ECA auditors in their audit mission in Malta.

- **ECA Performance Audit on Framework to fight Harmful Tax Competition:** The ECA carried out a performance audit on the effectiveness of the framework to fight harmful tax competition in the EU. The auditees were both the Commission and the Member States. The audit scope for the Maltese audit mission included the extent of implementation by Malta of a number of Council Directives that prevent and counter harmful tax competition in the EU, and actions and measures taken by the Maltese tax administration (the auditee in Malta) on the application of the EU Code of Conduct on Business Taxation and the collaboration with the Code of Conduct Group. Principal Auditor (Financial and Compliance Audits) Chris Micallef accompanied the ECA auditors in their mission.

The EU Institute for Security Studies: The EU Institute for Security Studies (EUISS) is the Union's Agency analysing foreign, security and defence policy issues. Its core mission is to assist the EU and its member states in the implementation of the Common Foreign and Security Policy, including the Common Security and Defence Policy, as well as other external action of the Union. This entity is totally funded by the EU member states.

In May, Principal Auditor (Financial and Compliance Audits) Marlene Zammit was appointed by the Board of the EUISS as a member of the EUISS College of Auditors (CoA). This three-year mandate is effective from 1 May 2023 to 30 April 2026, with the possibility of one three-year renewal. The other two members of the CoA are Mr Adrian Gogolan from the Romanian Court of Auditors, who also serves as Chair, and Ms Joanna Slawinska, an officer from the Foreign Affairs Ministry of Poland.

Other EU/ECA initiatives: During 2023, the NAO was involved in other EU/ECA initiatives, including:

- **The EU Network Audit (EUNA) on Energy:** At the June Contact Committee Meeting in Lisbon, the Heads of EU SAIs deliberated on how their respective institutions could contribute to a better and sustainable implementation of national and EU policies to achieve the EU's 2030 energy goals. To this end, the Contact Committee resolved to set up the EU Network Audit (EUNA) on Energy. The SAIs of the Netherlands and Germany and the ECA were to launch this initiative and invite SAIs to participate by exchanging knowledge, expertise and experiences in energy-related audits. Through this initiative, SAIs could contribute not only to increase the effectiveness and efficiency of these audits, but also facilitate a comprehensive assessment of the impact of the measures taken to reach the 2030 energy goals. Within this context, the NAO decided to participate in this network.

On 30 November, Principal Auditor (Performance Audits) Elton Camilleri attended the kick-off meeting of the EUNA on Energy in The Hague, Netherlands. The aim of the meeting was to share experiences on a spectrum of topics through specific workshops addressing sustainable energy, energy efficiency, energy infrastructure, energy supply and security, as well as energy policy and governance. During these workshops, risks, possible audits and areas of interest for the attending SAIs were discussed. Mr Camilleri participated in the energy infrastructure workshop. Eighteen SAIs and the ECA attended this initial meeting.

- **The EU’s Public Administration Country Knowledge (EUPACK) project:** In August, the Assistant Auditor General (Performance Audits) William Peplow was approached to participate in the EU’s Public Administration Country Knowledge (EUPACK) project, which falls under the remit of the Directorate-General for Structural Reform Support (DG Reform). This is a multi-annual initiative of the Commission aimed at developing its country and thematic knowledge on the EU member state public administrations’ functioning and reforms. Such knowledge enables more pertinent country analysis, helps identify reform priorities, and facilitates the effective delivery of technical and other EU support to improve state capacity in member states.
- **The annual Fiscal Policy Audit Network meeting:** On 14-15 September, Assistant Auditor General (Financial and Compliance Audits) Tanya Mercieca attended the annual Fiscal Policy Audit Network meeting, hosted by the Bundesrechnungshof in Berlin.

The main topics on the agenda were the surveillance of national and European fiscal rules, fiscal policy measures in past crises and fiscal policy measures to support the transition to a climate neutral economy. The possibility of performing parallel and co-ordinated audits was also discussed.

- **Cohesion Conference held by the European Court of Auditors:** The Auditor General attended the Cohesion Conference held by the ECA on 23 October. The theme of the conference was ‘Evaluating EU Cohesion Policy – Challenges and Opportunities’. Ms Annemie Turtelboom, Belgian Member of the ECA and Dean of Chamber II, chaired the conference. European Commissioner for Cohesion and Reforms, Ms Elisa Ferreira, participated as the keynote speaker. At the margins of this conference, the Auditor General had a very cordial meeting with the President of the European Court of Auditors, Mr Tony Murphy. During this meeting, Mr Deguara invited Mr Murphy to make his



Mr Charles Deguara, Auditor General, has a bilateral meeting with Mr Tony Murphy, President of the European Court of Auditors, in the presence of Dr George-Marius Hyzler, Maltese Member at the Court on 23 October 2023

first official visit to the Maltese National Audit Office. The ECA President conveyed his willingness to accept this invitation and it was agreed that a draft programme would eventually be submitted to his Office so that this visit could be held during the following year. The Maltese Member at the ECA, Dr George-Marius Hyzler, was also present for this meeting.

Liaison with other SAIs and entities

The NAO strives to collaborate on other initiatives that contribute to the enhancement of its mandate. To this end, during 2023, the Office participated in various other initiatives with diverse stakeholders and interested entities. These included:

- **The webinar ‘Supporting effective, accountable and inclusive SAIs – Ensuring collaboration between Civil Society Organisations (CSOs) and SAIs in their fight against corruption’:** On 7 March, the Deputy Auditor General attended this webinar during which the SAIs of Argentina and Kenya discussed how the relationship between SAIs and CSOs should be articulated through memoranda of understanding. They referred to the importance of trust between the parties and the importance of managing the expectations of CSOs. Both underlined means by which SAIs could reach out to the public, including the simplification of technical audit reports and other interactive measures. Of interest was that the SAI of Kenya organises seminars for journalists and CSOs on its mandate and the use of its reports. Transparency International and the Open Government Partnership (OGP) participated in the webinar, which was also addressed by Mr Einar Gorrissen, Director General IDI.
- **Bilateral meeting with the State Audit Office of Poland:** On 8-9 May, the Auditor General and the External Affairs and Research Officer held a bilateral meeting with the State Audit Office of Poland in Krakow and Warsaw. During this visit, meetings were held with Mr Marian Banas, President of SAO, Ms Jolanta Stawska, Director of the SAO Regional Branch in Krakow, as well as with Mr Grzegorz Haber, Head of International Relations. This was followed by further meetings in Warsaw with Mr Banas and Mr Haber. During these discussions, matters relating to the forthcoming EU Contact Committee Meeting and issues concerning SAI independence, were also discussed.
- **Public Forum Conference organised by the Chartered Institute of Public Finance and Accountancy (CIPFA):** The Auditor General attended the Public Forum Conference organised by CIPFA in London on 27-28 June. The event included panel discussions and workshops on diverse subjects, from addressing regional inequalities and sustainability to how to improve diversity and inclusion and tackle corruption. The conference brought together practitioners, commentators and experts for sector updates, discussions and insights into public finance and public service management. The conference featured leading public figures, public sector innovators, commercial partners, commentators and analysts alongside delegates from across the public sector and beyond. Speakers included Ms Caroline Atkinson, a distinguished economist and senior policymaker who served under President Barack Obama, and Ms Sonita Alleyne OBE, the Master of Jesus College Cambridge. The conference’s closing keynote address was delivered by Ms Pippa Crerar, the political editor at The Guardian.

- UK Public Accounts Committee Network Event:** On 13 September, the Auditor General and the Deputy Auditor General attended the UK PAC Network Event, held at Westminster, London. Keynote speeches were made by Dame Meg Hillier, Chair UK PAC, and Mr Gareth Davies, Comptroller and Auditor General at the UK NAO. These were followed by roundtable discussions during which participants exchanged experiences of PAC work, focusing on PAC/SAI interaction. The topical themes selected included ‘Preparing for Committee evidence sessions’; ‘Being a Member of PAC: Putting differences Aside’; and ‘Handling Sensitive Information’. Two members of the Maltese PAC, the Hon. Darren Carabott, Chair, and the Hon. Andy Ellul, Member and Government Whip, also attended the event. On the initiative of Mr Deguara, at the end of this event the Maltese delegation, including the two PAC members, visited the House of Commons and attended a Plenary sitting.
- Bilateral meeting with the Belgian Court of Audit in Brussels:** On 5 October, the Auditor General visited Ms Hilde Francois,

Senior President of the Belgian Court of Audit, as well as other senior officials from the Court of Audit. The meeting focused on the knowledge and experience of the Belgian Court of Audit on the transition from cash to accruals-based accounting in Belgium.

- Bilateral meeting with the State Audit Office of Croatia:** On 30 October, the NAO hosted a bilateral meeting with the State Audit Office of Croatia (SAO). The Croatian delegation comprised of Mr Ivan Klesic, Auditor General, Mr Drazen Brozanic, Assistant Auditor General – Head of Cabinet, and Ms Anita Materijan, Assistant Auditor General. They were welcomed by the Auditor General, the Deputy Auditor General and the External Affairs and Research Officer. The meeting focused on various audit practices, audit methodologies, audit products beyond audit reports and EU-related matters. The meeting culminated with the signing of a bilateral agreement, symbolising the commitment of both audit offices to enhancing co-operation and deepen mutual understanding in the realm of auditing.



Bilateral meeting with the State Audit Office of Croatia on 30 October 2023

- **The United Nations Development Programme (UNDP):** In mid-August, the IDI nominated Assistant Auditor General Keith Mercieca and Principal Auditor Rebecca Vassallo, from the Special Audits and Investigations Section, to support the UNDP in offering support to the SAI of Bosnia & Herzegovina on the audit of the implementation of the SDGs. They were joined by colleagues from the SAI Slovakia on the assignment. The nomination was followed by an introductory meeting with the UNDP on the nature of the technical assistance to be provided by the NAO, which comprised of an overview of the SDG audit methodology and lessons learnt in terms of the NAO's experience when auditing the implementation of SDGs. A training programme was subsequently devised by the SAI Slovakia and the NAO, and included presentations, panel discussions, group exercises, reflection sessions and quizzes. This was approved by the UNDP in September.

The training was delivered in Malta between 16 and 18 October. The 20 participants included senior officials from the SAI Bosnia & Herzegovina, the Republika Srpska, the Federation of Bosnia & Herzegovina, and the Brčko District of Bosnia & Herzegovina. This study tour was organised by the UNDP with the aim of encouraging the further development of audits on SDG implementation. The training programme was based on the ISAM methodology, provided insight on the utilisation of crucial planning and analysis tools (such as SDG ecosystem mapping, stakeholder analysis and thematic analysis), and highlighted the centrality of the SDG audit principles (leaving

no one behind, multi-stakeholder engagement, vertical and horizontal coherence, and the whole-of-government approach). Discussions focused on the unique characteristics of audits of SDG implementation that render them distinct from performance audits. Presentations on fieldwork undertaken and the main audit findings of completed audits were provided by the NAO and SAI Slovakia. Additionally, participants were provided with insights into the practical considerations in the application of ISAM, reflections on lessons learnt through the SDG reviews undertaken and guidelines on the elements of analysis required and the evidence to be sourced to answer the main audit questions. particularly relevant for audits of SDG implementation.

- **Bilateral meeting with the Corte dei Conti of Italy:** On 15-16 November, the NAO hosted a bilateral meeting with the Corte dei Conti with the primary objective of deepening co-operation, exchanging knowledge and enhancing mutual collaboration on critical issues related to public sector auditing. The Italian delegation, led by Mr Guido Carlino, President, and Mr Mauro Orefice, Head of the International Affairs Office, was welcomed by the Auditor General and the External Affairs and Research Officer. During the extensive discussions held, the SAIs agreed to actively enhance their bilateral collaboration, initially through a joint initiative related to environmental auditing, an area of mutual interest to both entities. Officials of the Corte dei Conti, accompanied by the Auditor General, also had a meeting with the Speaker of the House of Representatives, Dr Anġlu Farrugia.

Meeting with Dr George Marius Hyzler, Member of the ECA: On 27 November, Dr George Marius Hyzler, Member of the ECA, along with the rest of his delegation made up of Mr Romuald Kayskanda, Chef de Cabinet; Ms Armelte Farrugia, Attaché; and Dr Nikola Soukmandijier, Member of Cabinet, paid a visit to the NAO. They were greeted by the Auditor General and the Deputy Auditor General. The NAO side was also made up of Brian Vella, External Affairs and Research Officer; and AAGs Tanya Mercieca, Keith Mercieca and William Peplow. During this meeting, Dr Hyzler formally presented the ECA's annual report called the Declaration of Assurance (DAS) to the Auditor General. This outlines the results of the ECA's financial and compliance audit work on the

EU budget. A discussion followed on areas of common interest, including a proposed joint ECA/NAO seminar in Malta planned for February 2024 on 'Digitalisation and AI in Public Audit'.

- **Official visits to the NAO by the Ambassadors of Egypt and the People's Republic of China, as well as by the High Commissioner of India:** Courtesy visits were paid by the Ambassador of Egypt, Khaled Anis, and Ms Abram Wagdy, Deputy Chief of Mission, on 19 July, by the Ambassador of China, Yu Dunhai, on 26 July, and by the High Commissioner of India, Ms Gloria Gangte, accompanied by Mr Aniruddha Das, Second Secretary at the Embassy of India, on 17 November.



Meeting with Dr George Marius Hyzler, Member of the ECA, on 27 November 2023




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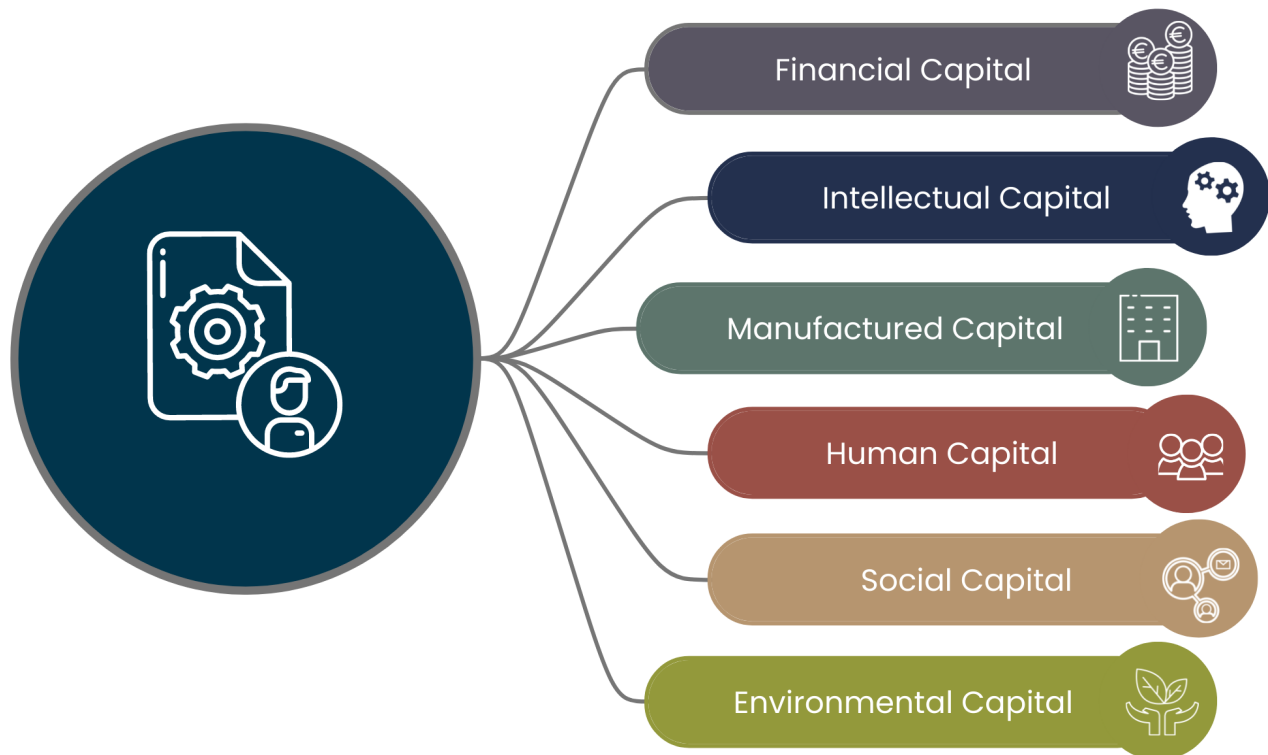
NAO
PART TWO

National Audit Office

NAO Business Model

The Office's business model is a system in which business processes – each relating to one of the diverse capitals of the NAO – transform the inputs relating to that capital into the related outputs and outcomes that create value over time and implement NAO strategy. This is a breakdown of the NAO Capitals.

NAO Business Model 2023



NAO Capitals

Financial Capital

The NAO's financial capital represents the funds annually allocated to the Office from the State Budget, facilitating the Office's execution of its Constitutional and legal mandate. It ensures: (i) the prudent use of these funds, adhering to principles of propriety, regularity and value for money; and (ii) comprehensive, precise and equitable accounting, and reporting of these funds in the audited financial statements.

Intellectual Capital

The NAO's intellectual capital encompasses diverse audit processes and methodologies, including financial and compliance audits, performance audits, special audits, investigative audits and IT audits. It also encompasses all endeavours associated with executing the NAO Strategy for the period 2019-2023, as well as the development of the current strategy for the period 2024-2028. In addition, intellectual capital comprises all other intellectual processes and initiatives aimed at fulfilling the Office's constitutional and legal mandate.

Manufactured Capital

The Office's manufactured capital comprises the physical infrastructure needed to be able to effectively carry out its mandate. This NAO set-up incorporates the Office premises in Floriana, storage space in Valletta, furniture and fittings, and IT and other equipment. In 2023, the top floor of the main building was refurbished, and the visual and sound equipment of the boardroom was upgraded. Discussions with the architect were held on the extension to the NAO main building in Floriana, which project was approved by the Planning Authority on 12 January 2024.

Human Capital

Human capital at the NAO encompasses the collective knowledge, skills and competencies essential to conduct a diverse range of audits. NAO employees are proficient in numerous disciplines relevant to the Office's responsibilities. Continuous training programmes are implemented to bolster employee competencies and foster their professional growth.

The Office prioritises the creation of a supportive work environment, including offering various family-friendly measures such as remote work options for a number of days each week. Additionally, the NAO's commitment to equality is underscored by its recent recertification of the Equality Mark by the National Commission for the Promotion of Equality, affirming our dedication to upholding principles of equality, fairness and inclusivity in the workplace.

Social Capital

The NAO interacts with several stakeholders while maintaining its independence. Its primary stakeholder is Parliament – its evidence-based audit reports and other publications, prepared in an attractive format, are presented to the Speaker of the House of

Representatives, who lays them on the Table of the House at its next sitting.

Auditees represent another key stakeholder. Audit reports contain recommendations that address shortcomings discovered during the audit. Other local stakeholders include the public, NGOs and the media.

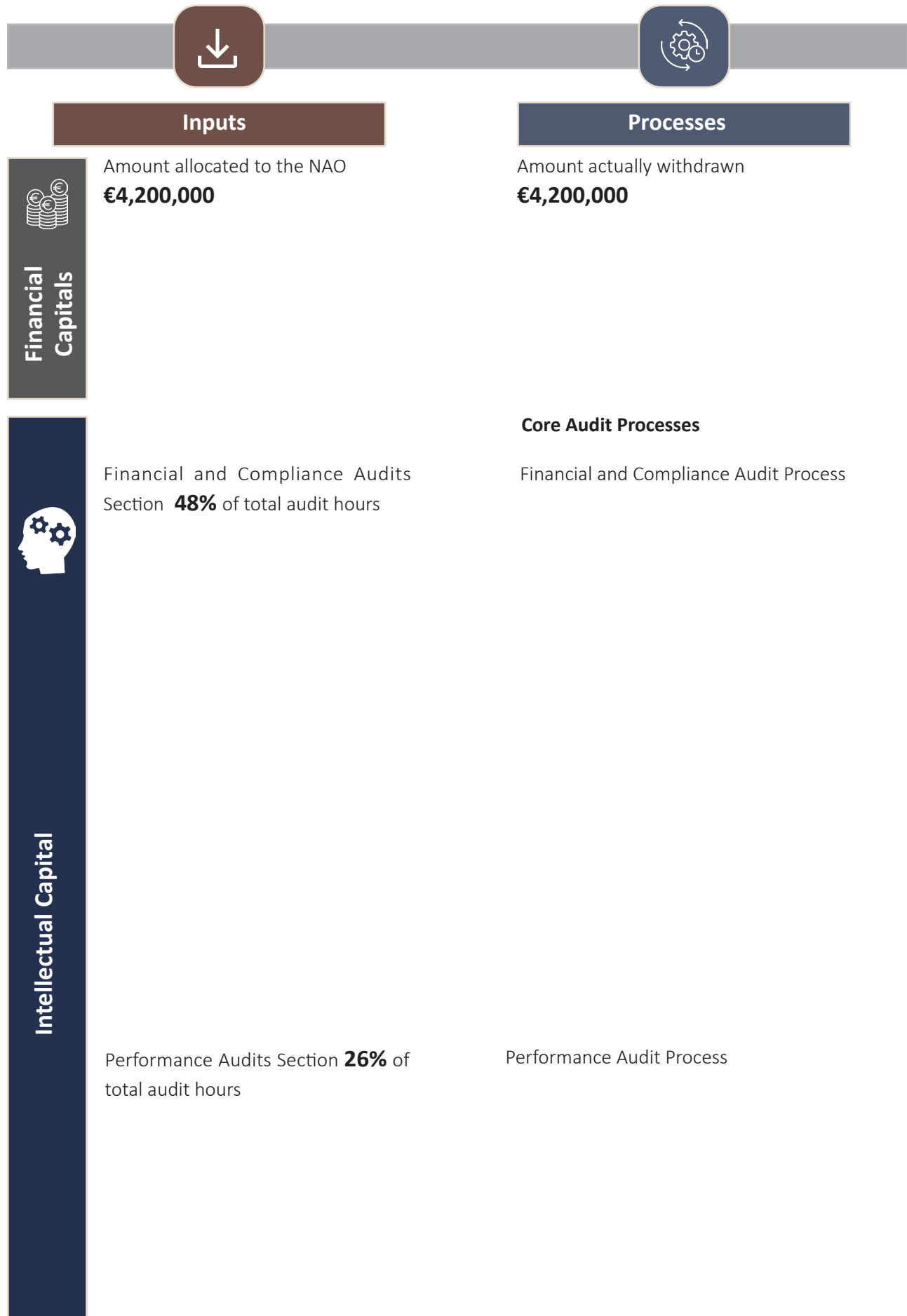
The NAO also engages with foreign stakeholders by participating in foreign working groups, task forces and networks, and by attending meetings and webinars organised by foreign audit bodies and institutions. The Office also prepares replies to overseas questionnaires, surveys and other requests for information. It also prepares comments on international exposure drafts and/or consultation papers on audit matters, as well as articles for foreign journals and/or newsletters.

Environmental Capital

The NAO promotes environmentally-friendly initiatives in the Office – intelligent lighting has been installed in the shared areas of the premises; efficient waste recycling and management practices have been adopted; environmentally friendly air-conditioners have been purchased; and fewer hard copies of published audit reports have been printed.

Auditors are to preferably access documents and publications in virtual format rather than having to print hard copies. A number of meetings/webinars are attended online rather than in person, thus resulting in significantly decreased travel costs when compared to the pre-Covid-19 period.

The implementation of alternative ways of working has resulted in a lower cost of utilities and transport, as well as a reduction in the Office's carbon footprint, when compared to 2019. The NAO also maintains the gardens surrounding the Office.





Outputs

Operated within the financial parameters allocated by Parliament



Outcomes

Ensured financial viability of the Office and judicious use of public funds

2023 Report by the Auditor General on the Public Accounts 2022, including the results of **26** financial and compliance audits and an extensive analysis of the Financial Report 2022

2023 Report by the Auditor General on the Workings of Local Government for the year 2022

Review by the Auditor General on Fixed Assets and Stocks

Follow-up Audit Report – Volume I consisted of **9** Financial and Compliance Follow-up audits

2 Performance Audit Reports

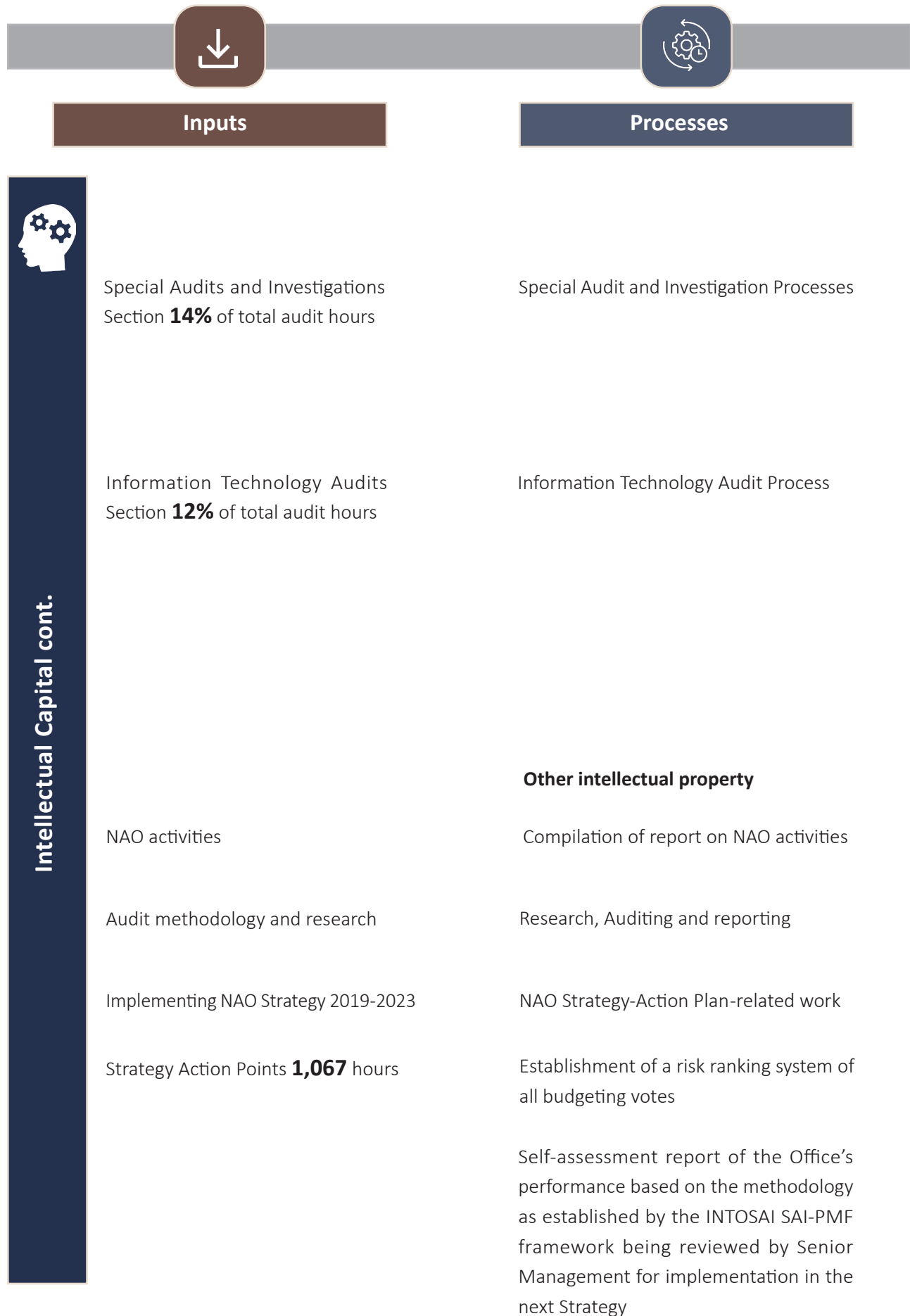
Providing an analysis of the Government Financial Report 2022 and performing an audit on the propriety and regularity of Government financial transactions and whether these transactions are in compliance with rules and regulations

Providing an overview of the main shortcomings identified by private sector auditors when auditing local councils and outlining the results of compliance audits carried out in four local councils by the Office

Obtaining an understanding of the systems in place and methods adopted for the recording and reporting on both fixed assets and stocks

Ensuring that Financial and Compliance Audit-related Recommendations proposed by this Office are followed up by auditees

Providing an independent overview of different public sector operations to determine whether these have been carried out economically, efficiently and effectively, as well as providing recommendations to improve public governance. One audit on 'An assessment of Capital Projects at the University of Malta'. The other audit on 'Ensuring fair non-contributory social benefits and safeguarding against related fraud'





Outputs

Follow-up Audit Report – Volume II consisting of **4** Performance audits (apart from **1** IT Audit Follow-up)

2 Special Audits and **1** investigative audit

2 IT Audit Reports and **1** stand alone IT Follow-up Audit Report

Follow-up Audit Report Volume II consisting of **1** IT Follow-up audit (apart from **4** Performance Audit Follow-ups)

NAO Annual Report and Financial Statements 2022

Analysis, findings and recommendations

NAO Strategy Action Point Teams Outputs and status

Initial Implementation of Risk Ranking System

NAO Malta Performance Measurement Framework Self-Assessment Final Report recommendations to be implemented on a gradual basis.



Outcomes

Ensuring that Performance Audit-related recommendations proposed by this Office are followed up by auditees

One complex investigative audit relating to the health sector as well as two special audits – one relating to one of the UN Sustainable Development Goals and one relating to the review of an employment agreement of a particular consultant - were published

Issued two IT Audit Reports titled 'Information Technology Audit: Malta Food Agency', and 'Information Technology Audit: Active Ageing and Community Care', as well as an IT stand-alone Follow-Up Audit Report on 'A Follow-Up on the 2020 IT Audit – ICT across Local Councils'

Ensuring that IT Audit-related recommendations proposed by this Office are followed up by auditees

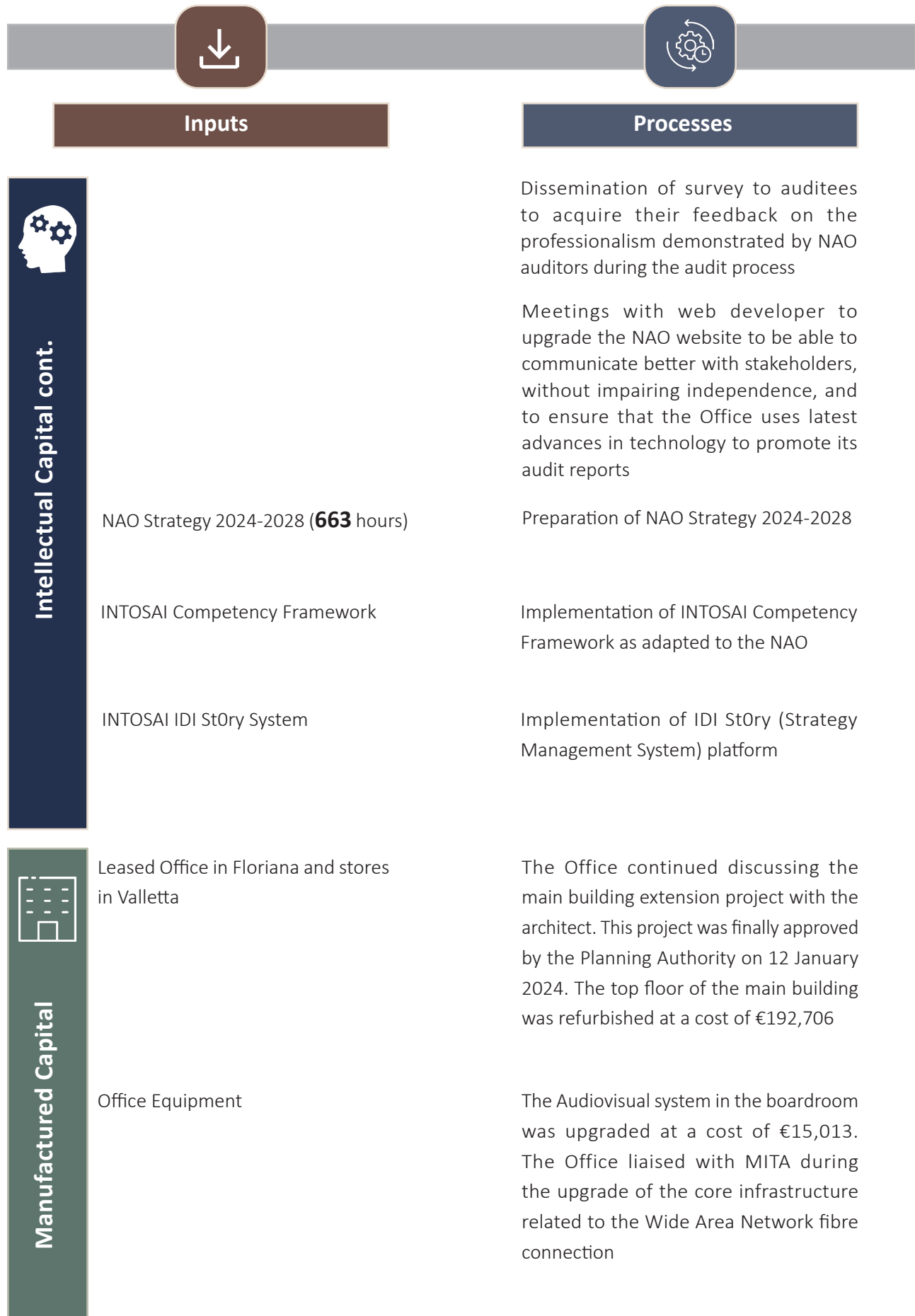
Providing an overview of NAO's activities for 2022

Increasingly provide objective reports to Parliament, the Executive and citizens

Implementation of the NAO Strategy

The new system will enhance the NAO audit planning process

Increased Office accountability and professional due care





Outputs

Auditee feedback provided is analysed by senior management

Upgraded website completed in 2023 (launched in early 2024)

NAO Strategy 2024-2028 finalised, setting out a number of strategic actions to implement five strategic goals

Competency Framework utilised in recruitment and performance appraisal processes

Used to manage the NAO strategy and for audit management purposes

A fully functional NAO resource centre. Preparatory work is being undertaken for the construction of an adjacent annex

Keeping office technology up to date enhances the Office's efficiency



Outcomes

Enhanced Office professional behaviour

Being aware of stakeholder concerns and enhancing accessibility of audit reports

New NAO strategy will guide the Office in its audit and administrative operations

Increased awareness of all competences required to perform audit work economically, efficiently and effectively

Better monitoring of progress of the NAO strategy and enhanced audit plan implementation

A pleasant, welcoming, collaborative working and meeting space

Advances in technology assist the Office in becoming ever more professional and efficient



Inputs

Processes

Human Capital



49 auditors and **13** IT, Administrative and Support Staff as at 1 January 2023

25 Accountancy graduates as at 1 January 2023

21 auditors with an audit practising certificate as at 1 January 2023

18 auditors with an IPSAS Diploma as at 1 January 2023

5 auditors with an IPSAS Certificate as at 1 January 2023

7 auditors with a PESA Qualification as at 1 January 2023

11 auditors qualified in Management as at 1 January 2023

6 auditors qualified in Public Policy as at 1 January 2023

1 auditor qualified in Forensic Auditing as at 1 January 2023

2 lawyers as at 1 January 2023

2 engineers as at 1 January 2023

Number of hours spent on professional training consisted of **2,548** auditor hours including participation by **25** accountants of the NAO at joint NAO/CIPFA training programme on International Public Sector Accounting Standards

Various audit related webinars



Outputs

Outcomes

50 auditors and **13** IT, Administrative and Support Staff as at 31 December 2023

More highly trained workforce

25 Accountancy graduates as at 31 December 2023

Increase in the workforce's competences

21 auditors with an audit practising certificate as at 31 December 2023

Moving towards the NAO's vision 'To provide a multidisciplinary professional service to parliament, government and the taxpayer and to be an agent of change conducive to achieving excellence in the public sector'

18 auditors with an IPSAS Diploma as at 31 December 2023

Increasing awareness in emerging issues addressed through public audit

5 auditors with an IPSAS Certificate as at 31 December 2023

8 auditors with a PESA Qualification as at 31 December 2023

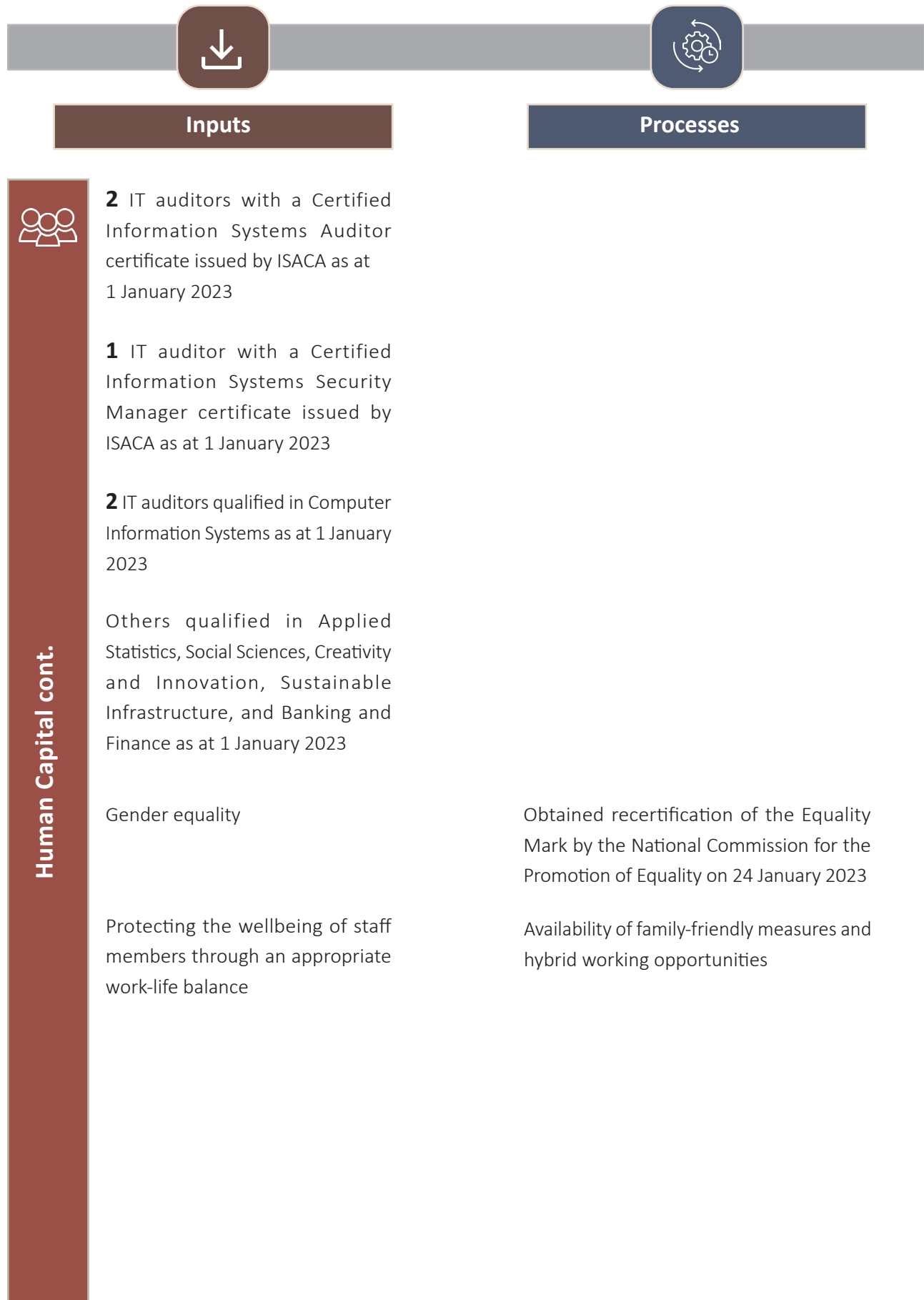
11 auditors qualified in Management as at 31 December 2023

6 auditors qualified in Public Policy as at 31 December 2023

1 auditor qualified in Forensic Auditing as at 31 December 2023

2 lawyers as at 31 December 2023

3 engineers as at 31 December 2023





Outputs

2 IT auditors with a Certified Information Systems Auditor certificate issued by ISACA as at 31 December 2023

1 IT auditor with a Certified Information Systems Security Manager certificate issued by ISACA as at 31 December 2023

1 IT auditor qualified in Computer Information Systems as at 31 December 2023

Others qualified in Applied Statistics, Social Sciences, Creativity and Innovation, Sustainable Infrastructure, and Banking and Finance as at 31 December 2023

Respecting equality and supporting diversity (Equal Rights and Opportunities)

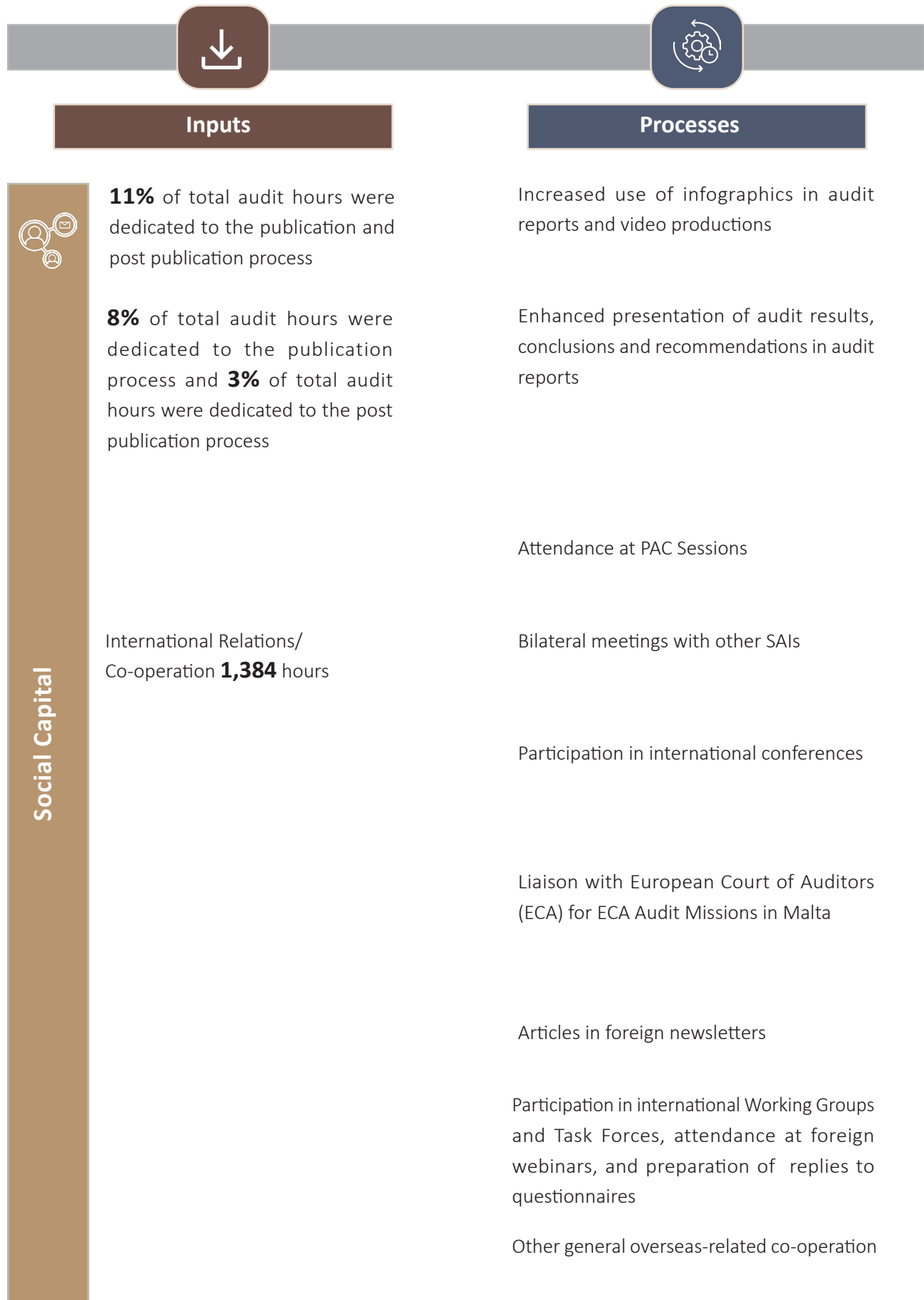
High take-up of family-friendly measures and hybrid working opportunities while ensuring staff members' productivity



Outcomes

A workplace respecting values of equality and diversity that enhances innovation

Members of staff experience adequate work-life balance





Outputs

14 Audit Reports and other NAO publications communicated to the public through Press Releases, NAO website and Facebook page

As in previous years, NAO reports received extensive national and private media coverage. NAO 2023 reports regularly featured in news portals, print, social and all mass media. This Office identified at least **44** times in TV coverage and at least **225** articles in news portals

1 NAO Audit Report discussed over **24** PAC meetings in the 14th Legislature

3 bilateral meetings with other Heads of SAIs, as well as courtesy meetings with other foreign dignitaries

Active participation by the Auditor General, Deputy Auditor General and other senior officials in several international conferences, including the EU Contact Committee

Liaised with ECA in two ECA Audit Missions in Malta

Preparation of **2** articles that appeared in EUROSAI IT Working Group newsletters

Preparation of replies to at least **15** surveys and attendance at **27** meetings abroad, apart from several webinars

Communication and correspondence with other SAIs and international organisations on varied subject areas of common interest



Outcomes

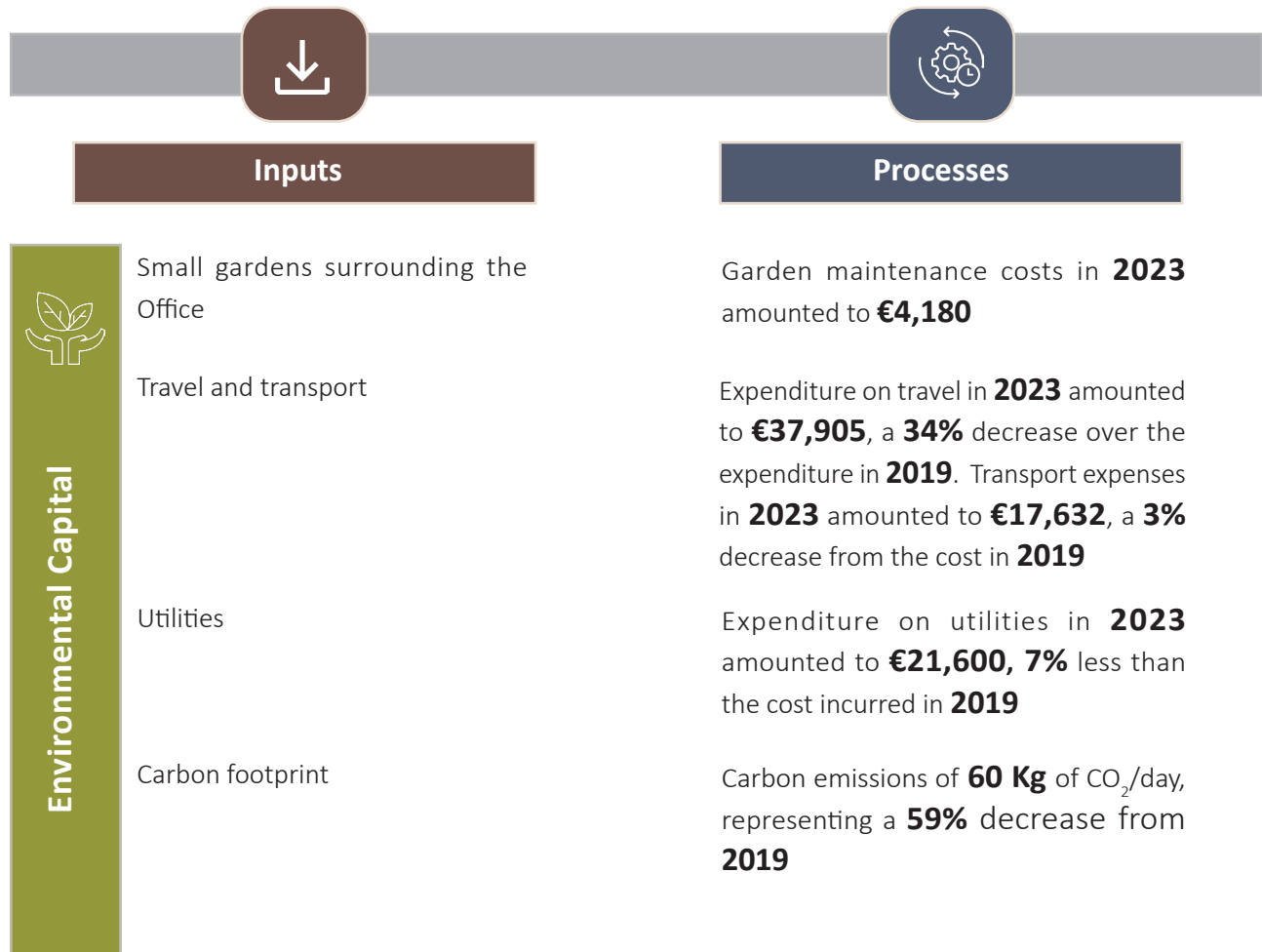
The NAO is communicating more with stakeholders, especially the media, without impairing its independence

Coverage by the media of NAO reports is enabling our reports to reach wider audiences

PAC review encourages implementation of NAO recommendations

More NAO exposure in international fora

More visibility of NAO in international sphere, particularly within the EU Contact Committee, EUROSAI and sharing of international best practice and co-operation with other SAIs





Outputs

- Well maintained small gardens surrounding the Office
- Increased environmental responsibility
- Hybrid working has contributed to an overall reduction in the cost of utilities
- Significantly reduced level of carbon emissions since **2019**

Outcomes

- More pleasant environment for employees
- NAO contribution towards better air quality
- NAO contribution towards better energy saving
- NAO contribution to a cleaner environment

Risks and Opportunities

Risks

INTOSAI-P 12, on the Value and Benefits of SAIs, states that SAIs should evaluate changing and emerging risks in the audit environment and respond to them in a timely manner. Consequently, SAIs should install effective mechanisms to address risk and uncertainty, counter external threats and mitigate the potentially damaging impact of internal vulnerabilities.

The Office actively manages its:

Strategic risks that threaten the prospects of the SAI to realise its mission and achieve its strategic objectives, outputs and outcomes. These risks include reputational, integrity, legal, political and technological risks.

The NAO manages its **reputational and image risks** – i.e., those risks that threaten to damage the professional image of the institution – by ensuring that all audit and other reports are based on evidence and are prepared in accordance with professional, international auditing standards. In addition, the Office ensures that all communication with the media is carried out in a professional manner. Audit teams are also required to exercise independence, act professionally and with due care in all circumstances.

Integrity risks, which could undermine the NAO's ethical environment and principles, are effectively managed by the Office. Strict adherence to professional codes of conduct and other ethical standards, especially related to independence requirements, in both their professional and private lives, is expected of all NAO officials.

The Office also manages its **legal risks** that affect its ability to adhere to regulations and contractual obligations. All NAO operations, audit processes,

activities and initiatives are carried out with the sole aim to fulfil the Office's constitutional and legal mandate, and in compliance with the prevailing legal and ethical frameworks.

Closely related to reputational, integrity and legal risks are **political risks**. Political risks, and in particular the risk of political bias, are scrupulously managed by the Office. The NAO strives to maintain, at all costs, its objectivity, professional behaviour and independence in all instances. NAO senior management also ensures that a professional culture permeates the Office, guiding all staff relations, discipline and advancement decisions, and that all employees comply with ethical and professional standards, especially conflict of interest declaration requirements.

Technological risks, the risks that the Office's technology may not support the achievement of strategic objectives, are also managed by the NAO. The Office regularly updates its IT infrastructure, software and equipment in line with developments in IT technology.

Other risks affecting the entire functioning of the SAI, such as the occurrence of conflicts, natural or manmade disasters, or pandemics are effectively managed through adequate security and safety measures.

Operational risks stem from potential weaknesses in the organisational structure, systems and processes. Operational risks include three important risks:

- financial risks;
- the risk of staff not having sufficient expertise or training; and
- the risk of non-co-operation by auditees.

Financial risks that may result in failure to maintain adequate financial, efficient and transparent management and accountability arrangements for

financial resources are effectively managed by the Office by having instituted and employing a sound financial management process. The Office prepares annual budgets that are subsequently approved by Parliament, has set up and implements a number of internal controls to manage its revenue, expenditure, assets and liabilities, and publishes its audited financial statements.

The risk of staff not having sufficient expertise or training is also managed by the Office. If this risk materialises, it may result in inefficient processes, low quality of work and levels of productivity, loss of employee morale and an adverse impact on the whole organisation. The Office actively manages its risk through the undertaking of efficient and effective recruitment and onboarding processes, the provision of ongoing professional development and training, especially in emerging audit issues, as well as the availability of on-the-job training for auditors by more senior members of staff.

The Office also faces **the risk of non-co-operation by auditees**, i.e., cases where information is submitted late, or is incorrect or incomplete. These cases, if they occur, would have a negative effect on the timely implementation of the NAO's audit programme and may lead to adverse conclusions and opinions in reports. This risk may be mitigated by adopting a professional, assertive approach to auditing while maintaining a constructive working relationship with the auditee.

To effectively mitigate all the above risks, the Office has undergone a comprehensive review of its operations through drawing up the NAO Malta Performance Measurement Framework and is currently in the process of implementing the recommendations of this extensive exercise.

Opportunities

The NAO continuously strives to evaluate its evolving role in ensuring transparency, accountability and good practices in Government operations and to broaden the impact of its audit work. To achieve these objectives, it is in the process of embracing these opportunities.

The NAO is **to consolidate its role in ensuring transparency and accountability**. It is to continuously hold public sector entities accountable for the use of public funds and their adherence to laws and regulations. In addition, through its audits, the NAO will continuously employ professional scepticism and objectivity, professional competence and due care to be in a better position to detect irregularities, such as fraud, corruption, mismanagement or waste. Thus, the Office would assist public sector entities to mitigate financial risks and optimise resource allocation.

Good governance can be increasingly encouraged by the Office through **the promotion of good practices and the implementation of the principles of sound financial management** in public sector entities. The NAO is to continuously strive to provide valuable and doable recommendations with the aim of improving governance processes, internal controls, risk management and other best practices in reporting and operations within government entities, enhancing their effectiveness and efficiency. In addition, through the strengthening of financial audit processes, and through the entire implementation of accrual accounting, the Office would be in a better position to assess financial management processes – always with the overall objective to support governments in operating sound budgeting, accounting and financial reporting processes.

The Office is consolidating its **capacity building and knowledge sharing practices**. A restructuring process has been initiated with the aim of implementing the recommendations of the NAO Performance Measurement Framework exercise, an internal review that evaluated all NAO processes. **An extension to the main building** will be constructed to provide space for increases in Office employees, meetings, training events, and the use of modern equipment. **Recent technological advancements**, in particular AI, provide numerous opportunities for the Office to enhance its economy, efficiency and effectiveness. This could be achieved through automating some audit tests, however, always under human oversight, as well as concentrating its efforts on higher value adding activities, such as undertaking planning decisions, evaluating the results of data analysis and enhanced reporting. In addition, the implementation of audit management software could assist the Office in its audit review processes.

The NAO is aiming to widen its audit impact by increasingly focusing on **emerging audit issues** as well as material and risky audit areas. These include environmental sustainability, social issues, such as education and health, responses to public health crises, digital transformation and technology and related themes, such as cybersecurity and data protection, the implementation of the United

Nations Sustainable Development Goals and major infrastructural projects.

Capacity building, as described above, can be enhanced through knowledge sharing practices. By **exchanging best practices**, lessons learnt, and technical expertise with foreign external audit institutions and bodies, SAIs can enhance the skills, knowledge and capabilities of their staff and auditors, ultimately improving the quality and effectiveness of their audits.

Knowledge sharing between other external stakeholders (such as auditees, Parliament, civil society organisations and the public) and internal stakeholders (SAI staff, auditors and management) can also significantly enhance the SAI's performance by aligning their audit strategies, methodologies and reports to address the most pressing issues and concerns.

By seizing these opportunities, the NAO can strengthen its role as an independent audit oversight body and contribute to improved public sector governance and performance.

These Risks and Opportunities have been taken into account in preparing the NAO Strategic Plan for 2024-2028 (page 95 refers).

National Audit Office Warns LESA On Over €18 Million In Uncollected Fines

The National Audit Office (NAO) has called out LESA over a significant backlog in its financial statements.

The NAO has warned LESA to sort out its financial matters due to the accumulation of uncollected fines and penalties amounting to €18.1 million.

Lovin Malta, 26 June 2023

Strategy and Resource Allocation

NAO Strategy 2024-2028 Enhancing Audit Impact

During the second part of 2023, the Auditor General set up an NAO Strategy Focus Group to prepare a strategy plan for the Office which would serve as a roadmap for the NAO's future, outlining its goals, priorities and actions needed to achieve them. The purpose was to empower the Office to navigate challenges, seize opportunities and drive innovation, ensuring the continued development and relevance of the NAO in an ever-changing landscape.

The kick-off meeting of the Focus Group was held in July. This was followed by several meetings during which it was decided to obtain feedback and suggestions from a number of key stakeholders. Between July and September, circulars were sent to the Principal Permanent Secretary and all Permanent Secretaries, and an internal memo was sent to all NAO staff inviting them to participate in a SWOT Analysis. Online surveys were also sent to the Public Accounts Committee members, members of academia, the public and the media.

Questions asked were mostly open ended. Permanent Secretaries were asked to answer a set of questions to give their views on how the NAO operates and, more importantly, how this Office can improve its auditing service. The Public Accounts Committee, academia, the public and the media were asked to give their views on the priorities, procedures and operations required to enable the achievement of the Office's

strategic goals within the applicable framework through an online survey. NAO staff were asked to fill in a form and submit the most relevant strengths, weaknesses, opportunities and threats to the NAO that they see.

The NAO Focus Group then analysed all the data received from the different stakeholders. The NAO Strategy determined five key strategic goals:

1. the Strengthening of the Institutional Capacity;
2. Enhancing Audit Impact;
3. Strengthening Communication with Stakeholders;
4. Optimising the NAO's profile and public visibility; and
5. Advancing audit methodology and technology.

This document was then discussed internally with Senior Management and approved by the Auditor General. The NAO Strategy document was published and presented to then President George Vella on 14 December 2023 during a ceremony at the National Audit Office. Following the publication of this document, the NAO, through the NAO Strategy Focus Group, started embarking on preparing an extensive action plan to ensure that the NAO Strategy is effectively implemented during the period 2024-2028.

Outlook

The NAO plays a pivotal role in ensuring transparency, accountability and efficiency in the management of public resources. As the landscape of public sector governance evolves, and to embrace opportunities outlined in the Risks and Opportunities Section, the NAO must adapt and enhance its capabilities to address emerging audit issues and foster stakeholder relations while safeguarding independence, leveraging technological advancements. In this Section, key areas for future potential consideration by the Office, to better fulfil its mandate and better address risks and embrace its opportunities, are discussed.

1. Embracing Emerging Audit Issues

In an era marked by rapid technological advancements, the public sector's use of artificial intelligence (AI) presents both opportunities and challenges. The NAO must develop expertise in auditing AI systems to ensure their ethical use, data privacy compliance and effectiveness in achieving intended objectives. By staying abreast of developments in AI auditing methodologies, the NAO can enhance its ability to scrutinise complex algorithms and automated decision-making processes.

Furthermore, environmental issues, particularly climate change, have garnered increased attention globally. The NAO should increasingly integrate environmental auditing practices into its audit practice to assess the government's efforts to mitigate climate risks, promote sustainability and comply with environmental regulations. By conducting comprehensive audits on the implementation of climate-related policies and initiatives, the NAO can contribute to informed decision-making and accountability in environmental governance.

2. Technological Advancements

Incorporating technological innovations, such as AI, data analytics and digital platforms, the Office can also significantly enhance the efficiency and effectiveness of its audit processes. By leveraging AI-driven tools for data analysis, risk assessment and predictive modelling, the NAO can streamline audit procedures, detect anomalies and prioritise areas for scrutiny. Furthermore, investing in training opportunities for staff in emerging technologies and audit methodologies will ensure the NAO remains at the forefront of innovation in public sector auditing.

3. Oversight of Major Infrastructural Projects

With Malta's reliance on infrastructural projects, especially those co-funded by the EU, the NAO's role in ensuring their efficient implementation and value for money is paramount. The NAO will strive to conduct rigorous audits throughout the project lifecycle, from planning and procurement to execution and evaluation. By scrutinising project budgets, timelines and quality standards, the NAO can mitigate risks of cost overruns, delays and mismanagement, safeguarding public funds and enhancing infrastructure development outcomes.

4. NAO's Infrastructure Enhancement

The NAO's expansion, involving the construction of an extension to its main premises in Floriana, represents a strategic investment in infrastructure that will enable the Office to increase capacity, enhance operational efficiency, and achieve training and meeting requirements. By leveraging modern facilities and resources, the NAO can better fulfil its constitutional and legal mandate to undertake public sector auditing while providing a pleasant work environment conducive to productivity and collaboration to its staff.

5. Strengthening Stakeholder Relations while Safeguarding Independence

Effective engagement with stakeholders is essential for the NAO to gather support, foster transparency and promote accountability. The NAO will continue to effectively engage with auditees, civil society organisations, the media and the public to communicate audit findings, solicit feedback and address concerns. By cultivating constructive relationships with stakeholders, the NAO can enhance trust in its work and facilitate the implementation of audit recommendations.

At the same time, safeguarding independence is paramount to upholding the integrity and credibility of the NAO's audits. The NAO should adhere to international auditing standards, maintain autonomy in decision-making processes and implement measures to mitigate potential conflicts of interest or undue influence. By upholding the principles of independence and impartiality, the NAO can uphold its reputation as a trusted oversight institution.

6. Collaboration and Knowledge Exchange

To enhance its capacity and effectiveness, the NAO will prioritise collaboration with foreign Supreme Audit Institutions (SAIs) and participation in international initiatives and meetings. Joint audits on topics of

mutual interest, particularly environmental issues, can facilitate knowledge sharing, benchmarking and best practice dissemination. Moreover, the NAO's intention is to consolidate its participation in foreign working groups and task forces to leverage expertise, share experiences and stay abreast of global developments in public sector auditing.

By embracing innovation, fostering collaboration and upholding principles of transparency, accountability and independence, the NAO can enhance its effectiveness in fulfilling its Constitutional and legal mandate as the Maltese external state auditor.

Basis for preparation and presentation

The NAO has undertaken due professional care to report on its material events and activities. The materiality of events included in this Report was determined by identifying all the work, activities and results of the NAO, and selecting for reporting purposes the significant events that, in the Office's opinion, were deemed critical to contributing to enhancing transparency, accountability and value added yielded from state audit.

PART THREE



Annual Report and Financial Statements

31 December 2023

GENERAL INFORMATION

Description

The National Audit Office is established under Article 108 of the Constitution of Malta.

Auditor General

Carmel Deguara

Deputy Auditor General

Noel Camilleri

Office

National Audit Office
Notre Dame Ravelin
Floriana FRN 1601
MALTA

Bankers

APS Bank Ltd
APS Centre
Tower Street
Birkirkara BKR 4012
MALTA

Auditors

Ernst & Young Malta Limited
Regional Business Centre
Achille Ferris Street
Msida MSD 1751
MALTA

REPORT OF THE AUDITOR GENERAL OF THE NATIONAL AUDIT OFFICE

The Auditor General presents his annual report, together with the financial statements of the National Audit Office (the “Office” or “NAO”), for the year ended 31 December 2023.

Principal Activities

The National Audit Office conducts audits of all Ministries, Departments and Offices of the Government of Malta, and of such other public authorities or entities, including NGOs, administering, holding or using funds belonging directly or indirectly to the Government of Malta, as may be prescribed by or under any law for the time being enforced in Malta.

Review of Results

The National Audit Office published a total of 14 reports with an average staff complement of 62 persons (equivalent to 57 full-timers). The reports consisted of two performance audit reports, three Special Audits and Investigations reports, three IT audit reports, an annual report on the public accounts of 2022, an annual report on the audited financial statements of the local councils for year ending 2022, a report containing a review on fixed assets and stocks, two consolidated follow-up audit reports, and the annual report and financial statements of the Office for 2022.

Year	Amount approved by NAO Accounts Committee and authorised by the House of Representatives	Amount withdrawn	Surplus	Number of Audit Reports Published	Average Staff Complement
	€	€	€		
2017	3,150,000	3,150,000	42,160	14	63
2018	3,400,000	3,400,000	221,428	17	60
2019	3,500,000	3,500,000	119,862	11	61
2020	3,800,000	3,600,000	87,304	19	64
2021	3,850,000	3,850,000	291,540	15	64
2022	3,900,000	3,900,000	374,936	14	63
2023	4,200,000	4,200,000	452,868	14	62

Published Reports

Financial and Compliance Audits

- i. Report by the Auditor General on the Public Accounts for the year 2022
- ii. Report by the Auditor General on the Workings of Local Government for the year 2022
- iii. Review by the Auditor General on Fixed Assets and Stocks

Performance Audits

- i. An assessment of capital projects at the University of Malta
- ii. Ensuring fair Non-Contributory Social Benefits and safeguarding against related fraud

Special Audits and Investigations

- i. An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 3 | Steward Health Care assumes control of the concession
- ii. A review of the implementation of Sustainable Development Goal 2: Addressing pre-obesity and obesity
- iii. A review of the employment agreement of the Consultant to the Chief Executive Officer, Institute of Tourism Studies

Information Technology Audits

- i. Active Ageing and Community Care – Ministry for Active Ageing
- ii. Malta Food Agency
- iii. A Follow-up on the 2020 IT Audit – ICT Across Local Councils

Other

- i. National Audit Office Annual Report and Financial Statements – 2022
- ii. Follow-up Audits Report by the National Audit Office – 2023 Volume I
- iii. Follow-up Audits Report by the National Audit Office – 2023 Volume II

Financial Review

In 2023, the Office withdrew the full budget allocation of €4.2 million from Central Government. Funds utilised from this allocation amounted to €3.72 million distributed as follows: 78% towards salaries, 9% towards subcontracted audit fees and 13% towards administrative expenditure.

Salaries experienced a marginal increase of 1.5% over previous year notwithstanding the fact that the average number of employees declined slightly from 63 persons to 62 persons. The average salary for the 57 full time equivalents increased by 1.58% over the comparative period. Notably, only one resignation occurred during the year that was promptly replaced before year-end. Staff turnover remained negligible on the same pattern established during the previous decade.

Subcontracted audit fees for local councils have remained unchanged from the previous year in accordance with the tender awarded last year for financial years ending 2021-2023. The increase in the subcontracted audit fees is attributed to the addition of a new region that necessitated the audit of the regional council.

Administrative expenses recorded an increase of 32% compared to the previous period as the Office faced increases in IT licences and consumables, printing costs of publications, travel, information services, professional fees, and depreciation.

The surplus resulting from the unutilised withdrawal of funds has strengthened further the Office's cash position and the Accumulated Funds Reserves. These surpluses are earmarked for the initial financing of the capital project for a new building annex. Approval from the NAO Accounts Committee and discussions with the Ministry for Finance will nevertheless be sought before proceeding with the project.

Capital expenditure for the year amounted to €313,592 which consisted mostly in the refurbishment of the upper floor of the main building and the replacement of associated furniture and equipment. The capital expenditure also includes the purchase of an electric vehicle.

Financial management prudence is evident in the current liquidity ratio of 2.2 signifying ample coverage not only for short-term payables such as creditors and accruals but also for the long-term provision of service pension and gratuities.

In response to the surpluses generated over the past three years, the Office has agreed with the Ministry for Finance for a reduction in the original request submitted for the budgetary allocation of 2024. The original budget request for 2024 has been voluntarily reduced from €4.35 million to €4 million, a decision welcomed by the Ministry for Finance.

Capital Commitments

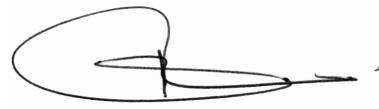
In 2023, no further expenditure was incurred on the capital project of a new building annex to the main building. The last recorded expenditure on this project occurred in 2021, amounting to €94,524. The original site plan was revised and submitted to the Planning Authority (PA). It has been approved by PA on 12 January 2024 and signifies an important milestone for the project's development.

Reserves

After adding the surplus of €452,868 to the opening balance of the accumulated funds, the closing accumulated funds balance in the statement of financial position at the end of 2023, amounted to €965,525. This is being carried forward to the next financial period.



CARMEL DEGUARA
Auditor General



NOEL CAMILLERI
Deputy Auditor General

National Audit Office
Notre Dame Ravelin
Floriana FRN 1601
Malta

20 June 2024

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2023

	Notes	2023 €	2022 €
Government subvention	6	4,200,000	3,900,000
Other income	7	14,320	9,645
Operating expenditure			
Salaries and personnel expenses	8	(2,918,779)	(2,873,260)
Administrative and other expenses	9	(489,285)	(367,188)
Sub-contracted audit fees of local councils		(317,378)	(312,700)
		(3,725,442)	(3,553,148)
Results from operating activities before pension costs		488,878	356,497
Provision for service pensions and gratuities	11	(36,227)	18,213
Results from operating activities		452,651	374,710
Bank interest receivable		217	226
Surplus for the year		452,868	374,936
Total comprehensive income for the year		452,868	374,936

The accounting policies and explanatory notes on pages 109 to 121 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2023

	Notes	2023 €	2022 €
ASSETS			
Non-current assets			
Property and equipment	10	470,429	275,900
Current assets			
Debtors and prepayments		110,041	150,389
Cash and cash equivalents	13	1,096,546	849,083
		1,206,587	999,472
Total assets		1,677,016	1,275,372
RESERVES AND LIABILITIES			
Non-current liabilities			
Provision for service pensions and gratuities	11	168,908	194,563
Current liabilities			
Payables	12	482,784	508,631
Provision for service pensions and gratuities	11	59,799	59,521
		542,583	568,152
Total liabilities		711,491	762,715
Reserves			
Accumulated funds		965,525	512,657
Total reserves		965,525	512,657
Total liabilities and reserves		1,677,016	1,275,372

The accounting policies and explanatory notes on pages 109 to 121 form an integral part of the financial statements.

The financial statements on pages 105 to 121 have been authorised for issue on 20 June 2024 by:



CARMEL DEGUARA
Auditor General of the
National Audit Office



NOEL CAMILLERI
Deputy Auditor General of the
National Audit Office

STATEMENT OF CHANGES IN RESERVES
for the year ended 31 December 2023

	Accumulated funds €
Balance at 1 January 2022	137,721
Total comprehensive income for the year	
Surplus for the year	374,936
Balance at 31 December 2022	512,657
Balance at 1 January 2023	512,657
Total comprehensive income for the year	
Surplus for the year	452,868
Balance at 31 December 2023	965,525

The accounting policies and explanatory notes on pages 109 to 121 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2023

	2023	2022
Note	€	€
Cash flows from operating activities		
Surplus for the year	452,868	374,936
<i>Non-cash adjustments to reconcile surplus to net cash flows:</i>		
Depreciation	119,063	91,892
Bank interest receivable	(217)	(226)
Provision for service pensions and gratuities	36,227	(18,213)
	607,941	448,389
Movement in debtors and prepayments	40,348	(41,310)
Movement in payables	(25,847)	49,733
Movement in provision for service pensions and gratuities	(61,604)	(61,604)
Cash generated from operating activities	560,838	395,208
Bank interest received	217	226
Net cash from operating activities	561,055	395,434
Cash flows used in investing activities		
Building improvements and purchase of equipment	(313,592)	(13,266)
Cash used in investing activities	(313,592)	(13,266)
Net increase in cash and cash equivalents	247,463	382,168
Cash and cash equivalents at 1 January	849,083	466,915
Cash and cash equivalents at 31 December	1,096,546	849,083

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The accounting policies and explanatory notes on pages 109 to 121 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

The National Audit Office (the “Office”) has been set up to:

- give more prominence to the role of the state audit function in Malta;
- ensure accountability in the use of public funds; and
- contribute towards the better management of public funds and resources.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared and presented in accordance with International Financial Reporting Standards, as adopted by the EU. All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU.

2.2 Basis of measurement

Assets and liabilities are measured at historical cost, except for the provision for service pensions and gratuities, which is measured according to the accounting policy disclosed in note 3.7.

2.2.1 *Going Concern*

The going concern of the Office is safeguarded since the Constitution of Malta and the Auditor General and National Audit Office Act guarantee the set-up and continuous operation of a state audit institution that is funded by government, while allowing it to remain autonomous and independent from any government authority.

The budgetary request of the National Audit Office is approved by the House of Representatives following the endorsement of a parliamentary committee, the National Audit Office Accounts Committee.

Furthermore, the operations of a state audit institution have become a fundamental international requirement for any country to safeguard its system of public finances; so much so that, as of the present date, state audit institutions from 194 countries (including Malta) are full members of the International Organisation of Supreme Audit Institutions (INTOSAI).

2.3 Functional and presentation currency

These financial statements are presented in euro, which is the Office’s functional currency.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

2. BASIS OF PREPARATION - *continued*

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenditure. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in note 11 – Provision for service pensions and gratuities.

2.5 Standards, interpretations and amendments to published standards as endorsed by the EU and effective in the current year

The accounting policies adopted are consistent with those of the previous financial year, except for the new standards and amendment to IFRS effective as of 1 January 2023. The adoption of these standards or interpretations did not have a material impact on the Office's financial statements or performance.

2.6 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2024 and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the Office's financial statements, on initial application.

3. SUMMARY OF ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied to all periods presented in these financial statements.

3.1 Government of Malta subventions

Government subventions allocated to the office for recurrent expenditure are taken directly to statement of comprehensive income on approval of the allocated amount in the Budgetary Estimates by the Ministry for Finance.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

3. SUMMARY OF ACCOUNTING POLICIES - *continued*

3.2 Financial instruments

Non-derivative financial assets - recognition and derecognition

The Office initially recognises non-derivative financial assets on the date that they originated.

The Office derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Office is recognised as a separate asset or liability.

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position, when, and only when, the Office has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Office classifies its non-derivative financial assets in the debt instruments at amortised cost category, which includes cash and cash equivalents.

Non-derivative financial liabilities - recognition and derecognition

Financial liabilities are recognised initially on the trade date, which is the date that the Office becomes a party to the contractual provisions of the instrument.

The Office derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Office classifies its financial liabilities in the other financial liabilities category, which comprises payables.

Non-derivative financial assets - measurement

Debt instruments at amortised cost are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these receivables are measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

3. SUMMARY OF ACCOUNTING POLICIES - *continued*

3.2 Financial instruments - *continued*

Non-derivative financial liabilities - measurement

Non-derivative financial liabilities classified in the other financial liabilities category are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

3.3 Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash in hand and deposits at the banks.

3.4 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within "other income" or "other expenses" in the statement of comprehensive income.

Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the entity and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

3. SUMMARY OF ACCOUNTING POLICIES - *continued*

3.4 Property and equipment - *continued*

Depreciation

Depreciation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative years are as follows:

- Building improvements 10 years
- Equipment 5 years
- Computer equipment and software 3 years
- Motor vehicles 5 years
- Furniture and fittings 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

3.5 Impairment

Non-derivative financial assets

The Office recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Office expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

NOTES TO THE FINANCIAL STATEMENTS - *continued*

3. SUMMARY OF ACCOUNTING POLICIES - *continued*

3.5 Impairment - *continued*

Non-financial assets

The carrying amounts of the Office's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value, less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in statement of comprehensive income.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

3.6 Employee benefits

The Office contributes towards the State pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions are recognised as employee benefits expense in the statement of comprehensive income in the periods during which services are rendered by employees.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

3. SUMMARY OF ACCOUNTING POLICIES - *continued*

3.7 Provisions

A provision is recognised if, as a result of a past event, the Office has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The provision for service pensions and gratuities is calculated at the present value of the post-employment benefit obligations towards the Office's present and retired employees. The present value is arrived at by using a risk-free rate based on the local Government bond that matures on a date equivalent to the average number of years during which the Office is expected to effect pensions and gratuities payments.

3.8 Leases

The Office elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). The Office rents its main building and other offices from the Government's Lands' Department, with the leases being renewable on an annual basis.

4. DETERMINATION OF FAIR VALUES

A number of the Office's accounting policies and disclosures requires the determination of fair value for financial assets and liabilities. For receivables and payables with a remaining useful life of less than one year, the carrying amount is deemed to reflect their fair value. Fair value is determined for disclosure purposes based on the following methods:

Receivables

The fair value of receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date.

Payables

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

5. FINANCIAL RISK MANAGEMENT

This note presents information about the Office's exposure to financial risks (credit risk, liquidity risk and market risk) arising from financial instruments, and the management of these risks. The Office does not have components of equity.

The Auditor General has responsibility for the establishment and oversight of the Office's risk management framework.

The Office does not enter into any transactions in derivative financial instruments to manage risks.

Credit risk

Credit risk is the risk of financial loss to the Office if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial assets, which potentially subject the Office to a concentration of credit risk, consist principally of cash at bank. The Office's cash at bank is placed with quality financial institutions.

Liquidity risk

Liquidity risk is the risk that the Office will not be able to meet its financial obligations as they fall due and is principally represented by current liabilities that are payable on demand.

The liquidity risk is mitigated by the fact that the Office is financially supported by the Government of Malta.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Office's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Office is not subject to currency risk since all its monetary financial assets and liabilities are denominated in the Office's functional currency. The Office is exposed to interest rate risk on its bank balances. In view of the low interest rates in the market, a change in current market interest rates as at the reporting date would not have a material effect on the Office's surplus or loss.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

6. GOVERNMENT SUBVENTION

	2023	2022
	€	€
Authorised by the House of Representatives	4,200,000	3,900,000
Amounts withdrawn	4,200,000	3,900,000

7. OTHER INCOME

	2023	2022
	€	€
Audit fee of a Non-Government Organisation	3,000	3,000
Reimbursements	3,118	1,883
INTOSAI grant received	-	4,762
EU Funding on training project	8,022	-
Profit on sale of computer equipment	180	-
	14,320	9,645

8. SALARIES AND PERSONNEL EXPENSES

	2023	2022
	€	€
Salaries	2,766,708	2,724,025
Social security contributions	152,071	149,235
	2,918,779	2,873,260

The average number of persons employed by the Office during the year was as follows:

	2023	2022
	No.	No.
Senior management	6	5
Operating	44	46
Administration and IT	9	9
Messenger staff	3	3
	62	63
Equivalent number of full-time employees	57	58

During the year, a total of 15 persons (2022: 15) worked on a reduced hours basis. This is equivalent to 24% (2022: 24%) of the workforce.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

9. EXPENSES BY NATURE

	2023	2022
	€	€
Auditors' remuneration	7,080	4,750
Professional fees	56,730	12,146
Depreciation of property and equipment	119,063	91,892
Learning and professional development	11,375	13,944
Other administrative expenses	295,037	244,456
Total administrative and other expenses	489,285	367,188

NOTES TO THE FINANCIAL STATEMENTS - *continued*

10. PROPERTY AND EQUIPMENT

	Building Improvements	Equipment	Computer equipment and software	Motor vehicles	Furniture and fittings	Total
	€	€	€	€	€	€
Cost						
At 1 January 2022	803,509	130,280	221,104	116,358	161,553	1,432,804
Additions	–	6,953	5,158	–	1,155	13,266
Write-offs/disposals	–	(5,780)	(44,992)	–	–	(50,772)
At 31 December 2022	803,509	131,453	181,270	116,358	162,708	1,395,298
At 1 January 2023	803,509	131,453	181,270	116,358	162,708	1,395,298
Additions	192,706	25,803	16,013	46,000	33,070	313,592
Write-offs/disposals	–	(9,092)	(6,242)	(29,798)	(33,151)	(78,283)
At 31 December 2023	996,215	148,164	191,041	132,560	162,627	1,630,607
At 1 January 2022	528,287	114,932	197,913	88,442	148,704	1,078,278
Depreciation charge for the year	50,088	7,414	19,850	11,959	2,581	91,892
Released upon write-off/disposal	–	(5,780)	(44,992)	–	–	(50,772)
At 31 December 2022	578,375	116,566	172,771	100,401	151,285	1,119,398
At 1 January 2023	578,375	116,566	172,771	100,401	151,285	1,119,398
Depreciation charge for the year	69,099	11,224	12,117	21,159	5,464	119,063
Released upon write-off/disposal	–	(9,092)	(6,242)	(29,798)	(33,151)	(78,283)
At 31 December 2023	647,474	118,698	178,646	91,762	123,598	1,160,178
Carrying amount						
At 31 December 2023	348,741	29,466	12,395	40,798	39,029	470,429
At 31 December 2022	225,134	14,887	8,499	15,957	11,423	275,900

NOTES TO THE FINANCIAL STATEMENTS - *continued*

11. PROVISION FOR SERVICE PENSIONS AND GRATUITIES

The provision for service pensions and gratuities is made up as follows:

	2023	2022
	€	€
Non-current	168,908	194,563
Current	59,799	59,521
	228,707	254,084

Of the non-current portion of the provision, an amount of €77,809 (2022: €90,398) refers to payments to be made after more than five (5) years from the reporting date. The movement in this provision for the current and comparative year is as follows:

	2023	2022
	€	€
Service pensions and gratuities as at 1 January	254,084	333,901
Movement in provisions during the year	36,227	(18,213)
Provisions used during the year	(61,604)	(61,604)
Service pensions and gratuities as at 31 December	228,707	254,084

The Office provides for the obligation in terms of Article 8A of the Pensions Ordinance, Cap. 93 of the Laws of Malta, whereby those ex-government employees, who joined the Civil Service prior to 1979 and opted to become full-time employees of the Office when it was set up as an independent government entity, are entitled to receive the same pension and gratuity rights as provided for by the Ordinance.

There are 10 persons who joined the Civil Service prior to 1979 but retired as full-time employees from the NAO. There are no further persons eligible to pension and gratuity rights as provided by the Pensions Ordinance.

In accordance with the Pensions Ordinance, the contribution sharing of the pensions and gratuities with the Treasury Department is based on the difference between the pensions and gratuities as worked out on the employee's salary on retirement from the Office and the pensions and gratuities as worked out on their salaries at the time they terminated government service to join the Office.

The provision for service pensions and gratuities as at 31 December 2023 is arrived at by discounting the post-employment benefit obligations of the Office using the year-end yield to maturity of 3.02% on 1% 2031 II Government bonds (2022: 3.5% on 7% 2027 II Government bonds). The post-employment benefit obligations are computed after taking into consideration the following assumptions:

Average life expectancy of males and females is 80 years and 85 years, respectively (2022: males and females of 80 and 85 years, respectively), based on data published in the National Statistics Office Demographic Review.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

12. PAYABLES

<i>Due within one Year</i>	2023	2022
	€	€
Operational and capital payables	9,602	15,349
Accrued expenses	311,578	331,678
Amount due to Treasury for pension contributions	61,604	61,604
Deferred Government subvention on capital expenditure	100,000	100,000
	482,784	508,631

13. CASH AND CASH EQUIVALENTS

	2023	2022
	€	€
Cash at bank	1,096,045	848,969
Cash in hand	501	114
	1,096,546	849,083

14. Subsequent Events

The Planning Authority has approved the construction of a resource centre on the 24th of January 2024, that is planned opposite the main building at approximately half its length and in the middle of the open space of ravelin. The resource centre will house a conference and a training room with sound and visual facilities at ground floor level and provide additional office space and multi-purpose meeting rooms at the first floor level. Works are expected to commence by mid-year and completed by March 2026 at an estimated cost of €2 million. The initial cost of the project is to be financed from the accumulated reserves.



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INDEPENDENT AUDITOR'S REPORT TO THE NATIONAL AUDIT OFFICE ACCOUNTS COMMITTEE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the National Audit Office (the "Office") which comprise the statement of financial position as at 31 December 2023 and the statement of comprehensive income, the statement of changes in reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Office as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Office in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board of Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



INDEPENDENT AUDITOR'S REPORT TO THE NATIONAL AUDIT OFFICE ACCOUNTS COMMITTEE – *continued*

Other information

The Auditor General is responsible for the other information. The other information, which we obtained at the date of the auditor's report comprises the General Information and the Report of the Auditor General of the National Audit Office, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than our reporting on other legal and regulatory requirements.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Auditor General for the financial statements

The Auditor General is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as the Auditor General determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Auditor General is responsible for assessing the Office's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Office is in the process of being terminated in accordance with national law.



INDEPENDENT AUDITOR'S REPORT

TO THE NATIONAL AUDIT OFFICE ACCOUNTS COMMITTEE – *continued*

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auditor General.



INDEPENDENT AUDITOR'S REPORT

TO THE NATIONAL AUDIT OFFICE ACCOUNTS COMMITTEE – *continued*

Auditor's responsibilities for the audit of the financial statements – *continued*

- conclude on the appropriateness of the Auditor General's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Office to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Auditor General regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*The partner of the audit resulting in this independent auditor's report is
Christopher Balzan for and on behalf of*

Ernst & Young Malta Limited
Certified Public Accountants

20 June 2024

A member firm of Ernst & Young Global Limited.
Registered in Malta No: C30252

2023-2024 (to date) Reports issued by NAO

NAO Annual Report and Financial Statements

July 2023 National Audit Office Annual Report and Financial Statements 2022

NAO Audit Reports

May 2023 An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 3 | Steward Health Care assumes control of the concession

May 2023 An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 3 | Steward Health Care assumes control of the concession [Abridged]

June 2023 Follow-up Audits Report by the National Audit Office Volume I 2023

June 2023 IT Audit: Malta Food Agency

July 2023 A review of the implementation of Sustainable Development Goal 2: Addressing pre-obesity and obesity

October 2023 Review by the Auditor General on Fixed Assets and Stocks

November 2023 Follow-up Audits Report by the National Audit Office Volume II 2023

November 2023 Report by the Auditor General on the Workings of Local Government for the year 2022

November 2023 A review of the employment agreement of the Consultant to the Chief Executive Officer, Institute of Tourism Studies

December 2023 IT Audit: A Follow-up on the 2020 IT Audit – ICT Across Local Councils

December 2023 Report by the Auditor General on the Public Accounts 2022

January 2024 An audit of the contract for the provision of food and beverage services at the Malta Life Sciences Park

January 2024 Performance Audit on the Operations of Jobsplus' Law Compliance Unit

February 2024 Performance Audit: Preliminary Review: Leasing of Private Property by Government

June 2024 Follow-up Audits Report by the National Audit Office Volume I 2024