

NATIONAL AUDIT OFFICE

ANNUAL REPORT & FINANCIAL STATEMENTS

2022





National Audit Office
Annual Report and Financial Statements

2022

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List of Abbreviations

AA	Audit Authority
AAG	Assistant Auditor General
ACCA	Association of Chartered Certified Accountants
AFAA	Arab Federation of Accountants and Auditors
AG	Auditor General
AMIF	Asylum, Migration and Integration Fund
ANSEK	National Association of Executive Secretaries
ASOSAI	Asian Organisation of Supreme Audit Institutions
BA	Bachelor of Arts
B4A	Network on Blockchain for Audit
BPR	Business Process Re-engineering
CAP	Common Agricultural Policy
CAROSAI	Caribbean Organisation of Supreme Audit Institutions
CC-R	EU Contact Committee Resolution
CFMS	Corporate Financial Management System
CIPFA	Chartered Institute of Public Finance and Accountancy
COP27	27 th Conference of the Parties to the United Nations Framework Convention on Climate Change
COSO	Committee of Sponsoring Organisations
Covid-19	Coronavirus Disease 2019
CPD	Continued Professional Development
DAG	Deputy Auditor General
DG	Directorate-General
DG REFORM	Directorate-General for Structural Reform Support
DR	Democratic Republic
EAR	Education, Assessment and Reflection
EC	European Commission
ECA	European Court of Auditors
ECIIA	European Confederation of Institutes of Internal Auditing
ECL	Expected Credit Losses
EEA	European Economic Area
ERA	Environment and Resources Authority
ERP	Enterprise Resource Planning
ESA	European System of National and Regional Accounts
ESS	European Statistical System
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
EY	Ernst & Young Malta Ltd

List of Abbreviations continued

F&A	Finance and Administration
FCICM	Financial Crime Investigation and Case Management
FDI	Foreign Direct Investment
FEMA	Faculty of Economics, Management and Accountancy
FM	Frequency Modulation
GNI	Gross National Income
GUID	INTOSAI Guidance
HE	His Excellency
HM	His Majesty
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
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
INCOSAI	International Congress of Supreme Audit Institutions
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standard on Auditing
ISACA	Information Systems Audit and Control Association
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
ITWG	IT Working Group
KPMG	Klynveld Peat Marwick Goerdeler
KS	Norwegian Association of Local and Regional Municipalities
LGA	Local Government Auditor
LGGGWG	Local Government Good Governance Working Group
MENA	Middle East North Africa
MIA	Malta Institute of Accountants
MP	Member of Parliament
MS	Member State
NAFCS	National Anti-Fraud Co-ordination Strategy
NAM	Needs Assessment Mission

List of Abbreviations continued

NAO	National Audit Office
NAOAC	National Audit Office Accounts Committee
NCPE	National Commission for the Promotion of Equality
NGO	Non-Governmental Organisation
NRRP	National Recovery and Resilience Plan
NSI	National Statistical Institute
NSO	National Statistics Office
ODIHR	Office for Democratic Institutions and Human Rights
OECD	Organisation for Economic Co-operation and Development
OSCE	Organisation for Security and Co-operation in Europe
PAC	Public Accounts Committee
PCF	Professional Competency Framework
PDP3	The Predefined Project 3
PESA	Professional Education for SAI Auditors
PESA-P	Professional Education for SAI Auditors – Pilot Study
PMF	Performance Measurement Framework
RAFG	Risk Assessment Framework Group
RRF	Recovery and Resilience Facility
SA&I	Special Audits & Investigations
SAI	Supreme Audit Institution
SDG	Sustainable Development Goal
SEM	Servizzi Ewropej f’Malta (European Services in Malta)
SEPA	Single Euro Payments Area
SIC	Standards Interpretation Committee
TiNA	Network on Technology and Innovation for Audit
TVM	Television Malta
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organisation
VGH	Vitals Global Healthcare
WGEA	Working Group on Environmental Auditing

FOREWORD

Auditor General's Overview



Auditor General

Charles Deguara

Undoubtedly, 2022 has been another extremely memorable year for the National Audit Office (NAO). Besides issuing various reports, which incorporated a considerable number of audit assignments across the public sector in line with our Office's core responsibility, we also organised various events and initiatives to commemorate the 25th anniversary of the setting up of the NAO in its present format, a fully autonomous national audit institution.

Essentially, this was brought about by the enactment of the Auditor General and National Audit Office Act, 1997 (Chapter 396), as well as significant amendments to the Constitution of Malta, through Section 108,

approved unanimously by both Government and the Opposition in July 1997. These important legislative and constitutional amendments formally enshrined our Office's total independence – this being a *sine qua non* condition for every credible and reliable national audit office like ours.

Suffice it to refer to the Lima Declaration Guidelines on Auditing Precepts, considered the Magna Carta of public sector auditing, whose main objective is to highlight the fundamental importance of independent government auditing. Indeed, henceforth, various changes were introduced to duly safeguard the NAO's full autonomy; among others, a two-thirds majority in Parliament for the appointment of the Auditor General (AG) and the Deputy Auditor General (DAG) became mandatory. Moreover, the Office was also given complete freedom and discretion to recruit its staff; obviously, it is in the Office's best interest to recruit the most highly qualified and competent persons.

Indeed, we are thankful to our predecessors, who throughout these 25 years managed to significantly raise the quality of our workforce, even though throughout this period the number of our employees remained practically unchanged! The emphasis on the critical importance of our rigorous, fair and transparent recruitment procedures constitutes one of the main reasons for our Office's enhanced efficiency and effectiveness during these 25 years.

Thus, throughout the year, various activities were organised to commemorate this important milestone in the NAO's history, in a dignified and solemn manner, as this institution surely deserves. The highlight of

these commemorative events was undoubtedly the official launch, presided by His Excellency (HE) the President of Malta, Dr George Vella, of a new book on 14 December 2022.

This new publication, written to scholarly standards, essentially documents and reflects on leading themes and issues associated with state audit in Malta and beyond during the first two decades of the twenty-first century and into the future. It includes the input of some of our colleagues within our Office, academics, as well as politicians who were somehow involved in the area of public sector auditing. Titled 'State Audit in Times of Transition – Reflections on Change and Continuity, Challenge and Opportunity from Malta and Beyond', and ably edited by Prof. Edward Warrington, in all modesty it has received extremely positive feedback, both locally and overseas.

Indeed, we very much appreciate the positive comments received from, among others, my dear colleagues Kay Scheller, President of the German Federal Audit Office; José F. Tavares, President of the Portuguese Court of Auditors; Minister Bruno Dantas, President of the Brazilian Court of Auditors; Guido Carlino, President of the Italian Courts of Account; Helena Lindberg, Auditor General, Swedish National Audit Office; and Hou Kai, Auditor General, National Audit Office of China.

As stated, thanks to the hard work, commitment and professionalism of our team, last year we also managed to duly finalise our 2022 Audit Plan, notwithstanding the occasional challenges and difficulties met in connection with certain audit assignments. As I review the work and achievements of our Office during last year, I wish to reiterate my vision for this Office that has always been to perform our audit function to the best of our knowledge and capability while continuously striving to develop and maintain a very good working relationship with the Public Service, as aptly highlighted in our NAO

Strategy 2019-2023. While constantly emphasising the fundamental need to duly safeguard, without any exception or fail, our total independence, at the same time this does not preclude ongoing co-operation between this Office and our auditee, the Public Service, in a spirit of reciprocal trust and respect.

I objectively believe that, on the whole, this message has been well received by the leadership of the Public Service. Obviously, such reciprocal trust and respect do not come by themselves. One has to continuously work at them, notwithstanding occasional misunderstandings and differing points of view. Thus, one has to continuously cultivate them to earn them.

Admittedly, there are times when one is tested – when one has to prove oneself. And I am justly proud that we have withstood the test and invariably proven our integrity, objectivity, full autonomy and independence. This continues to give us credibility not just in Malta but also internationally, among our fellow supreme audit institutions (SAIs). Safeguarding the credibility and trust that our Office enjoys is, indeed, one of our highest strategic priorities.

Thus, I strongly believe that this Office can continue to be of assistance to the Public Service as a 'critical friend'. As often underlined by the undersigned, our most important goal is not to point fingers at our auditees, even though obviously our work necessitates that we draw attention to certain shortcomings or issues that we come across in our audit work. Our ultimate aim is for things to improve across the Public Service.

This is why the most important aspect of our audit work is to propose doable and realistic recommendations so that, as much as possible, solutions are identified, ultimately resulting in enhanced good governance and service delivery across the Public Service. Consequently, the citizens

of Malta and Gozo will be better served – as they surely deserve...

We are fully conscious that, to be able to do this, ongoing emphasis needs to be made on the continuous professional development of all our employees, both technical as well as administrative. Acknowledging that our staff, by far, constitute our most valuable asset, we are committed to continuing to provide quality training opportunities for all our employees; otherwise, we will not be able to attain all our objectives and produce high quality assignments, in line with international public sector auditing standards.

To quote just one example, I would like to congratulate the seven auditors from our three main audit sections, who accepted to undergo the Professional Education for SAI Auditors (PESA) programme while still in its pilot stage, organised by the INTOSAI Development Initiative (IDI). Malta was the only SAI (of 87 SAIs from around the world) to achieve a 100 per cent success rate in this programme. An outstanding achievement indeed. We have also just finalised arrangements for a separate training module to be held later this year, in collaboration with the Chartered Institute of Public Finance and Accountancy (CIPFA), which is an established UK-based international accountancy membership and standard-setting body.

The Office is currently gearing up for a big challenge – the introduction of accrual accounting in the Public Service. Unfortunately, this accounting system is not being introduced at the speed or pace that we would have wished. There are certain delays and certain issues that need to be tackled. However, we hope that accrual accounting will be fully implemented over the next few years to enable us to perform financial auditing of the public sector accounting system and related financial statements.

We look forward to our forthcoming challenges and targets with reasonable optimism and confidence,

especially in view of our determined efforts to provide the best training opportunities to our excellent team. At the end of 2023, our current five-year Strategic Plan comes to an end, and we are already looking ahead to the next five-year Strategic Plan up to 2028. Moreover, senior management is continually analysing and reviewing our Office's operations and methodologies with the ultimate aim to enhance even further our effectiveness and efficiency.

For this reason, we underwent the SAI Performance Measurement Framework (PMF) exercise, which identified certain gaps and shortcomings, and made certain recommendations to address these issues. We are currently working hard to duly fill these gaps so as to be in a better position to conduct our challenging work in the best manner possible. Although, as stated, our staff headcount over the past quarter of a century has remained practically unchanged, at this stage we need to embrace new functions, such as a formal quality assurance framework, and to consolidate existing ones, such as research and outreach. This will necessitate new recruitment to further reinforce the organisation.

I would also like to extend our heartfelt thanks and appreciation to Mr Leo Brincat for his continuous and extensive collaboration during his six-year tenure as a Member of the European Court of Auditors (ECA). Suffice it to refer to the various extremely informative joint NAO-ECA seminars that we organised together throughout these years. At the same time, we congratulate his successor as a new Member, Dr George Marius Hyzler, who assumed his new duties in Luxembourg in October 2022. In this regard, the joint visit to the NAO of both outgoing as well as the incoming Members of the ECA, on 3 November 2022, is of particular relevance since, as stated by the undersigned in the welcome address, it clearly reiterated the NAO's commitment to enhance even further the already excellent working relationship with the ECA, considered one of the key stakeholders of Malta's national audit institution. Indeed, we look



forward to new initiatives aimed to ensure that the working relationship between the two institutions, whose principal objectives, work methodologies and international auditing standards followed are practically identical, continue to be strengthened.

It is my duty to end this Foreword by emphasising once again my deep gratitude to all the staff at the NAO. Everyone is important – and everyone’s contribution is greatly appreciated. I always believed that teamwork and passion are of critical importance in everything we do. We will continue striving hard to get on with our work competently, fairly and professionally. In this regard, I would be failing in my duty not to refer to the following message by HE the President, Dr George Vella (Press Release 221741 issued by the Office of the President).

Undoubtedly, this inspirational message from HE the President of Malta will spur each and every one of us to even greater efforts in the performance of our constitutional mandate.

Charles Deguara
Auditor General
June 2023

President George Vella expressed his appreciation for the essential and invaluable work carried out by the National Audit Office – NAO. During the launch of the book “State Audit in Times of Transition – Reflections on Change and Continuity, Challenge and Opportunity from Malta and Beyond” published by the NAO on the 25th anniversary of its establishment, President Vella observed the maturity of the recommendations and criticism with each report published by the NAO.

The best reward, said the President, that the Auditor General, the Deputy Auditor General and the NAO staff get is that they are trusted by the people. “Over the past 25 years stands out, firstly, the independence of the Office, which is crucial and important because such Office cannot run successfully if it is not totally independent. The second thing is the absolute integrity of whoever is running the Office and of the reports issued therein, which stand out because of their objectivity,” said the President while noting that the trust enjoyed by the NAO is completely deserved.

In the primary and essential role in a democracy, said the President, the NAO is part of an important transition underway in our country. He added that together with local and international stakeholders, the NAO continued to adapt to arising challenges such as social and economic inequalities, political tensions, the devastating consequences of a pandemic, the international order disrupted by wars and conflicts and their effect on energy and food insecurity.

President Vella said that against this backdrop of global uncertainties, citizens look for a point of reference that offers stability and permanence. Therefore, added the President, the excellent record of the NAO goes beyond the simple performance of its daily work and is fundamental to the collective sense of trust of the people.

“Another aspect of the NAO’s work that impresses me is its contribution to further strengthening the international profile of our country,” said the President. In their work and discussions with foreign partners, added the President, NAO officials are always a good example of the professional and ethical standards with which Malta deserves to be associated.

Interview with the Deputy Auditor General



Deputy Auditor General

Noel Camilleri

Champions of good governance

As the Strategic Plan 2019-2023 draws to a close, NAO DAG Noel Camilleri looks ahead to where the Office needs to position itself in the upcoming five-year strategic plan.

Evolution not revolution

As the NAO transitions from its current five-year strategic plan at the end of this year into the next, DAG Noel Camilleri is not expecting any

revolutions. “It is a continuation of the previous strategy. Perhaps we were not ambitious enough in the first strategy and perhaps now, having gained the visibility from that first strategic plan, we can afford to be more ambitious for the next five years.”

“We have gained a lot of experience,” he continued. “I am happy with the progress made. I am confident that the thinking is converging and will continue to evolve into the future to enable us to build on our achievements.”

Front of mind as the Office transitions into the next strategy plan is the SAI PMF. “The PMF took into consideration *all* the aspects of our work, highlighting the strengths and even the challenges we face, and gave us a common language. Everything we do nowadays is connected to the PMF,” Mr Camilleri stressed.

A key area to be further developed is a competency framework for NAO auditors. “If we are talking about the competencies that auditors at the NAO should have, this comes out from the PMF exercise as well.”

While the PMF points to the absence of such a framework, the Office adapted a draft competency framework that was being developed by the International Organisation of Supreme Audit Institutions (INTOSAI) under its Professionalisation Workstream, tweaked it to the local context and adopted it.

“Not only. We went a step further. It’s useless having a competency framework document and not using it. So, in the first internal calls that we issued, we established what competencies our auditors really needed and gauged applicants’ competency levels accordingly; this, in line with the Competency Framework.”

Mr Camilleri is of the opinion that, even in external recruitment, new joiners at the NAO should be committed to working to attain these competencies, which may include, among others, the successful completion of the PESA programme, developed by the IDI.

Risk Assessment Framework

Risk was another aspect raised and debated within the NAO’s *ad hoc* PMF forum. “While we do risk assessments on a regular basis when selecting our audits, the process will now be more streamlined, and better documented with an appropriate scoring that is common across the Office.”

A Risk Assessment Framework Group (RAFG), composed of five NAO officers, is currently working on widening the NAO’s Audit Universe to encompass, in a more systematic manner, not just areas of government listed in the Financial Budgetary Estimates but all other entities in which government has a majority interest.

Mr Camilleri believes this should not stop there. Once the NAO gathers information on the entire Audit Universe and is in a position to sustain such a process, the Office should work towards building a comprehensive database of all the entities it audits. The dossier on each entity would include information on:

- what the organisational/governance structure is;
- the main functions of the entity;
- initiatives the entity undertook over, say, the previous five years;
- a time series of financial information, including budgeted amounts, actual expenditure, etc.;
- the financial control environment; and
- audit issues raised in past NAO audits.

He is confident that this can be achieved once the appropriate capacity has been built and the necessary tools deployed. This is just one of the functions that can be developed once the necessary structures have been put in place.

Other functions Mr Camilleri referred to were those involving quality assurance of audits the NAO carries out and the ability to communicate audit findings and other good governance practices to all stakeholders. This would also be an opportunity for the Office to review its current set-up.

“We have basically retained the same structure and the same composition of sections, including the same number of staff, for the past 20 years. So far, it has worked for us. But work is now changing and evolving, as is our external environment. We absolutely cannot make further progress both in quality and in quantity unless we innovate,” he observed.

Parliament is not the NAO’s sole stakeholder. Although the NAO’s reports are tabled in Parliament and it is answerable to various parliamentary

committees, the NAO's stakeholders extend to civil society, non-governmental organisations (NGOs), institutions within the accountability ecosystem, other interested parties and the wider public. "These are all increasingly becoming our stakeholders and we need to address that both in terms of communication, and in terms of how we need to be receptive to their requests and feedback."

StOry strategic management system

A tool that the Office will be deploying to manage the next Strategy Plan (2024-2028) is a web-based strategic management system called StOry, launched by the IDI.

"This system gives you the facility to start with a strategic goal, set objectives at a secondary level, create action points at the third level and assign tasks for each action point with an owner, start date, deadline and other related observations and metrics, including real time monitoring of progress to see if the project is on schedule."

When Mr Camilleri was first given access to the system last September, he thought it such a pity that it would have to be parked until next year. So, following some internal discussion, it was decided to adapt the system to the NAO's audit planning to complement the current time management system, through which various performance related data are acquired.

"StOry provided us with the opportunity to include and make use of new parameters, such as start dates, end dates or percentage completion of audits and possibly any associated risks." This novel way of using StOry drew IDI's attention and they invited Mr Camilleri to give an online presentation to about 120 auditors from around the world.

Going beyond

All this goes to show that, despite celebrating its 25th anniversary in 2022, the NAO does not intend to be complacent or to sit on its laurels. "This has always been our mantra. We have been quite successful, are well respected and have a good team of people. Yet we need to continue to develop both internally in our processes, in the way we do things and also in the capacity of the Office to grow – not just in terms of head count but also in our competencies and in the diversity of our products."

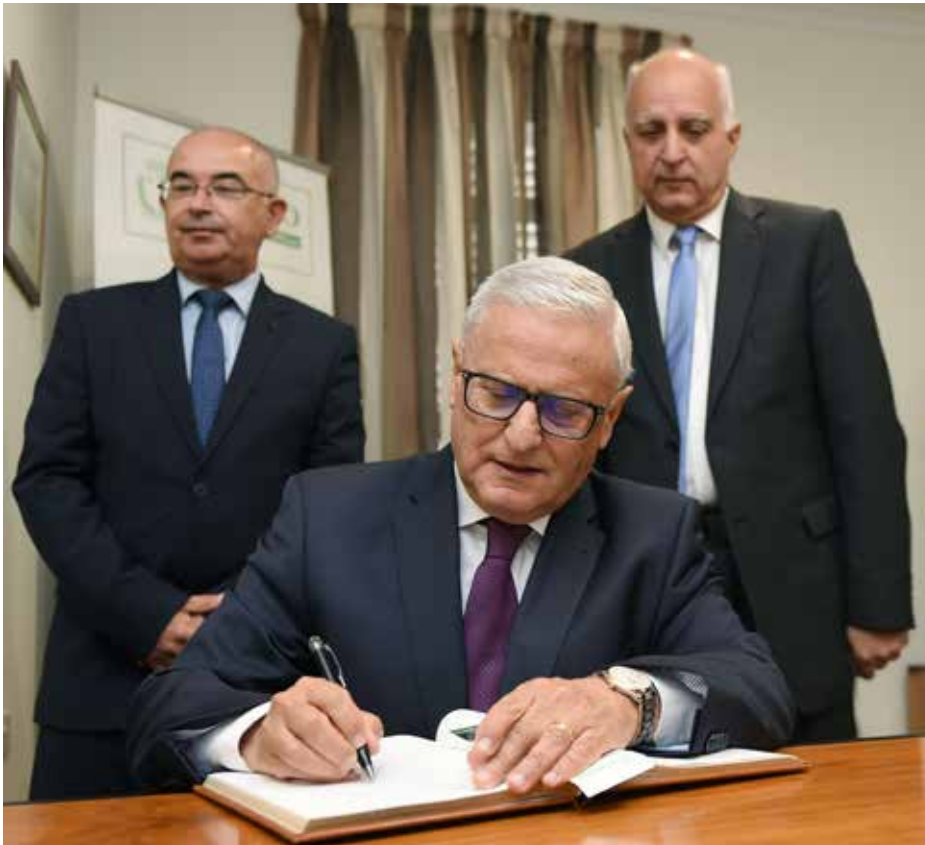
Mr Camilleri is of the opinion that the NAO should not just be restricted to audits. "Audits should remain our main focus, our core competence, but I think that we should be able to expand more in terms of, for example, promoting best practice and good governance."

"Yes, we are capable of producing voluminous reports, some of which have taken long months to compile, but we have reached a stage where we need to focus more on the results of the audits we have done and promote the key recommendations," he continued.

"It's a matter of not just doing the audit but let's ensure that what we say about good governance, for example, we go out there and preach about it – and that is also another facet of our work."

"I think we should participate more and encourage our staff to participate more in these types of debates. That is the most important thing, looking ahead. We should be champions of good governance," Mr Camilleri concluded.

Message by the former Maltese Member of the ECA Leo Brincat



Leo Brincat, Former Member at European Court of Auditors

As in the case of the ECA's relations with other SAIs, the efficient and effective auditing of European funds covers more than just financial and compliance and performance auditing. It includes issues of governance, accountability, the impacts of EU policies and inputs leading to improvements in the EU's wider financial management.

The Amsterdam Treaty called on the ECA and the national audit institutions to co-operate in a spirit of trust while maintaining their independence. The framework of enhanced co-operation must work efficiently and effectively without inhibiting the individual remits of those involved.

Strategic co-operation

The co-operation between the ECA and the NAO can be considered strategic as a result of the way in which their respective guiding principles were put into practice over the years, argues Leo Brincat, former Maltese Member of the ECA.

The ECA and the NAO might have different external auditing remits, but they share a common interest in working together to improve the auditing of European Union (EU) funds and other matters related to good governance for the benefit of all EU citizens.

Spirit of trust

Through the Contact Committee, set up between the ECA and national audit offices way before Malta's accession to the EU, a spirit of trust was always meant to be demonstrated among them by openness, inclusivity and respect for the context in which each institution operates.

The Contact Committee is an assembly of the heads of the EU SAIs and the ECA. It provides a forum for co-operation and the exchange of professional knowledge and experience on the auditing of EU funds and other EU-related issues. All co-operative work should be based on clear bilateral or multilateral objectives, working practices and responsibilities agreed by both sides.

The guiding principles of the ECA and the respective SAIs were always intended to contribute to the creation of a live, dynamic environment for co-operation, which can add value at the global level while remaining sensitive to the existence of different models and methods of auditing within a common framework. It is with this objective in mind that liaison officers from each member state were appointed to provide the Contact Committee with regular reports on progress made in putting the principles into practice and on monitoring the results. Day-to-day contacts are maintained through liaison officers appointed by each institution.

On its part, the ECA is also considered to be a supreme audit institution: striving, as it does, to be at the forefront of developments in public sector audit, while working alongside other SAIs in the International Organisation of Supreme Audit Institutions (INTOSAI) and its European regional grouping, EUROSAI.

The ECA has been an early adopter of peer reviews as a tool for developing and spreading good practice within the community of SAIs.

Challenges

The biggest challenge ahead for both the ECA and the NAO is to determine how they could further develop their co-operation in practical terms, given the NAO's proactivity and the ECA's long-standing commitment to continue to develop its co-operation with other public sector auditors in the future.

Many had the wrong impression that the ECA adopted a top-down approach in its relations with SAIs whereas, like the Maltese NAO, in practice, it was often the case of synergy among equals. While the ECA is independent of any EU institution, the NAO is independent of the government of the day. This makes co-operation between the ECA and the NAO even more effective since both institutions have a strong sense of independence.

The strong common interest for external auditors across the Union to work together arises from the fact that EU regulations apply across countries more or less in the same way, and lead to similar challenges. The EU integration process itself leads to an alignment of challenges between these institutions in delivering and monitoring public policy.

I personally envisage that, in future, groups of SAIs can also agree to increasingly align their work programmes and carry out certain audits in a co-ordinated way. It is in the ECA's interest to see SAIs like our NAO work effectively, since the ECA can only be a successful external auditor if its sister organisations in Member States are equally successful, and vice-versa.

While acknowledging that there might have been genuine concern that ECA/NAO relations could have been impacted by the ravages of Covid-19, both organisations not only continued to rise to the occasion by meeting the challenges ahead, but even saw that their co-operation was not impaired, notwithstanding the limitations imposed by the resultant constraints on welcoming each other physically either in Luxembourg or in Malta.

Both sides gave proof of this when they managed to finalise their respective Audit Plans in spite of their respective staff members having worked remotely for a period of time. This can be attributed to three key factors – determination, resilience and professionalism.

Joint seminars

It gave me much pride and satisfaction that, throughout my term of office at the ECA, my cabinet and the NAO managed to step up the practice of organising joint seminars in Malta on an annual basis, with a sharp focus on the most topical subjects prevalent then. These activities were always considered to be beneficial to all concerned.

While bringing the ECA closer to the Maltese NAO, the seminars offered an excellent opportunity to put lessons learnt from each other into practice. They also enabled the staff of both the NAO as well as the Internal Audit and Investigations Department (IAID) to keep abreast with the emerging issues in the area of public sector auditing.

The following topics chosen jointly by the ECA/NAO for these seminars during my term of office, speak for themselves:

- 2017 – Audit Follow-Up in the Public Sector – Enhancing Accountability;
- 2018 – Public Audit in the Digital Age;
- 2019 – SAIs – How Can They Influence Governments to Address Citizens’ Concerns?;
- 2020 – Responding to the Covid-19 Pandemic: The Audit Perspective; and
- 2021 – Addressing Key Emerging Issues Through Public Audit.

Such interaction reconfirms the high standing of the ECA/NAO relations. Rather than being static or one-off, they are evidently constantly ongoing. A dynamic process rather than a mere joint initiative – based on effective synergy and strategic co-operation.

L-Awditur Ġenerali jipprezenta rapport dwar ħidmet l-Uffiċċju Nazzjonali tal-Verifika

L-osservazzjonijiet fir-rapporti ta’ verifika jinkludu kwistjonijiet relatati mal-proċeduri tal-akkwist, monitoraġġ u infurzar, immaniġġjar tar-riskji, konformità, amministrazzjoni, riżorsi umani, komunikazzjoni, teknoloġija u operat. Minn dawn ir-rapporti, ħargu b’kollox 283 osservazzjoni li jinkorporaw 14-il prinċipju ta’ governanza pubblika tajba.

Il-prinċipji jinkludu l-effiċjenza, l-effettività, l-immaniġġjar tal-finanzi, ir-responsabbiltà, is-sostenibbiltà, l-istrategiji, it-trasparenza, l-immaniġġjar tal-kuntratti, ir-rispons, il-kondotta etika, il-konformità mal-qafas regolatorju, il-kompetenza, l-innovazzjoni u l-koeżjoni soċjali.

TVM, 1 ta’ Ġunju 2022



PART ONE

Introduction

The first part of this Report provides an overview of the external environment within which the NAO operated in 2022 relating to public finances (incorporating also EU Funds) and the ongoing financial management reform.

Public finances

The NAO is the statutory external auditor of public finances. It reviews the accuracy, fair reporting, regularity, propriety, economy, efficiency, effectiveness and integrity of public-sector financial transactions, and ascertains whether their use was in accordance with the principles of sound financial management.

The following is an overview of the financial results of Government for the 2022 calendar year. These results formed the basis of our audit work.

Reporting on a cash basis: Revenue, expenditure, deficit and debt

In 2022, recurrent revenue amounted to €5,845.2 million, an increase of €432 million (8% increase) from the €5,413.2 million reported a year earlier.

Total expenditure amounted to €6,745.5 million, an increase of €99.8 million (1.5% increase) from the €6,645.7 million reported in 2021.

The difference between total revenue and expenditure resulted in a deficit of €900.3 million being reported in the Government's Consolidated Fund in 2022, registering a decrease in deficit of €332.2 million.

At the end of 2022, Central Government Debt amounted to €8,829.9 million, representing an increase of €732.5 million from the 2021 amount of €8,097.4 million.

Reporting on an accruals basis: Deficit and debt

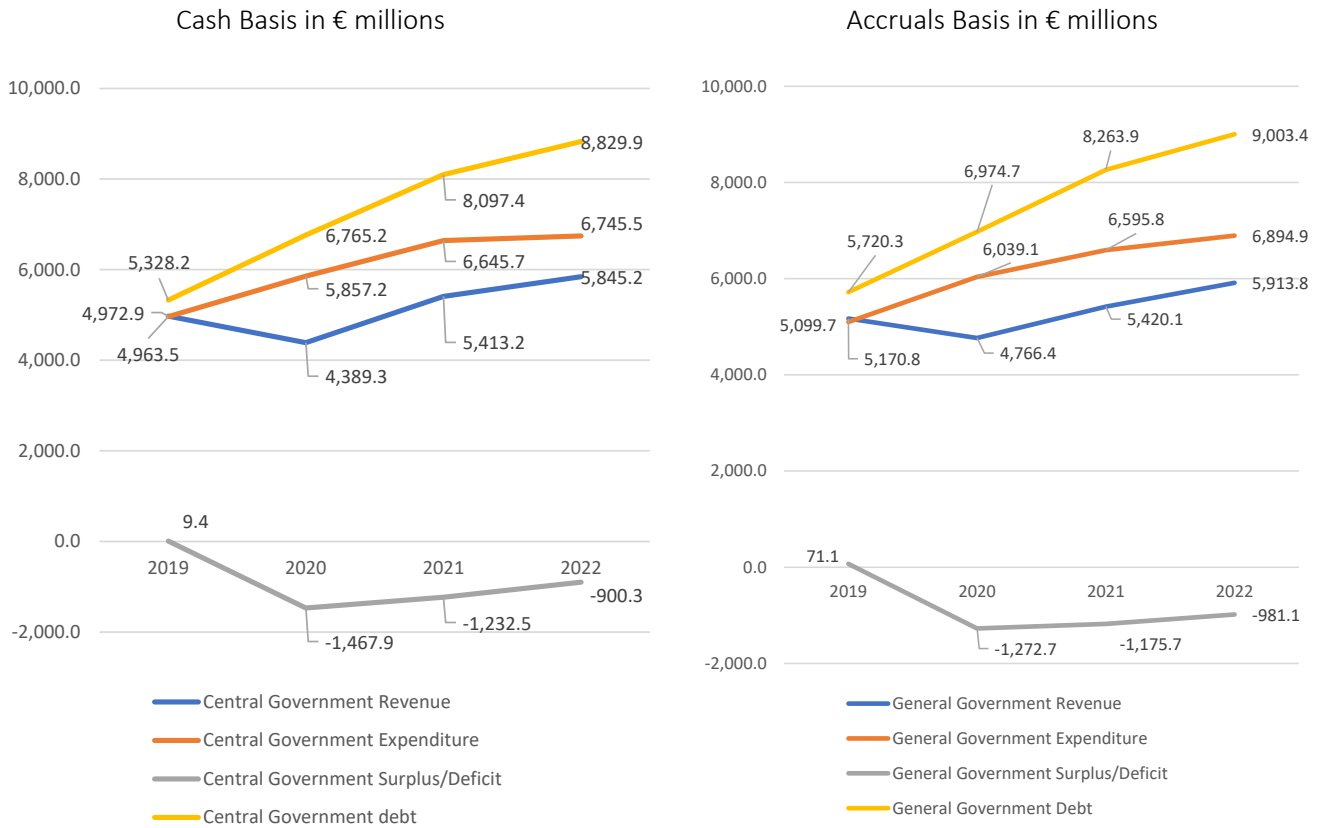
Reporting on an accruals basis is currently undertaken by the National Statistics Office (NSO) in accordance with the ESA 2010 Manual on Government Deficit and Debt (2022 edition); which is in turn based on the European System of National and Regional Accounts (ESA). A number of adjustments are applied to the surplus/deficit in the Consolidated Fund prepared on a cash basis to arrive at the computation of the surplus/deficit of the general government sector computed on an accruals basis. The general government sector is composed of the Budgetary Central Government, the Extra Budgetary Units and the Local Government Sector, and adjustments made relate to these sectors.

In 2022, the General Government Deficit amounted to €981.1 million, equivalent to 5.8% of the Gross Domestic Product. The General Government Debt prepared on an accruals basis amounted to €9,003.4 million, representing 53.4% of the Gross Domestic Product.

Revenue, expenditure, deficit and debt over the past four years

The two charts (figure 1 refers) show movements in government revenue, expenditure, surplus/deficit, and debt over the past four years. Both charts indicate that, although a deficit has been registered over the past three years, the amount of deficit is lower each year. The level of debt increased at a sharp rate from 2019 to 2021; however, the rate of increase was lower from 2021 to 2022.

Figure 1: Government finance data | 2019-2022



Ongoing financial management reform

The adoption and implementation of accrual-based accounting across Government departments and entities have been the subject of discussion for decades with, unfortunately, very limited progress on record. Despite the hard work and investment put into this area of public financial management, the project itself was never placed at the top priorities of successive governments' agendas. The NAO has long been advocating for the gradual transition from cash to accruals, cognisant of the fact that only with the implementation of accrual accounting and reporting would the Government obtain a true picture of its finances. Suffice it to state that, to date, Government

is not in a position to comprehensively report on all its assets and liabilities.

Over the past three years, the Treasury Department rolled out the Corporate Financial Management System (CFMS) across all Central Government. While the NAO views this as a positive development, it nevertheless believes that the implementation of a new accounting system is but one of the components driving the transition to accrual accounting and reporting. The adoption of accrual-based accounting standards (IPSASs) remains an important aspect that is often overlooked.

While there have been efforts to review IPSASs and adapt them to the local context, their practical

application on the ground is extremely limited. Accrual accounting invariably brings about changes in the internal financial management processes of government departments. Although there have been measures to address this aspect through business process re-engineering (BPR), it is evident that the extent to which this was carried out did not elicit the desired change in the cash-based mindset prevailing within government departments.

Finally, one of the most important pillars of such an ambitious reform is the human resource element. Considering the present situation, the NAO believes that, unless efforts are stepped up to equip both central departments managing the transition and line departments adopting and implementing accrual accounting with adequate and qualified professionals, little progress is likely to be registered.

Organisational overview and section results

The NAO, as the Maltese SAI, is responsible for public sector auditing. International Standard of Supreme Audit Institutions (ISSAI) 100 on Fundamental Principles of Public Sector Auditing defines public

sector auditing as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. It provides legislative and oversight bodies, those charged with governance and the general public with information and independent and objective assessments concerning the stewardship and performance of government policies, programmes or operations.

The NAO carries out the following types of public sector auditing:

- Financial and Compliance Audits;
- Performance Audits;
- Special Audits and Investigations (SA&I); and
- IT Audits.

An audit section in relation to each of the above audits is in place. The audit sections are supported by the Finance and Administration Section. The results of each section are presented in this part of the Report.

Local bus operators take government to court over free public transport plans

A recent report by the National Audit Office (NAO) found that despite passenger numbers declining from almost 57 million in 2019 to 35 million in 2021, the compensation paid out to Autobuses de León increased from €30.5 million in 2019 to €37.3 million in 2020 and €34 million in 2021.

Malta Today, October 9 2022

Financial and Compliance Audits



Annual Report on Public Accounts

Audit Opinion on the Financial Report
Audit Opinion on Compliance Audits



36 financial and compliance audits /management letters issued



14 financial and compliance audits in government departments in **11** Ministries



22 financial and compliance audits in government entities covering **14** Ministries



290+
Recommendations

Follow-up audits

10 previous year audits followed up

60 recommendations followed up

27 recommendations that were fully implemented

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

14 recommendations on which insignificant progress was made or not implemented

3 recommendations no longer applicable

Reports on Local Government

53 (out of 68) local councils audited

4 out of 5 Regional Councils audited

1 Local Councils Association audited

600+ recommendations made



Financial audits focus on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework.

Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities that govern the audited entity.

Financial and compliance audits

Financial audits focus on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error (ISSAI 100).

Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities that govern the audited entity. These authorities, also known as criteria or benchmarks, may include rules, laws and regulations, budgetary resolutions, policy, established codes, agreed terms or the general principles governing sound public sector financial management and the conduct of public officials (ISSAI 100).

Government departments, ministries and entities are audited according to a pre-set NAO audit plan, along with local government. The Financial and Compliance Audits Section issued four publications in 2022:

- An Analysis on Revenue Collection Financial Year 2020;
- The Annual Report by the Auditor General on the Public Accounts 2021; this incorporated 36 audits, the Analysis of the Financial Report and a write-up on arrears of revenue;
- the Report by the Auditor General on the Workings of Local Government; and
- the Follow-up Audit Report 2022 Volume I.

Preparation of the annual audit plan

The preparation of the annual audit plan is always a challenging task for the Financial and Compliance Audits Section. Besides ensuring that all the ministries are targeted, the areas selected for review are primarily intended to be based on potential risks, as well as the materiality of the amounts involved.

During this extensive exercise, the importance of the topic to the public, the political and governance perspectives related to the respective areas, and whether a similar audit on that particular topic was covered in the recent past by the Office, are taken into consideration. Government entities, including those generating their own revenue, are incorporated in this exercise.

The balances of debtors by government departments and entities also throw light on the risky areas related to revenue. Being the main income generator for Government, one of the areas within the Inland Revenue Department is audited nearly every year.

The list of compliance audits scheduled for the upcoming year cover expenditure on capital projects, recurrent expenditure, personal emoluments with an emphasis on overtime and allowances, as well as revenue generated by a number of entities. An element of financial audits is also included, covering fixed assets and stocks of all departments within each ministry, as well as reviews on receivables and payables.

The scope of these exercises is to evaluate the level of preparedness of each ministry for the eventual transition to accrual accounting. Hopefully, this exercise will also enable the Government to gauge the progress achieved so far to this effect and to instigate

action in areas where adequate development has not yet been realised.

When the audit plan for the Financial and Compliance Audits Section is finalised, it is consolidated with the audit plan of the other Sections within the NAO. This is streamlined to have a representative number of hours allocated to each ministry in a fair ratio.

Staff within this Section are also being prepared for the challenges the Office will face when Government provides its first official set of financial statements prepared on an accruals basis in line with the IPSASs.

Report on local government

The financial statements of local government are independently audited by private audit firms, referred to as Local Government Auditors (LGAs), appointed by the AG following a public call for tender. As from financial year 2021, these annual audits undertaken by private audit firms on behalf of the NAO were to focus solely on the financial aspect. This decision was taken following extensive discussions between this Office, the Local Government Division and the Local Councils Association.

To this effect, the Local Government Division took the necessary measures to strengthen its capacity, through the setting up of a new unit, namely the Finance and Procurement Compliance Directorate, which is responsible, among other tasks, for monitoring and reporting on compliance-related matters.

Notwithstanding this, the NAO retained its prerogative of undertaking compliance audits of local councils, selected on a sample basis. This Office plans to perform these compliance audits, on a yearly

basis, by rotation. In future, the NAO also intends to follow up on any observations emanating from these audits, thereby ascertaining that necessary action is taken to address the shortcomings identified.

For financial year 2022, the NAO carried out compliance audits at four local councils, the results of which were incorporated in the Report by the Auditor General on the Workings of Local Government (2022).

Challenges encountered

Through the conduct of the financial audits of local and regional councils, including the Local Councils Association, the NAO is responsible to provide assurance on the financial management of local authorities. This puts a legal obligation, required to be fulfilled by each council, for the preparation of timely financial statements, submitted for auditing purposes to the AG.

The primary challenge encountered by the NAO in 2022 related to the untimely submission of the audited financial statements. In fact, despite the NAO's efforts to chase local councils, only 53 councils, four regional councils and the Local Councils Association submitted their audited financial statements for financial year 2021.

The audited accounts of the remaining 15 local councils and one regional council did not reach the NAO by the time the report went for publication in November 2022. Consequently, the financial results of these 16 councils could not be reported on in the NAO report.

This Office deems this situation as totally unacceptable, demonstrating an absence of accountability on the part of the respective councils. In the majority of cases, the delays were the result of lack of co-operation on the part of each respective defaulting council with the LGA, leading to poor audit progress being registered, and at times also bringing the audit process practically to a standstill since related information was not provided to the LGA on time.

Over 600 recommendations were made in this Office's report on local councils. The dropdown in the number of recommendations put forward is because, as from financial year 2021, LGAs were responsible to carry out a pure financial audit, with the compliance aspect being monitored by the Local Government Division. In previous years, a substantial number of recommendations related to compliance matters, mainly concerning procurement procedures.

Auditor General lays bare financial deficiencies of local councils

Only 30% of local councils submitted their audited accounts [by the original established deadline] according to a damning report by the National Audit Office that lays bare the financial planning deficiencies of local councils.

The Auditor General flagged several concerns with regards to the financial planning of local councils. Monies were not being utilised efficiently nor economically, meaning budgets were being overrun or excessive savings were being piled up.

Malta Today, November 24 2022

Performance/Value for Money Audits

6



performance audits and one co-operative joint report

70



recommendations in performance audits

Areas: social protection, economic affairs, environmental protection, health, general public services, recreation, culture and religion

Follow-up audits



3

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



23

recommendations followed up



9

recommendations fully implemented



7

recommendations partly implemented



5

recommendations not implemented



2

recommendations not accepted



Performance audits focus on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness, and whether there is room for improvement.

Performance audits

Performance audits focus on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness, and whether there is room for improvement. All assignments undertaken by this Section follow INTOSAI standards, referred to as ISSAIs (International Standards of SAIs).

The 2022 audit programme was determined through a risk assessment process based on scanning the NAO's external environment, the selection of audit topics in terms of set criteria and the prioritisation of audit areas in terms of deemed importance.

Six stand-alone reports were published in 2022, namely:

- Care for the Elderly in Gozo;
- A Follow-Up on the 2018 Strategic Overview of Mount Carmel Hospital;
- The Covid-19 pandemic – Business continuity within the Public Administration;
- Procuring the Public Transportation Service;
- An evaluation of performance audits in the public sector: Common audit findings (2017-2020); and
- Assisting Individuals with Dementia and their Caregivers within the Community.

A EUROSAI Working Group on Environmental Audit Joint Report 'Management of Plastic Waste in Europe' was also published in 2022. Malta was one of 12 European SAIs to contribute to this joint report with

its 2021 report titled 'The Effectiveness of Plastic Waste Management in Europe'.

In addition, three follow-up reports were published in Volume II of the Follow-up Reports by the NAO – 2022 publication, that is:

- An Analysis of Issues concerning the Co-operative Movement in Malta;
- An Evaluation of Feed-In Tariff Schemes for Photovoltaics; and
- An Evaluation of the Community Work Scheme.

Analysing common audit findings

The report 'An evaluation of performance audits in the public sector: Common Audit Findings (2017-2020)', is the first of its kind by the Office in which 19 reports over the four-year period were analysed. The report aimed to identify the most common type of findings uncovered in performance audit reports over a specific period, enabling the sharing of knowledge and learning from each other.

The NAO identified 283 findings that were classified against principles of good governance. Of these, 26% related directly or indirectly to public procurement. The other predominant findings were related to public governance, particularly in terms of financial management, efficiency and effectiveness, sustainability, transparency, compliance, value for money and accountability.

The report shows where government performance is lacking in these areas, where the gaps are, and where it can improve. The Office plans to repeat this analysis periodically every few years to evaluate trends in performance audit findings.

Covid-19 business continuity within the public administration

This was also a first-of-its-kind audit by the Performance Audits Section. When there is a crisis, all forms of risk, whether operational, financial, management or others, are magnified and increase dramatically. Like many other SAIs did, the NAO decided to look into how the Government carried on with its business during this time, which was something new for everybody.

The audit timeframe started at the beginning of the pandemic in March 2020 and continued up to the end of 2021, with the report being published in October 2022.

The report focused on good governance mechanisms, rather than on the adequacy of policies relating to Covid-19 measures that were undertaken to mitigate the effects of the pandemic.

Other activities by the Performance Audits Section

As part of the implementation of the SAI PMF exercise that was finalised in 2021, the Performance Audits Section prepared Audit Control Documentation to ensure better quality control in its work.

Furthermore, the Senior Audit Manager within the Section, William Peplow, headed a project team that

was responsible for the creation of a model which identifies risk areas for the selection of audit areas in the planning process. The model created started being used for the Office's Audit Plan for 2023, including for performance audits.

The Senior Audit Manager also submitted an article for publication in the October 2022 edition of the Asian Organisation of Supreme Audit Institutions (ASOSAI) e-journal. The main theme in this edition was auditing plastic waste management. To this end, the NAO's article focused on the recent performance audit undertaken on the management of plastic waste in Malta. At the outset, the NAO's submission put into context the geographical and demographic pressures on the local environment. The article also discussed inefficiencies and leakages in the plastic waste management process in Malta, as well as the audit risks and limitations encountered to elicit audit conclusions. The NAO's write-up also outlined the recent initiatives being undertaken in Malta to upgrade its waste infrastructure and efforts to further embrace the principles of the circular economy.

The Assistant Auditor General (AAG) Performance Audits, Brian Vella, is also the Liaison Officer for International Relations for the NAO. Amongst other duties, he co-ordinates activities with other SAIs, particularly within the EU Contact Committee network, the ECA, EUROSAI and INTOSAI. Further information on related activities, such as conferences, webinars, working group meetings and active participation in other events, is found in other parts of this Report.

Is-servizzi governattivi kienu "ġeneralment tajba" waqt il-Covid-19 – Rapport NAO

L-implimentazzjoni tal-miżuri Covid-19 u l-kontinwità tas-servizzi tal-Gvern kienu meqjusa bħala "ġeneralment tajba" waqt il-pandemija. Dan ħareġ minn stħarriġ li sar mill-uffiċċju tal-verifika l-NAO.

L-uffiċċju tal-Awditur Ġenerali ma daħalx fil-mertu tal-miżuri offruti mill-Gvern iżda dwar l-implimentazzjoni tal-miżuri offruti kif ukoll kif is-servizz tal-Gvern baqa' għaddej waqt il-Covid.

Newsbook, Ottubru 12 2022

Special Audits and Investigations



3

special audits in progress



2

investigations underway

Areas of Special Audits and Investigations



Health



Economic Affairs



Transport



Special Audits focus on important areas concerning the public interest, such as transparency, accountability and ethical behaviour.

Investigations are carried out when concerns are raised on financial propriety by a government ministry, department or public entity.

Special audits and investigations

Special audits focus on important areas concerning the public interest, such as transparency, accountability and ethical behaviour of public administration. Investigations are carried out when concerns are raised on financial propriety by a government ministry, department or public entity. Some of this Section's audits are mandated to the NAO by the Public Accounts Committee (PAC).

The focus of most of the work undertaken by the Special Audits & Investigations (SA&I) Section in 2022 related to the finalisation of the audit on the concession of three public hospitals to Vitals Global Healthcare (VGH). The complexity and breadth of the matter under review necessitated the breaking down of this audit into smaller, more manageable parts.

Part one addressed the procurement process leading to the award of the concession to VGH, part two focused on VGH's implementation of the obligations arising from the contracts entered into, and part three shifts attention to the point when the concession was transferred to Steward Health Care and considers progress registered thereafter. Parts one and two of this audit were published in July 2020 and December 2021, respectively, and part three was published in May 2023.

SDG2 audit

Having attended to or drawn close to finalising all requests for audits received from the PAC, the SA&I Section initiated and worked on several audits on its own initiative. One so-termed special audit related to the NAO's broad interest in auditing progress registered in terms of Malta's implementation of measures directed towards the achievement of the sustainable development goals (SDGs).

The sustainable development goal addressed through this audit is SDG2, which primarily focuses on addressing hunger; however, when applied to Malta, the context of interest shifts towards addressing obesity. It is this perspective that the NAO adopted in its audit of SDG2.

Two other special audits worked on in 2022 related to the disposal of public land. The NAO received both requests for audit from third parties and, after consideration of the merits of each request in line with the Office's policies, initiated work on both. Although all these special audits are still works in progress, the SA&I Section plans to conclude these assignments in 2023.

Marsa junction audit

In the last quarter of 2022, the SA&I Section received a request from the PAC to audit the procurement undertaken related to the upgrading of the Marsa junction through the construction of a multi-level interchange. In this context, the SA&I was tasked with analysing the process leading to the award of the tender to Ayhanlar Yol Asfaltlama, and whether the Government exercised the due diligence expected to establish whether the winning bidder was in a strong and stable financial position to honour the contractual obligations.

In addition, the NAO was requested to analyse the assignment and novation of the contract originally awarded to Ayhanlar Yol Asfaltlama to Shining Star Infrastructure & Construction Co. Limited, and to consider whether the Government exercised the due diligence expected in this part of the process. Work on this assignment will commence in 2023, when active audit commitments are closed.

Trends in PAC agenda

Towards the end of 2022, Keith Mercieca, the Section's AAG, and a Principal Auditor, Rebecca Vassallo, drafted a paper titled 'Emerging trends in the agenda set by the Public Accounts Committee'. Several points of insight emerged:

- the frequency of meetings held by the PAC has increased over time, indicating that the relevance of this Committee as an instrument of oversight is growing;
- two of every three agenda items discussed by the PAC is an NAO audit report; and
- the PAC discussed one of every four audit reports published by the NAO.

Also noted was that, in terms of unique reports discussed by the PAC, financial and compliance audit reports were the most selected audit type, followed by performance, investigative and information technology audits.

In terms of the frequency of PAC discussions, financial and compliance audit reports were the most prevalently discussed, followed by investigative, performance and information technology audits. However, over time, there is a diminishing interest in financial and compliance audits and performance audits, and an increasing focus on investigative audits, a trend most pronounced in recent years.

The report titled 'An analysis of the effectiveness of the Enemalta Corporation's fuel procurement' was the one most discussed by the PAC, closely followed by that titled 'An investigation of matters relating to the contracts awarded to ElectroGas Malta Ltd by Enemalta Corporation' (still ongoing). These two reports account for one of every five agenda items scrutinised by the Committee. This paper

was forwarded by the AG to the PAC on 12 January 2023.

Other assignments

Throughout 2022, Keith Mercieca and Rebecca Vassallo continued to assist the IDI in its work on the audit of the SDGs. Serving as mentors to the SAIs of Bangladesh, Bhutan, Myanmar, Nepal, Sri Lanka and Thailand, Keith and Rebecca assisted each of the audit teams from the initial planning phase to eventual completion through to the review of the draft report.

Keith Mercieca was engaged by the Department of Social Policy within the Faculty of Social Wellbeing at the University of Malta to deliver a course titled 'Governance and Administration in Social Welfare'. The course covered academic year 2022/2023. In addition, with NAO officials Alexia Stafrace and William Peplow, Keith delivered training to the Customs Department on systems-based auditing.

National Expert Group on SDIs

The DAG and Rebecca Vassallo attended the meetings of the National Expert Group on Sustainable Development Indicators relating to SDG1, chaired by the NSO, in October 2022. The aim of the Group is to facilitate the co-ordination of activities relating to the SDGs by the various stakeholders involved. The NAO was invited to give a presentation of the review carried out by this Office on Government's efforts aimed at addressing poverty.

In November 2022, Keith Mercieca, in his capacity as mentor to three SAIs and as a Resource Person of the IDI, assisted in the facilitation of a draft report review meeting held in Tunisia on the co-operative audit on strong and resilient national public health systems. This audit is linked to SDG3d.

IT Audits and Operations



1

information technology audit



16

recommendations

Area of Information Technology Audit



Economic Affairs

Follow-up Audit



1 previous year audit followed up in Volume II of the Consolidated Follow-Up Audit Report



7 recommendations were followed up



6 recommendations were fully implemented



1 recommendation where significant progress was made



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

IT audits and operations

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

Among the Unit's responsibilities are conducting IT audits in the public service and state agencies, overseeing internal IT operations, and providing graphic design, video production and desktop publishing services to the Office.

Four types of IT audit assignments are conducted:

- horizontal IT audits across a number of auditee sites;
- the IT component of financial and/or performance audits;
- standalone IT audits of a selected auditee site; and
- follow-up on an IT audit concluded in previous years.

The IT Audit Unit concluded three audits in 2022:

- the IT component of the Performance Audit – 'The COVID-19 pandemic – Business continuity within the public administration Census Audit';
- a follow-up IT audit on 'The Effective Use of Tablets in State, Church and Independent Primary Schools'; and
- an IT audit 'Online Malta Census of Population and Housing 2021'.

International participation

On the international front, the IT Audit Unit was represented by the IT Audit Manager, Simon Camilleri, in a number of international events.

In April, a presentation was delivered on the IT audit work conducted by the NAO to a Turkish delegation from the Ministry of Treasury and Finance. Later that month,

an online presentation related to cloud computing was delivered during the EUROSAI IT Working Group eSeminar titled 'Water behind the dam – challenges regarding data flow for a SAI'.

In September, the IT Audit Manager then participated in person in the annual EUROSAI IT Working Group Meeting in Bucharest.

During one of the 'virtual coffee break' informal online discussions, organised by the EUROSAI IT Working Group in December, an overview was delivered of a stand-alone IT audit and the IT component of a performance audit concluded by the NAO in 2022.

IT operations

Throughout 2022, the IT Operations Unit was involved in ongoing monitoring and maintenance of all NAO IT systems and infrastructure, as well as providing related supplier management for IT services provided by third parties. The Unit was also responsible for:

- project management of the IT component of the NAO main building refurbishing project, which included the installation of a new local area network, upgrading of the network equipment and testing of all wall ports;
- replacement of two networked printers;
- development of the new NAO website;
- review of new IT software solutions for the Office; and
- replacement of the audio-visual system in the NAO boardroom.

NAO Publishing Unit

Employees forming part of the Publishing Unit had a hectic, productive 2022, successfully completing the desktop publishing of all 15 NAO publications issued during the year. They also designed the NAO Calendar for 2023, inserting photos selected after an internal staff photo competition.

The publishing team also produced a video clip (<https://fb.watch/e51NyjiiE4/>) giving an overview of the 2021 NAO Annual Report, issued in July.

Finance and Administration



Income

€3,900,000 government subvention



Expenditure

€2,873,260 spent on salaries and other social security contributions

€367,188 spent on administrative and other overheads

€312,700 spent on subcontracted audit fees of local councils



Assets, Liabilities and Reserves

€1,275,372 total assets under administration

€275,900 non-current assets at net book value

€999,472 current assets

€762,715 total liabilities

€568,152 current liabilities

€194,563 non-current liabilities

€512,657 reserves



The Financial and Administration Section is responsible for the NAO's accounting and human resources management system, and the provision of all administrative support.

Finance and administration

The Finance and Administration Section (F&A) is responsible for the NAO's accounting and Human Resources Management System, and the provision of all administrative support.

Falling directly under the DAG and the AG, the Finance and Administration (F&A) Section is mainly responsible for finance, accounting, payroll, human resources, data protection, health and safety, registry, public relations, maintenance of the NAO's offices and other assets, and all necessary administrative and logistical support.

The Section managed a budget allocation for 2022 of €3.9 million from Central Government. Funds utilised from the 2022 budget were close to €3.6 million, including capital expenditure and pensions contributions to the Treasury.

Three software programs

The F&A Section manages three software programs:

- SAGE Pastel, which produces monthly management accounts on an accruals basis and is integrated with a SEPA payment mechanism and a fixed asset inventory system;
- Indigo, which handles all aspects of payroll and time and attendance; and
- Eunoia, a timesheet system that is monitored every month to ensure that all staff timesheets are duly submitted.

Before the close of the year, the F&A Section assisted in the implementation of StOry, a strategic management web-based platform commissioned by INTOSAI, which has been adapted to monitor the progress of the NAO's audit plan for the year.

Four training programmes

The F&A Section assisted in the co-ordination of four main training programmes, which consisted of:

- four online sessions with KPMG on Financial Auditing, attended by 24 NAO professional auditors and accountants who are members of MIA/ACCA;
- delivery of the second part of the CIPFA FCICM module to the last cohort;
- PESA-P programme designed by INTOSAI and completed successfully by all seven NAO participants during the year; and
- presentation to NAO staff on 'Government Finance Statistics and the treatment of Government Operations' by Mark Galea, Head of Unit, Public Finance within the NSO.

Following delivery of the CIPFA FCICM module, the NAO-CIPFA project, which began in July 2017 with partial funding from EU Structural Funds 2014-2020, came to an end. Over the five-year period, 101 certificates have been distributed to the 54 staff who participated in this programme.

Attainment of Equality Mark Certification

The F&A Section provided the required evidence to the National Commission for the Promotion of Equality (NCPE) of the Office's commitment to implement relevant policies and practices that concern gender equality and family friendly measures when the certification process for the Equality Mark came up for renewal in July 2022. The Office was recertified by the NCPE on 24 January 2023 and has been granted use of the Equality Mark logo for a period of three years.

Perhaps, the most significant contribution by the Manager F&A, Ian Rizzo, has been the launching of the Professional Competency Framework in October 2022. Based on ISSAI 150 and GUID 1950 of INTOSAI, the framework seeks to address the auditors' competency requirements in the three core areas of the Office's mandate, namely compliance auditing, performance auditing and financial auditing.

The future challenge for the Office and the F&A Section rests in this regard with the development of training programmes to strengthen the required competencies and the use of the framework as a consistent, objective means for staff performance assessment.

Refurbishment and expansion

Another no less challenging task was the refurbishment of the top floor of the main building that was planned in the last quarter of 2022, commenced at the beginning of 2023 and was completed at the end of March 2023, in line with budgetary and timeline forecast. This refurbishment project, among many major building renovations, included the installation of modern furniture and fittings, environmentally friendly air-conditioning equipment and additional network points. The overhaul of the Boardroom's acoustic and visual system was completed at the end of April 2023. The completion of this project fulfilled the refurbishment plans of all areas within the main building.

Despite all the refurbishment work carried out, the Office still needs additional office space (in particular meeting rooms, training facilities and interviewing rooms for the recruitment of staff). The F&A Section has not wavered on its commitment to expand the premises and facilities.

Discussions with the architect on the project that was assigned in 2020 remained ongoing throughout the

year. The architect had to develop newly designed site plans to take into consideration the objections that resulted from the submission of the original site plan to the Environment and Resources Authority in September 2021. The newly designed plans are to be submitted afresh to the Authority by mid-2023.

Office reorganisation

The expansion of facilities complements the discussions that have been initiated by senior management on the need to restructure the organisation following the call for a diversified expansion of operations as identified by the SAI PMF findings.

The future for the Section requires an expanded role in the Office organisational set-up if the Professional Competency Framework is to be driven at the heart of all corporate strategic planning.

The F&A Section's greatest challenge always remains to provide the best administrative support to all NAO staff, enabling them to experience a happy working life and retain high morale and a degree of satisfaction in what they do. The Section will be at the forefront to push for professional management, the best possible working relationship between management and staff, good working conditions, adequate salary compensation and a healthy work-life balance while ensuring that the Office's objectives and projects are duly met.

Governance

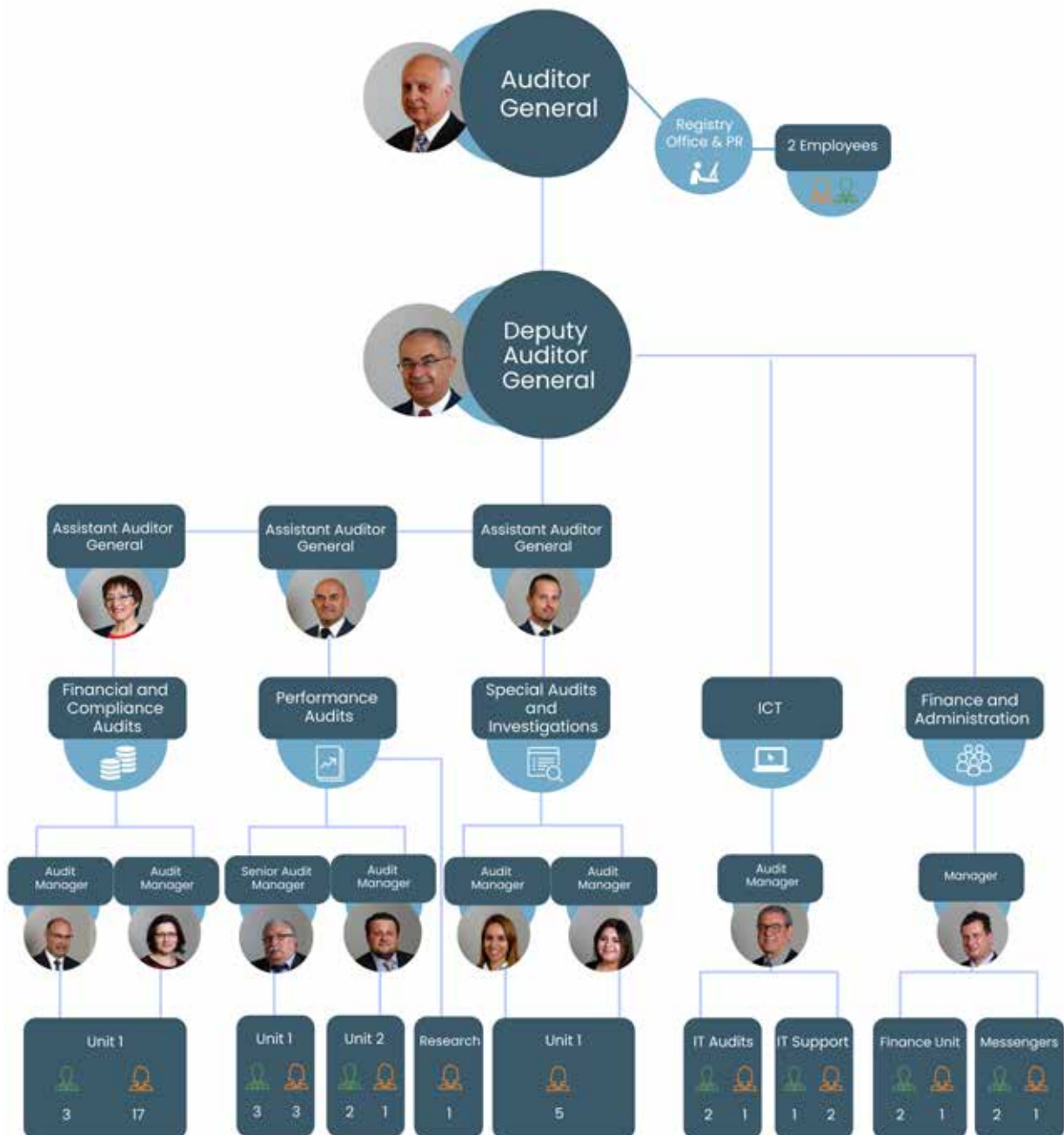
NAO organisation

The figure overleaf illustrates the NAO's organisation chart. The Office's overall direction (in line with the NAO Strategy 2019-2023), management and the monitoring of progress in audits, Office policy directives, as well as any other issue that needs to

be brought up and considered at senior management level, are discussed and decided on by the senior management team during fortnightly senior management meetings. Twenty-one such meetings were held during 2022.

The senior management team is composed of AG Charles Deguara, DAG Noel Camilleri, AAG Performance Audits Section Brian Vella, AAG Financial and Compliance Audits Section Tanya Mercieca, and AAG SA&I Section Keith Mercieca. The daily NAO operations are run by Line Managers under the

supervision of senior management members. The Line Managers are Audit Managers Sharon Borg Finn and Orland Bonavia of the Financial and Compliance Audits Section (who report to Ms Mercieca); Senior Audit Manager William Peplow and Audit Manager Simon Vassallo of the Performance Audits Section (who report to Mr Vella); Audit Managers Josephine Vella and Maressa Stivala of the SA&I Section (who report to Mr Mercieca), Simon Camilleri of the IT Audit and Operations Section, and Ian Rizzo of the F&A Section (who report to DAG Mr Camilleri).



The 25th anniversary of the setting up of the NAO



25th Anniversary of the setting up of the National Audit Office

26 July 2022 was a red-letter day for the NAO as it formally commemorated the 25th anniversary of the setting up of the Office, when its status as an independent entity, fully autonomous from the Executive, was enacted and entrenched in the Constitution of Malta.

Considerable groundwork for the transition from its precursor, the Department of Audit, was undertaken during the tenure of the last Directors of Audit, Mr Louis Spiteri (1988-1995) and Mr Joseph G. Galea (1995-1997). The latter was then appointed as the

first AG from 1997 to 2007. Mr Anthony C. Mifsud took Office in 2008 until 2016, when Mr Charles Deguara, the present incumbent, was appointed AG.

By way of historical background, the Department of Audit was originally established in 1814 by the first British Governor, Sir Thomas Maitland, and fell under the responsibility and control of the Ministry responsible for finance. However, in July 1997, as a result of unanimous agreement between the Government and the Opposition Members of Parliament, the NAO was set up by virtue of the

Auditor General and National Audit Office Act, 1997 and the relevant amendments to the Constitution of Malta, in particular Article 108.

This important development reflected the provisions of the 1977 Lima Declaration, which was the first INTOSAI document to comprehensively highlight the critical importance of independence of national audit institutions, underlining the principle that such institutions can only be objective and effective if they are fully independent from the audited entity and are duly protected from outside influence. In the local context, of fundamental importance was that the Auditor General and National Audit Office Act, 1997 provided practical and tangible safeguards to guarantee the full autonomous operation of this Office without undue interference or hindrance from the Executive.

This is evident in several provisions of the Act which, *inter alia*, provide that the AG and his Deputy can only be appointed for a five-year term, renewable once, if the endorsement of at least two-thirds of the Members of Parliament is obtained. In addition, the recruitment of all its staff became the exclusive prerogative of the NAO, thus ensuring that only the applicants who possess the necessary skills, qualifications and knowledge are engaged after a just and transparent selection process, managed by the Office.

Moreover, the NAO's funding is formally approved by a purposely set up Select Committee of Parliament, the National Audit Office Accounts Committee (NAOAC), chaired by the Leader of the House of Representatives, which scrutinises the Office's audited accounts as well as its detailed business plan and financial projections for the following year. The Office has control over the selection of audit subjects, the way audits are conducted, as well as the publication

of its reports. The organisation and management of the Office are, likewise, not subject to the control of any other authority.

Following the coming into force of these important legislative amendments in July 1997, the NAO obtained a clear and unequivocal mandate to enhance good governance across the public sector. This mandate is essentially fulfilled through the various audit assignments that the Office carries out, with the primary objective of ensuring the optimal management of public funds and resources.

Consequently, it provides assurance to Parliament, and ultimately to all citizens, that public resources are being utilised according to prevailing rules and regulations, and in the most economical, effective and efficient manner possible. When any gaps or shortcomings are identified, the NAO provides relevant recommendations so that these findings are duly addressed, thereby contributing to enhanced service delivery by government departments and public entities.

Thus, during this year, the NAO embarked on various activities to commemorate the 25th anniversary of its setting up. To mark this important milestone, a thanksgiving Mass at St John's Co-Cathedral was celebrated by His Grace the Archbishop Mgr Charles J. Scicluna on 26 July. In his homily, Archbishop Scicluna underlined the NAO's role as an important constituent in the country's accountability chain and in ensuring that public resources are expended for the benefit of all.

The Mass was attended by the management and staff of the NAO, as well as distinguished guests who, in some way or another, have a connection with the work carried out by the Office. These included the Hon. Speaker, Dr Anġlu Farrugia; the Clerk to the House,

Mr Ray Scicluna; the Chair and Members on the PAC – the Hon. Darren Carabott, the Hon. David Agius and the Hon. Alex Muscat, as well as the Secretary to the Committee, Ms Anna Brincat; the Hon. Jonathan Attard in his capacity as Minister for Justice and as representative of the Prime Minister; the Hon. Leo Brincat, former Member of the ECA; and Mr Mario Cutajar, the then Principal Permanent Secretary. Former Director of Audit, Mr Louis Spiteri, and former AG, Mr Anthony Mifsud, were also present. HE the President, Dr George Vella, was unable to attend; however, he requested the AG to personally convey his deepest regrets that unfortunately, due to last minute developments, it was not possible for him to be present. His Excellency took the opportunity to reiterate his appreciation of the work carried out by the NAO which, he said, was of fundamental importance to guarantee good governance across the public service. The Mass was televised live by TVM.

After the Mass, a reception was held at the Casino Maltese. Former AG, Mr Joseph Galea, joined the guests and the management and staff of the NAO. In a brief address, the AG affirmed that the dedication, commitment and work of all those who worked within the NAO during these past 25 years have ensured that the Office has earned the trust and confidence that it enjoys today.

“We surely cannot commemorate such an important anniversary just by looking at the past. We are conscious that we need to plan adequately, particularly by exploiting new opportunities and overcoming emerging challenges. For this reason, we are actively committed to continue giving the highest priority to the ongoing professional development of our staff, undoubtedly the NAO’s most valuable asset. Only thus can we ensure that, in the future, the Office will remain in the best position to continue carrying out its constitutional mandate in the best manner possible.”

“Considering such new challenges, mostly brought about by extensive legal, technological and organisational developments, it is of fundamental importance that NAO staff members possess all necessary skills and competencies to continue delivering high-quality audit assignments, as our parliament and citizens rightly deserve. Indeed, the good work put in by our predecessors offers solid foundations on which we can plan our future together, with confidence and a clear vision,” concluded the AG.

State Audit in Times of Transition – Reflections on Change and Continuity, Challenge and Opportunity from Malta and Beyond

The publication of the NAO’s ‘State Audit in Times of Transition – Reflections on Change and Continuity, Challenge and Opportunity from Malta and Beyond’ brought to an end the commemorations held during this important 25th anniversary year.

HE the President, Dr George Vella, presided over the official launch of the book, held at the Grand Hotel Excelsior on 14 December 2022. The main objective of the publication was to offer a variety of perspectives on the role of SAIs: thematic and chronological, professional and academic, technical and political, and local and comparative. Reflections on themes and issues associated with state audit in Malta during the first two decades of the 21st century and beyond were penned by various contributors.

The book was edited by Prof. Edward Warrington, Associate Professor in the Department of Public Policy at the University of Malta, who has extensive knowledge and experience of the workings of the Office, having co-authored and edited another NAO publication, ‘Guardian of the Public Purse – A History of State Audit in Malta 1814-2014’, and contributed to the formulation of the NAO Strategy Plan 2019-2023.

In a collection of 11 chapters, the book delves into two main themes: the Institution in comparative perspective and auditing the public purse. The first four chapters explore the comparative aspect, with contributions on “The Mission and Ethos of State Audit” by Einar Gørrissen, Director General IDI; “The Independence and Jurisdiction of Supreme Audit Institutions: Gains and Losses, Threats and Opportunities” by Noel Camilleri, DAG NAO; “One Report, Multiple Interpretations: A Constitutional Body Reporting in a Polarised Society” by William Peplow and Maria Azzopardi, Senior Audit Manager and Principal Auditor NAO, Performance Audits Section, respectively; and “The NAO and Other State Integrity Institutions: Contrast and Convergence” by Prof. Warrington.

In the other chapters, diverse aspects on auditing the public purse are put forward: “Leadership, Capacity-building and Innovation in Maltese State Audit, 1997-2022” by Brian Vella, AAG Performance Audits Section; “Public Sector Perceptions of the NAO and its Contribution to Public Governance” by Mr Tony Sultana, Principal Permanent Secretary; “Auditing Local Government” by Tanya Mercieca, AAG Financial and Compliance Audits Section; “Auditing European Union Funds: The European Court of Auditors’ Perspective” by Mr Leo Brincat, former Minister (1996-1998 and 2013-2016) and Member of the ECA (2016-2022); “Shifting Perspective: From a Maltese Ministry to the European Court of Auditors” by Dr Louis Galea, former Minister (1987-1992, 1992-1996 and 1998-2008), Speaker (2008-2010) and Member of the ECA (2010-2016); “Appraising Performance, Assessing Risk, Crafting Remedies: Patterns Emerging from the NAO’s Reports on Public Financial Management and Corporate Governance” by Keith Mercieca, AAG SA&I Section; and “Emerging Issues in State Audit and Reflections on the Future of State Audit in Malta” by Prof. Peter J. Baldacchino, Prof. Josette Caruana and

Dr Lauren Ellul, Professor of Accountancy, Associate Professor at the Department of Accountancy, and the Head of Department of Accountancy in the Faculty of Economics, Management and Accountancy at the University of Malta, respectively.

During the launch of the book, HE Dr Vella expressed his appreciation for the essential and invaluable work carried out by the NAO. “NAO officers are a good example of professional and ethical standards,” the President said. “The best reward that the Auditor General, the Deputy Auditor General and the NAO staff get is that they are trusted by the people... Over the past 25 years, what stands out is, firstly, the independence of the NAO, which is crucial and important because such an Office cannot run successfully if it is not totally independent. The second thing is the absolute integrity of whoever is running the Office and of the reports issued, which stand out because of their objectivity.”

While noting that the trust enjoyed by the NAO is completely deserved, HE Dr Vella said that against this backdrop of global uncertainties, citizens look for a point of reference that offers stability and permanence. Therefore, the excellent record of the NAO goes beyond the simple performance of its daily work and is fundamental to the collective sense of trust of the people. “Another aspect of the NAO’s work that impresses me is its contribution to further strengthening the international profile of our country... In their work and discussions with foreign partners, NAO officials are always a good example of the professional and ethical standards Malta deserves to be associated with”, concluded HE Dr Vella.

In his acknowledgement, the AG stated that, “as appropriate, this book is dedicated to all serving and former members of staff of the National Audit Office, including my two predecessors, Joseph Galea and

Anthony Mifsud, and its precursor, the Department of Audit, for their efforts to secure accountability and good governance in the management of the public purse.”

It is perhaps fitting to conclude with the observation made in the blurb: “The National Audit Office is the heir to one of the oldest governing institutions in Malta: as heir, it has inherited the mission entrusted to the State Auditor, as well as the fine ethos of

its predecessor. Yet it is not the passive custodian of a dead legacy. Quite the contrary: it cultivates that legacy, with a view to helping Malta’s public financial administration to discharge faithfully its own distinctive mission towards the common good in the challenging circumstances of the twenty-first century...”

Il-President ifaħħar l-uffiċjali tal-NAO bħala eżempju tajjeb tal-Istandards professjonali

Il-President George Vella esprima l-apprezzament tiegħu għall-ħidma essenzjali tal-Uffiċċju Nazzjonali tal-Verifika – NAO.

Waqgħat it-tnedija tal-ktieb “State Audit in Times of Transition – Reflections on Change and Continuity, Challenge and Opportunity from Malta and Beyond” maħruġ mill-NAO f’għeluq il-25 sena mit-twaqqif tiegħu, il-President Vella osserva l-maturità li hemm fir-rakkomandazzjonijiet u l-kritika ma’ kull rapport li jiġi ppubblikat mill-NAO.

L-aqwa premju, qal il-President, li jiksbu l-Awditur Ġenerali, id-Deputat Awditur Ġenerali u l-ħaddiema tal-NAO huwa li għandhom il-fiduċja tal-poplu.

Illum, October 9 2022

Highlights of 2022

Significant local events

Signing of a new Memorandum of Co-operation between the National Audit Office and the National Statistics Office

In February 2016, the NAO and the NSO signed their first bilateral Memorandum of Co-operation with the principal objective of formalising their collaboration on issues of mutual interest. This agreement facilitated the exchange of information and data between the two entities, obviously within the established parameters of the fundamental values of independence and confidentiality. Essentially, this Memorandum reflected the Resolution of the Contact Committee (CC-R-2012-02) on national audit institutions' (such as the NAO) co-operation with Eurostat and national statistical institutions.

Following the expiry of this Memorandum in February 2022, both entities agreed to renegotiate a duly updated agreement, reflecting present day realities and circumstances. Following extensive discussions, a new memorandum was signed on 23 August 2022 by the AG and Mr Etienne Caruana, Director General of the NSO. Also present were the DAG; the AAG Performance Audits Section; Dr Carl Noel Camilleri, Chairman of the Malta Statistics Authority; Mr Owen Grech, Director Economic Statistics; and Mr Mark Galea, Head of Public Finance Unit NSO.

Visits to the NAO by the Maltese members of the European Court of Auditors

On 3 November 2022, Mr Leo Brincat and Dr George Marius Hyzler, the outgoing and incoming Members at the ECA, respectively, made a joint visit to the NAO. In a short address, the AG thanked Mr Brincat for the



Signing of a new Memorandum of Co-operation between the NAO and the NSO

collaboration extended to the Office during his term of office (2016-2022), and congratulated Dr Hyzler on his recent appointment. The AG reiterated the NAO's commitment to further enhance the already excellent working relationship that exists between the NAO and the ECA.

On 28 November 2022, the newly-appointed Member to the ECA, Dr Hyzler, met the AG and the DAG. During the discussions held at the NAO, Dr Hyzler presented the AG with the ECA annual report for 2021. This was followed by an introductory meeting with the NAO's senior management team during which, *inter alia*, Dr Hyzler indicated that he was assigned duties within Chamber II of the ECA. In the afternoon, the AG, the AAG Performance Audits Section Brian Vella, and the AAG Financial and Compliance Audits Section Tanya Mercieca attended a special joint meeting of the Foreign and European Affairs; the Economic and Financial; and the Public Accounts Committees during which Dr Hyzler gave a presentation on the 2021 ECA annual report.

Visit by a delegation from the Ministry of Treasury and Finance of Turkey

A group of senior officials from the Turkish Ministry of Treasury and Finance was on a study visit in Malta in connection with a Europe Aid project on Technical Assistance for Enhanced Capacity for Public Sector Accounting. On 5 April 2022, they were hosted at the NAO for a number of presentations relating to the Office's financial auditing function following the introduction of accrual accounting across the public service.

In his welcome address, the AG made a brief reference to the historical development of the NAO, emphasising the fundamental importance of the 1997 legislative amendments, which effectively

guaranteed the Office total autonomy from the Executive. Henceforth, the NAO's full independence, a prerequisite condition for any effective and reliable national audit institution as highlighted in the INTOSAI Lima and Mexico Declarations, became entrenched in the Maltese Constitution.

The keynote address by the DAG focused on "Public Finance Management Reform – Accrual Accounting and ERP". Other presentations were made by the AAG Performance Audits Section, the AAG Financial and Compliance Audits Section, the Senior Audit Manager Performance Audits Section, and the Manager IT Audits and Operations Section.

This one-week visit to Malta was co-ordinated by Dr Jens Heiling, Senior Manager Financial Accounting and Advisory Services, Ernst & Young.

Bilateral meeting with the State Audit Office of Croatia

A bilateral meeting between the NAO and the State Audit Office of Croatia was held in Malta on 20 and 21 October 2022. NAO participants included the AG, the DAG, the AAG Performance Audits Section and the AAG SA&I Section. The Croatian delegation was made up of AG Ivan Klesic, AAG Drazen Brozanic – Head of Cabinet; and AAG Anita Materljan.

During this meeting, a brief presentation was made by the AAGs of the different Sections within the NAO. Also discussed were the management of the NAO's timesheet system, the relations of the NAO with Parliament within the context of the PAC, and mutual challenges and emerging issues faced by both entities.

It was decided to follow this up with another bilateral meeting in Croatia in 2023.



Visit to the NAO by the outgoing and incoming Principal Permanent Secretaries

Visit by the outgoing and the incoming Principal Permanent Secretaries

On 20 May 2022, the outgoing Principal Permanent Secretary, Mr Mario Cutajar, and his successor, Mr Tony Sultana, paid an official visit to the NAO. During the ensuing discussions, it was agreed that the NAO and the Public Service Leadership should continue to maintain a very good working relationship, essentially based on mutual trust and respect, obviously while respecting the former's autonomy as safeguarded by the Constitution.

It was acknowledged that, ultimately, both parties have the same common objective, essentially the continued enhancement of good governance across the public sector leading to more efficient and effective operations and enhanced service delivery.

European Commission 2022 Rule of Law Report

On 7 April 2022, the AG, the DAG and the AAG Performance Audits Section held an online meeting with European Commission (EC) officials in connection with the 2022 Rule of Law Report. The report, incorporating 27 country chapters, including that for Malta, was published by the EC in July 2022 and examined developments across the member states, both positive and negative, in four key areas of the rule of law: the justice system; the anti-corruption framework; media pluralism; and other institutional issues related to checks and balances.

As part of the consultation process by the EC, country visits are carried out, including meetings with a balanced range of stakeholders representing a wide range of views on the related topics. The NAO was

invariably conferred with as part of this consultation process.

During this meeting, the role of the NAO in the identification of corruption and the prevention of fraud was discussed. The status and operations of the AG, in terms of the number and types of audit findings, as well as actions for their redress, were outlined. Reference was also made to the EC delegation on a change in legislation made on 18 March 2021 through which the AG was given the power to report any instance in which the Office may identify potential corruption cases resulting from its audit work to the Attorney General.

OSCE Needs Assessment Mission

Following an invitation from the Maltese authorities to observe the 26 March 2022 parliamentary elections, the Organisation for Security and Co-operation in Europe (OSCE) Office for Democratic Institutions and Human Rights (ODIHR) undertook a Needs Assessment Mission (NAM) from 28 February to 4 March 2022. Meetings were held with officials from state and local institutions and representatives of political parties, the media and civil society, apart from the resident international community.

The NAO, as one of the stakeholders, hosted ODIHR to a meeting on 4 March 2022. The AG, the DAG and the AAG Performance Audits Section met Ulvi Akhundlu, Deputy Head of ODIHR's Election Department; and Keara Castaldo, ODIHR Election Adviser.

A follow-up meeting was held on 23 March between the OSCE/ODIHR Election Expert Team and the NAO to build on the findings of the NAM mission. NAO senior management explained the mandate and mission of the Office and replied to questions put to them by the Expert Team made up of Mr Marcin Piotr Walecki, Campaign Financial Analyst; and Mr

Daniel Camilleri, Senior Assistant Campaign Financial Analyst.

Contributions to OECD initiative on 'Improving the Integrity and Transparency Framework in Malta'

On 15 June 2022, the AG and the DAG met a delegation from the Organisation for Economic Co-operation and Development (OECD) that was on a visit to Malta in connection with the project "Improving the Integrity and Transparency Framework in Malta". The project was carried out in conjunction with the Commissioner for Standards in Public Life, Dr George Hyzler, and was funded by the EU through its Technical Support Instrument. It was launched in September 2021 and was to run for two years. The meeting with the NAO focused on two main subjects – Conflict of Interest and Asset Declaration.

Shortly after, in July 2022, the OECD published three reports on integrity standards in Malta. One reviewed the operations of the Commissioner for Standards in Public Life; another addressed the Standards in Public Life Act; and the third presented proposals for the regulation of lobbying.

The AG participated in an ensuing forum, organised by the Office of the Commissioner for Standards, on 11 July 2022 during which the OECD reports were presented. The keynote speaker was Ms Kathryn Stone OBE, Parliamentary Commissioner for Standards of the UK House of Commons. Mr Janos Bertok, Deputy Director of the Public Governance Directorate OECD, presented the recommendations proposed by the OECD for the improvement in the standards for public life in Malta.

Other interventions were made by Dr Hyzler; Dr Tonio Borg, former minister in the government of Malta and former European Commissioner; and Ms

Iva Ruycheva, Special Advisor to Bulgaria’s Council of Ministers. In addition, the forum was addressed via video link by Mr Sébastien Renaud from the EC’s Directorate General for Structural Reform Support, and Mr Francesco Clementucci from the Commission’s Directorate General for Migration and Home Affairs.

Participants in the forum included representatives from the authorities that enforce ethical standards in Croatia, Lithuania and Romania, as well as representatives from civil society, the constituted bodies and independent state authorities in Malta.

OECD Mission to Malta

The NAO was invited to a meeting on the theme “Strengthening of the procurement system through advancing the professionalisation of the public procurement workforce and developing risk and performance measurement” with OECD experts, who were in Malta for a three-day mission on 14-16 September 2022. The meeting was held in connection with a project, initiated in 2021 and funded by the EU through the DG REFORM Technical Support Instrument, aimed to support Malta in enhancing different aspects of its public procurement system.

A closing conference by the OECD and the Malta Department of Contracts was held on 3 April 2023 during which the main findings and recommendations of this project were issued, intended to increase awareness of using public procurement to pursue broader policy objectives.

AG presentation to officials of the Ministry for Tourism

On 27 July 2022, the AG gave a presentation to senior officials within the Ministry for Tourism on the theme “Accountability matters for the public service”. He outlined the importance of accountability, supporting his arguments with a number of local and

international documents promoting accountability, including the five-year strategy for the public service ‘Achieving a Service of Excellence’, the Council of Europe 12 Principles of Good Governance and the Public Administration Act. He also delineated the NAO’s role in promoting accountability in the public service.



AG presentation to senior officials within the Ministry for Tourism

Ministry for Tourism’s “Connecting our Future - Strategy Day”

On 19 December 2022, the Ministry for Tourism organised its annual ‘Connecting our Future – Strategy Day’ for senior officers of the different entities within its portfolio. The AG was invited to participate in a forum discussion with the theme “Accountability within the Public Service”.

In his intervention, the AG highlighted the fact that accountability does not have a negative impact on efficiency; on the contrary, evidence shows that a high level of accountability ultimately leads to enhanced efficiency. He also emphasised that the level of scrutiny and accountability, particularly insofar as compliance is involved, needs to be much higher for entities funded through public monies; hence, the critical role of promoting enhanced accountability across the public sector.

During the event, Mr Tony Sultana, Principal Permanent Secretary; and Mr Anthony Gatt and Dr Joyce Cassar, Permanent Secretaries in the Ministry for Tourism and the Office of the Prime Minister, respectively, emphasised the importance of ensuring the highest level of accountability in all areas of work.

PDP3 Final Conference

The AG delivered a presentation during the Final Conference for Mayors and Executive Secretaries, held on 15 December 2022, in connection with the conclusion of the Norway Grants project ‘The Predefined Project (PDP3)’. The main theme of the conference was based on the principles of good governance, transparency and accountability, a theme closely related to the work of SAIs.



The Auditor General in the forum discussion during the ‘Connecting our Future - Strategy Day’

During the conference, the achievements and successes of the project – aimed at providing capacity building opportunities to the elected and administrative staff of regional and local councils – were acknowledged.

The project was undertaken through the European Economic Area (EEA) and the Norway Grants, in collaboration with the Local Councils Association of Malta, the Assoċjazzjoni Nazzjonali tas-Segretarji Eżekuttivi tal-Kunsilli Lokali u Reġjuni (ANSEK), and the Norwegian Association of Local and Regional Municipalities (KS). The project was supported by the Parliamentary Secretariat for Local Government, EU Funds Malta, Servizzi Ewropej f'Malta (SEM), the University of Malta and the NAO.

Participation in NSO Peer Review

On 13 October 2022, the AG and the DAG, together with various other entities, including the Central Bank, the National Commission for the Promotion of Equality and the Malta Council for Economic and Social Development, participated in a Peer Review that was undertaken by the NSO. Peer Reviews constitute a practice of the European Statistical System (ESS) strategy to implement the 16 principles of the ESS Code of Practice. In essence, they aim to enhance the integrity, independence, accountability and quality of the statistical authorities and entities making up the ESS.

Peer Reviews of national statistical institutes of EU Member States are conducted in 'rounds', meaning that reviews are carried out periodically for the statistical institutes of every EU member state. The previous 'rounds' were held in 2007/8 and 2014/5.

In this context, the AG and the DAG participated in a meeting with a team of European experts who visited the NSO to assess its strengths and its compliance with the ESS Code of Practice. During this meeting,

they emphasised the excellent collaboration prevailing between the NAO and the NSO, obviously within the respect of the entities' autonomy and independence, culminating in the signing of the Memorandum of Co-operation between the two.

The Malta Chamber

A press conference was held on 15 September 2022 at the premises of the Malta Chamber of Commerce, Enterprise and Industry in Valletta during which a report, authored by Mr David Spiteri Gingell in collaboration with the Chamber's Good Governance Committee, titled "A Strong Transparency, Accountability and Ethical Governance Framework for Members of Parliament" was launched.

As explained by its then President, Ms Marisa Xuereb, good governance has been one of the five main pillars of the Chamber's policy work since its publication "Ethical Business Calls for Change: A Manifesto for Good Governance" in January 2020. The newly published report on transparency, accountability and the ethical conduct of MPs is the first in a series of reports detailing the Chamber's vision for good governance in Malta's highest institutions.

The press conference was attended by the AG. Feedback in response to the Chamber's publication was prepared by the SA&I Section within the NAO. This was submitted to the Chamber in November 2022.

Training to Customs Department on System-Based Auditing

Three NAO officers, the AAG SA&I Section Keith Mercieca, Senior Audit Manager William Peplow and Senior Auditor Alexia Stafrace, delivered a three-day training course on System-Based Audits, in December 2022, to the Internal Audit Unit of the Customs Department. This initiative materialised following contact from the University of Malta to deliver a customised programme to address the Customs Department's specific context and circumstances since the Department was seeking to strengthen its audit and inspectorate function.

Seventeen participants were given an introduction to basic and other relevant accounting principles; theoretical aspects of system-based audits, including the Committee of Sponsoring Organisations (COSO) internal control framework and risk management techniques; and on the implementation of system-based audits, including concepts relating to fraud and error. The NAO received positive feedback on the programme.

Other meetings and fora

On 1 August 2022, the AG attended the formal launch by the NSO of the preliminary Report of the Census of Population and Housing 2021. This preliminary report presented the first results of the Census, held by the NSO during October and November 2021.

On 18 October 2022, the AG attended the annual EY Parthenon Malta Future Realised Conference 2022, held at the Mediterranean Conference Centre. The conference focused on three main themes:

1. a review of the global economy;
2. a presentation of the results of the 18th Malta Attractiveness Survey; and
3. the annual study conducted among existing FDI companies, outlining investors' sentiments and Malta's strengths, weaknesses and where the country should be focusing its efforts.

The second part addressed geopolitics, trade and business strategy in times of uncertainty; and the third part analysed European and national investment drivers for a changing world, including sustainability and renewables, innovation and digital and economic investment drivers.

The AG and the AAG Financial and Compliance Audits Section attended a one-day conference on 5 November 2022, organised by the Local Councils Association titled "30 Sena ta' Gvern Lokali... il-pass li jmiss".

The performance audits of the National Audit Office – Lawrence Zammit

Performance audits have a different function. All rules may be adhered to and so, from a financial audit perspective, there would be nothing to report. In spite of this, a performance audit may still yield a negative report because such an audit is there to have an independent assessment of an entity's (ministry, division, directorate, corporation, authority) operations (not limited to day-to-day operations but also includes special and specific projects and initiatives) to determine if these are achieving their stated goals.

Times of Malta, October 7 2022

Participation in foreign events

During 2022, the NAO continued to participate in seminars, training and fora organised by concomitant international or foreign organisations and bodies, with a gradual increase in physical attendance to these events.

The EUROSAI Working Group on Environmental Auditing Spring Session

Senior Audit Manager William Peplow and Principal Auditor Maria Azzopardi, both from the Performance Audits Section, participated in the EUROSAI Working Group on Environmental Auditing Spring Session on 'Water supply and its quality in the aspect of climate change', held virtually on 10-11 May 2022. Discussions focused on climate adaptation/mitigation measures in relation to three water-related concerns: water supply/drought, flood threat and sea/river pollution. The seminar was attended by over 75 delegates.

As an active member of the EUROSAI Working Group on Environmental Auditing, the NAO was requested to propose a keynote speaker for this meeting. Following contacts made by the NAO, Prof. Alan Deidun, Professor and Marine Biologist within the Faculty of Science, University of Malta, accepted this assignment and delivered the keynote speech, "The importance of the desalination process in an arid country: The Maltese Islands case study". In his presentation, Prof. Deidun discussed the reasons why Malta has continued to pursue this technology and presented the benefits and environmental externalities of this system of water production.

During the seminar, various SAIs and international bodies delivered presentations on the three main themes identified. These included:

- Challenges, innovative methods and systemic solutions for reduction of pollution in river systems and seas in the context of the newest strategic documents of the UN: UNESCO Intergovernmental Hydrological Programme, European Commission Fitness-Check for Water Framework Directive and Water4All Partnership (European Regional Centre for Ecohydrology/UNESCO);
- Sustainable and climate resilient water resources management (European Commission DG Environment);
- Water resources across Europe (European Environment Agency);
- Sustainable water uses in agriculture: CAP funds more likely to promote greater rather than more efficient water use (European Court of Auditors);
- Combating environmental crime is fumbling in the dark (SAI of Netherlands); and
- Audits of Water Management (Czech Republic Supreme Audit Office).

2022 Annual Meeting of the EUROSAI Working Group on Environmental Audit

The 2022 Annual Meeting of the EUROSAI Working Group on Environmental Audit was held on 29-30 November 2022. Senior Audit Manager William Peplow and Principal Auditor Maria Azzopardi participated in this meeting. Held in hybrid format, the conference dealt with environmental protection in turbulent times and the audits of funds spent to counteract climate change and make the economy climate neutral.

During the meeting in Warsaw, results of recent audits conducted by European SAIs were discussed. The audits addressed issues related to how the transparency of spending affected the counteracting of climate change and the implementation of SDGs, the adaptation of the economy, the subsidising of various sectors which have an adverse impact on the environment, coastal protection, greenhouse gas reduction and the vision of Europe for 2050.

In terms of the role of SAIs, various speakers pointed out that governments have been redirecting resources intended to mitigate and adapt to climate change and address other environmental concerns. The key role of SAIs in developing standards of environmental protection and shaping the state policy in this area were highlighted. In addition, changes in the education system to include the current knowledge of the climate condition, water deficit and the consequences of the lack of response to global warming were discussed.

Many SAIs pointed out that many of the allocated subsidies go counter to the polluter pays principle and this is, to varying degrees, derailing progress achieved to date by many European countries to mitigate the effect of unsustainable practices. During plenary discussions, many SAIs acknowledged the need for government subsidies in these turbulent times but concluded that making the polluter pay and the phasing out of environmentally harmful subsidies remain a priority.

21st Assembly of INTOSAI Working Group on Environmental Audit

The 21st INTOSAI WGEA Assembly meeting, held for the first time in a hybrid format, was hosted by the Maldives SAI in Ukulhas on 4-6 July 2022. Senior Audit Manager William Peplow and Principal Auditor Maria Azzopardi attended the meeting.

The main topic of the Assembly was “Raising resilience” in the context of climate change adaptation. On the first day of the meeting, the discussion focused on public sector budgets, risk assessments and the work of SAIs. On the second day, the topics tackled included climate finance, plastic waste, sustainable transport and policy coherence.

The last day was dedicated to the business meeting, including the future strategy of the WGEA, the work plan for 2023-2025 and regional updates. On the final day of the Assembly, the WGEA’s 30th anniversary was celebrated, marking the setting up of the Working Group in 1992 and its contribution to environmental auditing.

Joint Report on the Management of Plastic Waste in Europe

In May 2022, the EUROSAI Working Group on Environmental Auditing published the results of a cooperative joint audit, ‘Joint Report on Management of Plastic Waste in Europe’. This parallel audit was carried out by 12 SAIs in 2020-2021, including the NAO. The other participants were the SAIs of Albania, Bulgaria, Hungary, Moldova, North Macedonia, Poland, Portugal, Romania, Serbia, the Slovak Republic and Turkey. These national SAIs are members of the EUROSAI WGEA. The audit was co-ordinated by the SAI of Poland.

The 12 SAIs prepared a common audit framework to collect and assess comparable information on national government actions containing the main audit question, three audit aspects and a number of sub-questions to be addressed by the national audits. The main audit question was: “Have the relevant public authorities developed policies and implemented measures aimed at achieving goals (adopted in such policies) regarding generation and management of plastic waste?”

The Performance Audits Section in the NAO conducted the local audit, reviewed the first draft of the co-ordinated report and submitted proposals, as well as a summary of the national report, “The effectiveness of plastic waste management in Malta”, published by this Office in February 2021.

EUROSAI IT Working Group

During 2022, IT Audit Manager Simon Camilleri participated in several meetings and seminars of the EUROSAI IT Working Group (WG). The EUROSAI ITWG, through best practice sharing and the organisation of joint activities, aims to support European SAIs in undertaking IT audits and encourage the use of IT in day-to-day work. The ITWG aims to further the institutional sharing of expertise and experiences between the SAIs of the European region, and to encourage the implementation of joint activities in the field of IT.

In the EUROSAI ITWG e-Seminar held on 12 April, Mr Camilleri delivered a presentation on cloud computing, “Cloud vs on premise – alternatives for an institution and for a SAI”. The presentation covered the current scenario on the hosting of government IT systems, the main reasons auditees opt for cloud hosting and factors that should be considered when opting for these services. Considerations from the perspective of the SAIs were also addressed.

This year, the ITWG launched the event, “Virtual coffee break with a colleague”. These events are accessible for EUROSAI IT Working Group members only, are held regularly and offer the possibility for colleagues to meet in an informal environment and reflect on what’s going on in the workplace. On 12 December 2022, Mr Camilleri gave an overview of the audit, “The COVID-19 pandemic – Business continuity within the public administration”, and another IT audit on the online 2021 Census carried out in Malta.

Mr Camilleri also attended the 15th annual meeting of the ITWG held in a hybrid format in Bucharest, Romania, on 6-7 September 2022 on the theme “IT standards and guidelines – what is the future of IT auditing?” Over 150 participants from approximately 50 countries participated, among them approximately 50 in-person attendees. Topics included IT standards and guidelines, and IT frameworks.

During this visit, Mr Camilleri also attended an international conference organised by the Romanian Court of Audit on the occasion of its 30th anniversary titled, “30 years of Progress towards Audit Digitisation”. The anniversary event was addressed by Mr Klaus-Heiner Lehne, then President of the ECA; Mr Mihai Busuioc, the President of the Romanian Court of Accounts; and Mr Klaus Iohannis, the Romanian Prime Minister.

EUROSAI ITWG online course ‘IT Audit for non-IT Auditors’

In November 2022, the EUROSAI ITWG launched the first module of the online course on ‘IT audit for non-IT auditors’¹. The course included pre-recorded sessions and course material with exercises. There was no time limitation to follow the course, so the participants were free to sit through the course at their convenience and the exercises could be repeated.

Following the reference made to the above in the AG’s weekly update to staff on 18 November 2022, IT Audit Manager Simon Camilleri planned a pilot launch of this e-course with a small group of less than 10 participants to obtain feedback of their experience before recommending the next steps. In the following week, he gave a couple of introductory presentations to a number of NAO employees who showed interest. After these presentations, eight auditors from three different audit teams registered and started the online course.

¹ <https://eurosai-it.org/news/news/the-first-module-of-the-eurosai-it-working-group-e-course-it-audit-for-non-it-auditors-open-for-learning>

Up to the date of drafting this Report, Mr Camilleri received feedback from four participants who completed the training module and their comments were positive. He will be making recommendations based on the feedback of the pilot group. The aim of promoting participation in this course is to continue to build multiskilled audit team resources while maintaining core expertise.

Fiscal Policy Audit Network meeting

The AAG Financial and Compliance Audits Section Tanya Mercieca attended the Fiscal Policy Audit Network meeting, hosted by the Slovak Republic SAI in Bratislava in September 2022. This network was established by the EU Contact Committee to discuss and share views and experiences on SAIs' work in the field of fiscal policy and European economic governance.

The purpose of the network is to improve methodologies when auditing national fiscal policy and other public finance-related matters by making use of best practices and information sharing between SAIs active in this subject area. The network also promotes parallel and joint audits on fiscal policy matters.

Various presentations were made by a number of SAIs and, on behalf of the NAO, Ms Mercieca delivered a presentation on the Office's report titled 'Analysis on Revenue Collection for the year 2020'.

IDI and the audit of SDG implementation

The AAG SA&I Section Keith Mercieca participated in a meeting organised by the IDI in connection with the auditing of the implementation of the SDGs. The meeting, held in Tunisia on 15-17 November 2022,

focused on the review of several draft audit reports of the IDI-facilitated co-operative audit on "Audit of Strong and Resilient National Public Health Systems", undertaken by 19 SAIs from the CAROSAI and ASOSAI regions. All reports addressed the audit of strong and resilient public health systems, a matter tied to SDG 3.

In the build-up to this meeting, Mr Mercieca mentored and reviewed the audits undertaken by the SAIs of Bhutan and Nepal. Further feedback was provided during the Tunisia meeting, thereby drawing these audits closer to their conclusion. The meeting also provided an opportunity to share and discuss what each team has learned from the audit and what future opportunities there were for performance audits of other SDG targets or goals. In addition, Mr Mercieca supported the IDI by moderating several sessions of the meeting and facilitated the conclusive "lessons learnt" part of the meeting.

EU Member State SAIs Liaison Officers' Meeting

On 31 March 2022, AAG Performance Audits Section Brian Vella attended the online Liaison Officers' Meeting for EU Member State SAIs. This meeting was held in preparation for the Contact Committee Meeting of the Heads of EU Member State SAIs, organised by the ECA in Luxembourg on 3-4 May 2022.

The Liaison Officers' Meeting discussed the status outline of a number of EU Contact Committee working groups and networks. These included the Working Group Activities on Value Added Tax; the Joint Working Group on Audit Activities; the Network on Fiscal Policy Audit; the Network on EU 2020 Strategy Audit; the Task Force on the European Banking Union; the Expert Network on the Independent Assessment of national public economic policies; the Working

Group on Preventing and Combating Irregularities and Fraud; the EU Network Audit: Audit Compendium on the response to Covid-19; the Network on Technology and Innovation for Audit (TiNA), and the Network on Blockchain for Audit (B4A). Participants were also informed about independence issues relating to a couple of Member State SAIs. Discussions were also held on the preparations and drafting of the agenda for the ensuing EU Contact Committee Meeting.

EU Contact Committee Meeting

The AG and the DAG attended the Contact Committee Meeting of EU Member State heads of SAIs, hosted by the ECA on 3-4 May 2022. Among the topics discussed were the state of play in EU member states on the Implementation of the Resilience and Recovery Facility (RRF) and the National Recovery and Resilience Plans (NRRPs). Also discussed were the consequences and challenges of the pandemic and the invasion of Ukraine for the EU and its member states.

A number of presentations were made on finalised, ongoing and planned audits of the RRF/NRRPs. Also discussed were ways to increase the value of the Contact Committee at heads of SAIs and institutional levels.

XXIV International Congress of SAIs

The AG and the AAG Performance Audits Section followed online the XXIV International Congress of Supreme Audit Institutions (INCOSAI), held in Rio de Janeiro, Brazil, on 9-11 November 2022.

During this congress, the INTOSAI community:

- deliberated the responsiveness of SAIs to emergencies, changing environments and emerging risks;
- recognised the potential to further foster and strengthen INTOSAI's global voice;
- emphasised the importance of the principles and auditing standards that guide how SAIs are positioned in their accountability ecosystem to deliver quality work that adds value;
- affirmed the benefits of further collaboration between SAIs with INTOSAI bodies and external stakeholders; and
- approved the INTOSAI Strategic Plan 2023-2028.



Contact Committee meeting of EU Member States

The INTOSAI community called for INTOSAI to continue its work by:

- being responsive to changing environments, emerging risks and global challenges, and performing corresponding relevant work;
- recognising the positive potential of INTOSAI fulfilling its global voice, leveraged from the results of its work;
- reaffirming the importance of the principles (including independence) that guide how SAIs are organised within their accountability ecosystems, deliver quality work and collaborate with stakeholders and each other; and
- continuing to foster improved collaboration with stakeholders to advance the work of SAIs and INTOSAI.

In addition, the INTOSAI community called for the engagement of all INTOSAI bodies, regional organisations and external partners to support the strengthening of INTOSAI's reach and impact, reaffirming the SAIs' relevance in contributing to the effective functioning of governments in support of those affected during emergency situations.

Participation in the 5th Young EUROSAI Conference

Keith Gauci, Principal Auditor within the Performance Audits Section, participated in the 5th Young EUROSAI Conference 2022, hosted by the Swedish NAO in Stockholm on 12-15 September 2022. The Conference has been held biannually since 2013 and seeks to encourage young auditors to share new ideas and explore solutions to challenges faced by SAIs.

This year, the key theme of the conference was "experimental culture". In a rapidly changing society, SAIs must find new methods and ways of working to stay relevant. The main theme of experimental culture was approached from three perspectives: the audit profession, the organisational culture and the individual auditor. To adapt to new circumstances, SAIs needed to be innovative and have the confidence to try new ideas, while always being a trustworthy and independent actor.

The conference afforded young auditors the opportunity to broaden their network of colleagues across Europe, exchange tips and discuss common challenges. It included social activities where the participants got acquainted with their colleagues while exploring the city of Stockholm.

CIPFA Conference "Making Government Services Work Better for Citizens"

An international public finance conference on "Making Government Services Work Better for Citizens" was organised by CIPFA in collaboration with their partners at the Centre of Excellence in Finance. The conference was held in Tirana, Albania, on 28-29 June 2022. The two main themes of the conference were 'Organisational, institutional accounting and financial reporting aspects for better management of public sector assets' and 'Prevention and corruption in the public sector and anticorruption programmes'. The DAG attended the conference.

The issues raised during the conference included:

- the interdependencies of accrual accounting and the management of public assets;
- the challenges and opportunities in the compilation of fixed assets registers;

- fixed asset identification, recording and measurement for custodial and management purposes;
- efficient and effective asset management in local government;
- the management of assets within the context of the Public Financial Management Reform in Kosovo;
- the setting of integrity measures across the public sector; and
- the state of preparedness of the Albanian authorities for the implementation of IPSAS.
- the webinar “Middle East North Africa (MENA): Moving from Cash-basis to Accruals-basis Accounting”, organised by the International Federation of Accountants (IFAC), the World Bank Group and the Arab Federation of Accountants and Auditors (AFAA) with the participation of the ACCA, IPSASB (Technical), HM Treasury, the World Bank (MENA Region) and the Ministry of Finance of Saudi Arabia;
- the INTOSAI Working Group on Environmental Auditing COP27 Webinar (July 2022);
- an Open House Webinar on the IDI Together Initiative (Human Resource Governance, Ethics, Diversity Management and Inclusion for Staff) (September 2022);

Other international events and fora

During 2022, the NAO had participated in or attended other international events and fora. Among the various themes addressed were:

- a ‘Foresight workshop’ webinar organised by the EUROSAI Project Group on “Future risks and climate change”, hosted by the ECA (February 2022);
- the international conference for Heads of SAIs held by the Cour des Comptes of France within the framework of the French Presidency of the Council of the European Union (March 2022);
- the Public Sector Forum 2022, organised by the Chartered Institute of Internal Auditors (ECIA) in collaboration with EUROSAI (March 2022);
- the 2022 OECD Global Anti-Corruption & Integrity Forum (March/April 2022);
- a kick-off meeting of the EUROSAI Project Group on co-operation with civil society (April 2022);
- the EUROSAI Project Group: Future Risks and the Climate Crisis, jointly hosted by the UK NAO and the ECA (September 2022);
- the Special Liaison Officers’ Meeting of EU MS SAIs (October 2022);
- the EUROSAI Task Force Municipality Audit Seminar “Digitalisation of Public Service Delivery and Administration in Municipalities” and the 6th Annual Meeting of the Task Force (October 2022);
- the webinar “Parliaments and Supreme Audit Institutions partnering for greater audit impact, oversight and accountability”, organised by the Inter-Parliamentary Union in collaboration with the IDI (October 2022); and
- the 13th UNCTAD Debt Management Conference “Relief, Restructuring and Recovery: Dealing with Debt in Times of Crisis” (November 2022).

Stakeholder Relations

To consistently be able to add value through its audit operations and reports, the NAO co-operates with a number of stakeholders without impairing its independence. These stakeholders include Parliament, auditees, educational institutions, a number of EU institutions, domestic and foreign working groups and committees, and Office employees.

Relations with Parliament

Parliament is the Office's key stakeholder since both the AG and the DAG are Officers of the House of Representatives; therefore, all NAO reports are presented to the Speaker of the House of Representatives, who lays them on the Table of the House at its next sitting. A number of these reports are discussed by the PAC, which is the Parliamentary Standing Committee tasked with reviewing NAO reports.

During meetings of this Committee, senior public sector officials, and other persons involved in the functions/initiatives/projects being scrutinised, may be summoned as witnesses. The AG and the DAG attend Committee meetings, occasionally together with members of management and staff, who would have worked on the report being reviewed.

In 2022, there were 22 PAC meetings: five meetings were held during the 13th Legislature and a further 17 meetings were convened during the 14th Legislature. The following was discussed during these meetings:

- Examination of the AG's report titled 'An investigation of matters relating to the contracts awarded to ElectroGas Malta Ltd by Enemalta Corporation';
- Examination of the AG's report titled 'A review of implementation of Sustainable Development Goal 1 – Malta's efforts at alleviating poverty'; and

- Presentation by Dr George Hyzler, Maltese member of the ECA, on the Annual Report 2021 of the ECA.

The NAO also interacts with the National Audit Office Accounts Committee (NAOAC). Among other matters, this Committee is charged with reviewing the NAO audited financial statements, appointing the auditors of the NAO financial statements, and approving the NAO financial estimates for the year.

On 12 October 2022, the Committee reviewed the NAO financial statements for 2021 and approved the NAO financial estimates for 2023. EY, as appointed by the Committee itself, are the current auditors of the NAO financial statements. Moreover, the AG attended all other Committee meetings during which proposals for the allocation of public property to third parties were discussed.

Other relations with Parliament

Following a call for applications to fill the post of Professional Officer II (Accounts) at the House of Representatives, the AAG Financial and Compliance Audits was nominated to form part of the Selection Committee.

Relations with auditees

On 17 November 2022, the Principal Permanent Secretary, Mr Tony Sultana, presented the AG with the 2022 edition of the report titled 'Governance Action on the NAO Annual Report on Public Accounts 2020 and other NAO Reports 2021'. The meeting was held at the Office of the Prime Minister.

Mr Sultana explained that, of the 45 audits carried out by the NAO in 2021, 537 recommendations were issued, of which the Public Service accepted 527. These led to the formulation of 1,171 actions (representing an increase of 450 actions from 2021), of which 85.4% were carried out.

The presentation of this report was followed up by a fruitful discussion on issues of mutual interest, particularly how collaboration between the Office and the Public Service can be further enhanced.

NAO senior management meetings with Permanent Secretaries

NAO senior management held various meetings with a number of Permanent Secretaries with the objective of discussing ongoing audits and any issues and concerns that auditors may have flagged during these and previous audits in the particular Ministry. Table 1 provides a list of meetings held in 2022.

2022 results of auditee feedback surveys

For the second consecutive year, the NAO has assessed its performance by distributing a survey to auditees following each audit to receive their feedback on the conduct of the audit. Thirty-nine responses were received relating to 32 audits.

Survey results demonstrated overall positive performance, as can be observed from the charts in the following page (Figure 2 refers). In 38 out of 39 responses, auditee representatives stated that they either strongly agreed or agreed that NAO auditors clearly communicated the objectives and scope of the audit to them; only one reply resulted in a negative response.

In 37 out of 39 responses, auditees affirmed that they either strongly agreed or agreed that the audit team

obtained an adequate background knowledge of their organisation or the subject matter of the audit. These responses are a strong indication that auditees overall acknowledge that NAO’s planning process in conducting the 32 audits was robust.

In addition, 35 out of 39 auditee officials asserted that the audit provided valuable insights into their organisation; 15 auditee representatives strongly agreed and 20 auditee representatives agreed to this statement. Furthermore, in nearly all cases, i.e., 38 responses, auditee representatives stated that the audit team demonstrated good business knowledge.

Moreover, in 37 out of 39 responses, auditee officials affirmed that the audit team demonstrated objectivity in their work. These results indicate that auditee officials noted the audit team’s professional behaviour in performing their auditing duties and the added value provided by the audit to their organisation.

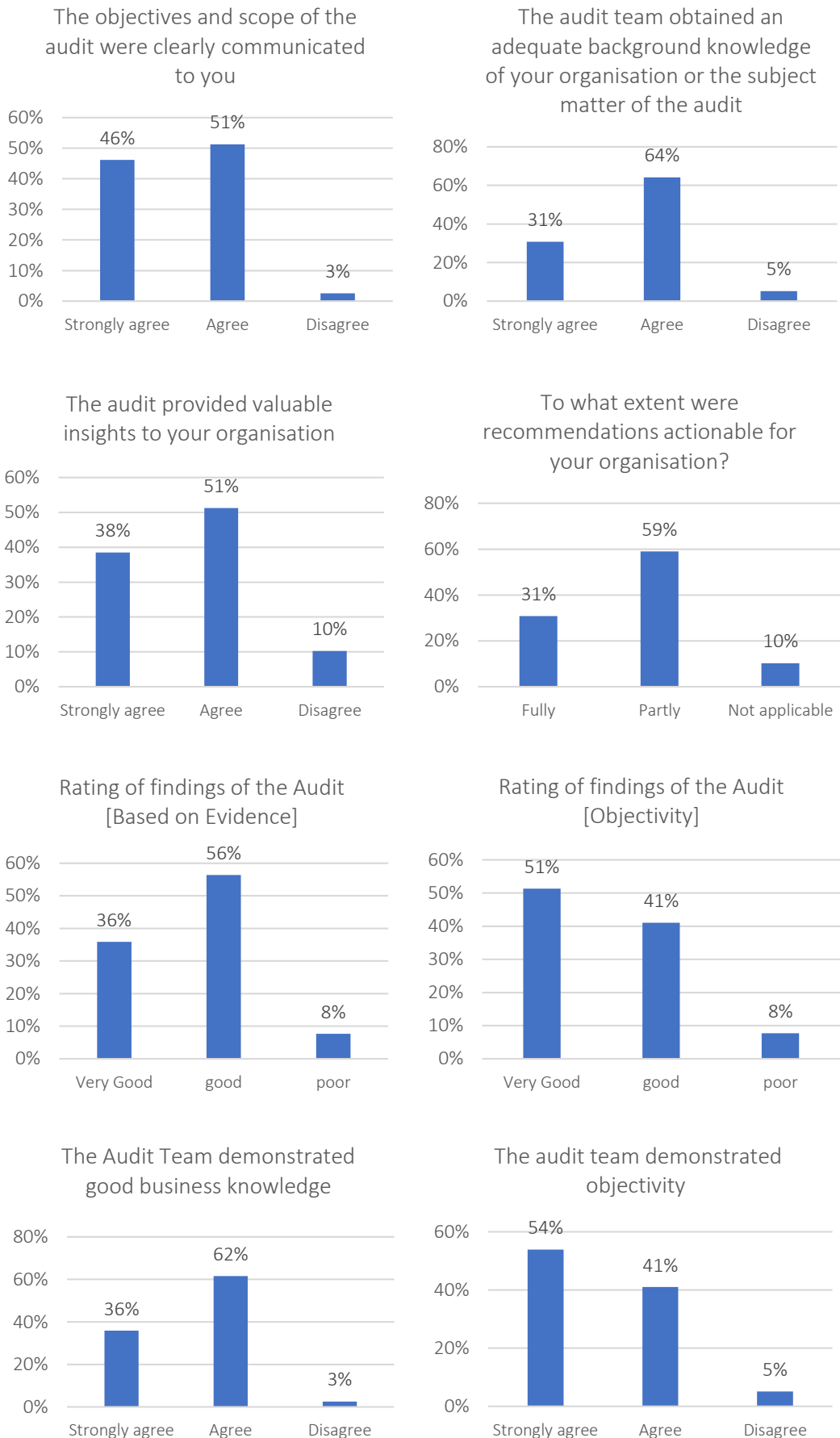
Auditee officials similarly acknowledged that audit findings and recommendations proved effective in assisting their organisations to enhance their performance. In 36 out of 39 responses, auditees claimed that audit findings were objective and based on evidence. In 35 responses out of 35 responses – the other 4 reports did not provide any recommendations – auditees stated recommendations were actionable for their organisation.

Thus, the positive performance registered in 2021 and reported in that year’s annual report was sustained in 2022.

Table 1: NAO Senior Management Meetings with Permanent Secretaries | 2022

Mr Tony Sultana and Mr Mario Cutajar	Incoming Principal Permanent Secretary and the outgoing Principal Permanent Secretary, respectively
Mr Anthony Gatt	Ministry for Energy, Enterprise and Sustainable Development
Mr Joseph Chetcuti	Ministry for Health
Mr Emanuel Psaila	Ministry for Home Affairs, Security, Reforms and Equality
Mr Sharlo Camilleri	Ministry for Agriculture, Fisheries, Food and Animal Rights
Mr Christopher Cutajar	Ministry for Foreign Affairs and European Affairs

Figure 2: Results of Survey distributed to Auditees



Relations with the European Court of Auditors

ECA audit missions and surveys

In line with Article 297(3) of the Treaty on the Functioning of the European Union, the ECA and the national audit bodies of the member states co-operate in a spirit of trust while maintaining their independence. In line with this Article, the NAO acts as liaison officer with the European Court of Auditors for ECA audit missions in Malta and/or ECA-related surveys that are forwarded to Maltese authorities.

An audit survey conducted by the ECA related to requested feedback of the National Statistical Institutes (NSIs) on how the EC managed the GNI (gross national income) verification process and on their co-operation with Eurostat during the verifications. For this purpose, the ECA ran a survey addressed to all NSIs.

An ECA audit mission on-the-spot visit was made on the Statement of Assurance for the financial year 2021 relating to the Malta Asylum, Migration and Integration Fund (AMIF). The ECA visited Malta between 24 and 26 January 2022 to conduct this audit. The purpose of this visit was to assess whether the Audit Authority (AA), namely the IAID, was compliant with the requirements of the Commission Delegated Regulation 1291/2018.

Another ECA Audit Mission concerned audit work focusing on the operational programme 2014MT16M1OP001 (Fostering a competitive and sustainable economy to meet our challenges) covered by the annual control report submitted by the AA on 25 February 2022.

The role of the NAO in these tasks was to ensure that there is proper co-ordination between the ECA and the auditees, and that timely and complete replies are received by the ECA.

Relations with educational institutions

The NAO co-operates with a number of educational institutions, including the University of Malta. The Office, in collaboration with the Department of Accountancy within the Faculty of Economics, Management and Accountancy (FEMA) at the University of Malta, awards the annual National Audit Office prize to a Masters in Accountancy graduate for the best dissertation in an area related to Public Sector Accounting.

In 2022, the Accountancy best dissertation awards ceremony was held on 7 December, with the AG presenting the public sector award to Mr Anthony Sultana (Masters in Accountancy degree course group 2019-2021) for his dissertation “Recent Trends in EU Funding for Gozitan Local Councils”.

Another initiative in this regard consists in the potential collaboration between the NAO and the Department of Public Policy, also forming part of FEMA within the University of Malta, in connection with the promotion of good governance across the public sector.

On 3 March 2022, the AG and the DAG met Prof. Mario Thomas Vassallo, Head of the Department of Public Policy, who forwarded three publications to Mr Deguara and Mr Camilleri – (i) *Kollox Politika?*²; (ii) *Public Life in Malta II*; and *Public Life in Malta III*. Two NAO employees, Senior Audit Manager William Peplow, and Maria Azzopardi, Principal Auditor, both from the Performance Audits Section, and one former member of staff, Ian Bugeja, contributed to the latter two publications.

² The title of this book can be translated as ‘Is every issue politicised?’

On 11 April 2022, the AG and the DAG were interviewed by Prof. Vassallo on various aspects relating to the mandate, objectives, workings and vision of the NAO. This one-hour interview was aired during the weekly programme Agora on the University radio Campus FM on 16 April 2022.

Collaboration with the University of Malta also consisted in the delivery of these lectures to students:

- Between September and November 2022, AAG Performance Audits Section Brian Vella delivered lectures on public sector auditing as part of the Governmental Accounting 3 module to BA (Hons) Public Management students within FEMA;
- Senior Audit Manager Performance Audits Section William Peplow delivered lectures in two modules of the BA (Hons) degree course in Public Sector Accounting. One module dealt with New Public Management and Governance. The other concerned Public Sector Financial Reporting; and
- AAG SA&I Section Keith Mercieca lectured a class on 'Governance and Administration in Social Welfare' to second-year students reading for a degree in social policy within the Faculty of Social Wellbeing.

Lectures were ongoing in 2023.

In addition, AAG Financial and Compliance Audits Section Tanya Mercieca was interviewed several times by undergraduate University students, who would be preparing their dissertation on a topic related to the NAO. Key topics discussed during these interviews consisted of:

- the implementation of accrual accounting in Government, in particular, on the local application of specific IPSAS and the role of the NAO in this regard; and
- ongoing weaknesses reported in the NAO Annual Report by the Auditor General on Public Accounts.

Participation in domestic working groups and committees

In terms of Article 96A of the Constitution, the AG is a member of the Judiciary Appointments Committee, chaired by the Chief Justice. This 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, who eventually appoints the Members of the Judiciary.

The AG attended all five meetings of the Judicial Appointments Committee held in 2022. Essentially, these focused on the procedure to be followed in connection with the selection process related to the call for applications for the filling of the posts of Judges in the Superior Courts. Following interviews with all applicants, the Committee's Recommendations Report was forwarded to HE the President of Malta, Dr George Vella, who subsequently appointed the two successful candidates on 12 December 2022.

The AG is also a member of the Co-ordination Committee set up in terms of Article 23 of the Internal Audit and Financial Investigations Act (Chapter 461 of the Laws of Malta) to co-ordinate the activities of, and to facilitate the exchange of information between, different entities charged with the protection and safeguarding of public funds. This Committee is led by the Head of the IAID.

During 2022, the AG, accompanied by the AAG Performance Audits Section Brian Vella, participated in all meetings organised by this Committee. A number of sub-committees were set up by the Co-ordinating Committee to ensure the effective implementation of the National Anti-Fraud Co-ordination Strategy (NAFCS) Action Plan. Furthermore, all members of the Committee compiled Risk Registers in accordance with a Risk Register Template provided by the IAID. These were compiled in relation to the National Risk Assessment Register, also for the purpose of addressing the NAFCS. The draft report on the National Risk Assessment on Fraud and Corruption, prepared by the IAID, was also discussed among the Committee members.

The NAO's role in the adoption and implementation of accrual accounting across government is an important one. Although the Office does not have any executive power to enforce change, it participates in various domestic fora promoting the benefits of accrual accounting for decision making and financial management within the public sector. Among these fora is the Corporate Financial Management Solution (CFMS) Implementation Project Board and the IPSAS Implementation Project Board.

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

During 2022, the CFMS Project Implementation Board held 16 meetings. As expected, following the completion of the rollout of the CFMS in all government departments, the main thrust of the meetings revolved around system performance and stakeholder relations and management. The Board dealt with various issues relating to the former, engaging with the contracted party as necessary. On the other hand, the project entails the management of other sub-contracts relating *inter alia* to Quality Assurance and HR, the progress of which was monitored and discussed accordingly. Long outstanding issues from Phases 1 and 2 of the CFMS project were often debated, as were plans for the implementation of Phase 3, which will include the introduction of other corporate modules within the system.

AAG Financial and Compliance Audits Tanya Mercieca participates in the IPSAS Implementation Project Board as an observer. The Board is responsible for the strategic direction and overall management of IPSAS implementation across government ministries and departments. The IPSAS Implementation Project Board met three times in 2022. Three standards and respective guidelines were finalised and approved by the Board. These are IPSAS 1 – Presentation of Budget Information in Financial Statements; IPSAS 2 – Cash Flow Statements; and IPSAS 27 – Agriculture. Another two standards, IPSAS 14 – Problems after the Reporting Date and IPSAS 24 – Presentation of Budget Information and Financial Statements, were still under discussion.

The AG and Ms Mercieca are members of the Local Government Good Governance Working Group (LGGGWG). The key objective of this working group is to address the main issues identified in the Annual Report by the Auditor General on the Workings of Local Government in a harmonised manner.

During 2022, the Working Group focused on holding various bilateral meetings involving only the stakeholders in that particular issue; indeed, the plenary of the LGGWG met only once – in August. As regards bilateral meetings, Mr Deguara and Ms Mercieca had ongoing collaboration with the two principal stakeholders involved in the Working Group: the Local Government Division and the Local Councils Association.

Participation of senior NAO officials in EU boards

The Eurocontrol Audit Board

Eurocontrol, an international European organisation located in Brussels, works to achieve safe, efficient, environmentally friendly air traffic management across the European region. It 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, 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 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 Provisional Council. With regard to the financial management of the Route Charges System, it reports also via the Enlarged Committee.

The Audit Board also reviews the level of transparency of the Agency's procedures and decisions. The Board

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 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.

The AAG Financial and Compliance Audits Section Tanya Mercieca is the member currently representing Malta on the Audit Board. Besides the foregoing, during 2022, the Audit Board was composed of auditors from the SAIs of Norway, The Netherlands, Poland, Portugal and the Czech Republic.

The Eurocontrol Audit Board met six times in 2022. The first meeting of the year in March was held virtually, four meetings (May, June, November and December) were held physically in Brussels and the remaining meeting was held in Warsaw in September.

The European Union Institute for Security Studies

AAG Tanya Mercieca, assisted by Principal Auditor Marlene Zammit, was responsible for the audit of an EU-funded project related to cybersecurity undertaken by the EU Institute for Security Studies in Paris. The project, worth €2.5 million, had been ongoing by this entity for four years.

Audit procedures necessitated that, at least, an overall Expenditure Coverage Ratio of 65% of the value of transactions was verified and this assignment had to be carried out within an established deadline.

Relations with employees

Employees are the NAO’s most valuable asset; thus, the Office invests heavily in training to enhance their competences, skills and experience. The Office provides both on-the-job training and attendance at formal seminars and programmes. Figure 3 outlines the number of training hours provided to NAO employees for the period 2018 to 2022.

As can be seen, training hours amounted to around 2,000 per year for the period 2018-2021. In 2022, training exceeded 3,000 auditor hours, due to the participation of a number of employees in the PESA-P programme.

100% success rate in the PESA-P programme

All seven auditors from the NAO who have completed the training module and sat for the examination successfully completed their Professional Education for SAI Auditors (PESA) programme, organised by the IDI.

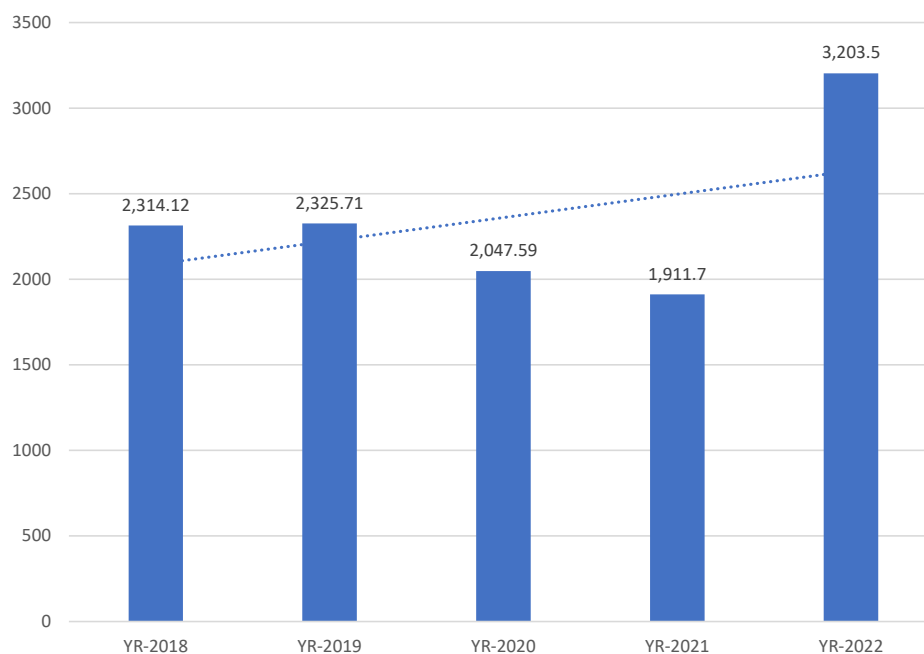
Five auditors specialising in financial audits, one auditor specialising in performance audits and another in compliance audits have successfully completed a 15-month PESA-P programme specifically intended for auditors of SAIs worldwide.

The programme was a pilot that was initially intended to deliver some 100 hours of training; in the end, it involved in excess of 600 hours. The initial intake of 880 auditors from 87 SAIs from around the world with 412 SAI coaches supporting them whittled down to 460 who sat for the final examinations, with just 186 obtaining their qualification, including all seven from the NAO.

The Maltese auditors are Clare Caruana (Compliance), Keith Gauci (Performance), and financial auditors Marion Bajada, Michelle Borg Brincat, Fleur Marie Calleja, Maria Ferriggi and Vanessa Gauci.

PESA is based on the EAR (Education, Assessment and Reflection) framework. Education is robust, with participants being provided with digitised education

Figure 3: Training | 2018-2022



covering cross-cutting competencies and their chosen specialised audit stream. Digitised education was supported by social learning, other resources and an initial professional development portfolio.

On successful completion of mandatory activities (digitised education and the initial professional development portfolio), participants were eligible to take two application-based assessment exams. Participants who achieved the pass mark of 65% were awarded a certificate of competence as an IDI-certified SAI Auditor.

The ability to exercise professional judgment is the most critical competency demonstrated by a professional auditor. Both the PESA education and the assessments provided opportunities for reflection to enable auditors to improve their ability to exercise professional judgment. Reflection ran throughout PESA and encouraged participants to ask three questions about each concept:

- what is it?
- why is it important?
- what can I do?

Reflection encouraged learners to link what they were learning to individual actions at their workplace.

INTOSAI Competency Framework

PESA's syllabus was designed to grow people towards the competencies outlined in INTOSAI's Competency Framework for Public Sector Audit Professionals at SAIs.

PESA learning outcomes are mapped to INTOSAI's competency framework, which has now also been adopted (and adapted) by the NAO. The learning outcomes cover the full range of competencies that are universally needed by SAI auditors. The syllabus

included outcomes related to the demonstration of knowledge, skills and personal attributes.

Mapped to the performance goals of professional SAI auditors, achieving these outcomes required participants to reflect on the education and apply it in the SAI context through the initial professional development portfolio.

The competency framework provided for competencies that are observable and this was reflected in the learning outcomes that were designed to be measurable, and application based. The learning outcomes were assessed in the final competency-based assessment.

Each SAI auditor participating in PESA studied seven papers in all. These included:

- two cross-cutting papers that covered learning outcomes related to reflecting on the value and benefits of SAIs, and demonstrating professional behaviour in the SAI context; and
- five functional papers related to the audit stream selected by the individual SAI auditor. The learning outcomes included demonstration of deep knowledge and skills to carry out high quality audits in one of the three chosen audit streams.

Modules were released virtually every two months or so and participants had to write assignments for each module.

Benefits

Among the benefits listed by the Maltese participants were:

- a firm grounding in the basics of conducting public sector audits;

- the cross-competencies needed across the board, including quality control, communication (both external and internal) and staying relevant;
- how audits should be planned;
- the ISSAI standards that need to be followed, including ethics and governance;
- new tools, like the ‘findings matrix’, and techniques, like sampling;
- emotional intelligence; and
- how to interact with auditees and stakeholders.

Interviews with NAO participants in the PESA course provided the following comments:

Maria pointed out that *they learned new ideas on how to apply certain concepts which, although were familiar to them, were not yet being applied at the Office. The NAO is gearing up to auditing the new accruals accounting system that is yet to be applied in the public service, so certain assignments were a bit ambiguous to answer because the participants had limited practice working on them.*

In the specialised areas, the determination of materiality was mentioned in financial auditing. Each area was split into five areas: pre-engagement activities, planning, conducting an audit, drafting the report and the follow-up.

Fleur observed that *the focus was on public sector audits, which is slightly different from private sector audits. Who is going to be held accountable?*

You are talking of a population which is much bigger than the private sector too, Vanessa added.

Michelle stated that *Although we have not started to audit accruals-based financial statements yet, we still need to work towards implementing the standards. It was also interesting to revise what I learnt at University, besides the fact that things are always changing. So, we need to keep up to date. It is highly beneficial to our work since public sector audits require different considerations.*

In performance auditing, Keith pointed to auditing tools and techniques they learned in more depth during the training course – *sampling techniques, the standards specific for performance audits and also things like how to plan – the audit design matrix. After you conduct the field work – the findings matrix, which I believe we as an Office should use a bit more.*

In compliance auditing, Clare said *she found interesting and relevant, among other aspects, the process involved in identifying the risk of non-compliance in audited entities, the procedures to be followed for the collection, analysis and storage of evidence, and the application of professional judgment and objectivity throughout the entire process.*

In terms of how practical the content was, Fleur pointed out that *it would help a great deal if the staff at the NAO were to apply the content in their work. There were documentation templates that could help us a great deal when we eventually conduct financial audits.*

Vanessa said *if they were to follow the documentation in the risk assessment, it would be ideal because it was a step-by-step guide on what to do, what to document, etc.*

Keith added that *where possible, these are all things that should be integrated in our SAI’s culture and become part of our modus operandi. They are all valid points.*

Marion stated that *it's a big change, which requires time. Certain decisions have to be taken with a certain amount of time on how it affects financial audits and even human resources.*

All agreed that the course was highly beneficial since it specialised in public sector auditing. Keith said for newcomers who were prepared to invest the necessary time it is beneficial because there is certainly a lot to learn.

As Fleur said, *It was a challenge because we had to carry on with our own work and fit in the course hours in between. However, at the end of the day, it was a personal satisfaction for each of us because we all managed to complete it.*

Social Activities

The NAO Social Committee is responsible for providing NAO employees with quality social activities and events where staff from different Sections within the Office can meet up and socialise, thus getting to know each other better. The Committee also assists the Office in fulfilling its social responsibilities.

In 2022, many of the social activities organised were held in-house with the primary purpose of enhancing team building among staff in an enjoyable and pleasant atmosphere, and at the same time raising funds for just causes. These events were more frequent towards the second half of the year when the Covid-19 health restrictions were removed.

The Committee held the traditional lunch at the commencement of the Office's Summer schedule in mid-June and another on 1 December to launch the Christmas festivities. The surplus funds collected from these events, along with funds collected from other fund-raising activities held on a regular basis, were donated to the local *L-Istrina* fund raising campaign held annually in December in aid of the Malta Community Chest Fund Foundation, a charity organisation run by HE the President of Malta. A generous amount of €1,300 was raised to help this commendable initiative.

The NAO Social Committee also organised the Pink October and Movember activities, raising breast cancer and men's health awareness, and encouraging further research in this area. All NAO employees were invited to wear pink or blue on these days, respectively, and take part in employee social gatherings at the NAO reception area. A generous amount of €367 was collected during these events, which was donated to the Malta Hospice Movement.


In December, employees participated in the Reverse Advent Calendar during which staff were encouraged to provide food items to assist the Foodbank Lifeline Foundation. This foundation provides food to over 300 families per week financed through donations and other financial support. Several NAO employees responded to this invitation and donated various food items.



Pink October activity



Movember activity


N A O
L-ET. PROF. GUIDO de MARCO

NAO

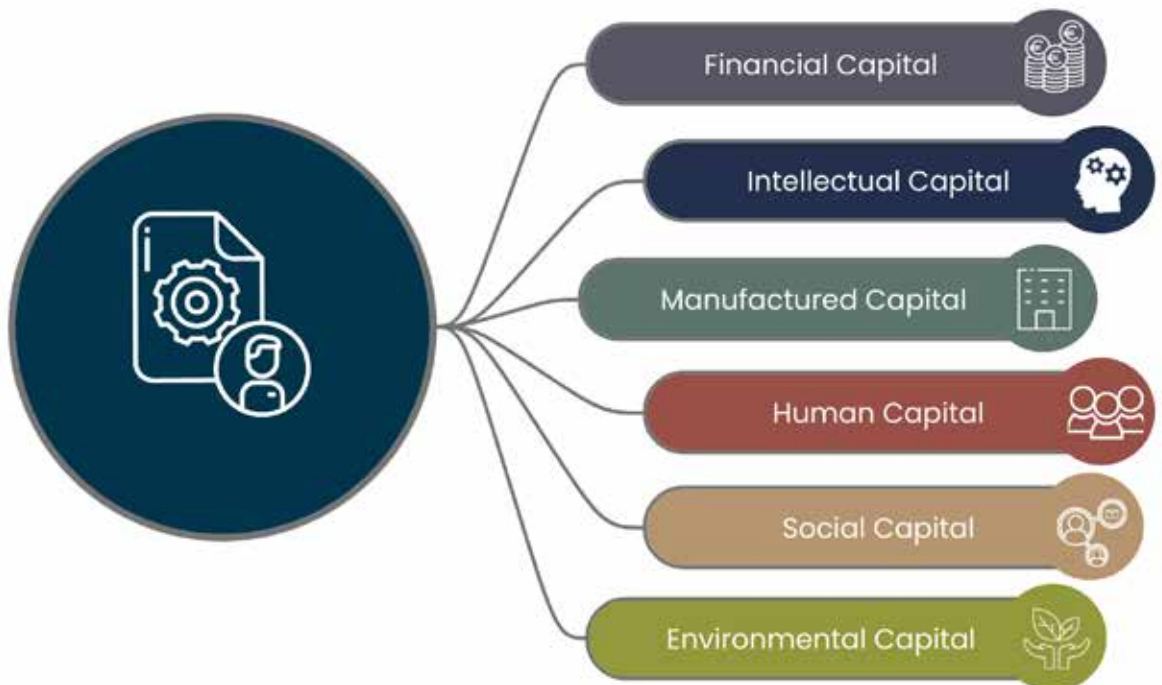
National Audit Office

PART TWO

NAO Business Model

The Office’s business model is a system whereby business processes – each of which relates to one of the diverse capitals of the NAO – transform the inputs pertaining to each individual type of capital into the related outputs and outcomes that create value over time and implement NAO strategy.

Business Model 2022



NAO Capitals

Financial Capital

The financial capital of the NAO represents the funds allocated to the Office from the Annual State Budget to enable it to effectively carry out its Constitutional and legal mandate. The Office ensures that: (i) judicious use is made of these funds in accordance with propriety, regularity and value-for-money principles; and that (ii) they are completely, accurately and fairly accounted for in the audited financial statements.

Intellectual Capital

The NAO's intellectual capital represents the diverse audit processes and methodologies – financial and compliance audits, performance audits, special audits and investigations and IT audits – employed by the Office. It also includes all the activities undertaken to implement the NAO Strategy for the period 2019-2023; the application by the Office of the INTOSAI Competency Framework and the IDI StOry System; the compilation of the book to commemorate the Office's 25th anniversary, *State Audit in Times of Transition – Reflections on Change and Continuity, Challenge and Opportunity from Malta and Beyond*; and the initial draft of the Risk Register.

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. Plans were in place by end 2022 to refurbish the top floor of the main building. The Office has also invested in new equipment in 2022.

Human Capital

Human capital encompasses employee knowledge, skills and competencies required to carry out the various audits undertaken by the NAO. Employees are qualified in a number of disciplines related to the work of the Office. Training is provided to enhance employee competencies and ensure their upskilling. A pleasant work environment at the NAO is complemented by the availability of a number of

family-friendly measures, including the possibility of remote working on a number of days per week.

Social and Relationship Capital

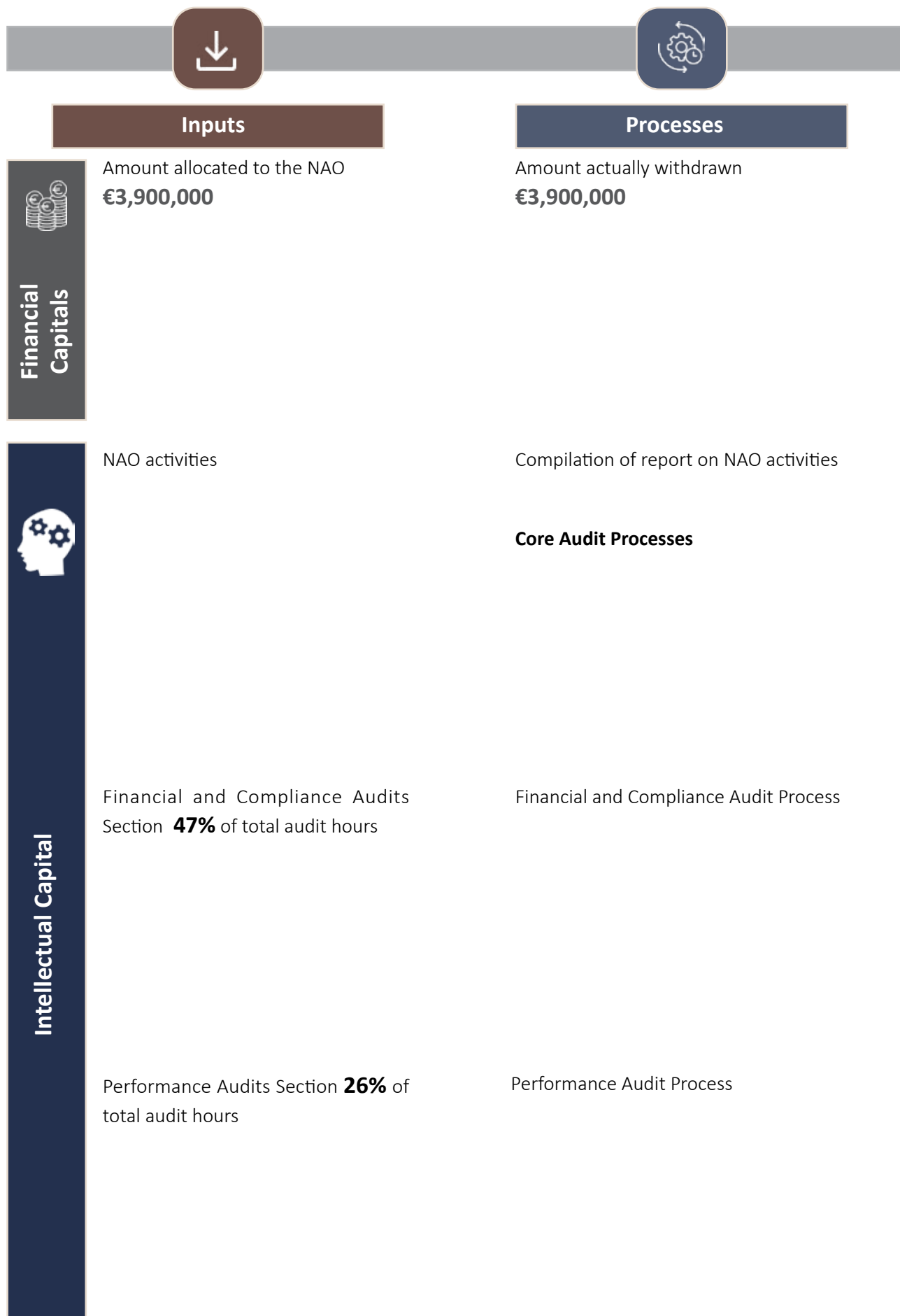
The NAO interacts with a number of stakeholders without impairing its independence. Its primary stakeholders are Parliament and auditees – its evidence-based audit and other reports, prepared in an attractive format, are presented to the Speaker of the House of Representatives, who lays them on the Table of the House at its next sitting. Audit reports contain recommendations to auditees that address shortcomings discovered during the audit. Other local stakeholders include the general 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 a number of meetings and webinars organised by foreign audit bodies and institutions. The Office also prepares replies to overseas questionnaires, surveys and other requests for information; prepares comments on international exposure drafts and/or consultation papers on audit matters; and prepares 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 common areas of the premises; efficient waste recycling and management practices have been adopted; and fewer hard copies of published audit reports are printed. Auditors are to preferably access documents and publications in virtual format rather than print hard copies. A number of meetings/webinars are attended online rather than opting to participate in person, thus resulting in decreased travel costs when compared to the pre-Covid-19 period.

The implementation of remote working has resulted in a lower cost of utilities, material and supplies, 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.

NAO Annual Report and Financial Statements 2021

Ministry for Finance and Employment An Analysis on Revenue Collection Financial Year 2020

Report on Local Government 2021

Annual Report on Public Accounts 2021 including the results of **36** financial and compliance audits

Follow-up Audit Report – Volume I consisted of **10** Financial and Compliance Follow-up audits

6 Performance Audit Reports

1 Co-operative Joint Report



Outcomes

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

Providing an overview of NAO's activities for 2021

Publicity of all audit reports presented to Speaker of the House of Representatives

Strengthened audit methodology and thus increased the value added from state audit by:

Providing an analysis of the Government Financial Report 2021; and performing an audit on the propriety and regularity of Government financial transactions and whether these transactions are in compliance with rules and regulations

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 they have been carried out economically, efficiently and effectively, as well as providing recommendations to improve public governance. One Joint Audit Report on the Management of Plastic Waste in Europe was undertaken under the auspices of the EUROSAl Working Group on Environmental Auditing





Outputs

Follow-up Audit Report – Volume II consisting of **3** Performance audits (apart from the **1** IT Audit)

3 Special Audits in progress and **2** investigations underway

1 IT Audit Report

Assistance in **1** Performance Audit

Follow-up Report – Volume II consisting of **1** IT audit (apart from the **3** Performance audits)

Analysis, findings and recommendations

NAO Strategy Action Point Teams Outputs and status

Risk Ranking System finalised and disseminated to senior management

NAO Malta Performance Measurement Framework Self-Assessment Final Report review of results in view of their implementation

Inventory of data/information sources available for use by NAO auditors in the audit process

Survey results as analysed in this report



Outcomes

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

Working on two complex investigation reports relating to the health and transport sectors, and three special audits relating to the UN Sustainable Development Goals and Disposal of Land

Issuing an IT Audit on 'Online Malta Census of Population and Housing 2021' and assisting in Performance Audit: 'The Covid-19 pandemic – Business continuity within the public administration'

Ensuring that IT audit-related Recommendations proposed by this Office are followed up by auditees

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

Enhanced information gathering, thus improving the audit process

Enhanced Office professional behaviour



Inputs

Processes

Intellectual Capital cont.



INTOSAI Competency Framework published

Meetings with web developer to upgrade the NAO website in order to be able to communicate better with stakeholders, without impairing independence, and to ensure that the Office uses latest advances in technology to promote its audit reports

IDI St0ry System

Adaptation of Competency Framework to the NAO

Review of IDI St0ry System

Scholarly book to commemorate NAO's 25th Anniversary

Drafting of scholarly articles included in NAO publication

Risk Register

Initial draft of Risk Register

Manufactured Capital



Leased Office in Floriana and stores in Valletta

Plans were made in **2022** to refurbish the top floor of the main building. A deposit of **€43,638** was made in this regard. The total estimated cost for these works is expected to be circa **€230,000**, excluding equipment described below

Office Equipment

A deposit of **€5,400** was paid in **2022** for the upgrade of the audio-visual system in the boardroom (at a total cost of **€15,335**). Local Area Network services in the main office were reinstalled and upgraded. This was part of the services provided by Malta Information Technology Agency to the Office at a total cost to the Office of **€24,629**



Outputs

Ongoing discussions with web developer for upgrade of NAO website

Adapted Competency Framework finalised and distributed to staff

Initial implementation of IDI StOry System

Soft copy of the publication *State Audit in Times of Transition – Reflections on Change and Continuity, Challenge and Opportunity from Malta and Beyond*, issued and formally launched

Risk Register will assist NAO to address its risks, and mitigate against them

A fully functional Office and storage space

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



Outcomes

Being aware of stakeholder concerns and enhanced communication of audit reports to them

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

Better monitoring of progress in strategy and audit plan implementation

An erudite account of the achievements, challenges and opportunities faced by the NAO

NAO will effectively address its organisational key risks

A pleasant and welcoming work environment/
Archiving of documents for eventual forwarding to national archives

Advances in technology assist the Office to become ever more professional and efficient



Inputs

Processes

Human Capital



50 auditors and **13** IT, Administrative and Support Staff as at 1 January 2022

25 Accountancy graduates as at 1 January 2022

21 auditors with an audit practising certificate as at 1 January 2022

18 auditors with an IPSAS Diploma as at 1 January 2022

5 auditors with an IPSAS Certificate as at 1 January 2022

9 auditors qualified in Management as at 1 January 2022

5 auditors qualified in Public Policy as at 1 January 2022

2 lawyers as at 1 January 2022

2 engineers as at 1 January 2022

2 IT auditors with a Certified Information Systems Auditor certificate issued by ISACA as at 1 January 2022

Number of hours spent on professional training consisted of **3,204** hours including completed participation by **7** auditors and **5** mentors in the IDI Professional Education for SAI Auditors – Pilot Study (PESA-P) project

Various audit related webinars



Outputs

49 auditors and **13** IT, Administrative and Support Staff as at 31 December 2022

25 Accountancy graduates as at 31 December 2022

21 auditors with an audit practising certificate as at 31 December 2022

18 auditors with an IPSAS Diploma as at 31 December 2022

5 auditors with an IPSAS Certificate as at 31 December 2022

9 auditors qualified in Management as at 31 December 2022

5 auditors qualified in Public Policy as at 31 December 2022

2 lawyers as at 31 December 2022

2 engineers as at 31 December 2022

2 IT auditors with a Certified Information Systems Auditor certificate issued by ISACA as at 31 December 2022



Outcomes

More highly trained workforce

Increase in the workforce's competences

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'

Increasing awareness in emerging issues addressed through public audit



Inputs

Processes

Human Capital cont.



1 IT auditor with a Certified Information Systems Security Manager certificate issued by ISACA as at 1 January 2022

2 IT auditors qualified in Computer Information Systems as at 1 January 2022

Others qualified in Applied Statistics, Social Science, Creativity and Innovation, Sustainable Infrastructure, and Banking and Finance as at 1 January 2022

Gender equality

Protecting the wellbeing of staff members through an appropriate work-life balance

Social Capital



10% of total audit hours were dedicated to the publication and post publication process

7% of total audit hours were dedicated to the publication process and **3%** of total audit hours were dedicated to the post publication process

Following NAO Equality policy. Information for re-certification of the Office submitted by the Finance and Administration Section

Availability of family-friendly measures and hybrid working opportunities

Increased use of infographics in audit reports and video productions

Enhanced presentation of audit results, conclusions and recommendations in audit reports

Attendance at PAC Sessions



Outputs

1 IT auditor with a Certified Information Systems Security Manager certificate issued by ISACA as at 31 December 2022

2 IT auditors qualified in Computer Information Systems as at 31 December 2022

Others qualified in Applied Statistics, Social Science, Creativity and Innovation, Sustainable Infrastructure, and Banking and Finance as at 31 December 2022

Respecting equality and supporting diversity (Equal Rights and Opportunities) – NCPE

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

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

There were many occasions when NAO reports attracted extensive coverage on print media, as well as on other social media, both public and private. Apart from extensive TV coverage, there were over 100 articles in news portals mentioning the NAO in 2022.

2 NAO Audit Reports discussed over **22** PAC meetings, **5** meetings in the 13th Legislature and **17** meetings in the 14th Legislature



Outcomes

A workplace respecting values of equality and diversity that enhances innovation

Members of staff experience adequate work-life balance

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



Inputs

Processes

Social Capital cont.



International Relations/Co-operation **1,472** hours

Article in Audit journal penned by NAO senior audit manager

Participation in international Working Groups and Task Forces, attending foreign webinars and preparing replies to questionnaires

Environmental Capital



Small gardens surrounding the Office

Garden maintenance costs in **2022** amounted to **€5,024**

Travel and transport

Expenditure on travel in **2022** amounted to **€20,109**, a **65%** decrease over the expenditure in **2019**. Transport expenses in 2022 amounted to **€15,969**, a **30%** decrease from the cost in **2021**

Utilities

Expenditure on utilities in **2022** amounted to **€20,837**, **10%** less than the cost incurred in **2019**

Material and supplies

Expenditure on material and supplies in **2022** amounted to **€4,436**, **5%** lower than the cost incurred in **2019**

Carbon footprint

Carbon emissions of **69**kg of CO₂/day, representing a **53%** decrease from **2019**



Outputs

1 article written for a foreign journal

Prepared replies to **15** surveys and attended **19** meetings abroad, apart from other webinars

Well maintained small gardens surrounding the Office

Increased environmental responsibility

Hybrid working has contributed to an overall reduction in the cost of utilities

NAO is trying to reduce paper use through the utilisation of technology

Significantly reduced level of carbon emissions since **2019**



Outcomes

More NAO exposure in international fora

More visibility of NAO in international sphere, particularly within EUROSAI and sharing of international good practices and co-operation with other SAIs

More pleasant environment for employees

NAO contribution towards better air quality

NAO contribution towards better energy saving

NAO contribution to a better environment

NAO contribution to a cleaner environment

Risks and Opportunities

Risks

The NAO is increasingly embedding risk management processes in its operations to manage those risks, threats and vulnerabilities in its external and internal environment that may impair its ability to effectively carry out its mandate and thus create value over time.

The Office actively monitors strategic risks, that is those risks associated with matters relating to the mission and achievement of strategic objectives. The NAO keeps abreast of emerging issues in auditing and ensures that these issues are incorporated in both strategic and operational audit plans. It also ensures that all audit processes within the Office are designed, implemented, reported and followed upon in accordance with international auditing standards, thus achieving its mission and strategy.

The NAO manages its financial risks, that is those related to its financial resources, especially the efficiency and transparency in the management thereof. The NAO ensures its transparency and accountability, thus countering financial risks, by employing a sound financial management process. The Office prepares annual budgets approved by Parliament, has instituted and implements a number of internal controls to manage its revenue, expenditure, assets and liabilities, and publishes its audited financial statements.

The Office is cognisant of and actively manages operational risks, that is those risks associated with failures in processes, systems or the structure of the NAO. Through its distribution of auditee survey forms, the Office ensures from those results and from additional feedback provided by auditees and other stakeholders, that audit teams demonstrate professional behaviour when undertaking audits and, as stated above, performs audits in accordance with international auditing standards.

The NAO has undertaken in the past few years a review of its processes through carrying out the NAO Malta Performance Measurement Framework, which is a self-assessment review of a number of Office operations. The implementation of the recommendations of the PMF will also assist the NAO to mitigate operational risks.

The Office, similar to other audit institutions, is exposed to legal risks that affect its ability to adhere to regulations and contractual obligations. All the NAO operations – including audit processes, activities and initiatives – are carried out:

- (i) with the sole aim to fulfil the Office's constitutional and legal mandate; and
- (ii) in full compliance with the prevailing laws, rules, regulations, professional and ethical standards, and other best practices.

In addition, all contracts signed and endorsed by the Office are scrupulously honoured and fulfilled.

The NAO faces technological risks, that is the risks that relate to the ability of the Office's technological tools to support the achievement of strategic objectives. The Office keeps track of developments in the technological field and, at regular intervals, upgrades its IT infrastructure and other equipment to reflect the latest advancements in technology. In the recent past, the NAO seamlessly implemented remote working infrastructure and introduced new software for its strategic and operational planning, as well as for its time recording and payroll systems.

The Office effectively manages integrity risks, that is those situations or events that, if they materialise, would affect the Office's ethical environment and principles. The NAO senior management ensures that they, together with all NAO management and employees, comply with the Code of Professional

Conduct of the National Audit Office and other codes of professional conduct applicable to the professional bodies of which they are members.

All NAO officials are expected to exercise ethical and professional behaviour in all circumstances, both in their work environment and in their private lives. In particular, they are required to strictly adhere to regulations on conflict of interest and confidentiality, and other situations in which their sense of professionalism and objectivity may be or may seem to be impaired.

The NAO effectively deals with its reputation and image risks. These risks, if materialised, could damage the way in which stakeholders perceive the institution. The NAO ensures that its audit and other reports:

- (i) are based on evidence; and
- (ii) as stated previously, follow the application of professional international auditing standards.

In addition, audit teams are requested to, in all circumstances, exercise professional behaviour and due care. The Office ensures that any communication with the media and other stakeholders is carried out with utmost professionalism without impairing the Office's independence.

Opportunities

The NAO is in the process of exploiting a number of emerging issues in its external and internal environment that will assist it to create further value over time.

First of all, the Office continues to incorporate environmental concerns in its strategic and operational audit planning. Three key areas of interest to the Office in this regard are:

- (i) green procurement;
- (ii) the switch to renewable energy sources by Government; and
- (iii) the implementation of the United Nations Sustainable Development Goals (SDGs) in Malta.

The NAO, through its numerous contacts with auditees, may take the opportunity to promote the latter's implementation of further advances in technology, such as cloud computing, the internet of things, artificial intelligence and fintech. These IT tools will help to expedite both the audited entities' internal operational processes and those with a public interface, in particular public entities' payment systems.

The Office is to increasingly adopt relevant technological developments in its operations, in particular the use of data analytics in auditing, as well as the procurement and implementation of audit management software. The latter will greatly assist in consolidating audit quality control and assurance processes.

The NAO is to continue to lend its support, through its expertise in the field, to the implementation of accrual accounting across Government. This could be achieved by encouraging the rollout of further modules of the CFMS in government ministries and departments, and endorsing the implementation of the IPSAS to public sector financial reporting.

The Office has also kickstarted a potential restructuring process with two aims:

- (i) to implement the recommendations of the NAO PMF Report; and

- (ii) to consolidate and further improve on the excellent results achieved so far.

In this way, the Office will ensure that the institution remains relevant in a constantly changing environment.

The NAO also intends to consolidate its relationship with local and foreign stakeholders by continuing to actively take part in local committees and foreign working groups. In this way, the Office takes the opportunity to build further professional alliances with other audit bodies, academic institutions and other stakeholders without in any way impairing its independence. This approach is key to ensuring that the NAO keeps abreast of all developments in state audit.

Strategy and Resource Allocation

National Audit Office Strategy 2019-2023

The National Audit Office Strategy for 2019-2023 identified six strategic goals to be achieved during this time to improve governance and performance across the public sector.

The six strategic goals are to:

1. contribute to ensuring accountability in the use of public resources;
2. encourage and facilitate improvements in the quality of governance by advocating transparency in decision-making, contributing well-informed reports to foster parliamentary and public debate, disseminating good practice, promoting value for money, and

catalysing changes in administrative practice and procedure;

3. become a leader in selected fields of public sector audit and to be acknowledged as a centre of excellence and expertise within Maltese public administration;
4. cultivate mutually beneficial working relationships with auditees, scrutineers and peers, within the constraints set by ethical standards requiring the professional independence of external state auditors;
5. increase the value for money yielded by state audit; and
6. formulate audit plans on established criteria, with a particular focus on materiality and risk.

NAO Strategy Action Points

To implement these strategic goals, six strategy action groups were set up to undertake a number of assignments. These teams, their team leaders, their goals and their outcomes, as reported in last year's Report, are summarised in Table 2.

In 2022, most of these groups continued the implementation phase of their project outcomes, in particular teams A, D and E. Teams C and F are awaiting the finalisation of the new NAO website to fully implement their conclusions.

Team B completed the first phase of its project in 2022.

Table 2: List of NAO Strategy Action Point Team Goals and Outputs

Team	Team Leader	Team Goal	Team Output
A	Sharon Borg Finn, Audit Manager Financial and Compliance Audits Section	Identifying Best Sources of Information	Information Sources Register and related Guidelines
B	William Peplow, Senior Audit Manager Performance Audits Section	Identification of risk areas/ Selecting more relevant audit areas	Paper on 'Identification of Risk Areas/Selecting More Relevant Audit Areas'
C	Simon Vassallo, Audit Manager Performance Audits Section	Opening of communication channels for selection of audit topics/Providing opportunities to the public and stakeholders	Identification of three preferred communication channels with stakeholders: (a) submission of suggestions through the NAO website forms; (b) more extensive use of email; and (c) more extensive use of social media
D	Ian Rizzo, Manager Finance and Administration; Josephine Vella, Audit Manager SA&I Section; and Orland Bonavia, Audit Manager Financial and Compliance Audits Section ²	SAI Performance Measurement Framework	Finalisation of NAO PMF Self-Assessment Report
E	Maressa Stivala, Audit Manager SA&I Section	Feedback from auditees re audit process and on auditors	Survey Template and Procedure Manual
F	Simon Camilleri, Audit Manager IT Audits and Operations Section	Promote NAO reports through diverse media	Update of NAO social media pages and website, and preparation of video clips on some reports

² Ian Rizzo led the team when the first draft report was presented to senior management. Josephine Vella and Orland Bonavia led the team when the final report was presented to senior management after discussions on the original draft.

Resource allocation according to risk

The new Risk Assessment Framework to be adopted across the NAO in its audit planning now has a five-part risk weighting to guide all Sections with a uniform approach.

The Risk Assessment Framework Group (RAFG) is one of the action points that came out of the NAO five-year strategy 2019-2023, being implemented in different phases. Audit resources are to be allocated according to risk to enable the Office to maximise on the return of the allocation of its resources, in part by ensuring that audit coverage correlates to the risks prevalent in the various government ministries and entities.

With Section heads previously taking a different approach to assess risk, one of the major tasks of the RAFG was to establish a common method to assess risk that would be applied universally across the Office. Ownership should also be held centrally rather than by the Sections.

An Action Point Team, headed by Senior Audit Manager William Peplow, was set up with four members: George Calleja Gera and Lindsey Galea from the Performance Audits Section together with Doreen Caruana and Maria Ferriggi from the Financial and Compliance Audits Section. The team's first task was to establish the audit universe. It started with the organisations featuring in the Government Estimates as a pilot since this did not cover all government entities and organisations.

The second task was to find out from each Section what they considered risky. By breaking down all the risk elements identified, some element of harmonisation could be established, simplifying the process.

The AAGs and Section managers were then asked to give the various government organisations a score

according to risk elements that were to be used across the NAO. This was divided into five main parts with different weightings but common definitions so that all Sections would work uniformly:

- materiality – based and weighted according to the budget allocation;
- control environment/vulnerability – the extent to which a particular vote is open to potential fraud and/or error;
- sensitivity – the extent of the impact on the entity and/or its stakeholders;
- management concerns – the extent to which initiatives/systems/actions within a Vote have failed in the recent past and is due to recurrent failure; and
- last audits carried out by the NAO – the period since the last audit was carried out.

The purpose of the fifth part is not only to check back on certain audits after a certain amount of time has elapsed, but also for the presence of NAO auditors in the departments to act as a deterrent.

There was acceptance, co-ordination and understanding from everyone, who willingly gave a helping hand, since this was a time-consuming process. Above all, professional judgment remains critical and cannot be ignored. Space within the audit plan must also be left for requests by the AG or senior management to delve into a particular area for whatever reason.

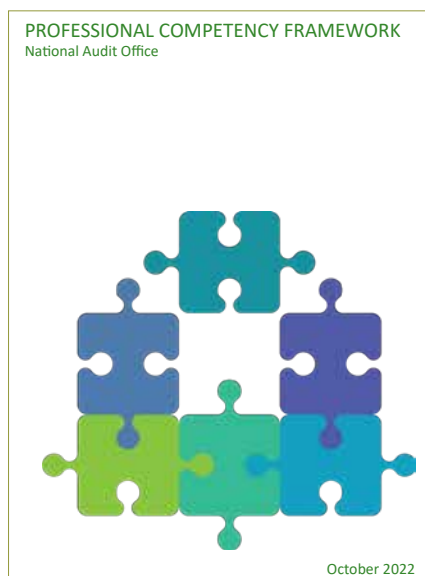
The IDI requested the NAO to deliver a presentation on how it is developing its model and it was also asked to give a presentation to the DR Congo, who are trying to develop guidelines along these lines.

The Office is currently in the second phase of this exercise – the collection of the complete information on all government entities and organisations. It is hoped that, by the end of this year, it would be standard practice for each Section within the NAO to collect risk-related intelligence after every audit. Other elements of risk, such as the number and materiality of direct orders, along with Government-commissioned reports on internal controls at ministries and departments, are also being considered.

Elements of the risk scoring were already adopted across the Office in the 2023 Audit Plan.

A Professional Competency Framework for the NAO

On 24 October 2022, as part of a further strategic initiative, the NAO’s management adopted a Professional Competency Framework (PCF) that established auditors’ competency requirements in the three core areas of the Office’s mandate, namely compliance auditing, performance auditing and financial auditing.



The competency requirements, as defined in this document, are based on ISSAI 150 (Auditor Competence) and GUID 1950 (Guidance on the Development of Competency Frameworks for Auditors), as published by INTOSAI, which at the time of publication of the competency framework were still in exposure draft format.

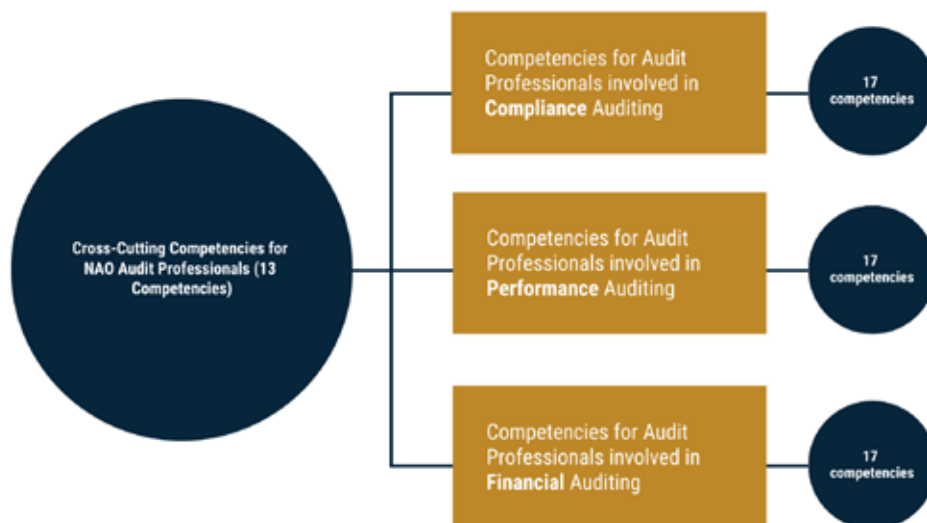
Both ISSAI 150 and GUID 1950 have been approved by the Congress plenary session of the XXIV INTOSAI Congress, held between 7 and 11 November 2022 in Rio De Janeiro.

The principles behind the establishment of the PCF will be applied in the recruitment of new staff and in the development, maintenance and assessment of competencies for existing staff.

The PCF document lists:

- 13 cross-cutting competencies that are grouped into four clusters across all audit disciplines;
- 17 deep subject matter expertise competencies for each of the three respective audit disciplines in compliance, performance and financial auditing. These 17 competencies are grouped into five common clusters for every audit discipline; and
- five competencies that are specifically defined for the NAO.

Figure 4: Competencies for NAO Audit Professionals



The horizontal bar that defines the core competencies for all disciplines has been based on four clusters (A-D).

- A. Leading by example (4 competencies)
 - A1: Ethics [1]
 - A2: Personal accountability [2]
 - A3: Diversity [3]
 - A4: Basic leadership skills [4]

- B. Engaging effectively with stakeholders (2 competencies)
 - B1: Understanding stakeholders [5]
 - B2: Communication with them [6]

- C. Behaving in a professional manner (4 competencies)
 - C1: Knowledge of ISSAIs [7]
 - C2: ICT skills [8]
 - C3: Continuously striving for excellence [9]
 - C4: Emotional intelligence [10]

- D. Contributing to the values and benefits of the SAI (3 competencies)
 - D1: Contribution to SAI performance [11]
 - D2: Contribution to effective management [12]
 - D3: Acting in the public interest [13]

These four clusters encompass 13 competencies.

The vertical bars of the T-model represent the depth of related skills and expertise required in the respective fields of financial, compliance and performance auditing (deep subject matter expertise). The competences of each discipline are grouped into five clusters (A-E) that have been categorised as follows:

- A. Adding value through the conduct of ISSAI-compliant audits (4 competencies):
 - A1: Nature, purpose and objectives [1]
 - A2: Key concepts of audit discipline [2]
 - A3: Quality audits [3]
 - A4: Professional judgment and scepticism [4]

- B. Understanding context, environment and the audited entity (2 competencies):
 - B1: Understanding the environment [5]
 - B2: Evaluating the environment [6]

- C. Assessing and managing risk in the audit (3 competencies):
 - C1: Materiality [7]
 - C2: Audit risk assessment [8]
 - C3: Audit risk management [9]

- D. Performing and documenting procedures as per ISSAI (6 competencies):
 - D1: Internal control system evaluation/audit objectives [10]
 - D2: Audit procedures to manage audit risk/criteria [11]
 - D3: Sampling [12]
 - D4: Gathering and evaluating audit evidence [13]
 - D5: Documentation [14]
 - D6: Communication [15]

- E. Communicating effectively and following up results (2 competencies)
 - E1: Audit reporting [16]
 - E2: Follow-up [17]

Apart from the core competencies, there are other additional competencies that are specifically defined for the NAO. These can be summed up mainly into five categories:

- constitutional provisions and national legislation that define the set-up and mandate of the Office;
- other financial legislation related to the Public Service and the Public Sector;
- public service financial management procedures;
- the Office's stakeholders and the inter-relationship between them; and
- the Office methodologies, needs and practices.

The PCF builds on the Office's concurrent pronouncement to adopt the ISSAIs, as defined by the INTOSAI framework. Staff will be encouraged by their management to familiarise themselves with all the professional pronouncements published by INTOSAI as referenced in the document.

The Framework aims to provide the building blocks for the other three organisational elements required by ISSAI 150 to ensure that a fully-fledged system of competencies is in place: human resource management processes and practices, professional development and means of assessment.

In line with the SAI-PMF exercise that was conducted in 2020, the PCF seeks to further encourage and guide staff to conduct ISSAI-compliant audits and support ISSAI implantation within the Office.

The outcomes of the PESA learning programme, as developed by IDI, are also mapped to INTOSAI's competency framework, as defined under GUID 1950.

In late 2022, the Performance Review Form for 2022 was revised to include a requirement from all Audit Managers to list a minimum of three competencies from the PCF that every individual member of staff under their assessment could develop further. The

Office intends to use this information for the planning of Continued Professional Development (CPD) in current and future years.

In January 2023, the Office made explicit reference to the PCF in the call issued for officers to apply for progression to the Principal Auditor grade within the Performance Audits Section. Audit Managers were requested to provide a report on the applicants' knowledge, skills and competencies relating to this framework. The Office intends to provide further briefings and discussions on how the Office's PCF can be a more effective point of reference for staff since the document needs to be updated from time to time.

The StOry Platform

Another strategic initiative was the procurement of StOry, a web-based platform that offers the key tools to bring strategy, strategic management and operational management into the digital age. It assists SAIs to design and manage their strategic and operational plans and follow their implementation using a digital interface.

A detailed update on this strategic initiative was given by the DAG in his overview (see pp 12-14).

“Meħtieġa mizuri aktar b’saħħithom dwar it-trattament tal-iskart tal-plastik fl-Ewropa”

Rapport tal-Awdituri Ġenerali ta’ 12-il pajjiż, fosthom Malta, dwar kif qed jiġi trattat l-iskart tal-plastik fl-Ewropa kkonkluda li t-tniġġis mill-plastik hu ta’ theddida serja għall-ambjent; bi problemi lil ekosistemi fosthom lill-bniedem.

Fost sorsi godda ta’ tniġġiz li qed jiġu investigati hemm il-mikroplastik, li huma biċċiet żgħir ħafna – anqas minn ħames millimetri – li qed jakkumulaw fl-ibħra. Id-daqs żgħir ta’ dan il-materjal jagħmilha faċli biex jinbela’ mill-ħlejjaq marittimi. Ir-rapport josserva li l-mikroplastik jinsab ukoll fl-arja, fl-ilma tax-xita u tax-xorb, fl-ikel u saħanistra fid-demman uman. Ingibdet l-attenzjoni li l-mikroplastik jiddikomponi bil-mod ħafna, b’dan il-fattur jagħmel il-ħarsien tal-ambjent aktar diffiċli għall-generazzjonijiet li ġejjin.

TVM, 18 ta’ Mejju 2022

Concluding Notes

Outlook

As stated under Opportunities, the NAO is aiming to carry out those changes deemed necessary within the organisation to be able to better deliver on its constitutional and legal mandates. Change is necessary to fill in present gaps, particularly as identified in the SAI PMF carried out recently, and to exploit new opportunities and address emerging challenges.

The AG's Foreword referred to various changes which the Office may need to undertake, making particular reference to the fact that the Office is currently gearing up for the introduction of accrual accounting in the Public Service. Moreover, in recent years it carried out the SAI Performance Measurement Framework (PMF) exercise, which identified certain gaps and shortcomings, as well as certain recommendations to better address these issues.

The NAO's 25th anniversary, particularly through the publication commemorating this event, also gave it the opportunity to reflect on its current work and plan adequately the future of the Office in view of current challenges and opportunities. Furthermore, at the end of 2023, the current five-year Strategic Plan comes to an end. Thus, the NAO will need to design and launch the next five-year Strategic Plan up to 2028.

Moreover, senior management is continually analysing and reviewing the Office's operations and methodologies with the ultimate aim to enhance

even further its effectiveness and efficiency. In this respect, the NAO's management is discussing the Office's way forward. It has also involved staff to present submissions for the restructuring of the Office and has identified a number of themes.

These relate to the structural reorganisation of the NAO, which includes the possible restructuring of existing Sections, the exploration of opportunities for career progression, the revision of the present grade structure, reflections on the adequacy of the Office's staff complement and the need for greater organisational flexibility.

The 2023-2028 Strategic Plan will continue to build on its current Strategic Plan, reflect the above developments, tap into emerging issues in the state audit field, as well as further strengthen co-operation with its stakeholders. This will help ensure that the NAO achieves its vision of providing 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.

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 2022

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 2022.

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 63 persons (equivalent to 58 full-timers). The reports consisted of six performance audit reports, a EUROSAI Working Group on Environmental Auditing joint report on Management of Plastic Waste in Europe, one IT audit report, an annual report on the public accounts of 2021, an annual report on the audited financial statements of the local councils for year ending 2021, a report containing an analysis on revenue collection by the Ministry for Finance and Employment, two consolidated follow-up audit reports, and the annual report and financial statements of the Office for 2021.

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

Published Reports:

Financial and Compliance Audits:

- i. Report by the Auditor General on the Public Accounts for the year 2021;
- ii. Report by the Auditor General on the Workings of Local Government for the year 2021; and
- iii. Report by the Auditor General on the Ministry for Finance and Employment: An Analysis on Revenue Collection.

Performance Audits:

- i. Assisting Individuals with Dementia and their Caregivers within the Community;
- ii. Procuring the Public Transportation Service;
- iii. The Covid-19 pandemic – Business continuity within the public administration;
- iv. Care for the Elderly in Gozo;
- v. A Follow-Up on the 2018 Strategic Overview of Mount Carmel Hospital;
- vi. An evaluation of performance audits in the public sector: Common audit findings (2017-2020); and
- vii. Joint Report on Management of Plastic Waste in Europe.

Information Technology Audits:

- i. Online Malta Census of Population and Housing 2021.

Other

- i. Annual Report and Financial Statements of the National Audit Office – 2021;
- ii. Follow-up Audits Report by the National Audit Office – 2022 Volume I; and
- iii. Follow-up Audits Report by the National Audit Office – 2022 Volume II.

Financial Review

The Office was granted a budget allocation of €3.9 million from central government for 2022. Funds utilised from this allocation during the year amounted to €3.55 million, consisting principally of salaries (81%), sub-contracted audit fees of local councils (9%) and administrative expenses (10%).

Salaries increased by a small margin of less than 1% over the year, as the average number of employees dropped slightly from 64 persons in 2022 to 63 persons – mostly being due to staff availing themselves of unpaid, short-term parental leave. The full-time equivalent number remained static at 58 employees. There was no recruitment or any resignations during the year.

The audit fees of local councils also experienced a slight decrease in cost over the year as a new public tender issued last year awarded the audit of local councils to the only two private audit firms that submitted separate bids for the regions of Malta and Gozo.

Administrative expenses increased in 2022 by €45,499, most notably in office expenses, travel, contractual expenses, training, hospitality and commemoration of the Office's 25th anniversary. An increase in administrative expenses was to be expected in view of the return to normalcy in 2022 from the preceding two years of disruption by Covid-19. Nevertheless, the administrative expenditure remained below the €400,000 par that was the average trend achieved in the past five years.

The surplus originating from the unutilised withdrawals of allocated funds has been reflected in the increase of cash balances, amounting to €849,083 at the end of the year. The Office intends to retain these surplus cash balances for the refurbishment of the upper floor of the main building and the capital project for the new building annex, whose designs were initiated in 2020.

Against the cash balances, stands the amount of €408,631 in payables due for settlement within one year, consisting mostly of the accrued performance bonuses to staff, amounts not yet invoiced for local council fees and the treasury pension for 2022.

Included under payables of €508,631 in the Balance Sheet is deferred income, amounting to €100,000 that represents the amount used from the Government allocation last year to finance the initial costs of the building project of €94,524, being included in the debtors' balances.

Capital expenditure for 2022 amounted to only €13,266.

Capital Commitments

During 2022, no further expenditure was incurred on the capital project of a new building annex to the main building since the architect sought to revise the original site plan in the wake of objections lodged from interested parties following submission to the Environment and Resources Authority (ERA) in September 2021. The revised site plan is expected to be submitted to the ERA by mid-2023.

Reserves

After adding the surplus of €374,936 to the balance of the profit and loss account as at the beginning of the year, the surplus balance in the profit or loss account at the end of 2022, amounting to €512,657 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

18 May 2023

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2022

	Notes	2022 €	2021 €
Government subvention	6	3,900,000	3,750,000
Other income	7	9,645	24,493
Operating expenditure			
Salaries and personnel expenses	8	(2,873,260)	(2,865,998)
Administrative and other expenses	9	(367,188)	(321,689)
Sub-contracted audit fees of local councils		(312,700)	(322,864)
		(3,553,148)	(3,510,551)
Results from operating activities before pension costs		356,497	263,942
Provision for service pensions and gratuities	11	18,213	27,423
Results from operating activities		374,710	291,365
Bank interest receivable		226	175
Surplus for the year		374,936	291,540
Total comprehensive income for the year		374,936	291,540

The accounting policies and explanatory notes on pages 106 to 117 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2022

	Notes	2022 €	2021 €
ASSETS			
Non-current assets			
Property and equipment	10	<u>275,900</u>	354,526
Current assets			
Debtors and prepayments		150,389	109,079
Cash and cash equivalents	13	<u>849,083</u>	466,915
		999,472	575,994
Total assets		<u>1,275,372</u>	930,520
RESERVES AND LIABILITIES			
Non-current liabilities			
Provision for service pensions and gratuities	11	<u>194,563</u>	272,640
Current liabilities			
Payables	12	508,631	458,898
Provision for service pensions and gratuities	11	<u>59,521</u>	61,261
		568,152	520,159
Total liabilities		<u>762,715</u>	792,799
Reserves			
Profit and Loss Account		<u>512,657</u>	137,721
Total reserves		512,657	137,721
Total liabilities and reserves		<u>1,275,372</u>	930,520

The accounting policies and explanatory notes on pages 106 to 117 form an integral part of the financial statements.

The financial statements on pages 102 to 117 have been authorised for issue on 18 May 2023 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 2022

	€
Balance at 1 January 2021	(153,819)
Total comprehensive income for the year	
Surplus for the year	291,540
Balance at 31 December 2021	137,721
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

The accounting policies and explanatory notes on pages 106 to 117 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2022

	2022	2021
Note	€	€
Cash flows from operating activities		
Surplus for the year	374,936	291,540
<i>Non-cash adjustments to reconcile surplus to net cash flows:</i>		
Depreciation	91,892	108,147
Bank interest receivable	(226)	(175)
Provision for service pensions and gratuities	(18,213)	(27,423)
Amortisation of grant for ICT expenditure	-	(3,333)
	448,389	368,756
Movement in debtors and prepayments	(41,310)	(89,396)
Movement in payables	49,733	(17,588)
Movement in provision for service pensions and gratuities	(61,604)	(61,768)
Cash generated from operating activities	395,208	200,004
Bank interest received	226	175
Net cash from operating activities	395,434	200,179
Cash flows from investing activities		
Building improvements and purchase of equipment	(13,266)	(24,320)
Cash used in investing activities	(13,266)	(24,320)
Cash flows from financing activities		
Capital allocation from Government subvention	-	100,000
Cash from financing activities	-	100,000
Net increase in cash and cash equivalents	382,168	275,859
Cash and cash equivalents at 1 January	466,915	191,056
Cash and cash equivalents at 31 December	849,083	466,915

The accounting policies and explanatory notes on pages 106 to 117 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 3.8.

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*

2.4 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 2022. 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 2023 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. SIGNIFICANT 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 profit or loss on approval of the allocated amount in the Budgetary Estimates by the Ministry for Finance.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

3.2 Finance income

Finance income comprises interest receivable on bank balances. Interest is recognised as it accrues in profit or loss, using the effective interest method.

3.3 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.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

3.3 Financial instruments - *continued*

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.

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.

3.4 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.

3.5 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.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

3.5 Property and equipment - *continued*

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 profit or loss.

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 profit or loss.

Depreciation

Depreciation is recognised in profit or loss 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.

3.6 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.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

3.6 Impairment - *continued*

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).

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 profit or loss.

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.

3.7 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 profit or loss in the periods during which services are rendered by employees.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

3.8 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.

3.9 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 profit or loss.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

6. GOVERNMENT SUBVENTION

	2022	2021
	€	€
Authorised by the House of Representatives	3,900,000	3,850,000
Amounts withdrawn	3,900,000	3,850,000
Amount to cover operations recognised in Profit or Loss Account	3,900,000	3,750,000
Subvention to cover capital expenditure (<i>Note 12</i>)	-	100,000
	3,900,000	3,850,000

7. OTHER INCOME

	2022	2021
	€	€
Audit fee of a Non-Government Organisation	3,000	3,000
Reimbursements	1,883	10,507
INTOSAI grant received (<i>Note 12</i>)	4,762	3,333
EU Funding on training project	-	7,653
	9,645	24,493

8. SALARIES AND PERSONNEL EXPENSES

	2022	2021
	€	€
Salaries	2,724,025	2,717,247
Social security contributions	149,235	148,751
	2,873,260	2,865,998

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

	2022	2021
	No.	No.
Senior management	5	5
Operating	46	47
Administration and IT	9	9
Messenger staff	3	3
	63	64
Equivalent number of full-time employees	58	58

During the year, a total of 15 persons (2021: 19) worked on a reduced hours basis. This is equivalent to 24% (2021: 30%) of the workforce.

NOTES TO THE FINANCIAL STATEMENTS - *continued*

9. EXPENSES BY NATURE

	2022	2021
	€	€
Auditors' remuneration	4,750	4,750
Professional fees	12,146	17,580
Depreciation of property and equipment	91,892	108,147
Learning and professional development	13,944	2,261
Other administrative expenses	244,456	188,951
Total administrative and other expenses	367,188	321,689

10. PROPERTY AND EQUIPMENT

	Building Improvements	Equipment	Computer equipment and software	Motor vehicles	Furniture and fittings	Total
	€	€	€	€	€	€
Cost						
At 1 January 2021	803,509	121,835	205,925	116,358	160,857	1,408,484
Additions	–	8,445	15,179	–	696	24,320
At 31 December 2021	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
Depreciation						
At 1 January 2021	474,499	107,509	165,805	76,483	145,835	970,131
Depreciation charge for the year	53,788	7,423	32,108	11,959	2,869	108,147
At 31 December 2021	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
Carrying amount						
At 31 December 2022	225,134	14,887	8,499	15,957	11,423	275,900
At 31 December 2021	275,222	15,348	23,191	27,916	12,849	354,526

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:

	2022	2021
	€	€
Non-current	194,563	272,640
Current	59,521	61,261
	254,084	333,901

Of the non-current portion of the provision, an amount of €90,398 (2021: €131,311) 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:

	2022	2021
	€	€
Service pensions and gratuities as at 1 January	333,901	423,092
Movement in provisions during the year	(18,213)	(27,423)
Provisions used during the year	(61,604)	(61,768)
Service pensions and gratuities as at 31 December	254,084	333,901

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 2022 is arrived at by discounting the post-employment benefit obligations of the Office using the year-end yield to maturity of 3.5% on 7% 2027 II Government bonds (2021: 0.56% on 5.25% 2030 I 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 (2021: 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

Due within one Year	2022	2021
	€	€
Operational and capital payables	15,349	10,891
Grant received	-	3,333
Accrued expenses	331,678	282,906
Amount due to Treasury for pension contributions	61,604	61,768
Deferred Government subvention on capital expenditure (Note 6)	100,000	100,000
	508,631	458,898

13. CASH AND CASH EQUIVALENTS

	2022	2021
	€	€
Cash at bank	848,969	466,258
Cash in hand	114	657
	849,083	466,915



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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 2022 and the statement of profit or loss and 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 a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Office as at 31 December 2022, 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.

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.



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

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 determine 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.

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.

A handwritten signature in blue ink, appearing to be 'Christopher Balzan', is written over a faint, light blue circular stamp.

*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

18 May 2023

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

2022-2023 (to date) Reports issued by NAO

NAO Annual Report and Financial Statements

July 2022 National Audit Office Annual Report and Financial Statements 2021

NAO Audit Reports

June 2022 An evaluation of performance audits in the public sector: Common audit findings (2017 – 2020)

June 2022 Follow-up Audits Report by the National Audit Office Volume I 2022

July 2022 Performance Audit: Procuring the Public Transportation Service

October 2022 Performance Audit: The COVID-19 pandemic - Business continuity within the public administration

October 2022 Performance Audit: A Follow-up on the 2018 Strategic Overview of Mount Carmel Hospital

November 2022 Follow-up Audits Report by the National Audit Office Volume II 2022

November 2022 Report by the Auditor General on the workings of Local Government for the year 2021

November 2022 Performance Audit: Care for the Elderly in Gozo

December 2022 IT Audit: Online Malta Census of Population and Housing 2021

December 2022 Report by the Auditor General on the Public Accounts 2021

February 2023 IT Audit: Active Ageing and Community Care – Ministry for Active Ageing

April 2023 Performance Audit: An assessment of capital projects at the University of Malta

April 2023 Performance Audit: Ensuring fair Non-Contributory Social Benefits and safeguarding against related fraud

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