

NATIONAL AUDIT OFFICE

Annual Report and Financial Statements 2019



National Audit Office
Annual Report and
Financial Statements

2019

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Abbreviations

ACCA	Association of Chartered Certified Accountants
AG	Auditor General
ASOSAI	Asian Organisation of Supreme Audit Institutions
CIPFA	Chartered Institute of Public Finance and Accountancy
CONNECT	Communications Networks, Content and Technology
DAG	Deputy Auditor General
DG	Directorate-General
DIGIT	Informatics
ECA	European Court of Auditors
ECL	Expected Credit Losses
ESM	European Stability Mechanism
ESTAT	Eurostat – European Statistics
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
EU-SILC	European Union Statistics on Income and Living Conditions
FCICM	Financial Crime Investigation and Case Management
HR	Human Resources
IAS	International Accounting Standard
ICT	Information and Communication Technology
IDI	INTOSAI Development Initiative
IESBA	International Ethics Standard Board 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
ISAM	IDI SDGs Audit Model
ISSAI	International Standard of Supreme Audit Institutions
IT	Information Technology
ITASA	IT Audit Self-Assessment
ITSA	IT Self-Assessment
ITWG	IT Working Group
JAC	Judiciary Appointments Committee
MCAST	Malta College of Arts, Science and Technology

Abbreviations continued

MDH	Mater Dei Hospital
MPA	Marine Protected Area
NAO	National Audit Office
NCPE	National Commission for the Promotion of Equality
NGO	Non-Governmental Organisation
NIK	Polish Supreme Audit Office
OECD	Organisation for Economic Co-operation and Development
OP	Publications Office
PAC	Public Accounts Committee
PMF	Performance Measurement Framework
SAI	Supreme Audit Institution
SDG	Sustainable Development Goal
SIC	Standard Interpretations Committee
TiNA	Technology and Innovation for Audit
TV	Television
TVM	Television Malta
UN	United Nations
YES	Young EUROSAI

FOREWORD Auditor General's Overview



Tribute to our extraordinary team

As highlighted throughout this Annual Report on our work and activities, 2019 has been another extremely busy and eventful year for the National Audit Office. Undoubtedly, the excellent results achieved once again by our Office would surely not have been possible without the commitment, resilience and competence of all our staff.

Together we managed to overcome various challenges and difficulties to ensure that our principal objective – essentially “to promote the efficiency, accountability, effectiveness and transparency of public administration”, as aptly stated in the International Standard of Supreme Audit Institutions 12: *The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens* – continues to be carried out in the best manner possible. Bottom line, I consider this Annual Report as a well-deserved tribute to our extraordinary team, whom I feel honoured and humbled to lead.

Our core service – and it is important to emphasise that, as the public sector's external auditor, we are essentially a service-oriented organisation – is to

provide assurance to Parliament and, ultimately, to our citizens, that public resources are being used in the best manner possible and in line with prevailing rules and regulations. We do this through the publication of our various audit reports that are presented to the Hon. Speaker in the course of the year for circulation to all elected members of the House of Representatives.

All our reports are invariably based on an objective, fair and professional analysis of a specific area, as determined in our audit scope, duly reporting any particular issues or concerns that are identified during the audit. The most important aspect of our auditing work, however, is to propose to the auditee doable and realistic recommendations to address any such shortcomings; thus, our main focus is to contribute to enhanced good governance across the public sector once these shortcomings are effectively addressed.

Some of our reports are eventually scrutinised by the Public Accounts Committee, a Parliamentary Select Committee that provides added value to our work. For this reason, during various PAC meetings throughout the year, we reiterated our commitment to actively support the work of this important Committee, as deemed necessary.

We strongly believe that we need to do our utmost to likewise promulgate good governance within our own organisation to be in the best position to enhance good governance across the public service. As clearly stated in the preamble of the aforesaid ISSAI 12, national audit institutions like ours “only deserve trust if they themselves are objectively judged as being credible, competent and independent and can be held accountable for their operations. In order to make this possible, they need to be model institutions, setting an example from which others in the public sector and the auditing profession at large can learn.” Enjoying the trust of Parliament and its citizens is indeed a *sine qua non* condition for every national audit institution.

For this reason, throughout the year we embarked on various initiatives focused on identifying new work methods and procedures so that we may enhance even further the level of efficiency and effectiveness within our organisation. This included the setting up of six internal Action Teams, composed of managers and audit staff from across all sections within the NAO, that were tasked to come up with ideas and proposals on specific areas related to the *NAO Strategic Plan 2019-2023*, which we launched in October 2018.

This experiment produced the desired results, as shown by the extensive work undertaken during the year by all the participants involved in these teams. Indeed, the gradual implementation of these new initiatives is already leading to significant improvements in our work assignments and in the way we communicate with our stakeholders. Just to quote one example, as a result of the work undertaken by one of these teams, we have recently launched our first ever video production related to a performance audit on *Community Care for Elderly Persons*.

We always gave particular importance to critical reviews of our audit operations and procedures. Past experience has taught us that, ultimately, this is one of the most effective ways to continue improving our performance, continuously building on the very good work carried out by our predecessors. Indeed, we already conducted an IT Self-Assessment in 2013, moderated by Helmut Steinbichler from SAI Austria, as well as a subsequent IT Audit Self-Assessment carried out in 2017, moderated by Bernard Hamberger from SAI Switzerland.

In the beginning of 2019, we decided to go a step further, delegating one of the Action Teams referred to above with the challenging task of conducting a comprehensive assessment of the extent of the NAO's compliance with the ISSAIs. In a nutshell, this entails an extensive self-assessment of the NAO's performance that is conducted on the methodology, as defined by the SAI Performance Measurement Framework, touching on all the sections within our Office.

The expected benefits will essentially be to: (i) strengthen the NAO's internal performance management; (ii) be able to demonstrate progress

in capability and performance; and (iii) help build a culture of performance improvement.

In this regard, it is important to note that one of the most reliable measurements of the effectiveness of national audit institutions like ours relates to the degree of implementation of the recommendations we make in our reports. Suffice it to state that the existence of an effective follow-up mechanism on the recommendations made by an SAI constitutes one of the key principles on which the extremely important Mexico Declaration on the Independence of SAIs, promulgated in 2007, is based.

For this reason, in October 2019, we published another issue of the NAO Follow-Up Report, which incorporated an analysis of the implementation of the main recommendations made in 14 NAO reports issued in recent years. It emerged that over 90% of these were fully or partly implemented by the audited public entities; these results are in line with a parallel analysis undertaken by the Internal Audit and Investigations Department and which is eventually published in the Governance Report issued on an annual basis by the Office of the Principal Permanent Secretary. While appreciating these positive implementation rates, we believe that more effort is necessary to ensure an even higher rate of compliance, ultimately in the best interest of our citizens.

Besides dealing with these local initiatives and assignments, throughout the year we were also very active, particularly in the organisation of three important international events that were held in Malta:

- (i) in April, we organised the EUROSAI IT Working Group Meeting, with a record number of participants from various EU national audit institutions, including the Auditors General of Poland and Estonia;
- (ii) in May, we organised the INTOSAI IDI Seminar, which focused on the use of data analytics in the public service. Once again, attendance was excellent, with more than 60 participants from 33 national audit institutions from across the world, including several Auditors General; and

(iii) in July, we held the annual National Audit Office-European Court of Auditors Joint Seminar, which this year focused on how our work can influence the public service to duly address the concerns of our citizens. Leo Brincat, Maltese Member at the ECA, delivered the keynote speech. Besides our staff, members of the PAC and the leadership of our public service also attended.

We strongly believe that these events, which were all organised by our own NAO events team, are extremely important not just because they enhance even further the international image of our Office but, even more importantly, because they serve as useful learning and networking opportunities for our participating staff.

Since mutual sharing of experiences and competences is considered an important professional development tool, during the year we also continued the staff exchange programme with the Court of Audit of the Republic of Slovenia. In addition, during 2019 six members of staff were given the opportunity to attend seminars and conferences abroad on a wide variety of public sector auditing-related topics.

Acknowledging that our human resources undoubtedly constitute our main and most valuable asset, once again we gave the highest priority to the continued professional development of practically all our staff. Suffice it to state that an average of 47 hours were spent on training per employee in 2019 (excluding senior management and messenger staff), as budgeted at the beginning of the year.

Coming back to our participation at international events, for the second consecutive year, together with my colleagues the Auditors General of Estonia (Chair), Sweden and Slovenia (Members), I was invited to participate in a panel discussion held during the 2019 Meeting for Auditors General, known as the Contact Committee, held in Warsaw, Poland, in June. Our theme dealt with challenges and opportunities of carrying out performance audits related to EU and national programmes in the area of e-Government and cyber security.

In my intervention, I gave a brief overview of all the audits issued by our Office that dealt with various IT systems. I highlighted that we were one of the first European SAIs to issue an IT stand-alone audit report, focusing on the Income Tax Department, way back in October 2011. I also referred to our horizontal audit on cyber security (2017), which reviewed various issues related to this extremely important IT aspect across ten Government entities.

Another important event was held in September when, for the first time ever, in collaboration with the Local Government Division and the Local Councils Association, we organised a training development event for elected members of all local councils in Malta and Gozo. The feedback received from most participants, especially as regards the keynote presentations made by two speakers from the Chartered Institute of Public Finance and Accountancy, who incidentally both had extensive experience in the area of local government in the UK, was extremely positive and we sincerely hope that this was not just a one-off event.

As I now start the last year of my first term as Auditor General, I have no doubt that we will have to face various challenges, starting with the present COVID-19 pandemic, which is threatening the world's health and economic systems and which will surely have a significant impact on the way SAIs will work in the coming years. Another significant challenge refers to the adoption of new auditing systems and methods following the gradual change, initiated this year, from cash to accrual accounting across the public service.

We are also committed to continue our extensive internal change management programme, in close collaboration with our staff, to be in the best position to perform our constitutional mandate as efficiently and effectively as possible.

The extensive information we now have following the introduction of the timesheet system, regarding for example the time each of our auditors spent on the various phases of the audit cycle, will prove extremely useful in this regard. However, I am extremely confident that our formidable team will manage once again to rise to the occasion, overcome all challenges and duly achieve our declared objectives.

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Finally, on a personal note, looking back at these four highly satisfying years as Auditor General, I feel extremely indebted to all our team since, as stated in my opening paragraph, what we achieved together during this period – the infographic on the next page encapsulates some of our major achievements – would surely not have been possible without the ongoing support and collaboration of our Deputy

Auditor General, our three Assistant Auditors General, our Managers, all auditing staff and last, but surely not least, our Administration and support services staff.

I am confident that this collaboration and teamwork will continue to prevail in the coming years.



Charles Deguara
Auditor General
May 2020



Main work assignments and events since 2016

Extracts from NAO Visitors' Book



"Honoured to visit. Keep up the excellent work."
Leo Brincat, Member, European Court of Auditors 9/12/2016

"Thank you very much for the invitation and the most interesting discussion we had on audit and strategy matters. I wish you all possible success and look forward for a very good co-operation with you in the future."
Klaus-Heiner Lehne, President of the European Court of Auditors, 26/06/2017



"We have found great and excellent colleagues on the edge of the EU. It is a privilege to work with you."
Tomaž Vesel, President, Court of Audit of the Republic of Slovenia, 11/09/2017

"Huwa pjaċir kbir tiegħi li nkun f'dan l-Uffiċċju tal-Awditur Ġenerali."
Dr Anġlu Farrugia, President, Kamra tad-Deputati



"F'isem il-Maltin u l-Ghawdxin kollha rrid nagħti ħajr minn qalbi lill-Awditur Ġenerali u l-Uffiċċju tiegħu tal-ħidma bla waqfien b'imparzjalità u integrità b'risq il-poplu tagħna. Prosit."
E.T. Marie-Louise Coleiro Preca, President ta' Malta, 7/12/2017

"Delighted to be exchanging ideas with my Malta NAO colleagues."
Huw Thomas, Auditor General, Wales Audit Office, 28/05/2018



"Thank you Charles for the very insightful discussions, the warm hospitality and the strong commitment to improving public sector auditing! We have been wonderfully received in your Audit Office and I believe you and your staff will make a real difference in Maltese society by bringing timely and relevant audit information to the decision makers."

Tytti yli-Viikari, Auditor General, National Audit Office, Finland, 31/01/2020

SET TARGETS ACHIEVED

There were many developments at a strategic level within the National Audit Office in 2019. Deputy Auditor General **Noel Camilleri** looks at the huge effort undertaken to execute on the NAO's Action Plan, draw up and revise internal policies and continue to expose staff to ongoing audit trends and developments abroad.



2019-2020 Action Plan

A key focus of the Action Plan was a work stream related to the Performance Measurement Framework drawn up by the INTOSAI Development Initiative. This framework provides the criteria for the review of the internal processes of a Supreme Audit Institution. A self-assessment exercise based on this Framework has been going on since early 2019 and targets for 2019 have been successfully attained.

Some extremely important work was also done on the development of an internal policy on risk. This work will continue into 2020 and will be completed before the end of the year.

Another work stream focused on the compilation of a register of the best sources of information to be used for risk analysis, audit selection and audit planning purposes.

Apart from the above internally focused Action Points, the Action Plan consisted of five other work streams with an external outlook, four of which were the focus in 2019. The first related to Opening Communication Channels to enable stakeholders to propose areas that the NAO could possibly audit. Work on this continued into 2020.

The second, on Feedback from Auditees, was completed and this work stream will be implemented in 2020. Auditees are to be encouraged to rate the NAO's performance during the audit process, not simply on the final report. With all the documentation now in place, the auditors will be briefed on how the process will work.

The third work stream related to producing video clips to further enhance the impact of the NAO's reports. The first video clip, which was released in January 2020, related to an audit on the area of Active Aging. The revamp of the website, which formed part of this work stream, has been put on hold pending the completion of other work streams.

The fourth work stream relates to enhancing the relationship with auditees, namely the permanent secretaries in the various ministries. The process that is to be implemented was completed, with the NAO intending to give each permanent secretary a six-month audit horizon on the areas within their ministries that are to be the subject of audits. This will be in the context of an improved dialogue with these permanent secretaries through which they will in turn inform the NAO on developments in their ministries. This was already outlined by the Auditor General and the DAG to the Permanent Secretaries' Forum in 2019 and has started being implemented with a meeting held with the Principal Permanent Secretary and

permanent secretaries within the Office of the Prime Minister.

The fifth work stream relates to a holistic Communication Strategy. This is an area where the management lacks resources and needs to devote considerable energy. This work stream is to be tackled later on. Various communication channels were explored, and the NAO certainly does not lack content. It is now intent that this be channelled in an office-wide common direction through the new strategy.

It is the intention of the NAO to start looking at the development of a rolling three-year audit plan to complement the current annual cycle. Plans will be reviewed each year but will give the Office a three-year horizon.

Internal policies

One of the NAO's main goals is to obtain the NCPE Equality Mark. While it is believed that there is already equality in terms of employment conditions and professional development opportunities, the Office will continue to strive to ensure an inclusive environment in which the rights and dignity of staff are respected without fail.

New policies issued in 2019 related to an overall Equality Policy and another specifically on sexual harassment.

A new policy related to ICT was also finalised but a policy on materiality that was planned to be issued last year was set aside pending the issuing of the internal policy on risk that is expected to come out by the end of 2020.

International exposure

On a corporate level, the NAO has taken a conscious decision to give its staff opportunities to learn from interaction with other supreme audit institutions. Exchange visits started with the SAI of Slovenia, which is similar in size to the NAO. Other visits are planned with other SAIs.

Apart from holding events that attract colleagues from other audit institutions, staff are encouraged to attend and participate in others held abroad.

Mr Camilleri pointed to the input of the Assistant Auditor General for Special Audits and Investigations Section, Keith Mercieca, and a member of his team, Principal Auditor, Rebecca Vassallo, in the development of a manual to audit the Sustainable Development Goals for the INTOSAI Development Initiative; the NAO's participation in three very important EUROSAI working groups on ethics, the environment and IT, as well as his own participation on the Board of Auditors of the European Stability Mechanism, with ensuing work entrusted to three other members of staff, as examples of this international exposure.

Increased output

The National Audit Office is set to almost double the number of Compliance audits over a three-year period, increasing from 22 in the Annual report for 2018 to 29 last year and up to 40 in 2020.

Mr Camilleri said that both the NAO's output and coverage had increased. Apart from compliance audits, other sectors have been covered through the Value for Money audits and IT audits, including the Community Work Scheme on Employment, Health – Mount Carmel Hospital, the Environment – Marine Protected Areas and Education – the use of tablets in schools.

The NAO plans to be even more relevant in 2020, with topics covering ethics and integrity, public transport, child abuse, the environment and health and safety, apart from the Public Accounts Committee's ongoing assignments.

Strategic orientation

Mr Camilleri sees the NAO's strategic orientation built on three pillars:

1. enhancing the internal capacity of the Office;
2. opening up more and interacting with stakeholders without impairing the NAO's

independence; and

3. becoming more relevant, by being more proactive than reactive.

“We need to see how we can improve our internal capacity in terms of skills, tools and other internal areas,” he said. He sees the effort to become more open, and a central focus for stakeholders, as important.

On the third pillar he cautioned on the need to manage expectations. “You cannot raise expectations out there and then not deliver,” he said. “To become more relevant, we need to engage in a proper outreach in all areas, beyond parliament to the auditees directly and even the citizens.”



CORPORATE GOVERNANCE – the next generation of Public Sector reform



Prof. Edward Warrington
Department of Public Policy
University of Malta

The reformers' legacy: a generation later

Thirty years ago, in January 1990, the Public Service Reform Commission presented its final report to the Prime Minister.¹ The report elaborated on an earlier set of proposals² (July 1989) on human resource management in the public service. In so doing, it addressed the first of three principal themes of the wave of governmental development unleashed by the work of the Commission and of a parallel initiative, the Operations Review. The second theme was speedier, more effective management decision-

making; and the third was a service-oriented public administration responsive to citizens and enterprise.

It is difficult to overstate the significance of the effects of the initiatives undertaken during the 1990s in terms of administrative capacity-building and service delivery. They remain central concerns to the leadership of the public service, as well as to the parliamentary oversight bodies, the National Audit Office and the Ombudsman, that were either redesigned or established during that purposeful and hopeful period.

An oversight

With hindsight, however, one vital aspect of management was overlooked by the reformers: corporate governance. This is evident in the growing incidence and scale of scandals involving alleged waste of public funds, fraud or corruption in public administration. Governance is also a recurring theme in the reports published by the NAO and other oversight bodies.

Media scrutiny tends to emphasise the part played by human failings in the scandals that it triggers, such as incompetence, greed, neglect, bias, partisanship and criminal intent. On the other hand, the technical analysis undertaken by the NAO's auditors identifies the part played by failures of corporate governance. Indeed, judging by the evidence disclosed by the state audit reports, it appears that corporate governance is a systemic weakness across the entire spectrum of government operations. It is, perhaps, more serious than human incompetence or malfeasance,

1 Public Service Reform Commission, *A New Public Service for Malta: Further Proposals on Administrative Structures, Grading, Staff Development, Selection and Compensation*. Malta: Office of the Prime Minister, January 1990.

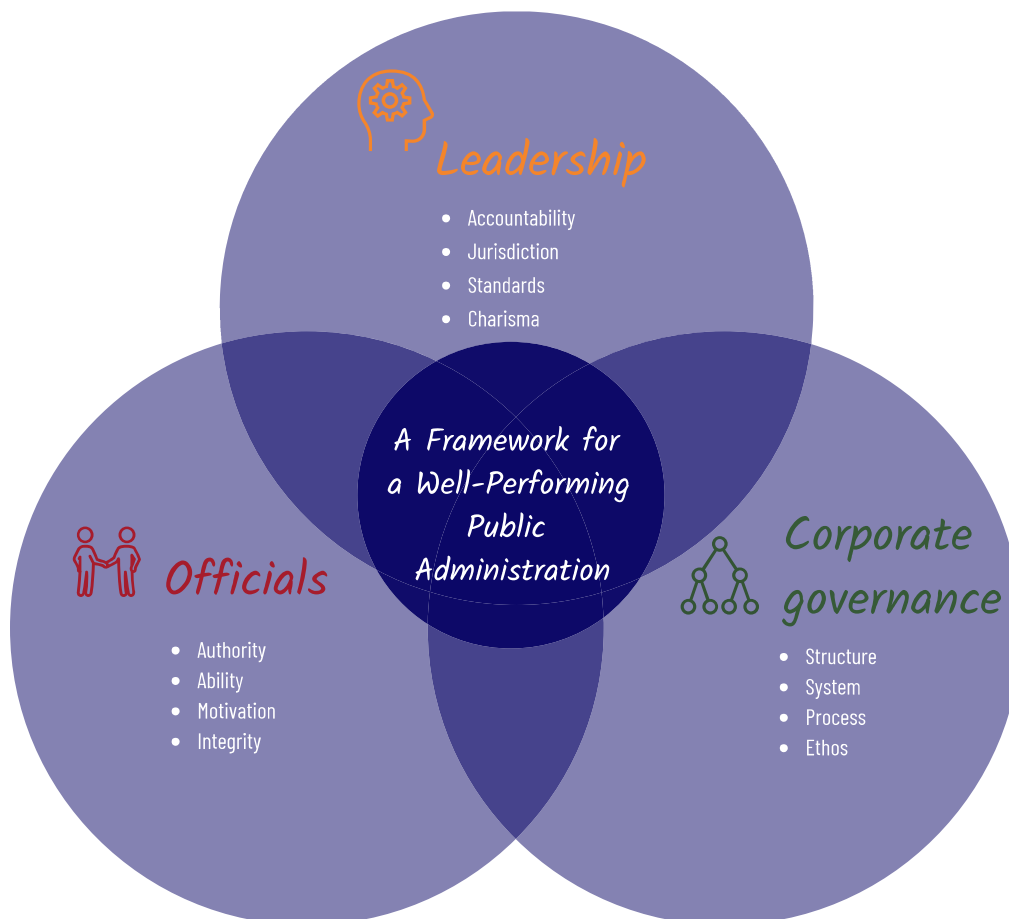
2 Public Service Reform Commission, *A New Public Service for Malta: A Report on the Organisation of the Public Service*. Malta: Office of the Prime Minister, July 1989.

because poor corporate governance makes public administration endemically vulnerable to error, malpractice or criminal intent.

Competent, highly motivated and honest officials are necessary but not sufficient to secure good governance. At the summit of government, a well designed framework of governing institutions helps to create a constitutional environment that both empowers the executive branch of government and restrains it. Correspondingly, throughout the public administration, a robust corporate governance framework will both empower the staff of each organisation, and inhibit inappropriate behaviour or disclose it.

Corporate governance

The Chartered Governance Institute, the leading international professional association in the field of corporate governance, defines the term as “the system of rules, practices and processes by which a company is directed and controlled”. The European Central Bank’s definition includes an additional element: “The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders.” These and other definitions converge on four elements of corporate governance: system, structure, process and ethos.



The above diagram outlines the requisites for a well-performing public administration. The three overlapping elements – leadership, staff and corporate governance – pertain both to the country’s entire administrative system, as well as to the numerous component organisations, which comprise five broad categories: ministerial offices, departments of the public service, statutory regulators, agencies and public enterprises. While the diagram usefully identifies the sub-elements associated with each of the three principal elements, it does not sufficiently convey the complexity of Malta’s administrative system.

Tensions and ambiguities in contemporary Maltese public administration

Commitment to a common mission, subordination to a coherent constitutional framework and the direction provided by stable governments are the principal factors holding the administration together. Against that, several important ‘fracture lines’ weaken both its functional coherence as well as its ethos of political neutrality, impartiality and efficiency.

The most important fracture line is that separating the political and professional officials. Numerous official reports and scholarly studies attest to the disproportionate authority wielded by political officials, both those elected and those appointed by ministers. Their authority rests on overblown claims to democratic legitimacy; it is used to justify operational instructions that override the expertise and judgment of the professional officials. Furthermore, there is a widespread perception that political officials cannot and should not be held to the ethos of political neutrality, impartiality and integrity that holds for professional officials.

The next most important is the fracture line separating departments of the public service from non-departmental bodies. While departments of the public service are subject to the full rigour of the legislation and instructions that regulate public administration, the non-departmental bodies were created to allow greater latitude to managerial discretion. The legislation governing these bodies makes scant provision for sound corporate governance.

Quite the contrary, by giving the responsible ministers virtually unfettered discretion to appoint boards and senior management, Maltese legislation tends to open non-departmental bodies to undue political influence. This is a recurring finding of investigations into major corporate scandals in the public sector.

The net effect of these ruptures within Maltese public administration is to create pronounced imbalances in the distribution of power and, consequently, in the effectiveness of checks and balances, and in the standards of conduct to which different classes of officials and different organisations are held.

While several important sets of rules exist to regulate corporate operations, they do not amount to a recognisable corporate governance framework: in the absence of well-designed structures and a powerful ethos, the regulations governing financial administration, human resource management, procurement, decision-making and operations do not cohere as a *system*.

In the absence of a functioning corporate governance framework, attempts at improving governmental performance and administrative integrity have tended to adopt two simplistic and contradictory tacks. One standard response has been to centralise decision-making authority in the Office of the Prime Minister, or the Ministry of Finance, relying on the omniscience and capacity of these nodes to maintain standards.

Excessive centralisation is symptomatic of inadequate corporate governance. Since the late 1980s, in the wake of the Public Service Reform Commission’s reports, another standard response has been to decentralise operational authority, relying on the expertise and integrity of line management to improve efficiency, without, however, a robust corporate governance framework that will both empower and restrain the managers. Decentralisation that is unaccompanied by countervailing corporate governance unleashes the corrosive influence of bias, pique, self-interest and incompetence on public administration.

An agenda for corporate governance

The burden of evidence suggests that the next generation of reforms should establish a coherent, robust, functioning corporate governance framework for the Maltese public sector. While it will, of course, be necessary to adapt the framework to the mission, resources and operating environment of individual organisations, one set of principles and standards must apply across the entire spectrum of the state apparatus: there must no longer be one set of standards for professional officials and another, looser standard for political officials; one set of standards for departments of the public service, another for ministers’ offices and yet another for non-departmental bodies.

The framework must conform to internationally acknowledged standards of good corporate governance in public administration. In particular, it will:

- (i) safeguard the effective autonomy of boards of directors and senior management against inappropriate political intrusion in their lawful operational jurisdiction;
- (ii) establish the fiduciary duty of directors, advisors, political staff and senior management, and a corresponding liability for tort;
- (iii) subject the appointment, remuneration and private interests of ministers, advisors, political staff, ministerial appointees on non-departmental bodies and senior management to close, systematic parliamentary scrutiny;
- (iv) enhance the investigative authority and capacity of oversight bodies, such as the NAO and the Ombudsman, as well as internal scrutineers, such as internal audit, information management and data protection;
- (v) redefine the disciplinary jurisdiction of the Public Service Commission by extending

its standards of conduct and disciplinary procedure to the most senior positions in non-departmental bodies, and to non-career officials in ministers' offices; and

- (vi) establish standards of institutional design applicable across the entire public sector.

Many of the building blocks of an effective corporate governance framework already exist. They are embodied in statutes, regulations, operating systems and codes of conduct. They are, however, scattered; some have been discredited by years of abuse, while others have expired from neglect.

It is the task of leadership to assemble them into a functioning framework that will help to resolve endemic failures of performance that waste taxpayers' earnings, burden businesses and vulnerable people, distort decision-making and, in the final analysis, threaten the country's economic viability and social well-being.

PART ONE

Introduction

The National Audit Office is the audit institution responsible for public sector external auditing. It carries out audits of public sector financial statements (financial audits); proper and legal use of public funds (compliance audits); economy, efficiency and effectiveness of public sector projects, operations and activities (performance audits); alleged financial malpractices and lack of good governance (special audits and investigations); and operability and security of IT systems (IT audits). The Office is headed by the Auditor General Charles Deguara, who is assisted by Deputy Auditor General Noel Camilleri.



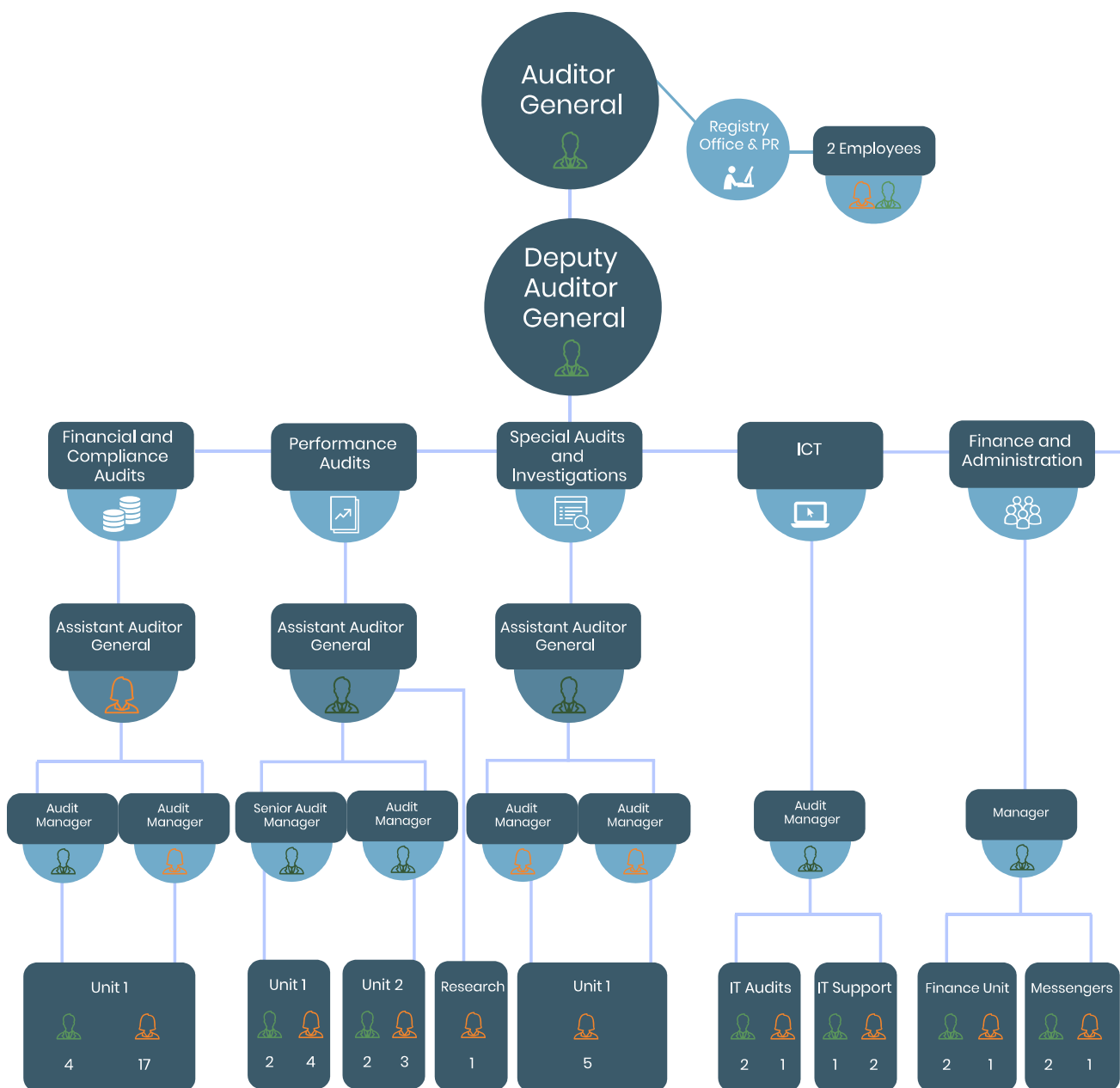
The NAO is composed of the following audit sections:

1. Financial and Compliance Audits Section – led by Assistant Auditor General Tanya Mercieca, assisted by two Audit Managers, Sharon Borg Finn and Orland Bonavia;
2. Performance Audits Section – led by Assistant Auditor General Brian Vella, assisted by Senior Audit Manager William Peplow and Audit Manager Simon Vassallo;
3. Special Audits and Investigations Section – led

- by Assistant Auditor General Keith Mercieca, assisted by two Audit Managers, Josephine Vella and Maressa Stivala; and
4. IT Audits and Operations Section – led by Audit Manager Simon Camilleri.

These Sections are assisted by a number of support services, including Finance and Administration – led by Manager Ian Rizzo, Registry, IT Operations and the Messenger Support Staff. The NAO’s organisation chart is shown below.

NAO Organisation Chart



Highlights of 2019

NAO hosts EUROSAI meeting

The NAO hosted the 13th Meeting of the EUROSAI IT Working Group on 4-5 April. The meeting was chaired by the former President of the Supreme Audit Office of Poland, Krzysztof Kwiatkowski, and was attended by 69 participants from 31 SAIs and the European Court of Auditors.

AG Charles Deguara referred to a number of IT Audits carried out by the Office in his opening speech, both standalone consisting of reviews of the IT infrastructure, systems and security of a number of government ministries, departments and public sector entities, as well as joint audits carried out in conjunction with other audit sections where IT auditors lend their IT competencies and expertise to other NAO auditors in carrying out a number of audits.

The AG also highlighted a number of initiatives undertaken by the NAO in IT, particularly an increased use of infographics in audit reports and the setting up of a data analytics project within the Office.

The meeting also reviewed the outcomes of a number of Working Group projects, including IT co-operative audits and IT Audit Self-Assessments.

NAO hosts IDI event

The NAO, in collaboration with the International Organisation of Supreme Audit Institutions (INTOSAI) Development Initiative (IDI), hosted the first workshop in the Green Hat: IDI Exchange Series on “Supreme Audit Institutions and Data Analytics” on 6-9 May. The workshop focused on creativity, the application of new ideas and the exploration of innovative solutions in auditing.

More than 60 representatives from 33 SAIs from all regions of the INTOSAI community, as well as other local and foreign stakeholders, came together to share experiences, ideas and knowledge on how SAIs can leverage data analytics in auditing to improve their efficiency, effectiveness and impact.

Interactive sessions on the possible uses of data analytics in the various stages of the audit process and the building blocks required to introduce data analytics in auditing were held. Other sessions focused on the various tools and techniques that could be used in performance, compliance and financial auditing.

In addition, sessions with a strategic orientation addressed the application of data analytics in the fight against fraud and corruption, the implementation of the UN Sustainable Development Goals, and the audit of gender equality.



Auditor General Charles Deguara delivering the opening address at the EUROSAI IT Working Group Meeting held in Malta on 4-5 April



Group photo of INTOSAI IDI Workshop on “Supreme Audit Institutions and Data Analytics” held in Malta on 6-9 May.

EU Contact Committee meeting

The AG, DAG and Assistant Auditor General, Performance Audits Section, Brian Vella participated in the annual meeting of the Contact Committee of the Auditors General of the EU, hosted by the Polish Supreme Audit Office in Warsaw, Poland, on 27-28 June. The Contact Committee represents the network of the Heads of EU member state SAIs. The agenda of this year’s meeting included:

- a seminar on “Digital Europe: Challenges and Opportunities for EU SAIs”;
- parallel sessions: meeting of the heads of EU SAIs and a separate meeting of Liaison Officers;
- reports on the activities of the Contact Committee and its professional partners; and
- reports on EU-related audits by members of the Contact Committee.

During the seminar, AG Charles Deguara joined Tomaž Vesel (SAI Slovenia) and Stefan Lundgren (SAI Sweden) in one of the panel discussions, moderated by Janar Holm (SAI Estonia) on “Challenges and Opportunities of Carrying Out Performance Audits related to EU and National Programmes in the Area of e-Government and Cyber Security.”

During his presentation, Mr Deguara observed that the conduct of a number of IT stand-alone audits by the NAO in various important sectors, such as taxation, health, education, employment, the Armed Forces and housing, revealed a number of common audit findings, in particular in the areas of business continuity and IT strategy. These across-the-board audit findings were the catalyst to a discussion among the NAO’s senior management on the possibility of conducting a horizontal IT audit across a number of Government entities.



Auditor General Charles Deguara addressing the EU Contact Committee Meeting held in Warsaw on 27-28 June. Also appearing in the picture from left to right are: Janar Holm (SAI Estonia), Stefan Lundgren (SAI Sweden) and Tomaž Vesel (SAI Slovenia)



A participant at the EU Contact Committee Meeting in Warsaw viewing our poster on the NAO performance audit report published in 2018 on *The Designation and Effective Management of Protected Areas within Maltese Waters*

The subject chosen was Cyber Security, considering its fundamental importance, as well as the high level of risk involved. In 2017, the NAO conducted this horizontal Cyber Security Audit, which reviewed ten Government entities. Mr Deguara delivered a presentation on this audit, explaining the type of shortcomings identified, as well as the impact the audit had on government entities in general.

The Maltese delegation also participated in various bilateral meetings with representatives of other SAIs with the objective of enhancing its co-operation with them.

NAO-ECA joint seminar

The NAO, in conjunction with the European Court of Auditors, organised their annual joint seminar on “Supreme Audit Institutions: How Can They Influence Governments to Address Citizens` Concerns?” on 8 July. The seminar was attended by members of the PAC, permanent secretaries and senior officials across the public service, NAO staff and staff from the Internal Audit and Investigations Department.

In his introductory address, AG Charles Deguara noted that it is the NAO’s topmost concern that its work enhances public sector efficiency and effectiveness for the benefit of citizens. To achieve this objective, the Office strives to adopt innovative, technology-based audit approaches, such as the use of data analytics, thus improving its audit work and communicating more effectively with citizens without impairing the NAO’s independence.

Leo Brincat, Maltese member at the ECA, delivered the keynote address titled “The EU’s Main Stakeholders are the Ordinary Citizens: Addressing their Concerns Should Be Our Priority”. Mr Brincat affirmed that the need to reconnect relations between institutions, governments and citizens has become a matter of urgency. This can only be attained by opening more direct channels of communication.

Mr Brincat noted that some SAIs have found it useful to establish a specialised communications and liaison unit to foster close relations with key stakeholders without impairing their independence, and to promote their own work and role. Other SAIs use social media platforms to communicate with stakeholders.

Gerhard Ross, Director of Chamber II of the ECA, delivered a speech on “Identifying the right topics and Communicating Results Effectively.” He spoke of the importance of auditing the issues that matter to citizens and noted that audit reports are an instrument for making citizens’ lives better. He observed, however, that the SAI’s audit mandate may have a bearing on the extent of stakeholder engagement. Mr Ross highlighted the importance of planning and executing an audit with a view to making an impact, and that audit reports should convey clear messages.

DAG Noel Camilleri and Simon Vassallo, Audit Manager, Performance Audits Section, spoke on the significance of “Giving a Voice to the Citizens.” Mr Camilleri noted that one of NAO’s strategic goals for 2019-2023 addressed the need for the Office to “cultivate mutually beneficial working relationships with our stakeholders”, including citizens. He

proposed that this objective could be achieved by continuing to strive to build citizen literacy about the NAO's role, mandate and oversight functions. To this end, NAO has initiated a number of work streams in its action plan to implement the strategy that seeks to address this particular aspect specifically.

Mr Vassallo was assigned to lead one of these work streams, exploring which channels could be opened to involve third parties in the generation of audit ideas. He outlined the work performed so far by the team working on this assignment. Mr Vassallo explained how the team, following a brainstorming session, sought to determine the main stakeholders who could be involved in this initiative and which communication channels could be used to reach out to these contributors.

After combining these two lists and applying a number of weighting mechanisms to the various stages of the process, the team came up with a proposed ranking of the communication channels in order of importance derived from the results of this elaborate process.

The meeting was also addressed by Mario Cutajar, Principal Permanent Secretary, who highlighted

the importance of strengthening good governance in the public sector. He also affirmed the value of accountability, which is one of the pillars of delivering a quality service to the public. Mr Cutajar observed that, when striving to reduce excessive bureaucracy, one has to ensure that one does not impair accountability.

As proof of the public sector's quest to ensure accountability, Mr Cutajar referred to the Annual Report on "Governance Action on the Annual Report by NAO on Public Accounts", in which the public sector reports on progress made in the implementation of recommendations in the Auditor General's *Annual Report on Public Accounts*. In 2019, this exercise was extended to include the status of implementation of recommendations of all reports published by the Auditor General in 2018.

Mr Leo Brincat pays official visit to NAO

Mr Leo Brincat, the Maltese member at the ECA, paid another official visit to the NAO on 9 July. He was accompanied by two members of his team, Romuald Kayibanda, Head of Cabinet, and Dr Annette Farrugia, Attaché.



Leo Brincat, Maltese member at the ECA, in a meeting with NAO senior management on 9 July. Also appearing in the picture is Dr Annette Farrugia, Attaché.

Mr Brincat was welcomed by AG Charles Deguara, DAG Noel Camilleri and the other members of the senior management team, Assistant Auditors General Brian Vella, Tanya Mercieca and Keith Mercieca. During their meeting, Mr Brincat conveyed his appreciation to the Maltese NAO for the excellent organisation of the joint NAO-ECA seminar.

He also referred to initiatives then under way within the ECA, highlighting several interesting assignments, particularly an audit dealing with migration issues. On his part, Mr Deguara thanked Mr Brincat for the visit and augured that the very good working relationship between both entities would continue to prevail.

NAO-CIPFA seminar

A considerable number of local government councillors from Malta and Gozo participated in a seminar organised by the NAO and the Chartered Institute of Public Finance and Accountancy, in collaboration with the Local Government Division and the Local Councils Association, on 14 September. The two keynote speeches were given on:

1. Governance and the Principles of Public Life, facilitated by CIPFA representative Brendan McCarron; and

2. Local Democracy – Challenges and Solutions, facilitated by CIPFA representative Ian Briggs.

Mr McCarron's intervention focused on ways councillors could improve their councils' governance and achieve better results. He referred to the principles of public life: selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

Mr Briggs affirmed that understanding the community's needs, especially those of hard to reach groups and young people, and the council's capabilities to satisfy these needs, is one of the basic principles of good governance and assures the council retains its democratic legitimacy. He also highlighted the importance of councils engaging with citizens.

Local Council training

On 16 July, Assistant Auditor General, Financial and Compliance Audits Section, Tanya Mercieca participated in a local councils training initiative focusing on good governance, accountability and transparency, organised by the Local Government Division. She gave a presentation on the NAO's role and powers, as well as the types of audits carried out by the Office.



Auditor General Charles Deguara and Assistant Auditor General, Financial and Compliance Audits Section, Tanya Mercieca addressing the NAO-CIPFA Seminar to local government councillors on 14 September

Ms Mercieca also delved in some depth on the concept of good governance in the conduct of the council's financial affairs and concluded citing the seven principles of good governance: being accountable, transparent, responsive, equitable and inclusive, effective and efficient, following the rule of law, and being participatory and consensus oriented.

Resources for IDI SDGs Audit Model

Keith Mercieca, Assistant Auditor General, Special Audits and Investigations Section, and Principal Auditor Rebecca Vassallo are currently assisting the INTOSAI Development Initiative as resource persons in developing the IDI Sustainable Development Goals Audit Model (ISAM). This participation is in line with the NAO's support for IDI's capacity development activities. The Office acknowledges the IDI's invaluable contribution in public sector auditing, particularly in the continuous professional development of SAIs.

ISAM is a model that aims to provide methodological and practical guidance for SAIs when auditing the implementation of SDGs. An audit of SDG implementation examines the set of policies that contribute to the achievement of a nationally agreed target linked with one or more SDG.

As part of their involvement in this project, the two officials participated in an expert meeting and ISAM development workshop in Oslo, Norway, in October and the ISAM finalisation meeting in Indonesia in December. The objective of these meetings was to develop and finalise ISAM.

The next stage of these officials' participation will be the piloting of the model through a co-operative audit of a selected SDG target in the ASOSAI region. The two officials will form part of the mentor team, and will be responsible for designing, developing and delivering support to SAIs as they conduct the co-operative audit.

Fourth YES conference

Principal Auditor, Financial and Compliance Audits Section, Fleur Marie Calleja Ghirxi attended the

fourth Young EUROSAI (YES) conference hosted by the United Kingdom National Audit Office in London, England, on 4-7 November. The conference was attended by 80 young auditors from 41 SAIs.

The theme of the conference was "Relevance". The environments in which SAIs operate are in a constant state of flux: technological, social and political climates are continuously evolving, and SAIs need to adapt to these developments to secure impacts from their work.

By defining an SAI's audience as Government, media, NGOs and the public, during the conference it was considered that for an SAI to engage better with its stakeholders it has to be seen as relevant, independent, valued, trusted and credible. The conference identified four challenges that straddle these areas of relevance: "clarity of mandate", "audit selection and timing", "audiences and communication" and "the right tools for the right job".

The conference provided participants with the opportunity to share experiences on how their SAIs are responding to today's environment and preparing for the future, and gave practical solutions on how work can be improved to move away from the traditional "audit and report" technique.

Strengthening NAO legal framework

The NAO's mandate to audit the public sector emanates from the Constitution of Malta and the Auditor General and National Audit Office Act. The who, how, what and when aspects of the NAO's responsibility to audit are defined within this legal framework. However, as the role and nature of the public sector evolves, so too must the powers of the Office.

A review, spearheaded by Dr Denise Borg Muscat and Dr Amanda Borg, two in-house lawyers, and Audit Manager, Special Audits and Investigations Section, Ms Maressa Stivala, aims to appraise this legal framework and assess the extent of any required changes to render it more effective. This process was enriched through an extensive process of internal consultation.



Auditor General Charles Deguara presenting the changes proposed by the Office to its legal framework to His Excellency the President of Malta, Dr George Vella

The review primarily focused on the Office’s structure, functions and operations, considered in terms of their impact on the mandate. This examination led to the identification of several issues encountered by the Office in its audits that are not adequately provided for in existing legislation.

Practices adopted by other national audit institutions were observed and taken into consideration as a guiding reference to better assess possible solutions to the issues raised, along with international auditing standards that govern Offices such as the NAO in efforts at providing value to citizens.

The first part of their review, comprising the review of the Constitution of Malta, which provides for the role of the Auditor General, the Deputy Auditor General and the National Audit Office, was co-ordinated to coincide with the public consultation launched by the Office of the President on the reform of the Constitution. This exercise will be followed by a re-examination of the Auditor General and National Audit Office Act (Chapter 396 of the Laws of Malta), which is envisaged to be completed in 2020.

Outgoing President’s official visit

President Emeritus of Malta Marie-Louise Coleiro Preca paid her last official visit to the NAO at the end of her term of office on 27 March. She conveyed her heartfelt appreciation on behalf of the people of Malta and Gozo to the AG and his team for their persistent work, carried out with all due impartiality and integrity in citizens’ best interests.

“I consider this Office as one of the pillars of our democratic system, and as one which provides assurance of good governance to our citizens,” affirmed the President Emeritus.

Dr Coleiro Preca took the opportunity to meet personally all NAO members of staff to convey her appreciation for their professional work.

Our participation in Parliament

The Public Accounts Committee is the Parliamentary Standing Committee that reviews NAO reports. The AG, the DAG and a number of NAO officials attended all 20 PAC meetings held in 2019 during the 13th legislature.



President Emeritus of Malta Marie-Louise Coleiro Preca, flanked by Auditor General Charles Deguara and Deputy Auditor General Noel Camilleri, addressing all NAO staff members on 27 March

During the 2019 PAC sittings, the following NAO reports were discussed:

- Audits from *Report by the Auditor General on Public Accounts 2017*;
- *An Investigation of Property Transfers between 2006 and 2013: The Expropriation of the Property at Fekruna Bay, St Paul's Bay*;
- *Performance Audit: A Review on the Contract for Mount Carmel Hospital's Clerical Services*; and
- *Information Technology Audit: The Effective use of Tablets in State, Church and Independent Primary Schools*.

Senior NAO officials on EU boards

Deputy Auditor General, Noel Camilleri, is a member of the European Stability Mechanism (ESM) Board of Auditors. The ESM was set up as an international financial institution by the euro area Member States to help euro area countries in severe financial distress. During 2019, he attended seven ESM Board of Auditors' Meetings, which took place at the ESM premises in Luxembourg.

Assistant Auditor General, Financial and Compliance Audits Section, Tanya Mercieca, is a member of the College of Auditors of the EU Institute for Security Studies. The Institute was set up in January 2002 as an autonomous EU agency governed by Council Joint Action 2001/554 [now regulated by Council Decision 2014/75/CFSP]. The aim of this institution is to strengthen the EU's analysis, foresight, and networking capacity in external action. The Institute also acts as an interface between the EU institutions and external experts to develop the EU's strategic thinking. The EU Institute for Security Studies is now an integral part of the structures that underpin the further development of the Common Foreign and Security Policy and the Common Security and Defence Policy of the European Union.

Ms Mercieca is also a Member of the Audit Board of Eurocontrol. Audit Manager, Financial and Compliance Audits Section, Orland Bonavia is Deputy Member of the Audit Board of Eurocontrol. This institution supports EU Member States and other stakeholders involved in air navigation in a joint effort to make aviation in Europe safer, more efficient and cost-effective and with a minimal environmental impact.

Participation in domestic working groups and committees

AG Charles Deguara attended all the meetings of the Judiciary Appointments Committee, chaired by the Chief Justice, that scrutinises all candidates for the judiciary. Interested lawyers may express their interest to be considered as a candidate at any moment, and the JAC vets them, essentially through an extensive interview, and includes suitable candidates in a permanent register.

NAO senior management attend, in an observer capacity, a number of domestic working groups. DAG Noel Camilleri is an observer in the Corporate Financial Management Solution Implementation Board. This board is tasked with overseeing the implementation of an Accrual Accounting software solution across government departments.

AG Charles Deguara and Assistant Auditor General, Financial and Compliance Audits Section, Tanya Mercieca sit on the Local Government Good Governance Working Group. This working group aims to address in a co-ordinated manner the main issues raised by the AG in the *Annual Report by the Auditor General on the Workings of Local Government*.

Ms Mercieca also participated in an observer capacity in the Financial Legislation Working Group, whose objective was reached with the publication in the *Government Gazette* on 12 July of Act XXI of 2019 – the Public Finance Management Act (Chapter 601 of the Laws of Malta). This Act, which replaced the Financial Administration and Audit Act (Chapter 174 of the Laws of Malta), incorporates the general financial regulations and procurement regulations.

Ms Mercieca also participates in an observer capacity in the IPSAS Implementation Project Board. This board is responsible for the strategic direction and overall management of IPSAS implementation across government ministries and departments.

Interaction with other local stakeholders

Relations with auditees

For the fourth consecutive year, Principal Permanent Secretary Mario Cutajar presented the publication titled *Governance Action on the Annual Report by NAO on Public Accounts 2017 and other NAO Reports 2018* to AG Charles Deguara. This year, in addition to reviewing the status of implementation of the recommendations made in the *Annual Audit Report by the Auditor General for Public Accounts 2017*, the publication contained the status of implementation of recommendations of all audit reports published in 2018 by the AG.

Relations with educational institutions

The NAO, in collaboration with the Department of Accountancy within the Faculty of Economics, Management and Accountancy 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.

The 2019 award was presented to graduate Bernard Ellul on 2 April at the University for his dissertation titled: “Healthcare Systems in Europe and their Relevance to Malta: A Comparative Analysis”. The graduate had been part of the Masters in Accountancy course group of 2016-2018.



Auditor General Charles Deguara presenting the annual NAO prize to graduate Bernard Ellul on 2 April

Assistant Auditor General, Performance Audits Section, Brian Vella and Senior Audit Manager, Performance Audits Section, William Peplow delivered lectures on “Government Accounting” and “Assessment and Evaluation of Family Policy and Practice” to University students reading for an Honours degree in Public Administration and a Masters degree in Family Studies, respectively. Mr Vella also lectured on Project Auditing and Reporting to MCAST students following an Honours degree in Public Projects.

Our participation in international fora

Co-operative audit report presented

One hundred and seventeen delegates from 57 SAIs and international organisations, including the ACCA and a number of UN Offices, participated in the 19th Assembly of the INTOSAI Working Group on Environmental Auditing, held in Bangkok on 6-9 August.

William Peplow, Senior Audit Manager at the NAO, and Akis Kikas, Senior Principal Auditor at the Republic of Cyprus NAO, delivered the presentation on the co-operative audit, *Are mechanisms in place for the designation and effective management of Marine Protected Areas (MPAs) within the Mediterranean Sea?*

The focus of this co-operative audit was to determine the extent to which countries in the Mediterranean region are effectively conserving marine biodiversity to attain the targets set in national legislation and international protocols. The audit identified that the necessary mechanisms for designating and effectively managing MPAs were not always in place to achieve the desired equilibrium between the sustainability of MPAs and blue growth.

This co-operative audit based its findings and conclusions on seven individual national audit reports, which were compiled by the SAIs of Albania, Cyprus, France, Greece, Malta, Portugal and Slovenia.

The NAO presented the national and co-operative audit reports to Parliament on 30 January 2018 and 10 July 2019, respectively.

ITSA and ITASA meetings

IT Audit and Operations Section Manager Simon Camilleri participated in EUROSAI IT Self-Assessment and IT Audit Self-Assessment project group meetings in Bern, Switzerland, on 19-20 March. The meetings included a presentation on an ITASA that Mr Camilleri co-moderated at the European Court of Auditors.

A representative from the ITWG Secretariat provided an update and referred to the EUROSAI ITWG annual meeting to be held in Malta the following month. A plan for the forthcoming ITSAs and ITASAs was also reviewed during the project group meeting.

NAO at Liaison Officers’ meeting

The meeting of EU SAI Liaison Officers, held in Bucharest, Romania, on 9-10 April was attended by Brian Vella, Assistant Auditor General, as the NAO’s liaison officer. This meeting was held in preparation for the annual meeting of the EU Contact Committee, held in Warsaw, Poland, in June (referred to earlier).

An overview of the preparations for the Warsaw 2019 Contact Committee meeting was given, followed by reports on Contact Committee activities; on the results of the various Task forces, networks and working groups; as well as on new Contact Committee activities.

Local councils ignoring NAO recommendations, ‘unacceptable’ says Auditor General
Only 26% of 1,500 recommendations presented to local councils by Local Government Auditors were implemented in 2018.

The statistic was revealed in a report on the workings of local government by Auditor General Charles Deguara, presented to the House of Representatives. **MALTA TODAY 6 November 2019**



XXIII INCOSAI 2019 Congress

The XXIII INCOSAI Congress was organised by the International Organisation of Supreme Audit Institutions (INTOSAI) and hosted by the Accounts Chamber of the Russian Federation in Moscow, Russia, on 23-28 September. The NAO delegation, made up of AG Charles Deguara and Assistant Auditor General, Special Audits and Investigations Section, Keith Mercieca joined over 600 delegates representing various SAIs, as well as international and supranational institutions. Mr Deguara and Mr Mercieca attended the last three days of the Congress.

The two themes of the INCOSAI Congress were:

1. Information Technology for the Development of Public Administration; and
2. The Role of SAIs in the Achievement of National Priorities and Goals.

Two discussion panels addressed “Macro audit: Strategic challenges for global economy and international development” and “Sustainable development in the age of Great Disruption: What solution can technology and public management

tools provide the governments with?” There were also three side events, “Auditing the Implementation of Sustainable Development Goals”, “Supreme Audit Institution’s role concerning the fight against corruption” and “Gender equality.”

EUROSAI WG Meeting on Environmental Audit

Senior Audit Manager, Performance Audits Section, William Peplow participated in the EUROSAI Working Group on Environmental Auditing meeting on “From Waste Management to Circular Economy” in Kalopanayiotis, Cyprus, on 7-8 May. Among the issues discussed were:

- Waste Hierarchy and Waste Management;
- Waste-to-energy – An Opportunity or a threat?;
- Auditing Food Waste; and
- Circular Economy and Waste Prevention.

The meeting also included presentations from SAIs on auditing waste prevention and waste-related SDGs, and a discussion on a potential co-operative audit on plastic waste.

EUROSAI-ECA meeting

William Peplow attended the EUROSAI Working Group on Environmental Auditing and ECA Joint Biodiversity Conference and 17th EUROSAI Working Group on Environment Auditing Annual Meeting at the European Court of Auditors, Luxembourg, on 21-24 October. Among the themes presented were:

- Status of and key threats to biodiversity;
- Main biodiversity policies, results of the European Union biodiversity strategy to 2020;
- Improving the status of biodiversity in Europe; and
- Focusing an audit on biodiversity.

Akis Kikas (SAI Cyprus) and Mr Peplow, co-ordinators of the Mediterranean co-operative audit titled *Are mechanisms in place for the designation and effective management of Marine Protected Areas (MPAs) within the Mediterranean Sea?*, presented the process and main results of the audit project in which seven EUROSAI Working Group on Environmental Auditing member-SAIs had participated.

ECA TiNA conference

Rebecca Vassallo, Principal Auditor within the Special Audits and Investigations Section, attended a conference organised by the ECA in Luxembourg on 27-28 November. The conference was a first step to creating an active network of professionals and practitioners from member state SAIs and the ECA on Technology and Innovation for Audit (TiNA), working on the digital transformation of audit.

More than 70 participants attended and contributed to this event, coming from SAIs in 12 EU member states (Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Lithuania, Malta and Romania), from four Commission DGs (CONNECT, ESTAT, OP and DIGIT) and from the ECA.

Among the topics discussed were:

- EU open data policy;
- the European open data portals for EU institutions and member states;
- big data and official statistics;

- open data on implementation of audit recommendations;
- auditing automated decision making; and
- usage of text mining in the auditing process.

EUROSAI meeting on plastic waste

The EUROSAI Working Group on Environmental Auditing identified plastic waste reduction as a theme for a co-operative audit among European SAIs. Representatives of 15 SAIs, including Malta, and the ECA met at the Polish Supreme Audit Office (NIK) Regional Branch in Kraków on 10-11 December to discuss the details of this planned co-operative audit.

SAI representatives hailed from Albania, Bulgaria, the Czech Republic, Estonia, Finland, Hungary, the Netherlands, Moldova, Poland, Portugal, Romania, Serbia, Slovakia, Turkey, the Czech Republic, Estonia and Finland, apart from the ECA. Most of the SAIs, including Malta, showed interest in participating in this co-operative audit to be undertaken in 2020.

Participants discussed the scope of the audit proposed by NIK as the co-ordinator of the project, the time framework of the national audits and the content of the future joint report. The main audit question for the co-operative audit is: "Have the relevant public authorities (state and/or self-government administrations) developed policy (plans, strategies) and implemented measures aiming at achieving goals (adopted in this policy) regarding plastic waste management?" The period to be covered by this audit will be 2017-2019.

Seminar on Public Sector Financial Reporting

Principal Auditor, Financial and Compliance Audits Section, Marion Bajada attended the second seminar on "Public Sector Financial Reporting in the EU Member States", held in The Hague, the Netherlands, on 18 February. The aims of the seminar were twofold:

1. the exchange of information between EU SAIs about developments and plans on financial reporting in the public sector in EU member states; and
2. in-depth discussion on increasing the usefulness

and promoting the use of financial information in decision-making and accountability.

The major agenda items consisted of:

- a round-table update on important current and planned actions on the improvement and/or harmonisation of financial information on budgets and financial statements;
- a presentation by two Dutch Members of Parliament on “Developments in financial reporting within the Dutch Central Government”;
- a presentation by an OECD representative on the “Usefulness and Actual Use of Financial Information”; and
- a round-table discussion on topics and modalities of co-operation and exchange within the informal network.

The Maltese representative provided her input to the round-table discussions. She updated the network on developments in the introduction of public sector accounting in Central Government in Malta, and proposed topics for future seminars.

IDI SAI PMF training

One of the managers entrusted with the implementation of the PMF self-assessment within the NAO, Orland Bonavia, Audit Manager, Financial and Compliance Audits Section, attended a four-day basic training course in Oslo, Norway, on 5-8 March. The training event was organised by the INTOSAI Development Initiative. Sixteen participants from six SAIs in the EUROSAI and ASOSAI regions attended.

The programme, which was launched globally, addressed institutional capacity development as well as supporting SAIs in strategic management for stronger SAI performance.

This programme also assisted SAIs in holistic performance assessment through the SAI PMF in establishing high-quality strategic and operational planning processes, and in setting up integrated mechanisms to monitor and report on performance.

Auditor General attends high-level seminar

AG Charles Deguara attended a high-level international seminar on “Building Trust – the Role of Supreme Audit Institutions in Ensuring the Reliability of Fiscal Data” in Helsinki, Finland, on 28 November.

The seminar dealt with two fundamental themes:

1. Statistics as a Reliable Data Source for Fiscal Policy Planning and Decision-Making; and
2. The Development of Public Sector Accounting Standards and Reporting Practices and the Role of SAIs.

Marjo Bruun, Director General, Statistics Finland, emphasised that no one can afford to ignore risks related to the reliability of public sector statistics. She affirmed that statistics need to reflect reality in a most objective manner.

In his keynote speech, Olli Rehn, Governor of the Bank of Finland, referred to the three legs of fiscal sustainability – reliable authorities, robust data and reasonable rules. He noted that, although EU fiscal rules have generated positive results, such as a decrease in the aggregate fiscal deficit in the Euro area, the EU cannot be complacent. Rules are needed to reinforce countercyclical policy and fiscal sustainability – together with ensuring the availability of reliable fiscal data.

Panel discussions were held on ensuring the quality of fiscal data and the development of public sector accounting standards. The experiences of four SAIs (Portugal, Sweden, Austria and the Czech Republic) relating to the main themes of the seminar were also presented.

Municipality Audits Seminar

Portugal’s SAI, in collaboration with the NAO of Lithuania, hosted a one-and-a-half day seminar on municipality audit and the Third Annual Meeting of the EUROSAI Task Force on Municipality Audit on 10-11 October.

The seminar, titled “Functions performed by Municipalities”, and the annual meeting were attended by 70 representatives from 27 EUROSAI

countries. Assistant Auditor General, Financial and Compliance Audits Section, Tanya Mercieca and Principal Auditor, Financial and Compliance Audits Section, Maria Ferriggi were NAO's representatives at the event.

Apart from presentations by a number of SAI representatives, the annual meeting discussed the implementation of the Task Force's three strategic goals:

- exchanging best practice and experience to achieve audit results that have a substantial impact on improving public financial management;
- making the external municipal auditing system more efficient; and
- encouraging co-operative audits.

EUROSAI task force meeting

EUROSAI's Task Force for Audit and Ethics held its tenth meeting in Bonn, Germany, on 10-11 December. The task force was set up in 2011 to promote ethical conduct and integrity both in SAIs and in public organisations.

The task force's objectives are to reinforce, frame and provide robustness in the management of ethical conduct with practical and feasible tools meant to help the SAIs in their everyday work. Hence, the task force's activities are based on work plans targeted at two main goals:

- promoting ethics as a pillar of SAIs; and
- promoting ethical conduct in public organisations through the SAIs' audit activities.

Principal Auditor, Special Audits and Investigations Section, Marlene Zammit, who attended the meeting, gave a presentation on the results of two surveys undertaken with the 50 EUROSAI members to assess the implementation stage of ISSAI 130 by these SAIs – the original survey was carried out in 2012 and a follow-up was done in 2015.

Currently, NAO is leading a third survey to assess progress registered in the implementation of this ISSAI standard.

Business Strategy endorsed

The Public Finance by Women Network aims to be the first global organisation working to improve career chances and opportunities for women working in the field of public finance. Audit Manager, Financial and Compliance Audits Section, Sharon Borg Finn endorsed the Business Strategy of the nascent organisation, launched on 8 March (International Women's Day). This was acknowledged in the strategy publication by the two strategy authors, Gillian Fawcett and Barbara Gruneswald, through a quote from Ms Borg Finn's feedback to the network, reproduced below:

"The proposal of creating a dynamic and global network with the sole aim of developing the role of women in Public Finance is directly linked with the equally important objective of raising the quality of public services. If both objectives are met, it's a win-win situation both for the advancement of the female agenda, as well as the economy in general."

Investing in our staff

NAO invests heavily in the professional development of its staff members. The aim is to develop the competency and skills of NAO staff across six different areas:

1. Technical skills – the ability to obtain the knowledge and skills to perform activities consistently in accordance with defined auditing and investigative standards and standards of procedure;
2. Digital skills – with digital transformation continuously on the rise, auditors need to possess skills that go beyond mere applications. Auditors need to be equipped with the necessary digital skills to analyse electronic data;
3. Intelligence skills – the ability to acquire knowledge, reasoning and solving problems;
4. Creative skills – the ability to use existing knowledge in a new situation, to make connections, explore potential outcomes and generate new ideas;
5. People skills – the awareness of how to treat colleagues and the auditees, and

the required soft skills in this regard, such as tolerance, emotional intelligence, communication and conflict settlement techniques; and

6. Flexibility and adaptability skills – auditors must be open to work in new, changing environments and must look beyond the traditional definitions of auditors and apply their skills beyond a local context.



Auditor General Charles Deguara and Principal, Finance and Administration Keith Vella thanking the Basic First Aid Course Lecturer

In-House training

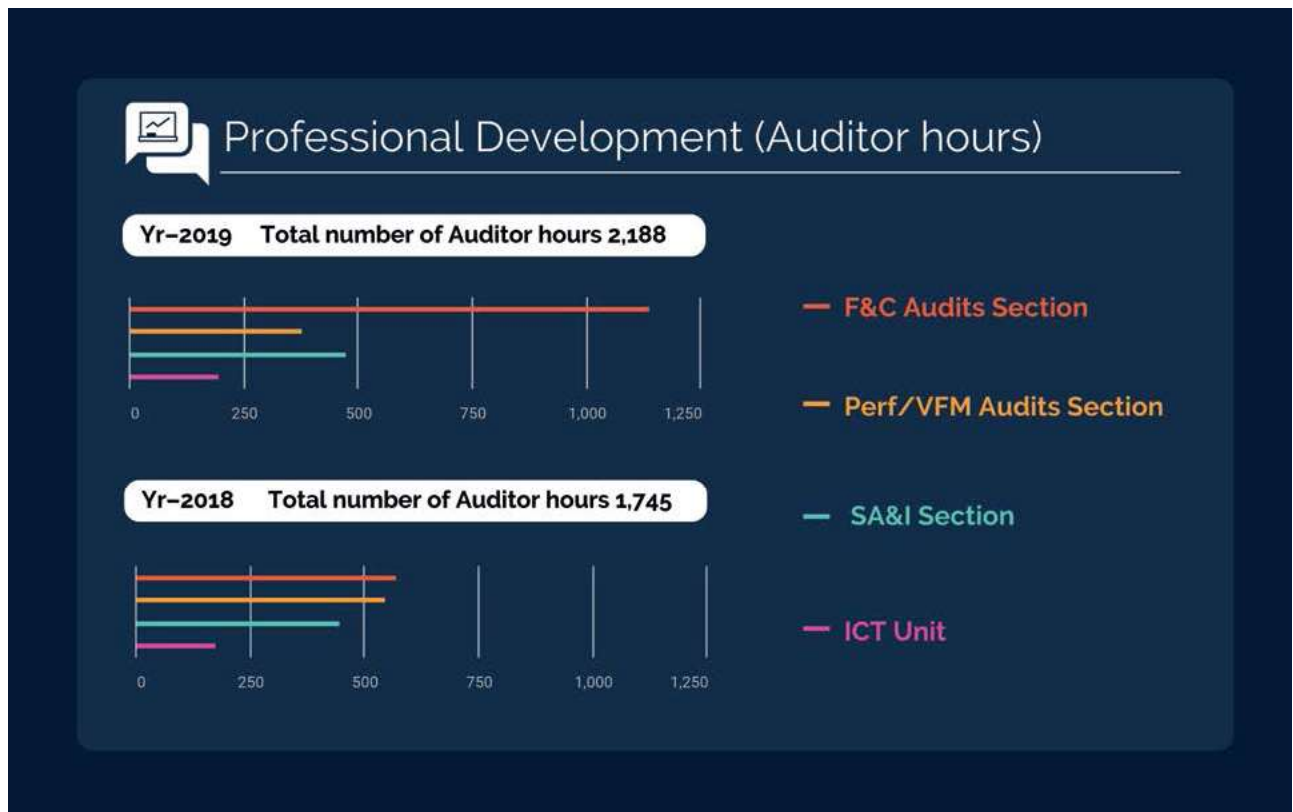
On the initiative of the Manager, Finance and Administration, the Office organised the following in-house professional development initiatives in 2019:

- Report Writing Training Course, delivered by NAO consultant Malcolm J. Naudi, to three cohorts of NAO staff members. Fifty-two staff members from all the Audit and Administrative sections attended this course;
- First Aid Training Course, delivered by Red Cross International, to 10 members of staff; and
- Mental Health Training Course, delivered by the Richmond Foundation, to 15 members of staff.

Seminar attendance

NAO staff members attended a number of local seminars, conferences and courses on the following subjects: General Accounting Principles for Small and Medium Enterprises; Audit Risk, Materiality and Sampling; Health and Safety; Amendments to the Voluntary Organisations Act; and Primary Health Care.

In addition, three NAO officials attended the Information Systems Audit and Control Association



annual conference, and three officials attended a course organised by the National Statistics Office on the Excessive Deficit Procedure.

Update on NAO-CIPFA programme

Fifteen persons completed the second part of the Financial Crime Investigation and Case Management Module in January 2019. Another 18 persons started the FCICM Module in December 2019 and completed the first part. The second part will be undertaken in the first six months of 2020. One NAO participant successfully completed the Diploma in IPSAS.

By the end of 2019, 51 persons had obtained a certificate in one of the three modules and 23 persons had obtained two certificates that implied attendance of at least two out of three modules. A total of 74 certificates have been awarded since the NAO-CIPFA project was launched in June 2017, 16 of which were awarded in 2019.

Employee exchange with Slovenia

Following the co-operation agreement signed by NAO Malta and the Court of Audit of the Republic of Slovenia on 9 May 2018 by AG Charles Deguara and Tomaž Vesel, President of the Slovenian Court of Audit, a second employee exchange programme was held.

Two staff members, Stephen Cassar, Principal Auditor, then in the Special Audits and Investigations Section, and Dorianne Frendo, Assistant Principal, IT Support Section, participated in a work placement in Slovenia during which they had extensive discussions on various aspects of their work with their Slovenian counterparts.

Completion of 20 years' service at NAO

In 2019, 11 employees completed 20 years' service at NAO. They formed part of a large intake of employees who joined the Office in 1999, some months following the 1997 NAO legislative amendments providing for the enactment of an independent Supreme Audit Institution reporting to Parliament. The Office thanks these employees for their commendable service and commitment throughout these years.

Social activities

Throughout the year, the Social Committee organised various events that were once again well supported by NAO staff.

Among these activities, the Committee organised a Pink October staff activity for the third consecutive





NAO staff at Pink October Activity on 30 October

year to raise awareness about breast cancer prevention and donated funds to encourage further research to prevent and treat this disease. This year's dress down activity on 30 October was, once again, well attended. The sum of €300 collected from various staff activities organised throughout October, and which culminated in the dress down day, were donated to a local NGO that offers patient-centred palliative care.

The NAO also organised a one-day team building activity on 18 October at the Corradino Sports Pavilion. A professional team-building event

organiser welcomed NAO staff members and divided participants into teams composed of management and employees from the different NAO Sections.

NAO staff members were required to compete in various games that required group effort and coordination. This highly enjoyable event enhanced relationship building between various NAO officials; moreover, it also provided a unique opportunity to NAO employees to enjoy a moment of relaxation from the daily, busy schedule of the Office.



One of NAO teams at the team building activity on 18 October

PART TWO

Part Two provides an overview of the performance (outputs) of the NAO in terms of published audit reports, and the inputs (availability of audit hours) and processes (key audit stages) required to produce these audit reports.



Our 2019 Performance at a Glance

Annual Report – Public Accounts

Audit Opinion on Financial Statements of Government
Audit Opinion on Compliance Audits



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Financial and Compliance
Audits in Government
Departments



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Financial and
Compliance Audits in
Government Entities



in 15

Ministries



140

Recommendations in Financial and Compliance Audits

Report on Local Government



67

Local Councils
Audited



4

Regional
Committees Audited



1

Local Councils
Association Audited



1500+

Recommendations to Local Councils

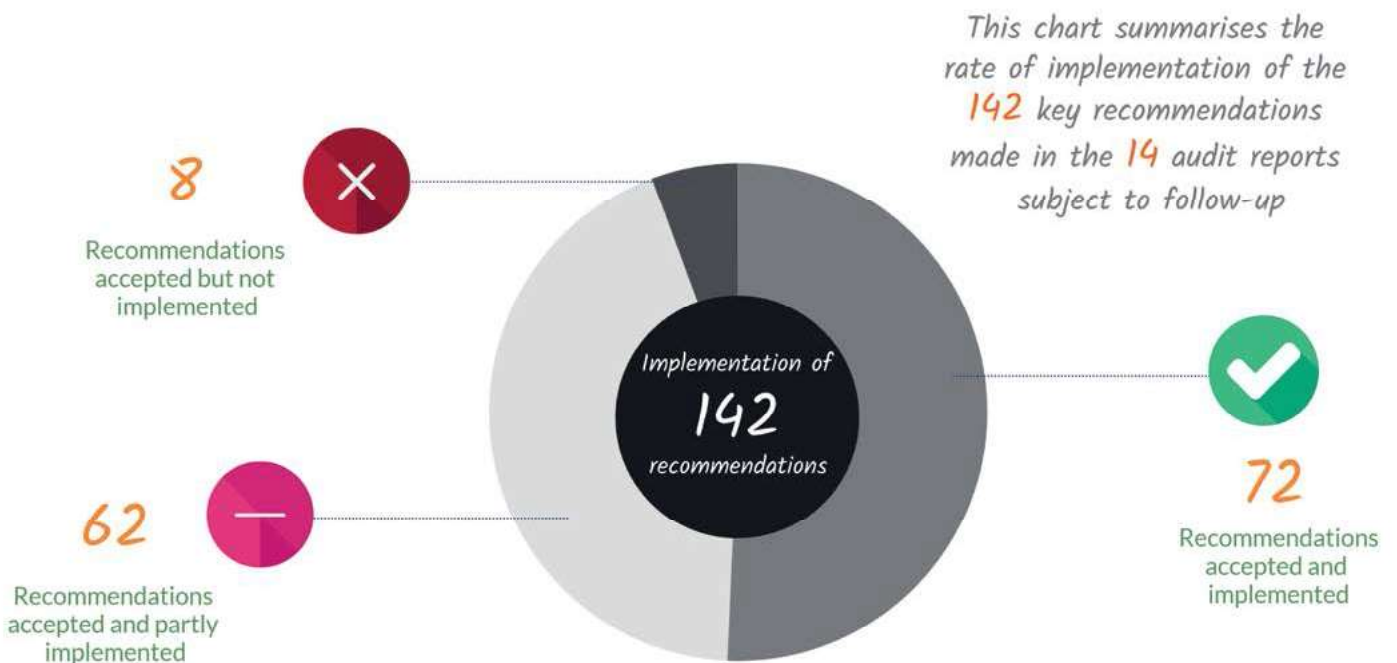
Performance Audits



Special Audits and Investigations

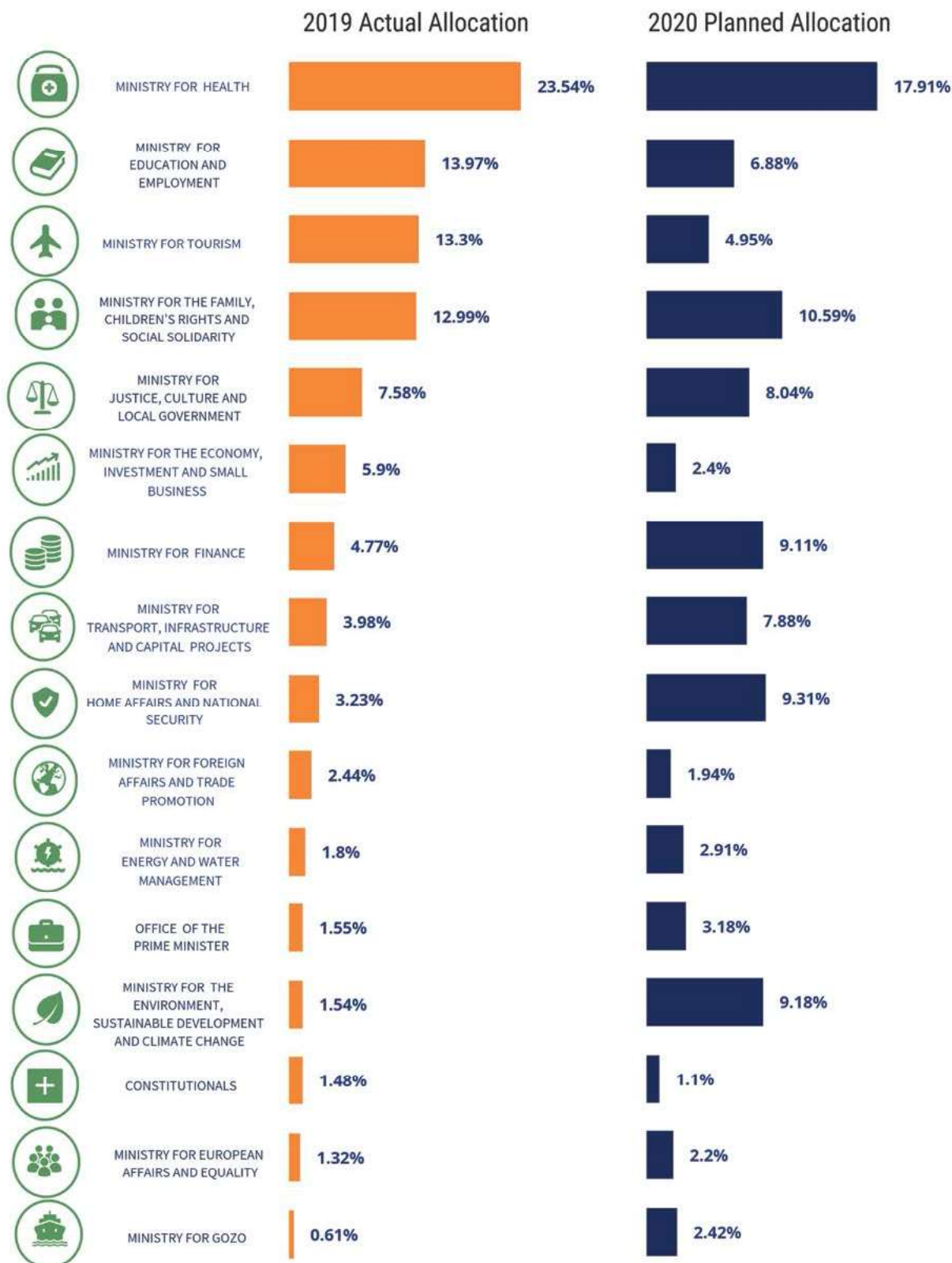


IT Audit



Allocation of Audit Hours

The chart below shows the 2019 actual allocation of audit hours per ministry; and the 2020 planned allocation of audit hours by ministry. The NAO ensures that over a period of years, all ministries are covered in its audits, especially those involving substantial public expenditure, to effectively fulfil its audit mandate.



Key Stages in the NAO Audit Process

The audit process is made up of the following stages:

Planning and research – involves obtaining an understanding of the nature of the audited entity and its environment, including the operation of key controls; conducting a risk assessment to identify key areas for audit of the audited entity; determining the scope, objectives, methodology, as well as projected timescales and costs of the audit; and including these in an audit plan.

Data collection – involves the collection of data outlined in the audit work plan relevant to the attainment of audit objectives. This data is to be sufficient and persuasive to logically support the analysis, observations, conclusions and recommendations in the audit report.

Fieldwork and analysis – fieldwork includes performing a literature review relating to the audit; review of legislation, policies and public data available on the audited entity; a review of management reports of the entity; visits to the audited entity, the conduct of interviews; file examination; observation; and the dissemination of questionnaires and/or surveys as or when necessary. Analysis involves the quantitative and/or qualitative examination, testing and verification of data obtained by the auditor in the course of audit work.

Report drafting – the audit report drafted at the end of the audit presents the audit scope, objectives,

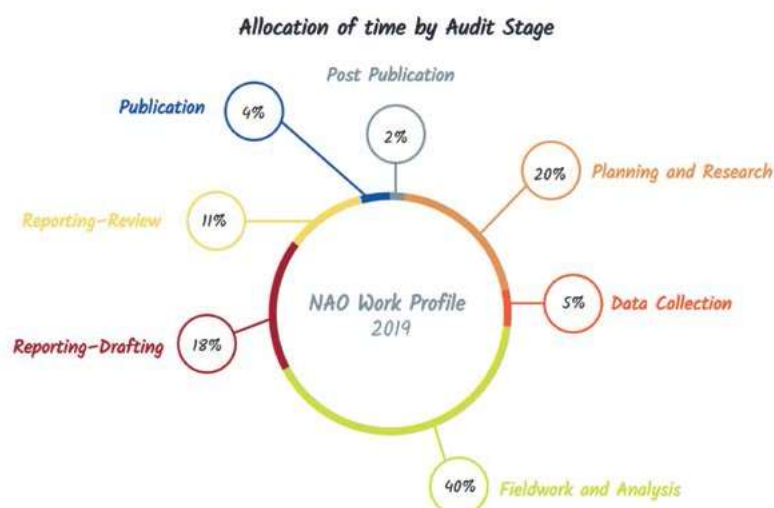
methodology, all key findings, conclusions and recommendations of the audit. Auditors ensure that it is clear and concise with the main messages apparent and understandable.

Report review – this includes the review of the draft report by senior management to confirm that it is clearly drafted, fair, balanced and supported by evidence. They also ensure that the report faithfully presents the results of the audit and places the performance of the audited entity in its proper context.

Publication – the production of the publication involves an in-house process that transforms the report by collating and formatting materials into the pre-printing layout. The final report is prepared in the appropriate technical format (industry standard Portable Document Format) for subsequent forwarding to the Government Printing Press for printing and binding. At this stage, the final format of the report is confirmed, including graphics and pictures to appear in the report. Audit reports requested by the PAC or the Minister responsible for Finance are printed in-house for additional security.

Post publication – on publication, the report is submitted by the Auditor General to the Hon. Speaker of the House of Representatives. Published audit reports may be reviewed by the Public Accounts Committee. Post publication includes the assessment of the impact of the audit judging by reactions in Parliament and the media.

The following diagram demonstrates the proportion of total audit hours dedicated to each stage of the audit throughout 2019.



Section Reports – Financial and Compliance Audits



Tanya Mercieca, Assistant Auditor General, Financial and Compliance Audits Section

The Financial and Compliance Audits Section carries out audits of Government departments, ministries and entities, according to a pre-set plan, and oversees the financial audits of local government, which are outsourced.

Focus on risk and materiality

Scoping and risk assessments are conducted for every audit. An initial meeting is held with the auditee, after which the section studies how the system works and identifies the risks according to the controls that are in place. Inherent risks, control risks and audit risk are factored in.

This approach serves the NAO well since senior management, headed by the AG and the DAG, are kept informed on what the section scopes in each audit. It also enables the section's own internal scoping to be more effective since it will be more focused on the riskier areas.

Ongoing challenge

Work continued in 2019 to further bring together the two units within the Financial and Compliance Audits Section that were merged in mid-2018. There was higher professional interaction and intermingling between the two former units to enable the section to aim at a uniform standard of performance.

The experience of one unit was shared with the other and the thrust to raise standards is an ongoing challenge.

Budgeted hours per audit

The section is now drawing up budgeted hours for each audit at the beginning of the year. Since there

is no established base line, this budgeted time has to be refined as the section gains more experience in its application in individual audits.

The budgeted hours are inputted early in the process and are therefore an approximation. A job is much easier when the controls are working and the auditee co-operates in the audit. On the other hand, if controls are lax and the auditee prolongs in sending replies to the section's queries, then an audit can take much longer than anticipated.

Other local input

The Assistant Auditor General forms part of the IPSAS Implementation Project Board, which is responsible for the strategic direction and overall management of IPSAS implementation across Government Ministries and Departments.

Local Council audits

Five separate audit firms were subcontracted to carry out the audits of the 68 local councils, five regional committees and the Local Council Association.

Each year, the audit firms have a tight nine-week deadline within which to audit the 14-15 councils in each respective region, with the audited accounts to be presented by the end of April.

In 2019, the major change in Local Government was the Local Council Reform, which gave more power to the regional committees.

The auditors made more than 1,500 recommendations in their reports in 2019 of which 26% (less than 400) were implemented, 71% (over 1,000) totally unaddressed and 3% partly implemented. The Local Councils Good Governance Working Group is gradually addressing these pending issues.

September workshop

Last September, three entities, the NAO, the Department for Local Government and the Local Councils Association, jointly organised a workshop for the Regional Presidents, Mayors, Deputy Mayors and Councillors.

Among the speakers were two consultants from the Chartered Institute of Public Finance and Accountancy, Ian Briggs who is also a local parish councillor, and Brendan McCarron, who is Deputy Chairman of a local parish council in a rural area in the south of England. They both shared their experience in good governance and the principles of public life.

Financial statements

The quality of local council financial statements needs to be considerably improved. There are a lot of casting errors, which one would not expect, and incomplete or inaccurate disclosures.

Another issue of significance was that, as from financial year 2018, the councils applied changes in their accounting policies relating to accounting for depreciation and grants. These had a great effect on the financial statements.

International participation

The Assistant Auditor General, Financial and Compliance Audits Section, is a member of the Audit Board of Eurocontrol, the entity that helps the Member States run safe, efficient and environmentally friendly air traffic operations throughout the European Region. The Audit Board usually reports to the Commission via the Provisional Council, where the financial management of the Route Charges System is concerned.

The board's first induction meeting for new board members was held in June 2019 during which they met all the stakeholders, including the Director General of Eurocontrol and the head of Internal Audit. The Assistant Auditor General also attended a meeting of the Provisional Council held in November and two other meetings of the audit board.

Another meeting, held in September, was attended by the Maltese deputy member, Audit Manager, Financial and Compliance Audits Section, Orland Bonavia, who visited the Eurocontrol operations site in Maastricht.

Ms Mercieca, is also a member of the College of Auditors of the EU Institute for Security Studies. The European Union Institute for Security Studies is the

Union's agency dealing with the analysis of foreign, security and defence policy issues.

The College of Auditors met twice (in April and May) during 2019 to conduct the audit. Ms Mercieca presented the audit report to the Board during the Board Meeting in Brussels in October.

Section Reports – Performance/ Value for Money Audits



Brian Vella, Assistant Auditor General, Performance Audits Section

The Performance Audits Section carries out Performance/Value for Money audits on all areas of government activity with a focus on evaluating whether specific activities, programmes, initiatives and systems are being run in an economic, efficient and effective manner. The Section is also responsible for international relations.

Performance audit work

Output

At the beginning of the year, staff from the Performance Audits Section participated in an additional investigation on Mater Dei Hospital, as mandated by the Minister for Finance.

The Section published four stand-alone reports in 2019. Another audit could not be completed for the reasons reported upon in the Annual Audit Report on Public Accounts 2018.

More relevant audits

The Section identifies subjects that are more relevant through the NAO's established criteria. This remained unchanged in 2019. Social media, the newspapers and other media are scanned to evaluate and select topics of interest. A list of these areas is drawn up and then applied through specific criteria.

Another area on which NAO is focusing is the identification of risk and the selection of more relevant audit areas. The work of an action group on this subject matter is headed by the Senior Audit Manager within the Performance Audits Section and is at an advanced stage.

The aim is that of streamlining criteria for the selection of audits throughout the Audit Sections within the NAO. Another aim is to capture, as far as possible, the whole population of all government activities from which to then select audit subject areas.

Challenges overcome

Together with the Special Audits and Investigations Section, the Performance Audits Section was involved in an investigation on the construction of Mater Dei Hospital that spanned 25 years. Since the terms of reference for the assignment were wide ranging, encompassing a very long time-span, the audit became more challenging, causing the rescheduling of the publication of a few other audits.

This investigation also involved technical issues, which necessitated the engagement of two technical experts – a civil engineer and an economist – to assist in the calculation of the estimated value of MDH's construction costs, and how these compare with other overseas and local hospitals.

Another challenge that was addressed by the Performance Audits Section was the long timespan for the MDH building project by focusing on key milestone events. There was also fragmented data, which the Section had to painstakingly organise. This report was published in April 2020.

The report on the Community Care for Older Persons encountered difficulties with the auditee on the interpretation of the audit results, in view of developments that were taking place in this sector while the audit was in progress. Through perseverance, fairness and objectivity, the report was eventually finalised to the satisfaction of both the NAO and the auditee. The NAO is now committed to undertake a follow-up audit in around two years' time.

Use of infographics

From 2019, the Section started using infographics more consistently to explain processes, timelines and snapshots of key activities. These have been found to be very useful and effective.

The IT and the Performance Audits Sections jointly prepare infographics to render reports more user friendly and in a more attractive format.

International Relations

Co-operation with international institutions

The Section helps to co-ordinate the Office's activities with other SAIs, particularly those within EU Member States, the European Court of Auditors, INTOSAI, and the European Organisation of Supreme Audit Institutions (EUROSAI), as well as related Working Groups, Task Forces and Networks.

The Section is also tasked with communicating with these international institutions, including replying to questionnaires and surveys that it receives regularly from them.

Preparations for an EUROSAI Spring Seminar Meeting on Environmental Audit

Preparations were undertaken for the EUROSAI working group Environmental Audit Spring Seminar on Sustainable Energy, which was planned for April 2020. This Meeting was eventually held through a video conference instead, in view of the Covid-19 virus health crisis that emerged in the early part of 2020.

Co-operative audit on Marine Protected Areas

Malta and Cyprus worked together to prepare a parallel audit after seven SAIs, mainly pertaining to countries bordering the Mediterranean Sea, prepared national audits on marine protected areas.

The Section's Senior Audit Manager co-chaired this co-operative audit to determine the extent to which MPAs contribute to the conservation of the marine environment and to blue growth. He worked with his counterpart from Cyprus on the consolidated report, which was published in June 2019.

The national audits were undertaken through common objectives, scope and methodology. This co-operative venture was undertaken under the auspices of the EUROSAl Working Group on Environmental Auditing.

Staff exchange with SAI Slovenia

Following the first exchange of staff from the SAIs of Malta and Slovenia in 2018, the Section was involved in arranging the exchange visit of two NAO officers to the State Audit Office of Slovenia, which was undertaken in 2019. The visit focused mainly on the types of audits carried out by the Court and infographics.

Preparations for bilateral meetings with SAI Finland and SAI Croatia

During the latter part of 2019, arrangements were also being made for bilateral meetings to be held in Malta with the Finnish and Croatian SAIs in the first quarter of 2020.

Section Reports – Special Audits and Investigations



Keith Mercieca, Assistant Auditor General, Special Audits and Investigations Section

The Special Audits and Investigations Section conducts audits in response to requests by the Public Accounts Committee, the Minister for Finance or the Minister for Local Government and others on its own initiative.

Current focus

Two reports have occupied the majority of the resources in 2019: an audit related to the disposal of the site in Pembroke formerly occupied by the Institute of Tourism Studies; and the concession awarded to Vitals Global Healthcare for the management of three hospitals. Two reports that were smaller in scope

were published: one related to visas issued by the Maltese Consulate in Algiers; and the other to a direct contract for IT services awarded by the Corradino Correctional Facility.

Since mandated audits tend to be highly complicated and very broad in scope, the challenge the section faces is to remain relevant to what society is discussing, including not just its primary 'client', the PAC, but the wider public and other stakeholders.

The section has also undertaken an audit using data analytics, conducted on the first of the UN SDGs, relating to poverty. This started in 2019 and is scheduled for completion in 2020.

In this audit, a different approach was adopted in an attempt to engage further with stakeholders, NGOs and civil society to see how Government can better address their concerns and identify gaps within the policies and structures of Government.

Open data, which is freely accessible and in the public domain, is being accessed, particularly EU-SILC data, which is collected across all the EU states. This data is based on standardised measures that show a country's particular progress according to various indicators related to, in this case, poverty.

Furthermore, plans were started in 2019 for a three-part review on ethics in the public sector, with work starting in 2020. The first part relates to a review of the systems and codes that are in place to help guide public service employees. The other two parts focus on the systems of management and control of this ethical framework.

Green Hat event

Some 60 delegates from 33 countries attended a three-day Green Hat event (inspired by Edward De Bono's Seven Thinking Hats – the green hat relates to creativity and innovation), organised in May in Malta in association with the IDI.

Representatives from SAIs hailing from all regions of the audit community delivered insightful presentations, sharing experiences and practical applications that ranged from initiatives intended to combat social

benefit fraud to the linking of data from social platforms to a database of government contracts as a means of flagging irregularity in public procurement.

Aside from contributions by SAIs, other valid interventions were made by representatives from the UN, the World Bank, the National Statistics Office and Smart Technologies, a local IT firm.

SAI Leadership and Stakeholder Forum

In June, the Assistant Auditor General, who heads this section, attended the SAI Leadership and Stakeholder Forum at the UN in New York. The forum, attended by hundreds of delegates from all over the world, included a session, chaired by the Assistant Auditor General from Malta, on the SDGs. This session focused on the main insights and recommendations from the SDG preparedness audits on data and monitoring.

Topics addressed ranged from how governments have prepared for monitoring and reporting on progress in SDG implementation to the strengths, innovations and challenges in the area.

In addition, the section worked closely with IDI to help develop the INTOSAI SDG Audit Methodology (ISAM) model. This model is a guide for auditors in the audit of the implementation of SDGs, which helps address the difficulties SAIs face when auditing these goals because they are generally very broad and complex subjects.

Representatives of the section attended meetings in Norway and Indonesia with other experts and stakeholders. The input provided by all was then collated into a working model.

Other members of the section were involved in the Task Force on Audit and Ethics. The main output of this involvement was the design and administration of a questionnaire intended to assess what other SAIs are doing and to better understand how they are engaged in the audit of ethics.

International experience

A member of the section spent one week gaining experience within the SAI of Slovenia in May 2019.

Section Reports – IT Audits and Operations



Simon Camilleri, Manager, IT Audits and Operations Section

The IT Audits and Operations Section is responsible for the internal IT operations within the NAO, conducts IT audits in various government ministries, departments and agencies, and provides all the graphic design and desktop publishing services required by the Office.

New systems

The take-up of the new timesheet system was good. Training on this software continued to be given in 2019.

Following the acquisition of the new server hardware in 2018, a dedicated back-up system was created to back up e-mail files from all the office laptops to the central system. Each individual chooses the date and time for the back-up and, once a week, a pop-up notifies the user that it is backing up their e-mails.

Office 365

In February, pilot testing started with a small group of users of Office 365. Later in the year, it was rolled out to all members of staff. There was an impact on efficiency in the initial phase but eventually the benefits of the new features started being felt. New features continued to be introduced to staff in 2020.

Members of the Section attended conferences locally to see what the government's plans are on Cloud computing and related matters. Although it is an area that the Office has not implemented at this stage to maintain full control of its data, it is keeping abreast of developments in this IT aspect.

There are two reasons for this: it is the way forward for government itself. So, the NAO needs to know it because it audits government. Secondly, the Office

needs to be in line with the technology that is out there and has to keep constantly updated.

IT Audits

The recommendations that emerged following the IT Audit Self-Assessment within the Office in 2017 pushed the Section to adopt, as a strategic objective, that of lending more of its expertise to the other sections within the Office. This self-assessment was the result of the Section head's participation in the EUROSAI working group on IT Audits.

As a result, the Section was involved in the Pharmacy of Your Choice audit in 2019 and, later in the year, in an investigative audit that had a heavy IT element, on the distribution of tablet computers in schools, which was a first.

Instead of doing the standard, scope-based IT audit of a department, this was on an IT initiative spread over state, Church and independent schools. For the first time, a questionnaire was used in an IT audit. This went out to all the teachers and parents of children in Years 4, 5 and 6. The response was highly positive and also addressed the Office's remit for further direct involvement with the citizen in its audits.

The IT Audits unit also conducted two follow-up reports, one on the Medicines Authority and the other on Mater Dei Hospital, which were issued in previous years. In the second half of the year, work started on a horizontal audit on the state of IT in Maltese local councils. The report was issued in the first quarter of 2020.

Progress was also made on the strategic front for the Section to be more available during audit planning. Regular meetings were held with the audit managers. The point has now been reached where there has been a change in mindset. Before, the Section was reaching out to see what they needed; now, the audit managers are proactively going to the IT Audits and Operations Section for its input.

Graphics and other productions

2019 was a milestone year for the National Audit Office, with practically all reports published containing

some form of infographic. In addition, for the first time ever, a videoclip was produced in relation to an audit report.

This was undertaken enthusiastically by the entire team. The result led to both the infographics and the tables generated in the videoclip being given prominence in the media coverage of the respective reports.

Training in IT Audit processes

Discussions have started with senior management, headed by the AG, to involve the IT Audits and Operations Section more with other teams across the Office in training on IT Audit processes. Opportunities are being sought to share information internally.

This has led to the first area of focus, to be implemented in 2020, on blockchain. Thanks to a contact made last November by the IT Audit Manager at an ECA working group meeting, an expert in the subject will be brought over to train the staff in the subject.

Challenges overcome

With the increased workload, the staff have resorted to flexible work practices. Yet the output is being well received. An IT audit report on the Effective Use of Tablets in State, Church and Independent Primary Schools was discussed at length at the Public Accounts Committee and prominence to the graphics produced was given, especially on the national TV broadcaster.

IT Working Group meeting

The NAO successfully hosted the 13th EUROSAI IT Working Group annual meeting in Malta on 4 and 5 April. This was the first time this working group held its annual meeting in Malta. The IT Audits unit was heavily engaged in the logistics of this meeting, together with the AG's office.

The meeting was attended by 69 delegates from 31 national audit institutions, together with the ECA.

The subjects discussed included a review of the IT Self-Assessment initiative and highlights of ISSAI 5800 on Co-operative Audits.

Graphic design and desktop publishing services

The workload of the graphic design and desktop publishing team has increased exponentially, and a *modus operandi* is gradually being created. Several meetings were held with the audit managers to establish their requirements and to keep the output in line with the set style guide.

The key elements that need to be highlighted in the infographics are being agreed and, in line with the effort to reduce the length of reports, they are being requested to present the main key issues in six or seven slides. These are then put on a whiteboard to establish all the connections and the images for the graphics that are developed from there.

Section Reports – Finance and Administration



Ian Rizzo, Manager, Finance and Administration Section

The Finance and Administration Section is responsible for NAO's accounting systems, HR systems and the provision of training to all members of the staff.

Financial activity

The Finance and Administration Section ensured that the operating and capital expenditure incurred in financial year end 2019 fell in line with the €3.5 million allocated and authorised by the House of Representatives to the National Audit Office.

A surplus of €119,862 was recorded at end of the year.

The Office commenced the financial year with 60 employees. One staff member resigned during the year and two employees returned to work after

availing themselves of short-term, unpaid parental leave. The staff complement as at year end was 61 persons, the full-time equivalent of which is 57 persons (due to 28% of the workforce working on a reduced-hours schedule and flexible work arrangements).

The Finance and Administration Section ensures that the flexibility of the NAO staff's working schedule can be adequately managed throughout the year and reconciled with the daily time-recording upkeep and leave computations. It also facilitates the implementation of work-life balance policies, such as teleworking as well as any recruitment/internal promotion procedures, as deemed necessary.

Three new members of staff, who were all fully qualified and experienced, were recruited in 2019 and joined the Office in January 2020. One recruit is a certified public auditor, another a certified public accountant; incidentally, both worked with a private audit firm. The third recruit was a research analyst and interpreter who worked with various European institutions. They all joined the Performance Audits Section.

Capital expenditure

The NAO's main office building in Floriana is being refurbished over a three-year period. This refurbishment accounted for the increased capital outlay, apart from the replacement of one office car and the purchase of another for general use. Other investment was undertaken in the area of IT capability, increasing the efficiency within the Office.

The lower right wing of the main building, the secretarial offices and two offices in the vicinity were refurbished last year. The offices in the lower left wing are being refurbished in 2020, with the remaining offices and conference facilities on the upper floor being upgraded in 2021.

The upgrades include a standard look and feel throughout, promoting a more modern and comfortable working environment with high quality fixtures and connections.

Staff training

Staff received on average 47 hours of training in 2019, which dovetailed closely to what was budgeted for in the 2019 Training Plan.

The NAO's staff continued to benefit from the three-year agreement with London-based CIPFA, which is co-financed from the European Social Funds under the operational Programme II: European Structural and Investment Funds 2014-2020.

The Financial Crime Investigation and Case Management module was completed by one cohort in January 2019, with five participants choosing to undertake a written assessment at the end of the module and all achieving a successful pass. The remaining ten members of the cohort obtained a certificate of attendance.

As regards the Diploma in IPSAS, the total number of staff who have completed its ten required workbooks with successful pass in the online examination reached 12 by end of 2019. Another person obtained a Diploma in IPSAS early in January 2020, bringing the total to 13.

By the end of 2019, 51 persons had obtained a certificate in one of the three modules offered by the NAO-CIPFA training programme. This is equivalent to a participation rate of 91%, when basing the percentage on a total of 56 persons that have been targeted as the main output result indicator in the EU funding applications.

Apart from the NAO-CIPFA project, other training was provided, which included an annual joint seminar organised by the NAO and the ECA and the

organisation of three in-house courses on report writing, basic first aid and mental health first aid.

New internal policies

An Occupational Health and Safety Policy was issued on 27 March, following a health and safety audit conducted by an external entity, which submitted its report to senior management in July 2018.

Work on the formulation of an IT Policy was ongoing at the end of 2019.

Work started in earnest in 2019 on an Equality Policy and a Sexual Harassment Policy so that the NAO will be able to apply for the Equality Mark as an equal opportunities employer. These policies were subsequently published and disseminated to all staff in February 2020. The application of the Equality Mark was lodged with the NCPE shortly after.

SAI-PMF NAO assessment

The Finance and Administration Manager was tasked by senior management to lead an internal team that conducts the assessment of the Office performance in accordance with the PMF laid out by INTOSAI for SAIs at the XXII INCOSAI in Abu Dhabi in 2016.

The team met six times in 2019 and considerable progress was made by year end, with four out of six domains being already assessed and reported on. The final report with the team's findings is expected to be presented to the AG before the end of 2020.

Malta's National Audit Office hosting 13th Meeting of the EUROSAI IT Working Group

Malta's Audit Verification Office (NAO) is hosting the 13th meeting of the EUROSAI IT Working Group, which is analysing the IT Self-Assessment System as well as salient parts of ISSAI 5800 regarding Co-operative Audits.

In opening the meeting, Auditor General, Charles Deguara, welcomed the 69 participants from 31 national verification institutions together with the EU Court of Auditors and gave a brief overview of the work being carried out by the NAO's IT Audits Unit. TVM – 5 April 2019

PART THREE...

Annual Report and Financial Statements

31 December 2019

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 2019.

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 other 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 11 reports with an average staff complement of 61 persons (equivalent to 57 full-timers). The reports consisted of four performance audit reports, two special audit reports, one IT audit report, an annual report on the public accounts of 2018 (which includes another performance audit report), an annual report on the audited financial statements of the local councils for year ending 2018, a follow-up report, and the annual work and activities report.

Year	Amount approved by NAO Accounts Committee and authorised by the House of Representatives	Amount allocated in Budgetary Estimates by Ministry of Finance	Amount actually withdrawn	Surplus/ (Deficit)	Number of Audit Reports Published	Average Staff Complement
	€	€	€	€		
2009	2,100,000	1,864,000	1,864,000	(81,725)	11	57
2010	2,400,000	1,950,000	2,400,000	145,044	9	55
2011	2,400,000	2,200,000	2,200,000	(11,579)	11	56
2012	2,400,000	2,185,000	2,185,000	(143,140)	15	59
2013	2,500,000	2,250,000	2,265,000	(163,247)	13	57
2014	2,600,000	2,280,000	2,600,000	29,002	16	58
2015	2,800,000	2,700,000	2,700,000	(84,482)	15	62
2016	3,000,000	2,900,000	3,000,000	6,666	16	65
2017	3,150,000	3,150,000	3,150,000	42,160	14	63
2018	3,400,000	3,400,000	3,400,000	221,428	17	60
2019	3,500,000	3,500,000	3,500,000	119,862	11	61

Financial and Compliance Audits:

- i. Report by the Auditor General on the Public Accounts for the year 2018
- ii. Report by the Auditor General on the Workings of Local Government for the year 2018.

Performance Audits:

- i. A review on the contract for Mount Carmel Hospital's clerical services
- ii. An evaluation of the Community Work Scheme
- iii. An analysis of issues concerning the Co-operative Movement in Malta
- iv. Co-operative Audit: Are adequate mechanisms in place for the designation and effective management of Marine Protected Areas (MPAs) within the Mediterranean Sea?

Special Audits and Investigations:

- i. An investigation of visas issued by the Maltese Consulate in Algiers
- ii. An investigation of contracts awarded by the Ministry for Home Affairs and National Security to Infinite Fusion Technologies Ltd.

Information Technology Audits:

- i. The effective use of tablets in State, Church and Independent Primary Schools.

Other:

- i. Follow up reports by the National Audit Office for the year 2019
- ii. Annual Report and Financial Statements 2018-Work and Activities.

The Office was involved in 2019 in quite a number of international capacity building initiatives that included the use of data analytics, the audit of sustainable development goals, participation in the European Stability Mechanism following the appointment of our Deputy Auditor General as a Member of the ESM Audit Board and the hosting of a EUROSAI IT working group meeting in Malta. The NAO also organised an international conference in Malta in collaboration with the INTOSAI Development Initiative (IDI), as well as the annual NAO–ECA Joint Conference, which focused on the theme “Supreme Audit Institutions: How Can They Influence Governments to Address Citizens’ Concerns.” These initiatives provided valuable benefits to participating staff in terms of improved skills, knowledge and competence.

This increased activity has taken place notwithstanding the international commitments of the Office as undertaken in the previous years.

Throughout 2019, the effort of the Office's Special Audits section was taken up by two complex inquiries related to contractual legal agreements that were still ongoing as at financial statement date. It is expected that they will be concluded in 2020.

The National Audit Office was also assigned in 2019 to follow up an investigation of Mater Dei Hospital, as requested by the Minister for Finance.

The Annual Audit report on the Public Accounts of 2018 featured nine more audits than last year's report.

Financial Review

The National Audit Office achieved a surplus of €119,862 for the year ending 2019, as compared to a surplus of €221,428 achieved in the previous financial year.

The average number of employees stabilised at 61 for 2019, just registering an additional increase of one employee over 2018. Full-time equivalents of these 61 employees (28% of whom work on a reduced hours schedule) amounted to 57 employees. After taking into account the cost of one additional employee, salaries increased in 2019 by only 3%, which is in line with that provided in the Collective Agreement 2017-2024.

The cash and cash equivalent balances improved by €27,510 at the end of financial year 2019.

Capital expenditure amounted to a total of €198,225, with slightly more than half of the amount being incurred on the refurbishment of the secretarial office and two other offices in its vicinity, as well as the offices situated in the lower right wing of the main building. The refurbishment of the other offices in the lower left wing of the main building continued in 2020 and the offices in the upper wing are intended to be refurbished in 2021. The capital expenditure included also the purchase of two new motor-vehicles and the replacement of 10 staff laptops.

Training costs amounted to €36,029, which included the average provision of 47 hours of training to every employee. Training activities consisted mainly of the delivery of the Financial Crime Investigation and Case Management module to two separate cohorts in line with the NAO-CIPFA project schedule, a first aid and mental health training course, a course on report writing to all staff, the annual NAO-ECA seminar and a team-building activity. Other employees were given the opportunity to attend overseas seminars, take part in an exchange visit on work practices and also to attend local seminars and conferences.

Capital Commitments

On 20 August 2019, the National Audit Office submitted a business case to the Ministry for Finance to construct a new annex adjacent to the present office to provide training and meeting facilities for all staff, as well as additional office space for new recruits. The architect appointed by the Office has proposed a project of three levels at a cost of circa €2.2 million.

Following discussions with the Ministry for Finance, an amount of €200,000 (in addition to the €3.6 million costs allocated for recurrent costs and other capital expenditure) has been allocated by the Ministry in 2020 to undertake the initial phase of the project, which consists of permitting, design, geological studies and surveying.

Further discussions are to follow with the NAO Accounts Committee and the Ministry for Finance after the initial stages of the project have been concluded.

Reserves

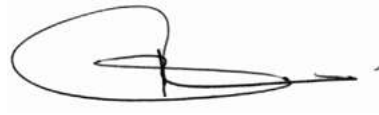
After deducting the surplus of €119,862 from the balance of accumulated deficit as at the beginning of the year, the total accumulated deficit at the end of 2019 amounting to €241,123 is being carried forward to the next financial period. The accumulated deficit, as shown in the statement of financial position, would be converted into a surplus had the provision for pensions and gratuities over an approximate 30-year period not been accounted for as per requirements of IAS 19.



CARMEL DEGUARA
Auditor General of the
National Audit Office

Notre Dame Ravelin
Floriana FRN 1601
Malta

27 April 2020



NOEL CAMILLERI
Deputy Auditor General of the
National Audit Office

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Notes	2019 €	2018 €
Government subvention	6	3,500,000	3,400,000
Other income	7	19,195	43,360
Operating expenditure			
Salaries and personnel expenses	8	(2,614,672)	(2,481,985)
Administrative and other expenses	9	(481,659)	(464,363)
Sub-contracted audit fees of local councils		(260,012)	(260,012)
		(3,356,343)	(3,206,360)
Results from operating activities before pension costs		162,852	237,000
Provision for service pensions and gratuities	11	(43,118)	(15,675)
Results from operating activities		119,734	221,325
Bank interest receivable		128	103
Surplus for the year		119,862	221,428
Total comprehensive income for the year		119,862	221,428

The accounting policies and explanatory notes on pages 61 to 71 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Notes	2019 €	2018 €
ASSETS			
Non-current assets			
Property and equipment	10	389,447	293,657
Current assets			
Debtors and prepayments		7,653	25,251
Cash and cash equivalents	13	140,801	113,291
		148,454	138,542
Total assets		537,901	432,199
LIABILITIES			
Non-current liabilities			
Provision for service pensions and gratuities	11	360,367	379,417
Current liabilities			
Payables	12	357,347	352,930
Provision for service pensions and gratuities	11	61,310	60,837
		418,657	413,767
Total liabilities		779,024	793,184
Accumulated deficit		(241,123)	(360,985)
Total liabilities and accumulated deficit		537,901	432,199

The accounting policies and explanatory notes on pages 61 to 71 form an integral part of the financial statements.

The financial statements on pages 57 to 71 have been authorised for issue on 27 April 2020 by:



CARMEL DEGUARA
Auditor General of the
National Audit Office



NOEL CAMILLERI
Deputy Auditor General of the
National Audit Office

STATEMENT OF CHANGES IN NET LIABILITIES

for the year ended 31 December 2019

	Accumulated deficit €
Balance at 1 January 2018	(582,413)
Total comprehensive income for the year	
Surplus for the year	221,428
Balance at 31 December 2018	(360,985)
Balance at 1 January 2019	(360,985)
Total comprehensive income for the year	
Surplus for the year	119,862
Balance at 31 December 2019	(241,123)

The accounting policies and explanatory notes on pages 61 to 71 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	Note	2019 €	2018 €
Cash flows from operating activities			
Surplus for the year		119,862	221,428
<i>Non-cash adjustments to reconcile surplus to net cash flows:</i>			
Depreciation		102,435	71,676
Bank interest receivable		(128)	(103)
Provision for service pensions and gratuities		43,118	15,675
Gain on disposal of property, plant and equipment		(1,838)	-
		263,449	308,676
Movement in debtors and prepayments		17,598	(15,279)
Movement in payables		4,417	(136,427)
Movement in provision for service pensions and gratuities		(61,695)	(61,695)
Cash generated from operating activities		223,769	95,275
Bank interest received		128	103
Net cash from operating activities		223,897	95,378
Cash flows from investing activities			
Purchase of property and equipment		(196,387)	(39,149)
Cash used in investing activities		(196,387)	(39,149)
Net increase in cash and cash equivalents		27,510	56,229
Cash and cash equivalents at 1 January		113,291	57,062
Cash and cash equivalents at 31 December	13	140,801	113,291

The accounting policies and explanatory notes on pages 61 to 71 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

The 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

As at 31 December 2019, the Office had net liabilities of €241,123 (2018: €360,985).

The Office’s accumulated deficit arises principally from the provision for service pensions and gratuities that is provided over a 30-year period to cover the annual obligatory charge to the Treasury arising from the Pensions Ordinance, Cap 93 in respect of certain ex-employees who joined the Civil Service prior to 1979.

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 operations of a state audit institution that is funded by government, while allowing it to remain autonomous and independent from any government authority.

The National Audit Office includes the annual charge due to the Treasury for every forthcoming year in its budgetary request and pays the amount due as it arises.

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, the International Organisation of Supreme Audit Institutions (INTOSAI) has full membership of state audit institutions from 194 countries (including Malta).

2.3 Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. BASIS OF PREPARATION CONTINUED

2.4 Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is 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 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 2019. The adoption of these standards or interpretations did not have a material impact on the financial statements or performance of the Office.

IFRS 16 Leases

With effect from 1 January 2019, the National Audit Office adopted *IFRS 16 Leases*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet. 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. As a result, the adoption of IFRS 16 did not have any material impact on the financial statements of the Office.

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 2020 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 are taken directly to profit or loss on approval of the allocated amount in the Budgetary Estimates by the Ministry of 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 are originated.

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

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

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

Non-derivative financial liabilities – recognition and derecognition

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

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

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

Non-derivative financial assets – measurement

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

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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 costs 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 generates 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. FINANCIAL RISK MANAGEMENT CONTINUED

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.

6. GOVERNMENT SUBVENTION

	2019 €	2018 €
Authorised by the House of Representatives	3,500,000	3,400,000
Amount allocated by the Ministry for Finance in Budget Estimates	3,500,000	3,400,000
Amounts actually withdrawn	3,500,000	3,400,000

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. OTHER INCOME

	2019	2018
	€	€
Audit fee of Non-Governmental Organisation	3,000	3,000
Penalty Refund	5,043	-
EU Funding – Training Project	-	32,112
EU Funding – Travel	-	8,248
Reimbursements	11,152	-
	19,195	43,360

8. SALARIES AND PERSONNEL EXPENSES

	2019	2018
	€	€
Salaries	2,480,711	2,350,701
Social security contributions	133,961	131,284
	2,614,672	2,481,985

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

	2019	2018
	No.	No.
Senior management	6	6
Operating	41	40
Administration and IT	9	9
Messenger staff	5	5
	61	60
Equivalent number of full-time employees	57	55

During the year a total of 17 persons (2018: 18) worked on a reduced hour basis.

9. EXPENSES BY NATURE

	2019	2018
	€	€
Auditors' remuneration	4,750	4,750
Professional fees	61,013	47,729
Depreciation of property and equipment	102,435	71,676
Net cost of hosting international events	7,360	15,798
Learning and Professional Development	36,029	68,500
Other administrative expenses	270,072	255,910
Total administrative and other expenses	481,659	464,363

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. PROPERTY AND EQUIPMENT

	Building improvements	Equipment	Computer equipment and software	Motor vehicles	Furniture and fittings	Total
	€	€	€	€	€	€
Cost						
At 1 January 2018	593,081	120,554	142,759	70,541	157,380	1,084,315
Additions	-	6,748	31,008	-	1,393	39,149
Write-offs	-	-	(7,764)	-	-	(7,764)
At 31 December 2018	593,081	127,302	166,003	70,541	158,773	1,115,700
Additions	104,589	8,550	41,925	39,793	3,368	198,225
Write-offs/disposals	-	(11,181)	(10,548)	(13,976)	(8,310)	(44,015)
At 31 December 2019	697,670	124,671	197,380	96,358	153,831	1,269,910
Depreciation						
At 1 January 2018	298,157	107,814	138,887	70,541	142,732	758,131
Depreciation charge for the year	48,441	6,447	13,221	-	3,567	71,676
Released upon write-off	-	-	(7,764)	-	-	(7,764)
At 31 December 2018	346,598	114,261	144,344	70,541	146,299	822,043
Depreciation charge for the year	58,696	6,865	25,297	7,959	3,618	102,435
Released upon write-off/ disposal	-	(11,181)	(10,548)	(13,976)	(8,310)	(44,015)
At 31 December 2019	405,294	109,945	159,093	64,524	141,607	880,463
Carrying amount						
At 31 December 2019	292,376	14,726	38,287	31,834	12,224	389,447
At 31 December 2018	246,483	13,041	21,659	-	12,474	293,657

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:

	2019	2018
	€	€
Non-current	360,367	379,417
Current	61,310	60,837
	421,677	440,254

Of the non-current portion of the provision, an amount of €192,090 (2018: €207,881) refers to payments to be made after more than 5 years from the reporting date. The movement in this provision for the current and comparative year is as follows:

	2019	2018
	€	€
Service pensions and gratuities as at 1 January	440,254	486,274
Provisions made during the year	43,118	15,675
Provisions used during the year	(61,695)	(61,695)
Service pensions and gratuities as at 31 December	421,677	440,254

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 2018 is arrived at by discounting the post-employment benefit obligations of the Office using the year-end yield to maturity of 0.48% on 5.25% 2030 I Government bonds (2018: 1.41% on 5.1% 2029 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 (2018: males and females of 80 and 85 years, respectively), based on the published data of the National Statistics Office Demographic Review.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. PAYABLES

	2019	2018
	€	€
Operational and capital payables	16,630	19,590
Taxes and social security	58,759	55,568
Accrued expenses	220,263	216,077
Amount due to Treasury for pension contributions	61,695	61,695
	357,347	352,930

13. CASH AND CASH EQUIVALENTS

	2019	2018
	€	€
Cash at bank	140,634	113,223
Cash in hand	167	68
	140,801	113,291

14. SUBSEQUENT EVENTS

Amidst the COVID-19 and the economic implications that it might have, the Auditor General is of the opinion that: with the current scenario, the impact on the National Audit Office's finances is limited. The Office is able to manage its expenditure levels such that expenditure is fully funded on its ability to secure sufficient subvention from the government



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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 2019 and the statement of profit or loss and comprehensive income, the statement of changes in net liabilities 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 2019, 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.
- 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.



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

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

- 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 read 'Christopher Balzan', is written over a light blue horizontal line.

*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

27 April 2020

2019-2020 (to date) Reports issued by NAO

NAO Work and Activities Report

April 2019 Annual Report & Financial Statements 2018- Works and Activities

NAO Audit Reports

June 2019 Joint Audit: An Evaluation of the Community Work Scheme

July 2019 Cooperative Audit: Are adequate mechanisms in place for the designation and effective management of Marine Protected Areas (MPAs) within the Mediterranean Sea?

October 2019 Information Technology Audit: The Effective use of Tablets in State, Church and Independent Primary Schools

October 2019 Follow-Up Reports by the National Audit Office 2019

November 2019 Report by the Auditor General on the Workings of Local Government 2018

November 2019 Performance Audit: An analysis of issues concerning the Cooperative Movement in Malta

December 2019 Report by the Auditor General on the Public Accounts 2018

December 2019 An investigation of contracts awarded by the Ministry for Home Affairs and National Security to Infinite Fusion Technologies Ltd

January 2020 Performance Audit: Community Care for Older Persons

February 2020 Performance Audit: Assessing the Public Transport Contract and Transport Malta's visibility on the service

March 2020 Information Technology Audit: ICT Across Local Councils

March 2020 The disposal of the site formerly occupied by the Institute of Tourism Studies

April 2020 A review of the ethical framework guiding public employees

April 2020 Addendum Investigation: The Mater Dei Hospital Project

May 2020 Performance Audit: Tackling Child Abuse