

Auditor General

Our Ref: NAO 27/2017
Your Ref:

12th January 2023

Hon. Chair & Members
Public Accounts Committee
House of Representatives

We have always considered the Public Accounts Committee (PAC) as one of our most important stakeholders. Indeed, one acknowledges the significant added value given to the various National Audit Office (NAO) publications that are discussed by this Committee during its meetings. This is in line with our key responsibility, namely to provide audit assurance to Parliament, and ultimately to our citizens, that public funds and resources are being properly accounted for, are being utilised economically, efficiently, effectively and ethically, and that such funds and resources are also being managed in line with prevailing rules and regulations.

Regarding the latter, particular reference is made to the ‘Auditor General’s Report on Public Accounts 2021’, issued in December 2022, which incorporates various compliance audits carried out throughout the whole year. This Report is certainly a good source from which the PAC may, as in the past, give its due attention when deciding topics to discuss during its Sittings.

At the start of the new year, I am hereby forwarding to the PAC a comprehensive list of all the publications that have been issued by our Office during 2022, as attached. We would like to reiterate our willingness to duly brief the Committee prior to its deliberation of any Report it chooses to discuss during this year.

Moreover, I am also sending an analytical memo entitled ‘*Emerging trends in the agenda set by the Public Accounts Committee*’. This paper essentially highlights some interesting points of insight in terms of the NAO audit assignments and that of the PAC in its consideration of our Reports. The paper includes an analysis of the frequency and type of NAO reports the PAC has discussed over the years since its inception. We are confident that the extensive information contained therein will be found useful by the Committee.



Charles Deguara

Encs.



Emerging trends in the agenda set by the Public Accounts Committee

Key observations

In service to the Public Accounts Committee (PAC), the National Audit Office (NAO) analysed the agenda setting function of the Committee from its inception to date. Several points of insight emerge:

- a. the frequency of meetings held by the PAC has increased over time, indicating that the relevance of this Committee as an instrument of oversight is growing;
- b. two of every three agenda items discussed by the PAC is an NAO audit report;
- c. the PAC discussed one of every four audit reports published by the NAO;
- d. in terms of unique reports discussed by the PAC, financial and compliance audit reports were the most selected audit type, followed by performance, investigative and information technology audits;
- e. in terms of the frequency of PAC discussions, financial and compliance audit reports were the most prevalently discussed, followed by investigative, performance and information technology audits;
- f. however, over time, there is a diminishing interest in financial and compliance audits and performance audits, an increasing focus on investigative audits, a trend most pronounced in recent years; and
- g. the report titled 'An analysis of the effectiveness of the Enemalta Corporation's fuel procurement' is that most discussed by the PAC, closely followed by that titled 'An investigation of matters relating to the contracts awarded to ElectroGas Malta Ltd by Enemalta Corporation' (still ongoing). These two reports account for one of every five items of agenda scrutinised by the Committee.

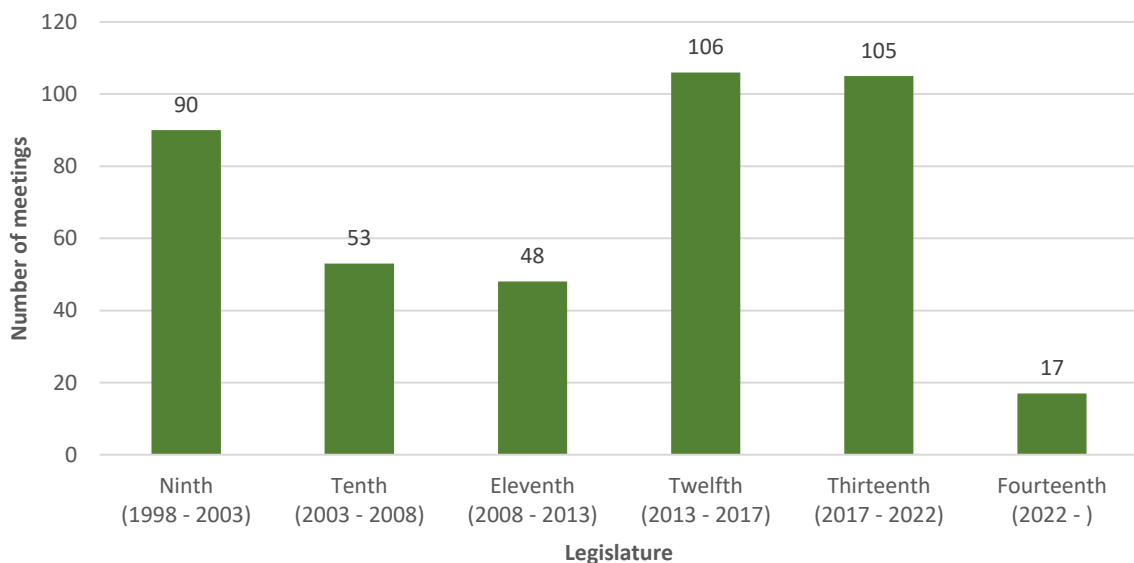
Background

1. The NAO and the PAC enjoy a symbiotic relationship. This Office's audit reports are invariably referred to the Committee for possible discussion, while the Committee at times influences the Office's work through its mandating of audits and more pertinently provides a platform that amplifies the impact of its work when discussing published reports.
2. The agenda of all PAC meetings from the Ninth Legislature till the Fourteenth Legislature (as at 14 December 2022), that is, from its inception to date, were analysed to elicit trends of interest and to generate insight. The unit of analysis generally adopted was the agenda item, with each subject of discussion set by the PAC at each meeting captured as an entry. The review of the agenda corresponding to 419 meetings resulted in 452 entries, that is, agenda items.

Has the frequency of meetings held by the PAC changed over time?

3. Capturing the frequency of meetings held by legislature, a notable increase in the number of meetings held by the PAC is observed in the Twelfth Legislature and Thirteenth Legislature (Figure 1 refers). It is pertinent to note that the Fourteenth Legislature commenced in April 2022 and is ongoing, thereby accounting for the reduced number of instances.

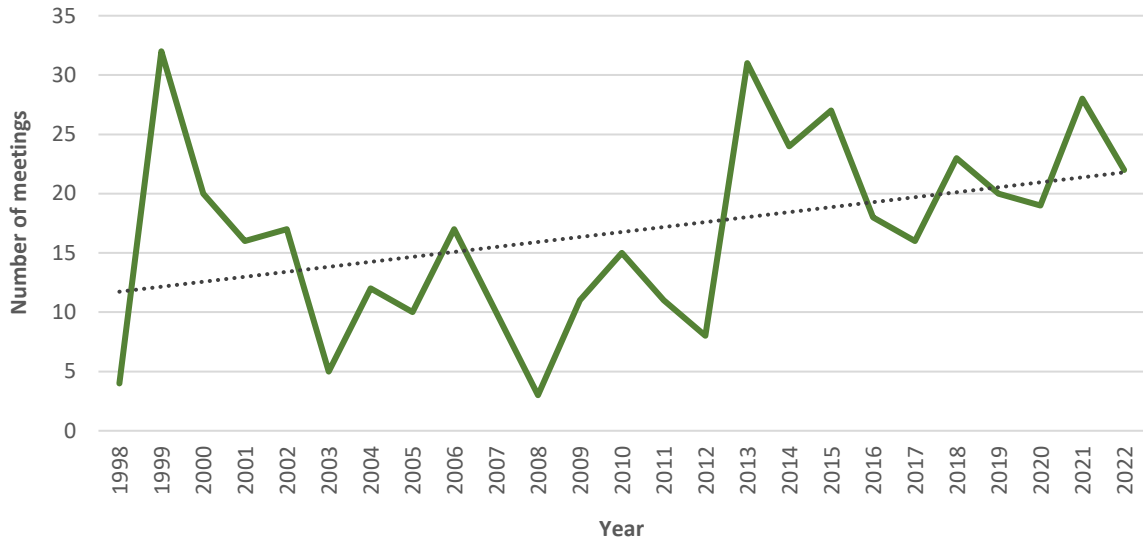
Figure 1 | Number of meetings held by the PAC by legislature



4. Another interesting perspective of analysis emerges when one disaggregates the number of meetings held by the PAC by year. Immediately apparent is that the frequency of meetings by this Committee has increased over time, as evident in the rising trendline

(Figure 2 refers). This observation attests to the growing relevance of the PAC as an important instrument of oversight of Government’s use of public resources.

Figure 2 | Number of meetings held by the PAC by year



5. Figure 2 highlights three peaks of activity, namely, in 1999, between 2013 and 2015, and in 2021. In 1999, the PAC met 32 times. Perhaps this ought to be understood in terms of the novelty of the PAC, having only been constituted in November 1998. During 1999, the Committee’s focus included:
 - a. the Report by the Auditor General on the Public Accounts of 1996 and 1997 (discussed eight and nine times, respectively);
 - b. the sale of the Government’s shareholding in Mid-Med Bank to the Hongkong and Shanghai Banking Corporation Ltd (HSBC) (discussed eight times); and
 - c. the property, buildings and right of berths in Vittoriosa, Senglea and Kalkara assigned on temporary emphyteusis to Port Cottonera Ltd and Cottonera Waterfront Group plc (discussed six times).

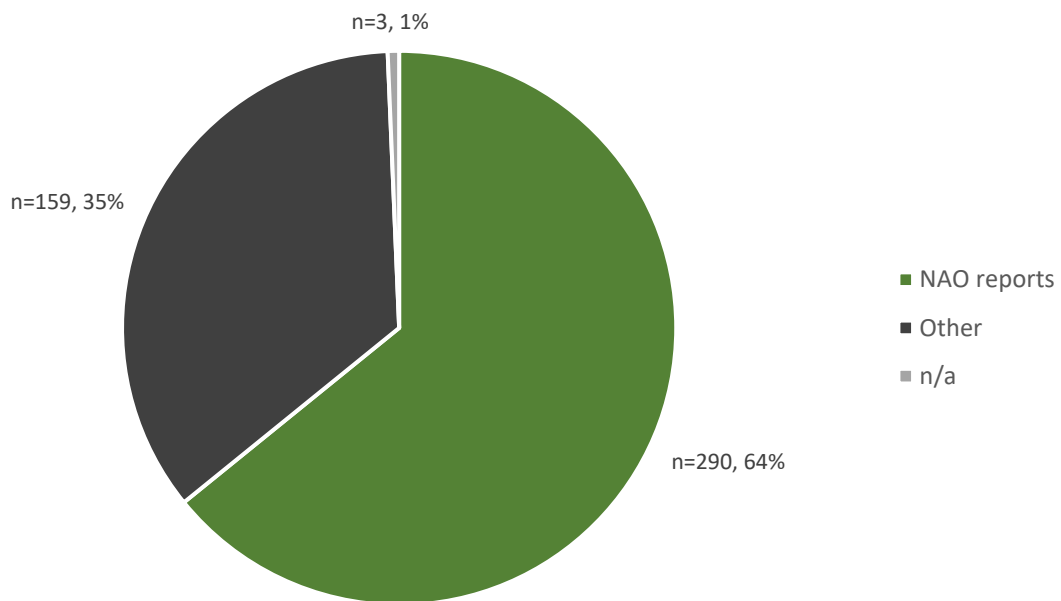
6. Another peak was registered between 2013 and 2015. During these years, the PAC’s attention was geared towards:
 - a. the report by the NAO titled ‘An analysis of the effectiveness of the Enemalta Corporation’s fuel procurement’ (discussed 52 times);
 - b. the contract signed between the Commissioner of Lands and the Malta Shipbuilding on 20 August 1979 and that signed between Malta Shipbuilding and the Malta Labour Party on 22 August 1979 (discussed 10 times); and
 - c. the contract entered into by the Government with Henley and Partners in relation to the Individual Investor Programme (discussed eight times).

- The attention of the PAC in 2021 was almost exclusively drawn to the report by the NAO titled 'An investigation of matters relating to the contracts awarded to ElectroGas Malta Ltd by Enemalta Corporation'. During this year, the Committee discussed this report 26 times.

To what extent is the PAC's agenda addressing NAO reports?

- Of interest to the NAO, and perhaps to the PAC, is to what extent the agenda of the Committee is dedicated to the discussion of reports drawn up by this Office. It was observed that, in the main, discussions by the Committee related to the review of NAO reports, with 64 per cent of agenda items corresponding to an NAO audit report. However, the proportion of agenda items relating to matters not addressed by the NAO is also substantial, with one of every three agenda items being a matter not audited by this Office (Figure 3 refers). There were also three instances when the PAC met but did not discuss any items, due to for example lack of quorum.

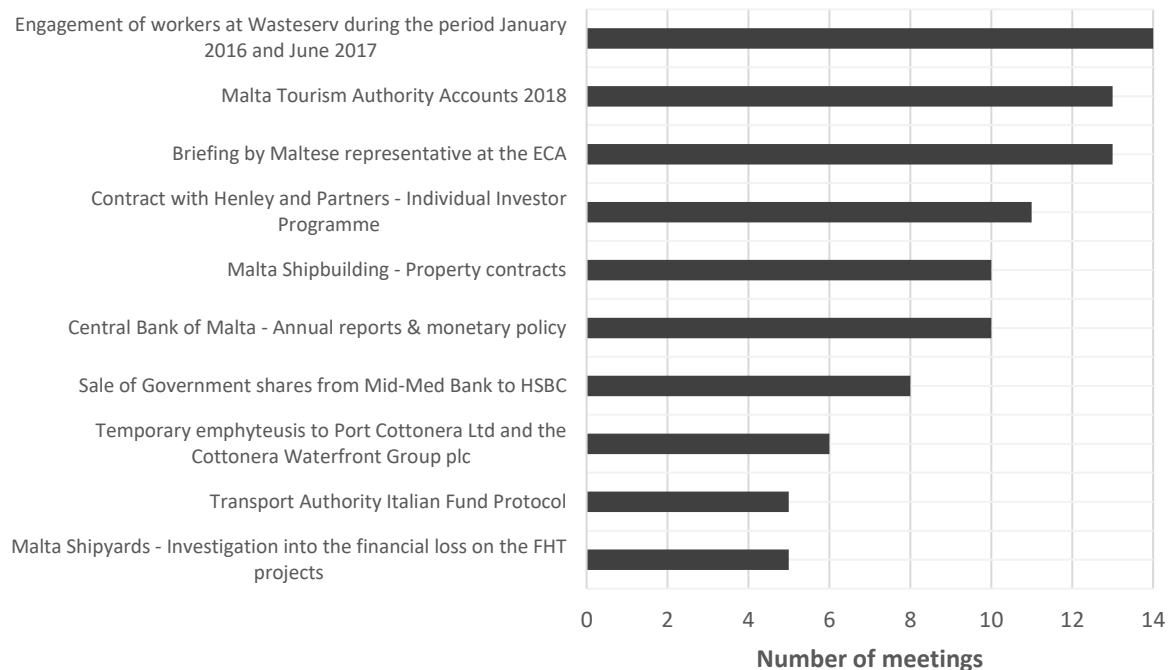
Figure 3 | Relatedness of PAC agenda item to NAO report



- Matters captured under the classification 'Other' were diverse in nature and related to the breadth of functions of Government. At a general and high-level of analysis, agenda items included the review of financial and annual reports often corresponding to public sector entities, employment practices, property and company transfers, contracts with third party service providers, major projects and the expenditure of public funds. In addition, the PAC was regularly briefed by the Maltese representative at the European Court of Auditors on the Court's work the year prior, particularly in connection with its annual report. The ten

agenda items that did not relate to the NAO’s work and which featured most frequently in the PAC’s discussions are presented in Figure 4.

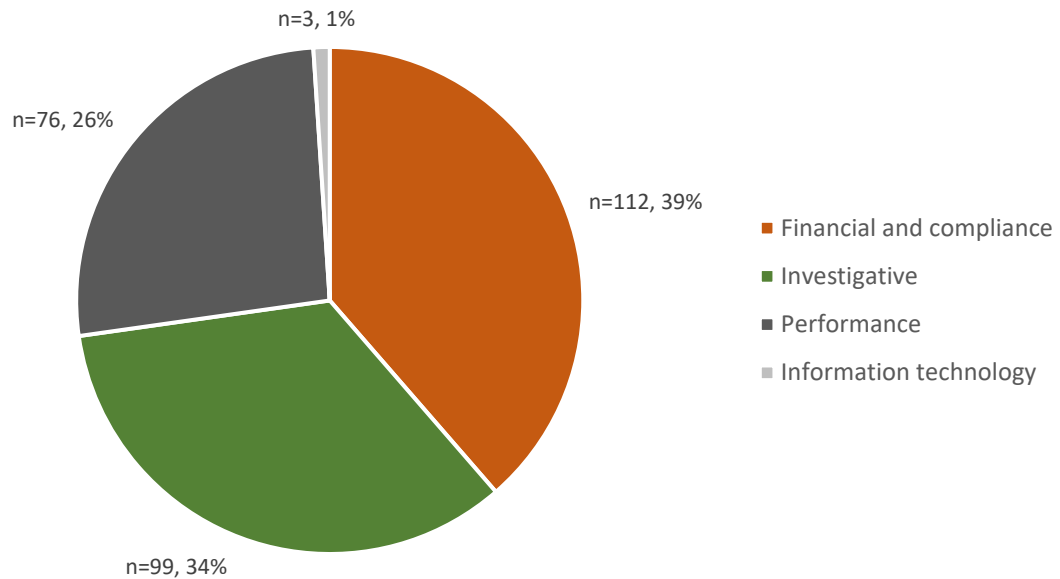
Figure 4 | Other matters most frequently discussed by the PAC



Which type of audit report does the PAC focus on most?

- The 290 agenda items that related to an NAO report were categorised according to the type of audit undertaken, be it financial and compliance, investigative, performance and information technology-related (Figure 5 refers). Financial and compliance audit reports were the most prevalent agenda item, accounting for 39 per cent of matters discussed, with investigative and performance audits corresponding to 34 and 26 per cent of the items of discussion, and information technology-related audits the remaining one per cent.

Figure 5 | PAC agenda items by NAO report type



11. For the purposes of this analysis, this classification was based on the NAO Section having carried out the audit. In this respect, the anomalies of, for example, investigative audits undertaken by the Performance Audit Section or performance audits undertaken by the Special Audits and Investigations Section, though minor, are acknowledged. In addition, the term ‘report’ warrants an element of explanation. Each NAO report corresponds to a published document, which document could include one or more audits. In the case of performance, investigative and information technology audits, one report generally equates to one audit. However, in the case of financial and compliance audit and follow-up audit reports, one report corresponds to several audits. Suffice to state that the annual ‘Report by the Auditor General on Public Accounts’ incorporates the work of the financial and compliance section throughout the whole year.
12. Interesting insight may be drawn when disaggregating the PAC’s agenda setting by legislature (Figure 6 refers) and by year (Figure 7 refers). Evident is the diminishing focus over time on the financial and compliance audit reports by the NAO, the peak in attention to performance audit reports seen in the Twelfth Legislature, particularly between 2013 and 2015, and the recent increase in attention directed toward investigative audit reports, most notable from the Thirteenth Legislature onwards, that is, 2017 to date. Only one information technology audit – the report titled ‘The effective use of tablets in state, church and independent primary schools’ – was discussed since the PAC was constituted.

Figure 6 | PAC agenda item by NAO report type by legislature

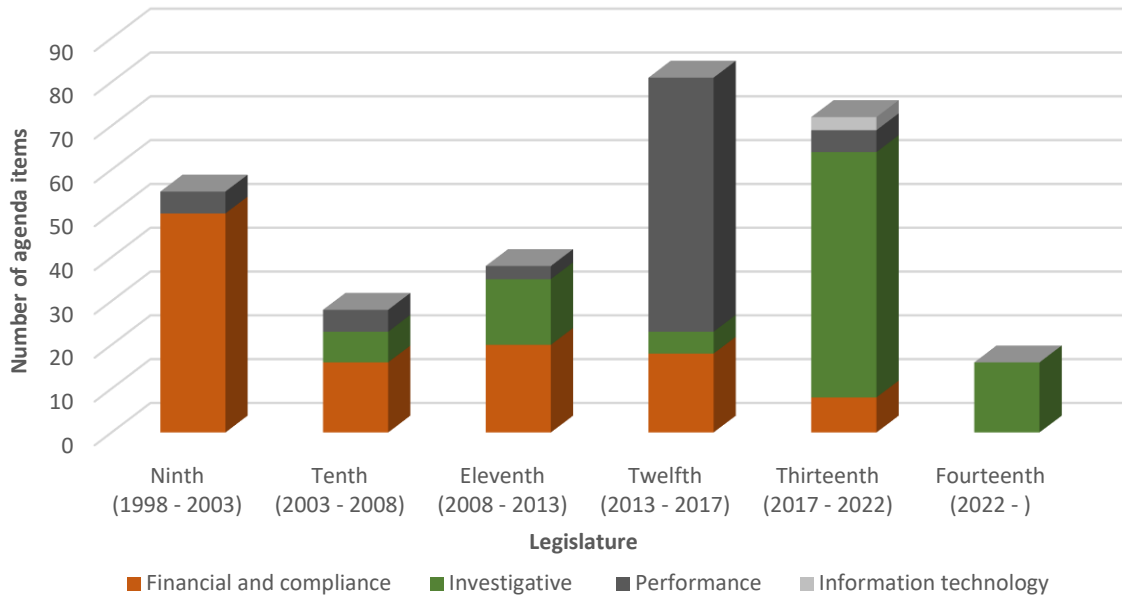
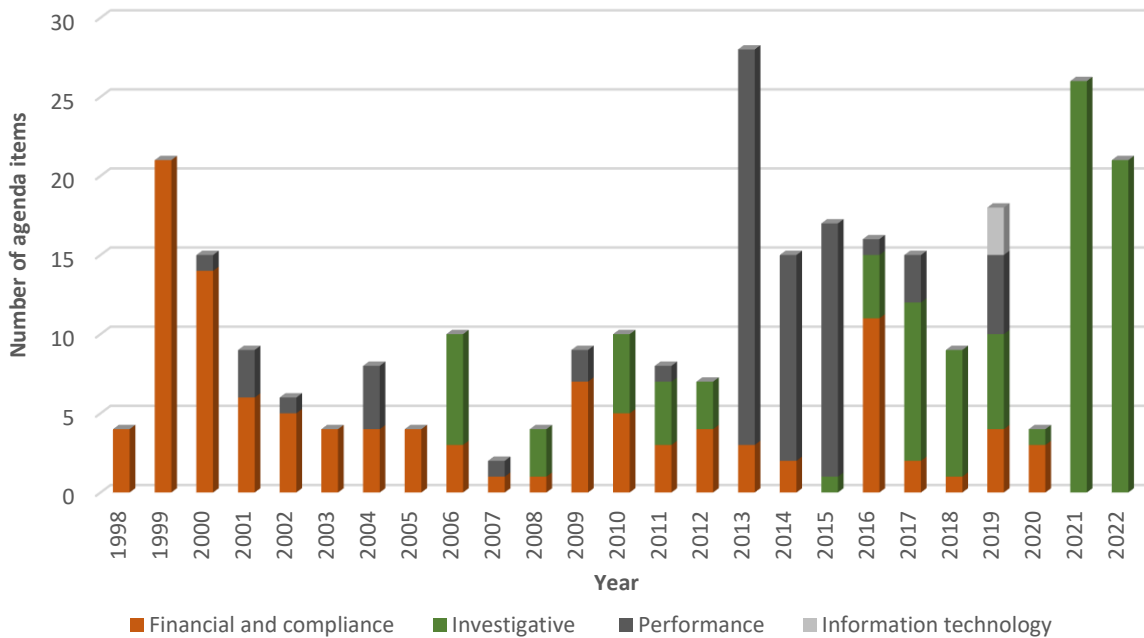


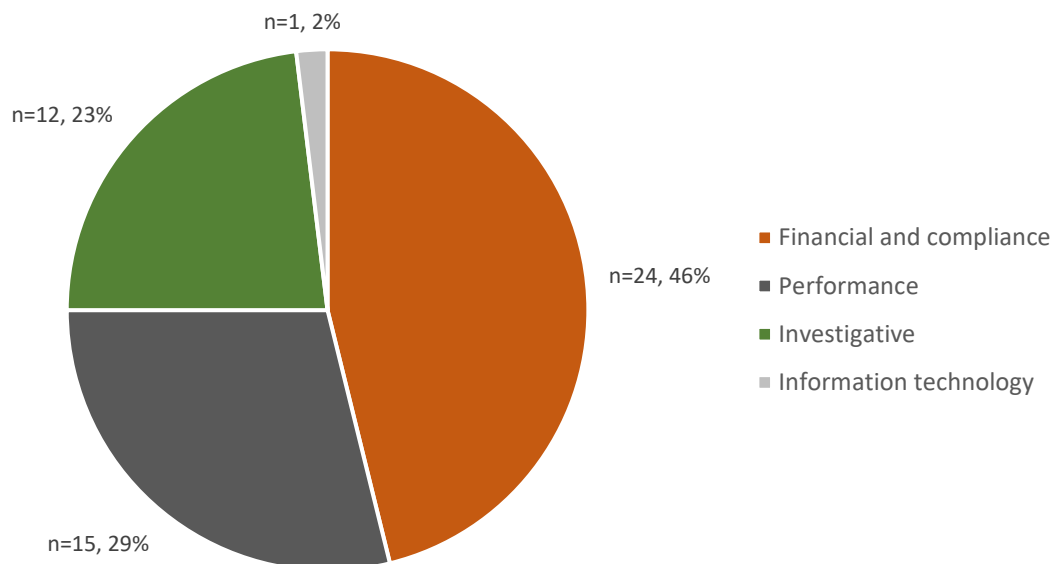
Figure 7 | PAC agenda item by NAO report type by year



- An alternative perspective of analysis considers the number of audit reports discussed by the PAC, irrespective of the frequency of discussions occurring in relation thereto. Figure 8 captures all the NAO reports discussed by the PAC during at least one meeting, 54 in all from 1998 to date. Over the span of the PAC’s existence, financial and compliance audit

reports were the most common type of report proposed for discussion by the Committee, with 24 reports identified for review. Next in order of frequency were the performance and investigative audit reports, with 15 and 12 such audits discussed by the Committee, respectively.

Figure 8 | NAO reports discussed by the PAC by report type



14. One can note that while performance audit reports ranked third in terms of the frequency of agenda items, they ranked second in terms of the number of unique audits selected for discussion. On the other hand, the opposite is observed for investigative audit reports, which ranked second in terms of the analysis of agenda items and third in the context of the variety of audit reports discussed. This indicates that the selected investigative audit reports are discussed for a longer period in multiple meetings, whereas performance audit reports are processed in a shorter timeframe. On average, an investigative audit report is discussed over eight meetings, while performance and financial and compliance audit reports are discussed over five meetings. The information technology audit report discussed by the PAC was reviewed during three meetings.
15. Trends noted in the analysis of the frequency of agenda items by audit type (the diminishing attention afforded to financial and compliance audits, increasing attention towards investigative audits and a peak interest in performance audits during the Twelfth Legislature) are no longer observed when one sets unique reports chosen as the unit of analysis. The sole exception to this is the diminishing interest in financial and compliance audit reports across legislatures (Figure 9 refers). On the other hand, performance audit reports feature more consistently throughout the period of analysis when one adopts a unique audit report discussed by year perspective (Figure 10 refers). It is pertinent to note

that investigative audit reports were first undertaken during the Tenth Legislature, and thereafter a consistent interest in such reports was maintained.¹

Figure 9 | NAO reports discussed by the PAC by report type by legislature

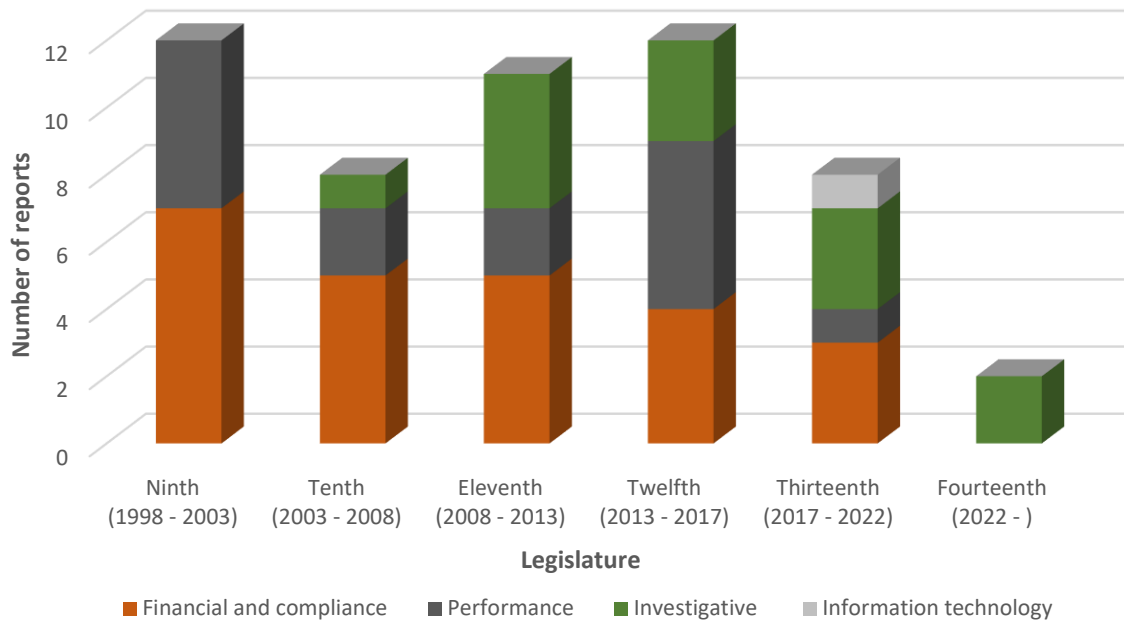
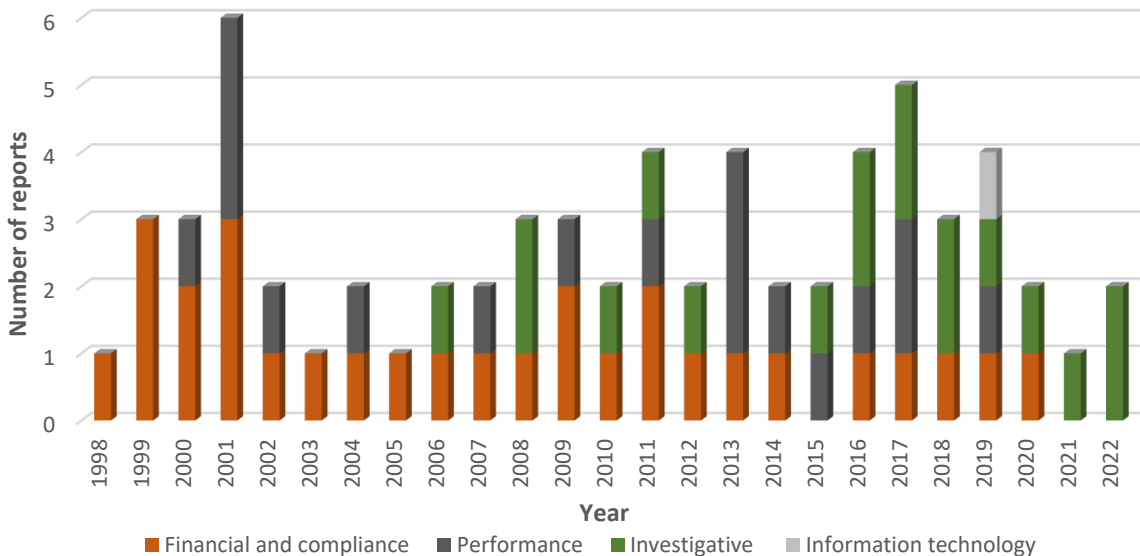


Figure 10 | NAO reports discussed by the PAC by report type by year

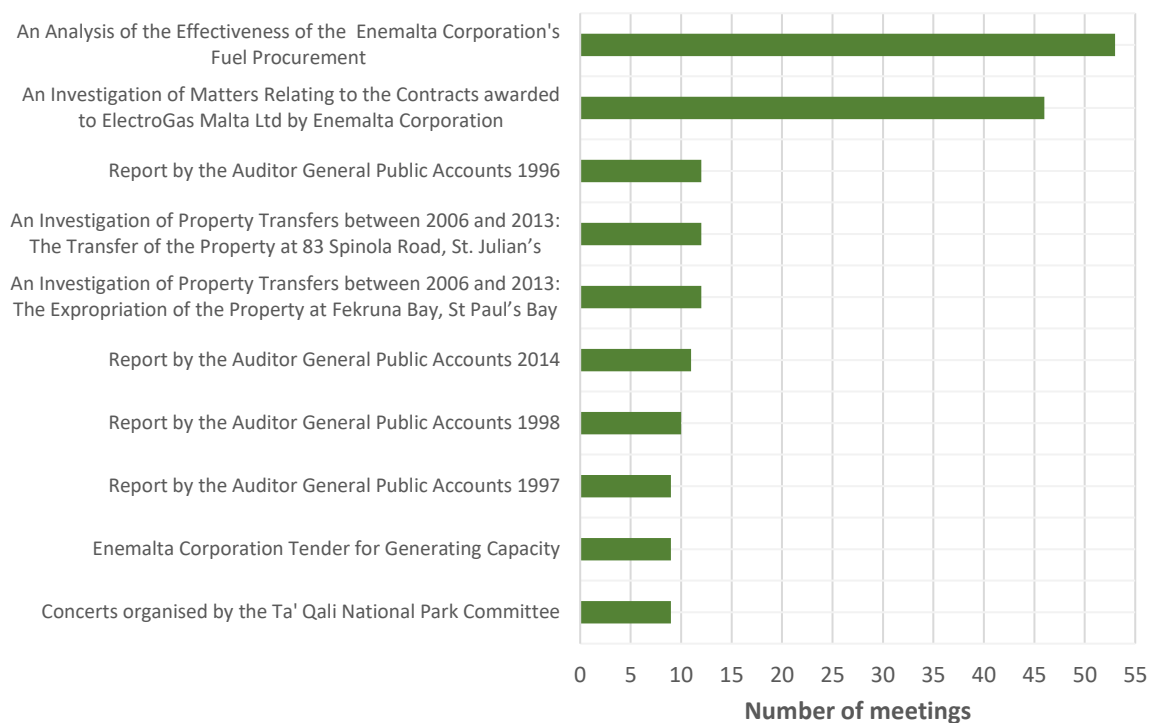


¹ When disaggregating unique reports by legislature (Figure 9 refers) and year (Figure 10 refers), reports that featured in multiple legislatures and years were counted as unique in each instance. This approach captured in a more faithful manner the breadth of reports covered by the PAC in each timeframe, be it legislature or year.

Which audit reports were most frequently discussed by the PAC?

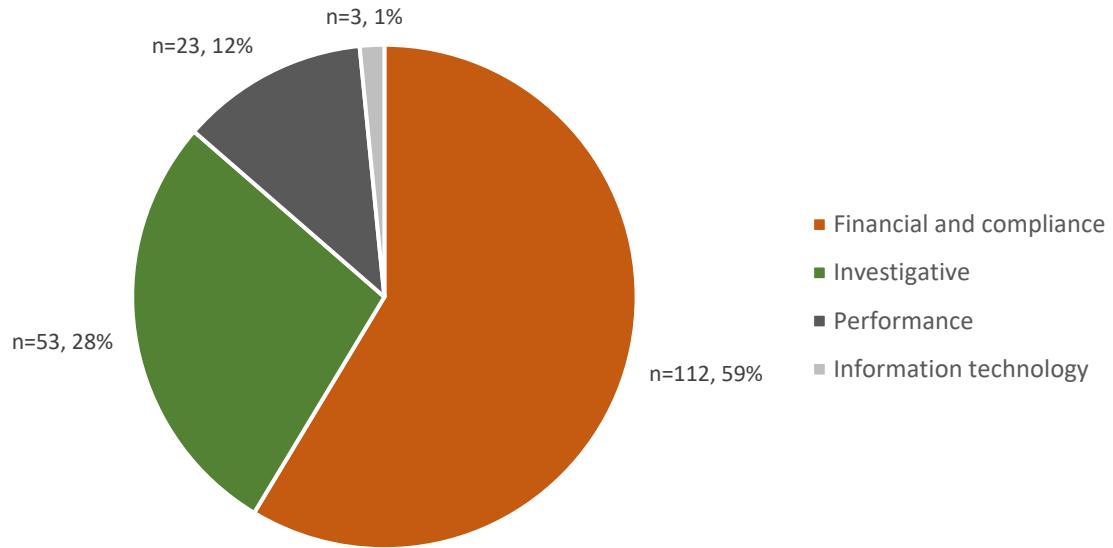
16. The ten most discussed audit reports by the PAC are presented in Figure 11. Immediately evident are the two outliers, with the report titled 'An analysis of the effectiveness of the Enemalta Corporation's fuel procurement' discussed 53 times over the period August 2013 till January 2016, and the report titled 'An investigation of matters relating to the contracts awarded to ElectroGas Malta Ltd by Enemalta Corporation' discussed 46 times from December 2020 to date. These two audit reports accounted for 22 per cent (99 out of 452) of all agenda items scrutinised by the PAC, and 34 per cent of all agenda items (99 out of 290) relating to the NAO's work.

Figure 11 | NAO reports most frequently discussed by the PAC



17. The two outliers cited above were excluded from the analysis of PAC agenda items by report type (Figure 12 refers) to allow for an analysis that eliminates the influence of the two most discussed audits for observing agenda item uptake by report type. Comparison of Figure 12 (outliers excluded) with Figure 5 (outliers included) highlights the increased prominence of financial and compliance audits (up from 39 to 59 per cent) and the decreased incidence of performance audits (down from 26 to 12 per cent) and to a lesser extent of investigative audits (down from 34 to 28 per cent).

Figure 12 | PAC agenda items by NAO report type, excluding outliers



Has the PAC’s interest in the type of NAO audit report changed over time?

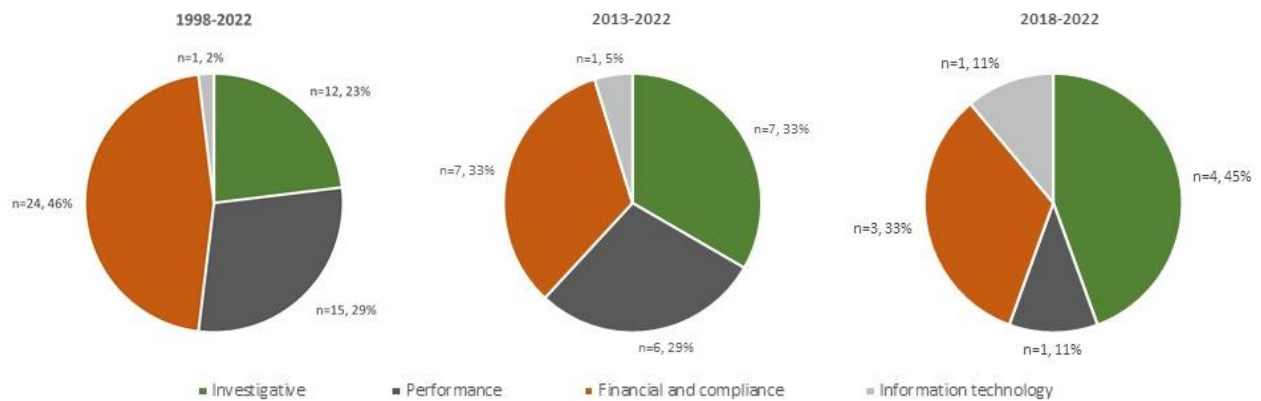
18. The changing focus of interest of the PAC on the different types of audit reports drawn up by the NAO is rendered evident when one compares the overall period (1998 – 2022) with shorter and more recent timespans, in this case taken as the last 10-year and 5-year periods. Figure 13 highlights that performance and investigative audit reports have dominated the agenda of the PAC in the past 10-year period (2013 – 2022). Restricting one’s focus to the shorter and more recent 5-year period (2018 – 2022), the prevalence of investigative audits as items of the PAC’s agenda is more pronounced. Complimenting this increased focus on investigative audits is the declining focus on financial and compliance audits in later periods.

Figure 13 | PAC agenda items by NAO report type for different periods



19. Adjusting the unit of analysis to the unique NAO reports reviewed by the PAC similarly illustrates the increased prevalence of investigative audit reports in more recent periods and a decreasing interest in performance audits in the last five years. In the case of financial and compliance audits, a decrease in interest was registered when one compares the 10-year and 5-year period to the overall period (Figure 14 refers).

Figure 14 | NAO reports discussed by the PAC by report type for different periods



20. Focusing on the most recent 5-year period highlights the dominant interest in investigative audit reports and the waning interest in financial and compliance audit reports, with no financial and compliance audit reports discussed in 2021 and 2022. Also of note is that only one performance audit report and one information technology audit report were selected for discussion during this period, both in 2019 (Figure 15 refers). These observations are confirmed when the analysis is reframed taking agenda items as the unit of measurement (Figure 16 refers).

Figure 15 | NAO reports discussed by the PAC by report type by year, 2018-2022

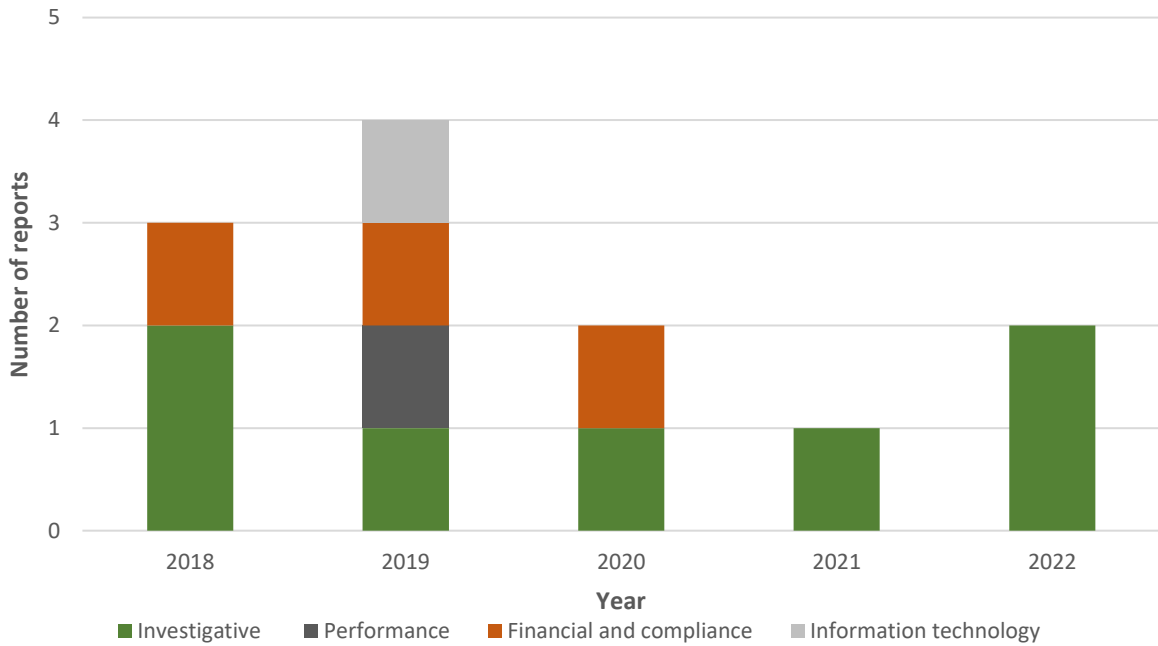
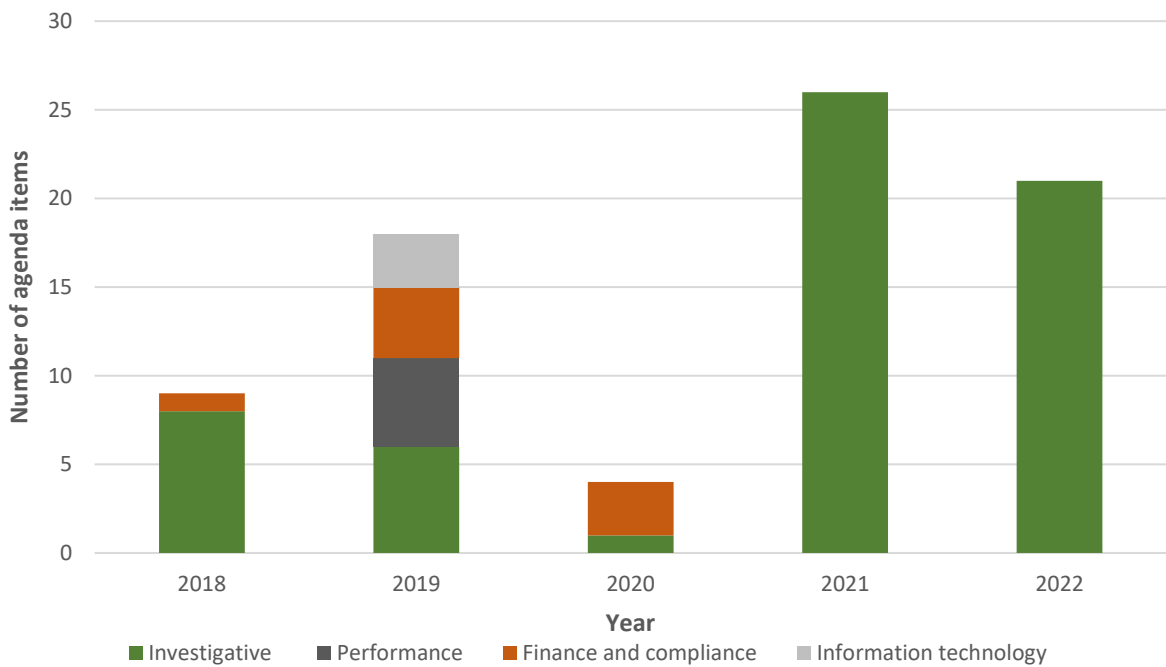


Figure 16 | PAC agenda items by NAO report type by year, 2018-2022

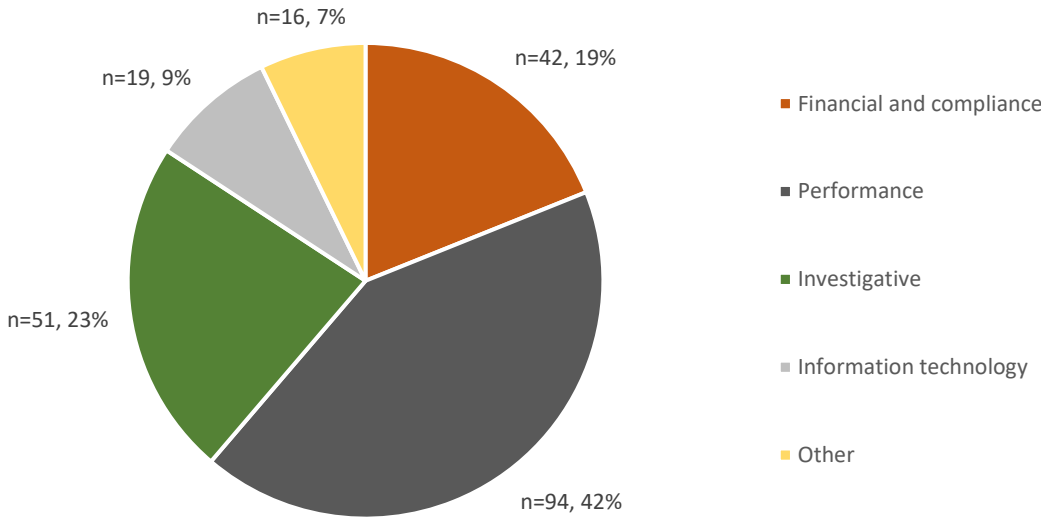


What proportion of NAO reports is the PAC discussing?

- Between 1998 and 2022, the NAO published 222 audit reports, 94 of which correspond to performance audits, 51 to investigative audits, 42 to financial and compliance audit reports,

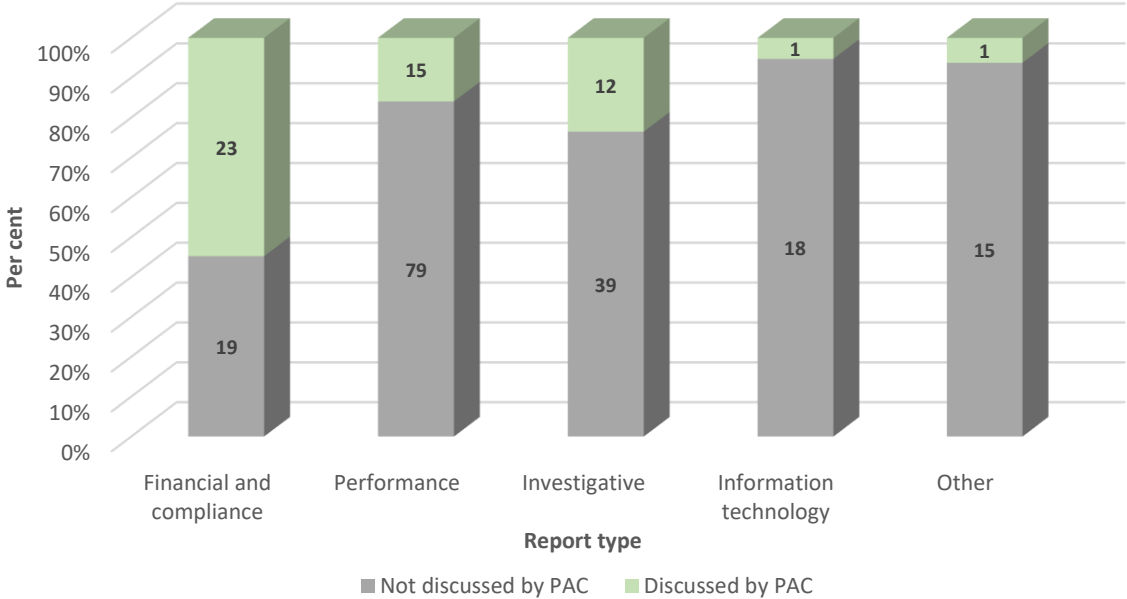
19 to information-technology-related reviews, and 16 other reports (Figure 17 refers). These other reports comprised joint audits, follow-ups, cooperative audits and assessments.

Figure 17 | NAO reports published by type, 1998 - 2022



22. The volume of reports published by the NAO necessitates that the PAC adopts a selective approach in identifying audits for discussion. Over its existence, the PAC discussed 52 of the 222 reports published by the NAO, that is, 23 per cent of this Office’s publications. Coverage varies by audit type, with 55 per cent of financial and compliance audits selected for discussion, followed by investigative audits at 24 per cent, performance audits at 16 per cent, other reports at 6 per cent, and information technology audits at 5 per cent (Figure 18 refers). The only ‘Other’ report reviewed by the PAC was previously categorised as a financial and compliance audit report (in all other parts of this analysis), as the PAC had discussed a financial and compliance audit component of the 2019 follow-up audit report. However, as follow-up audit reports may include all types of audits in one publication, for the purpose of this part of the analysis all follow-up audit reports were categorised as ‘Other’ reports.

Figure 18 | PAC coverage by audit type



Key conclusion

23. In conclusion, it is pertinent to state that the intent of this analysis is twofold. First, that of spurring reflection by the NAO on better understanding what audits are of most interest to the PAC and to help highlight the areas of government function of interest to the Committee yet unaddressed by this Office in its past audit programmes. Second, this paper may be of relevance to the PAC as a guide in ensuring balance and comprehensiveness in the Committee’s consideration of reports drawn up by the NAO, hence contributing to the broader maximisation of audit impact.

List of NAO Reports issued during 2022

Month of Issue	Title of Report	Remarks
May 2022	Performance Audit: Assisting Individuals with Dementia and their Caregivers within the Community	
May 2022	Joint Report on Management of Plastic Water in Europe	
May 2022	Report by the Auditor General on the Ministry for Finance and Employment: Analysis on Revenue Collection Financial Year 2020	
June 2022	An Evaluation of Performance Audits in the Public Sector: Common Audit Findings (2017-2020)	
June 2022	Follow-Up Audits Report by NAO 2022 Vol. I	Incorporating 10 Financial and Compliance Section FU Reports
July 2022	Performance Audit: Procuring the Public Transportation Service	
July 2022	NAO Annual Report and Financial Statements – 2021	NAO Activities Report
October 2022	Performance Audit: The COVID-19 pandemic – Business continuity within the public administration	
November 2022	Performance Audit: A Follow-Up on the 2018 Strategic Overview of Mt Carmel Hospital	
November 2022	Follow-Up Audits Report by NAO 2022 Vol. II	Incorporating 3 Performance Audit Section FU Reports and 1 IT Audit Section FU Report
November 2022	Report by the Auditor General on the Workings of the Local Government 2021	Report on the workings of 68 Local Councils, 6 Regional Councils and the Local Councils Association
November 2022	Performance Audit: Care for the Elderly in Gozo	
December 2022	IT Audit: Online Malta Census of Population and Housing 2021	
December 2022	Report by the Auditor General on the Public Accounts 2021	Incorporating 36 audit reports on the operations of several public sector entities, an analysis of the Financial Report 2021, as well as an overview of the Statements of Arrears of Revenue for the same year, as submitted to Treasury by the respective entity.