

**EUROSAI Training Event**

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# NAO Strategic Planning of Performance Audits



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# Key Stages in the Performance Audit Cycle



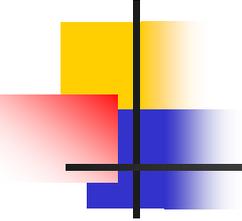
# The importance of Strategic Planning



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- **NAO Mission**
  - To help promote accountability, propriety and good practices in government operations.
  
- **NAO Vision**
  - To provide a multidisciplinary professional service to parliament, to government and to the taxpayer and to be an agent of change conducive to achieving excellence in the public sector.
  
- **Proper strategic planning of performance audit is essential to ensure that:**
  - an effective, comprehensive and well planned performance audit programme is in place;
  - priorities are adequately determined;
  - goals and objectives are set;
  - resources are allocated cost-effectively to areas with the greatest potential impact;
  - monitoring arrangements are in place to review progress on delivering the agreed audit programme;
  - any expertise, training needs, software, hardware and other requirements are identified and met;
  - individual studies are carried out as effectively as possible.
  
- **Strategic planning is the basis for the selection of audit topics and pre-studies.**

# The Strategic Planning Process



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- Strategic planning of performance audits involves the:
  - determination of the external environment within which public entities operate;
  - determination of public sector **entities'** business risks;
  - identification of potential entities, programmes or activities to be examined over time;
  - selection of performance audit areas;
  - preparation of a Strategic Plan.

# Determination of the external environment within which public sector entities operate

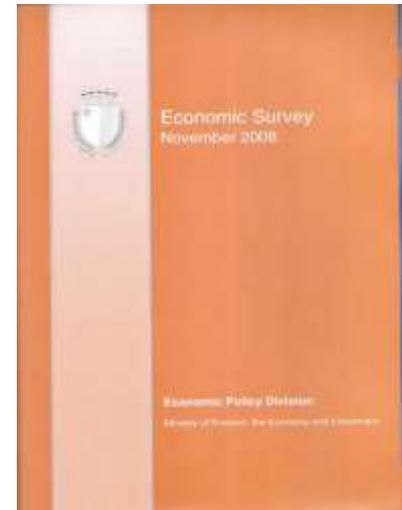


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- Prior to proposing potential performance audit areas, NAO auditors obtain an understanding of:
  - general economic and industry conditions;
  - social and technological developments;
  - Government priorities, goals, objectives and programmes;
  - the regulatory environment, namely the legal and political framework; the accounting and auditing framework; and environmental requirements.

# Determination of the external environment within which public sector entities operate (cont.)

- Information on the determination of the external environment within which public sector entities operate may be obtained from:
  - previous audit strategic planning;
  - Government policies;
  - reports by Departments and Agencies;
  - reports by other SAIs;
  - reports on the media;
  - previous audit fieldwork;
  - priorities of the Legislature;
  - priorities of Government;
  - developments in the political, economic, social and technological environment.





# Determination of public sector entities' business risks

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- The Office also identifies potential business risks faced by public sector entities that are likely to have an impact on the achievement of strategic objectives, such as ensuring effective service delivery and the attainment of desired programme outcomes.

*Business risks result from significant conditions, events, circumstances, actions or inactions that could adversely affect **the entity's ability to achieve its objectives and execute its strategies**, or through the setting of inappropriate objectives and strategies.*

(IFAC ISA 315, para 30)



# Determination of public sector entities' business risks (cont.)

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- Examples of possible business risks that public entities may face include:
  - the risk of fraud and error;
  - logistics disruptions;
  - loss of key equipment/facilities;
  - operations/services failure
  - lack of security over key IT systems and data
  - inadequate Human and Financial Resources, and IT infrastructure;
  - unclear lines of responsibility;
  - breach of regulations;
  - wastage or additional costs
  - criminal action.

# Identification of potential entities, functional areas and sectors to be examined over time

- It is crucially important that the auditor understands the entities and processes that may eventually be the subject of an audit. Sufficient knowledge of the audit field is required in order to judge whether there is the potential for improvements in performance, thus resulting in the audit field being included in the performance audit programme.
- Information is therefore assembled and evaluated on the background, objectives, activities, plans, resources, procedures and controls in the proposed audit entities or areas concerned.



# Identification of potential entities, functional areas and sectors to be examined over time (cont.)



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- The aim is to:
  - identify the important factors that may affect the entities and processes concerned;
  - identify and review those areas absorbing a significant level of resources;
  - identify potential risks to achieving good Value for Money;
  - highlight areas for continuing audit attention;
  - propose areas or subjects for inclusion in the performance audit programme.

# Identification of potential entities, functional areas and sectors to be examined over time (cont.)



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- The information and analysis obtained must be kept up-to-date by regular monitoring to take account of changing circumstances if it is to be of value in drawing up a performance audit programme.
- The NAO therefore keeps track of any major changes to the external environment and to public sector **entities'** objectives, operations, activities, resources, management practices, reporting, and control and governance systems.
- Tracking is done partly through an **officer's** regular review of newspaper articles to identify areas/developments of interest.



# Selection of performance audit areas

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- Audit areas are selected on the basis of their relevance to the Auditor **General's** focus areas and mandate as indicated by the following criteria:
  - Furthering NAO policy and strategy
  - Risk and Materiality Assessment
  - Government-wide Issues
  - Modernising Government
  - People oriented activities and programmes
  - Audit areas of interest to Parliament, the media and the general public
  - Discussions with Public Accounts Committee, Senior Civil Servants, NAO Senior Management, Central Government Internal Audit Unit, other Stakeholders
  - Auditability, deliverability, timeliness, feasibility, visibility, value added and potential impact



# Preparation of a Strategic Plan

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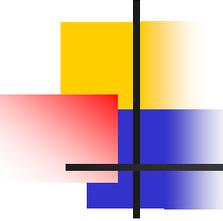
- NAO prepares a three year strategic programme of performance audit work that comprises a list of potential subject areas from which audit themes are to be selected, including the planned audits for the first year of the programme. The Strategic Plan for the Performance Audit Section covers the following main areas:
  - Objectives
  - Policies
  - Human Resources
  - Audit Areas
- The Strategic Plan is updated annually with developments in the political, economic, social and technological fields.

# Preparation of a Strategic Plan (cont.)

## Objectives:

- In terms of NAO legislation, the NAO may make special reports to the House of Representatives dealing with value for money audit relating to the economy, efficiency and effectiveness of any Government Ministry, Department or other public sector entity.
- The primary objective of Performance Audit work is to provide Parliament with independent assurance and opinion about the economy, efficiency and effectiveness of public sector-related activities.
- Another objective is to encourage audited bodies to improve their performance and achieve greater value for money from the use of resources.





## Preparation of a Strategic Plan (cont.)

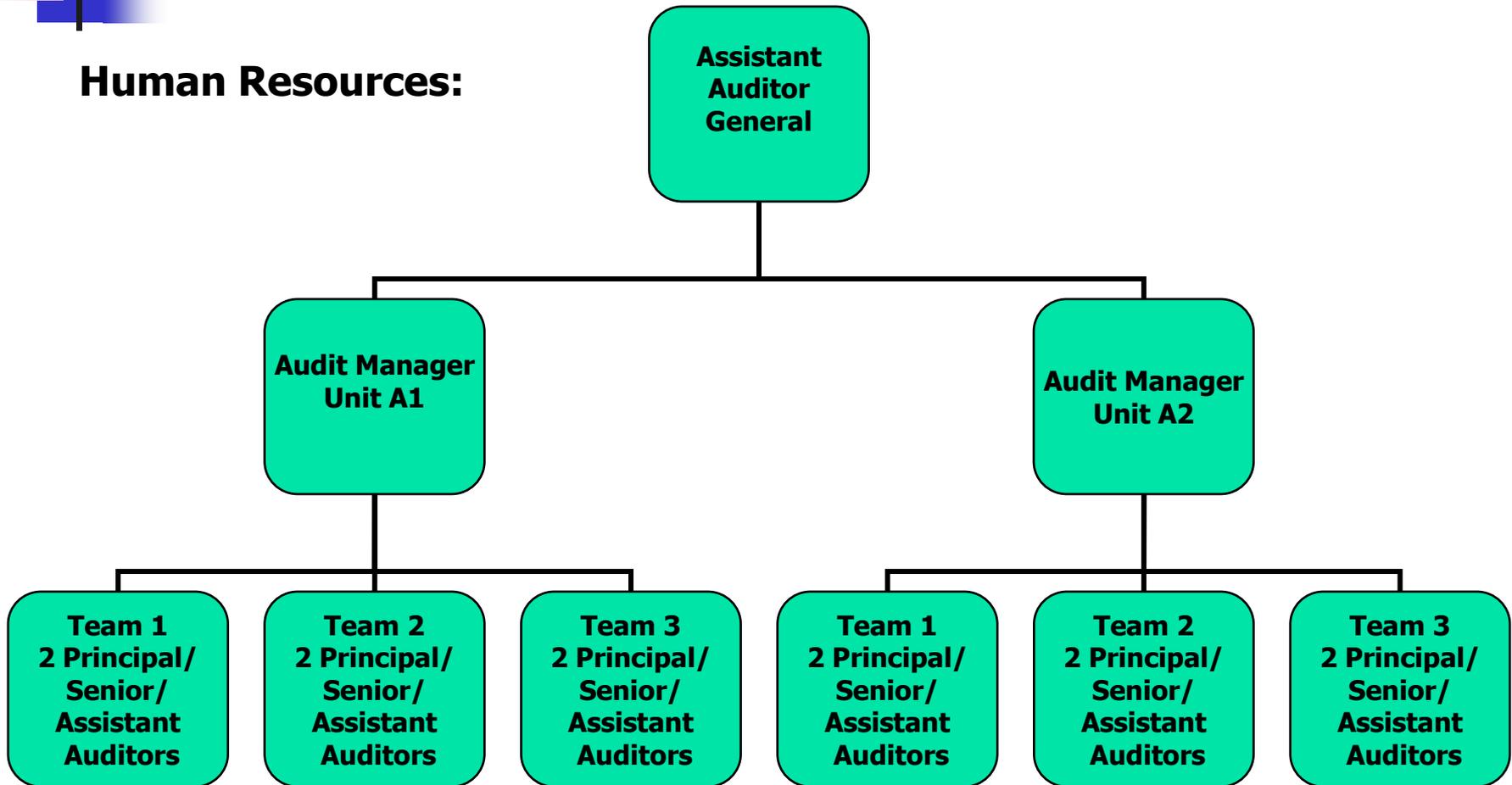
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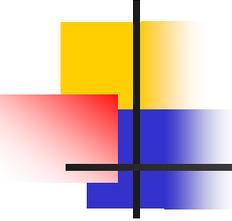
### Policies:

- The formulation and ongoing maintenance of the Audit Manual as well as enhancing the contents of the online Performance Audit database.
- The use of appropriate IT systems in line with technological development.
- The employment of professionally qualified and suitably experienced staff with the right aptitude for performance auditing.
- The provision of training and development opportunities to staff.
- The reward of team and individual achievement through the award of annual performance bonuses and promotion to higher grades.
- Enhancing **NAO's** existing relationship with the Public Accounts Committee.
- Maintaining positive relations with auditees based on mutual respect.
- Informing the public of performance audits carried out by the NAO.

# Preparation of a Strategic Plan (cont.)

## Human Resources:





## Preparation of a Strategic Plan (cont.)

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Audit Areas (Selected Categories):

- Economic Regulation
- The environment
- Local government
- Education
- The economy
- Health
- Capital projects
- EU funds
- Tourism
- Social initiatives
- E-government
- Issues across Government

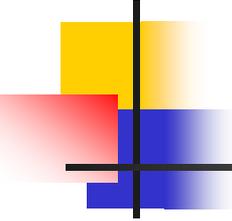


## Preparation of a Strategic Plan (cont.)

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Audit Areas (in hand or planned 2009):

- Water Loss Control Management by the Water Services Corporation
- Reducing Emissions from Vehicles
- Follow-up Audit on Consumer Affairs Department
- Malta Communications Authority – Regulating the Quality of Service Obligations in the Universal Postal Services
- Improving Public Procurement Capabilities in the Public Sector

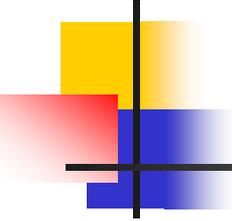


## Preparation of a Strategic Plan (cont.)

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Audit Areas (in hand or planned 2009):

- Physical Education, Sport and Physical Activity in State Primary and Secondary Schools
- Enquiry on contracts relating to a number of services at State Hospital
- Enquiry on Cost Variations relating to a Roads Project
- Renewable Energy and Energy Efficiency Initiatives
- Duty on Documents – `Inter **Vivos**' Transfers

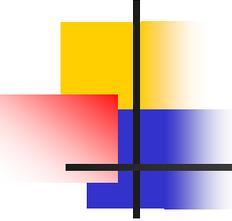


## Preparation of a Strategic Plan (cont.)

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Audit Areas (in hand or planned 2009):

- Achieving a Healthier Nutrition Environment in State Primary and Secondary Schools
- Inland Revenue Department – Achieving Results through Electronic Government
- Maintenance and upkeep of streets by Local Councils
- Implementation of certain Family Friendly Measures in the public sector
- Cleaning and upkeep of beaches in Malta and Gozo

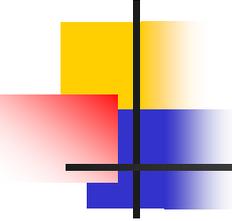


## Preparation of a Strategic Plan (cont.)

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Audit Areas (in hand or planned 2009):

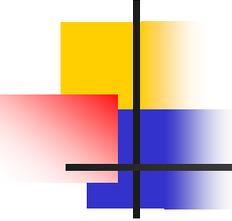
- Marketing Malta as a Tourist Destination
- Follow-up Audit on Dealing with Pollution from Ships
- Recycling of Packaging Waste
- The Better Regulation Unit: Progress in achieving a better Regulation Framework



# Conclusion

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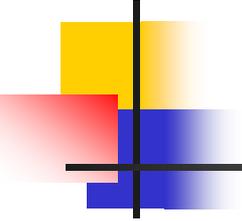
- Strategic planning is an important phase in developing the performance audit programme for the Office as a whole.
- At the end of the strategic planning phase, the SAI would have reached decisions on audit areas for selection in the forthcoming year and potential candidates for performance audit in the longer term.



# Conclusion (cont.)

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- Although a structured approach to the selection of performance audit areas is undertaken, a level of flexibility is allowed in the implementation of the annual performance audit programme.
- The programme may be modified during the year to reflect developments in the NAO external and internal environment that necessitate changes to NAO audit priorities and work exigencies.
- Communication and coordination is made with Financial and Compliance Audit Section within NAO and Internal Audit and Investigations Directorate (which is the centralised internal auditing function within Government) to ensure non-overlap of selection of themes for audit.
- Priority is to ensure that value added can come out of audit.



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Thank you for your attention.

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