

# **Report**

by the

# **Auditor General**



**Public Accounts 2004**

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# Guide to using the Report

This Report summarises the conclusions reached following our financial and compliance audits. We sought to spread our reviews across Government Departments and reviewed specific Departments based on an ongoing audit plan. We have attempted to make this report as user friendly as possible and we have tried to adopt plain common language, although, this is not always possible due to the technicality of the issues raised.

This Report is divided into Ministerial Portfolios, each containing one or more departments or sections which were the subject of our review. Also included are a number of reports on non-central government organisations. Each audit report has the following structure:

## Background

This section includes a brief description of the activities, roles and operations of the respective department or section. Where applicable it may include also new legislation governing such entity.

## Key Issues

This section outlines any material findings or outcomes of our audit and any major developments impacting on the respective department or section.

## Control Issues

This section outlines any shortcomings that came to our attention relating to the department's internal control and internal checking mechanisms. These controls should exist so as to serve as an effective safeguard of assets and resources.

## Compliance Issues

This section summarises instances whereby the relative department or section lacked compliance with effective legislation and standing General Financial Regulations.

## Recommendations

This section outlines our recommendations to the respective departments so as to encourage them to correct or mitigate the weaknesses that came to our attention. Normally, our recommendations are aimed at improvement of the internal control systems with an emphasis on prevention of errors or misuse.

## Management Comments

Within this section we sought to include the Management's reaction to our comments and actions that they have taken or plan to take so as to rectify any shortcomings that came to our attention.

*While some departments or sections in this report will have all the headings outlined above, this will vary depending on the size of the department or section and the findings of our audit. However, in all cases the structure flows in the order as outlined above.*

# Executive Summary of Findings

## Executive Summary of Findings

This Part is intended to act as a quick reference to the Report by highlighting the main findings. It could thus facilitate the work of the main users of the Report, in particular, the Public Accounts Committee, Ministries and Departments concerned and other interested parties when referring to the contents of the Report.

## Issues and Audit Concerns

The Analysis of the Financial Report 2004, covering the Consolidated Fund and Statement of Assets and Liabilities, highlights issues regarding variances in revenue and expenditure, outstanding advances, loan repayments, investments and public debt. The following were the main issues:

- During 2004, the Government Securities Board was not set up, thus hindering inspection of the List of Securities held by Government as at 31 December 2004. (page 39)
- Treasury still maintains that January 2002 should be officially recognized as the start-off date for reconciliation of the Public Account at the Central Bank of Malta, thus leaving the nine (9) year period June 1992 till December 2001 unreconciled.

As from February 2005, electronic reconciliations are being carried out monthly after the month end routine. Unreconciled items are tackled immediately after the first cut reconciliations, thus allowing better monitoring of transactions on real time basis and avoiding the creation of further backlogs. (page 44)

- Arrears of Revenue, totaling over Lm 482.1 million as at 31 December 2004, of which approximately Lm 93.4 million are estimated as collectible as at the same year end, is still an area where significant improvements can be registered by introducing efficient procedures for both the collection of debt enforcement and settlement of fines, and correct documentation for the settlement thereof. (page 50)

In particular, an amount of Lm 2.8 million reported as arrears of revenue, arising from overpayments of social benefits, are doubtful of repayment. Insufficient instalments are being requested from beneficiaries and no adequate enforcement action is being taken by the Department to recover these overpayments. (page 73) Further reports with respect to arrears of revenue of the Police Department and Ministry of Health are being provided in pages 88 and 104 respectively.

- The amounts being reported as pre-1998 Social Security Contributions amounting to Lm 4.36 million is incorrectly stated. A sample analysis amounting to Lm1.75 million revealed that forty seven per cent (47%) of the balances were overstated while another forty four per cent

(44%) were understated. An assessment of payment patterns disclosed that only six per cent (6%) of the defaulting employers were effecting instalments on a regular basis. (page 68)

- The Ministry for Competitiveness and Communications (formerly Ministry for Transport and Communications) lacked control over the refund of call charges. Clear MF regulations regarding purchases of mobile phones and a policy for lost mobile phones are lacking. (page 83)
- Audit of salaries carried out at the St. Luke's Hospital (page 106) and the Elderly and Community Services Department (page 75) revealed lack of general controls in the recording and payment of salaries mainly due to the manual calculation of various types of allowances. Furthermore, the hospital is still dependent on the Treasury to issue the salaries for all its employees even though there is a computerised payroll program interfaced with the human resource function.
- Irregularities were also noted in overtime allowance payments issued by the Ministry for Urban Development and Road (formerly part of Ministry for Transport and Communications) in respect of Private Secretariat staff. (page 80)
- The accuracy of basic overseas salaries paid out to Malta-based officers (**MBOs**) could not be fully verified with relevant Ministry of Finance (Finance) criteria, and other authority sources. Different departures from principles long established by the competent authorities determining the actual overseas basic salary paid had been noted. Lack of communication between the Ministry of Foreign Affairs (**MFA**) and the Department of Social Security (**DSS**) has allowed MBOs to be paid children's allowance both by MFA and DSS. The justification and accuracy of the different rates of overseas allowance payable per child, depending on country of posting, could not be verified. (page 125)
- Civilians on the AFM payroll assigned to a particular unit are working on a reduced hour roster which is not covered by approval from the Office of the Prime Minister. (page 64)
- Data backups for Canberra inventory records were not being adequately maintained. These records were restored with the assistance of the National Audit Office after being allegedly lost in 2003 because of a virus. Government owned immovable property has always been omitted from the inventory records kept at the Post. Neither the total capitalised cost of the land and building of the new chancery-cum-residence nor that of the various inventory items procured in connection with the acquisition of the property could be precisely ascertained. Although the new property was meant to accommodate both the chancery and the residence of the High Commissioner, the former residence was retained. (page 122)
- The lack of accountability at the embassy in Rome accredited to Italy and San Marino was mainly attributed to the unsatisfactory accounting treatment in use, especially for consular services rendered. This, besides being a risk to revenue, is also in certain instances a threat to immigration controls. The present accounting system is causing duplication of manual work and is prone to a higher degree of error. Malta-based officers in diplomatic grades at the Mission are being involved in daily cash transactions and all bookkeeping, which could be delegated to locally engaged personnel. (page 110)
- Cash records maintained by the embassy accredited to the Food and Agricultural Organisation (**FAO**), Switzerland, Israel and Albania were not being kept to an acceptable standard. The cashier, a locally engaged person, was not in receipt of the responsibility allowance under the pertinent Italian work contract, but was still being held accountable for any cash shortage. (page 118)
- During the year, the compliance rate with financial regulations within the ambit of Local Councils registered no improvement over previous years. Excessive expenditure being incurred was not

deemed necessary for the efficient running of the Councils. A considerable number of Local Councils have also registered various weaknesses with respect to the accounting of the Local Enforcement System (**LES**). These shortcomings mainly relate to the absence of audited Joint Committees' accounts. Furthermore a number of material concerns occurred individually in different councils and are being reported separately, together with the Council's comments if any. (page 90)

- A number of audits carried out on selected Non-Central Government Organisations (**NGOs**) and other Government Authorities revealed the following weaknesses: (page 131)
  - The financial statements of Non-Central Government Organisations/Authorities did not fully comply with International Financial Reporting Standards (**IFRSs**).
  - The Procurement procedures of Authorities were not in line with the provisions of the Public Contracts Regulations 2005.
  - Lack of controls over the safeguarding of Fixed Assets due to incomplete Fixed Assets Registers.
  - Authorisation of expenditure not evidenced, increasing the risk of incurring unnecessary and unauthorised expenditure.
  - Proper cut-off procedures not observed in the recording of liabilities.
  - Lack of full compliance of overseas travel expenses and practices with the relative provisions in the Public Service Management Code.



**Audit Opinion**

## Audit Opinion on the Public Accounts of the Government of Malta to the House of Representatives

### Audit Mandate

I have examined the accounts of the Departments and Offices of the Government of Malta and the Financial Report of the Accountant General for the year ended 31 December 2004. Also examined were the accounts and/or activities of such other bodies administering, holding, or using funds belonging directly or indirectly to the Government of Malta, as decided by the undersigned or where prescribed by or under any law for the time being in force in Malta.

### Respective Responsibilities of the Accountant General, Accounting Officers and the Auditor General

As determined by the Financial Administration and Audit Act, 1962, the onus for the proper discharge of financial administration and the preparation of financial statements rests with the Accountant General and the Accounting Officers. It is the Auditor General's responsibility to form an independent opinion on these statements, based on the audits carried out by this Office, and to submit a report thereon to the House of Representatives, in terms of Section 108 subsection 5 of the Constitution and Section 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997.

### Basis of Opinion

I have carried out the audit referred to above in accordance with the provisions of the Auditor General and National Audit Office

Act, 1997. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the statements as well as a critical assessment thereof. The International Organisation of Supreme Audit Institutions' (INTOSAI) Auditing Standards were used as guidelines of procedures and practices to be followed in the conduct of the audits.

I have planned and performed audits so as to obtain as much information and explanations as necessary in order to provide me with relevant and reliable evidence to attain reasonable assurance that accounts are free from material misstatements.

In terms of the Act, the National Audit Office is empowered to carry out audits, reviews and inspections so as to provide assurance that:

- (a) adequate safeguards exist for the collection of public moneys, and that the laws, directions or instructions relating to them have been duly observed;
- (b) expenditure is properly controlled, is made in accordance with standing rules and regulations, and has been properly authorised and made for the purposes for which the funds have been appropriated by the House of Representatives;
- (c) immovable and movable property are properly procured, recorded, controlled and appropriately disposed of;
- (d) public monies are expended economically, efficiently and effectively;

- (e) procedures exist for the proper measurement and recording of expenditure programmes; and
- (f) the figures contained in the annual Government of Malta Financial Report are correctly and properly stated.

This Audit Report covers only matters which have been examined on a risk, systems and sample basis by the National Audit Office. The opinion does not cover or draw conclusions upon areas that have not been examined.

The ensuing "Opinion" covers both this Audit Report as well as the Mid-Year Report on the Public Accounts 2004 that was presented to Parliament in July 2005 (Table of Contents of Mid-Year Report in Annex 1 On page 13 refers). This Audit Opinion therefore covers the audits carried out during the whole of 2005 in respect of 2004 Accounts.

### Opinion

In my opinion, proper and consistent application of internal controls and compliance with a number of regulations and procedures, including EU-related ones, still need to be strengthened. This is necessary for better financial control, financial management, budgetary purposes and for good governance in general.

Shortcomings identified in the 'Analysis of the Financial Report 2004' covering the Consolidated Fund and Statement of Assets and Liabilities include the following:

- Direct and Indirect Investments and Loans due to Government are overestimated, including figures relating to companies that ceased operations or are undergoing liquidation procedures and others awaiting tax clearance.
- Advances still not repaid to the Treasury Clearance Fund, of which Lm74.6 million relate to Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd. (Act XV of 2003).
- Public Account records for the period June 1992-December 2001 still unreconciled.

- The Government Securities Board, as required by the Financial Administration and Audit Act 1962, not set up.

Audit examinations further revealed the following issues of particular concern for the year under review:

- Failure to translate contents of Circulars into formal policies and procedures.
- Although not valid, unpersonalised Fiscal Receipts issued in terms of the VAT Act 1994, are still being made use of by suppliers.
- System structures and controls lacking at the VAT Department upon the introduction of the ECO Contribution Act No XII of 2004.
- Prior to EU accession, adequate upgrading of infrastructure catering for pensions within the EU scenario, at the Social Security Department, did not take place.
- Substantial amounts of arrears of revenue, due to government, and the incomplete or inaccurate recording thereof.
- Lack of proper recording of immovable and moveable property and disposal thereof.
- Year end transfers from Court and Other Deposits Below-the-Line accounts to Revenue.
- No improvement registered in the internal controls of Local Councils, resulting in an increase in the number of defaulting Councils and qualified reports.
- Estimates prepared prior to the issue of the tendering for the construction of housing units varied considerably from actual quantities. Lack of testing on certain items used on the construction site and items used did not conform to tender specifications. No formal authority was requested by the contractor on variations and additions before performing these works.

In view of the shortcomings identified in the 'Analysis of the Financial Report 2004' and the above-mentioned areas of concern, as amplified in the Mid-Year and Annual Audit Reports, I am of the opinion that the Government Financial Report and statements included therein do not fully reflect, in all material respects, the financial position of the Government of Malta and the

results of its operations for the year ended 31 December 2004.

In terms of paragraph 5 (ii) of the First Schedule of the Act, I am to report that, subject to instances referred to in the findings of the report, I received all the information and explanations required for the carrying out of my duties.



**J. G. Galea**  
*Auditor General*

December 2005

**Annex 1 – Contents of Mid-Year Audit Report on Public Accounts 2004**

*Office of the Prime Minister*

Revenue  
Data Protection Compliance  
Communications Centre  
Microsoft Enterprise Agreement  
Below-the-Line A/c – Improvements to Buildings  
Armed Forces of Malta – Medical Stores and Inventory

*Ministry for Social Policy*

Social Security Department – Old Age Pensions within the European Union Scenario  
Department of Housing, Construction & Maintenance  
Capital Project - Construction & Finishing of Flats & Garages at Marsaxlokk

*Ministry for Gozo*

Non-Submission of VAT Fiscal Receipts

*Ministry of Finance and Economic Affairs*

VAT Department – Eco-Contribution System Analysis  
VAT Department – Non-Submission of VAT Fiscal Receipts

*Ministry for Tourism*

Institute of Tourism Studies – Follow-up Audit

*Ministry for Justice and Home Affairs*

Police Department – Fuel Pump Station Follow-up Audit

*Ministry for Rural Affairs and the Environment*

Agriculture Support Scheme Account  
Government Experimental Farm – Livestock and Cattle Stores and Inventory

*Non-Central Government Organisations*

Malta Communications Authority  
Malta Centre for Restoration  
Malta Resources Authority  
Pension & Contingency Fund  
The Capt. O.F. Gollcher Art & Archeological Foundation  
Co-Operatives Board



**Financial Report 2004**

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## Analysis of the Financial Report 2004

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### Introduction

Statements of the Consolidated Fund Account, showing the comparative positions in 2003 and 2004, and the receipts and payments of funds created by law were laid on the Table of the House of Representatives in Sitting No. 260 on 27 April 2005 after being reconciled with Treasury Books by NAO in accordance with Sub-para. 1(c) of the First Schedule of the Auditor General and National Audit Office Act, 1997.

The Financial Report statements and accounts for year 2004 were submitted to the National Audit Office (**NAO**) by the Accountant General in terms of Section 67 of the Financial Administration and Audit Act, 1962. These were laid on the Table of the House of Representatives in Sitting No. 289 on 11 July 2005. These were examined in terms of Sub-para. 1(e) of the First Schedule of the Auditor General and National Audit Office Act, 1997.

A comprehensive view of Government financial operations can be made by reference to both this Audit Report and the Financial Report for 2004.

### Consolidated Fund Statement – 2004

The Consolidated Fund incorporates all moneys belonging to Government. All disbursements out of this Fund are authorised by means of Appropriation Acts of Parliament, which include the Supplementary Estimates.

The Consolidated Fund - 2004 Statement, as shown in Table 1, comprises the aggregate annual receipts and payments administered by Government and comparative estimates for 2004.

After the House of Representatives approved the year 2004 Budget (Original Estimates) for an expenditure of Lm951,573,000 as authorised by Warrant No. 1 issued on 23 December 2003, and a further Lm74,751,000 as authorised by Supplementary Estimates Warrant No. 2 dated 21 December 2004, it was estimated that Expenditure was to exceed Revenue by Lm126,824,000. Following the closure of the 2004 Accounts, it resulted that Expenditure had actually exceeded Revenue by approximately one-tenth of the estimated excess i.e. Lm12,034,365.

A detailed breakdown of the Consolidated Fund as compared with the approved Budget and the comparative 2003 figures is given in Financial Report 2004.

### Revenue

Details of Revenue collected during 2004, classified by heads and subheads, as compared with the Estimates, are shown in the Financial Report. Explanatory comments regarding variations between actual and budgeted revenue, as forwarded by the Ministry of Finance

Table 1 - Consolidated Fund - 2004

	Estimated (Original & Supplementary)		Actual	
	Lm	Lm	Lm	Lm
Opening Consolidated Deficit Balance				(80,317,061)
<i>Revenue</i>				
Ordinary (incl. Grants)	843,000,000		813,027,062	
Extraordinary	44,000,000		8,899,440	
Loans	12,500,000	899,500,000	99,948,200	921,874,702
<i>Expenditure</i>				
Recurrent	(756,650,000)		(732,845,672)	
Public Debt Servicing <sup>a</sup>	(126,080,000) <sup>a1</sup>		(96,443,733) <sup>a2</sup>	
Capital	(143,594,000)	(1,026,324,000)	(104,619,662)	(933,909,067)
Deficit 2004		(126,824,000)		(12,034,365)
Closing Balance as on 31/12/04				(92,351,426)

<sup>a)</sup> These exclude Lm83,000 (Estimates<sup>a1</sup>)/Lm143,268(Actual<sup>a2</sup>) relating to charges on property transferred from the Church and contribution to Sinking Fund in connection with ex-Church property loan. This amount was paid out of Recurrent Vote 40 – Government Property Division.

and Economic Affairs (**MFEA**), are provided in Part 1 (pp. xiv, xv) of the Financial Report 2004.

*Although an improvement was noted in the way such variations were explained, NAO still considered that in the areas indicated in Table 2 further analysis of variations for 2004 was required.*

Major sources of revenue for Years 2002 – 2004 are given in Table 3.

Budgeted ordinary revenue for 2004 was Lm843,000,000 (against actual ordinary revenue of Lm739,220,865 for 2003). Actual ordinary revenue for 2004 amounted to Lm813,027,062, short by Lm29,972,938, when compared to the amount budgeted for the year.

#### *Foreign Loans and Grants*

No revenue was generated from Foreign Loans during 2004 compared to Lm32,196,162 during 2003. Grants received by Government in 2004 amounted to Lm30,310,487 compared to Lm2,516,627 for 2003. Actual revenue derived from the reimbursement of expenditure on projects financed by Foreign Loans and Grants shows an adverse variance of Lm33,384,513 when compared to 2004 approved Estimates as shown in Table 4.

#### *Budgeted and Actual Revenue for 2004*

While analysing the Statement of Revenue Appendix C1 for 2004 it was noted that, in some cases, Budgeted Revenue varied substantially from Actual Revenue. Ministries/ Departments' comments with regard to these variations and other details regarding variations in EU related funds and Other Revenue have been summarised in Tables 5 and 6 respectively.

Table 2 – Variances in Revenue for Financial Year 2004

Revenue	Budget Estimates <i>Lm 000's</i>	Actual <i>Lm 000's</i>	Variation <i>Lm 000's</i>	Reasons for Variations
<i>Direct Tax Revenue</i>				
Income Tax	213,800	211,177	(2,623)	Lower receipts than expected mainly from provisional tax.
Social Security	194,600	189,657	(4,943)	Lower social security contributions were received than originally projected mainly from employers and employees sector. One third of the amount represents state contributions.
<i>Non Tax Revenue</i>				
Public Corporations	3,233	2,483	(750)	No contribution was received from Enemalta Corporation.
Central Bank of Malta <b>(CBM)</b>	17,000	18,233	1,233	Actual year 2003 profits passed to Government.
Repayment of, and interest on, loans made by Government	423	489	66	No reason forwarded.
Grants	51,195	30,310	(20,885)	Implementation of programmes financed by the Italian Financial Protocol and the European Union will continue in 2005.
Miscellaneous Receipts	13,471	23,504	10,033	Increase in proceeds from sale of Government land and miscellaneous receipts.
Extraordinary Receipts – Sale of shares/assets	35,000	-	(35,000)	Government's privatisation programme will continue in 2005.
Local Loans	-	99,948	99,948	Local loans raised to finance the public sector borrowing requirements in the Consolidated Fund.
Foreign Loans	12,500	-	(12,500)	No use has been made of this facility during 2004.

Table 3 – Government Ordinary Revenue by Major Sources in Lm 000's

Year	Tax Revenue						Non-Tax Revenue
	Income Tax	Social Security Cont.	Value Added Tax	Licenses, Taxes & Fines	Customs & Excise	Total	
2002	190,175	181,142	117,503	86,047	59,813	634,680	85,123
2003	205,218	188,427	123,910	89,160	61,576	668,291	70,930
2004	211,177	189,657	141,570	97,292	62,309	702,005	111,022*

\* Non-Tax Revenue for 2004 includes such items as CBM profit (Lm18,232,819), Fees of Office (Lm7,234,308), Rents (Lm13,331,564), Grants (Lm30,310,487) and Miscellaneous Receipts (Lm23,503,572).

Table 4 – Foreign Loans and Grants

Grants/ Foreign Loans	Budget 2004 <i>Lm</i>	Actual Revenue 2004 <i>Lm</i>	Variation <i>Lm</i>	Reason for Variation
GRANTS:				
E.U. Fourth Financial Protocol	-	3,711	3,711	Implementation of programmes financed by the Italian Financial Protocol and the European Union will continue in 2005.
E.U. – 2000/3 Pre-Accession Funds	7,678,000	2,026,876	(5,651,124)	
Italy – Fifth Financial Protocol	17,701,000	4,133,167	(13,567,833)	
<i>Other EU Grants</i>	25,816,000	24,146,733	(1,669,267)	
<b>TOTAL</b>	<b>51,195,000</b>	<b>30,310,487</b>	<b>(20,884,513)</b>	
FOREIGN LOANS: C.O.E. – S.D.F. (Mater Dei Hospital Project)	<b>12,500,000</b>	-	<b>(12,500,000)</b>	No use has been made of this facility during 2004.

Table 5 – Variations between Budgeted and Actual Revenue from Grants (Vote 21, MFEA)

Item	Grant Name	Budget <i>Lm</i>	Actual <i>Lm</i>	Ministries/Departments' Comments
0705	E.U. – Fourth Financial Protocol	-	3,711	<b>MFEA</b> – This reimbursement was received following correspondence towards year end between the National Authorising Office and the Financial Planning and Execution Unit in Brussels.
0706	E.U. – Pre-Accession Funds 2000 Programme	135,000	250,449	<b>MFEA</b> – The utilisation of funds in excess of budgeted amount was more than expected due to the fact that the disbursement deadline for the projects pertaining to this programme fell in the first and third quarter of 2004.
0707	E.U. – Pre-Accession Funds 2001 Programme	651,000	534,301	<b>MFEA</b> – The implementation of projects did not take place in accordance to projections made by the respective line Ministries to MFEA in November 2003.
0708	E.U. – Pre-Accession Funds 2002 Programme	1,919,000	530,564	
0709	E.U. – Pre-Accession Funds 2003 Programme	4,973,000	711,562	
0710	E.U. – VAT Fiscalis Programme	23,000	-	<b>VAT Department</b> – reply forwarded by this Department was not relevant to query.
0711	E.U. – ESF Equal Programme	53,000	-	<b>Ministry for Social Policy</b> – The six (6) Equal Projects being financed under the 2004-2006 Programme, were selected during December 2004. Therefore, reimbursement claims could not be submitted to the European Commission by Malta's EU Paying Authority Directorate, within MFEA, during the same year.

Item	Grant Name	Budget <i>Lm</i>	Actual <i>Lm</i>	Ministries/Departments' Comments
0712	E.U. – European Refugee Fund	50,000	24,252	<b>Ministry for Justice and Home Affairs</b> – Lm24,252 represents revenue received from the European Commission for projects under the European Refugee Fund. Malta became eligible for a maximum of Lm50,000 under co-financing rules on a fifty-fifty basis. Under the European Refugee Fund Regulations the sum allocated to Malta comes in three (3) tranches. The first tranche of fifty per cent (50%) has been paid, the second tranche worth thirty per cent (30%) will be paid upon submission by beneficiaries of a final report and a final third tranche of twenty per cent (20%) will be released following an audit and completion of an evaluation from an external evaluator. The Budget Office has allocated the maximum sum available for the projects. Funding for project is subject to conformity with the rules of eligibility for the programme, which is subject to national and EU monitoring.
0713	E.U. – EAGGF Guarantee	858,000	-	<b>Ministry for Rural Affairs and the Environment</b> – 2004 was the first year of operation for the Paying Agency. Therefore, Lm858,000 was only a forecast given prior to Malta's accession into the European Union. Furthermore, consideration should also be taken of the fact that at that stage, the Paying Agency and the delegate services were in the process of developing the software system. Thus, it was not possible to process such payment before December 2004.
0714	E.U. – Transition Facility	45,000	-	<b>MFEA</b> – The Financing Memorandum for 2004 was signed on 12 August 2004. Therefore, the last four(4) months of 2004 were utilised for preparatory work in relation to contracting of the relevant projects.
0715	Italy – Fifth Financial Protocol	17,701,000	4,133,167	<b>Office of the Prime Minister</b> – The variations under the Italian Protocol essentially concern delays in expenditure from the implementing agencies. This revenue may only be claimed against payments effected.
0716	E.U. – Grant Funds	20,830,000	23,632,776	<b>MFEA</b> – These mainly consist of Budgetary Lump Sum compensations received from the EU which have exceeded those originally budgeted for.

Item	Grant Name	Budget <i>Lm</i>	Actual <i>Lm</i>	Ministries/Departments' Comments
0717	E.U. – Post Accession Structural Funds	2,732,000	-	<b>Office of the Prime Minister</b> – 2004 was essentially used for project selection, the design and drafting of tender dossiers, planning permits etc. There had to be a line item for the projects in 2004 in order for final beneficiaries to have the secured commitment for tendering. Tendering has taken more time than originally foreseen and hence the low expenditure in 2004.
0718	E.U. – Post Accession Cohesion Funds	940,000	-	<b>Office of the Prime Minister</b> – One project was approved by Commission in the last quarter of 2004 and the other in the second quarter of 2005. No funds are released from the Cohesion Fund before contracts for works are signed. In 2004, the environment project (San Antnin) was mainly concerned with the Environment Impact Assessment, as well as planning and environment permits, while the tender dossier for the road project was still being drafted.
0719	E.U. – Travel Expenses of Delegations	285,000	75,612	<b>MFEA</b> – These reimbursements of expenses were only available from May 2004 and there was also a learning process until these funds started to be utilised. The take up of these funds during the first full calendar year of 2005 will be further increased.
0721	E.U. – Solidarity Fund	-	414,093	<b>Office of the Prime Minister</b> – This Fund is paid to Malta upon the agreement signed with the competent Authorities. There is no programme - hence no budgetary estimate but only revenue.

Table 6 – Variations between Budgeted and Actual Revenue from Other Revenue

Vote	Ministry/Dept.	Item	Name	Budget <i>Lm</i>	Actual <i>Lm</i>	Ministries/Depts' Comments
11	Ministry for Social Policy	0999	Misc. Receipts	20,000	-	<b>Ministry for Social Policy</b> – The budgeted revenue figure for the item in question has for a number of years been shown as Lm20,000. This was at the time set by MFEA. The revenue under this item fluctuates from year to year and it is not possible to give an accurate estimation of the revenue that would be collected the following year. During the year in question, no miscellaneous receipts were made.

Vote	Ministry/Dept.	Item	Name	Budget <i>Lm</i>	Actual <i>Lm</i>	Ministries/Depts' Comments
21	Ministry of Finance and Economic Affairs	0804	C.O.E.–S.D.F. (Mater Dei Hospital Project)	12,500,000	-	<b>Treasury</b> – The original budgeted figure was published by the Budget Office since it was envisaged that the Government would have made use of the fund for the Mater Dei Hospital. However, no withdrawals were made during 2004. It should be noted that Treasury does not exercise any control on Foreign Borrowing although it falls under its portfolio.
22	Treasury	0499	Misc. Reimbursements	5,000	-	<b>Treasury</b> – In both these cases any budgeted amount would simply be arbitrary. Item 0499 is solely used for reimbursements paid directly into the Public Account and to which the Department they pertain cannot be identified. Item 0999 is solely used for the crediting of cheques issued in previous years and received at Treasury for cancellation during a particular subsequent year. Treasury did not provide such budgeted estimates. Indeed, most of the times, Treasury either submits a nominal figure to MFEA, or else, it simply creates the item without submitting any estimates altogether, since it could not be estimated how many previous years' cheques would be submitted for cancellation.
		0999	Misc. Receipts	1,300,000	9,231	
45	Ministry for Information Technology and Investment	0692	Receipts out of Enemalta Corporation's profits in terms of Section 18 (2) of Act XVI of 1977	1,000,000	-	<b>MFEA</b> – During November 2003, being the time for the preparation of the 2004 Estimates, it was expected that both Enemalta Corporation and Gozo Channel Co. Ltd would be in a position to transfer part of their profits to the Consolidated Fund at the end of 2004. However, in 2004, it was established that both entities could not be in a position to pass any contribution to Government.
49	Public Credit	0624	Gozo Channel Co Ltd	500,000	-	

Vote	Ministry/Dept.	Item	Name	Budget <i>Lm</i>	Actual <i>Lm</i>	Ministries/Depts' Comments
49	Public Credit	0531	Sale of shares/ assets	35,000,000	-	<b>MFEA</b> – While Government had projected that Lm35 million worth of Government shares would be sold, this did not materialise during 2004. Thus, the actual final outturn was nil.
48	Ministry for Youth and the Arts	0320	Admission fees	800,000	-	<b>Ministry for Tourism and Culture</b> – No comments were forwarded.

### Expenditure

The appropriations for expenditure during 2004 were authorised by the issue of Warrant Nos. 1 and 2 by the Minister of Finance and Economic Affairs. These were appropriated under the following Statutes:

	<i>Lm</i>
(i) Appropriation Act (Voted Services)	699,665,112
(ii) In terms of Special Laws	305,446,900
(iii) In terms of the Constitution	21,211,988

### Analysis of Appropriations

#### Appropriation Act (Voted Services)

	<i>Lm</i>
Appropriated by Act XVIII of 2003	626,514,112
Appropriated by Act XV of 2004 (Second Appropriation Act)	<u>73,151,000</u>
	<b><u>699,665,112</u></b>

#### Special Laws

The following amounts were appropriated in terms of the various laws as indicated:

	<i>Lm</i>
a) Expenses of the Electoral Commission – General Elections Act (Cap. 354)	180,000
b) Expenses of the Broadcasting Authority – Broadcasting Act, 1992 (Act XII of 1991)	250,000
c) Expenses of the Tribunal for the Investigation of Injustices (Act VIII of 1997)	51,500
d) Expenses under Re-letting of Urban Property Ordinance (Cap. 69) and Agriculture Leases (Re-letting) (Cap. 199)	3,000

e) Land Acquisition (Public Purposes) Ordinance (Cap. 88)	38,000
f) Social Security Act, 1987 (Act X of 1987)	207,700,000
g) Pensions Ordinance (Cap. 93)	29,498,000
h) Expenses of the Office of the Ombudsman (Cap. 385)	170,000
i) Expenses of the Permanent Commission Against Corruption (Act XXII of 1988)	27,000
j) Interest plus contribution to the Sinking Funds i.r.o. Local Government Stock – Registered Stock and Security Ordinance 1959 (Cap. 161)	65,621,400
k) Malta Arbitration Centre (Act II of 1996)	27,000
l) Expenses of the National Audit Office (Act XVII of 1997)	* 875,000
m) Refunds under V.A.T./C.E.T. Acts	400,000
n) Widows' and Orphans' Pensions Act (Cap. 58)	170,000
o) Personal Injuries (Emergency Provisions) Ordinance (Cap.111)	30,000
p) Members of Parliament (Retiring Allowances) (Act XVII of 1966), Members of Parliament Pensions Act (Act XXVI of 1979) as amended by Act VII of 1989 and Act XIII of 1981 (Cap. 280)	406,000
	<b>305,446,900</b>

*\* The salary and allowances of the Auditor General are included in these expenses. As reported upon in previous Audit Reports, this salary and allowances should have been shown as permanently appropriated under Section 107 of the Constitution.*

### In terms of the Constitution

In terms of Section 107 (2) of the Constitution, the following amounts were appropriated in respect of:

	<i>Lm</i>
The President of Malta	18,804
The Attorney General	16,946
Judges and Magistrates	609,526
The Public Service Commission	<u>25,112</u>
	670,388
In terms of Section 106 as applied to the Public Debt	<u>20,541,600</u>
	<b><u>21,211,988</u></b>

## Excess of Expenditure over Estimates

The Supplementary Estimates for 2004, amounting to Lm74,751,000 were approved at Sitting No. 212, by the House of Representatives on 15 December 2004, through Act XV of 2004.

Other overspending on various items under different Votes resulted. However, this was offset by savings from items within the same Department or Ministry through the normal procedure of virements in terms of Section 24 (1) of the Financial Administration and Audit Act.

Excess expenditure over original/revised estimates exceeding Lm200,000 occurred in the instances shown in Table 7.

Table 7 – Excess of Expenditure over Revised Estimates

Vote, Item	Actual 2003 <i>Lm</i>	Revised Estimates 2004 <i>Lm</i>	Actual 2004 <i>Lm</i>	Variation Actual 04/ Rev Est 04 <i>Lm</i>
Vote 13: Social Security Benefits				
Item 5140: Invalidation Pensions	-	14,391,000	15,583,906	1,192,906
Item 5143: Bonus	10,733,462	10,798,000	11,199,870	401,870
Item 5147: Old Age pensions	5,887,183	6,000,000	6,268,018	268,018
Item 5148: Disability Pensions/ Allowance	3,221,552	3,150,000	3,377,628	227,628
Item 5149: Social Assistance	18,949,107	16,853,000	20,768,941	3,915,941
Item 5267: Supplementary Assistance	2,414,479	2,300,000	2,527,616	227,616
Vote 21: MFEA				
Item 25: International Memberships	12,355	15,000	671,735	656,735
Vote 29: Commerce				
Item 5330: Subsidy on Soyabean Meal/Grain Prices	1,370,891	785,000	1,640,704	855,704
Vote 32: Ministry for Transport and Communications				
Item 30: Contractual Services	6,813	16,000	755,103	739,103
Item 5236: Guaranteed Earnings Agreement with the Public Transport Association	1,404,012	1,700,000	2,236,292	536,292
Vote 42: Ministry for Resources and Infrastructure				
Item 21: Utilities	693,911	375,000	727,951	352,951
Vote 45: Ministry for Information Technology and Investment				
Item 5401: Streets and Roads Lighting	-	1,450,000	1,672,735	222,735
Item 6020: MGI/MIMCOL	-	2,729,000	3,128,010	399,010
Item 6777: Malta Shipyards Ltd	-	7,840,000	8,675,805	835,805
Item 6778: Industrial Projects and Services Ltd	-	2,500,000	2,971,099	471,099

Vote, Item	Actual 2003 <i>Lm</i>	Revised Estimates 2004 <i>Lm</i>	Actual 2004 <i>Lm</i>	Variation Actual 04/ Rev Est 04 <i>Lm</i>
Vote 47: Ministry for Rural Affairs and the Environment Item 21: Utilities Item 5250: Public Private Partnership	218,778 3,466,163	258,000 2,590,000	634,197 2,791,947	376,197 201,947
Vote 49: Public Debt Servicing Item 3643: Lm30,000,000 4.8% 2016 II Interest	-	1,440,000	2,043,297	603,297
Capital Vote I: Office of the Prime Minister Item 7004: Construction works and equipment	267,596	400,000	955,860	555,860
Capital Vote VI: Ministry for Transport and Communications Item 7080: Road restoration project Item 7086: B'Kara Bypass San Gwann Link road (to new hospital)	2,735,482 640,100	2,350,000 150,000	3,055,733 421,491	705,733 271,491
Capital Vote VIII: Ministry for Resources and Infrastructure Item 7047: Rehabilitation of St James Cavalier	183,713	10,000	464,113	454,113
Capital Vote XI: Ministry for Information Technology and Investment Item 7101: Direct Investments – Subvention	-	5,050,000	7,015,560	1,965,560

### Assets and Liabilities

Section 67 (j) of the Financial Administration and Audit Act states that the Accountant General “shall prepare a statement of assets and liabilities of the Government at the end of the financial year”.

*The Statement of Assets and Liabilities may be looked upon as a statement of end-of-year balances in the Treasury books which result from cash transactions in the Public Account during the year. As a result, not all Government's assets and liabilities are included in this statement since the Government's reporting system is cash based, rather than accrual based.*

#### Assets

The Statement of Assets, as shown in Appendix I of the Financial Report 2004, is reproduced in Table 8:

Table 8 – Statement of Assets

	<b>2004</b> <i>Lm000's</i>	<b>2003</b> <i>Lm000's</i>
<b>Public Credit</b>		
Share Holding	219,473	133,575
Other Investments	57,281	70,061
Loans	<u>8,542</u>	<u>203,662</u>
	<b>285,296</b>	<b>407,298</b>
<b>Investments held on behalf of</b>		
Sinking Funds (Local)	56,554 <sup>1</sup>	52,568
Sinking Funds (Foreign)	15,533	12,245
Trust Funds	386	355
Court and Other Deposits	<u>382</u>	<u>408</u>
	<b>72,855</b>	<b>65,576</b>
<b>Advances</b>		
Unallocated Stores	1,441	1,458
Advances	<u>121,446</u>	<u>122,454</u>
	<b>122,887</b>	<b>123,912</b>
<b>Bank and Cash</b>		
Banks	406	477
C.B.M. – Public Account	<u>44,677</u>	<u>44,476</u>
	<b>45,083</b>	<b>44,953</b>
<b>TOTAL ASSETS</b>	<b><u>526,121</u></b>	<b><u>641,739</u></b>

<sup>1</sup> The following is a breakdown of Investments held on behalf of Sinking Funds (Local):

	<i>Lm</i>
CBM Deposit Accounts	35,100,300
Malta Government Stocks	1,879,200
13,049,654 Ordinary Shares of 25c – Maltacom p.l.c	<u>19,574,481</u>
	<u>56,553,981</u>

## Shareholding

Shareholding is being discussed under Investments on page 35.

### *Loans made by Government and Repayments thereof*

#### Loans

Balances and other details of all loans issued by Government as on 31 December 2004, are summarised as follows:

	<i>Lm</i>
I. Loans under Act II of 1956	9,917
II. Loans under Act XI of 1988 (Ex-Posterity Fund Loans)	-
III. Other Loans	8,532,220
	<b><u>8,542,137</u></b>

Other Loans at III include the following:

	<i>Lm</i>
Housing Scheme	64,003
Aids to Industries Scheme	1,596
Tourism – Loans to Hotels	6,672
MGI – MDC – Investment in Industry	5,185,636
Agriculture – Assistance to Co-operatives	41,600
Water Services Corporation ( <b>WSC</b> )	3,232,713

### New Loan Issues

New loans issued by Government during 2004, as reported in Appendix E of the Financial Report 2004, amounted to Lm4,372,449. These loans were advanced to the following companies:

	<i>Lm</i>
Investment in Industry	
Gozo Heliport	145,000
Malta Export House Ltd.	98,826
Kalaxlokk Ltd	6,623
	250,449
Gozo Ferries Ltd	4,122,000

The first three (3) new loans should have been accounted for during the year ended 31 December 2003. Malta Government Investments Ltd (**MGI**) informed Treasury of these changes on 25 May 2004, when it was too late to account for them in the appropriate Financial Report. Furthermore, the transaction of the loan to Gozo Ferries Ltd was posted to the Departmental Accounting System (**DAS**) during January 2005 but related to Capital Expenditure paid to Gozo Ferries during 2004.

*It is questionable whether funds regarding the first three (3) loans should be considered as Investment in Industry. This is due to the fact that loans were advanced to:*

- *Gozo Heliport: refers to payments by Government i.r.o. licence fees (Lm15,000) and wages (Lm130,000);*
- *Malta Export House Ltd: refers to payment of bank interest by Government; and*
- *Kalaxlokk Ltd: refers to payment of a terminal benefit in terms of the Voluntary Redundancy Scheme of one (1) employee who terminated his employment in 2003.*

### Additional amounts advanced during 2004 not accounted for by Treasury

*Treasury records were not adjusted to reflect the following additional advances made by MGI as agent for Government during 2004:*

- *Lm25,000 to Gozo Heliport: This amount represents a Government subvention to the company to cover operating expenditure such as licence fees.*
- *Lm14,010 to Kalaxlokk: This refers to payment of a terminal benefit in terms of the 1999 Voluntary Redundancy Scheme. One of the employees entitled to these benefits terminated his employment in 2004 and amounts due to him were released accordingly.*

*It is observed that amounts advanced to Gozo Heliport and Kalaxlokk respectively during the year ended 31 December 2003 were fully provided for as a provision for bad debt during the same year. This fact casts doubt on the recoverability of these amounts. It is of concern why further amounts were advanced to these companies when loans outstanding were already fully provided for as a provision for bad debt. Moreover, funds advanced during 2004 were also fully provided for by MGI during 2004.*

*These adjustments were not reflected in Treasury records since MGI informed the latter about these movements on 16 June 2005 when it was too late to account for them in the Financial Report 2004.*

### Loan Repayments

The loan due from WSC was partly set-off by Lm113,981 to settle outstanding water consumption dues by Government organisations. These set-offs were authorised by MFEA during the end of the first quarter of 2005. These related to the year ended 31 December 2004 and value dated 31 December 2004 in order to be able to account for the set-off in the financial year under review.

All loans and related interest to the Malta Drydocks and Malta Shipbuilding Company Ltd were removed from Appendix E and loans at II - ex-Posterity Fund Loans - were likewise adjusted for in accordance with the provisions of the Dockyard and Shipbuilding Yard (Restructuring) Act, 2003. The Act provided that all liabilities of the Malta Drydocks and Malta Shipbuilding Company Ltd shall vest and be due by the Government. The adjustment results in a nil balance due from these companies.

### Observations

- The loan to WSC, which as at year end stood at Lm3,232,713, is interest free and repayable either through direct payment to Treasury by WSC (in the event that no withdrawals from the Government subvention are required by the Corporation at the time) or through a Transfer Voucher in the event that the Government subvention is still required. The initial amount of the loan was of Lm4,500,000.*
- Treasury has repeatedly requested the Department of Agriculture and Fisheries to furnish a statement to confirm the following loan balances:*

	Lm
<i>Agriculture</i>	<i>8,089</i>
<i>Agriculture Assistance to Co-Operatives</i>	<i>41,600</i>
<i>Fisheries</i>	<i>1,828</i>

*An accurate statement was not submitted. The matter was also reported to MFEA, whereby the Permanent Secretary (Ministry for Rural Affairs and the Environment) was requested to:*

- remedy the situation and update Treasury with the information required;*
  - sanction the official responsibility for such inaction; and*
  - avoid such misconduct to be repeated.*
- The balance of Lm6,672 due from Tourism – Loans to Hotels is due from two (2) hotels. One of these hotels is being dissolved and it is unlikely that any dues will be collected. The file of the second hotel could not be traced by Treasury.*

- *Although a balance of Lm64,003 due from the Housing Scheme still appears as due, the Ministry for Social Policy is claiming that loans have been repaid except for an amount of Lm326. It was also stated that loans and interest received were deposited against revenue accounts. Action is being taken by Treasury to solve this discrepancy. If loan repayment were being posted against revenue instead of against the loan, MFEA approval will be sought to effect the necessary adjustments. Until this issue is resolved the Ministry for Social Policy has provided Treasury with the statement confirming the amount outstanding of Lm64,003.*
- *The loan balance outstanding under Aids to Industries of Lm1,596 is due from one (1) company. The file of this company could not be traced and as a result, it could not be verified what were the agreed terms for repayment.*
- *Lm3,145,782 due from industries is estimated as not collectable and MFEA approval is being sought to write-off this amount.*
- *The same observations made by NAO in the last five years' Audit Reports, are reproduced hereunder since previous years' non-compliance to relevant General Financial Regulations, 1966 was again noted and no terms for repayment of loans were to date negotiated, namely:*
  - *No terms for repayments were indicated in Treasury Books in the case of certain loans to Industries made through the then Malta Development Corporation (MDC). In other cases the loan agreements were not abided by.*
  - *In December 1990, The Ministry of Finance stated that it was not considered opportune at the time to stipulate terms of repayment. However, Finance also contended that action was to be taken through MIMCOL for the eventual collection of these loans. Treasury gathers information about these loans to be reported in the Financial Report. To date, this Office is still not in a position to report any progress regarding this issue.*
  - *It is again recommended that MFEA should examine those loans not covered by terms and conditions and negotiate an agreement on modalities. However, loans due by companies struck off the Register are to be written-off following the latter Ministry's approval.*

*No new agreements were negotiated during 2004. This also applies to new loans issued during the year under review. Tables 9 and 10 provide further details regarding loans advanced to companies not covered by an agreement stipulating terms and conditions of repayment and loans advanced to companies where loan agreements were not abided to respectively:*

**Table 9 – Loans not covered by Loan Agreements and Terms for Repayment**

Company Name	Loan Outstanding 31 Dec 2004 <i>Lm</i>	Interest Due 31 Dec 2004 <i>Lm</i>	Total <i>Lm</i>	Terms of Repayment and Interest
Air Supplies & Catering Co. Ltd Loan 1	605	73,221	73,826	8% interest
Artcane Ltd (L)	3,000	-	3,000	Interest Free
Chinese Maltese Services (L)	21,500	16,724	38,224	8% interest p.a. with a moratorium of three (3) years
Handtools Ltd. (TC) Loan 2	210,612	-	210,612	Interest Free
Hannibal Civil and Mechanical Eng. Co. Ltd. (L)	36,695	-	36,695	Rate of interest and Terms for repayment of principal not received from Sec MFC.

Company Name	Loan Outstanding 31 Dec 2004 <i>Lm</i>	Interest Due 31 Dec 2004 <i>Lm</i>	Total <i>Lm</i>	Terms of Repayment and Interest
Libma International Construction Ltd.	39,530	-	39,530	Interest Free
Malta Decorative Glass Co. Ltd. (L) Loan Z	77,386	-	77,386	Interest Free
Metal Fond Co. Ltd (L) Loan 2	48,822	-	48,822	Interest Free
Mediterranean Coral Fishing Co. Ltd. (L)	40,000	-	40,000	Interest Free
Quality Trading and Services Ltd. (C)				
Loan 1	54,474	-	115,357	Loan 1: Interest Free
Loan 2	45,775	15,108**		Loan 2: 3% Interest p.a.
Gozo Heliport	145,000*	-	145,000	MGI explained that these loans have no repayment terms and will eventually be written-off.
Kalaxlokk Ltd	6,623*	-	6,623	
Malta Export House Limited	98,826	-	98,826	
Malta Win Cargo Ltd (L)	911,251	-	911,251	
<b>TOTAL</b>	<b>1,740,099</b>	<b>105,053</b>	<b>1,845,152</b>	

C – Company ceased operations

L – Company undergoing liquidation procedures

TC – Company awaiting tax clearance before it can be struck off

\* These loans were increased during 2004. Treasury records were not adjusted accordingly, as MGI informed Treasury of these changes belatedly. Necessary adjustment will be effected during 2005.

\*\* As per MGI letter to Treasury, dated 16 June 2005, an additional interest charge of Lm1,374 was made to Quality Trading and Services Ltd, thus increasing the outstanding interest balance at 31 December 2004 to Lm15,108. Treasury did not adjust its records and the Financial Report 2004 with this transaction since it received this information during mid-year 2005. Treasury should be updating its records accordingly.

Table 10 - Loan Agreements not honoured

Company Name	Loan Outstanding 31 Dec 2004 <i>Lm</i>	Interest Due 31 Dec 2004 <i>Lm</i>	Total <i>Lm</i>	Terms of Repayment and Interest
Air Supplies & Catering Co. Ltd. Loan 2	-	51,582	51,582	8% interest p.a. The loan was to be repaid over five years with effect from 31/12/1982. Although the capital amount was repaid during 1987, interest accrued to that date remained outstanding. No further interest is being accrued on the balance outstanding.
Construction and General Engineering (TC)				Loan 1: 8% interest p.a. Loan should have been repaid by 30/06/1980. Loan 2: 8% interest p.a. Loan should have been repaid against payments effected by Government to the company on account of works to be executed on factory.
Loan 1	28,000	32,139	75,254	
Loan 2	7,488	7,627		
Craft Glass Ltd (L)	35,000	49,792	84,792	8% interest p.a. payable every six months. Loan should have been repaid in five equal annual instalments with effect from 20/03/1979.

Company Name	Loan Outstanding 31 Dec 2004 <i>Lm</i>	Interest Due 31 Dec 2004 <i>Lm</i>	Total <i>Lm</i>	Terms of Repayment and Interest
Equipment Machinery Ltd	155,720	10,708	166,428	7.5% interest p.a. payable every six months. Loan was for a period of five years with a moratorium of one year with effect from 27/03/1980.
Handtools Ltd. (TC) Loan 1	5,119	-	5,119	Interest Free. Loan should have been repaid in five annual instalments with effect from 28/07/1979.
John Baker Ltd (TC) Loans A to Z Loan AA	241,367 4,228	246,363 -	491,958	<u>Loans A to Z</u> : 8% interest p.a. payable in arrears every six months. These loans were advanced between 1976 and 1978. All loans were for a period of five years with a moratorium of one year. The last loan was advanced on 12/05/1978. Therefore, all loans should have been repaid. <u>Loan AA</u> : Interest Free. Loan was repayable in five equal annual instalments with effect from 14/07/1979.
Malta Decorative Glass Co. Ltd. (L) Loans A to Y	289,038	236,044	525,082	7% interest p.a. due every six months. From the manual register held at Treasury it seemed that terms for repayment were agreed. However, the file containing the loan agreement was misplaced and therefore could not be reviewed and verified.
Malta Rattan Co. Ltd (L)	55,995	18,820	74,815	7% interest payable every six months. This amount is made up of various loans. These loans were advanced between 1975 and 1977 for a period of five years with one year moratorium.
Malta Spinning and Weaving Mill (L) Loans A to Q Loan R Loan S Loan T Loan U Loan V	428,260 27,588 4,682 27,133 1,394 32,000	317,871 17,910 3,039 17,614 905 20,688	899,084	<u>Loans A to Q</u> : 8% interest p.a. payable every six months. This amount is made up of various loans, most of which were for a period of five years with a moratorium of one year. <u>Loan R</u> : 7% interest p.a. payable every six months with effect from 30/06/1979. Loan was for a period of five years. Repayment to start with effect from 27/04/1980. <u>Loan S</u> : 7% interest p.a. payable every six months with effect from 30/06/1979.

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Company Name	Loan Outstanding 31 Dec 2004 <i>Lm</i>	Interest Due 31 Dec 2004 <i>Lm</i>	Total <i>Lm</i>	Terms of Repayment and Interest
				<p>Loan was repayable over five years with effect from 7/05/1980. <u>Loan T</u>: 7% interest p.a. payable every six months with effect from 12/1979. Loan repayable over five years in five equal instalments with effect from 4/09/1980.</p> <p><u>Loan U</u>: 7% interest p.a. payable every six months with effect from 30/06/1980. The loan was granted for a period of five years. <u>Loan V</u>: 7% interest p.a. payable every six months. Loan was repayable over five years with effect from 14/12/1980.</p>
<p>Marsa Water Fittings</p> <p>Loan A</p> <p>Loan B</p> <p>Loan C</p>	<p>50,000</p> <p>2,400</p> <p>16,000</p>	<p>51,253</p> <p>2,391</p> <p>15,871</p>	137,915	<p><u>Loan A</u>: 7% interest p.a. payable every six months with effect from 30/06/1977. Loan should have been repaid within eighteen months from date of issue being 19/08/1976.</p> <p><u>Loan B</u>: 7% interest p.a. payable every six months. Loan was to be repaid within one year with effect from 16/01/1976.</p> <p><u>Loan C</u>: 7% interest p.a. Loan was to be repaid within one year.</p>
MDC Loan	247,000	-	247,000	Interest Free. Loan should have been repaid through funds available from the operation of the Verdala Hotel or from the selling price of the hotel.
Metal Fond Co. Ltd (L)	1,444,550	-	1,444,550	This balance is made up of various loans at 8% interest p.a. Interest due up to 31/12/1993 was paid in full. However, the capital remained outstanding on which no interest is being charged.
Mdina Carpets Ltd (L)	64,000	51,239	115,239	7% interest p.a. payable every six months. This amount is made up of various loans. These were advanced between 1976 and 1978 and were for a period of five years.
Mdina Crafts Co. Ltd	68,550	25,178	93,728	7% interest p.a. payable every six months with effect from 6/1976. The loan was for a period of six years with a moratorium of one year repayable in ten equal instalments twice yearly with effect from 12/1981.

Company Name	Loan Outstanding 31 Dec 2004 Lm	Interest Due 31 Dec 2004 Lm	Total Lm	Terms of Repayment and Interest
Mqabba Marbles Ltd (L)	-	3,289	3,289	8% interest p.a. payable every six months. The loan was to be repaid within one year from 23/02/1978. Lm10,000 due by 12/1978, balance was to be paid by monthly instalments of Lm1,000 with effect from 1/1979. Should the company default to repay, Government reserved the option to convert the loan into 8% cumulative participating preference shares.
Promotion and Trading Ltd (L)	96,142	-	96,142	Interest Free. Loan was to be repaid by 20/07/1981.
Shoe Craft Co. Ltd (L)	10,000	928	10,928	7% interest p.a. payable every six months with effect from 30/06/1977. Loan was for a period of three years with a moratorium of one year. Repayments were to be effected by four equal six monthly instalments starting from 6/1977.
Walta Handtools Ltd (TC)	103,882	27,170	131,052	7% interest p.a. payable every six months. From the manual register held at Treasury it seemed that terms for repayment were agreed. However, the file containing the loan agreement was misplaced, therefore it could not be reviewed and verified.
<b>Total</b>	<b>3,445,536</b>	<b>1,208,421</b>	<b>4,653,957</b>	

C – Company ceased operations

L – Company undergoing liquidation procedure

TC – Company awaiting tax clearance before it can be struck off

*Although loan agreements with the above companies included repayment terms, these were not honoured. Moreover, even though rates of interest have been fixed on outstanding amounts, interest is not being accrued on outstanding balances. No action was taken by Government to collect dues, thereby resulting in a substantial aggregate balance remaining outstanding for so long. Most of the above companies are currently either in liquidation or in the process of being struck off and therefore it is unlikely that any outstanding dues will be settled.*

#### Loans and Interest Written-off

Total adjustments for the year under review amounted to Lm199,377,883, out of which, Lm166,073,795 related to the Malta Drydocks Corporation and the Malta Shipbuilding Co. Ltd, in accordance with the requirements of the Dockyard and Shipbuilding Yard (Restructuring) Act, 2003. A breakdown of the latter amount is given on page 35.

	<i>Lm</i>	<i>Lm</i>
Malta Drydocks Corporation		
Loans under Act XI of 1988 (Posterity Fund Loans)	7,056,000	
Other Loans	<u>27,530,093</u>	34,586,093
Malta Shipbuilding Co. Ltd		
Loans under Act XI of 1988 (Posterity Fund Loans)	10,300,000	
Other Loans - Investment in Industry	<u>121,187,703</u>	<u>131,487,702</u>
		166,073,795

Other adjustments effected were:

- Instead of entering into a loan agreement with Gozo Ferries Ltd, as stated in MF letter dated 8 March 1999, the loan due amounting to Lm33,265,277 was written-off. Authority to write-off the loan was given by MFEA during January 2005. However, this amount was accounted for during 2004 as per Ministry's instructions.
- The write-off of a loan amounting to Lm38,811 to Bahhar u Sewwi Ltd. This write-off should have been effected during the year ended 31 December 2003. However, MGI only informed Treasury of this change on 25 May 2004, when it was too late to account for it in Financial Report 2003.

### *Loans written-off during 2004 not accounted for by Treasury*

Treasury records were not adjusted to reflect the following write-offs affected by MGI as agent for Government, during 2004, since MGI only informed Treasury about these movements on 16 June 2005, when it was too late to account for them in the Financial Report 2004.

- Lm 68,550 relating to Mdina Craft Co. Ltd: This loan was written-off due to the fact that the company was struck off during 2004. A request has been made to MFEA to write-off this loan and others from companies in liquidation. However, no reply has been received to date. When such authority is granted, Treasury records will be adjusted accordingly.
- Lm98,826 relating to Malta Export House Ltd: The loan was reversed since it related to an amount granted to the company for the payment of bank loan interest in 2003. According to MGI, this amount "*should have been treated as a subvention (grant) and not as a loan*".

### Investments

The estimated market value of investments at year end stood at Lm292,328,343 as against Lm199,151,800 as at 31 December 2003, resulting in an increase of Lm93,176,543.

These investments are as listed in Table 11:

Table 11 – Market Value of Government Investments as on 31 December 2004

	<i>Lm</i>
Shareholding	219,473,164
Court and Other Deposits	369,045
Custodian of Enemy Property	13,294
Sinking Funds	72,087,112
Trust Funds	385,728

The following were the major changes in Treasury Clearance Fund/Consolidated Fund investments during the year:

### *New Investments*

During 2004, the following investments were purchased:

- 9,999 Ordinary Shares in Malta Industrial Parks Ltd at Lm10 each, twenty per cent (20%) paid up, amounting to Lm19,998. This investment was previously held by Malta Enterprise. The transfer of shares took place on 26 February 2004.
- An additional 6,067,478 Ordinary Shares were purchased in Air Malta Co. Ltd at a nominal value of Lm1 each and at a premium of Lm3 each, amounting to Lm24,269,912. This investment was erroneously quoted in the Financial Report 2004 as having a nominal value of Lm4 per share. Government already had an investment in Air Malta Co. Ltd of 4,820,000 Ordinary Shares at Lm1 each, amounting to Lm4,820,000.

### *Increase in Investments*

- The investment in the European Bank for Reconstruction and Development (**EBRD**) of 100 Subscription Shares of Euro 10,000 each (30% paid up) appreciated to a market value of Lm130,350 by the end of 2004. The remaining 100 Subscription Shares were 20.125% paid up, due to the seventh payment of €28,750 (Lm12,266) resulting in a final appreciated market value of Lm87,443. In total, the investment in the EBRD increased by Lm13,839.
- The value of Government's investment in Bank of Valletta p.l.c. increased by Lm28,523,117 over the previous year to Lm62,778,821. This rise is attributable to an appreciation in Bank of Valletta p.l.c. share price. As at 31 December 2004 shares were valued at Lm4.49, a substantial increase of Lm2.04 from the value at 31 December 2003.
- The market value of the shares of Middle Sea Insurance Co. Ltd stood at Lm2.50 each as at 31 December 2004, compared to Lm2.399 at the end of the previous year, resulting in an appreciation of Lm199,187 over the year.
- A substantial increase of Lm21,481,485 was registered in the value of the investment of 47,736,634 shares in Maltacom p.l.c. This was due to the increase in the market price per share from Lm1.05 as at 31 December 2003 to Lm1.50 as at 31 December 2004. The value of the investment at year end stood at Lm71,604,951.
- The investment of 27,059,995 shares in Malta International Airport p.l.c. appreciated by Lm11,635,798 to Lm30,577,794. Shares were valued at Lm0.43 per share higher than the previous year.
- The investment in Eutelsat SA increased by Lm2,826 in 2004, due to changes in the Euro exchange rate.

### *Decrease in Investments*

- During 2004, the value of the investments in:
  - Council of Europe Resettlement Fund for National Refugees and over population;
  - International Bank for Reconstruction and Development;
  - Malta Freeport Corporation Ltd;

- Multilateral Investment Guarantee Agency; and
- Mediterranean Offshore Bunkering Co. Ltd.

decreased collectively by Lm247,290 due to changes in USD exchange rate.

- The investment in Leader Marine Co. Ltd of USD2,790 was cancelled following the striking off of the company on 11 February 2004.

### Trust Funds

Trust Funds are mainly invested in Securities, while a small percentage is deposited in local bank accounts. Interest received from these funds is accumulated in cash and held in the Public Account at CBM. Occasionally, when the cash balance of a Trust Fund becomes large, these cash funds are reinvested in Securities. During 2004, two (2) new investments were made in Government Stocks one amounting to Lm45,000 in May 2004 and another amounting to Lm9,300 in November 2004.

### Other Investments

At the end of 2004, the total of these investments amounted to Lm57,280,864 as against Lm70,060,865 on 31 December 2003, resulting in a decrease of Lm12,780,001. This decrease is sub-classified as follows:

Table 12 – Net Change in Other Investments 2004

<b>Investment reductions/write-offs:</b>	<i>Lm</i>
Malta Shipbuilding Co. Ltd <sup>1</sup>	(12,200,000)
Bahhar u Sewwi Ltd <sup>2</sup>	(500,000)
Dredging Works Co. Ltd <sup>2</sup>	(80,001)
<b>Net change in investments during 2004</b>	<b>(12,780,001)</b>

<sup>1</sup> The investment in the Malta Shipbuilding was written-off in accordance with the requirements of the Dockyard and Shipbuilding Yard (Restructuring) Act, 2003.

<sup>2</sup> These write-offs took place during Financial Year 2003. However, they were reported in the Financial Report 2004. These movements had not been reported in Financial Report 2003 since MGI notified Treasury regarding these movements on 25 May 2004, when it was too late to include such amounts in the Financial Report for that year. This problem repeated itself for Financial Year 2004, with Treasury receiving information excessively late. The following movements were thus not accounted for in the Financial Report under review:

Table 13 – Other Investments

	<i>Lm</i>
<b>New Indirect Investment</b>	
Malta Marketing Ltd	499
<b>Investment write-offs:</b>	
Master Antenna Ltd	(1)
Mdina Craft Ltd	(53,400)
Natural Products Ltd	(22,500)
<b>Reduction in investments during 2004</b>	<b>(75,402)</b>

*As repeatedly recommended in previous reports, MGI should inform the Treasury about changes in investments on a timely basis to be included in the related Financial Report, thereby giving a more realistic picture of Government's financial position.*

According to Treasury Books, Investments in Industry comprise Government shareholding in eighty-ninety (89) different companies. Some of these are entirely financed by Government while others are joint ventures with the private sector.

*It is positive to note that no funds out of Lm5,050,000 allocated to MGI for further investments during 2004 were advanced as loans to subsidiaries for 'Payment of Creditors'. According to MGI's Schedule of Loans Advanced to Subsidiaries for 'Payment of Creditors', during 2004, no provision for doubtful debts was created during 2004.*

*The opening provision amounts, as at 1 January 2004, of loans advanced to subsidiaries by MGI for payment of creditors during 2004 did not tally with the respective closing balances at 31 December 2003:*

Table 14 – Differences in Provision for Bad Debt Balances

Company name	Provision balance at 31 December 2003	Provision balance at 1 January 2004
	<i>Lm</i>	<i>Lm</i>
Fort Chambray	-	110,875
Public Broadcasting Services	1,477,000	-

*Treasury could not justify these differences, as such balances refer to loans advanced, and provided for, by MGI from its own funds and therefore, do not fall within Treasury's responsibility.*

### *Investments through MGI*

In 1988, the bulk of the investments made over the years through MDC were transferred to MGI. A return submitted by the company to the Accountant General showed that the total cost of investment in seventy-eight (78) companies amounted to Lm19,483,113 as at 31 December 2004.

However, it was estimated that the net book value of these companies only amounted to Lm7,306,097 after an accumulated provisional loss of Lm12,177,016. Further details are provided in Table 15:

Table 15 – Investments through MGI

Investment Type	No. of Companies	Cost	Provision	Net Book Value
		<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Subsidiary Companies	44	18,257,464	11,053,116	7,204,348
Associated Companies	13	1,128,116	1,028,797	99,319
Other Companies	21	97,533	95,103	2,430

The return also pointed out that thirty-three (33) of these companies were undergoing liquidation procedures, four (4) have ceased operations, eight (8) are awaiting tax clearance before they can be struck off and two (2) never commenced operations.

## Inspection of Securities/Investments

### *Government Securities Board*

Section 42 of the Financial Administration and Audit Act, 1962 provides *inter alia* the purposes of setting up the Government Securities Board. The Board is:

- a) to have custody of such securities on behalf of the Government of Malta; and
- b) to facilitate the sale, conversion, exchange or the other disposition of such securities.

*During 2004, the Government Securities Board was not set up. As a result, the List of Securities held by Government as at 31 December 2004 was not inspected. The previous Board was set up for a period of three (3) years with effect from 1 September 2000. However, in August 2004, the new Board still had not been officially appointed and the old members carried out the List of Securities' inspection for 2003.*

The Accountant General communicated with the Chairman of the previous Board various times during 2005 to initiate the procedure for the appointment of the new Board. However, to date, a new Government Securities Board had not been set up.

### *Boards of Survey*

Boards of Survey were appointed in terms of Section 98 of the General Financial Regulations, 1966, in order to take account of moneys, deposits and other valuables as at 31 December 2004.

The reports from the Boards of Survey were received by NAO on 25 April 2005 and 30 August 2005, relating to moneys, deposits and other values at the Ministry for Gozo and Treasury respectively.

The Boards certified the correctness of the instruments and documents provided and had no adverse remarks to make with regard to the validity, authenticity and legality of the said documents. In this regard, the Boards also took cognisance of the certification reports issued by various Bodies entrusted with the custody of such values.

However, the Board appointed to take account of moneys, deposits and other values at Treasury, could not reconcile the balance shown on the Public Account as per Cash Book with the statement submitted by CBM. The Board was informed that Treasury was undergoing an intensive exercise in order to bring the reconciliation exercise up to date. The Board was also unable to examine the statement of Securities held at Treasury, including holdings with the Malta Stock Exchange, since, as reported in the previous section, the Government Securities Board has not yet examined and approved the statement in question.

*NAO is of the opinion that the time lag between the closure of the books and the submission of the reports by the Boards was excessively long. Future reports should be submitted without undue delay.*

## Unallocated Stores

The book value of the unallocated stores stood at Lm1,440,963 as at 31 December 2004. These were held by:

	<i>Lm</i>	<i>Lm</i>
• Government Printing Press		190,467
• Contracts Department Central Supplies	604,246	
Equipment from USA	<u>684</u>	604,930
• Ministry for Resources and Infrastructure		
Diesel	384,956	
Precast Concrete	<u>260,610</u>	645,566

During January 2005, Government Printing Press affected two (2) transfers amounting to Lm17,008 to net-off unallocated stores as follows:

- Lm14,665 being savings on recurrent expenditure account 'Operating Materials and Supplies'; and
- Lm2,343 being credits received during 2004 regarding income from Government Institutions.

## Court and Other Deposits

### Transfers to Revenue

Year end transactions in Court and Other Deposit Below-the-Line accounts were examined, to identify the occurrence of any transfers made to revenue during December 2004 until the closure of the accounts, either by means of a Transfer and Adjustment (**T&A**) or Schedule of Payment transactions. Transfers to revenue of the full Below-the-Line account balances during the year were also noted. The former is used whenever transfers are made within the same Dataset on DAS whereas the latter is used for transfers between Departments having different datasets.

The following ten (10) cases were noted where amounts from Court and Other Deposits Below-the-Line Accounts were transferred to Revenue by a T&A transaction.

Table 16 – Transfers to Revenue

Vote	Below-the-Line	Date Account	Lm	Revenue Account
35 Judicial	Civil Court First Hall	03/02/05	418,290	Court Fees
		18/03/05	75,000	
	Commercial Courts	03/02/05	139,754	
05 Office of the Prime Minister	Information Technology (L.N. 254/98)	28/01/05	3,111	Misc. Receipts
09 Electoral Office	Candidates fees	21/06/04	24,741	Misc. Receipts
		27/12/04	926	
25 Customs	Refund of Import Duty	22/09/04	7,515	Excise Levies- Mach. made cigarettes
32 Ministry for Transport and Communications	Wireless Telegraphy	21/01/05	46,696	Misc. Receipts
	Payments by Mobile Telephone providers	21/01/05	9,235	
36 Local Councils	Allocations to Local Councils	04/05/04	9,427	Misc. Receipts
<b>Total</b>			<b>734,695</b>	

## Transactions in Opening Balance Accounts

The following four (4) cases (Table 17 refers) were noted where transactions were directly passed to the opening balance accounts of the Court and Other Deposits Below-the-Line Accounts:

Table 17 – Transactions in Opening Balance Accounts

Vote	Below-the-Line Account
13 Social Security Benefits	Unpaid Drafts
18 Ministry of Education	Cultural Activities
44 Ministry of Health	Hope Meeting - February 2000
44 Ministry of Health	ESEN Quality of Life

The opening balance of dependent funds accounts are blocked by the Treasury annually as a year-end routine and carried forward as opening balances. Blocking of accounts is a manual procedure and must be performed for each opening balance account separately. Following this procedure, the DAS system would not allow Departments to post transactions in these accounts. However, due to a human error, the transaction blocking function of these accounts was not performed.

## Advances

### Accounting for Advances

Section 89 of the General Financial Regulations, 1966 stipulates that: *“it shall be the duty of the Accounting Officers to see that such accounts are repaid as early as possible in the manner specified in the warrant”.*

In MF Circular No. 9/92, the Minister of Finance directed that: *“in the case of Advance Warrants, the amounts advanced by the Treasury may not always be repaid by the end of the financial year in which the warrants are issued. However, the accounts have to be closed according to the repayment schedule stipulated in the warrants”.*

Appendix L of the Financial Report incorporates a detailed statement of balances remaining outstanding as on 31 December 2004 in respect of advances made to various Government Departments, agencies and organisations.

Pending advances totalled Lm121,445,579 as on 31 December 2004, as against Lm122,453,922 outstanding on 31 December 2003.

Outstanding advances, apart from advances forwarded to Malta Drydocks Corporation and Malta Shipbuiding Co. Ltd., as at 31 December 2004 were the following:

Table 18 – Outstanding Advances

Description	Lm
Malta Development Corporation on 24 July, 1984 for the purchase of Verdala Hotel	740,450
Ministry of Finance to the Bank of Valletta Employees Foundation, for the purchase by the Foundation of 1,385,406 ordinary shares in Bank of Valletta Ltd. in 1995	1,558,582

Description	Lm
Two (2) advances made to Permanent Secretary, Ministry of Finance and Commerce, to enable him to support the operational cost of Enemalta Corporation during 1997	5,590,000
Commissioner of Inland Revenue, to meet loans in terms of Section 4 of the Monte Di Pieta' Act (No. XXXIX) of 1976	405,051
Accountant General, for the purchase of shares held by Sea Malta Co. Ltd. in Mediterranean Offshore Bunkering Co. Ltd. The amount so advanced should be accounted for and repaid, in the first instance, out of proceeds forthcoming from the eventual privatisation of MOBC Ltd., immediately such proceeds become available to Government. In the second instance, in the event that such funds are not sufficiently available, out of funds made available from the Consolidated Fund upon the privatisation of MOBC Ltd.	476,168
Permanent Secretary, Ministry of Industry, to effect payments required by the Malta Development Corporation for the construction of a new factory intended for Brandt International in 1991	1,700,000
Permanent Secretary, Ministry of Finance and Commerce, to be utilised as a loan facility by the Maltacom Employees Foundation i.c.w. the purchase of ordinary shares in Maltacom p.l.c in 1998	2,461,845
Permanent Secretary, Ministry for Economic Services, for the purpose of settling during 1999 and further servicing costs of Malta Freeport loans	15,398,163
Accountant General, for the purchase of Middle Sea Insurance shares from Mid-Med Bank p.l.c in 1999	4,499,135
Accountant General, for the purchase of Maltapost shares from Mid-Med Bank p.l.c in 1999	337,500
Accountant General, for the purchase of Medigrain shares from Mid-Med Bank p.l.c in 1999	865,008
Permanent Secretary, Ministry of Finance, to meet expenditure in connection with the privatisation process of the Department of Public Lotto	198,861
Permanent Secretary, Ministry of Finance, for the purchase of 75,000 Maltacom p.l.c shares in Maltapost p.l.c	150,000
Permanent Secretary, Ministry of Finance, for the purchase of shares held by Enemalta Corporation in Mediterranean Offshore Bunkering Co. Ltd.	4,000,000
Permanent Secretary, Ministry for Economic Services, to meet expenditure in connection with the privatisation process of the Malta Freeport operations	909,617
Permanent Secretary, Ministry for Economic Services, for the purpose of settling Malta Freeport equipment claims	4,500,000
Permanent Secretary, Ministry of Finance, advanced to Mid-Med Employees Foundation, for the purpose of investment, pursuant to the agreement dated 3 December 2002 and entered into between Malta Government and the Foundation in the interest of the members of the said Foundation	3,000,000

Description	Lm
Permanent Secretary, MFEA, advanced in favour of the Malta Stock Exchange for the purpose of capital investment by Government in the Malta Stock Exchange	1,000,000
Permanent Secretary, Ministry for Information Technology and Investment, to enable Gozo Channel Co. Ltd. to settle urgent debts, including social security contributions and income tax (FSS) payments	500,000

## Observations

*The following advances should have already been repaid to the Treasury Clearance Fund:*

*Enemalta Corporation 1997 – Lm5,590,000: this advance was to be repaid by Enemalta Corporation over a period of two (2) years starting on 1 January 1998.*

*Purchase of Verdala Hotel – Lm740,450: this advance was made to the Malta Development Corporation on 24 July 1984 for the purchase of Verdala Hotel.*

*Privatisation of Public Lotto – Lm198,861: this advance should have been "... ..repaid out of proceeds forthcoming from the eventual privatisation of the Public Lotto Department ....." which took place during 2004. Upon enquiry it was explained that due to an oversight proceeds from the privatisation were posted against revenue during 2004. During 2005, MFEA approved the transfer of Lm198,861 from Direct Investment (Subvention) account to Advance Warrant – Privatisation of Public Lotto.*

*Construction of new factory – Brandt International – Lm1,700,000: this advance is made up of two (2) warrants. One was issued during 1997, amounting to Lm5,000,000, of which Lm2,849,908 was utilised. The second warrant was issued during 2001 and amounted to Lm1,800,000 of which Lm1,710,092 was utilised. Both these warrants should have been settled by 31 December 2004. However, as at the end of 2004, Lm1,700,000 was still outstanding.*

*Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd - with the coming into effect of Act XV of 2003, advanced funds made to Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd., must be borne by Government. As a result, the following advances are to be gradually repaid from the Consolidated Fund. During 2004, no repayments were effected in this respect. However, Lm9,500,000 were allocated for this purpose during 2005. Advances to the above mentioned companies to be repaid out of the Consolidated Fund are listed in Table 19:*

**Table 19 – Advances to Malta Shipbuilding Co. Ltd and Malta Drydocks Corporation**

	Lm
Construction of ships at Malta Shipbuilding	9,291,722
Malta Drydocks Corporation – 1995	1,990,245
Malta Drydocks Corporation – 1996	4,650,583
Malta Drydocks Corporation – 1997	15,402,775
Malta Drydocks Corporation – 1998	11,428,404
Malta Drydocks Corporation – 1999	7,999,646
Malta Drydocks Corporation – 2000	11,000,000
Malta Drydocks Corporation – 2001	12,873,563
<b>Total</b>	<b>74,636,938</b>

### Bank – CBM Public Account

Monies held in trust, received or paid by the Government of Malta as at 31 December 2004, amounted to Lm44,676,981 as accounted for in Treasury's Books. However, the CBM Public Account statement ended with a closing balance of Lm44,821,688.

In terms of Article 13 of the Financial Administration and Audit Act, the Minister may authorise Departments to operate Bank accounts for specific purposes. The aggregate year end balance of these accounts was Lm3,604,661.

### *Developments regarding the Public Account Reconciliation*

The following developments have been reported to NAO by the Treasury:

- **Manual Bank Reconciliation Statements (BRS) for the period June 1992 – December 2001**

Treasury still maintains that January 2002 should be officially recognised as the start-off date for the public account reconciliation, due to the fact that during the indicated ten (10) year period various changes had taken place with regard to the Government and Central Bank Accounting Systems. Moreover, during part of this period, not all Departments were carrying out their accounting functions on DAS, as some were still working on the manual system.

Due to the above circumstances Treasury stated that: *“... it is not deemed feasible to undergo such a massive exercise. Time, effort, further deployment of human resources, cost effectiveness and worthiness for carrying out such exercise have all been considered and evaluated in drawing such conclusions.”*

- **Electronic Bank Reconciliation Statement (BRS) (first cut)**

The BRS (first cut) electronically matches non-/cheque transactions, only if, the reference/cheque number and amount exactly agree. It normally captures over seventy-five per cent (75%) of them. However, if either the reference/cheque number or amount is incorrectly recorded by CBM or Treasury, the transaction results as a *'Discrepancy'* on the BRS statement.

As from February 2005, electronic reconciliations have been brought up to date and are being carried out monthly after the month-end routine. Unreconciled items following the first cut reconciliation must be reconciled manually. Treasury stated that manual reconciliations for Financial Year 2002 are nearly complete and work is underway for the years 2003 and 2004. It decided that, starting from January 2005, unreconciled items were to be tackled immediately after the first cut reconciliations. This enables officers in charge of Bank Reconciliations to maintain a closer link with Government Departments and Line Ministries for the early detection and correction of errors and avoidance thereof in future. This approach allows better monitoring of transactions on real-time basis and avoids the creation of further backlogs.

### *Management Comments*

- Over the last year, Treasury started monitoring Departments to ensure that the stipulated guidelines for the procedure of deposits at CBM are observed.
- Further enhancements on the Bank Reconciliation IT System were carried out, whilst others are planned for the current year.

## Liabilities

The Statement of Liabilities, as featured in the Financial Report 2004, is reproduced in Table 20:

Table 20 – Statement of Liabilities

	2004 <i>Lm000's</i>		2003 <i>Lm000's</i>	
<b>Public Debt</b>		<b>1,109,950</b>		<b>985,658</b>
<b>Treasury Bills</b>		<b>240,495</b>		<b>227,858</b>
<b>Deposits</b>				
Court and Other Deposits	19,674		21,171	
Other	<u>30</u>	<b>19,704</b>	<u>30</u>	<b>21,201</b>
<b>Funds</b>				
Sinking Funds	72,087		64,813	
Public Lotto	-		14	
Contingencies Fund	500		500	
Trust Funds	<u>390</u>	<b>72,977</b>	<u>372</u>	<b>65,699</b>
<b>Accumulated Fund</b>				
Cons. Fund at year end	(92,351)		(80,317)	
Net Public Debt	<u>(824,654)</u>	<b>(917,005)</b>	<u>(578,360)</u>	<b>(658,677)</b>
<b>TOTAL LIABILITIES</b>		<b>526,121</b>		<b>641,739</b>

## Public Debt

On 31 December 2004, the Public Debt (inclusive of Treasury Bills outstanding at year end) amounted to Lm1,350,445,048. This amount represents an increase of Lm136,929,125 over the corresponding reported figure for 2003.

This increase is accounted for as follows:

	<i>Lm</i>
Total of New Loans	773,815,241
Total Repayment of Loans	(636,812,062)
Currency/Other Adjustments	(74,054)
Net increase in Public Debt	<u>136,929,125</u>

The following payments in connection with the Public Debt were made out of the Consolidated Fund (Vote 49 – Public Debt Servicing and Vote 40 – Government Property Division).

Table 21 – Payments from Consolidated Fund

	Vote 49 Public Debt Servicing	Vote 40 Government Property Division	Total
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
(i) Interest on Loans	62,144,123	140,268	62,284,391
(ii) Interest on Short-term borrowing (Treasury Bills)	7,435,867	-	7,435,867
(iii) Contribution to Sinking Funds	12,445,000	3,000	12,448,000
<b>Total</b>	<b>82,024,990</b>	<b>143,268</b>	<b>82,168,258</b>

The following payments were made out of the Sinking Funds:

Table 22 – Payments from Sinking Funds

	<i>Lm</i>
(i) Payment of Local Loans	8,899,240
(ii) Payment of Foreign Loans	4,118,568
(iii) Loss on currency adjustments (Foreign Loans)	(65,746)
(iv) Revaluation of Sinking Funds Investments	(7,636,573)
<b>Total</b>	<b>5,315,489</b>

## Foreign Loans

### *European Union Loan F*

*The comments made with respect to the 'European Union Loan F' in the prior year audit report are still valid in the sense that NAO has to date not received the explanation necessitating the adjustment effected during Financial Year 2000 of Euros 2,000.*

## Letters of Comfort/Bank Guarantees

The position of Contingent Liabilities as at 31 December 2004 is reported upon in Part I of the Financial Report, 2004. The component parts are made up of Government Guarantees and Letters of Comfort as follows:

Table 23 – Contingent Liabilities – 2004

	<i>Lm</i>	<i>Lm</i>
Government Guarantees:		
Local	149,692,447	
Foreign	<u>141,579,921</u>	291,272,368
Letters of Comfort		<u>9,024,139</u>
		<u>300,296,507</u>

A detailed list of Letters of Comfort/Bank Guarantees submitted to NAO by MFEA showed a balance of Lm300,296,507 as on 31 December 2004 (against Lm315,022,505 as on 31 December 2003 and Lm374,007,704 on 31 December 2002).

Table 24 – Letters of Comfort/Bank Guarantees

Beneficiary	31 Dec 02	31 Dec 03	31 Dec 04
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Air Malta Co. Ltd. (Local)	8,100,000	8,100,000	8,100,000
Ex-Malta Drydocks Corporation	40,641,020	40,620,736	nil
Malta Export House Co. Ltd.	5,901,791	5,690,513	5,596,816
Enemalta Corporation	45,552,853	40,544,616	81,090,235
Gozo Ferries Co. Ltd.	35,833,125	12,354,367	10,070,718
Housing Authority	12,903,591	3,439,792	2,860,793
HSBC Home Loans (Malta) Ltd. <sup>(1)</sup>	30,000,000	30,000,000	30,000,000
Malta Enterprise Corporation <sup>(2)</sup>	4,296,195	4,233,956	4,279,717
Malpro Ltd.	800,000	700,000	600,000
Malta Government Investments Ltd.	18,060,126	16,993,775	14,091,174
Public Broadcasting Services Ltd.	1,275,273	1,242,496	nil
ST Microelectronics (Malta) Ltd.	2,800,000	nil	nil
Self Employment Scheme	1,570	nil	nil
Ex-Malta Shipbuilding Co. Ltd.	2,606,946	1,090,081	nil
Water Services Corporation	31,108,172	28,392,157	26,201,063
Malta Freeport Corporation	126,044,426	110,727,327	106,032,328
Medigrain Co. Ltd.	nil	160,995	nil
Malta Desalination Services Ltd.	939,045	984,008	915,196
Tripoli Sewage Treatment Plant	665,488	665,488	665,488
Malta Tourism Authority	2,412,402	3,067,772	2,598,142
YSSS – Jean Paul Mifsud	1,466	1,558	1,056
Foundation for Medical Services	2,213,106	nil	nil
Foundation for Tomorrow's Schools	450,408	3,012,868	4,658,781
Gozo Channel Co. Ltd.	500,000	500,000	nil
Malta Maritime Authority	500,000	2,500,000	2,535,000
Malta Stock Exchange	400,701	nil	nil
<b>TOTAL</b>	<b>374,007,704</b>	<b>315,022,505</b>	<b>300,296,507</b>

<sup>1</sup> Previously shown as Lohombus Corporation.

<sup>2</sup> Previously shown as Malta Development Corporation.

### Statement of Abandoned Claims, Cash Losses and Stores Written-Off

In terms of standing regulations, Departments are to submit to the Accountant General, an annual Return of Abandoned Claims, Cash Losses and Stores Written-Off. The following are comments on Appendix N of the Financial Report 2004:

#### i) Ministry for Rural Affairs and the Environment

Included under cash losses, is Lm398 relating to various items stolen from a Government Vehicle and Lm212 relating to theft of two (2) Hedge Cutters. However, they should have been included under Stores written-off. Moreover, abandoned claims amounting to Lm19,861 were not reported in the Financial Report. Authority for write-off of the Hedge Cutters was never sought.

#### ii) Customs Department

Abandoned claims amounting to Lm28,692 were reported by the Customs Department. This is mainly made up of amounts due from different companies for refund of expenses incurred for the attendance of customs personnel. Eleven (11) companies had amounts written-off exceeding Lm100. Out of these, approvals for write-off were forwarded in respect of three (3) companies. In the case of other abandoned claims, it could not be verified whether authority for write-off was obtained, as supporting documentation was not forwarded to Treasury.

#### iii) Department of Information

The Department of Information wrote off a total of Lm483, made up of Lm300 stores and Lm183 cash losses. No information was available to determine whether the stores written-off were due to missing/stolen/lost items. Moreover, Lm173 reported as Cash Losses by the Department should have featured in Appendix N under Abandoned Claims.

#### iv) Ministry for Gozo

The Corporate Services Department wrote off Lm225 relating to a missing mobile phone. Authority for write-off could not be verified. Moreover, a Board of Survey report should have been drawn up in this regard since the value of the mobile exceeded Lm200 as detailed in Article 118(2) of the Financial Administration and Audit Act. Such authority and report were not forwarded to Treasury.

Furthermore, it could not be established whether Lm3,051 stores written-off by the Customer Services Department should have been included in Appendix N of the Financial Report 2004, since no reason for write-off was provided.

### Observations

- *Treasury Circular 1/2005 stated that: "...copies of documentation regarding the relative write-off authority must be attached with the statement". However, it was noted that the Treasury was not provided with copies of the write-off authority and documents supporting write-offs of stores, abandoned claims and cash losses. Write-offs varied from amounts considered to be immaterial to amounts in excess of Lm22,000.*
- *'Stores Written-off and Cash Losses Statements' should specify the reason for write-off - whether due to items being unserviceable, missing, lost or stolen.*
- *It was also noted that whilst NAO was furnished with 'Stores Written-off and Cash Losses Statements' from Departments/Sections, copies thereof were not forwarded to Treasury.*

**Corporate Issues**

## Arrears of Revenue 2004

### Background

The timely collection of revenue and control over the extent of arrears of revenue is the responsibility of the Accounting Officers as defined in Section 2 of the Financial Administration and Audit Act 1962. Treasury Circular 2/2005 further states that: *".....Since the collection of monies due to Government is a fundamental need for the execution of Government's programme, Accounting Officers will be held accountable for any shortfalls."*

In terms of Reg. 49 (i) of the General Financial Regulations 1966, Heads of Department are required to submit an annual Return of Arrears of Revenue to the Accountant General, by not later than the 31 March, following the close of the previous financial year, for transmission to the Auditor General.

Annual Audit Report regularly features the subject of arrears due to the Public Account. The level of yearly arrears being recorded – Lm482.2 million based on returns received for Financial Year 2004 – is of concern.

### Returns

During the Public Accounts Committee Sitting, held on 16 February 2005, the Treasury Department was asked to submit to the Committee the position of arrears as at 31 December 2004. Requested information was forwarded on 31 May 2005.

As stated in previous reports, balances of arrears of revenue for the year under review, as shown in table on pages 60 and 61 are approximate figures collated by NAO

on the basis of Returns of Arrears received from Ministries and Departments.

The figures are approximate because:

- a) not all revenue collecting sources submitted their returns; and
- b) some returns are incomplete or based on estimates.

The Treasury Circular stated that: *".....every effort should be made to ensure the timely collection of amounts due and in any case any amount claimed/due should under no circumstances be allowed to fall in arrears"*. However, the low rate of collection and large increases in arrears without valid reasons given is still of great concern.

As from Financial Year 2005, Ministries/ Departments are now also required to submit a copy of the Statement of Arrears to the Budget Office, Ministry of Finance.

Although Returns of Arrears had to be submitted by 1 April 2005, various collecting sources were not submitted in time while other Returns were incomplete. The following failed to submit the Return of Arrears:

- National Statistics Office
- Ministry for Social Policy
- Family and Social Welfare
- Civil Registration
- University of Malta
- Malta Transport Authority (incl. Roads & Licencing and Testing Directorates)
- Heritage Malta

- Ministry for Youth and the Arts
- Ministry of Foreign Affairs
- Judicial (Malta)
- Ministry of Education
- Education Division (except Examinations Department)
- Malta Enterprise Ltd.
- Joint Office (*vide comments*)

The Accountant General apart from listing defaulting departments in Part I of the Financial Report 2004, reported the matter to the Minister of Finance. Judicial (Gozo) submitted the Return of Arrears after the Financial Report 2004 was published.

### Notes and Comments on Arrears of Revenue

#### *Social Security Department*

Comments on discrepancies noted during audits carried out in respect of the Statements of Arrears of the Social Security Benefits and Pre 1998 National Insurance Contributions are provided under the Ministry for Social Policy on pages 68 and 73.

#### *Joint Office*

A Return of Arrears for the year under review was not submitted. However, upon enquiry, the Joint Office informed Treasury Department that it has not yet received all the information from the Ecclesiastical Entities concerning the properties listed in Annex 8 of the Church/State Agreement. It is only when all details are forthcoming, verified, validated, approved and reconciled that a meaningful estimate of revenue arrears may be forwarded. Through a 5 year plan, the Joint Office aims to collect between 20-25% of rent due. In fact, in the year 2004, 47% of the revenue collected consisted of arrears.

#### *Armed Forces of Malta*

The gross closing balance is made up of arrears due in respect of services rendered to third parties as follows:

a) Patrol Craft Conveyances/ Hire of Vehicles & Mach./ Expl. Ord. Depot Charges/ Fuel and Repairs	Lm 1,109
b) Security Duties	Lm 36,617
c) Services rendered by AFM/ Refund of wages/ Helicopter and Sundry Services	Lm 6,744

Ageing of arrears at year end can be analysed as follows:

Arrears outstanding equal to or less than 1 year	Lm 33,741
Arrears outstanding over 1 year till 2 years	Lm 276
Arrears outstanding over 2 years till 5 years	Lm 4,060
Arrears outstanding over 5 years	Lm 6,393

Lm 33,366 out of Lm 33,741 newly accrued arrears are in respect of Security Duties due for security services rendered at:

a) A Commercial Bank	Lm 29,661
b) Water Services Corporation	Lm 2,427
c) Govt. Ministry/Department	Lm 1,278

#### *Ministry for Tourism*

The gross closing balance is made up as follows:

a) Ex HCEB & Police Licences	Lm 568,194
b) Institute of Tourism Studies	Lm 82,279
c) White Rocks	Lm 33,682
d) Tourism (MTA) – due from Local Councils in respect of beach cleaning services	Lm 86,971

#### *Ministry for Competitiveness and Communications*

##### *Revenue Unit (ex-Wireless Telegraphy)*

The Department of Corporate Services did not provide detailed information on the basis that: *"information being requested*

.....is not available from computerized system taken over from PBS Ltd. Enhancement to remedy this situation are underway”.

#### Ministry

The Ministry submitted a “NIL’ Return without providing details regarding arrears outstanding brought forward from 2003. This consisted of operating licences due from:

- |                                |            |
|--------------------------------|------------|
| a) Maltapost plc               | Lm 127,609 |
| b) Malta International Airport | Lm 10,000  |

In a letter dated 17 May 2005, Treasury was informed by the Ministry that: “.....responsibility for the collection of revenue from MaltaPost Ltd was delegated to MCA as from 2003”.

#### Department of Information

The closing balance consists mainly of Government Gazette Adverts amounting to Lm 13,913.

#### Government Printing Press

The gross closing balance is in respect of:

- |                     |            |
|---------------------|------------|
| a) Jobbing          | Lm 126,969 |
| b) Stationery/Paper | Lm 138,873 |

The amount reported as not due is in respect of the Revolving Fund and Revenue due from the Department of Information.

#### Civil Aviation

The balance is made up of:

- |                                 |           |
|---------------------------------|-----------|
| a) Miscellaneous Licences       | Lm 6,286  |
| b) Airport Tax                  | Lm 83,700 |
| c) Miscellaneous Reimbursements | Lm 2,155  |

Upon enquiry regarding developments in addressing weaknesses featuring in last year’s Report of the Auditor General, the Department stated that the situation still prevails, and “.....is expected to remain so as long as the airport tax remains

applicable only to Malta-originating passengers.” Thus, the Department still lacks controls to ascertain whether airlines are collecting and remitting all revenue due to Government.

Item (c) above relates to an amount due by an ex Public Officer. This amount was confirmed by the Court of Appeal in 1998. Amount due is to be repaid by monthly instalments over a period of 6 years, commencing August 2001. The Department justified non-reporting of amount due in previous years’ Returns, since claim “..... was not generated by an invoice”.

#### Mediterranean Conference Centre

Claims amounting to Lm 148,226 were in respect of the hire of the Conference Centre for conferences, gala dinners, theatre functions, meetings and hire of equipment.

The majority of amounts outstanding as at year end were settled during 2005, with the exception of an amount of Lm 11,010 on which repayments are being effected as per the agreed repayment programme.

#### Ministry for Gozo

The gross closing balance is made up of:

- |                                |           |
|--------------------------------|-----------|
| a) Works Department            | Lm 21,508 |
| b) Public Cleansing Department | Lm 73,659 |
| c) Agriculture Department      | Lm 5,791  |

#### Civil Protection

As reported in last year’s Report of the Auditor General, Lm 2,250 due by the Malta Environment and Planning Authority following site inspections are still being contested while Lm 3,648 are amounts contested by a particular company, being in their majority in respect of Water and Electricity Bills refund. The latter case has been forwarded to the Attorney General.

#### Judicial – Law Courts: Gozo

Ageing of arrears at year end:

	Fines	Fees
Amounts outstanding equal to or less than 1 year	Lm 12,688	Lm 9,988
Amounts outstanding over 1 year up to 2 years	Lm 14,430	Lm 6,771
Amounts outstanding over 2 years up to 5 years	Lm 14,233	Lm 12,514
Amounts outstanding over 5 years up to 10 years	Lm 15,109	Lm 2,795
Amounts outstanding over 10 years	<u>Lm 3,929</u>	<u>Lm 5,309</u>
Closing Balance	<u>Lm 60,389</u>	<u>Lm 37,377</u>

## Contracts Department

The gross closing balance is made up of:

a) Penalties and Damages	Lm 204,238
b) Ex-CSS	Lm 102

The 2004 Opening Balance, as reported by the Department, was adjusted to exclude Lm 643 classified as payable by the Department of Agriculture to a company in 2003. On the other hand, arrears due re item (b) were added to the figures quoted in the Department's Return.

## VAT Department

The Department again failed to forward the Return of Arrears as per Treasury Circular 2/2005. Details requested regarding the 2003 Return of Arrears were forwarded to NAO on 21 April 2005.

No conclusion could be reached on the state of arrears as at 31 December 2004 since figures, falling within the audit scope, could not be verified. Although in a letter dated 27 September 2005, the Department informed NAO that: *"The information requested is being attended to and will be forwarded to you in the coming days"*, no reply was received regarding:

- an analysis of figures, sub-classified into amounts written off and adjusted for, together with Ministry of Finance's approvals for amounts written off; and
- breakdown of 'Arrears Newly Accrued' figure, thus hindering NAO in differentiating between estimated and actual tax collectable.

The Department informed Treasury that: *"Arrears Newly Accrued" includes the bulk estimated tax ..... During the last quarter of 2004, there were a number of companies whose ..... estimated tax amounted to over Lm 100,000 each"*.

The gross closing balance of arrears is analysed as follows:

VAT (1998)	Lm 131,844,868
CET (1997)	Lm 3,755,908
Refunds to Govt. on Stock (1997)	Lm 315,638
VAT (1994)	Lm 11,090,232
Expenditure Levy	Lm 48,553

## Inland Revenue Department

### Income Tax

Out of the aggregate gross arrears of Lm256.9 million, Lm 113.6 million represent estimated tax charged to taxpayers who did not file the tax return. This balance will be reduced by the difference between the value of self-assessment returns submitted after end 2004 and the estimated tax charged. The value of assessments issued and tax under objection stand at Lm1.9 million and Lm 7.6 million respectively. Table on page 54 is a breakdown of gross arrears due by category.

Arrears denominated in foreign currencies for Years of Assessment 1999 to 2004, amounting to Lm 7,367,074 as at year end 2004, are also due from foreign owned companies and companies overseas. The amount of Lm 78,061 represents estimated tax in foreign currency in respect of taxpayers who did not file their tax return.

Income Tax Arrears Due by Category

Category	Grand Total for all Years Lm
Government Employees	6,763,221
Parastatal Employees	2,090,986
Drydocks Employees	341,616
Private Employees	28,305,079
Outside Malta Employees	358,374
Temporary Residents – Work Permit	9,628,609
Self-Employed	35,454,821
Shareholders	5,252,634
Rentiers / Pensioners	11,379,855
Temporary Residents – settlers	2,448,567
Temporary Residents – entertainment	116,048
Non-residents	1,452,048
Companies <i>anonyme</i>	147,491,030
Partners	121,065
Partnerships <i>collectif</i>	270
Partnership not registered	1,125
Companies <i>en commandite</i>	1,540,622
Companies foreign owned	175,980
Companies – overseas	988,243
Estates	30,745
Clubs, Associations etc.	810,112
Church (Commercial)	2,012,087
Church (Entities)	105,511
Others	3,388
<b>Total for all Categories</b>	<b>256,872,036</b>

Source: Inland Revenue Department.

## Capital Transfer Duty

The gross closing balance can be analysed as follows:

	Total Lm	Malta Lm	Gozo Lm
Inter Vivos	12,891,204	11,855,673	1,035,531
Causa Mortis	<u>1,541,941</u>	<u>1,380,507</u>	<u>161,434</u>
	14,433,145	13,236,180	1,196,965
Death and Donation	<u>2,476,900</u>	<u>2,310,363</u>	<u>166,537</u>
	<u>16,910,045</u>	<u>15,546,543</u>	<u>1,363,502</u>

Following NAO's review of arrears for 2004, it was noted that in 4 cases the details of the taxpayer(s) differed from that of the previous year. The Department failed to forward reasons for discrepancies.

### *Social Security Contributions (w.e.f. 1998)*

A Return of Arrears, as required by Treasury Circular 2/2005, was not submitted. However, for the first time, the Department forwarded rather limited information as regards the closing balance as at year end, analysed under:

- a) Class I Lm 17,778,732
- b) Class II Lm 13,501,346  
(inclusive of Department's estimations)

### *Department of Health*

The gross closing balance is made up of:

- a) Licences Lm 2,700
- b) Hospital Fees (SLH) Lm 518,039
- c) Hospital Tests Lm 527
- d) Refunds/Resignations Lm 166,386
- e) Overpayments Lm 3,001
- f) Hospital Fees (SPBH) Lm 20,872

An additional Lm 69,981 is due under item (b) for hospital fees in respect of

patients from EU Member States as from 1 May 2004. Each respective EU country will be invoiced during 2005. A specific report is shown on page 104.

Ageing of arrears at year end, of items (a) to (e), can be analysed as follows:

Amounts outstanding equal to or less than 1 year	Lm 105,474
Amounts outstanding over 1 year up to 2 years	Lm 111,420
Amounts outstanding over 2 years up to 5 years	Lm 240,443
Amounts outstanding over 5 years	Lm 233,314

### *Industrial and Employment Relations*

Arrears of revenue are in respect of the outstanding repayments of loans under the Self Employed Loan Scheme, which was introduced in the 1989 budget, and closed at the end of 1992. In July 1993, on Ministry of Finance's instructions, the administration of this Scheme was taken over by the Department.

According to the Department, the majority of amounts owed from defaulters reported as not collectible was due to the fact that defaulters are either unemployed or on social security pensions. The Department is considering whether to pursue further judicial action.

Various representations have been made with the Attorney General's Office, on a regular basis, in order for the latter to issue judicial letters intimating defaulters to pay. However, in the absence of any action from the latter's Office, the legal officer within the Department served the relevant judicial letters to the defaulters.

The Department is in the process of issuing judicial letters against defaulters who did not effect any payments during the year collectively owing Lm53,039. The total sum owed by those defaulters who are effecting payment on a regular basis stands at Lm 77,592 after deducting Lm4,758 amounts collected during 2004.

### *Ministry for Information Technology and Investment*

Arrears are made up solely of Loans advanced by Government through MGI:

a) Loans to Hotels	Lm	10,040
b) Loans to Companies	Lm	3,270,586

The '*Estimated amount considered as not collectible*' is made up of amounts due from a company which was struck off during 2004, 16 companies which are in liquidation and another company which is dormant but not in liquidation.

During 2005, Ministry of Finance was requested by MIMCOL to grant a back-dated write off approval as at 31 December 2004. No developments were since reported.

### *Government Property Division*

The following is a breakdown of gross arrears due at year end:

a) Rural	Lm	69,551
b) Perpetual	Lm	68,539
c) Residential	Lm	402,071
d) Non-residential	Lm	439,374
e) Commercial	Lm	3,076,032
f) Encroachments	Lm	27,349

The Division again failed to submit the Statement of Arrears in detail in compliance with Treasury Circular 2/2005.

### *Ministry for Resources and Infrastructure*

The following is a breakdown of the gross closing balance:

a) Works Division	Lm	65,631
b) Central Districts Office	Lm	317,270
c) Deposits of Waste & Rubble	Lm	228,073
d) Manufacturing and Servicing Dept.	Lm	290,593
e) Cleansing Services Department	Lm	27,264
f) COOPS	Lm	121,615

Ministry of Finance's authority was granted to write off Lm 3,745,439 arrears due from the Works Division which MSD felt should not have been claimed in the first instance since they referred to works and services carried out within the same Ministry.

A request for write-off of Lm86,450, being labour costs for works carried out, was approved following an agreement reached during January 2003, between the Mosta Local Council and the Hon. Minister responsible for the Ministry at that time.

### *Ministry for Rural Affairs and the Environment*

The gross closing balance is made up of arrears due from:

a) Pitkali Markets	Lm	79,374
b) Sundry Revenue MMU	Lm	5,140
c) DDP Personnel	Lm	3,474
d) Services rendered to Local Councils	Lm	2,255
e) Sundry Services	Lm	4,545

f) Veterinary Services	Lm	93,896
g) Loans Commission	Lm	4,277
h) Co-operatives Societies	Lm	30,305
i) Fisheries	Lm	105,835
j) Salary Overpayments	Lm	996

Amounts estimated considered by the Ministry as being not collectible are the full balances due in respect of Items (a) to (c), (g), and Lm 35,210 from Items (e), (i) and (j).

### Police Department

The closing balance is made up of:

a) Services to Third Parties	Lm	34,438
b) Sporting Licences	Lm	187,378

Further comments are reported under Ministry for Justice and Home Affairs on pages 88.

### Treasury Department

The gross closing balance is made up of:

a) Overpayments to Pensioners	Lm	25,102
b) BICAL Bearer Account	Lm	3,979

Upon verification of the arrears due from pensioners, the following was noted:

- Treasury failed to explain Lm 1,507 difference between the gross 2003 Closing and the 2004 Opening Balances. Comparison was possible since the 2003 Statement of Arrears was forwarded to NAO on 9 February 2005.
- 'Arrears Newly Accrued' represents cases finalised and amounts established as dues from pensioners during the year under review.
- Arrears of Revenue records differ from the records compiled by the Officer in charge of updating pensioners' records.

### Commerce Division

The Statement of Arrears submitted by the Division was incomplete as regards to

Trade Licences arrears falling under the responsibility of the Trade Services Directorate. The latter took over the collection of trading licence fees from the Police Department in 2002. However, the electronic Licensing Management System (**LMS**) cannot furnish certain figures as required by Treasury Circular 2/2005.

The Division also stated that MITTS were contacted to carry out an exercise to update and have comprehensive details covering all arrears i.e. trade licence fees issued by Police, Local Councils and Maltapost. However, to date, no further action has been taken.

Furthermore, amounts written off and approvals thereof could not be verified, as the information requested was not received. The Division failed to explain why:

- It was not clear whether the different detailed statements for 2004 arrears of revenue should have been taken separately or collectively.
- Certain amounts seemed to be double counted, whilst in certain instances, there were similar details with different file numbers.
- The overall Trading Licences arrears written off, amounting to Lm 30,299, could not be derived from write off breakdowns supplied to this Office.

Due to the above irregularities, no conclusion could be reached on the state of arrears as at year end. It is recommended that, as a matter of urgency, the Division undertakes an exercise, with the help of MITTS, to reasonably ascertain the amount of outstanding arrears and take the necessary action for early collection. Systems and controls should be established to ensure that future arrears are accurately recorded on a timely basis in preparation for the introduction of accrual accounting.

The gross closing arrears, as provided by the Division, is analysed as follows:

a) Licences, Taxes and Fines	Lm	658,745
b) Miscellaneous Receipts	Lm	4,060

Customs Department

Discrepancy in Balances

The Department explained that Lm 6,784 variance between the 2003 closing and 2004 opening gross balances, resulted following an exercise to centralise all records of arrears of revenue, were found unreconciled as a result of:

- *“Incorrect information kept by several outstations.*
- *Missing registers at some outstations.*
- *Lack of Account history or records in certain registers.*
- *Incorrect original input of data into the OMERA computer system”.*

Updating of Manual Ledgers Exercise

Following the 2003 Audit Report, the Department stated that all outstation lists (except those missing) had been completed by January 2005. The level of ‘completion’ was further clarified by Customs as follows:

- The manual ledgers of the Valuation Section and Pinto Bonded Stores were not retrieved and hence the manual exercise could not be performed on these Sections’ outstanding arrears.
- All remaining outstation manual ledger outstanding amounts have been reviewed to establish whether amounts are actually still outstanding and whether additional amounts over and above those in the ledger are also outstanding.
- Not all manual ledgers’ outstanding balances have been inputted in OMERA. Other outstanding balances have been electronically inserted on a *Word* document. Any amounts settled or approved should have been noted in this electronic file.

There is no audit trail of amounts settled and/or deleted in OMERA, since manual

ledger amounts entered in OMERA were deleted from the system.

Any discrepancies noted between 2003 closing manual ledger balances and those derived through this exercise, were adjusted in 2004 by being shown as *‘Arrears Newly Accrued’* or *‘Past Arrears Collected’*. However, Customs failed to highlight amounts collected, thus hindering distinction between actual collections and adjustments. Furthermore, comprehensive discrepancies reports, including corrective action taken, in respect of all outstations were not prepared.

Write-Offs

Lm 5,923 reported as *‘Past Arrears Written Off and/or Adjusted’* varies considerably from Lm 28,692 reported as *‘Abandoned Claims’* in Appendix N of the Financial Report 2004. A sub-classification of amounts, written off and adjusted for, was not received from Customs. The Department also failed to forward an explanation for the difference.

Conclusion

No conclusion could be reached on the state of arrears as at 31 December 2004 once information was lacking and figures, falling within the audit scope, could not be verified. The gross closing balance, as provided by the Department with a minor mathematical adjustment, is analysed as follows:

a)	Import and Export Duties	Lm	2,948,958
b)	Licences, Taxes and Fines	Lm	4,921
c)	Fees of Office	Lm	1,166
d)	Reimbursements	Lm	462,339

Arrears in respect of item (a) include:

- Lm 2,731,481 Excise Duty due by Enemalta Corporation – amount was recovered during the first quarter of 2005;

- Lm 155,345 Excise Duty due by other importers; and
- Lm 40,176 Excise Duty on tobacco and beer, still in dispute.

The collectability of item (b) is subject to a decision by the Court.

## Report of the Auditor General - Public Accounts 2004

Ministry/Department	Outstanding on 31/12/03 <i>Lm</i>	Collected during 2004 <i>Lm</i>	Written off or not due 2004 <i>Lm</i>	Arrears 2004 <i>Lm</i>	Outstanding on 31/12/04 <i>Lm</i>
Min for Rural Affairs & Environment <sup>d</sup>	299,295	38,534	6,472	75,808	330,097
Ministry for Gozo	96,149	23,813	0	28,622	100,958
Customs <sup>d</sup>	3,431,324	2,602,329	5,923	2,594,312	3,417,384
Ministry of Education	a	b	b	b	b
Education Division	a	b	b	b	b
Examinations Department <sup>a</sup>	1,043	765	0	1,299	1,577
Libraries and Archives	a	0	0	0	0
Inland Revenue:					
Income Tax - Maltese Currency	245,739,247	184,985,774	77,508,665	273,627,228	256,872,036
Income Tax - Foreign Currency	3,131,079	c	c	c	7,367,074
Social Security Cont wef '98	a	c	c	c	31,280,078
Duty on Docs & Transfers	15,963,736	1,418,048	4,811,715	4,699,173	14,433,146
Death & Donation Duties <sup>d</sup>	2,500,265	26,957	8,320	11,911	2,476,899
Courts:					
Malta	a	b	b	b	b
Gozo	87,320	17,846	521	28,814	97,767
Social Security:					
Social Security Benefits	2,764,368	694,273	57,147	803,433	2,816,381
National Insurance Contributions	5,155,284	315,458	0	0	4,839,826
Govt. Property Division	3,629,445	643,417	280,197	1,377,084	4,082,915
Health <sup>d</sup>	751,377	89,211	57,161	106,520	711,525
Police	242,620	80,865	8,201	68,262	221,816
Ministry for Resources & Infrastructure	5,042,213	591,324	3,879,339	478,896	1,050,446
Malta Enterprise Ltd	a	b	b	b	b
Treasury Department <sup>a, d</sup>	7,569	1,473	0	22,985	29,081
Ministry for Tourism <sup>a</sup>					
(incl. White Rocks and HCEB)	672,834	198,246	44,346	340,884	771,126
Ministry of Finance <sup>a</sup>	415	0	0	0	415
Information Department	19,806	18,220	1,586	13,922	13,922
Government Printing Press	266,755	31,887	31,686	62,660	265,842
Med. Conference Centre	115,370	83,540	1,035	117,431	148,226
A.F.M.	580,366	569,637	0	33,741	44,470
Revenue Unit (ex-Wireless Telegraphy)	2,302,606	c	c	c	c
Ministry for Youth & the Arts	a	b	b	b	b
CET/VAT	61,346,574	7,115,301	11,039,834	103,863,760	147,055,199
Contracts	204,340	0	0	0	204,340
Roads Directorate	886,160	b	b	b	b
Industrial & Employment Relations	164,698	4,758	0	0	159,940
Licensing & Testing Dir.	2,587,530	b	b	b	b
Commerce Division	a	c	c	c	c
Civil Aviation	85,845	85,845	0	92,141	92,141
Min. Comp. & Comm.	137,609	c	c	c	0
Civil Protection <sup>e</sup>	10,114	240	0	14,536	24,410
Min for Investment, Industry and Information Technology <sup>g</sup>	3,279,253	0	0	1374	3,280,626
Housing <sup>d, e</sup>	4,176	160	0	662	4,678
Notary to Govt. <sup>e</sup>	1,066	1,066	0	33	33
Attorney General <sup>e</sup>	244	0	0	0	244
Correctional Services	10	10	0	21	21
Elderly and Community Services <sup>e</sup>	14	14	0	0	0
Joint Office	a	b	b	b	b
<b>TOTALS</b>	<b>361,508,119</b>	<b>199,639,011</b>	<b>97,742,148</b>	<b>388,465,512</b>	<b>482,194,640</b>

- a) Did not send Return of Arrears 2003.  
b) Return of Arrears 2004 not submitted.  
c) Information not available or incomplete.  
d) Op Bal '04 does not tally with CI Bal '03 (vide comments).  
e) Previously reported under 'Others'.  
f) Amounts estimated as not collectible include amounts statute-barred.  
g) Previously shown under Ministry for Economic Services.

## Report of the Auditor General - Public Accounts 2004

Gross Variation <i>Lm</i>	Amounts Est as not Collectible <sup>f</sup> <i>Lm</i>	Net collectible arrears as at 31/12/04 <i>Lm</i>	Net collectible arrears as at 31/12/03 <i>Lm</i>	Net Variation <i>Lm</i>	Due from Govt. Depts. & Para. Bodies <i>Lm</i>	Individual & Private Companies <i>Lm</i>
30,802	127,474	202,623	167,885	34,738	c	c
4,809	1,742	99,216	96,148	3,068	37,501	61,715
-13,940	483	3,416,901	3,438,107	-21,206	c	c
	b	b	a		b	b
	b	b	a		b	b
534	278	1,299	a		0	1,299
	0	0	a		0	0
11,132,789	195,500,000	61,372,036	45,400,000	15,972,036	c	c
4,235,995	c	c	c		c	c
	c	c	a		c	c
-1,530,590	9,764,422	4,668,724	5,185,122	-516,398	0	4,668,724
-23,366	948,336	1,528,563	1,543,668	-15,105	0	1,528,563
	b	b	a		b	b
10,447	0	97,767	87,320	10,447	0	97,767
0						
52,013	0	2,816,381	2,764,368	52,013	0	2,816,381
-315,458	477,111	4,362,715	c		0	4,362,715
453,470	c	c	c		c	c
-39,852	160,000	551,525	732,485	-180,960	527	550,998
-20,804	0	221,816	242,620	-20,804	18,537	203,279
-3,991,767	190,896	859,550	4,755,017	-3,895,467	493,112	366,438
	b	b	a		b	b
21,512	3,979	25,102	2,083	23,019	0	25,102
98,292	120,653	650,473	a		57,198	593,275
0	0	415	a		0	415
-5,884	0	13,922	19,806	-5,884	13,922	0
-913	23,943	241,899	266,755	-24,856	241,899	0
32,856	0	148,226	115,370	32,856	33,425	114,801
-535,896	8,816	35,654	571,642	-535,988	32,301	3,353
	c	2,491,878	2,291,231	200,647	c	c
	b	b	a		b	b
85,708,625	138,745,998	8,309,201	10,161,502	-1,852,301	c	c
0	53	204,287	204,287	0	49	204,238
	b	b	0		b	b
-4,758	29,309	130,631	126,771	3,860	0	130,631
	b	b	2,587,530		b	b
	c	662,805	a		0	662,805
6,296	0	92,141	85,845	6,296	13,226	78,915
	0	0	137,609		0	0
14,296	6,103	18,307	3,977	14,330	c	c
1,374	3,145,783	134,843	c		0	134,843
502	0	4,678	3,176	1,502	0	4,678
-1,033	0	33	1,066	-1,033	33	0
0	0	244	244	0	0	244
11	0	21	10	11	21	0
-14	0	0	14	-14	0	0
	b	b			b	b
120,686,521	349,255,379	93,363,877	80,991,658	9,284,808	941,751	16,611,180



**Office of the Prime Minister**

## Armed Forces of Malta - Wages and Salaries

### Background

The wages and salaries of the Armed Forces of Malta (AFM) are processed and recorded on the PAYPER system. This is used in conjunction with the Human Resources computerized network system utilized for the maintenance of all personnel record details for both army soldiers and civilians employed with the AFM. During the financial year 2004 over Lm11,000,000 were disbursed on Personal Emoluments.

### Key Issues

#### *Unauthorised Reduced Hours worked*

Civilians on the AFM payroll assigned to a particular unit work three and a half days a week from Monday to Friday on a day-in-day-out basis. This reduced hours roster is not covered by OPM approval.

#### *Errors by the Treasury Salaries Section*

Although instructions were submitted in advance by the Pay Office at the AFM to the Treasury to delete the quarterly allowance to Emergency Volunteer Reserve Force before the payroll run of 29 December 2004, salaries inclusive of allowance were processed. Stop payment instructions were later issued when the error was identified by the AFM.

### Control Issues

Opportunities for improvement were identified in the following areas:

- The details of time-in and time-out are not always being indicated in the civilian

attendance sheets, which serve as source documents of attendance.

- Details included in the Daily Parade Sheet do not always agree with those compiled in the respective monthly reports.
- Instructions from Regimental Records Office to the Pay Office for termination of trade allowance entitlements are being complied with only after a number of months.
- The Regimental Unit and the Records Office at the AFM are not always promptly notifying the Pay Office in respect of absence from work and/or allowances adjustments of employees that effect payment of salaries.
- Inaccuracies in the calculation of the payroll were noted, emanating from overstated salaries and allowances as well as incorrect National Insurance Contributions paid.

### Recommendations

#### *Key Issues*

#### *Unauthorised Reduced Hours worked*

Official authority in writing from OPM should be attained and filed for management control purposes. This should also indicate the names of the individual employees assigned to the unit in question on such a roster basis.

#### *Errors by the Treasury Salaries Section*

Stringent checking by the Treasury Salaries Section is recommended for all

payroll instructions and computerized forms, with closer liaison and reconciliation procedures with the AFM Pay Office.

### *Control Issues*

#### **Attendance Sheets**

Details on attendance sheet - entrances and exits - should always be recorded and monitored.

#### **Reporting Details**

All details should be consistently filled and reconciled with supporting documentation prior to signature by the officer-in-charge.

#### **Delays in receiving Instructions for Allowance Adjustments**

Instructions for termination of allowance entitlements or deduction of allowances are to be submitted on a regular and timely basis by the respective Regimental Records Office so that prompt action for the required adjustments can be effected by the Pay Office.

#### **Notification of Boarded Out Army Soldiers on Medical Grounds**

The Regimental Unit should inform the Pay Office, through the Human Resource network system, in a timely manner before the letter of discharge from the Records Office is sent to the Pay Office, so that payroll deductions may be duly effected.

#### **Differences in Computed Payroll Elements**

All amounts computed for adjustments, allowances and deductions are to tally with the payroll. National Insurance Contributions computed by the Treasury Salaries Section should be checked and errors brought to the attention of their respective Head of Section at the AFM.

### **Management Comments**

Management concurred with most of the recommendations and action is being taken to comply accordingly.

However, reply submitted in respect of the Civilians on the AFM payroll assigned to the unit in question working on reduced hours was not satisfactory.



**Ministry for Social Policy**

## Social Security Department - Pre 1998 Social Security Contributions Defaulters

### Background

Collection of Class I Social Security Contributions has been the responsibility of the Inland Revenue Department since 1978 while the Social Security Department was only in charge of enforcing collection of balances due. As from 1998, the Inland Revenue became accountable for both the collection and enforcement of Class I contributions.

With effect from 3 January 2005, following the new changes introduced by Act III of 2005, the powers of enforcement vested in the Director of Social Security, may also be exercisable by the Commissioner of Inland Revenue.

### Key Issues

#### *Accuracy of Balances*

The contributions being reported in arrears by the Social Security Department, amounting to Lm4,362,715, are incorrectly stated. An analysis of the most material individual balances, selected from the amounts due by defaulters, revealed that the Department holds inaccurate balances.

Out of a sample covering the amount of Lm1.75 million, balances of forty seven per cent (47%) of the selected defaulters were overstated by Lm282,400 while the balances of another forty four per cent (44%) were understated by Lm228,600.

#### *Collectibility of Defaults*

An assessment of payment patterns disclosed that only six per cent (6%) of the defaulting employers were effecting installments on a regular basis.

Moreover, an analysis of the claims revealed that:

- Seventeen per cent (17%) of the value of the sample are estimates and not actual dues;
- thirteen per cent (13%) of the value of the sample relate to Contributions in respect of periods prior to year 1990, eighty two per cent (82%) relate to the period 1990 to 1997, and a further five per cent (5%) correspond to penalties.

This analysis puts in doubt the collectibility of balances of arrears.

### Control Issues

Opportunities for improvement were identified in the following areas:

- No claim for the amounts due was made for a defaulting period in cases where employers incorrectly declared that they had ceased operations, thereby potentially understating the total defaulting amount.
- Lack of information from the Inland Revenue Department on payments effected in respect of pre 1998 Contributions. No liaison existed between the Inland Revenue and Social Security Departments since there was no sharing of information on new and existing defaulters.
- Breach of settlement agreements entered into between the Department and the defaulter in fifty three per cent (53%) of the examined balances.

- Unreliable sources from where actual defaults are derived were encountered in thirty three per cent (33%) of the sample. Additionally no enforcement on the collection of official documents (TX34s and P5s) is made prior to enforcement of defaults.
- Considerable lapse of time for enforcement action to be taken particularly with regard to requests for action by the Office of the Attorney General.
- No standard procedure exists for arriving at an estimate of defaults.
- The rather passive manner in which new defaults are exposed. Defaults are only discovered when a former or existing employee of the defaulting employer applies for a Contributory Benefit.
- No searches of immovable property owned by defaulting employers are made prior to the issuing of warrants of seizures.
- The Social Security Department is not taking an active part in the liquidation processes of defaulting Companies.

### Recommendations

#### Key Issues

##### Accuracy of Balances

It is strongly recommended that all balances in default are revised in order to detect any inaccuracies, and establish an accurate amount. Any settlement agreements in force that contain mathematical inaccuracies are to be corrected. Moreover, all computations of balances due are to be clearly documented in the respective files.

##### Collectibility of Defaults

The Attorney General or a legal advisor is to be commissioned to evaluate each case in order to determine the collectibility of amounts due. This procedure will enhance

accuracy of the total value of collectable claims.

#### Control Issues

- The Department is to initiate action in order to review all balances due with a view to ensure that the respective claims are complete and accurate.
- The recent change in legislation is expected to improve the enforcement process if data interchange is implemented between different sections at the Inland Revenue Department. Information currently held by the Social Security should be made available to the Inland Revenue Department in accordance with legislative provisions.
- Settlement agreements are to be reviewed and amended to include any kind of hypothecation on immovable property. If no such property is available for hypothecation, the Department should request the provision of a bank guarantee for the period of the settlement agreement. This allows the Department to legally bind the defaulter to honour the entire agreement.

The Department should also evaluate the current financial situation of the defaulters and compute more realistic and achievable agreements. Furthermore, it is to be ensured that current agreements are followed up regularly for compliance.

- The Department should enforce the filing of the official returns and base any repayment programme thereon.

NI contributions paid need to be correctly allocated to the appropriate employee. Verification by a responsible officer is also to be carried out to ensure that the posting of the contributions is correctly effected.

- The Department is to ensure that each case is regularly followed up and monitored in order to ensure that the necessary action is taken accordingly in a timely manner.

- The Department is to set up standard procedures for calculating estimates of contributions due, thus establishing the basis of calculations.
- An alternative method is to be adopted by the Department for the discovery of defaults. The Social Security Department is to request a comprehensive list of employers that existed prior to 1998 from the Inland Revenue Department. In this manner all employers could be verified for any potential default.
- Negotiations with the Attorney General and Notary to Government are to commence to discuss the issue whether the Department is in a position to order searches for the defaulter's ownership of immovable property.
- The Department is to regularly review company liquidation notices and forward its claims to the liquidator.

### Management Comments

Management pointed out that the majority of the findings and risks identified in NAO's management letter instigated the Social Security Department to recommend the transfer of responsibility of enforcement to the Inland Revenue Department. This recommendation was in fact implemented with effect from January 2005.

As a result of the above transmission, the highlighted shortfalls and bottlenecks due to lack of communication between the IT systems of both Departments, have now been eliminated.

Notwithstanding the fact that the Director of Social Security recommended that NAO's recommendations are to be addressed to the Inland Revenue, comments were still made about the inaccuracies of balances held with former Department. The Department accepted NAO's observations on the inaccuracies, however other comments were not deemed satisfactory as they did not address NAO's concern.

## Collection of Current Social Security Contributions

### Background

Class I and Class II Social Security Contributions in respect of employees engaged in the private sector are collected at the Inland Revenue Department in accordance with the Social Security Act. Public sector employees' contributions are directly forwarded to the Social Security Department.

Total Social Security Contributions received by the Department, including the Government share, amounted to Lm190 million for the year under review.

### Key Issues

#### *Cash Office Reconciliation*

No formal documentation is retained of any reconciliations carried out on a daily basis at Cash Office. Lists of cash and cheques collected daily by each cashier are only temporarily retained. Furthermore, system documentation and reports of daily collections for same date are not retained.

Excess cash not reconciled to the system's reports is deposited in the bank without investigating its origin.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Payment slips that are receipted at Cash Office and not processed through the electronic slip reader are neither electronically imaged nor retained in any manner.

- All cashiers at the Cash Office have the facility to cancel receipts of payments received. This right may be exercised by any officer without providing an adequate reason.
- No formal procedure for transfers made from accounts held by the Inland Revenue with Commercial Banks to the Public Account in respect of online receipts.
- Payments received at the Inland Revenue Department in respect of Social Security Contributions for previous years are only receipted in the same manner as current year's contributions. These cannot be identified separately for reporting purposes.
- No control to ascertain that all Social Security Contributions due by Government Departments and Foreign Embassies in respect of their employees are received in a timely manner at the Social Security Department.

### Recommendations

#### *Key Issues*

##### *Cash Office Reconciliation*

Daily reconciliations should be authorised by the Officer in charge and referenced to the respective system documentation and deposit slips prior to archiving. The Inland Revenue Department is to establish time frames for which such documentation is to be retained.

Any resulting excess cash is to be duly documented including identification of

cashier and excess amount for any eventual dispute from taxpayers.

#### *Control Issues*

- All payment documents receipted by Cash Office are to be imaged and archived.
- The responsibility for the cancellation of receipts is to be restricted to the head of the Cash Office and his authorised delegate.
- The Department should establish formal documented procedures to be adopted for an efficient system of financial cash management.
- Social Security Contributions are to be allocated to the correct period both by the Social Security and Inland Revenue Departments.

- The Social Security Department should adopt a system to detect any Government Departments or Foreign Embassies that do not timely forward their employees' contributions.

#### **Management Comments**

Comments received cover observations relating to the Social Security Department only. Agreement was expressed on comments made on the allocation of arrears, including corrective measures adopted. However not all concerns were addressed.

Moreover, unsatisfactory comments were received regarding the issue of lack of control to ensure timely receipt of Contributions due from Government Departments and Foreign Embassies.

## Social Security Department - Arrears of Revenue - Overpayments of Social Benefits

### Background

The balance of Arrears of Revenue arising from overpayments of social benefits amounted to Lm2.8 million as at 31 December 2004. Included in this balance is an amount of Lm2.4 million arising after the year 2000.

Overpayments arise due to errors committed during award of benefits and inaccurate declarations by beneficiaries.

### Key Issues

#### *Procedures Guidelines*

There are no internal guidelines on procedures to be followed in unclear cases. This was observed from a number of benefits assessed at the officer's discretion.

Inconsistent implementation of policies was observed in circumstances where beneficiaries no longer qualified for a benefit due to changes in circumstances. Other informal procedures were encountered in computations for particular benefits and for capital means tests.

#### *Internal Control System*

In eighty per cent (80%) of the sample of arrears acquired during 2004, the overpayment resulted from weak internal controls. Overpayments were detected after a considerable time lapse even though each and every benefit is counter checked by another official.

Additionally, in twenty per cent (20%) of the sample, the overpayment was incorrect.

Twenty nine per cent (29%) of the total arrears reported for 2004 related to overpayments that were made in the same year.

#### *Collectibility of Defaults*

In seventy per cent (70%) of the sample in respect of current year arrears, the installments being withheld from the claimants' benefits were not sufficient to settle the large overpayments. These would require a period extending from three (3) to forty three (43) years to be recovered.

In another twenty per cent (20%), no installments are being paid, since claimant is not currently receiving any Social Security benefits.

No appropriate and timely action was taken by the Social Security Department in another case, leading to the write off of the amount due after a considerable period of time of inactivity without any payments being recouped.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Only four per cent (4%) of the amounts reported as written off or not due were actually made through proper means of approvals. The remaining balance represents revised overpayments, incorrect balances, duplicate balances and amounts already settled in previous years.
- The majority of overpayments occurred as a result of changes in the financial and social circumstances of

beneficiaries not communicated to the Department.

- A number of files were not made available for audit purposes.

### Recommendations

#### Key Issues

##### Procedures Guidelines

It is highly recommended that the Social Security Department compiles a manual and adopts standard procedures.

It is also advisable that management reviews material overpayments as they arise, thereby reducing the need to revise them in future periods.

##### Internal Control System

The Social Security Department is to emphasise the importance of reviews by checkers and of confirming declarations by beneficiaries with available sources of information.

Furthermore the Department is also encouraged to review the current internal control mechanism as the system of an assessor and checker is not functioning properly. Assessment and verification of new benefit awards and/or changes in rates are to be carried out by two separate pools of personnel.

Appropriate planning is required to identify cases that represent a material risk of irregularity so that adequate investigations may be effected.

##### Collectibility of Defaults

Arrangements for repayment schemes are to be negotiated with claimants with a view to hasten the recovery process. Besides withholding part of the benefits,

these beneficiaries are to be enjoined to effect reasonable periodical additional payments.

Moreover, the estimated settlement period is to be calculated and any amount that may be considered as not collectible is to be accounted for separately.

#### Control Issues

- Clear guidelines on writing off balances are to be drawn up and followed. All material balances are to be reassessed to ensure that the amounts being reported are correct.
- Applications for benefits are to be accompanied by a schedule of changes in financial and social circumstances that beneficiaries are required to complete during eligibility of benefit.
- Adequate control over departmental records is to be exercised to ensure that these are safeguarded from misplacement and unauthorised access.

#### Management Comments

Management concurred with the majority of the weaknesses in response to the observations raised and outlined determined efforts that are being undertaken by the Department to rectify matters. The Department is in the process of compiling a procedures manual for all benefits even though it is understood that such an initiative will take time to implement. Other improvements earmarked to improve current internal controls include the integration of all SABS modules, the introduction of monthly capital resources reviews, the automatic integration of other information databases, and the setting up of a specific unit to deal with 'non-performing' overpayments.

## Elderly and Community Services Department - Salaries

### Background

The Salaries Section at the Department for the Elderly and Community Services is responsible for around 330 employees falling under the responsibility of three cost centres, namely those employed at the Administration Section, Residential Homes for the Elderly and Adult Training Centres. It also caters for more than 500 Part-Time Social Assistants (PTSAs) who are paid at an hourly rate to provide the Home Help Care Service.

### Key Issues

#### *Part-Time Social Assistants (PTSAs)*

Inaccuracies were noted in the calculation of PTSAs' salaries, resulting in adjustments being made at a later date to correct the amounts payable.

PTSAs are also being paid even though the Department did not receive the schedule of hours worked. Adjustments are hand written, barely legible and not clearly documented on the attendance sheets of employees.

Each PTSA is assigned a number of clients and the respective hours of service by the Home Help Allocation Board. However, the number of hours recorded on each PTSAs' attendance sheets are not reconciled with the number of hours that should have been spent with each client prior to the computation of salaries. Such reconciliation could not be carried out as records were not available.

#### *Officer in Charge Home Help Care Service*

A Departmental Nursing Manager was transferred from St. Vincent de Paule

Residence to the Administration Section. Notwithstanding this, he still works on a roster basis and is entitled to a Sunday Allowance paid every four weeks.

Although no details of his new duties were found in his personal file, NAO was verbally informed that he was in charge of the supervision of the Home Help Care Service during weekdays.

In addition, he supervises the Government Homes for the Elderly during the weekends and reports directly to the Director. No written reports were however prepared by this officer during the year under review.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Amounts payable through Form A (an adjustment form) calculated by the Salaries Section are not verified for correctness by Treasury;
- No verification is being evidenced by the Salaries Section of the Department on any adjustments made on the payroll by the Treasury;
- The salary of an officer who was transferred to another Department in 2002 is still being issued from this Department since no official transfer has yet been issued by MPO;
- Ration money allowance is paid to various nursing grades in order to compensate for their free meal entitlement during night shifts. The allowance is calculated at the rate of Lm0.17c4 per night shift worked and is

paid as a non taxable allowance. The document/agreement which regulates the conditions for payment of this allowance was not made available;

- Six overpayments and three underpayments resulted from tests carried out. These inaccuracies are mainly due to lack of internal controls and non-adherence to guidelines given by the Treasury .

### Compliance Issues

#### *Overtime*

Overtime hours are only approved by the Director after the actual overtime is worked. No approval is being requested from the Permanent Secretary.

In the case of the Mtarfa and Floriana Homes, certified extracts of attendance registers are not sent with payment requests to the Salaries Section.

#### *Attendance Sheets*

Employees at Centru Hidma Socjali can register their attendance up to forty five minutes after official opening hours. Deductions for late arrivals could not be evidenced.

#### *Officer on Reduced Hours*

An officer who was availing herself of Responsibility Leave commenced work on full-time basis on 19 May. She then opted to work on a seventy-five per cent (75%) reduced working hour schedule with effect from 1 October.

#### *Qualification Allowance*

Approval for a Qualification Allowance of Lm300 per annum paid since 1998 for a Masters Degree could not be evidenced.

### Recommendations

#### *Key Issues*

##### *Part-Time Social Assistants (PTSAs)*

Salaries should be cross checked for correctness by another official within the

salaries section. PTSAs should not be paid before the schedule of hours worked is received by the Department. Furthermore, a record sheet is to be kept for each officer to improve audit trail. This sheet should contain details of any adjustments made.

The administration of the Home Help Care Service needs to compile and regularly update a database. This database should contain details of each individual benefiting from the service together with the number of hours assigned. Such database would be accessed by the responsible officer to check whether the number of hours claimed by each PTSA do not exceed those assigned.

#### *Officer in Charge Home Help Care Service*

The duties which the officer was intended to perform and the relative conditions should be established in writing by the Department and communicated to him.

#### *Control Issues*

- Any amounts reported for payment through Form A are to be verified by the Treasury before being recorded in the payroll system;
- Verification of the payroll should be evidenced. This will ensure that all adjustments are recorded in the final payroll run;
- The Department should request the official transfer documentation from MPO and inform the Treasury to effect the necessary transfer adjustments on the PAYPER system;
- The document/agreement which regulates the conditions for payment of the ration money allowance should be made available to NAO;
- The internal controls of the payroll system should be reviewed. All salary adjustments should be calculated and verified by two different officers at the Salaries Section prior to being effected. This will minimise the risk of error. Overpayments and underpayments highlighted during the audit are to be settled.

### Compliance Issues

#### Overtime

Management should enforce more control over overtime by ensuring that requests are approved prior to overtime being worked in accordance with the PSMC.

Any payment of overtime should be substantiated by extracts of the relevant attendance sheets and approved requests.

#### Attendance Sheets

Attendance registers are to be withdrawn immediately after normal opening hours. Late arrivals are to be treated in line with the relevant provisions of the PSMC.

#### Officer on Reduced Hours

Public officers who resume work on the summer time-table on full pay should not be allowed to work on reduced hours immediately following the termination of the summer time-table as per MPO Circular No. 15/2004.

#### Qualification Allowance

Payment of qualification allowances should only be effected after being approved by the respective Director Corporate Services or Director Finance and Administration on presentation of certificate in accordance to the PSMC.

### Management Comments

Management introduced a new computerised system which is expected to

improve the administration of the Home Help Care service. Action has already been taken to check PTSA's hours worked so as to ensure that salaries are computed correctly.

The comments submitted by management with respect to Errors in Payroll and Ration Money were not considered satisfactory. Although the introduction of the new payroll system will improve the payroll process, this will not eliminate the possibility of errors where payroll necessitates adjustments and thus human intervention is required. Furthermore, although information regarding free meals entitlement to various grades was submitted, a document/agreement which regulates the conditions for payment of ration money allowance was not made available to NAO.

The weakness relating to Attendance Sheets was not accepted by the Department. The Director stated that some employees are on reduced working hours and so they report for work at different times of the day. NAO is still of the opinion that, had the Department adhered to the provisions of the Public Service Management Code, there would be instances where pay would have been deducted for lateness. No such evidence was made available.

Other management comments submitted to NAO were deemed satisfactory.



**Ministry for Transport and Communications**

## Private Secretariat - Salaries Audit 2004

### Background

The aim of the Ministry is to address the upgrading of Malta's land transport infrastructure and the facilitation of capital projects undertaken by the Government directly or in partnership with the private sector.

Ministers are entitled to engage a number of officers in their Secretariats. The "Engagement of Staff for Ministers' Secretariats" guidelines, issued on 12 May 2003 and last updated on 18 March 2004, delineates a standard organisational set-up for Ministers' Secretariats and establishes appropriate staffing levels while defining the conditions of employment.

Key roles considered essential for the effective operations of a Secretariat are also highlighted in this document.

### Key Issues

#### *Documents and Attendance Sheets not forwarded*

- Verification of the variable overtime allowances during one (1) month in 2004 could not be fully carried out, since documents and attendance sheets supporting the overtime performed during the preceding month and the first working day of the month under review were not forwarded to this Office.
- Covering Letter and Appendices to the contract of employment of one (1) Private Secretariat Officer were not made available.

#### *Irregularities in Overtime Allowance Payments*

##### *Officers paid for Overtime performed not in excess of forty-seven (47) hours*

Private Secretariat Officers are only entitled for overtime when working in excess of forty seven (47) hours overtime in any given period of four (4) weeks. During the year 2004, they were collectively paid Lm775 for overtime not exceeding the stipulated threshold of forty seven (47) hours. Furthermore, these Officers did not have enough overtime hours carried forward from previous months to be entitled to the additional allowance. (Para 3.4.1. of the guidelines refers)

##### *Officers not paid for Overtime performed in excess of forty-seven (47) hours*

Two (2) newly engaged employees were not paid for overtime performed during their first payment period, even though overtime performed exceeded forty-seven (47) hours.

##### *Failure to take Appropriate Action in respect of Late Arrivals*

An employee repeatedly reported late for work during the period March up to mid May 2004 without having:

- any deductions made as required; and
- reasons recorded in the attendance sheets to cover the employee's absence from work.

<sup>1</sup> as per correspondence sent by Senior Officer in charge Private Secretariat's attendance sheets addressed to Officer in charge Salaries.

## Control Issues

Opportunities for improvement were identified in the following areas:

### *Inadequate Control over Attendance Sheets*

- A Senior Officer certified Attendance Sheets even on days when on sick or vacation leave and certified time-out of staff even when not present on the premises.
- Times of arrival and/or departure not registered and/or illegible.
- Overwriting in registered time-in and time-out making it impossible to ascertain overtime calculations.
- Certain registered time-in and time-out of different officers bearing similar caligraphy.

## Compliance Issues

### *Documentation covering Procedures for the Engagement of Secretariat Staff not completed as required*

Out of the twenty-four (24) employees, including terminated officers, engaged with the Private Secretariat during 2004:

- the contents in the Secretariat Agreement or appendices attached in respect of four (4) officers did not correspond to the relative contents as detailed in the "Engagement of Staff for Ministers' Secretariats" guidelines; and
- no Appendix Number was specified for another five (5) employees.

This may give rise to lack of supervision over the administrative work of the Ministry's section responsible to issue contracts of employment.

## Recommendations

### *Key Issues*

#### *Irregularities in Overtime Allowance Payments*

- The Private Secretariat should recover amounts paid out on overtime which is not due.

- The Private Secretariat should adopt attendance verification systems as detailed in the PSMC, to calculate and control overtime hours performed.
- No authorisation for overtime payment should be given unless such overtime is properly evidenced.
- The Private Secretariat should regularise its position by issuing the appropriate payment arrears to the two (2) officers concerned.

### *Failure to take Appropriate Action in respect of Late Arrivals*

In order to control work attendances, the Private Secretariat should strive to:

- draw immediately the attention of late comers, especially when no valid explanation is given; and
- rigorously apply the relevant provisions of the PSMC detailing deduction of unauthorised absences and temporary absence system, among other things.

### *Control Issues*

#### *Irregularities in Attendance Sheets' Monitoring and Compilation*

- During the absence of the Senior Officer, the attendance registers should be certified correct by top management of the Private Secretariat.
- No overtime payment is to be made if details on attendance sheets are not complete and/or are illegible.
- Prior to being certified correct, attendance sheets are to be thoroughly inspected as required by the PSMC.
- Attendance sheets should be reviewed for apparent same caligraphy for different signatories.

### *Compliance Issues*

#### *Documentation covering Procedures for the Engagement of Secretariat Staff not completed as required*

The Ministry should ensure that documents required for engaging members

of staff with the Private Secretariat are fully completed as stipulated in the guidelines.

### **Management Comments**

Management agreed with most of our recommendations and action was taken accordingly. It further remarked that:

- the change from the Ministry for Youth and the Arts to the present Ministry entailed a physical move from Cavalier House to the House of the Four Winds;
- the measures recommended to recoup the amounts overpaid be reconsidered in view of the fact that a number of employees have terminated their engagement with the Private Secretariat; and
- the Senior Officer always consulted with the Head of Secretariat, top management or the Minister prior to certifying attendance sheets when said officer was on leave or when officer left office prior to staff who stayed on to attend to the Minister's needs.

## Mobile Phones' Expenditure Audit

### Background

The Ministry for Competitiveness and Communications (**the Ministry**), formerly the Ministry for Transport and Communications is the national entity responsible for Competitiveness and Communications. The portfolio of the Ministry includes, amongst others, the small Business and Self-Employed, under the direct responsibility of a Parliamentary Secretary. This Ministry is primarily charged with the formulation and implementation of policy in these areas with the aim of ensuring that the country maintains and improves upon its performance.

The audit focused on compliance by the Ministry - including staff of Private Secretariats of both the Ministry and the Parliamentary Secretary benefiting from a mobile phone - with the provisions of MF Circular No. 4/2002 (the regulatory framework for the use of mobile phones in the Public Service). This Circular, besides setting the annual maximum expenditure allowed to Public Officers entitled to the use of a mobile phone, regulates issues as authorisation for purchase, itemised billing and overseas calls.

### Key Issues

#### *Cost and Features of Mobile Phones not established in Regulations*

The Regulations governing the use of mobile phones by Public Officers and by staff of Private Secretariats do not state the cost and the features of mobile phones that may be purchased for the use of Government employees on official business.

Employees make their own decisions as to the supplier and type of model to be purchased without obtaining any quotations. This results in purchases being made of the more expensive mobile phones with features not directly related to the nature of their duties.

#### *Lack of Control over Bills*

- The Ministry paid for Local and International Internet Access and Multimedia Messaging Service (**MMS**) charges. These services are outside the scope of Circular No. 4/2002. There is the risk that use may be made of other non-work-related mobile facilities and claim refund thereof from public funds.
- The Ministry could not verify if amounts charged for overseas calls and Short Messaging Service (**SMS**), made under International and Roaming facilities were on official business or otherwise since invoices issued by the Wireless Telecommunication and Information Provider (**WTIP**) did not include itemised billing as required by MF Circular No. 4/2002.

### Control Issues

Opportunities for improvement were identified in the following areas:

#### *Drivers Benefiting from Lm10 E-Talk Cards on a Monthly Basis*

Four (4) motor vehicle drivers were being issued on a monthly basis, with a Lm10 E-Talk card each, in order to top up their private mobile phones. It was later agreed

that two (2) of the drivers would be issued with one (1) Lm5 E-Talk card every quarter while the other two (2) drivers would receive one (1) Lm5 top-up card every two (2) months.

### *Weak Controls over Private Secretariat Bills*

The Ministry of Finance and Economic Affairs (**MFEA**) confirmed that the annual limit of Lm350 in respect of mobile phones' expenditure, as established in MF Circular No. 4/2002, does not apply to the Personal Assistants and the Private Secretaries to Ministers.

### **Compliance Issues**

#### *Retention of Mobile Phones*

- It was noted that two (2) employees purchased new mobile phones only months prior to leaving the service, contrary to the provisions of MF Circular No. 3/2001.
- The Retention Charge paid by an Officer was not in accordance with the provisions of MF Circular No. 3/2001.

#### *Lost Mobile Phone*

An employee was furnished with two (2) mobile phones within a short period of time. One (1) phone was purchased during January 2005. A second phone was purchased during May 2005, to replace the former one which the Officer stated he had lost, without having to provide further justifiable reasons.

#### *Irregularities in the Inventory Database*

The Inventory Database in respect of mobile phones is not fully in compliance with the standing regulations outlined in MF Circular No. 14/99. The following irregularities were noted:

- The Database lacked relevant information, which could limit Management in the extent of control that can be exerted, thereby increasing the

risk of non-compliance with the Inventory Control Regulations.

- Missing and inaccurate information recorded in Inventory Database and / or list forwarded to NAO.

### **Recommendations**

#### *Key Issues*

##### **Cost and Features of Mobile Phones not established in Regulations**

Amendment to the use of mobile phones regulations is recommended. MFEA is to provide direction in indicating:

- the maximum amount to be spent on purchases of new mobile phones;
- the specifications and features of the new mobile phones; and
- entitlement of employees to Internet Access, MMS and any other charges.

Quotations are to be obtained prior to the purchase of new mobile phones. Otherwise, the Permanent Secretary's written authorisation should be obtained to approve the purchase.

##### **Lack of Control over Bills**

- Cost of services not covered should be recovered from user within a stipulated time.
- An itemised bill for every mobile phone number is to be obtained to identify calls that are not work-related.
- Exercise of effective controls over international calls.

#### *Control Issues*

##### **Drivers Benefiting from Lm10 E-Talk Cards on a Monthly Basis**

Although the Ministry has taken effective action to minimise this expenditure, it should seek advice and approval from OPM before it continues issuing any E-Talk cards to the four (4) drivers. Otherwise, it should stop this practice immediately. After obtaining

such approval, the Ministry should issue relative concession in writing.

### Weak Controls over Private Secretariat Bills

In order to exercise further controls over the expenditure on mobile phones used by staff in the Private Secretariat, the Ministry should:

- ensure that private international calls, General Package Radio Services (**GPRSs**) and MMSs are refunded by the beneficiary; and
- ensure that bills issued by the WTIP are approved for payment at the proper level of authority.

### Compliance Issues

#### Retention of Mobile Phones

- The Officer responsible for the granting of permission for the purchase of new mobile phones, should seek to analyse the request having regard to the need and duties of the Officer concerned.
- The Ministry should ensure the correctness of the Retention Charge

charged to the Officer, as laid down in Circular Nos. MF 3/2001 and OPM 4068/98.

#### Lost Mobile Phone

MFEA should establish a clear policy for lost mobile phones.

#### Irregularities in the Inventory Database

The Ministry should take on charge in the Inventory Database all government owned mobile phones and ensure reliability of all information entered into the Inventory Database. Detailed information should be recorded in the Database to ensure completeness of data and to facilitate ease of reference. Furthermore, the *'Lists of Inventory Items'* submitted to the National Audit Office should be complete in all material respects.

### Management Comments

Both the Ministry of Finance (Finance Initiatives) and the Ministry for Competitiveness and Communications agreed with the findings and initiated, or are in the process of initiating, remedial action in line with the recommendations.



**Ministry for Justice and Home Affairs**

## Police Department - Arrears of Revenue

### Background

Arrears of revenue due to the Police Department amounting to Lm221,816, are made up of outstanding fees in respect of services rendered to third parties and those relating to the collection of Weapons Licences.

### Key Issues

#### *Recoverability of Balances Due*

The Weapons System at Police Headquarters does not have the basic reporting facilities, such as the extraction of ageing of debtor balances. Due to this limitation a report on the aged analysis of a sample of material balances was carried out. It resulted that forty five per cent (45%) of the balances had been overdue for a period of ten to nineteen years, thirty per cent (30%) twenty to thirty years, and twenty five per cent (25%) over thirty years.

#### *Records Maintained*

No evidence of the enforcement notices sent to defaulters was made available. No documentation is maintained by either the Weapons Section or the respective Police Stations.

The reporting function in the Weapons System does not cater for extracting statistics on notices to pay issued.

### Control Issues

Opportunities for improvement were identified in the following area:

- Discrepancies in the calculation of administrative fees charged for services rendered to third parties.

### Compliance Issue

#### *Lack of Details*

A considerable lack of necessary details on the return of arrears of services to third parties was observed, rendering it difficult to ascertain the correctness of balances due against invoices issued.

### Recommendations

#### *Key Issues*

##### *Recoverability of Balances Due*

It is recommended that adequate and timely action is taken to trace the owners of weapons. Where deemed inevitable, the necessary authority is to be sought in order to write off balances long outstanding and/or time barred.

Full details of weapons and the respective owner should henceforth be kept.

##### *Records Maintained*

Adequate procedures are to be adopted to ensure that a standard system is undertaken by all Police Stations when following up amounts due.

The Department should also consider the enhancement of the Weapons System to keep track of all enforcement action taken.

#### *Control Issues*

Appropriate internal controls are to be introduced where calculations of administrative fees are verified by a distinct officer. The Department is to consider also the automation of the calculation of fees.

*Compliance Issue*

**Lack of Details**

The return of arrears of revenue should include a breakdown of the relevant details. This procedure facilitates the verification of the balances shown in the return and the relevant movements occurring during the year.

**Management Comments**

Management failed to reply to our report.

## Local Councils

### Background

The Local Councils Act of 1993 requires that the audit of the Local Councils' financial statements is carried out on behalf of the Auditor General by private audit firms. Eight firms were appointed as Local Government Auditors following the issue of a new call for application during 2004.

The financial statements covered the year ending 31 March 2005 during which the Government allocated Lm10.14m (2003-Lm10.18m) to Local Councils.

Audit reports and financial statements of each of the sixty-eight Local Councils were to be submitted by not later than 30 June 2005.

The Government allocated Lm30,000 (2003- Lm27,000) to the Local Councils' Association. The audit of the Association was carried out by a private audit firm appointed in terms of Part V1, section 36 of the Local Councils (Association) (Amendment) Regulations, 1999. The audit report had to be submitted by not later than twelve weeks from the end of the financial year ending December 31, 2004.

### Key Issues

#### *Qualified Reports*

Only seven Local Councils had unqualified reports. Sixty one (90 per cent) audit reports were qualified for the following concerns:

1. Local enforcement system and failure by the joint committee to provide timely audited accounts;
2. Omission of budget figures;

3. Incorrect accounting treatments/disclosures or non-compliance with International Financial Reporting Standards (IFRSs);
4. Fixed assets incorrectly accounted for and register not in agreement with corresponding values in the financial statements;
5. Shortage of liquid funds/Financial Situation Indicator (FSI)<sup>1</sup> less than five per cent/Deficit in the income and expenditure account;
6. Balance sheet amounts could not be verified or were incorrectly recorded;
7. Going concern and its dependency on the annual financial allocation by central Government.

Appendix A lists the Councils which had qualified reports and the respective qualifications.

#### *Income and Expenditure Account*

There were ten Councils which registered a deficit for the year. Table 1 presents the Councils in question, the deficit for the year under review and the corresponding figures for the previous year.

Six Councils which registered a deficit for the year ending 31 March 2004 rectified their financial situation and reported a surplus this year. These were Mdina, Ghaxaq, Kercem, Pembroke, San Giljan and Swieqi.

<sup>1</sup> FSI is defined by Local Councils' Financial Regulations as the difference between the total of all current assets and the total of all current and long term liabilities for the current and subsequent financial years, excluding any long-term commitments approved by the Minister in terms of the Act

Table 1: Income and Expenditure Account

Local Council	2004-2005 <i>Lm</i>	2003-2004 <i>Lm</i>
Zebbug	(34,417)	46,699
Balzan	(12,273)	(13,860)
Iklin	(4,874)	8,571
Kalkara	(6,434)	(62)
Mgarr	(16,262)	9,098
Mqabba	(5,222)	12,602
Nadur	(8,233)	10,037
Santa Lucija	(7,848)	3,368
Santa Venera	(12,475)	(24,578)
Ta' Xbiex	(4,689)	8,491

Table 2: Working Capital

Local Council	2004-2005 <i>Lm</i>	2003-2004 <i>Lm</i>
<b>Zebbug</b>	<b>(199,593)</b>	<b>69,688</b>
Siggiewi	(5,271)	3,959
Dingli	(14,749)	5,190
Kercem	(4,027)	3,949
Mqabba	(8,122)	4,280
Nadur	(20,183)	28,379
Swieqi	(2,556)	(14,342)
Xaghra	(187)	35,035
Xewkija	(15,400)	(2,254)

### Working Capital

Nine Local Councils recorded a negative working capital<sup>2</sup>. Table 2 lists these Councils, the working capital for the year under review and the corresponding figures for the previous year.

The excessive negative working capital registered by Zebbug Local Council was due

<sup>2</sup> Working capital is defined as current assets less current liabilities

to capital expenditure of Lm188,380 for the year. Capital commitments amounting to Lm171,049 were contracted but not provided for in the financial statements.

Five Councils which recorded a negative working capital balance for the year ending 31 March 2004 improved their financial position and this year registered a positive working capital. These were Birgu, Rabat (Gozo), Ghasri, Pembroke and San Pawl il-Bahar.

*Financial Situation Indicator*

Thirteen Local Councils registered a Financial Situation Indicator (FSI) below the five per cent benchmark set out in Regulation 4(c) of LN 155 of 1993 - Local Councils Financial Regulations 1993, as amended by Section 2 of LN 320 of 2003 - Local Councils (Financial) (Amendment) Regulations, 2002. These are shown in the table hereunder:

Local Council	Government Allocation <i>Lm</i>	Current assets- liabilities <i>Lm</i>	Financial Situation Indicator %
Zebbug	222,944	(199,593)	(89.52)
Siggiewi*	240,708	(5,271)	(2.19)
Rabat (G)	156,177	7,063	4.52
Dingli*	105,869	(14,749)	(13.93)
Kalkara	82,255	1,662	2.02
Kercem*	82,824	(4,027)	(4.86)
Marsa	154,512	3,624	2.34
Mosta	322,920	6,277	1.94
Mqabba*	79,638	(8,122)	(10.19)
Nadur	135,411	(20,183)	(14.90)
Swieqi	159,022	(2,556)	(1.60)
Xaghra*	157,622	(187)	(0.10)
Xewkija	102,574	(15,400)	(15.00)

e) No bye-law issued for the generation and collection of income;

f) No receipts issued when income is collected from social activities;

g) Lack of control and monitoring of expenditure with budgeted projections;

**Control Issues**

Local Government Auditors identified opportunities for improving controls in a number of areas:

a) Insufficient audit trail in the recording of income;

b) Inadequate stock control system;

c) Receipts not pre-printed, not pre-numbered and not in triplicate;

d) Multiple receipt booklets used concurrently for different sources of income;

\*Although these councils are exempt by the Minister from maintaining a FSI of 5 per cent, they have been included in the list because they registered a negative FSI.

h) Donations and sponsorships given in contravention to Local Councils' Legislation;

i) Allowances given to councilors and executive secretaries for the use of mobile phones and personal transport.

*Community and Hospitality Expenditure*

Twenty one Local Councils were deemed to have incurred excessive expenditure relating to community and hospitality. The following table lists these councils, the amount spent for the year and the corresponding percentage of the annual allocation:

Local Council	Lm	% of annual allocation
Isla	27,940	33
Qormi	16,501	5
Zejtun	19,229	8
Birzebbuga	9,554	5
Ghajnsielem	10,857	11
Kalkara	5,722	7
Luqa	5,862	5
Marsa	7,591	5
Marsaxlokk	5,337	5
Mosta	18,436	6
Nadur	36,472	27
Qala	4,802	5
Safi	9,534	12
San Giljan	10,054	5
Sannat	8,757	13
Santa Lucija	5,944	6
Sliema	35,402	12
Ta' Xbiex	4,865	7
Xewkija	13,652	13
Zebbug (G)	8,447	6
Zurrieq	10,508	5

Revenue generated from these activities by Qormi, Zejtun, Birzebbugia and Nadur amounted to Lm2,707, Lm7,870, Lm3,358 and Lm3,861 respectively.

## Compliance Issues

### *Audit Report and Financial Statements*

Fifty-eight reports were delivered by 30 June 2005 while the other ten did not meet the deadline.

### *Management Letters*

Management letters highlighted a number of audit findings and relative recommendations. Fifty-seven Local Councils sent a response to the management letter as required by Section 7, sub-sections (3) and (4) of Legal Notice 156 of 1993- Local Councils (Audit) Regulations, 1993. The other Local Councils failed to submit a reply.

The following are the areas of concern which were encountered most frequently in the management letters:

1. Fixed Assets
2. Local Enforcement System
3. Bank/Cash
4. Accounting
5. Tenders/ Contracts/Quotations
6. Invoices
7. Salaries
8. Creditors

Appendix B lists the councils which encountered the above mentioned weaknesses and the frequency of their occurrence.

A summary of the material weaknesses noted above are listed hereunder:

### *Fixed Assets*

- a) No fixed asset register is kept or maintained on the Council's accounting software;
- b) Fixed assets register is incomplete and lacks necessary details to identify the assets;
- c) Obsolete items, items beyond repair or low value items included in the register;
- d) Assets not appropriately tagged and cross-referenced to the asset register;
- e) Discrepancies between the nominal ledger and the fixed asset register;

- f) Items with a depreciation rate of hundred per cent, not written off within the same financial year;
  - g) Capitalisation of expenditure not in accordance with International Accounting Standard 16, relating to Property, Plant and Equipment;
  - h) Incorrect classification of capital expenditure;
  - i) Provision for depreciation not calculated and recorded on a monthly basis;
  - j) Assets expensed instead of capitalised.
- b) Cash not receipted with an official Council receipt;
  - c) Cash sheet not prepared when effecting deposits, with the result that individual receipts could not be reconciled with deposits;
  - d) Bank reconciliation not prepared on a monthly basis;
  - e) Errors identified in bank reconciliation;
  - f) Stale cheques not written off.

#### *Local Enforcement System (LES)*

- a) Contraventions over one year old still outstanding to the extent that some amounts risk getting statute barred;
- b) Income/debtors could not be verified;
- c) Debtors doubtful of recovery and/or no provision for doubtful debts;
- d) Unidentified deposits in respect of contraventions;
- e) Joint Committee audit reports submitted late;
- f) Incorrect amount of income/debtors in the financial statements;
- g) Debtors disclosed in the financial statements not reconciled with LES reports;
- h) Excessive delays in cash remittance from fines paid at the Licensing and Testing Department;
- i) LES income received from the Licensing and Testing Department or other Local Councils could not be reconciled to Datatrak<sup>1</sup> reports due to lack of information submitted by the banks.

#### *Bank/Cash*

- a) Cash not deposited daily or twice weekly;

<sup>1</sup> Datatrak is the service provider which provides the service and support requirements of the LES system. It is a body responsible for the overall operation of the LES system and provides the technical infrastructure and support to sustain the process management.

#### *Accounting*

- a) Transactions not accounted for or not accounted for correctly;
- b) Accounting not in accordance to International Financial Reporting Standards and/or Local Councils' legislation;
- c) Wrong classification of income;
- d) Incorrect calculations of accruals and prepayments;
- e) Receipts not recorded separately in the accounts but in batch total when deposited;
- f) Adjustments effected by auditors at year end to correct discrepancies in balances.

#### *Tenders/Contracts/Quotations*

- a) Council making use of expired/invalid contract;
- b) Executive secretary and two councillors not signing the schedule of tenders;
- c) Performance guarantee invalid, not available or incorrectly stated;
- d) Closing date for tender less than one month from date of publication;
- e) Tender not awarded to the cheapest bidder;
- f) Works not certified by a contract manager;
- g) Quotations requested instead of tenders

for purchases/services exceeding Lm2,000;

- h) Management fee incorrectly deducted or not deducted at all;
- i) Expenditure made by direct order without obtaining three quotations or through the issue of a call for tender.

### Invoices

- a) Payments not supported by a fiscal receipt or tax invoice;
- b) Receipts/invoices not drawn up in the Council's name;
- c) Council being charged VAT by exempt individuals;
- d) Invoices lacking detail of supplies/services.

### Salaries

- a) FSS forms not submitted by due date;
- b) Discrepancy between the year end settlement (FSS) forms, payroll records and financial statements;
- c) Performance appraisal not prepared in line with Local Councils' regulations;
- d) Contract of employees not available;
- e) Prior approval for the payment of overtime not available;
- f) Payroll costs incorrectly classified;
- g) Mayor's honoraria incorrectly calculated and declared in the FSS returns.

### Creditors

- a) Invoices not accounted for by the Council;
- b) Creditors list not presented at Council meetings for approval;
- c) Supplier statements not available or not reconciled to Council's records;
- d) Amounts in dispute with suppliers, and amounts being long overdue.

### Other concerns

A number of concerns occurred individually in different councils and their materiality was deemed serious enough to warrant separate mention. The following are the concerns and the Councils' comments, if any, relative to each:

#### Attard

- Air travel tickets for the mayor's wife, a cleric and person in commerce were paid out of the Council's funds.

*The Council feels that the least it could do was to pay the traveling expenses for any inconvenience caused to the individuals in question.*

#### Birgu

- A contractor was allowed to change the rates quoted in his tender document in the process of adjudication due to "mistakes" made by the same contractor. This contravenes the tendering procedures and would have made the offer null and void.

*All comments were noted and the Executive Secretary will ensure that the tender procedures are strictly followed in the future.*

- The Council accepted a change in contracted rates for the upkeep of "soft areas" from Lm1,105 to Lm5,000 per annum by means of an e-mail.

*A new call for tender for the Upkeep and Maintenance of Soft Areas has now been made.*

#### Ghasri

- Tender fees received in November 2004 were neither accounted for nor deposited at the bank as at audit date but were kept in a drawer of the executive secretary's desk.

*The Council did not submit any reply.*

#### Kirkop

- Expenses were incurred in connection with the repairs and upkeep of the local "Bocci" club premises and the reception

held on the inauguration of the same premises.

*The Council is aware of the situation with the Social Club (ex Bocci Club) and has agreed to take measures to start the process for the devolution of the premises.*

- The Council is paying Lm60 per month for a professional PE coach engaged by Kirkop United FC.

*The Council in collaboration with Kirkop United Football Club are working together to provide professional coaching to 120 children in the football nursery.*

- A road resurfacing contract with an estimated cost of Lm74,500 ended up costing Lm95,512. No advance approval was obtained from the Council for variations authorised by the Council's architect.

*These works were discussed and approved in a Council meeting but according to the Mayor the Council minutes were not always written in an objective way.*

#### Nadur

- Thirty one invoices, amounting to Lm21,003 for services and works carried out, were not included in the financial statements. The deficit of Lm8,233 reported by Nadur excluded the above invoices.

*Both Mayor and Secretary will be more vigilant with regards to the accounting for creditors.*

- Expenditure incurred by the Council for the supply and laying of artificial turf at the Boys' Museum football premises and Nadur Youngsters Football Club amounted to Lm7,121 and Lm16,887 respectively.

*The Council is responsible for the football grounds' maintenance and has purchased this material in collaboration with Nadur Youngsters F.C. and the Ministry for Gozo.*

#### Paola

- Ten full time employees and one part time employee are employed within the

Council. According to article 53(1) of the Local Councils Act 1993 the Council is approximately overstaffed by 6 employees.

*This has been unanimously decided by the Council.*

- The Council financed a Lm10,000 project for the construction of a synthetic football pitch. The legal title of the football pitch is in the name of A.S. Hibernians Ltd.

*This decision has been unanimously agreed by the Council in view of the cost required to construct and run three five-a-side artificial turf pitches. The Council sees this partnership agreement as very advantageous to the community and is entitled to use the ground for forty-five days per annum, over a period of ten years.*

#### Pieta'

- Overtime of Lm 80 monthly was paid to the Executive Secretary for extra work carried out in relation to QMS ISO 9001:2000. No approval was granted from the Local Councils' Department.

*Pieta' Local Council is the only Local Council in Malta to have a Quality Management System which complies with BS EN ISO 9001:2000. The service is not within the Executive Secretary's regular functions and is performed outside normal office hours.*

#### Qrendi

- Environmental landscape consortium contracted for the upkeep of parks and gardens was given an increase of Lm2,500 per annum in its contracted rates without the issue of a new tender.

*The consortium has taken over the works and services that used to be carried out by the Agriculture Department. The renewal of this contract was subject to the Government Regulator.*

#### Rabat (Gozo)

- A number of invoices amounting in total to Lm10,923 for services and works

carried out were not included in the financial statements. The surplus of Lm29,612 in the Income and Expenditure account and the working capital of Lm7,063 reported by Rabat excluded the effect of these invoices.

*Next year the Council will take the necessary steps to verify in greater detail the amounts to be included in the financial statements.*

### Santa Lucija

- A fax machine was purchased for each councilor to be kept by them throughout the duration of their term.

*It is the Council's policy to supply an ordinary fax machine to each new Councilor so as to make communication more efficient. At the end of their term as Councilors, the Council found no point in asking them to return the fax machine as by that time the equipment had become almost obsolete.*

- Internet services were provided to Councilors.

*The Council also considers the internet service provided to Councilors as an efficient way to communicate all matters directly related to their responsibilities.*

### San Giljan

- Councilors and employees were reimbursed more than Lm2,000 in phone calls and fuel but no details on mileage logging and call tracking were being kept in the reimbursement claim form.

*The Council feels that the Councilors and the Executive Secretary are responsible enough to submit a fair claim.*

### San Pawl il-Bahar

- Council hires a motor vehicle throughout the year. However it was noted that the vehicle is not parked near the Council offices during non-office hours.

*The hire of a motor vehicle was approved during a Council meeting due to the extensive area of the locality which is beyond*

*reach unless a vehicle is used. The Council opens also on Saturdays and the Mayor is in charge for seven days a week. The Council also remarked that the vehicle was always parked near the Council offices and is used by the Council staff and Councilors for the purpose of carrying out their official duties.*

### Sannat

- A total amount of Lm300 was paid to the executive secretary as qualification allowance for 2003 and 2004. This qualification relates to hotel, catering and institutional management (Institute of Tourism Studies). No approval has yet been granted by the Local Councils Department.

*A request for refund was made because the Council found out that these allowances were not due.*

### Valletta

- Lm2,600 were re-imbursed for telephone costs to councilors. No appropriate claim forms with the necessary details were prepared;
- Council hires a motor vehicle throughout the year. However it was noted that the vehicle is not parked near the Council offices during non-office hours.

*The Council did not submit any reply.*

### Local Councils' Association

The following points emerged from the management letter:

- Fixed assets register is not being updated;
- The Association receives payments electronically in a bank account on behalf of Local Councils. Due to lack of information received from the bank, no proper reconciliation was prepared between the Datatrak report and the bank account. At year end the association is reporting a balance of Lm6,382 still due to the Councils while Datatrak report is stating Lm6,693;
- A tender has been adjudicated but the contract was not signed by both parties;

- The schedule of tenders was not signed by two members of the Association;
- No formal office rental agreement is present between the Association and the owners of the premises. The issue has been the cause of litigation and the rent has been outstanding for the past 2 years;
- A total cost of Lm2,533 was incurred on mobile phones by three members of the Committee without authorisation from the Director of Local Councils;
- The Association holds a Visa credit card in the name of the President of the Local Councils' Association, on which the credit limit was increased from Lm1,000 to Lm2,000. No approval by the Director of Local Councils was obtained for the use of this card and for the extension of the credit limit.

### *Special Report*

A special report compiled by the Local Government Auditors, in collaboration with the Executive Secretaries of each Local Council, concluded that services provided by the accountants appointed by the Councils were not always up to standard. Such statement was also backed by a number of adjustments made by the same auditors at year end to adjust entries posted by accountants. In particular it was noted that only forty three per cent (43%) of accountants engaged with the Local Councils have an accountancy qualification.

Local Councils are being advised to ensure that the services and qualifications of the accountants engaged within the relative council are adequate to meet their financial reporting obligations in accordance with the Local Councils' legislation.

### *Department of Local Councils*

NAO has been advising the Department to effect various amendments to the Local Councils Act, Regulations and Procedures. The Department was in agreement with these proposals. However, due to lack of resources, it was unable to carry out the legal procedures to effect these changes.

The drawing up of Performance Indicators would enable NAO to carry out the Value for Money Audits as required by law. Furthermore, the removal of the requirement to include the budget figures in the financial statements will eliminate the need for auditors to qualify reports due to the omission of the budget figures.

Management letters should be followed up by the Local Councils' Department Support Unit to ensure that recommendations made by auditors are taken up and weaknesses satisfactorily resolved by the respective Councils.

Unfortunately, at times the Department is only aware of certain weaknesses after the end of the financial year when it is too late to take corrective measures. The supervision carried out by the Support Unit should be continuous to ensure that irregular practices are curtailed on time. This will keep the Department knowledgeable of current practices and procedures in the different Local Councils.

### **Opinion**

A considerable number of Local Councils have again registered various weaknesses with respect to the accounting of the Local Enforcement System (LES). These shortcomings mainly relate to the absence of audited Joint Committees' accounts. Local Government Auditors could thus not place any reliance on the correctness of LES income reported by each Council. Joint Committees are being advised to request that their financial statements are audited in time to ensure the correctness of LES income relative to each Council.

During the year the compliance rate with financial regulations continued to deteriorate. Previous years' shortcomings were reiterated in this year's management letters. Furthermore, excessive expenditure being incurred is not deemed necessary for the efficient running of the Councils. The expenditure that is being highlighted in various instances in this report include, *inter alia*, expenses relating to the payment of mobile phone calls, fuel allowances, community, hospitality and social events.

## Appendix A - Qualified Reports

Council	1*	2*	3*	4*	5*	6*	7*
Attard	x	x	x	x			
Balzan	x						
B'Kara	x			x			
Birgu	x						
Birzebbugia		x	x	x			
Bormla		x	x	x			x
Fontana	x						
Fgura	x	x	x				
Gharb	x	x					
Gharghur	x			x			
Ghasri	x	x			x		
Ghaxaq		x					
Gudja		x					
Gzira	x			x			
Hamrun	x						
Isla	x	x	x	x			
Kalkara			x		x		
Kercem					x		
Kirkop	x						
Lija	x						
Luqa		x					
Mdina	x	x					
Marsa		x					x
Marsaskala		x		x			
Marsaxlokk		x					
Mellieha	x	x					
Mosta	x		x	x		x	x
Munxar	x	x					
Mqabba		x			x		
Msida	x	x		x			
Nadur					x		
Naxxar	x			x			

\* For headings refer to Page 90

Appendix A - Qualified Reports (continued)

Council	1*	2*	3*	4*	5*	6*	7*
Paola	x	x	x	x		x	x
Pieta'		x			x		
Rabat			x				
Rabat (G)	x	x	x			x	x
Safi		x			x		
San Giljan	x	x	x				
San Gwann	x	x	x	x			
San Lawrenz	x	x					
San Pawl il-Bahar	x	x	x	x		x	x
Santa Venera	x	x					
Siggiewi			x				
Sliema	x						
Pembroke	x						
Qala	x	x					
Qormi		x					
Qrendi	x		x				
Santa Lucija	x						
Sannat	x	x					
Swieqi	x						
Tarxien	x						
Valletta	x	x				x	
Xaghjra	x						
Xaghra					x		
Xewkija					x		
Zabbar		x					
Zebbug		x	x	x		x	x
Zebbug (G)	x						
Zejtun	x	x	x			x	x
Zurrieq	x						
	<b>40</b>	<b>34</b>	<b>17</b>	<b>15</b>	<b>9</b>	<b>7</b>	<b>8</b>

\* For headings refer to Page 90

## Appendix B - Management Letter Weaknesses

Council	1*	2*	3*	4*	5*	6*	7*	8*
Valletta	x	x	x	x	x	x	x	x
Mdina	x	x	x	x	x			x
Birgu	x	x	x	x	x	x	x	x
Isla	x	x		x	x	x	x	
Bormla	x	x	x	x	x	x		
Qormi	x						x	
Zebbug	x	x		x			x	
Zabbar	x				x		x	x
Siggiewi	x	x		x				
Zejtun	x	x	x					
Rabat (G)	x	x		x	x	x	x	x
Attard	x	x		x	x	x	x	
Balzan		x	x				x	
B'Kara	x	x	x	x	x			
B'Buga	x		x	x	x	x	x	x
Dingli	x					x		
Fgura	x	x		x				
Floriana	x	x	x			x		
Fontana	x	x						
Gudja	x	x					x	x
Gzira	x	x	x					
Gh Sielem	x	x	x		x	x	x	
Gharb	x	x	x	x	x			x
Gharghur	x	x	x					
Ghasri	x	x					x	
Ghaxaq	x	x	x	x			x	
Hamrun	x	x		x	x	x		
Iklin	x	x	x		x			x
Kalkara	x	x	x	x	x	x	x	x
Kercem	x				x	x		x
Kirkop	x	x	x		x	x	x	x
Lija		x	x					
Luqa	x		x					
Marsa	x				x	x	x	

\* For headings refer to Page 93

Appendix B - Management Letter Weaknesses (continued)

Council	1*	2*	3*	4*	5*	6*	7*	8*
Mellieha	x	x					x	
Mgarr	x			x				
Mosta	x	x	x	x		x	x	x
Mqabba	x	x	x	x			x	x
Msida	x	x	x	x	x	x	x	x
M'Skala	x	x	x	x	x	x	x	x
Munxar	x	x		x				
M'Xlokk	x	x		x				
Nadur	x		x	x	x	x	x	
Naxxar	x	x		x				x
Paola	x	x	x	x	x	x	x	x
Pembroke	x		x	x	x			x
Pieta	x	x	x	x			x	x
Qala	x	x	x	x				
Qrendi	x	x	x	x	x	x	x	x
Rabat	x	x	x		x		x	
Safi	x		x				x	
S. Giljan	x	x		x	x	x	x	
S. Gwann	x	x	x	x	x	x	x	
S. Lawrenz	x	x		x	x		x	
S. Pawl	x	x	x	x	x	x	x	
Sannat	x	x			x		x	
Sliema		x			x	x		x
S. Lucija		x	x	x	x	x		x
S. Venera	x	x	x	x	x	x	x	
Swieqi	x	x	x		x	x		
Ta' Xbiex	x	x	x	x	x	x	x	x
Tarxien	x	x	x		x	x		
Xaghra	x	x	x		x	x		
Xewkija	x	x				x		
Xghajra	x	x	x		x	x		x
Zebbug (G)	x	x				x		
Zurrieq	x	x	x	x		x		x
Mtarfa	x		x	x	x	x	x	x
	<b>64</b>	<b>56</b>	<b>42</b>	<b>39</b>	<b>39</b>	<b>36</b>	<b>36</b>	<b>27</b>

\* For headings refer to Page 93

**Ministry of Health**

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## St. Luke's Hospital and Sir Paul Boffa Hospital - Arrears of Revenue

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### Background

The return of arrears includes outstanding balances of bills payable by foreign patients of St. Luke's Hospital and Sir Paul Boffa Hospital.

The billing procedures for foreign patients are regulated by DH Circular 32/90, Legal Notices 18 of 1997 and 201 of 2004. These stipulate the fees to be charged for minor, intermediate and major operations, specialized investigation and tests, ward beds and various treatments.

### Key Issue

#### *Balances of Hospital Fees*

Various limitations were encountered during testing of opening balances and collection of past arrears thus hindering the audit process.

Records of arrears are being continuously updated through the use of a simple spreadsheet, limiting extraction of balances due in respect of previous periods.

Additionally the amounts disclosed in the return do not include the relative invoice details.

### Control Issue

Opportunities for improvement were identified in the following area:

- Lack of proper internal controls upon issuing and recording of invoices and receipting of payments in connection with balances due to Sir Paul Boffa Hospital.

### Compliance Issue

#### *Discrepancies in Arrears*

Various discrepancies were observed during verification of balances due, with the result that the return was deemed to be unreliable. Amounts disclosed as collected were actually written off during the year.

The prior period closing balance was not in agreement with this period's opening balance. Other inconsistencies were also discovered in written off and newly accrued balances.

### Recommendations

#### *Key Issue*

##### *Balances of Hospital Fees*

Records are to be enhanced to incorporate necessary details of enforcement action being taken. Appropriate documentation is to be maintained to support all outstanding balances.

#### *Control Issue*

Records maintained are to include appropriate fields of information relating to payment details. A pre-numbered standard form is to be established and used as a prescribed invoice. Additionally, issued invoices are to be invariably retained by the respective office.

#### *Compliance Issue*

##### *Discrepancies in Arrears*

Internal controls are to be strengthened and computations of amounts invoiced need

to be counterchecked for correctness. This will ensure that individual balances being reported in the annual return are accurate. Appropriate documentation of written off balances, including relevant approvals, is to be retained.

### **Management Comments**

All recommendations outlined in the report in respect of the shortcomings noted

at Sir Paul Boffa Hospital have been accepted and appropriate action is being taken. Other discrepancies highlighted in the Return of Arrears of Revenue were amended accordingly.

However, no adequate action is being taken with respect to the limitation noted in the testing of balances of hospital fees.

## Salaries - St. Luke's Hospital

### Background

The Salaries Section of St. Luke's Hospital is responsible for the salary payments to all hospital employees. The majority of these employees are not only subject to the Public Service Management Code (PSMC), but also to various agreements entered into between employees' representatives and the Government. The total amount of personal emoluments payable to the various employees during the year under review amounted to approximately Lm 31 million.

During 2004, salaries were maintained by means of a computerised payroll system, which caters also for the management of human resources. The Section heavily depends on submissions of employee-related information handed in by departments throughout the hospital, such as time-record sheets, rosters, overtime hours and other data that is generally required for the computation of the payroll.

Although a computerised payroll system is being used, payment and computation of salaries is still being carried out by the Treasury Department using the Government payroll system.

### Key Issue

#### *Use of Payroll software*

The Salaries Section manually calculates most of the allowances which are then inputted in the payroll software. This process is both time consuming and prone to errors.

Additional time and effort is also spent by the section in updating the computerised records, after the inputting of any changes in the basic pay made by Treasury arising from appointments and progressions.

This dependency on Treasury is also evident when adjustments in the system are carried out well after the issue of the salary for a particular month, such that the payroll system is never up-to-date with the Treasury payroll.

Duplication of work also exists in the preparation of information which is sent to Treasury on a monthly basis.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Overtime pay adjustments are not backed by sufficient details.
- The numerous different rosters in use at the hospital increase the complexity of procedures necessary to compute and control salaries.
- No explanation was given on the basis of which rate was used for payment of the 'extra duty' allowance.
- Lack of standardisation of the method of recording attendances by using either punch cards or attendance sheets.
- Reports of staff attendances sent to the Salaries section on a daily basis are being acted upon only on rare occasions.

## Recommendations

### Key Issue

#### Use of Payroll software

The calculation of allowances may be made simpler if the system is geared to calculate allowances automatically, thereby reducing not only the time spent, but also the risk of committing errors.

The use of the software is to be optimised so as to increase efficiency. However before the section becomes completely autonomous it is necessary that it receives in time all information relative to every employee.

The human resource functions should be taken over and enhanced by the Human Resource Department. In this way information would be readily available in the system before the section commences preparation for the computation of salaries.

Methods of maximising the facilities of the software must be sought, and adequate training given to all users.

### Control Issues

- Payment of overtime must be backed by supporting documentation that discloses the dates in respect of which payment is made to an employee.
- A review of the rosters in use is to be undertaken by hospital management with the purpose of increasing the efficiency of the Salaries section by minimising the unnecessary procedures of the present system.
- An explanation in the form of a written agreement or document authorising and

justifying the method of calculating such allowance is to be sought.

- A uniform system of recording employees' attendances should be introduced. The use of a time-keeping device will prove to be an effective solution since it would be directly linked to the payroll software and will eliminate the present problem of lack of controls.
- The gradual introduction of the above time-keeping device will simplify and quicken the process of checking employee attendance.

## Management Comments

Management concurred with the findings reported and will be taking the necessary corrective action to implement the recommendations.

Action has already been taken regarding the human resource functions that was taken over by the Human Resource Department. This has been supported with a number of training sessions to facilitate the transition. The recommendation concerning overtime has also been implemented.

In the meantime, management remarked that every effort will be made to maximise the use of the computerised payroll system in order to increase efficiency and minimise the possibility of errors.

However, management pointed out that, although the introduction of a time-keeping device together with a change in the numerous rosters would drastically reduce the workload of the section, these are subject to negotiation and agreement with employees' representatives at St. Luke's hospital.



**Ministry of Foreign Affairs**

## Malta's Mission Accredited to Italy and San Marino

### Background

Based in Rome, the Maltese Mission for Italy and San Marino (Mission, Post, or Embassy) shared rented office premises with Malta's resident Ambassador to the Food and Agricultural Organisation (FAO), which was to cease operations in November 2005.

Mission staff comprised an Ambassador, three Malta-based officers (MBOs) from the Ministry of Foreign Affairs (MFA or Ministry) and nine locally engaged personnel (LEPs) including three on reduced hours.

It is understood that such complement would be supplemented by at least two staff of the LEP on closing down of the FAO Mission.

Most of the control and compliance issues that have been raised are not peculiar to the Mission but may be applicable to all Malta's overseas Posts.

### Key Issues

#### *A Cost Effective Approach*

- In 2002 the MFA had been assisted by an audit firm as part of a pilot project funded by the Ministry of Finance (MF or Finance) aimed at giving the Ministry and its missions abroad a platform for the Government Accruals System (GAS). However, Finance instructed again the MFA to recode its inventory in terms of MF Circular 14/99. Inventory records examined at time of audit were still incomplete.
- MBOs at the Post are being involved in daily cash transactions and all bookkeeping, which could be

delegated to LEPs. Besides, the present system is causing duplication of manual work and is prone to a higher degree of error.

#### *Statutory Consular Fees*

- Lack of accountability for consular services rendered by the Mission, besides being a risk to revenue, is also in certain instances a threat to immigration controls. The Post's revenue cannot be verified in DAS records because of the accounting treatment in use.
- Fees being charged for consular services are not in full consonance with statutory instruments and standing internal policies. Passport fees are undercharged whilst most of the other consular services are being overcharged as a result of rounding up and currency conversion. Moreover, current administration charges are not according to existing rules and regulations.
- Cash takings are not being banked as collected.

#### *Statutory Children's Allowances claimed by MBOs*

Weak coordination between the MFA and the Department of Social Security (DSS) increases the risk of MBOs being also paid children's allowance under the Social Security Act (SSA).

### Control Issues

Opportunities for improvement were also identified in the following areas:

### *Consular Services and Revenue*

- Tariffs and policies relating to consular services are reaching the Post in an inarticulate and incomplete manner.
- Administration charges for approved visas and passport applications processed by the Mission were remitted in error to the Commissioner of Police and Passport Office in the last four and five months of 2004 respectively.
- Post's revenue in DAS accounts lags behind by more than two months. Documentation of inter-departmental liabilities is lacking, thereby hampering the revenue/cash control and accountability.

### *Salaries and Other Staff Payments*

- Monthly payrolls and ancillary calculations on tax forms and returns are not automated resulting in an increased risk of error.
- Overseas basic salary of the Post's MBOs in 2004 could not be completely validated against Finance authority sources understood to have been established in 1982. The accuracy of the overseas children allowances could not be verified as Head Office (HO) did not provide details of the criteria applied for such benefit in overseas Posts.
- Authorisation procedure regarding reimbursement of eligible expenses is not being observed. The processing of reimbursements is not always segregated from the claimant and/or checked at HO.
- Complete verification of the basic and overtime pay was not possible once documentation supporting payments above those stipulated in the National Work Contract (NWC) is lacking.
- A request form in justification of subordinate staff kept after office hours is not raised, and employees do not make official claims for overtime pay.

- Controls are weak on the attendance record of employees who are obliged to sign on checking in and out, as well as the LEP at the Ambassador's residence.

### *Cash in Hand and at Bank*

- There is lack of segregation of duties where cash takings, cash payments and cash records are concerned.
- A number of unsubstantiated 'unpresented cheques' were showing in the monthly bank reconciliation statements.
- It is not clear why the bank is not following direct debit instructions in respect of payments for telephone bills and whether interruption of telephone service is being risked.

### *Transport and Tax Refunds in General*

- Vehicles fully expensed by government are being availed of for personal use outside working hours.
- Exemption from *l'Imposta sull'Valore Aggiunto* (IVA) could not always be verified. Nor could it be ensured that proper control is being exercised in this regard, as monitoring of exempt supplies is not evidenced.
- Transactions entered into by the Post personally benefiting employees and others – prepaid fuel coupons, IVA refunds – are inadequately evidenced by documentation and records.
- The two ambassadorial cars are being underutilised as these are rarely used at the same time. This could partly be evidenced from taxi services outsourced, as well as use of private vehicles on official business being compensated with fuel coupons allotted to the official vehicles.

### *Rented Property*

- The payment of a deposit in respect of furnishings of the rented residence, and accumulating interest thereon, may be

overlooked and even lost as these are not treated as revenue in arrears.

- No reference is made to the security deposit on residence furnishings and interest receivable thereon in the rent contracts. A clause is lacking on how the tenant could seek reparation in case of breaches on the part of the owner(s).
- Condominium services, payable on the basis of proportion of occupied floor areas at the chancery and Ambassador's apartment, could not be completely validated due to lack of information. This is another shortcoming in the rent contracts.
- Unlike other tenants, who are making use of CCTV deployed in strategic points inside and outside the chancery apartment block, the adoption of preventive controls by the Post for its security are lacking.

### *Visiting Travellers*

- Travel expenses, incurred by third parties not necessarily on official business visiting the country of Post, are being paid from the Mission's funds prior to any authorisation.

### *Budgetary Control*

- There is no separate itemised budget for inventory, overtime and revenue, whereas office rent is excessively budgeted for. Certain running expenses were not charged to the Mission accredited to FAO sharing chancery premises, thereby affecting also the reported running cost of both Posts (e.g., salaries paid to MBOs as well as LEPs rendering common services, office rent, etc.).
- The non-assignment of revenue budget line items to Missions abroad in general and cash flow monitoring by the HO are mainly exonerating the overseas Post from complete responsibility of its performance in the administration of its budget.

- Budget on use of telephones was exceeded.

### *General Control Issues*

- Unauthorised hospitality expenses covered by an allowance granted under Conditions of Service for Officers Serving Overseas (CSOSO) are being reimbursed by the Mission.
- The procedure of paying Maltese pensions to expatriates differs from that of other overseas Posts. No action was taken to recover overpaid pensions after death. Life certifications are not reaching the DSS, and the variety of such testimonials is making control in this regard difficult.
- Awareness among management/users of the importance of basic Information System (IS) security is lacking and any control procedures that may be in use at the Post in this regard are not documented.

### **Compliance Issues**

#### *Telephone Expenses incurred on behalf of the Public*

- No reimbursements for telephone expenses are being collected from the public, notwithstanding internal standing rules to this effect.
- Most of the administration charge netted by the Mission in 2004 was set off against telephone expenses. This is against standard accounting practice.

#### *Purchase Orders*

DAS is not in use at the overseas Post. Unless alternatives to the controls embedded in DAS that are being missed out (such as purchase order, certification of satisfactory delivery thereupon, etc.) are introduced, responsible management of the Post's budget cannot be ensured. The Mission could also be shedding ancillary controls inherent in procurement regulations due to its current accounting system (e.g. quotations which are expected to precede purchase orders).

### *National Work Contract*

At times transgressions of maximum hours that LEPs are obliged to put in daily and weekly were noted by the examiners. It could not be confirmed whether the employer (the Post) is aware of said breach of the NWC.

### *Payments by Tenants*

- Payments for the central heating of the chancery premises could not be validated as pertinent receipts are not being presented by the owner in terms of the rent agreement.
- Breaches on the part of the tenant also exist because of late payments of the residential rent instalments.

### *Statutory Returns*

Contrary to standing regulations, timely and complete information is not reaching the National Audit Office (NAO), e.g., expenses related to government hired immovable property MF Circular 2/83). Moreover, no statutory returns are being submitted to the NAO in respect of official vehicles running expenses as required under MF Circular 8/90 and stock declarations as per the terms of General Financial Regulations (GFR).

### *Inventory*

- Many assets have not been assigned a unique Asset Identification Number (AIN), together with part number where applicable, as recommended by MF Circulars 14/99 and 61/00. Records of inventory at the Ambassador's private residence had been assigned one location code. Coupled with missing identification characteristics these limitations make independent physical verification of the Post's inventory records extremely difficult and at times impossible.
- Tags on inventory with AIN according to new coding as per MF Circular 14/99 could nowhere be evidenced.

- No documentation supported valuations and movements of inventory items.
- Room lists for the chancery sub-locations had not been updated for a number of years.
- Government-owned inventory, particularly at the residential apartment, is prejudiced by the lack of handover sheets signed by the Ambassador's predecessor. Moreover, record of inventory found at the residence is not being maintained accurately to distinguish between personal belongings and other items.
- Inventory records do not accurately reflect unserviceable items and no listings are being extracted in preparation of the eventual disposing board. Items that could be retained were blocking the emergency stairway, creating a security hazard.
- Any sale proceeds of unauthorised inventory disposals in 2004 could not be verified.

### *Regulations regarding Cash and Bank*

- No record was being maintained for the account used for pensions to expatriates in violation of the Financial Administration and Audit Act (FAAA).
- The cash book for the bank account in use for general purposes along with that of cash in hand were not being kept to standard practice.
- Finance exemption from the obligation to effect payments above Lm15 by bankers' drafts had not been sought as required in terms of GFR notwithstanding that purchasing at the Post was mostly for cash and individual transactions usually exceeded this amount.

### *Prepaid Fuel Coupons and 'Bar' Stocks*

Inadequate records were being kept of prepaid duty-free fuel vouchers and 'Bar' stocks, as required in terms of Treasury

Circular 6/2004. In DAS records the purchasing of bar stocks was not being reflected in the line item for Hospitality, which was also a departure from Public Service Management Code (PSMC).

### Recommendations

#### Key Issues

##### A Cost Effective Approach

Instead of DAS records, a computer-based accounting system administered on a daily basis by LEPs could be monitored by MBOs at the respective Posts and members of staff at HO.

##### Statutory Consular Fees

- The Post should be accountable for every document controlled by third-party authorities especially passports and visas.
- Tariffs are to be streamlined to fees stipulated in the law and/or dictated by internal policy.
- Cash takings by the Post are to be banked intact, and cash payments are to be administered on a standard imprest system.

##### Statutory Children's Allowances claimed by MBOs

The MFA should invariably pay the full overseas children allowances to eligible MBOs. At the same time, however, the onus falls upon the MFA to inform the DSS so that the latter could determine what children's allowances are to be forfeited under the Social Security Act (SSA).

#### Control Issues

##### Consular Services and Revenue

- Updated and comprehensive lists of chargeable fees are to be fed to the Post's front office every time a change is introduced.
- Administration charges paid to the Commissioner of Police and Passport Office in error in 2004 are to be retrieved.

- Self-billing in favour of third-party government authorities, for monies collected to be passed to the latter, is recommended on a monthly basis.

##### Salaries and Other Staff Payments

##### Payroll and Ancillary Reports

Unless implemented as part of a complete accounting package as proposed above, an approved payroll module for the overseas Post(s) is recommended.

##### Pay of MBOs at the Overseas Post

- Bases of calculation of overseas children allowances, as well as basic global emoluments, should be clarified and explicitly expressed in the CSOSO.
- Required approval from the Permanent Secretary is to be sought prior to reimbursement of personal expenses claimed. Past education grants are to be regularised. Moreover, the claimant should never be the officer processing these reimbursements.

##### LEP Pay

- Payments allowed above those stipulated in the NWC should be made known in a letter by the Head of Mission to this effect. A copy of this letter is to be retained in the personal file of each respective employee.
- Employees are to make an official claim in duplicate for pay in respect of overtime work, and should be advised to keep a copy countersigned by the paying officer.

##### Attendance Records

Attendance record, including that of the LEP employed at the Ambassador's residence, is to be controlled by the senior MBO. This should be collected after official check-in time.

##### Cash in Hand and at Bank

##### Segregation of Cashiering Duties

The person handling cash takings/payments should not be also responsible for the cash books.

### *Bank Reconciliation Statements*

- Cheques issued a number of years ago not presented for payment at the bank should be written back. Officer(s) responsible for any resulting cash shortages are to be called upon for redress.
- Direct debits not yet processed by the bank in favour of the fixed telephony service provider should be addressed immediately to remove such item from being shown under 'unpresented cheques' in the bank reconciliation statements.

### Transport and Tax Refunds in General

#### *Fringe Benefit Tax*

Necessary action is to be taken on any fringe benefit tax obligations in respect of official car(s) fully expensed by government being made available for personal use.

#### *Exemption of IVA on Chancery Expenses*

Certifications of IVA exemptions for the respective supplies and/or exemption periods are to be filed at the chancery. A register of these exemptions is to be maintained.

#### *Personal or Third-Party Business*

Personal and third-party affairs should not be confounded with the official business of the Post. Employees and other third parties are to apply in their personal capacity, through the Embassy, for IVA exemption and/or duty-free fuel. However, purchases of fuel vouchers for the Embassy's official vehicles should be separately invoiced by suppliers.

#### *Utilising Transport Resources*

The replacement of one of the 'ambassadorial' cars with smaller and more cost-efficient vehicle(s) should be seriously considered. Once security had been upgraded, the parking spaces in front of the chancery block could be utilised even during the night.

#### Rented Property

#### *Arrears of Revenue*

The list of arrears of revenue is to include the repayable deposit on furnishings of the residential apartment on termination of the

rent contract, as well as any accumulated interest receivable on said deposit.

#### *Rent Agreements*

The deficiencies in the rent contracts are to be rectified in anticipation of upcoming renewals, once the current chancery agreement allows the tenant to make earlier modifications.

#### *Chancery Security*

Like other tenants of the apartment block the Mission should make use of CCTV and subsequently review vehicle and premises insurance premiums and/or covers.

#### Visiting Travellers

Expenses incurred by all visiting travellers on official business are to be reclaimed. Requests for the Embassy's assistance by visitors on personal trips should be firmly declined.

#### Budgetary Control

- The Post should be directly responsible for its revenue forecasts.
- Specific budgets for inventory and overtime pay to the Post's LEPs are to be allocated to the pertinent line items in DAS records.
- Rent, salaries and other expenses benefiting the two missions sharing chancery premises should be borne in an agreed proportion. Internal charging by the Post is recommended for the recovery of pertinent costs to the date the FAO Mission is to cease operations, as well as subsequent costs directly relating to the closing down of the latter. Current budget allocations are to be adjusted accordingly. Inflated spending forecasts, as for rent, for example, are to be restrained.
- Telephone budget should be respected and not exceeded. Management plans to curtail telephony costs would assist in this regard.

#### General Control Issues

#### *Hospitality Line Item*

Entertainment and gratuities expensed from the Hospitality line item are to have the

approval of the Permanent Secretary in terms of the PSMC.

### *Maltese Pensions paid to Expatriates*

More collaboration with the DSS appears to be required in respect of life certifications. Moreover, in coordination with the DSS and assuming no legal constraints, life certification control needs to be escalated.

### *Information Systems*

Basic IS security practices are to be implemented, particularly concerning backups and user passwords. Such practices should be documented.

### *Compliance Issues*

#### *Telephone Expenses incurred on behalf of the Public*

Specific rates are to be charged as per standing internal policy over and above the fixed administration charge(s) meant to cover other expenses. These reimbursements, along with administration charges, are to be credited to a revenue account.

#### *Purchase Orders*

Use of purchase orders is to be made. Request forms should precede purchase orders or issues from available stores.

#### *National Work Contract*

Request form is to be introduced. This is to be completed before a subordinate performs overtime work. It is to be raised in advance in order to adhere to budget constraints and/or to cap work hours under the NWC.

#### *Payments by Tenant*

- Tenant should ensure that payment of chancery's share of central heating cost is made against presentation of receipts.
- Standing order to bank to effect payments of monthly rent instalments in respect of Ambassador's residence is recommended.

### *Statutory Returns*

Disclosure obligations towards the NAO under the respective standing regulations are to be regularly met.

### *Inventory*

- Once a new coding for inventory items and AINs (with part numbers) are assigned, along with unique description corresponding to AIN, tags should be affixed to every item possible. In the interim, records should continue to be updated in the old coding structure.
- Revised detailed and documented records are then to be verified by a complete physical check by Embassy staff, updating inventory listings to warrant the accuracy and completeness of records kept.
- Complete (signed) reports and room lists are to be printed regularly, at least once after the close of every financial year and at time of handover (at the end of term of the Head of Mission). These reports should satisfy audit requirements including internal audit ones.
- Inventory records should directly or indirectly comprise personal belongings.
- No inventory record should be overwritten or deleted following a transfer of an item to a new location or a change in the status of an item, e.g., unserviceable or disposed of.
- Survey boards approved by HO in accordance with the regulations could be chaired by an independent officer.
- Required details concerning the disposal of specific inventory items, e.g. photocopier, are to be made available to the NAO.

### *Regulations regarding Cash and Bank*

- Shortcomings *vis-à-vis* the FAAA and the GFR are to be rectified.

- The budget for 'Sundry Incidental Expenses' should be allocated to other specific line items.

### Prepaid Fuel Coupons and 'Bar' Stocks

Movements of prepaid fuel vouchers and 'bar' stocks are to be reflected in bin cards and/or store ledger sheets supported by documentation as required by Treasury Circular 6/2004. 'Bar' purchases are to be allocated to Hospitality line item. Milometer readings on issue notes for utilised fuel vouchers could serve as a practical substitute to trip log books which are not being kept.

### Management Comments

In the opinion of the NAO adequate justification was not given why exception was found with a number of observations and corresponding recommendations made in the audit report for possible implementation direct by the overseas Post.

Meanwhile action taken on recommendations includes:

- the regularisation of authority from the Permanent Secretary in respect of past education grants;
- the withdrawal of a telephone line formerly used by an employee who retired, and the identification of another line which could possibly be removed in the future;
- communication in writing with the owners of the rented apartments to specify occupied floor area, as well as details of expenses claimed for common services against receipts as applicable;
- the setting up of a board to dispose of unserviceable items which is drawing up recommendations on how the various items could be dealt with.

Discussions had been started on the possibility of giving Posts the facility to update DAS records from overseas. The Ministry believes this would lead to more "timely and accurate information on the management of funds" by Missions. Further recommendations were presented in this regard at the request of the MFA.

Management made no reference to other issues raised, particularly those more directly concerning the Ministry rather than the Mission which comprise most of the audit report.

## Embassy Accredited to FAO, Switzerland, Israel and Albania

### Background

The Embassy accredited to the Food and Agricultural Organisation, Switzerland, Israel and Albania (Embassy, Post, Mission or FAO/Others) was being recognised as a separate cost centre for the first time in 2003 on a trial basis. It had been decided that this Mission in Rome was to close down in November 2005. For some time pre-2003 bilateral affairs with international organisations having their headquarters in Italy had been administered from the Maltese chancery in Rome. Malta-based officers (MBOs) at the FAO Mission included the Permanent Representative (Ambassador, PR) and a First Secretary.

Issues common to other overseas Posts have already been covered in NAO report on the Mission accredited to Italy published on page 110.

### Control Issues

Opportunities for improvement were also identified in the following areas:

- Exemption from *l'Imposta sull'Valore Aggiunto* (IVA) was not always being sought.
- It could not be determined whether the Embassy was fully accountable for the IVA refunds/exemption it was claiming because of lack of records.
- Complete verification of overtime pay was not possible. A request form to authorise extra work was not being raised. Overtime pay was being made without employees raising a claim.

- Controls on the attendance record at the chancery in respect of certain employees are not sufficient.
- It was not clear whether the contract of the rented Ambassador's residence entitled the Post to any interest due on the security deposit on the furnishings. Neither was the basement garage clearly specified in the agreement.
- The CCTV deployed in strategic points inside and outside the chancery apartment block did not cover the security of the Maltese chancery.
- Budget on use of telephones was exceeded despite the introduction of VOIP at the Embassy to reduce communication costs.
- The Post was never charged for common chancery running expenses. These were borne by the Mission accredited to Italy and as a result may have affected the cost-effectiveness of the administration of the two Embassies.

### Compliance Issues

#### *Cashiering Responsibilities*

Cashier, who was not in receipt of the responsibility allowance under the contract of service, was being held accountable for any cash shortage.

#### *National Work Contract*

Locally engaged personnel (LEPs) were putting extra working hours in breach of the National Work Contract (NWC). Moreover, this contract was totally bypassed in the case of the employment of the house helper.

### *Statutory Returns*

No information on the rent paid for the Ambassador's residence, no returns in respect of the official vehicle's running expenses, and no stocktaking declarations annually required by standing regulations were sent to the National Audit Office (NAO).

### *Cash and Bank*

- Separate record was not maintained for each of the two currencies in which cash was being kept on the chancery premises, in violation of the Financial Administration and Audit Act (FAAA). Moreover, the cash book for the bank account and that of cash in hand were not kept to an acceptable standard.
- Finance approval in accordance with the FAAA was not sought for the opening of a bank account with an Italian bank.
- Finance exemption to effect payments above Lm15 by bankers' drafts was not sought in terms of the General Financial Regulations (GFR) when purchasing at the Post was mostly made in cash in excess of that amount.

### *Bank Reconciliation Statements*

Bank reconciliation statements were not being properly being drawn up.

### *Prepaid Fuel Coupons*

Record of prepaid duty-free fuel vouchers and official transport utilised in general was not kept in terms of the Public Service Management Code and other regulations.

### *Rent Agreement*

- Owners are not acknowledging receipt of rent payments.
- Late payments of the residential rent instalments had also been noted.

### *Reimbursed Telephone Expenses*

MBOs' home telephone bills were paid in full by the Embassy and later officers refunded

80 per cent of call charges. In terms of the Conditions of Service for Officers Serving Overseas (CSOSO) bills are to be paid by MBOs and later claim reimbursement.

### *Inventory*

- Assets have not been assigned a unique Asset Identification Number (AIN) as recommended by MF Circulars 14/99 and 61/00. Records of government-owned inventory at the Ambassador's private residence had been assigned one location code. These limitations made an independent physical verification of the Post's inventory records difficult.
- There were no tags on inventory with the new coding AIN as per MF Circular 14/99.
- Besides the omissions and deletions noted, completeness and accuracy of the inventory records could not be warranted. No documentation supported valuations and movements.
- No record of inventory at the residence belonging personally to the Ambassador was being maintained.
- Inventory records did not accurately reflect unserviceable items.
- Inventory disposals in 2004 could not be verified as having been duly authorised.

## **Recommendations**

### *Control Issues*

#### *Exemption of IVA on Chancery Expenses*

- The Embassy should, as a priority, file missed applications in order to claim refund of IVA on behalf of the Mission, employees and any other third party .
- After Post is closed down, outstanding refunds should be followed up by the other Rome-based Mission.

#### *Overtime Pay*

Request forms for overtime pay should be raised and duly authorised.

### Attendance Records

Attendance records are to be collected after official check-in time.

### Arrears of Revenue

The list of arrears of revenue is to include the deposit on furnishings of the Ambassador's residence on termination of the rent contract, together with any accumulated interest on the deposit.

### Rented Property

The highlighted shortcomings in the rent contract are to be rectified if continued use is to be made of this residence after the Mission is closed down.

### Chancery Security

It is advisable to step up security at the chancery.

### Budgetary Control

- Telephony costs should be curtailed.
- Rent, salaries and other expenses benefiting the two missions sharing chancery premises should be borne in an agreed proportion and current budget allocations are to be adjusted accordingly.

## Compliance Issues

### Cashiering Responsibilities

Following Finance approval to write off cash shortage, the applicable responsibility allowance is to be paid to the cashier.

### National Work Contract

Request for overtime work is to be raised in advance for budgeting purposes and/or capping of work hours under the NWC.

### Statutory Returns

All returns to the NAO required under standing regulations are to be timely submitted.

### Cash and Bank

Shortcomings vis-à-vis the FAAA and the GFR are to be rectified.

### Bank Reconciliation Statements

Bank reconciliation statements are to be drawn up and communicated to the Treasury as required by the GFR.

### Prepaid Fuel Coupons

- Movements of fuel vouchers could be recorded on bin cards and/or store ledger sheets supported by documentation in terms of Treasury Circular 6/2004. Milometer readings on issue notes for utilised fuel vouchers could serve as a practical substitute to trip log books which are not being kept.
- Purchases of fuel vouchers for vehicles pertaining to Embassy staff should be separately invoiced by suppliers (or rebilled by the invoiced Mission). Any liabilities towards the Post by way of fuel coupons funded by the latter, especially at closing down date, are to be included with the list of revenue in arrears compiled by the Head Office.

### Rent Agreement

- Owners are to be requested to issue a receipt for rent instalments.
- Standing order to the bank to effect payments of monthly rent instalments in respect of Ambassador's residence should be considered.

### Reimbursed Telephone Expenses

Strict adherence to CSOSO is recommended. Furthermore, official advice to the officer(s) to regularise telephone reimbursement procedures before the closing down of the Embassy is strongly recommended.

### Inventory

- Once new coding for inventory items and AINs (with part numbers) are assigned, tags should be affixed to every item possible. In the interim records should continue to be updated in the old coding structure.
- Embassy officers are to carry out a complete verification exercise of records

by a physical check before closing down of the Mission.

- Inventory records should include the personal belongings of the Ambassador and that of any third party.
- No inventory record should be overwritten or deleted following a transfer of an item to a new location or a change in the status of an item, e.g., unserviceable or disposed.
- On handing over inventory and (as well as unserviceable items) to the Mission accredited to Italy, such items should be supported by a transfer note or similar document signed by the parties concerned.
- Unserviceable items belonging to the owner of the apartment should be repaired or replaced before closing down the Mission and handing over of keys.
- Details concerning the possible disposal of specified inventory items are to be made available to the NAO.

### Management Comments

The following management position was taken in respect of certain issues. These comments were either not fully in consonance with collected evidence or were not entirely compatible with standing regulations and/or best working practices:

- In rebutting the observation that records of issues and receipts of prepaid fuel coupons kept exclusively by the Mission could not be evidenced, log book of just milometer readings was

presented with the reply. This, however, did not include reference to the official vehicle number or source documents (suppliers' invoices, issue notes of prepaid fuel coupons, etc.).

- NAO could not see any connection between the annual bank charges on current accounts cited in the reply and the interest earning fixed deposit account recommended to be opened for the guarantee deposit on the furnishings of the PR's residence.
- Objection was made to the observation that the rent budget could be more realistic in spite of the fact that FAO/ Others occupied an estimated 40 per cent of chancery premises at an annual full cost of around Lm30,000, totally borne by the Mission to Italy.
- It had been maintained that the Head Office (HO) had given the green light for the divergence from CSOSO in respect of settlement of the reimbursable 20 per cent on MBOs personal telephone bills. HO did not confirm or otherwise the divergence.
- The recording of private belongings was resisted notwithstanding that this is a cited requirement of the Public Service Management Code.
- Exception was found with the observation regarding the possibility that inventory could have been dispensed with not in accordance with standing regulations.

No comments on implementation of recommendations were received perhaps in the light that the Mission was to be closed down.

## Canberra Inventory

### Background

The inventory records at the Canberra Mission were lost in 2003 because of a computer virus. The inventory position as at 26 February 2004 was eventually communicated to the National Audit Office (NAO) following the latter's assistance in the restitution of the records.

Two inventory items of relevance to the review, because of the materiality of the value, were the old 'official residence' accommodating the High Commissioner (HC) and the purchase of a new building - chancery cum residence.

The Minister of Finance approved an advance warrant, of up to Lm300,000, for the acquisition of the latter property in the second half of 2000. The advance was to be reimbursed partly from the proceeds of the sale of the old Chancery, and the balance from the Capital Vote of the Ministry of Foreign Affairs (MFA).

### Key Issues

#### *Owned Diplomatic Residences*

Although the new property was meant to accommodate both the chancery and the residence of the HC, the former residence was retained. Moreover, the Malta Based Officer (MBO) who occupied the first floor at the new residence was subject to a 25 per cent deduction of the salary notwithstanding the plea made by a former HC who advised that savings 'of about one-third' in overseas salary would result when buying rather than renting accommodation for the 'second officer'.

#### *New Chancery cum Residence*

The amount expended is calculated to have amounted to Lm267,953 but neither the cost of the new property, nor that of the various separate items financed from the advance warrant, could be precisely ascertained.

#### *Reliability of Inventory Records*

- Reconstructed records are not fully supported by documentary evidence.
- Immovable property has always been omitted from the inventory records kept at the Post. Other omissions were noted in respect of acquisitions for the former residence and the new property in 2004.
- Data backups were not being adequately maintained, at least up to the start of 2004, when NAO assistance was sought.

### Control Issues

Opportunities for improvement were also identified in the following areas:

- Items had been struck off inventory records without the necessary authority whilst others were reclassified.
- Worksheets of rates of conversion to Maltese liri for 2000 as well as source documents for 2001–2002, relevant to the below-the-line account opened for the sale of the old chancery and acquisition of the new chancery cum residence, were not made available.
- There had been an over-appropriation from the Consolidated Fund of

Lm10,499 under the advance warrant. The discrepancy was brought about by reversed entries in the accounts kept for utilised funds which were not deducted at time of appropriation from Consolidated Fund and corresponding Financial Report publications.

### Compliance Issues

#### *Asset Identification Numbers*

Not all inventory items have been assigned a full/complete Asset Identification Number (AIN) at the Canberra chancery.

#### *Identification Characteristics*

Unique identification characteristics are missing in the description of certain inventory records relating to separate items of different values in contravention of the MF Circulars.

#### *Completeness of Records*

- Certain items were listed at no value in the inventory records as at 31 December 2004.
- No updated room lists were made available for 2004.

#### *Filing of Returns with the NAO*

The last annual return filed with the NAO in terms of MF Circular 2/83 for government-owned property was dated January 2001.

### Recommendations

#### *Key Issues*

##### *Owned Diplomatic Residences*

The cost effectiveness with which the government-owned diplomatic residences are being run in Canberra, as compared to the alternative of renting the property, may need to be assessed.

##### *New Chancery cum Residence*

A valuation of the new building should include all refurbishing and other costs related to the acquisition of the property paid out of the advance warrant. The valuation

should be supported by contract of purchase and suppliers' invoices. Moreover, official statements of conversion rates used by the Head Office are to support the *Lm* value of the property in Canberra records.

#### *Reliability of Inventory Records*

- Full physical stock of inventory items is to be taken as a first step towards completeness of records. Valuations should be referenced to relevant source documents (contract of purchase, suppliers' invoices, statements of management valuations, etc.). Once Asset Identification Numbers (AINs) are properly assigned, tags are to be affixed to inventory items.
- Full compliance with MF Circulars 14/99 and 61/00 is recommended for immovable property in inventory records.
- The adoption of a standard procedure securing data by regular backups is also strongly recommended.

#### *Control Issues*

##### *Revaluation and Reclassification of Records*

- Prior authority to dispose of contents of buildings along with the sale of immovable property is to be sought before actual sale. Inventory records are to reflect the result of the disposal.
- Any entry in inventory records should not be deleted or overwritten but neutralised by a reversal entry in the records.

##### *MFA Archives*

A register of all archived documents is to be maintained. Documents are to be stacked in a way to enable quick retrieval of required information.

##### *DAS Record*

Liaison with all DAS users is necessary before any action (appropriation of funds, publication of figures, etc.) is taken on the basis of availability of funds in accordance with the main accounting records.

Independent reconciliation is recommended for accounts kept by those responsible for the application and appropriation of funds under a given advance warrant.

#### *Compliance Issues*

##### *Asset Identification Numbers*

Finance should be consulted when difficulties arise on following inventory coding instructions.

##### *Identification Characteristics*

The description of an asset must bear exclusive characteristic(s) so that records could readily be physically verified.

##### *Completeness of Records*

Compliance with the MF Inventory Circulars is also recommended where room lists and valuations of inventory items are concerned.

##### *Filing of Returns with the NAO*

Returns are to be drawn up on a regular basis and copies thereof sent on an annual basis to the NAO as stipulated in the relevant MF Circulars.

#### **Management Comments**

Management is in the process of submitting comments.

## Global Emoluments to MBOs in Missions Overseas

### Background

The budget allocation for the portion of overseas basic salary (allowances above Malta salary), payable to Malta-based officers (MBOs) serving in Malta's Missions abroad, was the largest budget line item within the Ministry of Foreign Affairs (MFA or Ministry) for 2004, amounting to Lm1,668,200 after deducting allowances payable to Head Office (HO) and the Malta Information Centre.

Malta salary payable to MBOs in overseas postings was the second largest budget line item.

### Key Issues

#### *UN and Finance Criteria*

- The accuracy of basic overseas salaries paid out to MBOs in 2004, which had evolved in the past twenty years, could not be fully verified with relevant Ministry of Finance (Finance) criteria and other authority sources.
- Consistent application of the standard bases of calculation of overseas salaries at the various overseas posts could not always be verified. Different departures had been noted from principles long established by the Cabinet/Finance/OPM determining the actual overseas basic salary paid.
- For a number of years the updating of standard bases have been performed in-house.

#### *Statutory Children's Allowances claimed by MBOs*

Lack of liaison between the MFA and the Department of Social Security (DSS) may have allowed MBOs to be paid children's benefits both by MFA and DSS once the latter was not officially made aware of the level of emoluments earned by MBOs.

#### *Overseas Children's Allowances*

- Conditions of Service for Officers Serving Overseas (CSOSO) only make a reference to an MBO's entitlement to overseas children allowances, substituting those payable under the SSA.
- The accuracy and justification of the different rates payable per child, depending on country of posting, could not be verified.
- Reference list in use did not cover all overseas embassies where MBOs are located.
- Allowance for dependent children was always included in the UN data applied for the overseas salary portion of global emoluments. The need for an additional allowance on the basis of UN data, which according to Finance was last approved by Cabinet in 1992, needs explaining.

### Control Issues

#### *Payroll and Attendance Records*

- Errors and inefficiencies in the manual preparation of monthly payrolls and

ancillary calculations on tax forms and returns.

- Weak controls on attendance records in respect of employees who are obliged to sign on checking in and out.
- Salaries of MBOs rendering common services to Missions within the same chancery premises are not being apportioned to reflect the true cost of the said Missions.

### *Relocation Expenses*

- Wrong settling-in allowances had been paid to MBOs starting tour of duties in one Post. Proper verification of correctness of payment was not being evidenced by the countersignature of the checker at HO.
- Paying officers in the countries of posting are not establishing independently what advances could have been made in Malta in respect of settling-in and/or outfit allowances paid prior to start of tours of duty abroad.

### *Posting Details*

- Overseas children allowances and reimbursements of schooling fees were advanced to MBOs in respect of claimed accompanying children not properly evidenced on the corresponding Posting Details.
- The annual 'honorarium', indefinitely withheld to an officer since start of overseas duties, had not been officially withdrawn by way of fresh Posting Details.
- Existing Posting Details, other than those of established diplomatic grades, are not always reflected in posting listings at the HO.

### *Reimbursed Allowable Expenses*

#### *Telephones*

Several mobile phones belonging to MBOs are being supported from Missions' funds. CSOSO concede allowances only in respect of fixed home telephone facilities.

#### *Medical Expenses*

- Clinical intervention of a condition, which could have been treated in Malta, started three months before HO approval for reimbursement and was in excess of the yearly limit for medical expenses. Indication was given that expenses were not part of an extended treatment when in actual fact they were.
- Besides lack of compliance with pertinent procedures, bills in excess of the limit of Lm1,000 p.a. were reimbursed. The nature of the medical treatment was not stated.

#### *Other Relocation Expenses*

- No refund for school fees paid in advance, in respect of two of the three children registered in the school overseas, was made or requested when all the children returned to Malta.
- A further €2,000 was paid for furniture during the ten weeks stay at the official residence before their return to Malta.
- Approval of none of the said disbursements from public funds had come from the right level of authority.

#### *Schooling Expenses*

Apart from the established 10 per cent of schooling fees being non-reimbursable, no capping is in force in Brussels and no control exists as to whether the least expensive education for accompanying children was sought. Last capping established in 1995 was removed in 1998.

### *Reimbursements in General*

- Reimbursements of eligible expenses incurred by MBOs serving at the overseas Posts are not being authorised by the Permanent Secretary.
- Claims for reimbursements are not always checked at the Post or by HO, which at times exceed established ceilings.

## Compliance Issues

### *Direct Credit in Personal Bank Accounts*

Bank charges had been incurred in respect of funds transferred to personal accounts in Malta, contrary to HO instructions not to bring such charges to the Mission's bank account.

### *New Grades*

Notwithstanding contracts of service signed by the Office of the Prime Minister, definitive official recognition by Finance and the Management and Personnel Office (MPO) of any of the new grades and new position nomenclature in the diplomatic service for the EU Post could not be verified.

### *General Service Grades*

The procedure followed in the deployment overseas of a non-diplomatic employee was not made known by the MFA.

### *Disturbance Allowances*

Finance approval was not sought for disturbance allowances paid to MBOs for periods prior to their departure from Malta to the country of posting.

### *Rent-Free Accommodation*

Contrary to the provision of the CSOSO, establishing that only Ambassadors and High Commissioners are entitled to rent-free accommodation, several other MBO grades in various overseas posts are also exercising the option for a reduction of 25 per cent of the basic overseas salary.

### *Fringe Benefit Tax*

Fringe benefit tax is limited to what the CSOSO refer to as 'representation' allowance, but in addition vehicles fully expensed by government are being used outside working hours.

## Recommendations

### *Key Issues*

#### UN and Finance Criteria

- Bases of calculations of basic overseas salaries should be included in the

CSOSO and responsibility is to be assumed by HO.

- Any departure from bases of calculations of basic overseas salaries is to be documented. If not authorised, underpayments or overpayments indicated are to be remedied.

### Statutory Children's Allowances claimed by MBOs

The MFA are to inform the DSS of eligible MBOs who are entitled to receive overseas children's allowances as per letter of engagement so that no similar benefits are paid under the Social Security Act (SSA).

#### Overseas Children's Allowances

Bases of calculation of overseas child allowances should be included in the CSOSO to be made officially known and updated on an ongoing basis.

## Control Issues

### Payroll and Attendance Records

- One common payroll module is recommended for use at all overseas Posts.
- Attendance records are to be collected after the established check-in time.
- MBO salaries benefiting two Missions sharing chancery premises are to be apportioned and budget allocations adjusted accordingly.

### Relocation Expenses

- Any settling-in allowance overpaid in 2004 is to be recouped.
- Prior to departure from Malta, and before any advances are paid, a formal request is to be drawn up for the settling-in and/or outfit allowances that are to be received in Malta in part or in full.

### Posting Details

- No payments are to be effected to officers serving overseas in respect of accompanying children unless fully in consonance with the information on the

Posting Details as endorsed by the Permanent Secretary.

- Updated Posting Details confirming the entitlement of honorarium, or otherwise, are to be drawn up and filed with HO.
- Posting listings should be updated.

### Reimbursed Allowable Expenses

#### *Telephones*

Variations in ceiling, already established in the Public Service Management Code for free mobile telephone facilities, are to be coordinated with or approved by Finance.

#### *Medical Expenses*

The CSOSO should be more specific as to what qualifies as refundable medical expenses incurred in the country of post.

#### *Other Relocation Expenses*

Covering authorisation from the Permanent Secretary for expenses reimbursed in respect of dependents' premature return flight to Malta is to be obtained.

#### *Schooling Expenses*

- Schools in Brussels are to be benchmarked by the MFA.
- Capping of schooling fees for all overseas Posts ought to be made known to the National Audit Office (NAO) and officially included in the CSOSO. Where missing, ceilings are to be established with the concurrence of the Ministry of Finance.

### Reimbursements in General

- All claims for reimbursement of personal expenses should bear the prior approval of the Permanent Secretary. Otherwise declaration of current Permanent Secretary's delegation of authority, ideally with reference to pertinent regulations, for the approval of reimbursements of personal expenses should be sought and copied to the NAO.

- Payments in excess of those allowed are to be refunded. Moreover, the officer processing these re-imbursements should never be the claimant himself.

### Compliance Issues

#### Direct Credit in Personal Bank Accounts

A Mission is to pay all salaries in a personal bank account of the MBO's choice at the country of posting, and request MBOs to refund any bank charges on account of transfers to Malta accounts.

#### New Grades

When new diplomatic grades and nomenclature for the EU Post are approved by Finance and the MPO, the CSOSO and bases of calculation of basic overseas salaries are to be updated accordingly.

#### General Service Grades

MPO and/or Finance approval for the overseas salary of the non-diplomatic employee in question is to be sought.

#### Disturbance Allowances

Allowances are not to be paid prior to the start of tours of duty.

#### Rent-Free Accommodation

Unless the condition in the CSOSO regarding rent-free accommodation is reviewed to reflect any changed realities, then it is to be strictly adhered to.

#### Fringe Benefit Tax

Necessary action is to be taken on any tax obligations for fully expensed cars being made available for personal use.

### Management Comments

Management agreed to adopt a number of the recommendations and admitted to a partial consensus on other recommendations as follows:

- incorporating in the CSOSO the UN criteria applied in respect of all overseas salaries paid, exceptions comprised, but

verification with Finance source documents remained an issue;

- settling differences from incorrect payments made in one Post, though it is unclear whether over-reimbursements reported at other overseas posts would be claimed back;
- better monitoring of attendance, although exception was found to the adoption of a standard payroll at all overseas posts;
- discussions will be held with the Inland Revenue about fringe benefit tax on fuel allowances, though objection was raised to the capping proposed.

Reservations were made on recommendations regarding:

- cellular phone expenses that are being reimbursed; and
- certain contractual obligations that fall within the EU Secretariat of the OPM.

Authority delegated to the DCS to approve relocation, schooling and medical reimbursements across the board could only be evidenced by an email from the former Permanent Secretary.

Issues raised for which no reply was received include schooling fees; the formalisation with Finance and the MPO of the overseas salary of new grades in diplomatic service; authority and official declaration of overseas children's allowance currently paid in every overseas Post; and disturbance allowance prior to certain tours of duty abroad.



## **Non-Central Government Organisations**

## Malta Transport Authority

### Background

Established by virtue of Act XXIII of 2000, the Malta Transport Authority (MTA) is responsible for the management of public transport and the registration, licencing and testing of motor vehicles and drivers. Its brief also covers the construction and maintenance of roads, traffic management and provides the necessary advice to the Minister.

### Control Issues

Opportunities for improvement were identified in the following areas:

#### *Procurement*

- The Malta Transport Authority Act - (MTAA) and the Authority's procurement procedures manual, though consistent with each other, were not in line with the provisions of the Public Contracts Regulations 2005, applicable as from June 2005. These inconsistencies result in difficulties in the management of the procurement process.
- Requisitions, quotations, purchase orders, or tenders did not precede the procurement of:
  - Consultancy services with respect to a particular project amounting to Lm12,000; and
  - Designs and adverts for an advertising campaign costing about Lm 30,000.
- Contracts for the procurement of consultancy and advertising services were not entered into. As a result the

MTA was not in a position to ensure, and enforce if necessary, that the actual service delivered was in accordance with the terms and conditions agreed upon.

#### *Recording of Liabilities and Commitments*

- Proper cut-off procedures were not observed. Liabilities arising from invoices awaiting approval by the directorate concerned, for goods and services received prior to year-end, were not recorded in the year to which they relate.
- Purchase orders for air travel expenses were not raised.

### Compliance Issues

#### *Visits Abroad*

- Travel subsistence was calculated on a per day basis instead of per night basis.
- Documentation and literature substantiating location, duration and programme of the visits abroad were not always kept and approval of visits could not be evidenced.
- In one instance full subsistence was granted to the participating officer although the accommodation was paid by the MTA.
- In another instance, a lump sum subsistence totalling Lm 1,000 was granted in respect of duty travel overseas.

## Recommendations

### Control Issues

#### Procurement

- The MTA should seek legal advice to identify the applicable procurement framework to be implemented. Subsequently, the MTA should ensure it adheres to the applicable legal procurement framework and internal procurement procedures manual.
- Direct orders, quotations, departmental calls for tenders or public contracts after a call for tenders should be the procedure adopted for the procurement of goods and services in accordance with the legislative framework regulating the MTA.
- Consultancy and advertising services should be governed by public service contracts clearly indicating the terms and conditions.

#### Recording of Liabilities and Commitments

- Invoices should be recorded in the respective financial period and proper cut-off procedures are to be observed.
- Purchase orders are to be raised prior to procurement to ensure effective control over the whole process.

#### Visits Abroad

- Overpayments of travel subsistence are to be recovered by MTA and travel

procedures are to be in accordance with the Public Service Management Code.

## Management Comments

Management has already adopted most of the recommendations and remarked that:

- The MTA awaited legal advisors' recommendations in order to assess its position in relation to the applicable procurement framework.
- The new purchasing procedures that were due to be implemented by the MTA in August 2005 were meant to address the issues raised by the NAO.
- The MTA was considering issuing an expression of interest to service providers such as advertising which would eventually lead to the appointment of an advertising agent.
- As from May 2004 a 'formal visits' abroad approval sheet was introduced and as from January 2005 a 'per night' basis was adopted.
- While it was desirable to record invoices in the financial period they relate to, the instances mentioned are not deemed to be material especially when considering cut offs.
- The reply by management on the recoverability of travel allowances overpayments was not satisfactory.

## The Manoel Theatre Management Committee

### Background

The Manoel Theatre Management Committee (MTMC) is responsible for the operation and running of the Manoel Theatre. The Committee develops and implements a Calendar of Events ensuring a continuous programme of cultural and artistic events.

There is no legislation regulating the running of the Manoel Theatre but this entity is incorporated in the Malta Council for Culture and the Arts Act (Cap 444), Article 8.

### Control Issues

Opportunities for improvement were identified in the following areas:

#### *Accounting Procedures and Practices*

- The MTMC did not maintain debtors' and creditors' ledgers. This rendered the updating, extraction and monitoring of debtor and creditor balances a more difficult task.
- The non-integration of the invoice generating facility with the updating of the debtor accounts resulted in duplication of work.

#### *Debtors*

- The MTMC's debt management policy was not documented, leading to risks of inconsistent application of management's policies and lack of standardisation of the accounting effort. A provision for bad debts disclosed in the financial statements amounted to Lm 11,050 which corresponds to 35% of total debtors.

#### *Stocks*

- The stock figure in the financial statements did not include the valuation of the wardrobe costumes held at the Theatre.
- Order forms for the hire of costumes were numbered manually. This may result in a lack of adequate control over income from costume hire.

#### *Fixed Assets*

- Two refurbishment works contracts, each exceeding Lm 20,000, were awarded following calls for quotations and not through the issue of public calls for tenders by the Department of Contracts as required by the procurement regulations.
- The actual cost of one of these two projects exceeded the contract amount by 58%, resulting from a lack of project management processes for planning, organising, monitoring and controlling the project. Furthermore, the approval of the variations from the Director of Contracts was not requested in accordance with relevant directives.

#### *Revenue*

- In the absence of a formal contract with the producer of an annual production, the MTMC was not in a position to ensure, and enforce if necessary, that the actual theatre fees, terms and conditions agreed upon were complied with.
- MTMC was unable to monitor leased establishment's turnover. As a result it

was not possible to claim the additional percentage in proportion to the annual turnover.

### *Expenditure*

- Authorisation of expenditure was not evidenced, increasing the risk of incurring unnecessary and unauthorised expenditure.
- Regular wages and salaries reconciliations were not performed. Unreconciled discrepancies were observed between the cost of full time staff as per financial statements and the total as per returns submitted to the Inland Revenue.
- A number of payments were not covered by fiscal receipts, implying lack of compliance with tax laws.

## Recommendations

### *Control Issues*

#### *Accounting Procedures and Practices*

Whilst noting that management had already started the process of improving its accounting system it is recommended to select and use an appropriate accounting software package. The debtors' and creditors' ledgers and the invoice generating facility are to be fully supported by any new system in order to avoid duplication of work.

#### *Debtors*

The MTMC's debt management policy be documented. Management should assess the creditworthiness of customers before granting credit. A concentrated effort should be made to recoup the amounts due.

#### *Stocks*

A valuation of the stock of wardrobe costumes should be performed, approved by MTMC, and the figure included in the financial statements.

The request for costume hire forms should be in pre-printed sequential numbers

to ensure better control over income received from costume hire.

#### *Fixed assets*

Capital projects, the estimated cost of which exceeds Lm 20,000, are to be procured through a public call for tenders issued by the Department of Contracts. Furthermore, once a contract is awarded, approval by the Director of Contracts should always be sought prior to implementing any variations exceeding 5% of the initial contract.

#### *Revenue*

A formal contract should be entered into between the MTMC and the producer of the annual stage production in order to formally stipulate theatre fees, terms and conditions.

More efforts should be made by MTMC officials to seek alternative ways to estimate the annual turnover for the year rather than waiting for the submission of the audited financial statements to the Committee. Furthermore a deposit to be withheld if the client defaults could also be demanded in advance when negotiating a new agreement.

#### *Expenditure*

Every item of expenditure incurred should be duly approved before it is incurred.

The wages and salaries disclosed in the financial statements are to be reconciled to FSS returns.

The MTMC should ensure that VAT fiscal receipts or tax invoices be obtained from suppliers. Furthermore the VAT department is to be informed of defaulting suppliers.

## Management Comments

Management noted observations and recommendations made and action has already been taken to implement most of the recommendations. In particular it was also noted that:

- The necessary software relating to the debtors and creditors has already been installed and is fully integrated to the nominal ledger.

- Management has discontinued any business with defaulting debtors and disputes over a number of issues are now the subject of a court case.
- The feasibility of a valuation and inclusion in the balance sheet of the costumes has to be investigated as this would incur a substantial expense. Moreover some of the costumes are only kept for display purposes in the museum. Such items have more of a historical value than a monetary value.
- New order forms for the hire of costumes have been printed with a sequence number. This ensures better control over costume hire.
- All projects currently being undertaken by the present Committee conform to all the recommendations passed.
- A formal contract has been signed for the annual production for the coming season.

## Malta Statistics Authority

### Background

Established by Act XXIV of 2000 (Chapter 422 of the Laws of Malta), the Malta Statistics Authority is responsible for the exercise of regulatory functions regarding resources relating to the collection, compilation and publication of official statistics, and to make provision with respect to matters ancillary thereto or connected therewith.

### Control Issues

Opportunities for improvement were identified in the following areas:

#### *Accounting practices*

- Stale cheques were not being reversed; and
- Accounting estimates were not always backed by documented workings and assumptions.

The aforementioned observations decrease the accuracy and integrity of the financial statements.

#### *Inventory System*

The computerised inventory system provided limited reporting facilities. Total figures for the asset classes could not be extracted and thus key/basic reconciliations could not be performed.

#### *Procedures Manual*

The Authority did not have a procedures manual documenting the functions and procedures of the finance section. The

lack of a procedures manual leads to risks of:

- inconsistent application of management's policies;
- decreased standardisation of the accounting effort; and
- unclear accounting responsibilities.

Disruption of the accounting function in the event of loss of key employees/inordinate staff turnover or absence may also result. Moreover, the identification of possible inefficiencies in the existing processes and opportunities for better practices are forfeited.

### Recommendations

#### *Control Issues*

##### *Accounting practices*

It is recommended that:

- Stale cheques be reversed; and
- Adequate workings, backing all accounting estimates made in the financial statements, are kept.

##### *Inventory System*

The Authority should enhance the reporting facilities of the computerised inventory system enabling extraction of management information.

##### *Procedures Manual*

A manual should be compiled and maintained.

**Management Comments**

Management remarked that the inventory system was improved to cater for the generation of reports. It is also expected to commence the compilation of a procedures manual in the near future.

## St. Patrick's Salesian School

### Background

The St. Patrick's Salesian School is a residential facility for boys set up in 1903 and run by the Salesians of Don Bosco. The School is intended to offer care and social work services to boys aged nine to sixteen whose families face problematic situations.

### Control Issues

Opportunities for improvement were identified in the following areas:

#### *Wages and Salaries*

Seventy per cent of the employees of the School did not have their grade and salary formally documented. This negatively impacted the controls over employment and related expenditure.

#### *Fixed Assets' Register*

The School lacked a fixed assets' register. Furthermore, controls safeguarding the physical assets were weak.

#### *Petty Cash*

No standard petty cash float was maintained by the School. Periodic reconciliations of book to actual balances were not performed and a shortfall in cash in hand was registered as at year end.

#### *Operating Budget*

No monitoring of actual against budgeted figures was carried out, thus forfeiting opportunities for timely detection and adjustment of possible budgetary problems.

#### *Recording of Liabilities*

A number of purchase invoices were posted upon payment date rather than invoice date. This resulted in inappropriate year end cut-off and understatement of liabilities.

#### *Community Donations/Grants*

Equipment purchased by the School and paid for by the Community was not included within the financial statements of the School. As a result, income, fixed assets and depreciation charge were not fully disclosed.

### Compliance Issues

#### *Procurement*

Works costing in excess of Lm 2,000 were awarded after only one quote was obtained from the open market.

#### *Care Expenses*

No proper allocation was made for care expenses disclosed in the financial statements, which included such items as repairs and maintenance and food provisions.

### Recommendations

#### *Control Issues*

##### *Wages and Salaries*

All employment relationships should be formalised so as to enhance control.

##### *Fixed Assets' Register*

A fixed assets' register should be compiled, maintained and periodic physical inventory checks carried out.

#### Petty Cash

A fixed petty cash float based on the imprest system should be implemented. No funds should be reimbursed unless management confirms proper vouching of supporting documentation.

#### Operating Budget

Regular monitoring of actual against budgeted figures should be performed by the School.

#### Recording of Liabilities

Invoices should be recorded in the respective financial period according to invoice date.

#### Community Donations/Grants

The School should account for all donations/grants and respective expenses/

assets in accordance with International Financial Reporting Standards (IFRSs).

#### Compliance Issues

##### Procurement

The Public Contracts Regulations need to be complied with.

##### Care Expenses

All expenses are to be properly and consistently classified.

#### Management Comments

Management concurred with the findings and is to take corrective action.

## Broadcasting Authority

### Background

The Broadcasting Authority, established by the Constitution of Malta, regulates sound and television broadcasting services in Malta, issues licences for the provision of such services and ensures that due impartiality is preserved with respect to matters of political or industrial controversy or relating to current public policy.

### Control Issues

Opportunities for improvement were identified in the following areas:

#### *Accounting Practices and Procedures*

Sales and purchases ledgers within the accounting package were not utilised thus forfeiting the full benefits of the computerised accounting package.

The lack of consistent and consecutively numbered invoicing considerably weakened the control aspect of the billing system.

The compiler and reviewer of journal entries were not evidenced in the majority of cases, negatively impinging on the accountability and control aspects of the accounting function.

#### *Procedures Manual*

The Authority did not have a manual documenting the functions and procedures of the finance section. The lack of a procedures manual led to risks of inconsistent application of management's policies, decreased standardisation of the

accounting effort and unclear accounting responsibilities.

#### *Debtor Balances*

A balance of Lm 12,400 was outstanding from a particular debtor as at year end and continued to increase up to the date of the audit.

#### *Fixed Assets' Inventory*

The Authority was not keeping room inventory lists. Moreover, the location of inventory items was not up-to-date.

### Compliance Issues

#### *Visits Abroad*

Travel subsistence was calculated on a per day instead of per night basis resulting in possible overpayments.

The Authority did not claim refunds on air tickets purchased through the local carrier, as it was entitled to.

#### *Procurement*

Purchase Orders for the procurement of equipment, stores, works and services were not always raised by the Authority.

The procurement procedures of the Broadcasting Act were not in line with the Public Contracts Regulations 2005.

No fiscal receipts were received by the Authority in respect of a maintenance agreement entered into during year 2002 costing over Lm 60,000.

## Recommendations

### *Control Issues*

#### Accounting Practices and Procedures

Sales and purchases ledgers should be fully used. Numbered invoices should always be issued to the respective operators.

Procedures ascertaining accountability over the raising and approval of journal entries should be strictly adhered to.

#### Procedures Manual

A manual should be compiled and maintained.

#### Debtor Balances

Further measures are to be taken to collect outstanding overdue balances.

#### Fixed Assets' Inventory

The fixed assets' inventory and room lists should be updated and maintained.

### *Compliance Issues*

#### Visits Abroad

The Authority's policy and procedures should ensure compliance with the provisions of the Public Service Management Code.

## Procurement

Pre-numbered purchase orders are to be raised and duly authorised prior to any commitments being entered into by the Authority.

The Authority should seek legal advice to clearly identify its operating procurement framework.

Fiscal receipts for payments effected by the Authority are to be obtained.

## Management Comments

Management concurred with the findings and is to take corrective action. Management also remarked that:

- as from January 2005 a per night basis was adopted for the calculation of travel subsistence.
- the fixed assets' inventory cannot be maintained due to the necessary frequent movement of items.

Management also remarked that implementing the purchases ledger will create duplication of work on the grounds that creditors are settled within the same week of receipt of incoming invoice and are therefore recorded as cash purchases. This comment is not considered satisfactory.



