

**Report**  
by the  
**Auditor General**



**Public Accounts 2005**

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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 or across government-wide activities and based our reviews on an 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. Each audit report, except the ones under “Other Reports”, 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 improving 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

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.

**Arrears of Revenue** as reported by Ministries and Departments per Returns submitted to NAO totalled Lm 412.4 million. Only an estimated amount of Lm 80.6 million was reported as collectible as at 31 December 2005. (page 40)

An audit at the **Public Registry** in respect of searches revealed that no regular back-ups of the database for searches were submitted to the Public Registry by the Company. During the year 2005, the Department paid an amount of Lm 1.213 million whereas the revenue collected from the public amounted to Lm 1.019 million. No arrears of revenue were being reported by the Department even though a considerable amount of revenue was still uncollected in respect of searches. (page 54)

From a review of the audit reports and the relative management letters submitted by local government auditors for all **Local Councils**, a number of concerns were reported in our report on page 67. Furthermore a considerable number of Local Councils have also registered various weaknesses with respect to the accounting of the Local Enforcement System (LES). It was also observed that the Joint Committees' financial statements were not submitted in time to coincide with the audit of the Local Councils.

A number of concerns that occurred individually in different Local Councils are also being reported upon separately. (page 57)

In an audit carried out at a selected **Joint Committee** for the year ended 31 March 2005 it was observed that tribunal pending payments in respect of the pooling period stood at Lm 504,335, reflecting an increase of 40% over last year. A provision for pooling period bad debts was estimated at Lm 136,515, reflecting an increase of 60% over the previous year.

Further review also revealed that tribunal outstanding payments totalled Lm 596,032 as at February 2006, of which:

- Lm 111,315 related to 65 motor vehicles. Nineteen of these vehicles had each accumulated pending payments over Lm 2,000 and;
- Lm 155,880 related to 69 owners. Twenty-two of these had accumulated pending payments over Lm 2,000 each with the top offender exceeding Lm 26,000.

The Traffic Regulation Ordinance requires the non-renewal of motor vehicles road licences with unpaid fines or penalties. Nevertheless 1,736 motor vehicles with a valid road licence as at March 2006 had their licence renewed even though they had tribunal pending payments. (page 72)

Students started attending St. Benedict's Secondary School, developed by the **Foundation for Tomorrow's Schools**, in September 2005. However, the premises and its contents were not officially taken over by the Education Division. Complete records of the fixed assets could not be evidenced. (page 82)

Heads of certain educational establishments in **Gozo** lacked guidance in implementing **inventory** policies. Detailed inventory listings are not being maintained in conformity with regulations and are not being reconciled with the main accounting records. (page 92)

The direct involvement of the Malta Education Division (MED) and the Treasury is weakening control over the payroll process performed by the **Gozo Education Office (GEO) Salaries Section**. This Section processes the payroll of both teaching and non-teaching staff engaged in Gozo Schools as well as for the staff at GEO. However most payments are not verifiable by the Section itself since source documents are maintained at the Registry of MED or at the Treasury. Instructions for salary deductions not timely received are resulting in overpayments which GEO is at times finding difficult to recover. (page 96)

The Social Security Department's SABS computerized system does not incorporate a nominal bank account that can be reconciled to the **bank statement**. Furthermore the Department does not retain a list of unrepresented cheques for each reconciliation period. From a reasonableness test carried out to verify the correctness of unrepresented cheques as at end of 2005, which amounted in total to Lm 1.34 million, it resulted that over 20% of the list consisted of payments issued prior to year 2004. (page 104)

An ageing analysis of the total population of invalids benefiting from **Invalidity Pensions** for the year under review shows that 3% are under forty years of age and 16% are under fifty years of age, representing 322 and 1,526 beneficiaries respectively. Medical reassessments are not made in instances where a beneficiary is granted invalidity pension indefinitely. An updated procedures manual was not available and several informal policies were being adopted by the Department in the calculation of invalidity pension. (page 108)

In a special report on the main themes and key issues emerging from the implementation of **electronic (e-) government**, NAO discusses the need for more attention to be given by senior management in Ministries and public entities to the:

- leadership and ownership of e-government initiatives and projects;
- development of strategies that encourage the public to interact electronically;
- use of technology-enabled change to transform back-office processes and structures;
- establishment of management information systems and monitoring processes to periodically review and improve the type and level of services offered online. (page 114)

The Office carried out a preliminary survey at the **Occupational Health and Safety Authority (OHSA)**, focusing on the Authority's work relating to the construction industry. Although the Authority has strived to raise occupational health and safety awareness and enforcement of relevant regulations within all economic sectors, including the construction industry, the lack of human resources available renders the Authority a reactive rather than a pro-active institution in all aspects of its activities. (page 126)

**Audit Opinion**

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# Audit Report of the Auditor General to the House of Representatives

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## Audit Mandate

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 I am hereby reporting on the observations of the audits performed for the financial year under review.

## Respective Responsibilities of the Accountant General and Accounting Officers

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.

## Basis of Opinion

The International Organisation of Supreme Audit Institutions (INTOSAI) Code of Ethics and Auditing Standards were used as guidelines of practices to be followed in the conduct of the audits.

The administrative and accounting organisation, as well as their internal control procedures within Ministries and Departments subjected to our audit were examined.

Where necessary we dealt with the weaknesses in the internal control system in our audits by forwarding recommendations for consideration by the respective auditees.

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

This Audit Report together with the Mid-Year Report on the Public Accounts 2005 (Annex A refers) that was presented to Parliament in July 2006 form the basis of this Opinion.

## Opinion

Proper and consistent application of internal controls and compliance with a number of rules and regulations need to be strengthened.

Except for the relevant comments contained in this report and in the Mid-year Report, the accounts and records subjected to our audit were fairly stated.

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 2006

**Annex A – Audits Reported upon in Mid-Year Audit Report on Public Accounts 2005**

*Ministry for the Family and Social Security*

Social Security Department – Children Allowances

*Ministry of Education, Youth and Employment*

Ministry – Wages and Salaries

Private Secretariat – Wages and Salaries

Industrial & Employment Relations Department – Arrears of Revenue

*Ministry of Finance*

Inland Revenue Department – Enforcement of Class Social Security Contributions

Customs Department – Community Transit

Customs Department – Traditional Own Resources

Public Debt Budgeting

*Ministry for Rural Affairs and the Environment*

European Agricultural and Guarantee Fund – Paying Agency

European Agricultural and Guarantee Fund – Integrated Administration and Control System

*Ministry of Health, the Elderly and Community Care*

Bio Medical Engineering Stores – Karen Grech Hospital

Ministry's Expenditure

*Ministry for Resources and Infrastructure*

Ta' Robba Quarry

*Ministry for Justice and Home Affairs*

Courts of Justice – Wages and Salaries

Non-Central Government Organisations/Public Entities

Malta Stock Exchange

Mediterranean Centre

Conservatorio Vincenzo Bugeja Programmes

Malta Standards Authority



**Financial Report 2005**

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## Analysis of the Financial Report 2005

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### Introduction

Statements of the Consolidated Fund Account, showing the comparative positions in 2004 and 2005, and the receipts and payments of funds created by law were laid on the Table of the House of Representatives during Sitting No.376 on 24 April 2006 after being reconciled with Treasury Books by the Auditor General 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 2005 were submitted by the Accountant General in terms of Article 67 of the Financial Administration and Audit Act, 1962 and were examined in terms of Sub-para. 1(e) of the First Schedule of the Auditor General and National Audit Office Act, 1997. The Report was laid on the Table of the House of Representatives during sitting No.417 on 17 July 2006.

A comprehensive view of Government financial operations can be made by reference to both this Report and the Financial Report for 2005.

### Consolidated Fund Statement – 2005

Part 1 of the Financial Report states that 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.

After the House of Representatives approved the year 2005 Budget (Original Estimates) for an expenditure of Lm988,658,000 as authorised by Warrant No.1 issued on 21 December 2004, and a further Lm75,003,000 as approved by Supplementary Estimates Warrant No.2 dated 18 November 2005, it was estimated that revenue was to exceed expenditure by Lm5,423,000. Following the closure of the 2005 Accounts, it resulted that revenue had actually exceeded expenditure by Lm46,494,015.

### Revenue

Details of Revenue collected during 2005, 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, are provided in Part 1 (pp. xiv, xv) of the Financial Report 2005.

### Expenditure

The appropriations for expenditure during 2005 were authorised by the issue of Warrant Nos.1 and 2 by the Minister of Finance. These were appropriated under the following Statutes:

	Lm
i. Appropriation Act (Voted Services)	717,232,554
ii. In terms of Special Laws	325,757,626
iii. In terms of the Constitution	20,670,820

## Analysis of Appropriations

### □ Appropriation Act (Voted Services)

	Lm
Appropriated by Act XIV of 2004	653,319,554
Appropriated by Act XVI of 2005 (Second Appropriation Act)	<u>63,913,000</u>
	<b><u>717,232,554</u></b>

### □ Special Laws

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

	Lm
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)	260,000
c) Expenses of the Tribunal for the Investigation of Injustices (Act VIII of 1997)	49,550
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)	36,000
f) Social Security Act, 1987 (Act X of 1987)	221,629,000
g) Pensions Ordinance (Cap. 93)	30,778,000
h) Expenses of the Office of the Ombudsman (Cap. 385)	175,000
i) Expenses of the Permanent Commission Against Corruption (Act XXII of 1988)	25,000
j) Interest plus contribution to the Sinking Funds i.r.o. Local Government Stock – Registered Stock and Security Ordinance 1959 (Cap. 161)	70,634,076
k) Malta Arbitration Centre (Act II of 1996)	27,000
l) Expenses of the National Audit Office (Act XVII of 1997)*	870,000
m) Refunds under V.A.T./C.E.T. Acts	400,000
n) Widows' and Orphans' Pensions Act (Cap. 58)	190,000
o) Personal Injuries (Emergency Provisions) Ordinance (Cap.111)	25,000
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)	476,000
	<u>325,757,626</u>

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

### □ In terms of the Constitution

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

	Lm
The President of Malta	18,931
The Attorney General	17,051
Judges and Magistrates	612,802
The Public Service Commission	<u>25,112</u>
	673,896
In terms of Article 106 as applied to the Public Debt	<u>19,996,924</u>
	<b><u>20,670,820</u></b>

### Assets and Liabilities

Article 67 (j) of the Financial Administration and Audit Act, 1962 states that the Accountant General “shall prepare a statement of assets and liabilities of the Government at the end of the financial year”.

#### Assets

The Statement of Assets, as shown in Appendix I of the Financial Report 2005, is reproduced in Table 1.

Table 1 – Statement of Assets

	<b>2005</b>	<b>2004</b>
	Lm(000's)	Lm(000's)
Public Credit		
Share Holding	263,595	219,473
Other Investments	48,185	57,281
Loans	<u>3,240</u>	<u>8,542</u>
	<b>315,020</b>	<b>285,296</b>
<b>Investments held on behalf of</b>		
Sinking Funds (Local)	63,800	56,554
Sinking Funds (Foreign)	19,484	15,533
Trust Funds	417	386
Court and Other Deposits	<u>418</u>	<u>382</u>
	<b>84,119</b>	<b>72,855</b>
<b>Advances</b>		
Unallocated Stores	356	1,441
Advances	<u>108,691</u>	<u>121,446</u>
	<b>109,047</b>	<b>122,887</b>
<b>Bank and Cash</b>		
Banks	314	406
C.B.M. – Public Account	<u>58,819</u>	<u>44,677</u>
<b>TOTAL ASSETS</b>	<b><u>59,133</u></b> <b><u>567,319</u></b>	<b><u>45,083</u></b> <b><u>526,121</u></b>

*Loans made by Government and Repayments thereof*

Balances and other details of all loans issued by Government as on 31 December 2005 as reported in Appendix E of the Financial Report 2005, are summarised as follows:

	Lm
I. Loans under Act II of 1956	9,917
II. Other Loans	3,230,186
	<u><b>3,240,103</b></u>

Other Loans at II consist of the following:

	Lm
Aids to Industries Scheme	1,596
Tourism – Loans to Hotels	6,672
Malta Government Investments (MGI) – Malta Development Corporation (MDC) - Investment in Industry	247,605
Agriculture – Assistance to Co-operatives	41,600
Water Services Corporation	2,932,713
	<b>3,230,186</b>

### *New Loan Issues*

New loans issued by Government during 2005, as reported in Appendix E of Financial Report 2005, amounted to Lm39,010. These loans were made to the following companies:

	Lm
Gozo Heliport	25,000
Kalaxlokk Ltd	14,010
	<b>39,010</b>

Hereunder is a brief description of the loan issues featuring in the Financial Report 2005:

- 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 Ltd. This refers to payment of terminal benefits in terms of the 1999 Voluntary Redundancy Scheme. One of the employees terminated his employment in 2004 and the benefit due to him was released accordingly.

Although, the abovementioned transactions were made by MGI, as agent for Government, in the Financial Year 2004, Treasury accounted for these transactions in the Financial Report 2005.

No new loan agreements were negotiated during 2005. This also applies to the new loan to Kalaxlokk Ltd. Both this loan and the subvention to Gozo Heliport, which was also accounted for by MGI and Treasury as a loan, were consequently written off in 2005, by both MGI and Treasury, as detailed below under 'Adjustments'.

### *Loan Repayments*

The loan to the Water Services Corporation which as at 31 December 2005 amounted to Lm2,932,713, is interest free and repayable either through any surpluses generated by Water Services Corporation 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.

A loan repayment amounting to Lm300,000 was reported as having been made by Water Services Corporation during 2005. This transaction consisted of a transfer of funds from 'Recurrent Item 6742 - Grant to Water Services Corporation Towards the Cost of Water Production' to 'Repayment of Loans Revenue Item 0659 Others'. This transaction was authorised by the Ministry of Finance during the third quarter of 2005.

### Adjustments

Total adjustments for the year under review amounted to Lm5,041,044. A breakdown of this amount is given below.

Other Loans:	Lm
Housing Scheme	64,003
MGI-MDC Investment in Industry	<u>4,977,041</u>
	<b><u>5,041,044</u></b>

- Housing Scheme – In the year under review, the Ministry of Finance granted authority for the write off of Lm64,003 being amount which still appeared in the Treasury books in connection with 1970's housing loan schemes. However, correspondence dating back since 1999 from the Department of Social Housing suggest that these loans had all been repaid except for an amount of Lm326 for which the same Department intended to take legal action.
- MGI-MDC Investment in Industry adjustments, amounting to Lm4,977,041 relate to loans written off and other adjustments due to previous misclassifications. These adjustments, together with accumulated interest written off, amounting to Lm1,188,673 are detailed in Table 2 below:

Table 2 – Loan and Interest Adjustments

	Loan	Interest
	Lm	Lm
MGI Loans:		
Artcane Ltd	3,000	0
Chinese Maltese Services Ltd	21,500	16,724
Concrete Products Ltd	1	0
Construction and General Engineering	35,488	39,767
Craft Glass Ltd	35,000	49,792
Equipment Machinery Ltd	155,720	10,708
Gozo Heliport*	170,000	0
Handtools Ltd	215,731	0
John Baker Malta Ltd	245,595	246,363
Kalaxlokk Co Ltd*	20,633	0
Libma Inter. Construction Ltd	39,530	0
Malta Decorative Glass Co Ltd	366,424	236,044
Malta Rattan Products Ltd	55,995	18,820
Malta Spinning and Weaving Ltd	521,057	378,028
Malta Wincargo Ltd	911,251	0
Marsa Water Fittings	68,400	69,515
Mdina Carpets Ltd	64,000	51,239
Mediterranean Coral Fishing Ltd	40,000	0
Metalfond Ltd	1,493,372	0
Mqabba Marbles Ltd	0	3,289
Promotion and Trading Ltd	96,142	0
Quality Shoes Co Ltd	100,249	15,108
Shoecraft Co Ltd	10,000	928
Walta Handtools Ltd	103,882	27,170
	<b>4,772,970</b>	<b>1,163,495</b>
Ex-MDC Loans:		
- Written off		
Mdina Craft Co Ltd	68,550	25,178
Hannibal Civil and Mechanical Engineering	36,695	0
- <i>Misclassification Adjustment</i>		
Malta Export House Limited	98,826	0
	<b>204,071</b>	<b>25,178</b>
<b>Total adjustments</b>	<b>4,977,041</b>	<b>1,188,673</b>

*Note: It was noted that in some instances, company names were somewhat different from one document to another, hence actual company names could vary from those listed above.*

\* These write offs include the subvention amount treated as a new loan of Lm25,000 and a new loan of Lm14,010 respectively.

MGI informed Treasury that the amount of Lm170,000 adjusted with respect to Gozo Heliport consists of a write off of a loan of Lm40,000 and a misclassification adjustment of Lm130,000 as it was claimed that the latter amount was not a loan but a subvention. However, as noted above, the amount of Lm40,000 written off includes the alleged loan of Lm25,000. Additionally, as highlighted in the Report of the Auditor General in 2004, it is questionable whether the remaining Lm15,000 payment made by Government to Gozo Heliport in respect of licence fees should have been considered as a loan.

Treasury requested the write offs included in Table 2 following a letter from Malta Investment Management Company Limited (**MIMCOL**) stating that the "...companies are all in liquidation and there is no chance of recovering any of the loans...". The Ministry of Finance granted its approval "provided that the write-off (i) is in respect of Companies where recoupment is not envisaged as possible".

However, through Treasury correspondence with the Malta Financial Services Authority (**MFSA**), it was noted that Libma International Construction Company Ltd was still in operation in January 2006. In correspondence with Treasury, MIMCOL stated that the company in question ceased operations years ago and the loan repayable by this company had been fully provided for in MIMCOL's books. The loan was written off on the basis that it is impossible to recover any debts due from this company. It was also stated that accounts are being compiled as the company is still in liquidation. This statement contradicts the company's status as provided by MFSA, i.e. that the company is still in operation.

The loan amount due from Hannibal Civil and Mechanical Engineering Company Ltd was written off by Treasury. In correspondence received by Treasury from Malta Enterprise Corporation Ltd, in 2005 and 2006, it was stated that the loan to Hannibal Civil and Mechanical Engineering Company Ltd does not feature in MDC/Malta Enterprise Corporation Ltd books and has not done so for at least the last five years.

MGI and Treasury loan amounts written off with respect to Libma International Construction Ltd did not agree. Amounts written off of Lm39,168 and Lm39,530 represented outstanding balances in MGI's and Treasury's books respectively.

### *Loans not featuring in MGI Statement as at 31 December 05*

The following loans still appearing in Treasury books under MGI-MDC – Investment in Industry do not feature in MGI statement of loans as at the end of the Financial Year under review:

Air Supplies and Catering Co Ltd	Lm 605
MDC Loan	247,000
	<u>247,605</u>

*Air Supplies and Catering Co Ltd* - Originally two loans were granted to Air Supplies and Catering Co Ltd - loan 1 and loan 2. The capital balance of loan 2 was paid in full. Interest receivable on this loan amounts to Lm51,582. Loan 1 originated in 1983. Notwithstanding that the outstanding loan balance amounts to Lm605, interest receivable accruing from this

loan amounts to Lm73,221. Hence, according to Treasury books, which have not been updated since 1993, the total amount due from the above mentioned company is Lm125,408 (Lm605 capital and Lm124,803 interest).

Correspondence on this issue between the Ministry for Investment, Industry & Information Technology and Air Malta clearly confirm that the above mentioned dues do not feature any more in the audited books of Air Supplies & Catering Co Ltd and as such the company would resist any claims on this matter. To support their position, Air Malta provided various documentation including copies of past audited accounts of the company in question. In fact, the notes to the Financial Statements for the Financial Year ended 31 March 1995 reveal that the loan made by MGI including interest, was actually paid in full during the financial year ended 31 March 1995.

Moreover, the balances of the loans from MGI disclosed in the audited accounts as at 31 March 1993 amounted to Lm273,294, whilst the last balances present in Treasury books as at December 1993 amount to Lm125,408. As a result, given also that Treasury does not have available loan agreements in relation to these loans, it is questionable whether Treasury is claiming the same dues which were disclosed as due to MGI in the audited annual accounts of the company before they were reported as being fully repaid in the audited accounts for the financial year ended 31 March 1995.

*MDC Loan* – Evidence traced from Treasury files hinted that the interest free loan amounting to Lm247,000, which was issued to MDC in relation to the refurbishment of the then Verdala Hotel, was actually repaid in 1998. Treasury confirmed this evidence claiming that at that time, the amount was credited to Miscellaneous Revenue but without deducting the same amount from the respective loan account. This was also confirmed by the Budget Office within the Ministry of Finance which agreed that this loan should be removed from Treasury books.

#### Other Loans – Tourism – Loans to Hotels

Beneficiaries	Loan	Interest	Total
	Lm	Lm	Lm
Hotels	6,672	3,368	10,040

Treasury confirmed that the balance of Lm6,672 due from Tourism – Loans to Hotels is due from two hotels being Capua Court Hotel and Selmun Palace Hotel. With regards to the loan to Capua Court Hotel, correspondence from the controller of President Hotels Limited states that the liabilities of this company exceed its assets and hence the company's liabilities will not be paid in full. The amount of funds that will be recouped by Government, if any, depends on the position of Government in the ranking of this company's creditors. The file of Selmun Palace Hotel could not be traced by Treasury.

#### Other Loans – Aids to Industries Scheme

The balance of the loan 'Aids to Industries' of Lm1,596, is due from one company Lisbet Ltd. The file of the related company has still not been traced by Treasury and as a result it could not be verified whether a loan agreement had been entered with this company.

#### Agriculture and Fisheries Loans

Treasury has been chasing the Department of Agriculture and Fisheries to furnish information of the following loans:

	Lm
Agriculture	8,089
Agriculture Assistance to Co-Operatives	41,600
Fisheries	1,828

The statement received is not accurate as it includes an agricultural loan amounting to Lm720 which had been repaid in 2000. Moreover, the Ministry for Rural Affairs and the Environment did not confirm the outstanding Fisheries loan amount.

### Investments

The estimated market value of investments as shown in the Financial Report as at 31 December 2005 was Lm347,713,140 as against Lm292,328,343 as at 31 December 2004, i.e. an increase of Lm55,384,797.

Investments are classified in the Financial Report as follows:

	Lm
Shareholding	263,594,527
Court and other deposits	418,437
Sinking Funds	83,283,643
Trust Funds	416,533

The following were the major changes in investments during the year as noted through comparison between data as per Financial Report 2005 and the preceeding year:

### Sale of Investments

During 2005, Government sold the following investments:

- Treasury stated that Lm13,530,000 ordinary shares of 20 cents each in Malta International Airport Co Ltd were sold by auction for Lm19,275,332. However, Treasury has no formal documentation or any other evidence regarding the auction sales of these shares. The necessary information in order to be able to update records was obtained through an email from the Privatisation Unit within the Ministry for Information Technology and Investment. This email stated that the amount due and paid to Government amounted to Lm19,275,000. This figure was supported by a credit advice dated 5 December 2005 from the Central Bank of Malta for the amount of Lm275,332 and a receipt for Lm19,000,000 issued from DAS.
- Sale of all the shares (1,972,153 ordinary shares of 50 cents each) held in Middle Sea Insurance Co Ltd. These shares were sold in three tranches as follows:
  - 980,737 ordinary shares were sold on 28 January 2005 at the price of Lm3 per share. The proceeds from this sale amounted to Lm1,956,564 and Lm976,817 and these amounts were set off against an advance made by Government in relation to the purchase of Middle Sea Insurance Co Ltd shares from Mid-Med Bank.
  - 896,584 ordinary shares were sold on 30 September 2005 for the price of Lm3 per share. The proceeds from this sale amounted to Lm2,681,681, of which Lm1,115,926 were transferred to revenue in the Consolidated Fund whilst Lm1,565,755 were set off against an advance made by Government in relation to the purchase of Middle Sea Insurance Co Ltd shares from Mid-Med Bank.

- 94,832 ordinary shares were sold on 4 October 2005 at the price of Lm3.25 per share. The proceeds from this sale amounted to Lm307,277 and these amounts were transferred to revenue in the Consolidated Fund.
- Sale of all the shares (991,310 ordinary shares of 1 Euro each) held in Eutelsat S.A. These shares were sold for the price of 2.57 Euros each on 1 July 2005. The total proceeds from this sale amounted to 2,547,667 Euros. After converting these proceeds to Maltese Lira (less bank fees) at the rate of exchange of 0.4293 applicable on 1 July 2005, the total amount credited to the Central Bank of Malta Government account amounted to Lm1,092,142.

It is to be noted that Treasury recorded the related transactions on the basis of an unsigned copy of an agreement between the Ministry for Competitiveness and Communications (the Seller) and Satbirds 2 SAS (the Purchaser).

### *Increase in Investments*

The Government was allotted an additional 980,000 shares of Lm1 each in Public Broadcasting Services Co Ltd. The consideration for the newly issued shares was by way of capitalisation of the shareholder's loan.

### *Movements in Values of Existing Investments*

- During 2005, 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; and
  - Mediterranean Offshore Bunkering Co Ltdincreased due to changes in USD exchange rate.
- The investment in the European Bank for Reconstruction and Development of 100 Subscription Shares of 10,000 Euros each (30% paid up) has depreciated by Lm1,560 due to changes in the Euro rate of exchange.

The market value of the remaining 100 Subscription Shares of 10,000 Euros each increased to Lm98,739. The increase in market value of Lm11,296 was due to:

  - the increase in the paid up share capital by Lm12,446 (28,750 Euros) due to the Eighth Instalment of Subscription, hence totalling the new paid up share capital to 230,000 Euros (23%) as the end of 2005; and
  - decrease in the market value as at the end of the financial year 2005 by Lm1,150 due to changes in the Euro exchange rate.
- Government's investment in Bank of Valletta plc has risen by Lm40,967,025, to Lm103,745,846 when compared to the previous year. This increase is attributable to an appreciation in Bank of Valletta plc shares. As at 31 December 2005 shares were valued at Lm7.42, an increase of Lm2.93 from the value at the end of the previous year.
- A substantial increase of Lm16,707,822 was registered in the value of the investment of 47,736,634 ordinary shares of 25 cents each in Maltacom plc. This was due to the increase

in the market price per share from Lm1.50 as at 31 December 2004 to Lm1.85 as at 31 December 2005. The value of the investment at year end stood at Lm88,312,773.

- The market value of the remaining 13,529,995 ordinary shares of 20 cents each in Malta International Airport Co Ltd increased to Lm20,971,492 as at 31 December 2005 when compared to the market value of Lm15,288,894 as at the end of 2004. This increase was due to the appreciation of the market price of Lm0.42 per share.

Treasury revalued the remaining 13,529,995 ordinary shares in two different tranches as follows:

1. Upon the sale of 13,530,000 ordinary shares – In this case, Treasury revalued all existing shares prior to the sale (27,059,995 ordinary shares) at Lm1.40 each, which was the selling price of the shares being sold.

2. A year end adjustment was recorded in order to revalue the remaining 13,529,995 shares held as at the end of 2005 at the closing market price of Lm1.55 per share.

### *Accounting for Sale of Investments*

Realised gain/loss on sale of investments are not being separately accounted for and disclosed in the Financial Report. Upon the sale of shares, Treasury revalues/devalues all the existing shares prior to the sale at the selling price of the shares being sold. Thereafter, the sales proceeds from the sale of the investment are deducted. As a result, Treasury is not being consistent in the revaluations made to Government investments. Moreover, the abovementioned accounting procedure does not comply with the provisions of Articles 76 and 77 of the General Financial Regulations as the latter require that realised gains/losses should be accounted separately in a below-the-line account and that revaluations of investments should only be made at the end of the respective Financial Year.

### *Custodian of Enemy Property*

During 2005, the Custodian of Enemy Property account reported in the Treasury Clearance Fund was wound up. In view of this, funds amounts which had been invested in bank accounts were recouped through the closure of the fixed bank account (balance of Lm10,000) and the Savings Bank Account (balance of Lm3,294). Whilst reviewing documents supporting these transactions, it was noted that an amount of Lm52 received from Bank of Valletta plc in the form of dividends from investments was also accounted for in the Custodian of Enemy Property account prior to its winding up.

Upon enquiry, Treasury could not provide a justifiable explanation regarding the origin of this amount and its subsequent accounting treatment. In fact, Treasury stated that it was only responsible for the management of the abovementioned bank accounts. Accounting for other income in relation to other Custodian of Enemy Property investments was only based on the documentation received from other Ministries/Departments. Hence, in view of the fact that there could be other investments relating to the fund which Treasury is not aware of, the completeness of the Custodian of Enemy Property Account before it was wound up is questionable.

### *Trust Funds*

Trust Funds are invested in Securities. Up to the Financial Year 2004, Trust Funds also used to be invested in HSBC Accounts but these accounts were all closed off during 2005. During 2005, two (2) new investments were made in Government Stocks, one amounting to

Lm8,000 in March 2005 and another amounting to Lm9,500 in August 2005. These investments were apportioned among funds as necessary.

### Completeness of Government Investments

Treasury stated that movements in the nominal values of investments are only recorded upon information derived from third parties. In the absence of consistent independent controls by Treasury, there is the risk that if Treasury is not informed about a particular movement in an investment, such movement could not be updated in Treasury books and hence in the Government's Financial Report.

### Other Investments

#### Investment in Industry

A return submitted by MGI to the Accountant General showed that the total cost of investment in thirty (30) companies amounted to Lm10,763,410 as at 31 December 2005.

MGI estimated that the net book value of these companies only amounted to Lm7,451,288 after an accumulated provisional loss of Lm3,312,122. Further details are provided in Table 3.

Table 3 – Investments through MGI

Investment Type	No. of Companies	Cost	Provision	Net Book Value
		Lm	Lm	Lm
Subsidiary Companies	19	10,288,103	2,837,122	7,450,981
Associated Companies	1	475,000	475,000	0
Other Companies	10	307	0	307

The return also pointed out that two (2) of these companies were undergoing liquidation procedures, one (1) is awaiting tax clearance before it can be struck off and two (2) never commenced operations.

Treasury records MGI investments' transactions according to instructions received from the company. MGI receives guidance on how to account for receipt and expenditure of funds directly from the Ministry of Finance. Consequently, in Government's Accounting System there could be movements in investments which are not completely reflected in respective revenue or expenditure accounts.

Financial Report data reflects movements as recorded by MGI and not necessarily as recorded by the Government Accounting System.

At the end of 2005, the total of investment in industry, as reported by Treasury, amounted to Lm10,923,012 as against Lm20,018,403 on 31 December 2004, a decrease of Lm9,095,391 over the previous year. This decrease is sub-classified as follows in Table 4 below:

Table 4 – Net Change in Other Investments 2005

<b>Investment write offs:</b>	
	Lm
Artcane Ltd	(200)
Capra Malta Ltd	(55,000)
Chinese Maltese Catering Crafts	(12,500)
Chinese Maltese Silk	(6,500)
Construction and General Engineering	(150,245)
Corolla Mobili Ltd	(300,000)
Craft Glass Ltd	(35,200)
Elma Motors Ltd	(36,700)
Engineers Instruments	(300,000)
Equipment Machinery Ltd <sup>1</sup>	(2,000)
Fish Marketing Co Ltd	(2,800)
Footwear Ltd	(5,000)
Handtools Ltd	(188,055)
Hannibal Civil and Mechanical Engineering	(65,000)
Hotel Management Services	(5,000)
Hydraulic Units Ltd	(400,000)
Industrial Warehouse Services	(5,000)
Interprint Malta Ltd	(580,057)
John Baker Malta Ltd	(59,880)
Konkos Ltd	(80,000)
Lapsi Quarry Ltd	(25,000)
Libma Int Construction <sup>2</sup>	(87,070)
Libyan Arab Maltese Co. for Supermarkets Ltd.	(344,415)
Libyan Maltese Agro Chemical <sup>1</sup>	(26,216)
Light Industrial Products	(45,000)
Malta Decorative Glass	(79,235)
Malta Desalination Services	(1)
Malta Film Promotion and Development	(4,999)

Malta Gantry Manufacturing	(1)
Malta Rattan Products Ltd	(38,287)
Malta Spinning and Weaving	(2,278,279)
Malteco	(10,000)
Marsa Water Fittings	(144,663)
Master Antenna <sup>3</sup>	(1)
Mdina Carpets Ltd	(178,020)
Mdina Craft Co Ltd <sup>3</sup>	(53,400)
Mediterranean Casino Ltd	(180,000)
Mediterranean Coral Fishing Ltd	(40,000)
Mediterranean Film Productions	(26,353)
Mediterranean Meat Ltd	(14,700)
Metalfond	(1,560,001)
Mqabba Marbles	(100,779)
Natural Products Ltd <sup>3</sup>	(22,500)
Portelli International Ltd	(7,650)
Post Office Malta Ltd	(1)
Promotion and Trading Ltd	(169,008)
Quality Trading Co Ltd	(24,472)
Sam-Sat Ltd	(20,000)
Sea Malta Co Ltd	(2,215,000)
Shoecraft Co Ltd	(2,499)
Somed Fabbrica Ltd	(300)
Valletta Harbour Works Ltd	(45,000)
Walta Handtools Ltd	(37,001)
	<u>(10,068,988)</u>
<b>Proceeds from Liquidation:</b>	
Maltese Falcon Productions <sup>4</sup>	(100,000)
	<u>(100,000)</u>

<b>Sales of Shares:</b>	
Fort Chambray	(4,901)
Fort Chambray Management	(1)
	<b>(4,902)</b>
<b>New Acquisitions:</b>	
Malta Air Traffic Services Ltd	800,000
Malta Marketing Ltd <sup>5</sup>	499
Tug Malta Ltd	278,000
	<b>1,078,499</b>
<b>Net change in investments during 2005</b>	<b>(9,095,391)</b>

*Note: It was noted that in some instances, company names varied from one document to another, hence actual company names could vary from those listed above.*

Treasury requested the above write offs following a letter from MIMCOL stating that the “...companies are all in liquidation and there is no chance of recovering any of the loans and the share capital.” The Ministry of Finance granted its approval provided that the write off is in respect of Companies where recoument is not envisaged as possible.

<sup>1</sup> These represent ex-MDC investments which now fall under the responsibility of Malta Enterprise Corporation Ltd. Investment amounts were written off by Treasury since MGI had noted that these companies are in liquidation. Malta Enterprise Corporation Ltd. noted that the shareholding in Equipment Machinery Ltd is still showing on its books since the company is in dissolution but has not as yet been struck off. The amount invested in Libyan Maltese Agro Chemical Ltd (Lm19,716) was struck off by Malta Enterprise Corporation Ltd and is no longer showing in its books. The difference between the amount written off by Government and by Malta Enterprise Corporation Ltd has never been reconciled and as a result outstanding amounts were written off in respective books.

<sup>2</sup> In correspondence sent to Treasury by MGI it was stated that the shares of Libma International Construction Ltd were in the hands of MDC and were never taken over by MGI. Malta Enterprise Corporation Ltd included an investment of Lm44,479 in a document showing Government Investments through MDC as at 31 December 2005, submitted to Treasury. However, in correspondence received from Malta Enterprise Corporation Ltd by Treasury in September 2006, it was noted that MDC or Malta Enterprise Corporation Ltd are not shareholders in this company. From documentary evidence available, it could not be ascertained who is actually responsible for this investment and whether the write off was made in the respective books. Treasury explained that the difference between the amount written off by Government and that specified in the document prepared by Malta Enterprise Corporation Ltd has existed for a number of years and was never reconciled.

<sup>3</sup> These movements in Financial Report 2005 actually took place during financial year 2004. These movements had not been reported in Financial Report 2004 since MGI notified Treasury regarding these movements, late on 16 June 2005.

<sup>4</sup> Liquidation proceeds were received by MGI but not by Government.

<sup>5</sup> This new indirect investment actually took place during financial year 2004. However it was included in Financial Report 2005 since MGI notified Treasury regarding this movement when it was too late to include such amount in the Financial Report for that year.

### *Investment in Topwear Ltd*

Malta Enterprise Corporation Ltd included an investment of Lm9,600 in a document of Government Investment through MDC as at 31 December 2005, submitted to Treasury. However, in correspondence received from Malta Enterprise Corporation Ltd by Treasury in September 2006, it was noted that MDC or Malta Enterprise Corporation Ltd are not shareholders in this company. From documentary evidence available, it could not be ascertained who is actually responsible for this investment.

### *Investment in MDC*

Even though Treasury still holds a share certificate in respect of an investment in MDC, this investment has been passed on to Malta Enterprise Corporation Ltd following the coming into force of the Malta Enterprise Corporation Act - Cap. 643. Hence, the disclosure details supporting the Lm1,000,000 investment in Appendix H1 of the Financial Report is incorrect.

### *Investment in Central Bank of Malta*

The Central Bank of Malta Act, 1967 (Cap. 204), Article 18(1) (not Article 6 and 49(1) as stipulated in Appendix H1 under Central Bank of Malta) states that:

*“The Bank shall have an authorised capital of five million liri which shall be fully paid and shall be held exclusively by the Government.”*

The audited Central Bank of Malta Financial Statements for the year ended 31 December 2005 confirm this amount of authorised and fully paid share capital. However, the investment in the Central Bank of Malta, as shown in Financial Report 2005 Appendix H1, is stated at Lm500,000 not Lm5 million.

Treasury stated that it does not check whether there were any changes in investments during the year. It must be informed of such changes by the respective responsible entities, in order to record them in the Financial Report. In fact, with regards to the Central Bank of Malta investment, Treasury still holds an original share certificate of Lm500,000 dating back to 1968.

Treasury contacted Central Bank of Malta regarding the issue and should be taking the necessary action to adjust the Central Bank of Malta investment amount in its books and obtain any supporting documents accordingly.

### *Dividends/Interest Received*

Treasury pointed out that dividends/interest received from Enemalta Corporation and Water Services Corporation are accounted for as revenue. However, not all dividends/interest received from investment in industry, are accounted for as revenue. In fact, MGI confirmed that in 2005, out of the Lm1,625,437 dividends reported in the Financial Report 2005 Appendix H1, *“the only payment made to Finance.....relates to dividend by Casma Ltd of Lm900,000.”* The amount received was recorded as Sundry Dividends by Government.

Profits received from the Central Bank of Malta in terms of the Central Bank of Malta Act,

1967 (Cap. 204), Article 24(4) are not shown in Appendix H1. The Central Bank of Malta 2004 profits received by Government in 2005 are however shown in Financial Report 2005, as revenue received by the Ministry of Finance.

The footnote regarding profits received from the Central Bank of Malta, included in Financial Report 2005, Appendix H1 refers to receipt of Central Bank of Malta 2005 profits. However, in actual fact, the amount of Lm14 million received by Government in 2005 refer to Central Bank of Malta 2004 profits. The Central Bank of Malta Act, 1967 (Cap. 204) Article quoted in Appendix H1 should read Article 24(4) rather than Article 23(2).

### *Completeness of Other Investments*

It was noted that during 2005, Government received dividends from the Malta Financial Services Authority. Additionally, in 2004, Government had received profits from the Malta Maritime Authority in terms of Act XVII of 1991. In view of the fact that Government receives profits from the respective authorities, NAO enquired with Treasury regarding the nature of the capital granted to these authorities.

From the audited financial statements of the respective authorities and relative legislations, it was noted that Government provided the capital to MFSA by way of contribution in terms of the Malta Financial Services Centre Act. By virtue of the Malta Maritime Authority Act, Cap. 352, the Government of Malta endowed the Authority with an initial capital of Lm350,000. However, following enquiries with Treasury, it was noted that there are no written Government policies regarding the treatment and disclosure of the aforementioned amounts in the Financial Report. Treasury has to date opted not to disclose such amounts and any other amount forwarded by Government on the same basis.

### **Inspection of Securities/Investments**

#### *Government Securities Board*

No formal appointment of the Government Securities Board was provided to NAO. However, the Board made up of three members, namely the chairperson, an MGI representative and the Accountant General met at the Treasury Department on 20 February 2006, in order to verify the list of securities held by the Government as at 31 December 2004 and as at 31 December 2005 respectively with the relative stock certificates held by Treasury. Although the Auditor General does not form part of the Board, representatives from NAO attended the meeting in an observer capacity.

The establishment and function of the aforementioned Board is not derived from any Legislation. Articles 42 to 46 of the Financial Administration and Audit Act, 1962 refer to the appointment of custodians of Government investments. The role of the Accountant General is to compile an annual return of all Securities held in Malta and abroad (as per certified statement provided by custodians) and forward it to the Auditor General.

In view of the above, the practical role of the Government Securities Board differs from that of custodians as prescribed in Legislation.

#### *Observations made by NAO during Government Securities Board Meeting*

- The board verified the correctness of certain security details against documents other than official stock certificates issued by the company concerned or Malta Stock Exchange statements.

- There were a number of securities for which purchase price paid by the Government differed from the nominal price of the same securities. For some of these securities, the only evidence of the purchase price was a letter from the Permanent Secretary of the Ministry of Finance addressed to the Accountant General.

### Boards of Survey

Boards of Survey were appointed in terms of Article 98 of the General Financial Regulations, 1966, in order to take account of moneys, deposits and other valuables as at 31 December 2005.

The reports by the Boards of Survey relating to moneys, deposits and other values at the Ministry for Gozo and Treasury, were received by NAO on 12 May 2006 and 8 August 2006 respectively. 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. Such reports should in future be submitted earlier.

The Board responsible for taking account of monies, deposits, investments and other values existing at the Treasury 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 Board also took cognisance of the certification reports issued by various Bodies entrusted with the custody of such values.

The Board responsible for taking account of monies, deposits, investments and other values existing at the Ministry for Gozo found that the cash in hand agreed with balance per cashbook. The board also verified that the balances shown in the bankbook at the Department of Corporate Services at the Ministry for Gozo agreed with related details in the certificate of the Central Bank of Malta.

### Unallocated Stores

The balance of the unallocated stores reported in Appendix M of the Financial Report amounted to Lm355,870 as at 31 December 2005. These were held by:

	Lm
□ Government Printing Press	95,260
□ Ministry for Resources and Infrastructure: Precast Concrete	<u>260,610</u>
	<b><u>355,870</u></b>

### Deductions of Unallocated Stores

Treasury explained that the balances of unallocated stores reported in the Financial Report do not relate to actual useable physical stores maintained by the Government. It was explained that most probably, a significant amount of the physical unallocated stores can be considered obsolete and are not being used by Ministries/Departments. In fact, the reductions in the balances of unallocated stores accounts reported in the Financial Report 2005 do not reflect requisitions of materials made by Ministries/Departments but mere accounting transactions made in order to write off these long outstanding balances.

The following reductions in unallocated stores balances were reported in the Financial Report under review:

- Government Printing Press – As approved by the Ministry of Finance by email dated 27 January 2006, the Department of Information issued a schedule of payment in favour of

the Government Printing Press amounting to Lm100,000. This transfer was made in order to write off part of the unallocated stores outstanding balance. It was explained by Treasury that the transfer was made from the Department of Information as the latter was the main user of the stores purchased by the Government Printing Press.

- Contracts – As approved by the Ministry of Finance by letter dated 27 January 2006, the Ministry for Resources and Infrastructure – Works Division issued a schedule of payment in favour of the Contracts Department amounting to Lm604,930. This transfer was made in order to write off part of the unallocated stores balance still featuring in the two (2) unallocated stores accounts. It was explained by Treasury that the transfer was made from the Works Division of the Ministry for Resources and Infrastructure as the latter was the main user of the materials purchased by the Contracts Department. The Contracts Department closed the two (2) unallocated stores accounts.
- Ministry for Resources and Infrastructure – The Ministry of Finance by letter dated 27 January 2006, approved the closure of the unallocated stores (Diesel) account with a balance of Lm384,956.

### Advances

#### *Accounting for Advances*

Article 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”*.

Appendix L of the Financial Report incorporates a detailed statement of balances remaining outstanding as on 31 December 2005, in respect of advances made to various Government Departments, agencies and organisations.

Pending advances were reported as amounting to Lm108,690,835 as on 31 December 2005, as against Lm121,445,579 outstanding on 31 December 2004.

According to the Financial Report 2005, Appendix L, two (2) new advance warrants were issued during 2005, amounting to Lm23,500,000 and Lm31,500,000 for the redemption of MGS 2005 I and II respectively.

Outstanding advances apart from advances forwarded to Malta Drydocks Corporation and Malta Shipbuiding Co Ltd., as at 31 December 2005 were the following:

Table 5 – Outstanding Advances

Description	Lm
MDC 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
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 Article 4 of the Monte Di Pieta' Act (No. XXXIX) of 1976	384,225
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 MDC for the construction of a new factory intended for Brandt International in 1991	1,200,000
Permanent Secretary, Ministry of Finance and Commerce, to be utilised as a loan facility by the Maltacom Employees Foundation to purchase 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	15,298,163
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, 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
Permanent Secretary, Ministry of Finance and Economic Services, 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

#### Enemalta Corporation 1997 – Lm5,590,000

This advance was to be repaid by Enemalta Corporation over a period of 2 years starting on 1 January 1998.

#### Purchase of Verdala Hotel – Lm740,450

This advance was made to MDC on 24 July 1984 for the purchase of Verdala Hotel. In 2006, Malta Enterprise Corporation Ltd confirmed that this amount is still showing in its books as due to Government.

#### Construction of New Factory Brandt International – Lm1,200,000

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. An amount of Lm500,000 was transferred from Ministry of Finance Capital Vote III, Item 7189 Contribution towards Treasury Clearance Fund Advances to the credit of the Advance Account. At the end of 2005, Lm1,200,000 was still outstanding. Per manual note in Treasury file TR 1450/97, it is stated that *“The remaining balance will be paid from capital vote over a period of 3 years, starting in 2005 with the amount of Lm500,000 annually”*. No official Ministry of Finance correspondence in this regard, was available in the respective advance warrant file.

#### Malta Drydocks Corporation and Malta Shipbuilding Co Ltd

Following the issue of Act XV of 2003, advances to Malta Drydocks Corporation and Malta Shipbuilding Co Ltd., must be borne by Government. As a result, these advances are to be gradually repaid from the Consolidated Fund.

During 2005, the following repayments were effected in this respect:

Table 6 - Repayments of Malta Drydocks Corporation Advances through MF Vote III, Item 7189 in 2005

	Lm
Malta Drydocks Corporation – 1995	1,990,245
Malta Drydocks Corporation – 1996	4,650,583
Malta Drydocks Corporation – 1997	859,172
<b>Total</b>	<b>7,500,000</b>

Pending advances to the above mentioned companies to be repaid out of the Consolidated Fund are listed in the Table 7.

Table 7 - Pending Advances to Malta Shipbuilding Co Ltd and Malta Drydocks Corporation

	Lm
Construction of ships at Malta Shipbuilding	9,291,722
Malta Drydocks Corporation – 1997	14,543,603
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>67,136,938</b>

#### *Manoel Island/Tigne Point Project – (Lm1,417,661)*

The amount advanced by Government for the Manoel Island/Tigne Point Project had to be repaid by 2005. However, since this amount was in debit at the end of 2005, the Ministry of Finance, instructed Treasury, in 2006, to “transfer the residual funds in 2006 to a new “Other Deposits Account” within the Treasury Clearance Fund”.

In the Financial Report 2005, Appendix L, the advance granted for the Manoel Island/Tigne Point Project was shown under the Ministry for Tourism and Culture whilst in actual fact, this warrant falls under the responsibility of the Ministry for Urban Development and Roads.

#### *Gozo Channel Company Ltd – Lm500,000*

Originally, the advance warrant had to be repaid by “31 March 2005, in particular but not necessarily, following the finalisation of the Public Service Obligation Contract”. However, in July 2004, the Ministry of Finance, in agreement with Gozo Channel Co Ltd, compiled a new schedule of interest and capital repayments. In 2005, interest amounting to Lm20,000 was received from the company. Interest was not included in the “Interest Received” column

in the Financial Report 2005, Appendix L. The advance amount of Lm500,000 should start being repaid in 2006 and completely settled by 2013.

### *Privatisation of Public Lotto – Lm198,861*

The 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, the Ministry of Finance approved the transfer of Lm198,861 from Direct Investment (Subvention) account to the Privatisation of Public Lotto advance account.

## **Bank – CBM Public Account**

### *Developments regarding the Public Account Reconciliation*

The following developments have been reported to NAO by Treasury:

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

Treasury is of the opinion that:

*“...it is practically impossible to allocate staff to rectify matters for a whole decade. During the 1992-2001 decade, there had been various changes both in the government’s accounting system and that of Central Bank. During the period 1992-1996, some departments were ‘live’ on DAS whilst others were still using the manual system. Therefore data relating to the period 1992-2001 is not uniform, is unstructured and sparse.”*

Treasury added that:

*“Although the lack of sufficient human resources to undertake the manual reconciliation is indeed a problem, the reasons stated above pose the major difficulties. It is also worth to consider the cost effectiveness and worthiness of carrying out a reconciliation of more than a decade ago.”*

#### □ *Electronic BRS (first cut)*

Treasury stated that:

*“The electronic bank reconciliation was carried out on a monthly basis as from 1 January 2002 taking the opening balance of the Public Account as shown by CBM. The electronic first cut normally captures over seventy-five per cent of the non-cheque/cheque transactions. As from February 2005, the automated reconciliation is up-to-date, being carried out monthly after the month-end routine.”*

Unreconciled items following the first cut reconciliation however must be reconciled manually.

Treasury stated that:

*“The manual interventions required to reconcile the outstanding transactions for the financial year 2002, 2003 and 2004 are now nearly complete. Presently, manual reconciliation exercises are being carried out in the last area, i.e. ‘Unreconciled Deposits – Malta & Gozo’ for the indicated years. Considerable progress has already been registered here.*

Starting from the month of January 2005 onwards, Treasury management has decided that the manual reconciliation for identified outstanding transactions for each particular month be conducted immediately following the automated process. This practice is still maintained to-date. It enables staff working on the Bank Reconciliation Exercise to maintain a closer link with government departments and line ministries for the early detection, correction of errors and their avoidance in future. Strategically, this helped keeping better monitoring of government's transactions on a real-time basis and therefore avoiding the creation of further back logs".

### Liabilities

The Statement of Liabilities, as featured in Appendix I of the Financial Report 2005, is reproduced in Table 8.

Table 8 – Statement of Liabilities

	2005		2004	
	Lm(000's)		Lm(000's)	
<b>Public Debt</b>		<b>1,215,423</b>		<b>1,109,950</b>
<b>Treasury Bills</b>		<b>187,248</b>		<b>240,495</b>
<b>Deposits</b>				
Court and Other Deposits	26,687		19,674	
Other	10	<b>26,697</b>	30	<b>19,704</b>
<b>Funds</b>				
Sinking Funds	83,284		72,087	
Public Lotto	-		-	
Contingencies Fund	500		500	
Trust Funds	427	<b>84,211</b>	390	<b>72,977</b>
<b>Accumulated Fund</b>				
Cons. Fund at year end	(45,857)		(92,351)	
Net Public Debt	(900,403)	<b>(946,260)</b>	(824,654)	<b>(917,005)</b>
<b>TOTAL LIABILITIES</b>		<b>567,319</b>		<b>526,121</b>

## Public Debt

On 31 December 2005, the Public Debt as reported in Appendix F of the Financial Report (inclusive of Treasury Bills outstanding at year end) amounted to Lm1,402,670,777. This amount represents an increase of Lm52,225,729 over the corresponding reported figure for 2004.

This increase works out as follows:

	Lm
Total of New Loans	622,013,288
Total Repayment of Loans	(569,707,854)
Currency/Other Adjustments	(79,705)
Net increase in Public Debt	<b><u>52,225,729</u></b>

## Letters of Comfort/Bank Guarantees

The position of Contingent Liabilities as at 31 December 2005, as reported upon in Part I of the Financial Report, 2005 is reproduced in Table 9.

Table 9 – Contingent Liabilities – 2005

	Lm	Lm
<b>Government Guarantees:</b>		
Local	107,964,914	
Foreign	187,899,237	295,864,151
Letters of Comfort		8,953,818
<b>Total</b>		<b>304,817,969</b>

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

In terms of the General Financial Regulations, 1966 and Treasury Circular 1/2006, Departments are to submit to the Accountant General an annual return of abandoned claims, cash losses and stores written off.

### List of Defaulting Departments as prepared by Treasury

Treasury compiles this list by referring to the list of Departments featuring in the Government Accounting System. Hence, if a particular Department/Office does not have a separate heading within this system, this is excluded from the list of defaulting Departments. This occurs even if in the previous year, the said Department/Office would have submitted a return. The methodology adopted is that if such a Department/Office submits a return, this is analysed for inclusion in Appendix N, whilst if no such return is submitted, the Department/Office is left completely out from the Defaulting Departments' list. Treasury stated that it is the responsibility of the Ministries/Departments responsible for these sub-Departments/Offices, to ensure that these submit their respective returns.

Given the methodology used for compiling Appendix N data, the completeness of Appendix N and the Defaulting Departments' list, as prepared by Treasury, cannot be ascertained.

### General Comments

- Whenever Treasury noted that the year 2006 was written down under the 'Date' column, the return was sent back to the respective Ministry/Department for exclusion of the items in question. It is not clear whether a consistent date is being included in the 'Date' Column in the return, i.e. whether all Ministries/Departments are including the write off approval date or some other date.
- It is not clear which value is being assigned to stores written off, i.e. whether the net realisable value or the original purchase price. Whereas Treasury Circular 1/2006 does not stipulate which value should be included, the General Financial Regulations make reference to both the original value of stores and to estimated values. For example: Article 108(2) states that:  
*"Where, in the discretion of the Head of Department the articles in question are of small original value, authority may be sought from his Permanent Secretary to dispense with a Board"* whilst  
Article 113(3) makes reference to *"estimated value"*.
- The authenticity of signatories could not be ascertained, particularly in instances when the title of the person giving the approval is not printed or rubberstamped. Treasury stated that it is the responsibility of the Ministries/Departments concerned to ensure that only authorised persons provide necessary approvals.
- In the absence of detailed descriptions of items being written off in supporting approval documents, it is difficult to ascertain whether respective approvals actually relate to items being written off.
- Treasury Circular 1/2006 requires that *"... ..copies of documentation regarding the relative write-off authority must be attached with the statement"*. However, it was noted that in general, Treasury is not being provided with copies of authority documents to back up write off of stores, abandoned claims and cash losses.
- In terms of Treasury Circular 1/2006, Directors of Corporate Services should submit to Treasury consolidated statements of write offs, cash losses and bank balances as well as clearly indicate any defaulting Departments which fall under their responsibility. In general, this requirement is not being followed.

**Corporate Issues**

## Arrears of Revenue 2005

### Background

The timely collection of revenue and control over arrears of revenue is the responsibility of Accounting Officers. Treasury Circular 2/2006 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, all officers charged with the supervision of the collection of revenue or other moneys due to the Government are required to submit an annual Return of Arrears of Revenue, in duplicate, to the Accountant General, by not later than the 31 March, for transmission to the Auditor General. Treasury Circular 2/2006 additionally states that Ministries/Departments should also submit a copy of the Statement of Arrears to the Budget Office, Ministry of Finance. In terms of Reg. 49 (ii) of the General Financial Regulations 1966, the Return should show the state of arrears on 31 December but remaining unpaid up till the end of the following January.

### Returns

NAO did not receive annual Returns of Arrears of Revenue from all Ministries, Departments and Entities. Details of arrears of revenue included in Table on Ministries'/Departments' Arrears of Revenue on page 48 have been compiled from Arrears of Revenue Returns received by NAO.

The following Ministries/Departments/Entities submitted 'nil' Returns:

- Office of the Prime Minister (OPM)
  - OPM
  - Public Service Commission
  - Electoral Office
- Ministry for Justice and Home Affairs
  - The Ministry
  - Citizenship and Expatriate Affairs
  - Department for Local Government
  - Malta Security Services
- Ministry for Competitiveness and Communications
  - The Ministry
  - Consumer and Competition Division
  - Malta Maritime Authority
  - Malta Standards Authority

The List of defaulting Departments included in Part I of the Financial Report, includes a number of defaulters, who have however submitted a Return to NAO:

- *Office of the Prime Minister (Citizenship and Expatriate Affairs)*  
Citizenship and Expatriate Affairs falls under Ministry for Justice and Home Affairs. A 'nil' Return was submitted to NAO on 7 April 2006.
- *Judicial (Courts of Justice Malta)*  
The Return was received by NAO on 30 August 2006.

- *V.A.T. Department*  
The Return was received by NAO on 19 June 2006.
- *Ministry for Resources and Infrastructure*  
The Return was received by NAO on 3 July 2006.

## Notes and Comments on Arrears of Revenue

### Armed Forces of Malta

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

(a) Patrol Craft Conveyances/ Hire of Vehicles & Mach./ Expl.Ord. Depot Charges/ Fuel and Repairs	Lm 1,386
(b) Security Duties	Lm 97,191
(c) Services rendered by AFM/ Refund of wages/ Helicopter and Sundry Services	Lm 7,183

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

Arrears outstanding for 1 year or less	Lm 94,353
Arrears outstanding over 1 year but less than 2 years	Lm 679
Arrears outstanding over 2 years but less than 5 years	Lm 4,335
Arrears outstanding over 5 years	Lm 6,393

Lm93,272 out of Lm94,353 newly accrued arrears are in respect of Security Duties due for security services rendered at:

(a) Commercial Banks	Lm 82,029
(b) Water Services Corporation	Lm 9,577

(c) Govt. Ministry/Department Lm 1,666

### Government Printing Press

After an extensive exercise performed by the Government Printing Press (GPP) on opening balances and payments collected in arrears of revenue during 2000 – 2005, GPP stated that some discrepancies were identified in their declared Returns. Discrepancies identified, resulting in the difference in opening balance for 2005 as against the closing balance reported for year end 2004, were due to:

- miscalculations in arrears of revenue and others that were in fact not due;
- arrears collected from various Departments that were not reflected in Returns; and
- typing errors when compiling Returns.

GPP also remarked that all previous Returns were compiled by one person, without supervision or double checking due to lack of human resources. Additionally, there was also a problem with the Management Information System, resulting in some 2003 payments being updated in 2005, due to a network failure.

The following actions are being taken to remedy the situation:

- clerical staff will be redeployed to help compile future Returns; and
- the Management Information System which impacted heavily on a number of instances where discrepancies occurred, is currently in the process of being replaced by a more reliable application enabling the GPP to issue monthly statements to defaulting Departments, thus monitoring arrears of revenue in every detail and movement.

The net closing balance is in respect of:

(a) Jobbing	Lm 75,157
(b) Revolving Fund	Lm 24,533
(c) Below-the-Line (Unallocated Stores)	Lm 1,290

The amount considered as 'Not Collectable' in the Return submitted by GPP is in respect of Stationery. Arrears due were written off on 5 May 2006.

### Courts of Justice - Malta

The last Return of Arrears of Revenue submitted by the Courts of Justice was in respect of the year 2000. The closing balance as at 31 December 2005 which was derived by the Courts after executing a thorough investigation and examination of records available is made up of:

Court Fines	Lm 4,996,004 <sup>(1)</sup>
Court Fees	Lm 923,394 <sup>(2)</sup>
Traffic and Education Fines	Lm 1,592,152 <sup>(3)</sup>

Ageing of debtors in respect of Court Fines and Court Fees at year end can be analysed as follows:

Arrears outstanding equal to or less than 1 year	Lm 508,137
Arrears outstanding over 1 year till 2 years	Lm 1,985,634
Arrears outstanding over 2 years till 5 years	Lm 482,892
Arrears outstanding over 5 years till 10 years	Lm 2,196,876
Arrears outstanding over 10 years till 15 years	Lm 453,459
Arrears outstanding over 15 years till 20 years	Lm 163,150
Arrears outstanding over 20 years	Lm 129,250

<sup>(1)</sup> : A breakdown of arrears of revenue in respect of Fines amongst Government, Parastatal and Private Entities is not available as, in the case of a breach of law,

the fine is inflicted personally on an individual and not on the entity.

<sup>(2)</sup> : The computer application in use to record the Court Fees does not cater to classify the amounts among Government, Parastatal and Private Entities, therefore such classification cannot be provided.

<sup>(3)</sup> : Amounts pertain to unpaid Traffic and Education Fines, recurring for many years prior to 1999, but an ageing list of defaulters is not available. The Traffic Fines were eventually taken over by the Licensing and Testing Directorate within the Malta Transport Authority in 2000. The Education Fines are being paid at Local Councils as from May 2000. The amount outstanding under this caption is considered as not collectable and will be written off in 2006.

### Courts of Justice - Gozo

The opening balance at 1 January 2005 (Lm38,493) does not agree with the closing balance at 31 December 2004 (Lm97,767) since whilst the latter balance included both fee and fines, the opening balance only covers fees due. The Gozo Courts have encountered problems in presenting accurate amounts in respect of fines and therefore figures submitted were not considered reliable.

Ageing of arrears can be analysed as follows:

	Fees
Amounts outstanding equal to or less than 1 year	Lm 16,702
Amounts outstanding over 1 year till 2 years	Lm 7,837
Amounts outstanding over 2 years till 5 years	Lm 17,979
Amounts outstanding over 5 years till 10 years	Lm 4,105
Amounts outstanding over 10 years	Lm 5,700

## Police Department

The closing balance is made up of:

- a) Services to Third Parties Lm 28,081
- b) Sporting Licences Lm 195,022

Arrears due at year end under review increased by Lm7,644 in respect of sporting licences and decreased by Lm6,357 in respect of services to third parties. While a favourable rate of collection was noted in respect of services to third parties, the overall rate of collection decreased from 36.5% in 2004 to 24.2% in 2005.

## Civil Protection

As reported in last year's Report of the Auditor General, Lm2,250 due by the Malta Environment and Planning Authority following site inspections are still being contested. Amounts due by the International Training Centre Malta Ltd, amounting to Lm7,089, being in respect of Water and Electricity bills refund, are being revised. Following finalisation of this exercise, steps will be taken to write-off claims under contention and issue new claims.

Lm7,696 out of Lm13,728 gross closing balance due at year end were referred to the Attorney General. Furthermore, Lm1,298 shown as closing balance were settled in 2006.

## Government Property Division

A separate report regarding arrears of revenue at the Land Department within the Government Property Division can be found on page 52.

## Treasury Department

The closing balance as reported in the

Arrears of Revenue Return submitted is made up of:

- a) Overpayments to Pensioners Lm 32,500
- b) BICAL Bearer Account Lm 3,979

The following observations were made upon enquiry with Treasury:

- Opening balances could not be accurate as it was explained that since follow up of dues from some of the pensioners was not made in previous years, transactions relating to previous years could have only been recorded in 2005.
- Amounts reported under '*Past Arrears Collected*' and '*Arrears Newly Accrued*' could not relate to actual 2005 transactions as it was reported by Treasury that these amounts could include accruals or/and payments generated in previous years. The same reason as for the aforementioned observation was given to NAO.

The balance of the Bical Bearer Account amounting to Lm3,979 was marked as '*Estimated amount considered as not collectable*'. However, there was no remark justifying the classification in the Arrears of Revenue Return.

## Inland Revenue Department

### Income Tax

Gross arrears as categorised by the Department are reproduced overleaf.

Furthermore, the Department indicated that arrears denominated in foreign currencies for Years of Assessment 1998 to 2005, amounting to Lm13,454,240 as at year end 2005, are also due from foreign owned companies and companies overseas.

Category	Grand Total for all Years
	Lm
Government Employees	7,472,797
Parastatal Employees	2,295,534
Drydocks Employees	334,799
Private Employees	30,277,048
Outside Malta Employees	339,609
Temporary Residents – Work Permit	10,445,635
Self-Employed	36,232,100
Shareholders	5,148,763
Rentiers / Pensioners	11,462,053
Temporary Residents – settlers	3,118,688
Temporary Residents – entertainment	110,442
Non-residents	1,773,348
Companies <i>anonyme</i>	155,203,111
Partners	128,481
Partnerships collectif	270
Partnership not registered	1,125
Companies <i>en commandite</i>	1,526,719
Companies foreign owned	189,243
Companies – overseas	950,318
Estates	29,094
Clubs, Associations etc.	684,217
Church (Commercial)	1,840,665
Church (Entities)	96,572
Others	4,155
<i>Total for all Categories</i>	<i>269,664,786</i>

Source: Inland Revenue Department

### Capital Transfer Duty

The gross closing balance was analysed by the Capital Transfer Duty Branch as follows:

	Total Lm	Malta Lm	Gozo Lm
Intervivos	11,078,014	10,351,787	726,227
Causa Mortis	<u>1,082,712</u>	<u>968,736</u>	<u>113,976</u>
	12,160,726	11,320,523	840,203
Death and Donation	<u>2,382,737</u>	<u>2,268,696</u>	<u>114,041</u>
	<u>14,543,463</u>	<u>13,589,219</u>	<u>954,244</u>

## Customs Department

The opening balance does not agree with the closing balance as at 31 December 2004 (Lm3,417,384) since NAO received from Customs a revised Arrears of Revenue Return as at 31 December 2004 on 21 February 2006. The opening balance per 2005 Return (Lm3,394,365) agrees with the closing balance per revised 2004 Return.

All figures on page 48 are reproduced as submitted by Customs in the Arrears of Revenue Return as at 31 December 2005.

The gross closing balance, as provided by the Department (Lm3,323,241), is analysed as follows:

a) Import and Export Duties	Lm 3,006,826
b) Licences, Taxes and Fines	Lm 4,921
c) Fees of Office	Lm 1,117
d) Reimbursements	Lm 310,377

## V.A.T. Department

The following is a sub classification of the gross closing balance of arrears as reproduced from the Department's Arrears of Revenue Return on 31 December 2005:

VAT (1998)	Lm 72,395,583
CET (1997)	Lm 3,381,557
Refunds to Govt. on Stock (1997)	Lm 245,161
VAT (1994)	Lm 10,208,899
Expenditure Levy	Lm 13,141

## Contracts Department

The gross closing balance is made up of:

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

With respect to outstanding Ex-CSS amount, the Contracts Department stated that letters have been sent to the Ministry of Finance for the write off of the said amount. However, this amount was not included under '*Estimated amount considered as not collectable*' in the Return.

## Ministry for Tourism and Culture

A discrepancy of Lm82,279 between the opening balance per 2005 Return and the closing balance per 2004 Return, related to Institute of Tourism Studies arrears of revenue which as from 1 January 2005 form part of the Ministry of Education.

The gross closing balance is made up as follows:

(a) Malta Tourism Authority - Ex-HCEB & Police Licences	Lm 533,619
(b) Ex-White Rocks Complex	Lm 33,682
(c) Tourism – due from Local Councils in respect of beach cleaning services	Lm 86,971

The '*Net Collectable Arrears*' at year end are in respect of arrears due re Item (a). Arrears due re Items (b) and (c) are estimated to be '*Not Collectable*'.

## Mediterranean Conference Centre

Claims amounting to Lm242,190 (2004 – Lm148,226) were in respect of the hire of the Conference Centre for conferences, gala dinners, theatre functions, meetings and hire of equipment. Furthermore, the balance of Lm242,190 also includes an amount of Lm42,990, which balances accrued prior to year 2005. The increase in debtors over last year is mainly due to the following debtors:-

- Two (2) balances, aggregately amounting to Lm61,106, were fully settled in 2006.
- A claim of Lm25,872 in respect of a Conference has still not been paid.

### Commerce Division

The gross closing arrears reported by the Division is as follows:

a) Licences, Taxes and Fines	Lm 825,342
b) Miscellaneous Receipts	Lm 4,060
c) Industry Property – Fees of Office	Lm 120

The 'Net Collectable Arrears' at year end are in respect of arrears due re Items (a) and (b). Arrears due re Item (c) are estimated to be 'Not Collectable'.

### Civil Aviation

The gross collectable arrears as reported by the Department, consist of:

a) Miscellaneous Licences	Lm 3,656
b) Airport Tax	Lm 430,121
c) Miscellaneous Reimbursements	Lm 1,347

### Ministry for Resources and Infrastructure

Ageing of arrears can be analysed as follows:

Amounts outstanding for less than 1 year	Lm 137,603
Amounts outstanding over 1 year but less than 2 years	Lm 207,962
Amounts outstanding over 2 years but less than 5 years	Lm 190,329
Amounts outstanding over 5 years but less than 10 years	Lm 224,171
Amounts outstanding over 10 years	Lm 30

### Ministry for Gozo

The opening balance at 1 January 2005 (Lm114,001) does not agree with the closing balance at 31 December 2004 (Lm100,958) due to discrepancies noted following an exercise carried out by the Department in 2005 on all outstanding arrears between 1997 and April 2004.

The gross closing balance is sub-classified into arrears collectable by the following Departments:

Public Cleansing Department – Waste Disposal	Lm 74,285
Public Cleansing Department – Local Councils	Lm 11,448
Works Department	Lm 23,529
Agricultural Department	Lm 11,015

Ageing of arrears are grouped as follows:

Amounts outstanding for less than 1 year	Lm 28,371
Amounts outstanding over 1 year but less than 2 years	Lm 21,463
Amounts outstanding over 2 years but less than 5 years	Lm 49,454
Amounts outstanding over 5 years but less than 10 years	Lm 20,989

Overpaid salaries indicated under the Education Office Salaries Section, on page 98, under title 'Amounts due from Employees', have not been included in the outstanding arrears for 2005.

### Health Division

The gross closing balance of Lm858,647 is made up of:

a. Licences	Lm 7,975
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b. Hospital Fees (SLH)	Lm 527,496
c. Hospital Fees – EU Countries	Lm 155,564
d. Hospital Fees – SPBH	Lm 20,456
e. Hospital Tests	Lm 787
f. Refunds/Resignations	Lm 138,671
g. Overpayments	Lm 7,698

An increase of Lm147,122 was noted in the balance due as arrears of revenue over the previous year, which is mainly attributable to the following:

- A difference of Lm71,137 was noted between the closing balance reported last year and the opening balance of this year. It resulted that the Department had not included in the Return, the hospital bills of patients from EU Member States in respect of year 2004.
- Furthermore there was a further increase of Lm85,343 in respect of hospital bills of patients from EU Member States for the year under review. Only an amount of Lm8,309 was collected against the invoiced amounts for year 2004.

#### *Ministry for Investment, Industry and Information Technology*

Net arrears at year end are made up of Loans advanced by Government through MGI:

a) Loans to Hotels	Lm 10,040
b) Loans to Companies	Lm 124,803

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

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

a) Pitkali Markets	Lm 79,375
b) Sundry Revenue MMU	Lm 5,140
c) DDP Personnel	Lm 3,473
d) Services rendered to Local Councils	Lm 2,035
e) Sundry Services	Lm 13,094
f) Veterinary Services	Lm 102,202
g) Loans Commission	Lm 4,277
h) Co-operatives Societies	Lm 30,305
i) Fisheries	Lm 71,022
j) Salary Overpayments	Lm 2,379
k) Overtime – Wasteserv	Lm 1,862
l) Plant Quarantine Section	Lm 636
m) Paying Agency	Lm 2,131

Amounts estimated as not collectable are the full balances due in respect of Items (a) to (d), (g), (h) and Lm18,311 from Items (e), (i) and (l).

#### *Social Security Department*

The Returns of Arrears for National Insurance Contributions (2004 – Lm4,839,826) and Social Security Contribution with effect from 1998 (2004 – Lm31,280,078) were not submitted by the Department.

Ministries'/Departments' Arrears of Revenue

Ministry/Department	Outstanding on 31/12/04 Lm	Collected during 2005 Lm	Written off or not due 2005 Lm	Arrears 2005 Lm
Office of the President	13254 <sup>a</sup>	10,157	0	0
Office of the Prime Minister:				
Armed Forces of Malta	44,470	33,021	42	94,353
Information Department	13,922	13,922	0	16
Government Printing Press	216,747 <sup>d</sup>	108,213	0	16,390
Ministry for Justice and Home Affairs:				
Attorney General	244	0	0	56
Notary to Government	33	33	0	883
Courts of Justice:				
Malta	a	c	c	c
Gozo	38,493	4,257	964	19,051
Police Department	221,816	53,894	6,643	61,824
Correctional Services Department	21	21	0	104
Civil Protection	24,410	11,980	0	1,298
Government Property Division - Land Department	4,082,917	1,029,100	178,675	1,358,327
Ministry of Finance	415	0	0	0
Treasury Department	29,081	9,268	0	16,666
Inland Revenue Department:				
Income Tax - Maltese Currency <sup>d</sup>	256,872,036	171,177,941	82,350,242	266,320,933
Income Tax - Foreign Currency	7,367,074 <sup>f</sup>	c	c	c
Capital Transfer Duty Department:				
Duty on Documents	14,433,146	1,598,520	5,639,794	4,965,893
Death and Donation Duty	2,476,899	32,377	67,933	6,148
Customs Department	3,394,365 <sup>d</sup>	2,505,558	15,308	2,449,742
V.A.T. Department	147,055,199	57,046,704	1,306,604,480	1,302,840,326
Contracts Department	204,340	0	0	0
Ministry of Education, Youth and Employment:				
Examinations Department	1,577	1,294	5	1,452
Industrial and Employment Relations	159,940	b	b	b
Ministry for Tourism and Culture	688,848 <sup>d</sup>	249,909	68,821	284,154
Mediterranean Conference Centre	148,226	103,604	1,632	199,200
Ministry for Competitiveness and Communications:				
Malta Communications Authority	0 <sup>a</sup>	0	0	331,017
Revenue Department (ex-Wireless Telegraphy Department)	c	c	c	c
Commerce Division	662,925 <sup>e</sup>	0	17,693	184,290
Civil Aviation	92,141	90,204	340	433,527
Ministry for Resources and Infrastructure	1,050,444	240,971	186,982	137,602
Ministry for Gozo	114,001 <sup>d</sup>	22,095	0	28,371
Ministry of Health, the Elderly and Community Care:				
Health Division	782,662 <sup>d</sup>	105,110	54,792	235,887
Ministry for Investment, Industry and Information Technology	3,280,626	0	93,728	1,373
Ministry for Rural Affairs and the Environment	330,352 <sup>d</sup>	29,867	19,923	37,369
Ministry for the Family and Social Solidarity:				
Social Security Department:				
National Insurance Contributions Pre-1998	4,839,826 <sup>b</sup>	b	b	b
Social Security Contributions with effect from 1998	31,280,078 <sup>b</sup>	b	b	b
Overpayments of Benefits	2,816,381	686,762	43,263	630,729
Department of Social Housing	4,943	127	0	344
<b>TOTALS<sup>h</sup></b>	<b>482,741,852</b>	<b>235,164,909</b>	<b>1,395,351,260</b>	<b>1,580,657,325</b>

- a) Did not send Return of Arrears 2004.
- b) Return of Arrears 2005 not submitted.
- c) Information not available or incomplete.
- d) Opening Balance 2005 does not tally with Closing Balance 2004 (vide comments).
- e) 2004 information not available or incomplete.
- f) Balance as at 01/01/05 per 2004 Return since not available in 2005 Return.
- g) Credit balances were added back to net arrears as included in the Arrears of Revenue Return prepared by the Department.
- h) Totals are incomplete in view of a) to g) above.

## Report of the Auditor General - Public Accounts 2005

Outstanding on 31/12/05 Lm	Gross Variation Lm	Amounts Est as not Collectible <sup>e</sup> Lm	Net collectible arrears as at 31/12/05 Lm	Net collectible arrears as at 31/12/04 Lm	Net Variation Lm	Due from Govt. Depts. & Para. Bodies Lm	Individual & Private Companies Lm
3,097	-10,157	0	3,097	a		0	3,097
105,760	61,290	8,816	96,944	35,654	61,290	81,722	15,222
16	-13,906	0	16	13,922	-13,906	16	0
124,924	-91,823	23,944	100,980	241,899	-140,919	100,321	659
300	56	0	300	244	56	0	300
883	850	0	883	33	850	883	0
7,511,550		1,592,152	5,919,398	a		c	c
52,323	13,830	0	52,323	97,767	-45,444	0	52,323
223,103	1,287	0	223,103	221,816	1,287	18,858	204,245
104	83	0	104	21	83	104	0
13,728	-10,682	9,577	4,151	18,307	-14,156	3,097	1,054
4,233,469	150,552	0	4,233,469	c		989,557	3,243,912
415	0	0	415	415	0	0	415
36,479	7,398	3,979	32,500	25,102	7,398	0	32,500
269,664,786	12,792,750	217,661,014	52,003,772	61,372,036	-9,368,264	c	c
13,454,240	6,087,166	c	c	c		c	c
12,160,725	-2,272,421	8,200,995	3,959,730	4,668,724	-708,994	4,241,265	3,959,730
2,382,737	-94,162	911,580	1,471,157	1,528,563	-57,406	0	1,471,157
3,323,241	-71,124	80	3,323,161	3,416,901	-93,740	2,894,812	428,349
86,244,341	-60,810,858	c	c	8,309,201		c	c
204,340	0	102	204,238	204,287	-49	0	204,238
1,730	153	278	1,452	1,299	153	0	1,452
b		b	b	130,631		b	b
654,272	-34,576	201,805	452,467	650,473	-198,006	0	452,467
242,190	93,964	4,865	237,325	148,226	89,099	52,750	184,575
331,017	331,017	0	331,017	a		121,017	210,000
2,231,975		c	2,231,975	2,491,878	-259,903	c	c
829,522	166,597	120	829,402	662,805	166,597	0	829,402
435,124	342,983	330	434,794	92,141	342,653	213,421	221,373
760,093	-290,351	175,403	584,690	859,550	-274,860	378,084	206,606
120,277	6,276	0	120,277	99,216	21,061	73,992	46,285
858,647	75,985	139,826	718,821	551,525	167,296	787	718,034
3,188,271	-92,355	3,053,428	134,843	134,843	0	0	134,843
317,931	-12,421	142,915	175,016	202,623	-27,607	1,863	173,153
b		b	b	4,362,715		b	b
b		b	b	c		b	b
2,717,085	-99,296	0	2,717,085	2,816,381	-99,296	0	2,717,085
5,160	217	72	5,088	4,678	410	0	5,088
412,433,855	-43,771,678	232,131,281	80,603,993	93,363,876	-10,444,317	9,172,549	15,517,564

Source: Ministries'/Departments' Arrears of Revenue



**Ministry for Justice and Home Affairs**

## Land Department

### Arrears of Revenue

#### Background

The Land Department handles the legal aspect of government property management once the Estate Management or Joint Office has allocated the respective property. It is also responsible for the collection of rent deriving from the lease of Government property to third parties, enforcement and follow up of cases falling into arrears.

The Department maintains an arrears database of third party leases. The list submitted covering the period up to 31 January 2006 contained 4,171 tenements with payments in arrears amounting to Lm 4,233,468. The outstanding balances are estimated to cover the years from 1967 to 2005.

#### Key Issues

##### *Analysis of Database*

The analysis of the database of arrears of revenue submitted by the Department showed the following results:

- 44 per cent of the cases amounting to Lm 1,850,661 were balances outstanding for less than five years;
- 16 per cent of the cases totalling to Lm 687,598 were balances due of more than five but less than ten years;
- 20 per cent of the cases totalling to Lm 840,815 resulted in balances due ranging from ten years up to approximately forty years;
- The recovery period of the remaining 20 per cent of the cases amounting to

Lm 854,394 could not be extracted since these related to terminated leases.

The above observations call into doubt the collection of the balances claimed. This risk is particularly observed in cases where the ageing balances exceed ten (10) years. A number of these balances could become statute barred if judicial proceedings are not being followed up regularly.

#### Control Issues

Opportunities for improvement were identified in the following areas:

- In four (4) out of the twenty six (26) cases examined for the years 2004 and 2005, the documentation in the relevant file showed that the Department lacks adequate follow up of the outstanding balances. In a number of cases, the last payments effected by the tenants went back to the 1990's whereas the last action taken by the Department was registered during the year 2004. Furthermore, in one particular instance the last action documented in file was registered during the year 1990 even though payment was received in 1997.
- In other three (3) separate instances it resulted that in two cases the Department is not taking any relevant action to recoup the balance due and confirm that ownership of the property is in accordance to departmental database. In the remaining case the account in the Department's records was not closed and annual rent was being accumulated notwithstanding that an eviction order was carried out during the year 2000.

## Compliance Issues

### *Files not made available for examination*

Two (2) out of thirty seven (37) files requested for examination were not made available by the time the audit was completed on the premise of untraceability.

## Recommendations

### *Key Issues*

#### *Analysis of Database*

The records reported within the database of the Department should be reviewed thoroughly. Balances reported as outstanding for a long period of time should be identified and followed up to ascertain whether these can be recouped. Where the possibility of collection is considered to be remote the relevant procedures are to be undertaken to write off these balances. Details within the database should also be further enhanced to include all the necessary information on each case.

#### *Control Issues*

- The Department should ensure that cases are periodically followed up and monitored in order to take the necessary action in a timely manner. Onsite inspections are to be carried out by Enforcement Officers to trace the current owners of the property and recoup the outstanding balances.
- Where the property, (in most cases commercial) has been passed to Government, action is to be taken to allocate the property by tender.

## *Compliance Issues*

### *Files not made available for examination*

Control over movements of departmental documents is to be exercised to ensure that these are safeguarded from misplacement and/or loss.

## Management Comments

Management concurred with most of our recommendations and the following position was taken in respect of certain issues:

- Although the records in the database include a number of balances that are long outstanding these may not all be statute barred since various judicial proceedings against tenants have been taken. The database is currently being analysed and action taken to write off unrecoverable arrears.
- Necessary action has been taken to follow up all the instances highlighted in order to recoup any recoverable balances. In some instances follow up is also being taken by means of eviction orders, re-payment agreements reached with the particular tenants and relevant investigations as required.
- Periodic follow up of each case and on site inspections are not always possible as the Department does not have the necessary human resources. In fact, all necessary steps are being taken in order to have a full compliment of enforcement officers as originally envisaged when the Division was set up.
- Better control over departmental records shall be exercised to ensure that these are safeguarded from misplacement and/or loss. Furthermore, it also stated that misplacement occurs only for a short period of time as these are usually traced by the section in charge.

## Public Registry

### Below the Line Account (Searches)

#### Background

The Public Registry is one of the Departments incorporated in the Land and Public Registry Division and is regulated by the Public Registry Act. The Department offers various services to the public, amongst which are searches on properties. This service is carried out by a private company on behalf of the Department in terms of an agreement reached with Government during October 1999. Any transactions associated with searches are carried out and recorded in an ad hoc Below the Line Account.

#### Key Issues

##### *Transition Period*

In terms of the agreement and the addendum tabled in the House of Representatives in December 2000, the Company was to pay an amount of money to the Department covering the transition period of November 1999 to April 2000 for works carried out in connection with both Public Registry in Malta and Gozo.

No documentation was available disclosing the details of the amount paid in connection with the Public Registry Gozo.

##### *Shortfall in the Account*

During the year 2004 the Department paid the sum of Lm 1,192,865 to the Company whereas the revenue collected during the same year amounted to Lm 1,026,442. The corresponding figures for the year 2005 totalled Lm 1,212,620 and Lm 1,018,759 respectively. Other income collected from the 'Presentata Section' is

also recorded in the Revenue Head Public Registry Fees.

##### *Reduced Administration Fees*

No clear official policies exist regulating the amounts to be charged as administration fees. Since 1999 the Department was charging an administrative fee of five per cent (5%). When in January 2004, VAT was increased from fifteen (15) to eighteen (18) per cent (%), the administrative fee was reduced to two per cent (2%) to absorb the extra cost from VAT. This invariably resulted into a loss of revenue for the Department.

There was lack of documentation as to who authorised such decrease and the reason behind such administrative decision.

##### *Arrears of Revenue*

During the past years the Department submitted NIL balances of arrears of revenue. From the examination carried out it resulted that a considerable amount of revenue was still uncollected in respect of searches. Moreover, lists of outstanding balances from these fees are not being periodically prepared and as a result the Department could not submit a complete list of outstanding arrears as at 31<sup>st</sup> December 2004 and 2005.

##### *Backup of Database*

The agreement signed between Government and the Company stipulated that a copy of the database created by the Company was to be presented periodically to an "entrusted" officer on behalf of the

Department. It transpired that a copy of the database was once passed to the Department but this has been misplaced. The “entrusted” officer was not yet appointed and no regular backups were submitted to the Public Registry.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Administrative charges disclosed in the invoices submitted by the Company are not being checked by the Department to ensure that these are being correctly claimed.
- For years 2004 and 2005 the Department did not use a fixed percentage to calculate the administrative fee to be applied.
- Results of searches forwarded to the Searches Section are not securely stored. The procedure may endanger the confidentiality of documents as there may be the risk of unauthorised copying or use by individuals other than those applying for the searches. Moreover the key to the cabinet where documents are held is kept in the same working office.

### Compliance Issues

#### *Revenue collected from the Public Registry Gozo*

Revenue from the Public Registry Gozo is being transferred to the Public Registry Malta long after it is collected. Subsequently, several days also pass before revenue received by the Public Registry in Malta is allocated in the Below the Line Account.

#### *Cancelled Receipts*

In most of the cancelled receipts examined, copies and originals of these receipts were not attached to the daily receipt list drawn up by the Searches Section.

### Recommendations

#### *Key Issues*

##### Transition Period

The Department is to examine all the documentation available and ensure that the amounts shown are backed by the relative documents. All amounts quoted are to be checked and any discrepancies identified, in order to take adequate and any necessary corrective action as soon as possible.

##### Shortfall in the Account

Although specific payments were agreed upon by the Department and the Company, the Department should strive to arrive at a fairer agreement where income derived from searches increases in order to reflect a more positive position.

##### Reduced Administration Fees

The Department is to ensure that any tax changes that may occur are to be reflected in the correct fee to be charged to minimise any possible loss of income. Moreover, guidelines stating clearly administrative policies are to be regularly updated and brought to the attention of all relevant Departmental officers.

##### Arrears of Revenue

Returns of outstanding balances are to be drawn up regularly and submitted to both the Treasury Department and NAO as stipulated in the General Financial Regulations. Moreover, the Department is to take necessary action against defaulters to collect outstanding balances.

##### Backup of Database

It is to be ensured that backup of vital information kept by the Company is safely backed up and passed to the Department periodically as provided for in the agreement.

#### *Control Issues*

- The administration fees claimed by the Company should be checked by the Department before payment is made.

- The administration fee is to be established on an 'ad valorem' rate basis.
- Searches documents forwarded to the Department are to be adequately sealed to ensure confidentiality and safekeeping against unauthorised access.

### Compliance Issues

#### Revenue collected from the Public Registry Gozo

Specific days are to be established when revenue collected by the Public Registry Gozo is to be passed and allocated on the Below the Line Account. Moreover, the Department is to ensure that amounts posted in DAS by the Ministry of Gozo are promptly receipted and allocated in the Below the line Account.

#### Cancelled Receipts

Both the originals and duplicates of cancelled receipts are to be attached to the daily receipt list as stipulated in the General Financial Regulations.

### Management Comments

Management concurred with most of the recommendations and the following position was taken in respect of certain issues:

#### Transition Period

During the transition period resistance to change was encountered upon implementing the new system thus making this period difficult to handle. In view of this, management could not check the profits made by the Company at that time and therefore the amounts declared had to be taken as correct.

#### Shortfall in the Below the Line Account

Management conceded that there was a shortfall but pointed out that the 'Cost of

Living' item of expense was in part made good out of the Recurrent Vote and not from the Below the Line Account. Furthermore, the Ministry for Justice and Home Affairs as a policy decided to absorb the cost of living increase rather than passing it on to the clients. The shortfall would then be financed through the 'Presentata Section'. The shortfall was also the result of outstanding payments for searches by Notaries during the previous years.

The Department acknowledged NAO's recommendation in respect of arriving at a fairer agreement and increase income from searches to reflect a more positive position. However, it stated that currently this is improbable since the agreement with the company is half way through and the contractor would not be inclined to accept any reductions. Furthermore, as from January 2006 the actual cost of a search has gone up from 11.4 per cent (%) to 19.6 per cent (%) to reflect the cost of living increase as per agreement.

#### Reduced Administration Fees

Management stated that there was unofficial written instruction regarding the decrease in the administrative fees. In fact a policy decision had to be taken pending Cabinet's approval and subsequently a new Legal Notice was issued in July 2004 and the administration fee was raised again to its original level of five per cent (5%).

#### Revenue Collected from the Public Registry Gozo

Although this shortcoming has been addressed some time ago, but without positive results, action will again be taken on the matter possibly with the intervention of the Permanent Secretary Ministry for Gozo.

## Local Councils

### Background

In terms of Section 65 (1) of the Local Councils Act of 1993 the audit of the Local Councils' financial statements was carried out on behalf of the Auditor General by eight private audit firms. The audit firms were confirmed as Local Government Auditors following the issue of a call for application during the year 2004.

The financial statements covered the year ending 31 March 2006 during which the Government allocated Lm10.2m (2004-Lm10.14m) 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 2006.

The Government allocated Lm30,000 to the Local Councils' Association. The audit of the Association was carried out by a private audit firm appointed in terms of Part VI, 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, 2005.

### Key Issues

#### Qualified Reports

Audit reports were qualified for the following concerns:

1. Local enforcement system and failure by the Joint Committee (JC) to provide timely audited financial statements;
2. Incorrect accounting treatments/

disclosures or not in compliance with International Financial Reporting Standards (IFRSs) and Local Councils' Legislation;

3. Fixed assets incorrectly accounted for, could not be verified and register not in agreement with corresponding values in the financial statements;

4. Shortage of liquid funds/Financial Situation Indicator (FSI)<sup>1</sup> less than ten per cent/deficit in the income and expenditure account;

5. Balance sheet amounts could not be verified or were incorrectly recorded;

6. Going concern and its dependency on the annual financial allocation by central Government.

Furthermore, one Local Council (Qormi) included an emphasis of matter regarding the going concern concept.

Forty-three audit reports representing sixty-three per cent (63%) of Local Councils were qualified and the respective qualifications listed in Appendix A.

#### Income and Expenditure Account

There were fourteen Councils which registered a deficit<sup>2</sup> in the Income and Expenditure account for the year. The table overleaf presents the Councils in question, the deficit for the year under review and the corresponding figures for the previous two years:

<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, taken as a percentage of the annual allocation.

<sup>2</sup> A deficit in the income and expenditure account results when expenditure is greater than revenue

Local Council	2005-2006	2004-2005	2003-2004
	Lm	Lm	Lm
Birgu	(11,064)	7,235	26,742
Bormla	(13,866)	47,026	31,542
Attard	(606)	807	23,193
Gudja	(10,842)	16,892	20,097
Ghaxaq	(6,802)	19,752	(5,758)
Kirkop	(576)	12,184	17,350
Mgarr	(14,248)	(16,262)	9,098
M'Skala	(12,861)	85,328	89,111
Paola	(3,058)	79,527	26,942
Pembroke	(21,802)	15,510	(7,494)
S.Gwann	(8,918)	3,787	28,281
Sliema	(25,345)	12,582	66,541
Xaghra	(3,589)	22,582	33,133
Mtarfa	(31,296)	16,497	4,411

Nine Councils that registered a deficit for the year ending 31 March 2005 rectified their financial situation and reported a surplus. These were Zebbug, Balzan, Iklin, Kalkara, Mqabba, Nadur, Santa Lucija, Santa Venera and Ta' Xbiex. Only Mgarr Local Council registered a deficit for the second year running.

### Working Capital

Four Local Councils recorded a negative working capital<sup>3</sup>. The following table lists these Councils, the working capital for the year under review and the corresponding figures for the previous two years:

Local Council	2005-2006	2004-2005	2003-2004
	Lm	Lm	Lm
Zebbug(M)	(44,576)	(199,593)	69,688
Kercem	(19,493)	(4,027)	3,949
Xewkija	(6,528)	(15,400)	(2,254)
Mtarfa	(32,507)	24,206	8,322

<sup>3</sup> Working capital is defined as current assets less current liabilities.

Six Councils that recorded a negative working capital balance last year improved their financial position and by 31 March 2006 registered a positive working capital. These were Siggiewi, Dingli, Mqabba, Nadur, Swieqi and Xaghra.

The working capital of Kercem Local Council continued to deteriorate while that of Xewkija registered an improvement although remaining in the negative.

The working capital of the Mtarfa Local Council deteriorated. It failed to prepare a proper business plan for the year and a number of tenders not budgeted for were carried out. Moreover, significant variations were also noted in a number of tenders.

Zebbug Local Council made a favourable improvement in its working capital as a result of more control over its capital and revenue expenditure. In particular, no street patching was carried out during the year under review, the comparative expenditure of last year amounted to Lm124,194.

### Financial Situation Indicator

Eleven Local Councils registered a Financial Situation Indicator (FSI) below the ten per cent (2004/2005 – FSI of 5 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 2005-2006	Current Assets-Liabilities 2005-2006	Financial Situation Indicator 2005-2006	Financial Situation Indicator 2004-2005
	Lm	Lm	%	%
Birgu	87,627	3,353	3.83	12.57
Zebbug (M)	222,647	(87,077)	(39.11)	(89.52)
Rabat (G)	156,621	659	0.42	4.52
Kalkara	82,670	6,616	8.00	2.02
Kercem*	83,346	(19,493)	(23.39)	(4.86)
Marsa	150,764	4,052	2.69	2.34
Mosta	325,664	17,408	5.35	1.94
San Gwann	214,687	11,676	5.44	24.95
Swieqi	159,628	8,806	5.52	(1.60)
Xewkija*	103,298	(6,528)	(6.32)	(15.00)
Mtarfa*	83,186	(32,507)	(39.08)	28.99

\*Although these councils are exempt by the Minister from maintaining an FSI of 10 per cent, they have been included in the list because they registered a negative FSI.

Five councils which failed to meet the FSI requirements for last year improved their financial situation and registered an FSI above the threshold limit of 10 per cent. These were Siggiewi, Dingli, Mqabba, Nadur and Xaghra.

### Control Issues

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

- a) No proper 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) No bye-law issued for the generation and collection of income;
- e) Donations and sponsorships given in contravention to Local Councils' Legislation;
- f) Re-imburement claims not supported by the required documentation;
- g) No purchase request forms and purchase orders raised.

### Compliance Issues

#### *Audit Report and Financial Statements*

Sixty-one reports were submitted by 30 June 2006 while the other seven did not meet the deadline. All reports, with the exception of Pieta' Local Council, were eventually submitted. The audited financial statements of Pieta' Local Council have not been received since the Council did not approve these statements. As a consequence by 30 October 2006 these financial statements were not laid on the Table of the House of Representatives by the Minister for Justice and Home Affairs.

### Management Letters

Management letters highlighted a number of audit findings and relative

recommendations. Forty-eight 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. Twenty Local Councils failed to submit a reply by 30 October 2006.

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

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

Appendix B - Management Letter Weaknesses - lists the Councils which encountered the above mentioned weaknesses and the frequency of their occurrence.

A summary of the most material weakness are listed hereunder:

#### *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 had to be posted by auditors at year end to reconcile/correct balances;
- g) Discrepancies between last year's closing balances and this year's opening balances;

h) Quarterly Financial Reports, Financial Indicator Reports, Business plan, Budget and Administrative Reports not prepared as required in Local Councils' Legislation.

### *Fixed Assets*

- a) No fixed asset register is kept or maintained in the Council's accounting software;
- b) Fixed assets register is incomplete and lacks necessary details to identify the assets;
- c) 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) Provision for depreciation incorrectly calculated or depreciation not calculated on a monthly basis;
- h) Capitalisation of expenditure not in accordance with International Accounting Standard 16, relating to Property, Plant and Equipment;
- i) Incorrect classification of capital expenditure;
- j) Insurance policy not covering the cost of assets as per financial statements;
- k) Migration problems encountered with the electronic transfer of the fixed assets register from Sage Line 50 to Sage Pastel;
- l) Items disposed of were not properly accounted for.

### *Local Enforcement System (LES)*

- a) Contraventions over one year old still outstanding, some of which risk becoming statute barred. Ageing period of debts amounts to up to six years;
- b) Debtors doubtful of recovery and/or no adequate provision for doubtful debts;

c) Income/debtors could not be verified or were incorrectly recorded;

d) Unidentified deposits in respect of contraventions due to lack of information submitted by the banks;

e) Income/debtors disclosed in the financial statements not reconciled with LES reports or not reconciled regularly;

f) Council did not recognise any revenue due from LES because it could not be measured reliably;

g) Joint Committee audit reports not available.

### *Bank/Cash*

- a) Cash not deposited daily or twice weekly;
- 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 or not correctly prepared;
- e) Stale cheques not written off;
- f) Amounts shown in the Council's records could not be confirmed;
- g) Bank accounts held in the name of the Council but operated by third parties;
- h) Payments not included in schedule of payments which is presented to the Council.

### *Tenders/Contracts/Quotations*

- a) Council making use of expired/invalid contracts;
- b) Contracts not available;
- c) Contract signed prior to the receipt of the bid bond, performance bond or bank guarantee;
- d) Schedule of tenders not available or not signed by the executive secretary and two councillors;

- e) Performance guarantee invalid, not available or incorrectly stated;
- f) Council not in possession of the third party liability insurance;
- g) Documentation required by Local Councils' Procedures not available;
- h) Closing date for tender less than one month from date of publication;
- i) Tender not awarded to the cheapest bidder;
- j) Works not certified by a contract manager;
- k) Management fee incorrectly deducted or not deducted at all;
- l) Retention money not withheld to cover the Council in the case of defective work;
- m) Expenditure made by direct order without obtaining three quotations or through the issue of a call for tender;
- n) Quotations requested instead of tenders for purchases/services exceeding Lm2,000;
- o) Council being overcharged by contractor for services already covered;
- p) Invoiced rates could not be reconciled to contracted rates;
- q) No letter of acceptance sent to contractor on the awarding of tender.

### Salaries

- a) FSS forms together with the respective payment not submitted to CIR by due date;
- b) Discrepancy between the year end settlement (FSS) forms, payroll records and financial statements;
- c) Mistakes and omissions in FSS returns;
- d) Contract of employees not available;
- e) Payroll costs incorrectly classified;
- f) Mayor's honoraria incorrectly declared in the FSS returns.

### Creditors

- a) Supplier statements not available or not reconciled to Council's accounting records;
- b) Amounts in dispute with suppliers and amounts long overdue;
- c) Overpayments made to suppliers.

### Invoices

- a) Payments not supported by a fiscal receipt or tax invoice;
- b) Invoices lacking detail of supplies/services.

### 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:

#### Ghajnsielem

- The Council authorised the re-imbusement of transport expenses to students attending private schools. These amounted to twenty-one payments of Lm8 each.

*The Council has noted the auditors report on the issue and will refrain from committing itself for further expenses which do not comply with stipulated financial regulations. This irregular practice has now been discontinued.*

#### Kirkop

- Expenses were incurred in connection with the running expenses of the local "Bocci Club" premises. The Council does not have title to these premises and hence any expenditure incurred in this context is outside the jurisdiction of the Council's functions.

*The Council is currently negotiating with the Department of Local Government to acquire legal title to the ex-"Bocci Club" premises.*

- The Council is paying Lm50 per month for

a professional P.E. coach engaged by Kirkop United F.C.

*The Council set up a football nursery in partnership with the parents to cater for children aged between six and eighteen years. The club in collaboration with the Local Council offered a group of eight qualified coaches to help over one hundred children to be trained professionally. The amount expended on the nursery amounts to Lm500 per annum.*

### Lija

- Each councillor together with the Secretary receives a monthly allowance of Lm10 for the use of mobile phones.

*The council did not submit any reply.*

### Msida

- Lm2,170 were paid for the hiring of a football ground in favour of Msida football club. This constitutes a donation in kind to a local organisation against the provision of article 63A of the Local Councils Act (1993).

*The council did not submit any reply.*

### Mtarfa

- The Council premises had been broken into during the year and some receipts were stolen;
- The Council failed to meet regularly on a monthly basis during the last four months of the year as stipulated by the Local Councils Procedures;
- No approval in Council's minutes was noted regarding extra work carried out for the tender for the Installation of Street Lights, amounting to Lm7,677, equivalent to a 64 per cent increase;
- The tender for the Re-direction of Footpaths along Tas-Sinjura had been originally awarded for a total value of Lm7,494. A bill of quantity issued by the contractor's architect valued the work at Lm23,765. No certification of the work was done by the Council architect and the auditor did not

come across any Council approval in the minutes for the substantial variation in the value of the project.

*The council did not submit any reply.*

### Paola

- The Council financed Lm5,000 this year and Lm10,000 last year for the construction of a synthetic football pitch in Paola. The legal title of the pitch is in the name of A.S. Hibernians Limited, which although a private limited liability company, is approved as a sports society by the Malta Sports Council in terms of the Sports Act (Cap.455);
- The Council is approximately overstaffed by six employees in contravention to article 53(1) of the Local Councils Act 1993, whereby it is stated that one employee should be employed for every 2,500 residents.

*The Council did not submit any reply.*

### Pieta'

- The Council is paying Lm10 per session, once or twice weekly for the hire of a hall used for providing dancing lessons. Children are paying Lm1 directly to the teacher, and such income is not being received by the Local Council;
- The Council paid Lm240 for fireworks and related insurance amounting to Lm250 for the Kumitat tal-Festa. It also approved payment of Lm300 for an activity held by the Pieta' Hotspurs Youth Nursery for a competition.

*The Council did not submit any reply.*

### Rabat (M)

- The Council donated Lm3,000 to St. Agatha School. This donation is clearly in excess of the Lm50 limit per donation stipulated by the Financial Procedures and is also in excess of the total donations limit 0.5 per cent of Government allocated funds.

*The council did not submit any reply.*

### Sannat

- Lm311 were paid out by the Council for youths band and refreshments. Another Lm84 were given to Sannat Football Club in connection with flood lights in the ground.

*The Council did not submit any reply.*

### Santa Lucija

- The Local Councils Department had instructed the Council to request each councillor to return the fax machine which the Council had supplied to be kept by them throughout the duration of their term. These fax machines had not been returned during the time of the audit.

*In the year 2000, the Council purchased fax machines to be used by councillors during their term in office. Three of these councillors no longer form part of the Council. Since these fax machines are considered as outdated, the Council will be taking the necessary measures to write them off.*

### Ta' Xbiex

- The contactor providing administrative support services was paid Lm301 per month irrespective of the hours worked even though the contract stipulates a charge out rate of Lm2.15c per hour.

*Although the Council submitted a reply to the management letter, no comment was submitted with respect to this issue.*

### Valletta

- The Council hires a motor vehicle for day to day operations throughout all the year. However this is not always parked near the council offices during non-office hours.

*The council did not submit any reply. This finding had been highlighted by the auditor in the previous financial year.*

Valletta Local Council reported stolen cash and cheques amounting to Lm15,508, Lm3,655 of which was collected on behalf of the Lands Department. The Land Department agreed verbally to waive this

amount. This was not the first time that considerable amounts were stolen from the said council, since cash proceedings were not being banked frequently. In this year's management letter, the auditor noted that this respective weakness had been addressed.

### Local Councils' Association

The following are the most material findings that emerged from the management letter of the Association:

- 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 receipts as per the Datatrak report and the bank account. Furthermore, the Association failed to settle monthly payments to Local Councils for the past six months and amounts due exceed Lm100,000;
- The Association holds a Visa credit card in the name of the President of the Local Councils' Association for a credit limit of Lm2,000;
- Cash receipts are not always issued promptly upon the receipt of income. Income is not recorded in the accounts separately when received but in batch total when deposited. Although a report is prepared listing down the receipts that are deposited, this is not cross referenced to the receipt number and neither is the third copy of the receipt attached;
- Three contracts are in force for the service of mobile telephone lines provided to the President, Vice President and Executive Secretary;
- No Administrative and Business Plan were prepared and submitted to the department;
- No contracts are signed following the issue of a letter of acceptance;
- The schedule of tenders was not signed by two members of the Association jointly with the Executive Secretary.

### *Local Enforcement System (LES)*

A number of auditors expressed their concern that Local Enforcement Debtors are increasing in a number of Local Councils. Some of these relate to debts that risk becoming statute barred. Outstanding fines should not take longer than one year to be settled as these are usually payable upon the renewal of the respective motor vehicle licence. This could potentially mean that LES debtors are inflating the net current asset situation of Local Councils when in actual fact these amounts could not be recouped.

The Department for Local Government after consulting the Local Enforcement System Committee is to investigate the LES and take any corrective measures deemed necessary with the contractor. Moreover the system should be enhanced to ensure that no motor vehicle licence is renewed unless all respective contraventions are paid. A decision is to be taken so that amounts which in reality cannot be collected will be provided for and eventually written off in order to have more realistic amounts included in the Local Councils' balance sheets.

### *Joint Committees Audits*

Generally no Joint Committees' audit reports are available by the time the audit of Local Councils is carried out. This means that Local Government Auditors cannot place reliance on the correctness of LES income reported by each Council, with the result that a number of reports are qualified in this respect every year.

In view of this, this year NAO also carried out an audit on a particular Joint Committee which is also included in the Annual Report on page 72.

Presently there is no legislation regulating the Joint Committees' financial and audit procedures. Thus, appropriate legislation for Joint Committees should be enacted, making it compulsory for the audited financial statements to be prepared by May 15 of every year. This would reduce instances where Local Councils' audit reports are qualified for this reason.

### **Department for Local Government**

#### *Amendment to Local Councils Procedures and Regulations*

During the year, NAO assisted the Department to carry out the necessary amendments to the Local Councils (Audit) Procedures and Regulations. These are to be published shortly. The Performance Indicators previously included in the Procedures have still not been drawn up. These indicators are of particular importance to NAO as these would enable the Office to carry out the 'Value for Money' Audits as required by Local Councils Legislation.

Furthermore a significant number of audit reports have again been qualified because the financial statements did not include the budget figures. Such a requirement is no longer applicable since Local Councils have adopted the accruals based system. However, the Financial Procedures issued in terms of the Local Councils Act 1993 have not been amended to remove this requirement. As a result, these Councils were not included in the report and in Appendix A because it was deemed unfair to report them simply because an amendment to the Financial Procedures has not been effected.

#### *Mid-term Audits*

Seven Executive Secretaries either resigned or did not have their contract renewed by the Council during the year under review. The Councils involved were Birgu, Gudja, Kalkara, Kirkop, Rabat (M), San Pawl il-Bahar and Zebbug (M). Out of these only the Council of Kalkara carried out a mid-term audit as required in the Local Councils (Audit) Procedures. In the case of Birgu, Rabat (M) and Zebbug (M) the change occurred within a month of the year end audit.

The Department is to ensure that a mid-term audit is carried out as per the Audit Procedures as this would resolve most of the difficulties that arise in such an event and ensure that a proper hand over is given to the new Executive Secretary.

Local Government Auditors appointed by the Auditor General are to present financial statements covering the period from April 1 to the last day of employment of the outgoing Executive Secretary and an Audit Report together with a management letter pointing out any weaknesses encountered.

### *Personal Liability*

As from January 2006, Legal Notice 22 of 2006 was enacted which authorises the Director for Local Government to seek personal liability from Council members or employees of the Council in case of fraud, misappropriation, and any other irregularities.

### *Submission of Statutory Documentation*

During the year under review NAO noted an increase in the number of Councils reported by Local Government Auditors that defaulted and did not submit the necessary statutory documentation. In particular, as already highlighted, one Local Council did not submit the audited financial statements, and another twenty Local Councils failed to submit a reply to the management letter.

In such cases the Department is encouraged to invoke Article 55(3) of the Local Councils' Act and retain provisionally part of the allocation until such documents are submitted.

## Appendix A- Qualified Reports

Council	1*	2*	3*	4*	5*	6*
Valletta	x				x	
Mdina	x					
Birgu	x					
Isla		x				
Bormla		x	x			
Zebbug						x
Zejtun	x					
Balzan		x				
B'Bugia		x	x			
Fontana	x					
Gzira		x				
Gharb	x					
Gharghur		x				
Ghasri	x					
Hamrun		x				
Kalkara		x				
Kercem	x					
Kirkop	x					
Lija		x				
Mellieha	x					
Mosta	x				x	x
Msida		x	x			
Munxar	x					
Naxxar		x				
Paola	x	x	x			
Pembroke		x				
Qala	x					

Appendix A - Qualified Reports (continued)

Council	1*	2*	3*	4*	5*	6*
Qrendi	x	x				
Rabat	x					
S. Giljan	x	x				
S. Gwann	x		x			
S. Lawrenz	x					
S. Pawl			x		x	
Sannat	x					
Sliema	x					
S. Venera	x		x		x	
Swieqi	x			x		
Tarxien	x	x				
Xaghra	x			x		
Xewkija	x			x		
Zebbug (G)	x					
Zurrieq	x					
Mtarfa				x		
	<b>28</b>	<b>16</b>	<b>7</b>	<b>4</b>	<b>4</b>	<b>2</b>

For headings refer to page 57.

## Appendix B- Management Letter Weaknesses

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

Appendix B - Management Letter Weaknesses(continued)

Council	1*	2*	3*	4*	5*	6*	7*	8*
Kalkara	x	x	x	x	x	x	x	x
Kercem	x		x		x		x	
Kirkop	x	x	x	x	x	x	x	x
Lija	x			x				
Luqa	x		x				x	x
Marsa		x			x			
Mellieha			x			x		
Mgarr	x	x						
Mosta			x	x			x	x
Mqabba	x		x	x		x		
Msida	x	x	x	x		x		
M'Skala	x	x	x			x	x	
Munxar	x	x	x					
M'Xlokk	x	x				x	x	
Nadur	x	x		x	x			x
Naxxar	x		x	x	x	x	x	
Paola	x	x	x	x	x	x	x	x
Pembroke	x	x		x			x	
Pieta'		x	x	x		x	x	
Qala		x	x	x				
Qrendi	x	x		x	x			x
Rabat	x	x	x	x	x	x		x
Safi						x		
S. Giljan	x	x	x		x			
S. Gwann	x	x	x				x	
S. Lawrenz	x	x	x			x		
S. Pawl	x	x	x	x	x			
Sannat	x	x	x	x	x			
Sliema			x				x	x

Appendix B - Management Letter Weaknesses(continued)

Council	1*	2*	3*	4*	5*	6*	7*	8*
S. Lucija	x	x	x		x	x		x
S. Venera	x	x	x	x		x	x	
Swieqi	x	x	x	x	x	x	x	x
Ta' Xbiex	x	x	x	x	x			
Tarxien	x	x	x	x	x			x
Xaghra	x	x			x		x	x
Xewkija	x		x		x			
Xghajra		x	x	x			x	x
Zebbug (G)		x	x		x			x
Zurrieq		x	x	x			x	x
Mtarfa	x	x		x	x		x	x
	<b>52</b>	<b>52</b>	<b>45</b>	<b>31</b>	<b>27</b>	<b>27</b>	<b>26</b>	<b>22</b>

\*For headings refer to page 60.

## Group H Joint Committee

### Background

The Group H Joint Committee (GHJC) was set up under the 'Local Councils Act, 1993' and comprises seven Local Councils namely Gzira, Pembroke, San Giljan, San Gwann, Sliema, Swieqi and Ta' Xbiex. Following the agreement dated 14 August 2002, the GHJC caters for the joint management and daily running of the Local Enforcement System within these localities, and the pooling of funds generated from this system.

The audit covered the financial year ended 31 March 2005.

### Key Issues

#### Debtors – Tribunal Pending Payments

Audit procedures were very limited as the GHJC did not maintain lists backing the tribunal pending payments' figure quoted in the financial statements.

The following concerns were noted from the records of **pre and pooling**<sup>1</sup> period tribunal pending payments generated as at audit date, 16 February 2006:

- i. **Pooling** period tribunal pending payments stood at Lm 504,335 reflecting an increase of 40 per cent over the amount of Lm 361,380 included in the financial statements as at 31 March 2005.
- ii. A provision for **pooling** period bad debts, which included full provision for 2002 balances and vehicles having each accumulated fines over Lm 750 was estimated at Lm 136,515, reflecting an

increase of 60 per cent over the Lm 85,328 as at 31 March 2005.

- iii. From a review of both **pre and pooling** period tribunal pending payments which totalled Lm 596,032 as at 16 February 2006:
  - Lm 111,315 (19%) related to 65 motor vehicles. 19 of these motor vehicles had each accumulated pending payments over Lm 2,000 with the top offender accumulating over Lm 4,000;
  - Lm 155,880<sup>2</sup> (26%) related to 69 owners. 22 of these owners had each accumulated pending payments over Lm 2,000 with the top offender exceeding Lm 26,000.

The Traffic Regulation Ordinance required the non-renewal of motor vehicle road licences with unpaid fines or penalties. This restriction was imposed by the information system of the Licencing and Testing Directorate as from 1 January 2003. Nevertheless, 1,736 motor vehicles with a valid road licence as at 22 March 2006<sup>3</sup> had their licence renewed even though they had tribunal pending payments<sup>4</sup>. The total value of these outstanding payments amounted to Lm 70,960.

#### Income

The reports available on the Local Enforcement System (LES) did not cater for

<sup>1</sup> The pre period refers to the period before the establishment of the Joint Committee, while the pooling period refers to the period after the 14 August 2002

<sup>2</sup> Excludes educational contraventions.

<sup>3</sup> Data used for audit testing was generated on 22 March 2006.

<sup>4</sup> Audit testing only included tribunal pending payments relating to the GHJC localities.

the generation of information enabling accounting for income on an accruals basis and in line with the income recognition criteria adopted by the GHJC.

From a review of the income figure recognised in the audited financial statements for the year ended 31 March 2005 and related working papers the following observations were noted:

- i. The LES is a live system and the report backing the income figure which was generated on the 2 May 2005 was continuously being updated. Events after year end were thus reflected in the LES report and subsequently in the income figure disclosed in the financial statements.
- ii. The income figure disclosed was based on figures from the LES report which did not account for penalties, fees and damages.
- iii. Accounting for speed cameras' income and expenses was not allocated to the specific Local Council where the camera was installed as decided by the Committee.

### Control Issues

Opportunities for improvement were identified in the following areas:

#### *Accounting System and Management Accounts*

The accounting system in use was not being fully utilised, in particular the purchases ledger. Transactions were only posted through the 'Bank Payments' module and dated according to the date of payment rather than the invoice date. As a result:

- i. Creditors of about Lm 41,000 were not recognised as at year end;
- ii. Efficient preparation of accruals based management accounts was not possible;
- iii. Tracing of expenses proved time consuming due to the aggregation in batches and posting by month of performance of services rather than invoice date.

#### *Cash and Cash Equivalents*

From a review of the bank reconciliations, the following issues were observed:

- i. The bank account for contraventions paid via non-online facilities was not reconciled as at year end.
- ii. The Local Councils Association (LCA) is responsible for the online payment system. The receiving bank account for fines paid via online facilities had never been reconciled as bank statements did not provide sufficient details to trace receipts to the relative contravention.
- iii. The un-presented cheques as at year end included a cancelled cheque, a cheque, entered twice in the accounting package and two cheques which had their amount misstated and were stale.
- iv. Two cheques, though not of a material nature, were erroneously omitted from the accounting package and from the schedules of payments presented to the Committee.

#### *Distribution of Profits to Local Councils*

The distribution made during the financial year under review was accounted for as being fully due from pre pooling funds while in fact Lm 6,090 related to the pooling period.

#### *Back Ups*

The GHJC lacked adequate and formalised back up procedures with respect to the accounting package information. Furthermore, back ups performed did not provide adequate cover against possible incidents.

#### *Outsourced services and related costs*

Invoices covering camera installation costs, towing (storage) costs and archiving costs did not include full details enabling reconciliation of invoiced amounts to the services, quantities and rates actually contracted and / or authorised.

## Warden Services

Weaknesses within the main LES report backing the invoicing of warden services required manual intervention, unnecessarily delaying the reconciliation process.

## Compliance Issues

### Fiscal Receipts

Fiscal documentation supporting expenditure incurred was not always available.

## Recommendations

### Key Issues

#### Debtors – Tribunal Pending Payments

Procedures for the monitoring of the outstanding pending payments should be defined and formalised. Immediate action should be taken so as to enhance the debt collection efforts and effectiveness of mechanisms enforcing collection of tribunal pending payments. Furthermore, the GHJC should ensure that all information backing figures disclosed in the financial statements is retained.

#### Income

A report generating information enabling accounting for income on an accrual basis should be set-up on the LES information system by the service provider for use by all Joint Committees. Furthermore, due care should be given for the timeliness of report generation and accuracy of report parameters.

#### Control Issues

#### Accounting System and Management Accounts

The purchases ledger should be utilised, thus deriving full benefits from the accounting package and enhancing control, availability and accuracy of management information. Proper accrual based management accounts should be prepared and presented to the Committee on a regular basis.

## Cash and Cash Equivalents

The GHJC should ensure all details required for the efficient reconciliation of bank accounts are available on the relative bank statements. Furthermore, a more prudent approach towards the reconciliation exercises should be taken so as to identify and correct erroneous accounting entries prior to the finalisation of the financial statements.

## Distribution of Profits to Local Councils

Distributions should be properly accounted for.

## Back Ups

Adequate back up procedures should be formalised and adhered to.

## Outsourced services and related costs

The Committee is to instruct the service provider to list on the invoice all the details necessary for timely reconciliation of invoiced amounts to the services, quantities and rates contracted and / or authorised, thus ensuring control over the disbursement of the GHJC's funds.

## Warden Services

Considering the materiality of the warden services cost, the LES report should be enhanced to enable efficient calculation of costs and include further details on requested routes such as cancellation of same and also information evidencing the actual performance of routes such as number of tickets issued.

## Compliance Issues

### Fiscal Receipts

Proper documentation should be obtained so as to support the transactions in the books and ensure adherence to tax laws.

## Management comments

Management concurred with the report findings and is to take corrective action.

## EU Paying Authority

### EU Travel Refunds

#### Background

Expenses related to travel by Maltese officials participating in European Union (EU) Council and/or Commission Meetings are eligible for reimbursement.

Every EU member state receives a fixed annual budget to cover Council Meetings attended. Council Meetings' reimbursable expenses must be claimed by Ministries/Departments by completing a Council Meetings Reimbursement Claim Form (Form A). However, Commission Meetings are refunded on a case by case basis. Officials attending Commission Meetings must complete a document (Expert Identification Sheet) and submit it to the organising bodies within the Commission. Additionally, to reclaim the reimbursable expenses, delegates must submit a duly filled in Commission Meeting Reimbursement Claim Form (Form B) to the EU Paying Authority (EU PA) within the Ministry of Finance (MF).

One of the core functions of EU PA is to manage the EU Travel refunds regarding Malta's participation in EU Council and Commission Meetings<sup>1</sup>.

MF issued two (2) Circulars relating to EU related travel highlighting the procedures for reimbursement of funds in respect of participation in Council and Commission Meetings/Working Groups; namely:

- MF Letter-Circular dated 5 November 2004 (Letter-Circular); and
- MF Circular 2/2005 dated 26 July 2005.

#### Key Issue

##### *Commission Meetings*

**Budget Line Items A7030 and A7031 as per Letter-Circular not recorded on Form B**

Budget Line items A7030 and A7031 specify expense categories which are refundable by the Commission for meetings attended. For further details refer to *Appendix 1*.

It was noted that Form B does not cater for inclusion of Budget Line Items. In fact, from the sample examined it was noted that Ministries/Departments did not indicate on Form B under which Budget Line Item/Group Number the meetings fell. Therefore, in the absence of Budget Line Item details, the amount of control that EU PA can exert to ensure that all entitled refunds are actually claimed in full is questionable.

#### Control Issues

Opportunities for improvement were identified in the following areas:

##### *General*

**Data not recorded on Forms A and B by EU PA**

It was noted that the submission date of claims for refund forwarded by Ministries/Departments was not recorded on all Forms A and B processed by EU PA. From the sample of Forms A and B tested the following data was also missing:

- Signature of EU PA official.

<sup>1</sup> Source: [www.mfin.gov.mt](http://www.mfin.gov.mt)

- Date when document received was checked.
- Confirmation that all required documents were attached to the reimbursement claim form.

However, EU PA informed NAO that with effect from March 2006, Forms A and B are being duly filled and signed by the officer-in-charge and by the Director, EU PA. It was also stated that as from May 2006, all claims are being rubber stamped by EU PA to indicate date of receipt.

### Commission Meetings

#### Under Utilisation of Expert Identification Sheets

Ministries/Departments are not requested by EU PA to submit copies of Expert Identification Sheets upon submission of refund requests. These sheets cannot be utilised by EU PA in order to ensure that all such sheets issued to Ministries/Departments prior to the visit abroad are all eventually supported by corresponding refund claims.

### Compliance Issues

#### General

#### No standard procedures adopted by EU PA when Council and Commission Meetings coincide

EU PA stated that if a refund is not received from the Commission when Council and Commission Meetings coincide, it is claimed from the Council funds.

This procedure is different from that outlined in MF Circular 2/2005 stating that: *"It is also important that in case where the travel arrangements for a Council-related meeting and a Commission-related meeting coincide, the claim is made from the Council envelope and not that of the Commission."*

#### Unclear Definition of Reimbursable Travel Expenses

The Letter-Circular makes reference to "travel expenses" incurred in conjunction with attendance at Council and Commission Meetings but without specifying what is actually covered by the term. EU PA stated that in practice travel costs include only air and rail transport.

Although the Letter-Circular directs that Statement of Expenses and relative form are to be submitted to EU PA, yet it does not detail the necessary expense sub classifications. This is of particular importance in view of the fact that air and rail expenses were stated by EU PA as considered reimbursable travel costs. Lack of clarity with regards to travel costs increases the risk that entitled refunds might be lost.

#### Non Submission of/Incomplete Supporting Documentation

It was noted that Ministries/Departments do not always submit to EU PA all the required documents. Moreover, in certain instances it was difficult to ascertain whether certain expenses were eligible for reimbursement or otherwise because of incomplete documentation.

#### Submission Timeframes not adhered to

MF Circular 2/2005 states that: *"The relevant documentation is to be forwarded within 15 days following the date of the meeting... to the Director, (EU Paying Authority)."* EU PA explained that as long as claims are raised within the EU budget year, which is a calendar year, it is flexible and practical with regard to the fifteen (15) day rule. Unless EU PA does not enforce the stipulated fifteen (15) day time frame, it is possible that Ministries/Departments unnecessarily delay the submission of the claims for reimbursement.

## Council Meetings

### Discrepancy between EU Council Decision No. 190/2003 and MF Circular 2/2005 re the two (2) Advance Payments forwarded by the Council

In terms of Article 3 (1) of EU Council Decision No. 190/2003 the allocated apportionment due to every Member State is transferred in two (2) instalments:

- sixty per cent (60%) in January; and
- forty per cent (40%) in July.

MF Circular 2/2005 states that the Council forwards the two (2) instalments, usually in April and July of every year. One of the Circular's stipulated dates therefore do not reflect actual practice.

### Non-submission of July 2005 Instalment by the Council due to Late Submission of 2004 Declaration by EU PA

The 2004 declaration of amounts claimed was forwarded to the General Secretariat of the Council nine (9) months after the stipulated time requested by EU Council Decision No. 190/2003. Since the annual allocation of payments by the Council is based on the actual travel expenses of the previous year, the July 2005 instalment was withheld. In fact, no related transactions were traced in Central Bank of Malta Account Statement for the month of July 2005. Late declarations may jeopardise receipt of funds.

## Commission Meetings

### Differences between the procedure of transfer of funds adopted by EU PA and the Letter-Circular

Paragraph 19 of Letter-Circular states that: *"As from 2005,... upon the submission of documentation by the Accounting Officers to the Director (EU Paying Authority), Treasury will immediately take action to refund that element of cost which is reimbursable to the respective Department's line item for travel"*.

MF Circular 2/2005 states that:

*"given that the Council and the European Commission do not have similar budget lines, a different procedure had been put in place by way of the Letter-Circular dated 5 November 2004 with regard to the reimbursement of funds pertaining to these meetings"*.

However, this Circular does not specify any changes regarding reimbursement of costs by Treasury to respective Ministries/Departments.

EU PA is not complying with the Letter-Circular since it was confirmed that upon submission of the related documentation by Ministries/Departments, EU PA transfers to the respective Ministries/Departments the reimbursable costs of Council Meetings *only*. On the other hand, Commission Meetings' reimbursements are paid to Ministries/Departments on a case by case basis following receipt of the related funds from the Commission by EU PA.

## Recommendations

### Key Issue

#### Commission Meetings

*Budget Line Items A7030 and A7031 as per Letter-Circular not recorded on Form B*

Measures should be taken so that EU PA has sufficient information to exert controls necessary to claim all entitled refunds.

### Control Issues

#### General

*Data not recorded on Forms A and B by EU PA*

EU PA should ensure that the practices commenced in 2006 are maintained.

#### Commission Meetings

*Under Utilisation of Expert Identification Sheets*

Submission of Expert Identification Sheets by Ministries/Departments to EU PA

should become obligatory and be utilised when processing Commission Meetings' refund claims.

## Compliance Issues

### General

*No standard procedures adopted by EU PA when Council and Commission Meetings coincide*

Compliance with the related Circular requirements should be ensured.

*Unclear Definition of Reimbursable Travel Expenses*

The Letter-Circular should be revised to clarify the definition of reimbursable travel expenses as well as detail expense sub classifications and any related supporting documents.

*Non submission of/Incomplete Supporting Documentation*

EU PA should ensure full compliance of the requirements of the Circulars.

*Submission Timeframes not adhered to*

EU PA should ensure that the timeframe stipulated in the Circular is abided by.

### Council Meetings

*Discrepancy between EU Council Decision No. 190/2003 and MF Circular 2/2005 re the two (2) Advance Payments forwarded by the Council*

MF Circular 2/2005 should be amended in order to be in conformity with Article 3 (1) of EU Council Decision No. 190/2003.

*Non-submission of July 2005 Instalment by the Council due to Late Submission of 2004 Declaration by EU PA*

EU PA should settle the issue of July 2005 instalment with the Council as soon as possible and ensure no late declaration submissions.

### Commission Meetings

*Differences between the procedure of transfer of funds adopted by EU PA and the Letter-Circular*

EU PA should ensure that procedures adopted are in conformity with the procedures highlighted in the Circulars, otherwise Circulars should be amended accordingly.

### Management Comments

EU PA concurred with the findings and is to take corrective action. Moreover, Management considers "... appropriate to review the regulatory framework through the issue of a comprehensive new MFIN Circular which would supersede the previous two circulars to ensure details provided are clear."

EU PA further remarked that:

- The Commission is limiting the use of the Expert Identification Sheets by introducing the 'stickers system'. "... the Commission records the participant's Expert Identification Sheet data and in turn issues a set of filled up stickers to be used by the same participant for his future Commission meetings."
- With regards to non-submission of or incomplete supporting documentation, EU PA commented that the officer-in-charge vets a claim for reimbursement and "... if any of the required documentation is found to be missing the Ministry/Department/Entity contact person of that relative claim is immediately contacted to explain the reason behind the lack of compliance with the reimbursement procedure". It was also stated that for practicality reasons there are instances when reimbursement claims are raised "... even if without all the required documents."
- It is practically impossible for EU PA to enforce the fifteen day submission time frame "... because the officer in charge, will

know about a particular meeting only once the contact person/accounting officer sends in the relative claim.” Additionally, given the volume of claims received on a daily basis, “... it is impossible for the EU PA to undertake anymore unrealistic measures to its current reimbursement procedure”. However, EU PA will consider reviewing this rule.

- Regarding the non-submission of July 2005 instalment by the Council, EU PA remarked that “... in the coming days the Permanent Representative of Malta to the EU will be officially communicating with the General Secretariat of the Council to reconsider Malta’s position”.

### Appendix 1

Letter-Circular dated 5 November 2004 specifies travel expenses refundable by the Commission under the following categories:

Budget Line Item A7030:

- travel costs;
- subsistence expenses; and
- incidentals.

Budget Line Item A7031:

- Group 1 for Government and other experts entitled to a refund of travel and subsistence expenses;
- Group 2 for non-Government experts entitled to a refund of travel and subsistence expenses;
- Group 3 for Government experts entitled to a refund of travel expenses only; and
- Group 4 for Government experts and others, the former being entitled to a refund of travel expenses only and the latter to a refund of both travel and subsistence expenses.



**Ministry of Education , Youth and Employment**

## Foundation for Tomorrow's Schools

### Background

The Foundation for Tomorrow's Schools (FTS) was set up in May 2001 with the aim to own, develop, build, upgrade, refurbish, maintain and manage state schools at levels as required from time to time by the Education Authorities.

### Key Issue

#### *Official Delegation of Ownership of St. Benedict's Secondary School and its Contents*

Though St. Benedict's Secondary School, developed by the FTS, was officially opened on 4 May 2006, students started attending in September 2005. However, the premises and its contents had not been officially taken over by the Education Division who are currently responsible to safeguard them. Complete records of the fixed assets could not be evidenced.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Two senior officials employed by the Foundation were appointed by a Board resolution however, a contract of service was not drawn up.
- Certain invoices paid by the FTS had missing details supporting payments made.
- Most salary packages paid to certain employees and approved either by the Collective Bargaining Unit within the Ministry of Finance or the Recruitment and

Redeployment Advisory Group within the Office of the Prime Minister appear to be relatively high in comparison to analogous grades within the Malta civil service.

- Mobile phone allowances needed more control.
- Lack of verification of invoices from one service provider resulted in overpayment due to overstated hourly rate and double charging of VAT.
- Lack of official performance criteria to establish the rate of performance bonus to an administrative staff member.
- Lack of segregation of duties in the Accounts Section in relation to payroll process with certain payments being unilaterally calculated and processed by the same officer resulting in overpayments.
- Petty Cash Register was not kept by on-site employees at St. Benedict's Secondary School.
- Traffic infringement fines paid out of the Foundation's funds and not recovered from officers concerned.
- Fuel consumption controlled only by capping fuel allowance instead of maintaining log books to record trips.

### Compliance Issues

#### *Tax Regulations*

Additional allowances granted to an Education Division employee working for the Foundation were not declared in the Paye Statement of Earnings (FS3) prepared for

the Income Tax Authorities. The officer instead issued a VAT receipt for part of this amount.

Another employee "housed to the Foundation" was granted monthly allowances for petrol and mobile phone as well as a disturbance allowance. Tax on these amounts was paid at the rate of 15% instead of being added to the officer's gross salary.

### *Increments/Cost of Living increases not given to Employees*

Increments due to three (3) employees since the start of their employment with the Foundation and established in their Contract of Service were not added to their basic salaries.

### *Fuel Cost and other Running Expenses*

Transport regulations are not being followed with regard to the filing of a statement of all the running expenses of the hired vehicles in use by FTS.

### *Fixed Assets*

The Foundation relocated its premises at the end of February 2006, however the Fixed Asset Register presented for audit in May 2006 was not yet updated with the relevant changes.

Most assets had either not been assigned a unique Asset Identification Number (AIN) or had not been allocated a location code, making independent physical verification of inventory records very often impossible. Other items lacked cross reference to suppliers' name.

## **Recommendations**

### *Key Issue*

#### *Official Delegation of Ownership of the School and its Contents*

- The School with all its contents is to be officially taken over by the Head of School on behalf of the Education Division.

- Inventory records should show reference to suppliers' invoices and other source documents in support of values quoted and date of acquisition.
- Reconciliation of inventory records (room lists) with the main accounting records, in verification of the completeness and accuracy of both sets of records, is recommended.

### *Control Issues*

- A contract of service is to be drawn up for all officials rendering service to the Foundation.
- No invoices are to be processed for payment unless they include all the relevant information stipulated in the contract.
- The Management and Personnel Office (MPO) in collaboration with the Ministry of Finance and other pertinent authorities are to carry out an evaluation of salaries paid to employees in the public sector, and issue guidelines to this effect, in order to eliminate disparities within the same grades in Government entities.
- The use of the most cost-efficient means of telecommunication should be encouraged. Moreover, all mobile telephone facilities extended under a contract of service ought to be approved by the Board and regulated by an established ceiling.
- On signing a voucher, the officer concerned should certify as to the accuracy of all details in the voucher and is to be held responsible that the services specified have been duly performed. The Foundation is to recoup the amount of overpayment.
- Targets in the performance contract are to be set every year to ensure an equitable basis for the eventual performance appraisal.
- Segregation of duties is to be strengthened in the Accounts Section. Any amounts overpaid are to be recouped.

- All purchases made through petty cash should be recorded in a Petty Cash Register and the description of items bought should be noted on the petty cash voucher by the purchasing officer. Monthly reconciliation of cash balances is to be performed.
- Traffic infringements are to be borne by the officers committing the offence.
- Log books are to be maintained as a means of controlling use of vehicles.

### Compliance Issues

#### Tax Regulations

FTS is to ensure that tax on fringe benefits is withheld at source in accordance with the provisions of the Final Settlement System Rules and the Fringe Benefit Rules issued under the Income Tax Act.

#### Increments/Cost of Living increases not given to Employees

The difference on increments and cost of living owed to the employees is to be rectified.

#### Fuel Cost and other Running Expenses

A statement is to be drawn up annually in accordance with MF Circular 8/90. This is to include a detailed analysis of all vehicle running expenses besides fuel consumption.

#### Fixed Assets

FTS should maintain an updated and complete Fixed Asset Register with regular physical verification to the records. An asset transfer note is also to be introduced in support of adjustments required in the Fixed Assets records every time as asset changes location.

### Management Comments

The Board took cognisance of most of the observations and the respective recommendations and has already started taking the necessary corrective action. However, the delivery notes for movable items, signed by the Head of School, which will form part of a Handing-Over Certificate once the Education Division appoints a delegate from its part, were still not complete.

Guidance is being sought from the Permanent Secretary on the additional allowance paid to the Education Division Employee.

Management did not give any indication whether the second Education Division officer's tax obligations had been rectified retrospectively but stated that the situation was rectified following his secondment to the Foundation on 29 March 2006 as no further allowances were paid.

Overpayments have been recouped. However, no comments have been received on the necessary segregation of duties in the Accounts Section although it was verbally stated that a Management Accountant will be employed.

The Board acknowledged the observation on traffic fines and verbally stated that such penalties paid by the Foundation are recovered.

It was not stated whether the fixed asset register of the FTS is now complete and updated. FTS made reservation on the necessity for monitoring of log books for hired vehicles.

## Kunsill Malti Ghall-iSport

### Background

The Kunsill Malti Ghall-iSport (KMS) was established in virtue of article 4 of the Sports Act of 2002. Its objectives are to increase participation in sport, promote a culture of excellence and equality of access to sport, as well as to ensure the provision of resources, services and facilities for the promotion of sport in Malta.

### Key Issues

#### *Resources vs. Functions*

The Sports Act, 2002 assigns twenty main functions to the KMS. Current financial and human resources cover only ten functions in full, five others in a limited way and the remaining five functions are not being addressed.

#### *The Accounting Function*

Weaknesses observed within the accounting function included a back log of postings of transactions, delays in the performance of bank reconciliations, lack of monitoring of debtors, alignment of ground rents' billing to the KMS financial year irrespective of contracts' dates and lack of periodic preparation of management accounts.

### Control Issues

Opportunities for improvement were identified in the following areas:

### *Debtors*

From a review of the provision for bad debts it transpired that:

- a debtor was provided for twice;
- previously provided for debtors now recovered were not adjusted for, and;
- only forty-five (45%) of debtors inherited from the National Pool Complex were provided for, though the full amount has been due to the KMS since their inheritance on 29 February 2004.

After taking into consideration the inherited debtors, an increase in the provision as a percentage of debtors from 22% in 2004 to a 34% in 2005 was observed.

Aged debtors' lists were not reviewed periodically and regular reconciliation of the debtors' list to the debtors' control account was not performed. Unallocated receipts and credit notes were also observed and debtors' accounts with credit balances were not reclassified at year-end.

### *Sports Fund / Ground Rent*

KMS retained accounting responsibilities for ground rent, the collection of which is still vested in the Lands Department. The ground rents figure disclosed in the financial statements was backed by four schedules. Nevertheless the total number of tenements and the total annual ground rent varied between the schedules. Contract dates were not available for all tenements.

### *Back Ups*

Back up procedures were not documented. Practice in place had a rotation scheme enabling recovery going back up to one week.

### **Recommendations**

#### *Key Issues*

#### **Resources vs. Functions**

An action plan is to be devised so that funds and personnel levels enable the KMS to address fully all functions assigned.

#### **The Accounting Function**

It is to be ensured that accounting staff employed are sufficient so as to enable timely and proper accounting for all its transactions and management accounts are to be periodically prepared.

#### *Control Issues*

#### **Debtors**

Procedures covering debt management should be set up, documented and strictly complied with so as to enhance the debt collection efforts. Payments received and credit notes should be allocated and credit balances reclassified at year-end. The provision for bad debts should be reviewed and adjusted accordingly.

### **Sports Fund / Ground Rent**

The KMS should compile one complete and accurate list of tenements which includes rental period's start/end for all tenements and other necessary details, thus enabling proper accounting whilst ensuring completeness and consistency.

#### **Back Ups**

Back up procedures should be documented as soon as practicably possible and the rotation scheme enhanced.

### **Management Comments**

Management concurred with most of the report findings. It was also stated that staff at KMS Head Office is well below the minimum complement of 15 persons identified in a report commissioned by the Ministry of Education entitled, 'Situation Audit and Strategy Document 2003'. Once funds are made available the KMS will be in a position to take up most of the recommendations proposed.

While the KMS has no objection that one complete list is compiled including the rental period's start and end for all tenements, it also remarked that they are not responsible for the collection of rents from Sports Organisations.

**Ministry for Competitiveness and Communications**

## Mooring Fund

### Background

The Mooring Fund was established by the Pilotage and Mooring Regulations incorporated under the Malta Maritime Authority Act Cap 352. The Fund is made up of three sub funds - Stabilisation Fund; Pilot Launch Maintenance and Repair Fund; and the Pilot Launch Replacement Fund which were set up in accordance with article 38 and 39 of the Regulations.

In April 2003, the pilots set up the Pilots Co-Operative Society while the Mooring Men continued to be organised under the same Regulations. Nevertheless the three sub funds are still being regulated by the Pilotage and Mooring Board who in turn is accountable to the Minister for Competitiveness and Communications.

### Key Issues

#### *Financial Statements*

The profit and loss account structure, groupings and the classification of the suspense account were not kept in accordance with International Financial Reporting Standards (IFRS). Furthermore, the financial statements were not supported by notes to the accounts and a cash flow statement was not prepared.

#### *Accrual basis of Accounting*

- Items of a capital nature were fully expensed during the financial year under review;

- Unaccounted for creditors, accruals and prepayments as at year end were observed;
- Expenses relating to the prior accounting period were included with the expenses of the Fund for the year under review;
- Salaries for the month of April 2005 were omitted from the accounting records and the financial statements;
- A proper bank reconciliation was not prepared.

#### *Allocation to Sub Funds*

The accounting system in place did not enable quantification of amounts allocated to the three sub funds within the Mooring Fund namely the Stabilisation Fund, the Pilot Launch Replacement Fund and Pilot Launch Maintenance and Repair Fund. Only one balancing amount represented as Suspense account was included in the trial balance. This rendered it very difficult to quantify the amount represented by each Fund.

### Control issues

Opportunities for improvement were identified in the following areas:

#### *Use of Accounting System and Journal Entries*

Adjustments / corrections to entries within the accounting system were initially being passed through the 'corrections' routine of the accounting package rather than the use of journal entries. Subsequently, after the

current financial year, journal entries started to be utilised. However approval by management was not evidenced on the relative register.

### *Transfers from the Pilotage and Mooring Fund*

Transfers from the Pilotage and Mooring Fund bank accounts to the Mooring Fund were not properly accounted for.

### *Back Ups*

No back ups of the payroll package were performed.

## **Compliance issues**

### *Personal Injuries Scheme*

The Pilotage and Mooring regulations stipulate that the cost of the personal accident / injuries insurance policy was to be equally divided between the mooring men and the Stabilisation Fund. It was observed that the Fund was contributing the full amount without any refund from the mooring men.

## **Recommendations**

### *Key Issues*

#### *Financial Statements*

The layout of the accounts as set in the accounting software should be enhanced so as to include appropriate disclosure of the varying types of expenditure. The suspense account representing the value of the Fund, as at 1 January 2005 on the introduction of the accounting package should be classified as Capital. A cash flow statement and notes to the accounts should also be drawn up and included within the financial statements.

#### *Accrual basis of Accounting*

Accounting procedures and practices should cater for proper accounting of

creditors, accruals, prepayments and salaries and wages in line with the accrual basis of accounting.

Regular bank reconciliations should be performed by the Fund and any unreconciled differences should be corrected.

#### *Allocation to Sub Funds*

The accounting system in place should enable separate quantification of each sub Fund. Mooring Fund accounts should be prepared in a way that income and expenditure are allocated to the respective fund in accordance with the relative legislation.

#### *Control Issues*

#### *Use of Accounting System and Journal Entries*

It is recommended that the use of the corrections routine be limited and when used, proper documentation and evidence of approval should be kept. Approval for journal entries should be evidenced.

#### *Transfers from the Pilotage and Mooring Fund*

Transfers should be properly accounted for according to the nature of the transfer whether being appropriation of the mooring men's share or income.

#### *Back Ups*

Back up procedures should be set up, documented, approved and strictly followed, so as to ensure business continuity. Occasional restore tests should also be performed.

#### *Compliance Issues*

#### *Personal Injuries Scheme*

The Fund should ensure strict compliance to the Pilotage and Mooring Regulations.

## **Management Comments**

The Ministry responsible for the Fund concurred with the report findings and corrective action has already been taken, in particular:

- Even though the Fund has always been accounted for on a cash basis, it is envisaged that as from next year relevant training will be given to the staff to enable accounting on an accrual basis.
- A separate quantification of each sub Fund will be prepared to reflect legislative requirements. Instructions have been given to open three separate Fund accounts. This exercise is envisaged to be completed within the current year.

**Ministry for Gozo**

## School Inventories

### Background

As part of the main accounting system in use, the fixed assets module was originally designed to be integrated with nine other modules. However, only half this number had been actually implemented, and subsequently these were assimilated into the three modules making up the current School Information System (SIS).

The seventeen (17) educational establishments administered by the Gozo Education Office maintained inventory records on spreadsheets pursuant to Circulars issued by the Ministry of Finance (Finance), and hereinafter referred to as Revised Inventory Control Regulations (RICR).

The Gozo Education Office reported directly to the Customer Services Director at the Ministry for Gozo (MG) insofar as school inventories were concerned.

After financial year 2003 the MG assumed responsibility for Gozo school inventories in compliance with General Financial Regulations (GFR) and RICR and overall inventory control. Inventory records ceased being maintained for Gozo schools by the Malta Education Division.

Records of textbooks and other lending books, reference material, etc., found in every school library were left out of the scope of this particular report, these being inherently separate inventory records.

### Key Issue

#### *Accounting Treatment of Inventory Purchases*

- Due to the limitations of the accounting system the schools are presently using, budgetary and other controls on inventory are lacking and disclosure requirements cannot be met.
- Detailed inventory listings are not being maintained in conformity with regulations and reconciled with the main accounting records.
- There is no income account for recording proceeds from the sale of inventory items.

### Control Issues

Opportunities for improvement were also identified in the following areas:

#### *Budgetary Control*

In the main accounting system in use, budgeted sums are not being earmarked specifically for inventory purchases. Certain schools are not using the budget allocation feature at all.

#### *Validation of Inventory Records*

There is no reference in the inventory records to the source documents, copies of which are retained by the school in support of the payment effected to suppliers.

### Identification Characteristics

- Common asset identification numbers (AINs), given to identifiable assets in contravention of RICR, restrict physical verification.
- Nearly all inventory items are without AIN tag, label, etc.

### Guidance to Heads of School

- Some heads of school lack guidance on corrective action and implementation of preventive controls to safeguard their schools' assets.
- An official policy appears to be lacking regarding inventory items costing less than Lm50 and coding of certain categories of inventory not mentioned in RICR.

## Compliance Issues

### Completeness of Inventory Records

- Unofficial records for most of the computer items at the Sixth Form are not listed on the standard spreadsheet (official records). Moreover, these 'unofficial records' do not show acquisition cost or some other valid valuation.
- With few exceptions, software items and third party assets kept on school premises are not recorded in the official or the unofficial inventory.

### Stocktaking Declarations

- Physical verification of inventory records by school staff could not be evidenced in any of the five schools visited.
- No evidence was found of physical verifications of inventory items and 'stores' in validation of records kept by any of the schools for 2004 and 2005.

### Inventory Changing Location

No transfer note is in use supporting intra- or inter-departmental changes of

location of inventory items on record at the MG or any of its subdivisions, including educational establishments.

### Coding Inventory Items

Coding was not always being applied to the AIN of several distinct assets in inventory records in terms of RICR.

### Room Inventory Lists

Room inventory lists bear discrepancies and are difficult to reconcile with the school inventory.

### Heritage Assets

Only three instances of inventory items that may well qualify as heritage assets under RICR could be evidenced in the inventory records of the seventeen (17) educational establishments under review. During an inspection in one school a larger incidence of this type of item could be noted.

## Recommendations

### Key Issue

#### Accounting Treatment of Inventory Purchases

- Inventory records should be supported with reference to source documents.
- Periodic reconciliation is recommended of additions to inventory against expenditure reports from the main accounting system, and spreadsheet listings or library book records.
- Accounts for proceeds from the sale of inventory items are to be introduced in school accounts as applicable.

### Control Issues

#### Budgetary Control

Inventory budgets and any subsequent adjustments during the year, requested by heads of school, are to be supported by

business cases and approved by officers on performance contract at the MG.

### Validation of Inventory Records

A value supported by a suppliers' invoice or a statement of management's valuation should be assigned to all inventory items on record.

### Identification Characteristics

- The description of a separately identifiable asset in the records must bear some exclusive characteristic(s). This enables one to verify records physically from simply their description. For ease of asset identification a unique description should be coupled by a unique AIN as proposed in RICR, following the recoding of certain inventory items as necessary.
- Inventory items should have AIN permanently affixed or tagged as applicable and where possible.

### Guidance to Heads of School

- The Chief Inventory Officer (CIO) should implement inventory policies and be the point of reference in asset inventory matters.
- Inventory is every public officer's responsibility.
- CIO is to guide heads of school to carry out a hundred per cent physical check of inventory in their respective school.
- In consultation with the authorities concerned, CIO is to circulate to all inventory officers in educational establishments in Gozo guidance regarding areas which may be open to interpretation in current standing regulations, i.e. RICR, Public Service Management Code, etc.

### Compliance Issues

#### Completeness of Inventory Records

- The accuracy and completeness of inventory returns reaching the Treasury should be overseen by the CIO.

- All relevant items owned by third-parties, e.g., books, etc., kept on school premises, are to be noted in the inventory records.

### Stocktaking Declarations

A hundred per cent check, at least once every year as stipulated in standing regulations, is recommended.

### Inventory Changing Location

- A transfer note, endorsed and authorised, is to be passed to the school inventory officer immediately any inventory item is transferred to another location within or outside the school. This is to be endorsed by the officer vested with the authority to effect such movement and immediately passed to the school inventory officer.
- Cases of unauthorised movement of inventory items are to be referred to the CIO for corrective action.

### Coding Inventory Items

Where difficulties are encountered with the coding of inventory items under RICR, Finance should be consulted.

### Room Inventory Lists

Full compliance with RICR where room lists are concerned is recommended.

### Heritage Assets

- It is recommended that Customer Services Department instructs schools to carry out a stocktaking of possibly heritage assets. Subsequently, Heritage Malta are to be invited to evaluate the inventory qualifying as heritage assets, including items that could be restored.
- Items certified as heritage items are to be noted in the schools' inventory records in accordance with RICR.
- Procedure set out in GFR is to be followed for any heritage items removed from the custody of a school, which are to be recorded accordingly in the school's inventory.

## **Management Comments**

CSD enclosed the comments of only six (6) out of the seventeen (17) schools falling within the scope of the audit.

Four heads officially stated that they generally concur with the findings, and that they had already implemented or will be implementing several of the recommendations in the audit report.

## Education Office Salaries Section

### Background

Salaries sections deployed in the 'departments' of the Ministry for Gozo gradually started processing payroll adjustments on PAYPER, the computerised payroll system in use, since 2001.

Payroll services are also outsourced at two salaries sections set up at the Gozo Ministry. These were reviewed solely for identification of the standard operating procedures in use. Limited observations have also been included in this report concerning these outsourced salaries section. One salary section falls under the responsibility of the Customer Services Department (CSD) and processes payroll adjustments for the Education Division in Malta (hereinafter the Malta Education Division salaries sections – MEDSS) within the Ministry of Employment, Youth and Education (MEYE). The other is housed at the Projects and Development Department (PDD), performing work exclusively for the Ministry of Resources and Infrastructure (hereinafter the MRI salaries section). Besides CSD and PDD, another division reporting to the Permanent Secretary at the Gozo Ministry is the Directorate of Corporate Services (DCS).

The audit was mainly focused on one salaries section within the CSD. This section has been involved in the processing of the payroll for the Gozo Education Office (GEO) only in the last two or three years. Before then, the salaries of all employees under the responsibility of the Gozo Ministry were paid by the payroll division at the Treasury Office of the Accountant General (hereinafter Treasury). The payroll of the GEO Salaries

Section (hereinafter GEOSS) includes teaching and non-teaching staff engaged in Gozo schools as well as GEO staff. Such payroll amounted on average to Lm1.4 million for each of the thirteen (13) pay periods in 2005.

### Key Issue

#### *Autonomy of the Salaries Section*

- Most payments processed by GEOSS are not verifiable by the section as source documents are maintained at the Registry of the Malta Education Division (MED).
- At times source documents, including letters of appointment, working papers for *pro rata* deductions/additions, etc., are retained by the Treasury.
- As long as the direct involvement of both MED and the Treasury continues, GEOSS cannot exercise control over its payroll.

### Control Issues

Opportunities for improvement were also identified in the following areas:

#### *Instructions to GEOSS*

Instructions for any adjustments to basic pay are received by email. As a result validation of input at GEOSS is not possible.

#### *Staff Development Meetings*

- School-based teaching staff participating in staff development meetings (SDMs) is eligible to overtime at a rate pegged to the maximum of salary scale 10. However,

some teachers on GEOSS payroll attending SDMs are being remunerated at the maximum rate, which is higher than their substantive rate. Moreover, animators usually engaged from outside are at times paid above the standard rate.

- Return/list of those present in each SDM is drawn up by an officer on the same list, namely (acting) head of school. The same can be said with regard to the list attached to the corresponding overtime requests preceding such meetings.
- Most of the request forms from heads of school to remunerate staff under their responsibility attending SDMs are retained by GEOSS. This is restricting the Training and Staff Development Section (TSDS) of the Department of Curriculum Management (DCM) at MED to perform checks on such requests.
- TSDS verification of payment request forms for participation in SDMs is restricted to rates payable and not extended to source information.

### Acting Head Allowances

Although acting head duties pertaining to an officer ceased on 15 September 2005 payment of allowances continued until pay period ended 2 December 2005. Overpaid allowances have not yet been recovered in full.

### Staff Attendance Records

- GEOSS is not receiving timely instructions from MED to make any salary deductions. This is resulting in overpayments, which GEO is finding difficult to retrieve.
- In the School Information System (SIS), CENTRIS Staff Attendance has not been implemented despite government having effected payment, and source code acquired, in respect of this and other applications<sup>1</sup>.

### Internal Charging

- There are no service level agreements with

<sup>1</sup> National Audit Office, Performance Audit – School Information System (Government Press, 2002) pp. 145, 147.

MRI or the Education Division in Malta, thereby contemplating a charge for the processing of their salaries outsourced to the Gozo Ministry.

### Systems Security

- No track is being maintained of the emails from the Treasury advising GEOSS to perform a payroll update.
- The two users with privileged rights at MRI Salaries Section are accessing system with a common username and password.
- At MEDSS examiners noted that one user's password had to be divulged when he had to be logged out to enable payroll update.
- Written operating procedures relating to payroll systems security at the Gozo Ministry could not be evidenced.

### Compliance Issues

#### Procurement of Services and Ancillary Matters

- Specific checks for fund availability by GEOSS could not be evidenced particularly for overtime pay.
- The services of medical doctors to certify sickness of employees on GEOSS payroll are not covered by any agreement.

#### Reduced Time-Tables

No documentary evidence could support the authority of Assistant Directors within CSD to approve reduced working hours. Such authority is vested in the Head of Department under PSMC.

#### Progressions

No authorisation could be traced at either MEYE or the Gozo Ministry in relation to the progression of five (5) employees in general service grades.

#### Authorisation Documents

- Progressions of staff as well as the appointment of new teachers paid out of the Gozo Ministry's Recurrent Vote are

exclusively being approved by officials pertaining to another Ministry, namely, the Director General (DG) Education and Minister for Education, Youths and Employment (Education Minister) respectively. This is not in line with standing PSMC regulations relating to appointments and progressions.

- Official documents emanating from the Management and Personnel Office (MPO) directly concerning GEO, such as the agreements with the teachers' unions, recognise only the autonomy of MEYE and MED in so far as staff engaged in schools are concerned. Gozo Ministry is thus lacking the authority to fulfil its obligations under PSMC concerning appointments, progressions, reduced time-tables, etc.

### Returns of Allowances

- The bi-annual Return of Allowances compiled in accordance with MF Circular 4/2003 and PSMC is not being utilised to control acting head allowances when these are no longer applicable, and by default this is unnecessarily giving rise to overpayments.
- The identity of employees reported as receiving some sort of allowance is not clearly indicated in documents examined.

### Special Responsibilities Allowances

Teachers/instructors, including facilitators and kindergarten assistants, are receiving the 'all inclusive' allowance for special responsibilities. However, this is neither fully supported by certifications from the respective heads of school nor by MPO approval. It has also been observed that desk officers at GEO (teachers by their substantive grade) not reporting directly to any head of school are also in receipt of the special responsibilities allowance.

### Amounts Due from Employees

#### Gozo Education Office

- For the third time in the last ten years an employee was out on indefinite sickness

leave in 2005 when owing GEO Lm1,588 in overpaid salaries. This was revised down to Lm833 because of renewed leave entitlement and social security benefits in 2006.

- Notwithstanding the timely request to DG Health to appoint a medical board for a decision on the employee in question, the decision to extend sickness leave by one month was delivered 74 days after the limit stipulated in PSMC regulations. Furthermore, employee was not subjected to any medical re-examination within the extension given.
- GEOSS's recognition of employee's entitlement to vacation leave in 2006 'immediately following upon sick leave taken' is in direct contravention of PSMC and could lead to financial benefits being passed to the employee on the basis of such miscalculation.
- The above current amount of overpaid salary was not being included in any return of arrears.

#### Malta Education Division

Only 7 per cent (7%) of the Lm53,371 MEDSS had overpaid in salaries to one hundred and sixty two (162) individuals, in the five (5) years the section had been operating, were effectively being recovered. On average there are ten (10) new cases of overpayments every month. Such overpaid amount is not being reflected in any return of arrears.

#### Music School

- The officer in charge (OIC) of the Gozo music school was not entitled by the nomination terms to the headship allowance or any other allowance in respect of duties listed in the nomination document. However, extra remuneration was being made for filling in missing teachers.
- OIC of Adult and Evening Courses in Gozo, also a teacher by substantive grade, approves requests for foregoing payments to OIC of the music school on a form used

by the Malta Education Division for evening classes.

- It could not be evidenced that the qualification allowance paid to the OIC of music school had been approved by the teachers' warrant board or whether such approval had ever been sought. Neither could it be evidenced that the MED had formally instructed Treasury to pay such allowance.

### Attendance Records (Non-Academic Staff)

- Allowances and other additions to basic pay of staff engaged on watchman duties are being processed before records of attendance justifying such payments reach the paying officer.
- Not all Sunday allowances paid were supported by attendance records.
- Individual check-in and checkout times are invariably the same on attendance sheets, thus failing to evidence actual duration of time during which one is officially at work.
- Though marked by Education Office inspectors making onsite checks, attendance records do not bear reference to any disciplinary action on the basis of the deficiencies evidenced by such records.
- Standby relievers were paid in cases where attendance records showed that regular watchmen in the usual roster had reported for work.
- Watchman on duty or exact numbers of hours worked could not always be verified against records.

## Recommendations

### Key Issue

#### Autonomy of the Salaries Section

- Payroll processing procedures in use by GEOSS are to be reviewed by the Gozo

Ministry in coordination with the Ministry of Finance (MF, Finance), drawing upon the optimisation of the existing information (document) flow and resources.

- In order that it could be held fully responsible for the accuracy of input into the payroll application in use, GEO has to have direct access to raw data, even that which is permanently maintained in personal files.
- GEOSS and personnel section at the Gozo Ministry (controlled by the Treasury) should cope independently with the entire payroll process including related statutory returns (e.g. tax forms, Employment and Training Corporation returns, etc.).

### Control Issues

#### Instructions to GEOSS

If direct access to raw data is granted, GEOSS would become independent in the processing of its payroll.

#### Staff Development Meetings

- GEOSS should be officially instructed not to process any payments for attendance to SDMs unless presented with an authenticated copy of the request form after being certified correct by TSDS. Similar instructions should be given to the officer at the Ministry effecting 'multi-payments' to animators.
- If not covered by delegated procurement authority, DCM Director is to seek DG Education approval prior to animators being paid above the standard rate.
- Return/list of academic staff and animators in each SDM is to be endorsed as correct by the DCM.
- Besides verification of rates of pay, checks could comprise a number of other verifications – request for overtime, attendance (with overtime claim form, including return/list of the particular SDM), DCM approval of requests for pay by heads of school, FS4 form or tax invoice drawn up by animators, etc.

### Acting Head Allowances

- In order that acting head allowances are discontinued in due time, paying officers must be notified in an ample period of time before the respective assistant head or teacher is actually meant to cease duties as acting head.
- Overpaid acting head allowances are to be recovered.

### Staff Attendance Records

- Before the introduction of a more efficient staff attendance record system, daily attendance reports compiled by each school in Gozo should serve as the basis for salary computations.
- MEYE could seek an explanation from MITTS, as the party trusted to see through the project, why applications meant to be integrated with SIS were never commissioned.

### Internal Charging

The cost of processing of salaries conjointly by the Ministry for Gozo and the Treasury should be borne by the client government entities and controlled by a service level agreement.

### Systems Security

- As a minimum, a hard copy of Treasury email instructions for GEOSS to update payroll should be maintained as a standard operating procedure, as is the practice by other salaries sections at the Gozo Ministry. Original electronic advices could be retained as backup.
- The practice of shared passwords among PAYPER users is to be discontinued.
- Other operating procedures are to be introduced to safeguard the security of data in the payroll systems.

### Compliance Issues

#### Procurement of Services and Ancillary Matters

- The Request Form for overtime by

employees on GEOSS payroll should be duly authorised and availability of funds confirmed prior to any commitment.

- The services of doctors engaged to certify sickness under PSMC in respect of GEO employees are to be covered by an agreement.

### Reduced Time-Tables

All services performed by employees on GEOSS payroll on a reduced time-table are to be approved by CSD Director in terms of the PSMC.

### Progressions

- Evidence should be produced that the progressions of the five (5) general service employees in question had been activated by MPO.
- Any overpayments resulting from the unauthorized progression of instructors are to be retrieved.

### Authorisation Documents

- Appointments of teachers debuting in a government school under the responsibility of GEO, progressions of staff on GEOSS payroll to higher scales, etc., entail disbursements from the Gozo Ministry's Vote. Therefore, MPO's position is to be sought as to whether new appointments and progressions of employees on GEOSS payroll are to be authorised by MPO in direct coordination with the respective departments within the Gozo Ministry in terms of the PSMC.

### Returns of Allowances

- Full compliance with the relevant statutory disclosure requirements is recommended.
- A duly certified, hard copy of list of allowances paid out to staff for special duties should include the period covered and quote reference to supporting documentation granting the allowances.

### Special Responsibilities Allowances

MEYE is to indicate what action will be taken to mitigate the risk that

misinterpretation of the industrial collective agreement is discriminating in favour of a number of teachers to whom the prescribed special responsibilities listed are not being assigned. If the issue is not addressed government may be effected adversely.

### Amounts Due from Employees

#### Gozo Education Office

- In coordination with Finance and the Ministry for Health, Gozo Ministry is to seek more autonomy in the appointment of medical boards in order that PSMC regulations are adhered to, bringing about timelier decisions on staff on prolonged sickness.
- Gozo Ministry is to include the sum of overpaid salaries currently due in the return of arrears of revenue in accordance with General Financial Regulation (GFR), and include said amounts in the periodic mandatory cash flow reports to Finance.
- DG Health is to be urged for a decision on the fitness of the employee in question on grounds of the adverse financial implications if such decision is delayed further. Moreover, Gozo Ministry is to report to the MPO all known implications along with the sequence of events that had evolved so far in the pending indefinite sickness case and possibly other similar cases.
- Once a medical board's decision is taken, any amount due from the employee by way of overpaid salaries is to be recovered.

#### Malta Education Division

- The procedures in use at the MRI salaries section (where no overpaid salaries were noted) could be adopted by the Gozo Ministry.
- MEYE should seek advice on further action to recover outstanding overpaid salaries.
- The current sum of overpaid salaries due to government is to be included in the return of arrears of revenue in accordance with standing GFR.

#### Music School

- Revised nomination terms for the current OIC are recommended.
- Missing teachers must be replaced by the competent Ministry in the long and medium term.
- Requests for payments relating to evening classes should always be endorsed by an officer of higher authority than the claimant on a special form suitable for the Gozo Ministry.
- Validation of qualification allowance received by OIC should be evidenced as for other teachers in receipt of such allowance.

#### Attendance Records (Non-Academic Staff)

- Official instructions are to be issued to paying officers to decline processing of payment to employees failing sufficient evidence of attendance in line with PSMC regulations.
- Sunday allowances not fully covered by attendance records and which cannot be substantiated are to be reclaimed.
- Every employee should note actual check-in and checkout time on the attendance sheets.
- More secure and efficient attendance record systems, such as automated systems.

#### Management Comments

- The Gozo Ministry stated that desk officer-teachers attached to GEO are still likely to be entitled to the 'all inclusive' special responsibilities allowance, and there is nothing irregular about such officers, 'not reporting directly to any head of school' to be in receipt of this allowance.
- The Gozo Ministry found objection to NAO's statement that no 'action was being taken to recoup salaries overpaid in 2005' from the employee who was out on indefinite sickness leave. The Ministry has made this exception on the premise that 'the possibility of recovering the money from social benefit

- dues' was being explored. However, GEO did not evidence this initiative.
- It was maintained that, like the OIC of the music school, headship allowances are not paid to the heads of the drama and art schools. The Gozo Ministry regards the extra remuneration to the OIC of the music school on week days as cost savings in relation to the hourly rate of Lm5 payable for evening classes, but still did not rebut NAO's recommendation to change nomination terms to include the headship allowance that would bring about further savings.
  - The Gozo Ministry declared that after the audit the onus of collecting overpaid salaries by MEDSS passed onto MEYE.
  - MEYE stated that it is a practice at the Operations Department to inform Accounts Section when an allowance for acting headships are to stop 'through a notification in the officer's Personal File'; however, no assurances were given that action is actually being taken before discretionary notification on the part of ex-recipients.
  - There has never been the need for DCM to seek higher authority to pay SDM animators above the prescribed rate.
  - Full concurrence had been explicitly expressed over the issue of CSD's autonomy as an overriding principle for better overall control and accountability.
  - It has been stated that it is CSD's intention to liaise with the Treasury payroll division in Malta for any possible implementation of recommendations made by NAO.
  - As a pilot project, trials with a patrol system for watchmen at the University of Malta Gozo Centre are being carried out.
  - Gozo Ministry mentioned ways, other than those recommended by NAO, how to ensure the cost effectiveness of SDMs.
  - Gozo Ministry has acknowledged that some teachers attending SDMs are being remunerated at overstated rates. CMD at MEYE will be seeing that GEOSS effects no such payments if not certified correct by TSDS, and will also take on the role to endorse list/return of participants in each SDM.

In their reply Gozo Ministry and MEYE management did not fully address other points directly concerning their Ministry.

Following NAO's observations:

**Ministry for the Family and Social Solidarity**

## Social Security Department

### Bank Reconciliation

#### Background

The Social Security Department amongst other functions, is responsible for the proper management of funds held in two bank accounts and the preparation of their reconciliations. The two bank accounts (one used for the disbursement of non contributory benefits and another for contributory benefits) are held with the Central Bank of Malta.

Payment runs are generated by the Social Security and requests for the transfer of funds from the consolidated fund to the respective Department's accounts are made. Benefits are then paid to beneficiaries via direct credits or cheques.

#### Key Issues

##### *Reconciliation Process*

The Social Security Department's SABS (Sistema għall-Amministrazzjoni tal-Beneficji Soċjali) computerised system does not incorporate a nominal bank account that can be reconciled to the bank statement. This hinders the timely reporting of the bank reconciliations as the Department does not retain a list of unrepresented cheques for each reconciliation period.

##### *Unrepresented Cheques*

A reasonableness test was carried out to verify the correctness of unrepresented cheques as submitted by the Social Security Department. It was observed that on average ninety five per cent (95%) of cheques issued during a standard week are cashed within the following month.

Nevertheless, only fifty per cent (50%) of unrepresented cheques at year end were actually cashed during the first month following year end.

Upon analysing the list of unrepresented cheques, which in total amounted to Lm1.34 million, it was observed that only seventy seven per cent (77%) related to cheques issued during the six months preceding year end, while twenty per cent (20%) of the list consisted of payments issued prior to year 2004, thus not eligible to be cashed. The remaining three per cent (3%) related to cheques that were to be transferred to the original benefit vote since they were issued during the preceding eighteen months.

#### Control Issues

Opportunities for improvement were identified in the following areas:

- SABS system rights assigned to reconciliation officers allows them to manually change the status of any cheque as 'PAID'. Additionally, DAMP (Data Audit Management Processing) section officers can manually change any cheque status. No independent verification is required by SABS in order to authorise these transactions;

The data file that is submitted by the Central Bank to be uploaded into SABS, can be amended prior to upload as this is a simple text file. SABS also has an internal control weakness as it does not require verification of a new batch of cheques upon rejects arising from Central Bank uploads;

Lack of system controls with regards to the

conversion of the mode of payment of a benefit from cheque to direct credit;

- Extensive delay exists in the transfer of stale cheques from the respective bank account to the Below the Line account Unpaid Drafts, and the transfer of undue cheques to the original benefit vote;

The retention of funds relating to cancelled cheques in the respective bank accounts without eventual transfer thereof to the original benefit vote;

Incompleteness of transfer of funds relating to undue and backdated cheques to the Below the Line account Unpaid Drafts;

- Payments effected via direct credits and subsequently identified as not due and classified as 'reversed', are not being transferred back to the original benefit vote but retained in the Central Bank accounts unnecessarily;

An analysis of a sample of rejected direct credits revealed that significant delay was experienced in receiving the necessary funds back from the respective Commercial Bank of the beneficiary;

The Department's current practice on undue payments detected is that if identified in the year issued, these are transferred back to the original benefit vote. However, if identified in subsequent financial periods, these are transferred to that year's revenue account. Nevertheless, no revenue is being actually generated by the Department;

The inclusion of payments relating to replaced cheques in reports generated for the transfer of funds to the original benefit vote;

- There is no inbuilt control in SABS that identifies any batch reconciliations that are still not fully reconciled, with the result that these are held in an unrepresented status. Such a weakness is not detected by the reconciliation process but only by a manual check that daily cashed cheques as per SABS reconcile with the total daily cashed cheques as per bank statement;

The total value of cheques in the batch does not correspond to the part of the batch number representing the total value of the batch. The batch number is therefore not serving as a check digit to ascertain that the batch upload was successful and that the details are correct;

When an uncashed cheque is identified to be transferred to the Below the Line account, its status is initially converted from "Issued" or "Cancelled" to "Reversed" and then eventually to "REVN" (ie transferred). Such manual movements in the status of cheques are unnecessary;

The funds of stale cheques that had been originally transferred to the Below the Line account cannot be distinguished from those the funds of which had been transferred to Revenue or the original benefit vote as they carry an identical status on SABS;

- The Social Security Department is not in a position to submit a list of cheques corresponding to the closing balance of the Below the Line account – Unpaid Drafts;

There is lack of periodic transfers from the Below the Line account after the lapse of two years from the original issue date of the cheque.

### Recommendations

#### Key Issues

#### Reconciliation Process

A complete modification of the reconciliation process is to be carried out. SABS is to be enhanced to include an integrated bank account whereby the respective entries are automatically posted to this account upon payment runs and reconciled once Central Bank data is uploaded. Reconciliation reports will need to be automatically compiled by SABS periodically, incorporating the balance as per bank account and unrepresented cheques.

#### Unrepresented Cheques

The Department is to scrutinise the total list of unrepresented cheques and determine

the cheques that are actually still due and eliminate those no longer valid.

### Control Issues

- System privileges assigned to Reconciliation Section officers are to be altered and controlled on a need to do basis. Additionally, sensitive transactions are to be independently verified following input;

Necessary batch alterations are to be duly authorised by a senior officer of the Reconciliation section following input. The Central Bank data file is to be received and held in an encrypted format that cannot be altered prior to upload, thus ensuring data integrity;

SABS is to be enhanced to disallow the issue of a replacement cheque unless it is linked to the cancelled direct credit;

- Transfers to the Below the Line account / original benefit vote are to be effected on a monthly basis following the lapse of the six month validity period / two year entitlement period of the cheque;

The reconciliation section and the relative benefit sections are to keep in constant contact in order to identify the correct treatment of cancelled cheques;

System reports generated for the transfer of funds from bank accounts are to be altered so as to allow for more accuracy. Additionally, follow up reviews are to be carried out by the reconciliation section to ensure that all un-presented cheques had been duly transferred to either the Below the Line account or the original benefit vote;

- All undue payments are to be duly identified in a timely manner and transferred back to their original benefit account;

Pending refunds from Commercial banks in respect of rejected direct credits are to be constantly monitored;

Undue payments are to be identified during the same financial period as much as possible and duly transferred back to their original

benefit vote. Finance approval is to be sought for the transfer of undue payments that are not identified in the same financial period, to be accumulated to the year's estimates;

Funds relating to replaced cheques are to be identified and indicated on SABS in order to eliminate the risk that they feature in subsequent reports for the transfer of funds to the original benefit vote;

- SABS is to disallow the manual alteration to the batch number;

Unnecessary movements in the status of cheques are to be eliminated;

Distinct cheque statuses are to be established for payments, the funds of which were transferred to the Below the Line account and to the original benefit vote;

- The implementation of the recommended enhancement to the distinct cheques statuses would enable the Department to manage more effectively the funds in the Below the Line account.

### Management Comments

Management concurred with most of the findings and submitted the following comments in view of the above shortcomings:

The bank reconciliation process currently employed by the Department was not originally designed to cater for the requirements of accrual accounting. To this extent management agreed that a modification to the reconciliation process is required. The same comments were submitted with regards to observations of weaknesses in the SABS system and the Below the Line account. In fact the Department is already seeking to start discussions with the key stakeholders involved.

Management fully concurred with the recommendation made to the observation on un-presented cheques and has already adopted the recommendation.

With regards to the internal control weaknesses, management considers current controls as satisfactory. However, it is to be stressed that optimal controls require that these functions are segregated.

On the timeliness of transfers of uncashed cheques to the Below the Line account, management concurred with most of the observations mentioned and is already adopting the recommended

measures, with the exception of minor variations.

The Department stressed that the Ministry of Finance prefers the currently adopted treatment of transfers to revenue on the observation of Undue Payments. Other observations noted on the subject were agreed upon by management and are already being rectified.

## Social Security Department

### Invalidity Pensions

#### Background

Invalidity Pensions are regulated by section 26 and the eleventh, twelfth and thirteenth schedules to the Social Security Act. Invalidity pensions incorporate also the NMIP (National Minimum Invalidity Pension), IIP (Increased Invalidity Pension), and DNIP (Decreased National Invalidity Pension).

A total of Lm16 million were disbursed to 8,837 beneficiaries during the year 2005. This represents approximately seven per cent (7%) of the total spending on Social Security Benefits.

#### Key Issues

##### *Informal Adoption of Policies*

It was observed that several informal policies were adopted by the Department. The following were identified:

- When calculating the pensionable income of ex Government employees, only the highest weekly salary is considered for computing the annual income in instances where the beneficiary was shifted from one salary point to the next;
- When calculating the contribution average, the last year considered by the Department is the year preceding the year of application by twelve months. This is not in conformity to Sec 3 of the Eleventh Schedule to the Act;
- A beneficiary starts receiving Invalidity Pension with effect from the date of application or the date of termination of gainful employment, whichever is the later.

However, if he/she was in receipt of a more beneficial rate of sickness benefit, invalidity pension commences following cessation of the former benefit;

- When a beneficiary appeals the decision of the medical panel, and is subsequently declared as invalid by the second medical panel, he/she receives invalidity pension with effect from the date of the second medical panel;
- It was also observed that more weight is given to the basic weekly salaries disclosed by claimants on the application rather than the actual rates (uploaded from the Inland Revenue) on which social security contributions were paid.

##### *Inaccuracies & Internal Control Weaknesses*

Out of 56 selected beneficiaries, sixteen per cent (16%) were receiving an incorrect rate of pension. Six per cent (6%) of the sample was overpaid and another eight per cent (8%) was underpaid. The remaining two per cent (2%) was not entitled for invalidity pension. Other inaccuracies that did not have a direct effect on the awarded rate were also encountered.

The following cases of overpayments were identified:

- In two cases, the contribution average was incorrectly calculated; and
- Another beneficiary received the rate of National Minimum Invalidity Pension instead of Invalidity Pension for a period of time.

The identified cases of underpayments were:

- No automatic cost of living adjustment was scheduled on SABS (Sistema għall-Amministrazzjoni tal-Beneficji Soċjali); in the case of three beneficiaries; and
- In another case, the pensionable income was incorrectly calculated.

A beneficiary was medically assessed as unfit for work for a temporary period of three years. However, he was not called again for reassessment after the lapse of this period.

### *Investigations & Independent Verification of Disclosed Information*

Medical reassessments are not made in instances where a beneficiary is granted invalidity pension indefinitely. Following an ageing analysis of the total population of invalids for the year 2005, it was observed that three per cent (3%) are under forty years of age and sixteen per cent (16%) are under fifty years of age. These represent 322 and 1,526 beneficiaries respectively.

The receipt of service pensions by beneficiaries who were employed abroad can only be acknowledged by the Department if the beneficiary discloses such information on the application. Similarly the disclosure of changes in circumstances of foreign beneficiaries cannot be confirmed. There is no independent source of information with which the Department can confirm certain disclosures or non disclosures.

Financial declarations filed by invalidity pension beneficiaries are not checked for omissions through data exchanges with the Inland Revenue Department.

### **Control Issues**

Opportunities for improvement were identified in the following areas:

- No formal terms of reference exist to guide medical doctors when assessing claimants for invalidity pension;

- A number of medical doctors were regularly members of the medical board of assessment during the selected periods from year 2003 to 2005;
- Details of the medical assessment keyed in the system but not verified. Payment was nevertheless processed;
- Beneficiaries receiving sickness benefit during entitlement of invalidity pension and others receiving married rates of invalidity pension while spouse is entitled for retirement pension;
- No reassessment to calculate whether a beneficiary is to be converted to retirement pension or retained on invalidity pension, in light of the fact that twenty three per cent (23%) of the whole population of beneficiaries is over retirement age and in receipt of invalidity pensions;
- Misplaced files risking loss of essential documents and loss of confidentiality.

### **Recommendations**

#### *Key Issues*

#### *Informal Adoption of Policies*

The Social Security Department needs to establish and continuously update a procedures manual whereby certain policies are formally presented to all members of the pensions section. This standard procedure is to be made available to newly appointed officers as a point of reference.

#### *Inaccuracies and Internal Control Weaknesses*

The Department is to utilise the professional services of a legal adviser to deal with legal interpretations as well as to give assistance for the treatment of certain clauses in the Act.

The internal control system is to be enhanced to cater for the timely detection and continuous prevention of errors. Personnel at the Social Security Department are to be well trained before being assigned any duties. Verification should not only be

carried out on application or when there needs to be a change in rate but throughout the period benefit is paid. Sample cases are to be periodically selected and rechecked for any errors.

SABS system needs to be enhanced for the automatic adjustment of the cost of living increases to beneficiaries who have been employed abroad in the past. Improvements are also required in the automatic calculation of contribution averages. The system is also to be enhanced in instances where the beneficiary needs to be called up for medical reassessment.

### Investigations & Independent Verification of Disclosed Information

In cases where an invalidity pension was awarded for an indefinite period of time, beneficiaries are to be periodically reassessed; especially beneficiaries who have a considerable time to reach retirement age.

Adequate sources of information are to be established with countries where beneficiaries are residing. Arrangements are to be possibly made with the Social Security Departments of the respective countries who can periodically update the Department on changes in circumstances of beneficiaries.

It is also recommended that sharing of financial data between the Social Security and the Inland Revenue Departments is established for investigative purposes. The Department will be in a position to investigate any beneficiaries who declared income from employment or dividend income. Access to the beneficiary's income tax data may be requested upon application.

### Control Issues

- Formal terms of reference are to be established for a more objective medical assessment. Members of the medical panel are to be randomly selected unless specific specialisations are required;
- SABS is to be enhanced to restrict the issue of a payment unless the respective results

of the medical assessment are verified by a legitimate verifier;

In addition, the system is to be improved to disallow the concurrent receipt of two linked benefits. Members of the same household are to be linked so as to automatically amend the rate due when there are certain changes in circumstances;

- All beneficiaries over retirement age are to be assessed as to whether they are entitled for a more beneficial rate of retirement pension. SABS is to be enhanced to prompt users when a beneficiary has reached retirement age;
- Adequate control over departmental records is to be exercised to ensure that these are safeguarded from misplacement and/or loss and any unauthorised access.

### Management Comments

Management concurred with most of the findings and action is already being taken to implement new measures. The following additional comments were also submitted:

- An exercise is currently in process to update procedures manuals for all contributory pensions. These manuals will be available for all officers through the Intranet System of the Ministry.
- Whereas previously the Department sought the assistance of the office of the Attorney General for matters of legal interpretation, as from October 2006 a legal adviser has been engaged on full-time contract basis with the Ministry for the Family and Social Solidarity to service all Departments falling under this portfolio.
- Given the issue of confidentiality and secrecy, the Commissioner of Inland Revenue is often not in a position to provide information regarding income declarations by beneficiaries. Even though in certain areas such collaboration already exists between the DSS and CIR, in other areas there are legal issues that need to be solved before wider exchange of information is obtained.

- The Social Security Act is being amended in order to ensure that in each and every case of benefit entitlement, a review of such entitlement is made every three years. Furthermore other amendments to the Social Security Act have been passed through Parliament this year. These measures seek to introduce a new medical review process and amongst the measures adopted are the following:
  - *Change the application format* – to include more medical data and adding further responsibility on the part of the claimant to prove his case. In the current system, responsibility to prove or otherwise whether a client satisfies the medical criteria for Invalidity Pension entitlement rests with the Department. Furthermore no invalidity pension will be issued for life and each case will be subject to regular reviews;
  - *Change the current medical panel system* – it is being proposed that the Department will recruit at least two medical practitioners through an expression of interest to act as a Medical Review Team. Their main function will be to advise the Director on the medical aspects of Invalidity claims;
    - *Establish specific medical criteria for the award of benefits* – this will be performed through the drawing up of “Impairment Tables” that provide the guidelines under which the Medical Review Team would decide on work-related impairment for Invalidity pension. Such tables have been based on those used in Australia, which is considered as a “best practice” country in this regard;
    - *Establish an independent systems audit* – establish a medical audit for benefit claims awarded and rejected on medical grounds, in order to ensure that benefits have been awarded correctly.



**Other Reports**

## Electronic Government

### Introduction

Electronic government, or e-government, is the use of information and communication technologies (ICT) to achieve a more responsive, efficient, effective and participatory government.<sup>1</sup>

E-government means offering citizens and businesses better accessibility to government information and public services and a wider choice of delivery channels, depending on their individual needs and preferences. It is also about public entities making the most of ICT-enabled change to develop more efficient and effective processes. E-government can provide opportunities to transform the nature and the quality of public services offered to the public. Moreover, it can also act as a catalyst to the reorganisation of public functions and services around user needs rather than around government structures.

The strategic objectives and priorities for implementing e-government in Malta were first set out in the *White Paper on the Vision and Strategy of the attainment of electronic Government in Malta* in 2000. The White Paper also outlined the initial principles and success factors driving the implementation of the e-government programme, and proposed a host of initiatives to meet emerging requirements. The document was approved by the Cabinet in January 2001 as the basis for government policy in this sector.

The e-government vision was further extended in the following years with the adoption of other national and European

Union (EU) strategies and policies, including the e-Malta Strategy 2001-3, the e-Europe Action Plan 2005, the National ICT Strategy 2004-2006, EU's i2010 Strategy and more recently the issuance of CITAC<sup>2</sup> memo 08/2006 which outlines the guidelines for the implementation of e-government services together with the related programme of works up to December 2007.

The underlying premise behind this commitment is that e-government can help to increase choice, to streamline the public service, as well as to deliver efficient, high quality and easily accessible public services that meet the needs of citizens and businesses. Equally important, the implementation of e-government is seen as a major strategic thrust in the engendering of an Information Society and an Information Economy. Moreover, e-government can also lead to the creation of a favourable environment in which the ICT industry and e-commerce can develop and prosper.

### Coverage by the National Audit Office

Against this background, the National Audit Office has been systematically carrying out, since September 2004, a series of reviews and assessments with the aim of obtaining a thorough and updated understanding of issues emerging from the implementation of e-government across the public sector.

Areas covered by the NAO have included:

<sup>1</sup> Source: Organisation for Economic Co-operation and Development, France, 'e-Government for Better Government', OECD e-Government Studies, 2005.

<sup>2</sup> The Government's Core ICT Advisory Committee.

- The development of ICT and e-government strategies in the public sector.
- The level of involvement of the main players in e-government initiatives.
- Lessons learned from the implementation of e-government.
- The nature and type of information and public services offered on the internet.
- Factors having an impact on the demand for government online services.

In order to carry out these assessments, the following range of methods has been used:

- In-depth interviews with key personnel responsible for developing, supporting and managing e-government projects and initiatives.
- An examination of documents and data related to the e-government process.
- An evaluation of government web sites to assess basic web site content, the degree of development and the level of interactivity.
- A survey among Information Management Officers on the implementation of e-government strategies in Ministries and their involvement in the process.
- Surveys with citizens and businesses to obtain a snapshot of the factors influencing the e-government process, including the awareness and usage of e-government services, the expectations and perceptions of users and non-users, and the level of satisfaction with the launched services.

Attempts have also been made by the NAO to determine and evaluate the cost of e-government across the public sector. Various costs can be typically linked with the implementation of e-government. These include costs related to the design, development, implementation and maintenance of e-government systems and delivery channels; investments in hardware and software, as well as costs related to the implementation of infrastructural and back-office changes. However, difficulties have been encountered when trying to account

for all these costs, mostly due to problems in collecting sufficient data from different sources; the absence of internal costing systems, and the subjectivity involved in the allocation of various cost elements. The same limitations have been found when attempting to collect sufficient data on cost savings and efficiency gains. NAO notes that this is not a problem which specifically emanates from the methods used for accounting for e-government but rather one which is subsidiary to the wider accounting approach adopted by Government.

The purpose of this report is to provide a synopsis of the main themes and key issues emerging from the implementation of e-government.<sup>3</sup>

### The main parties involved

The development of e-government has been mostly championed and driven, since 2001, by the Ministry for Investment, Industry and Information Technology (MIIT)<sup>4</sup> with the technical support of Malta Information Technology and Training Services Limited (MITTS)<sup>5</sup> and service providers from the private sector.

Within MIIT, the development and implementation of initiatives related to the e-government programme and the National ICT Strategy 2004-2006 have been led and coordinated by the Head of the Minister's Secretariat, who has served also as the E-Government Programme Manager. MIIT has indicated that this decision was consciously

<sup>3</sup> The findings in this report reflect conditions up to October 2006.

<sup>4</sup> Formerly known as the Ministry for Justice and Local Government (MJLG).

<sup>5</sup> MITTS is a government-owned company responsible for the management and monitoring of all the Government's ICT resources and ICT governance. Since 2005, the Government has been adopting a policy of gradually converting MITTS into a public agency that will no longer compete with the private sector but rather provide a wide range of core ICT services to all government entities. Furthermore, MIIT has been working closely with the private sector service providers in the design and development of e-government solutions. Since 2005, the provision of information technology and management consultancy services for the carrying out of business analysis and to formulate procurement documents has also been commissioned to the private sector.

taken in the light of the widely acknowledged notion that e-government programmes are intrinsically large-scale initiatives which should be driven at a political level.

Operationally, two officials have carried out the tasks required to deliver the e-government programme. In 2006, following the re-organisation of Central Information Management Unit, the team was increased to four. At a corporate level the implementation of the programme has also actively involved the Ministry's Permanent Secretary and Information Management Officer.

Between 2001 and 2005, MIIIT also relied on the consultancy services of the Management Efficiency Unit (MEU) within the Office of the Prime Minister (OPM) to carry out business analyses of targeted services and process, and to formulate procurement documents. The management of line departments and public entities, as well as Information Management Officers (IMOs) within Ministries and management staff responsible for information technology in public entities have also participated, to varying extents, in the development and implementation of e-government services in their respective organisations. The degree of participation was largely dependent on the drive of the individual IMO and the commitment of the Ministry to e-Government. NAO observed that not all public entities and Ministries attach the same level of importance to e-government and this is clearly reflected in the differences in the range and depth of online public services being offered.

*Guidelines for the implementation of e-Government services in the Government of Malta* were also launched by MIIIT in 2005 in order to provide direction to stakeholders on how e-government initiatives should be proposed, selected, developed, coordinated and managed.<sup>6</sup>

<sup>6</sup> These guidelines set out the governance and operational parameters of the implementation of e-government, the pre-requisites for the development of an e-government service, the role of various stakeholders involved in the process and the implications of the various steps in the project lifecycle of e-government projects.

According to these Guidelines, Ministries and public entities participating in the e-government initiatives are responsible for:

- internally promoting and monitoring the progress of the projects,
- taking full ownership of the implementation of the initiatives,
- appropriately maintaining and marketing the e-services,
- monitoring the effectiveness of the services,
- ensuring that the targeted service levels are being set and met and take-up is in line with the Ministries' expectations.

In addition, OPM as the government body entrusted with the leadership of Public Service change initiatives, in conjunction with Ministries and senior management in public entities, has the key role of introducing public sector reforms.

### Major decisions linked to the e-government process

One of the Government's key policies in this field has been to gradually consolidate the use of ICT resources across government and to strengthen ICT management within Ministries. The following are some decisions and actions that have been taken in recent years:

- In June 2005, MIIIT was appointed as the official government entity responsible for the setting of strategy, planning, direction and monitoring of all ICT in the whole of government, including the wider public sector.
- MIIIT, together with the Ministry of Finance and OPM were assigned, in 2005, the responsibility for the final determination of ICT budgets to be allocated to line ministries. CITAC was constituted to manage the allocation of funding, with the ownership of ICT projects remaining the responsibility of Ministries and government entities.<sup>7</sup>

<sup>7</sup> CITAC is made up of representatives from MIIIT, Ministry of Finance, the Ministry of Education, Youth and Employment, MITTS, the Malta Council for Science and Technology and MEU.

- In March 2006, a call for applications was issued by the Public Service Commission for the post Chief Information Officers (CIOs) in Ministries. The recruitment process was still underway at the end of October 2006. It is envisaged that the position of CIO shall be responsible for the development and management of ICT and will replace that of IMO – a position that was introduced in 2001 and which, for various reasons, had a limited role in the development of e-government.<sup>8</sup> The CIOs will be expected to have a strengthened and more strategic role and will report directly to the Permanent Secretaries with regard to the Ministry's ICT matters. The posts of CIO will also have horizontal responsibility to the Chairman of MITTS for corporate and governance related matters.
- *The launch of the revamped Government portal (www.gov.mt) that still serves as the official entry to public online services and bundles government services according to citizen needs irrespective of the public entity they are located in (utilising service clusters). A new personalised portal (www.mygov.mt) is also being developed. The Government plans to use this portal as a one stop shop for access, through the national electronic identity, to all e-government services.*
- *The completion of the new Government Wide Area Network (WAN) called Magnet II. Magnet II provides Secure High Speed Fibre Optic Connectivity Service to fifty-nine Government Ministries and Departments and is intended to provide the required capacity, speed, reliability and security for Government to embark on an ICT consolidation programme.*

### Key initiatives that have led to the development of e-government

Over the past five years the e-government process has been marked by a number of strategic initiatives leading to major changes to the infrastructure, as well as the development of horizontal core components to support the provision of transaction based services. More specifically, the main initiatives have been:

- *The development of a web framework.* This is a centralised platform that serves to host the government's online services over the internet. In 2006 the web-framework was extended to include the development of e-government services using a wider selection of DBMS<sup>9</sup> platforms. These platforms are formed from technologies that support Open Standards, as recommended by the EU.
- *The launch of the electronic payment gateway in 2002 in collaboration with one of the local banks, allowing the online payment for government services. MIIT has also indicated that in 2006 an agreement was also reached with another major local bank and changes are currently being made to the electronic payment gateway system to allow the inclusion of the second bank in the scheme. The payment gateway is used by a number of public entities to allow payments for various government activities such as payment for vehicle registration renewals, public registry certificates, examinations, passports, training courses, commercial licences, government rent, taxation, online subscriptions for access to restricted data, traffic fines and traffic contraventions. There are also internet banking arrangements for some online public services.*
- *The introduction of the first mobile services in 2003, following the development of the Mobile Government Gateway, enabling Simple Messaging System (SMS) as a channel of interaction with the public. Mobile services include the use of the SMS System for the OPM Communications Intranet, as well as for the notification of direct credit payments, e-passports,*

<sup>8</sup> An explorative NAO survey with thirteen IMOs carried out in April 2005 indicated that the role of these Officers in the development of e-government initiatives was, in general, limited. Most of the IMOs perceived their involvement in the e-government process as being at the lowest level of the scale when compared to the other duties assigned to the post. Many IMOs stated that their time was mostly taken up on day-to-day administration. In the same survey, the majority of IMOs considered inadequate resources and a lack of empowerment as two key impediments to the implementation of e-government within their Ministry.

<sup>9</sup> DBMS – Database management system.

renewal of motor vehicle licences, court deferrals, employment opportunities, and MATSEC/Junior Lyceum examination results. MIIT has indicated that further development is planned to enhance the Mobile Gateway to facilitate two-way communications between the government and the citizen and to increase the number of m-government services offered.

- ▣ *The development of strategic alliances* with international global suppliers. MIIT has reached vertical strategic alliances (VSAs) with Microsoft, HP, Oracle, SAP and IBM. These VSAs are agreements covering a number of projects which the Government and these suppliers agree to deploy over a period of time. The projects being implemented are related to:
  - Education, such as measures aimed at increasing the use of ICT in schools and the availability of industry certifications and placements to students wishing to pursue studies in the ICT field.
  - Increasing the use of ICT by the local business community.
  - Narrowing the digital divide with a series of initiatives targeting specific audiences, such as the elderly and persons with a disability.
- ▣ *The offering of incentives to overcome the digital divide and improve digital literacy.* Various initiatives have been implemented under the umbrella programme HelloIT by MIIT in order to address the digital divide and increase technology accessibility across society. These initiatives can be considered as indirect contributors to the development of e-government and include measures such as:
  - the provision of training on the basic use of computer technologies and e-government services (the myWeb Course),
  - the setting up of a number of Community Technology and Learning Centres that also serve as e-government delivery centres, and

- the introduction of free wireless Internet access in local councils in the bid to increase ICT accessibility and affordability.

- ▣ *The launch of first Phase of the centralised electronic identity registration and authentication solution (e-ID) in 2004-5.* Phase I provides restricted access through a login name, password and a unique personal identification number (PIN). There has been a gradual take-up of the e-ID by the public and MIIT has reported that 2,783 registrations had been made by October 2006. The e-ID can be used to access services offered by the VAT Department, the Social Security Department, the Inland Revenue Department, Health Division and the Passport Office. A second phase offering a more sophisticated and secure environment for online transactions is currently being developed.
- ▣ *The roll-out of a diverse range of e-government services.* Examples of these online public services are listed overleaf.

Malta's considerable progress in the development of online public services is also reflected in the most recent web based survey on online public service carried out in April 2006 by consultants Capgemini on behalf of the European Commission.<sup>10</sup> In this survey, Malta was placed second out of twenty-eight European countries, moving from rank sixteen to the second place within a period of twelve months. The strong commitment towards electronic government was also recognised in the recent assessment on Malta by the World Economic Forum as part of its survey on global competitiveness. These are significant results, especially when one takes into consideration the limitation of financial resources and the complex governance models that have to be handled

<sup>10</sup> Capimimi Consultants, 'Online Availability of Public Services: How is Europe Progressing? Web Based Survey on Electronic Public Services Report of the 6<sup>th</sup> Measurement', European Commission, June 2006. The Capgemini survey measures the availability of twenty basic online public services, as well as the proportion of these services that are fully available online.

Table 1: Examples of online public services

Category	Description of the electronic government services
<b>e-Customer Care System</b>	The facility to submit online enquiries, suggestions and complaints to public entities with regards to the services they offer. Users can also check the status of their submission.
<b>Libraries Department</b>	The provision of online access to the catalogues of the public libraries. Registered users can also view information on their current books on loan and renew.
<b>Inland Revenue Department – individual tax payer services</b>	Citizens can access information on tax rates, and use an interactive calculator to calculate the income tax. In addition, e-ID registered users can submit online income tax declarations and effect payment of settlement tax and tax arrears. Self-employed taxpayers can also submit payments in connection with the settlement of provisional tax, social security contributions (Class Two) and self assessment.
<b>Inland Revenue Department – corporate tax payer services</b>	<p>These e-services enable tax practitioners on behalf of their corporate clients to:</p> <ul style="list-style-type: none"> <li>↑ file income tax returns and financial statements,</li> <li>↑ submit provisional tax reduction forms,</li> <li>↑ access their clients' accounts to confirm payments and tax statements,</li> <li>↑ view the status of their clients' tax return submissions.</li> </ul> <p>In addition, employers who employ thirty or more employees can use these online services to declare at the end of each year their social contributions and Final Settlement Tax.</p>
<b>VAT Department</b>	Through these e-services, registered VAT users can view statements, change register type; submit a request; re-activate an inactive VAT number; reprint a VAT certificate; and receive automatic electronic reminders of when the tax return is due. The website also offers the facility to register online for VAT and to order fiscal receipt books. In addition, VAT-exempt registered persons can submit electronically their VAT declaration.
<b>Ministry for Family and Social Security and websites for the elderly and persons with special needs</b>	The Ministry's website offers information on how to apply for allowances and provides the facility to download application forms. Registered e-ID users can also view their status including access to electronic statements of received benefit payments and information on the status benefit claims. In addition, senior citizens and persons with disability can access special websites which offer information and links to services by different entities.

Table 1 (continued): Examples of online public services

Category	Description of the electronic government services
<b>National Statistics Office (NSO)</b>	The website offers online access to NSO press releases, statistical data and publications, as well as the facility to place orders and effect electronic payments. Accommodation establishments and importers/exporters can also use the web site to submit data.
<b>Civil Registration Department and Public Registry</b>	The facility to order and pay online for birth, marriage and death certificates. The certificates are sent by post within three days of the request being made. A registered e-ID user can also submit an online application for a passport.
<b>Acquisition for immovable property</b>	The facility to check online the status of an application in connection with the acquisition of immovable property by non residents.
<b>Justice</b>	The website offers online access to the Laws of Malta, and to information on court sentences, hall usage and civil case proceedings.
<b>Government Property Division</b>	Users can pay online rent bills on government property.
<b>Local Enforcement System</b>	A citizen or business can effect online payment of traffic fines and traffic contraventions issued by police officers and local wardens.
<b>Malta Financial Services Authority</b>	The website provides access to documents filed at the Registrar of Companies and enables online payment for subscriptions to access restricted information. From December 2006, practitioners and members of the public can also register new companies and file documents online.
<b>Malta College of Arts Science and Technology (MCAST)</b>	The website offers the facility to submit electronic applications for enrolment in part-time courses held at MCAST colleges. Applicants can also effect online payments.
<b>Police</b>	The website offers the facility to submit reports on crimes of a non-emergency nature, as well as reports on lost property and information about criminal activity and/or public safety concerns. The crime reported must not involve any immediate danger to the lives of any persons, and the value of any property stolen or damaged must be less than Lm100. The service also allows users to request information and to submit any feedback or complaints. The status of submitted reports can also be tracked online.

Table 1 (continued): Examples of online public services

Category	Description of the electronic government services
<b>Employment and Training Corporation (ETC)</b>	<p>The website offers an online system that enables:</p> <ul style="list-style-type: none"> <li>↑ job seekers to search for jobs on the online database and submit their curriculum vitae (CV), and</li> <li>↑ registered employers to access the database of job seekers and view submitted CVs.</li> </ul> <p>Employers can also submit online vacancy, engagement and termination forms, as well as order ETC certificates. In addition, users can also apply online for ETC training courses.</p>
<b>e-Licences</b>	<p>This is a website which gathers application forms of different licensing authorities and offers downloading facilities, as well as the opportunity to effect payments in connection with the renewal of specific licences.</p>
<b>Malta Transport Authority</b>	<p>The Authority's website provides the facility for online renewal and payment of road licenses. Vehicle owners can also check the date of the next VRT test on their vehicle.</p>
<b>Office of the Data Protection Commissioner</b>	<p>The website enables the user to pay penalties online, post a query or a complaint, access the Public Register of Data Controllers, as well as obtain details of public data representatives and information on data protection in general.</p>
<b>E-Procurement for IT desktop equipment</b>	<p>Suppliers can use this website to submit quotations for IT desktop equipment costing less than Lm2,500.</p>
<b>Malta Environment and Planning Authority</b>	<p>The Authority's website provides an online Geographical Information System - an interactive map with mapping data and planning information. In addition, the website offers the facility to download applications relating to development control, alignment and environment, as well as to effect online payments for site maps and for subscriptions to access restricted information. Citizens can also lodge a report on illegal development. Moreover, a registered subscriber can use the e-services to:</p> <ul style="list-style-type: none"> <li>↑ obtain information on the status of a personal planning application, development notification order and a planning enforcement case.</li> <li>↑ be notified of changes to the status of an application (via SMS/ email alerts).</li> </ul>

Table 1 (continued): Examples of online public services

Category	Description of the electronic government services
<b>E-Health</b>	<p>This is a portal that provides the facility for online:</p> <ul style="list-style-type: none"> <li>↑ application for a European Health Insurance Card,</li> <li>↑ information on the pharmacy roster,</li> <li>↑ registration with the National Blood Transfusion Centre as potential blood donor,</li> <li>↑ booking for health related programmes, such as the smoking cessation and weight reduction programmes,</li> <li>↑ submission of complaints with regards to public health,</li> <li>↑ request for an appointment on sexual and reproductive health matters,</li> <li>↑ booking for an appointment by general practitioners for their patients,</li> <li>↑ rescheduling or cancellation of outpatient appointments by registered e-ID users.</li> </ul>
<b>Ministry for Resources and Infrastructure</b>	Building tradesmen and contractors can use this website to register for an official recognition as service providers.
<b>Department of Examinations</b>	Students can apply and pay online for their examinations.
<b>Customs Department</b>	The website enables users to access information on customs procedures and submit electronically import declarations.

Source: MIIIT, 2006; NAO Working Papers 2005-6

in the path towards e-enabling government services.

*The political and strategic role played by MIIIT in the development of e-government*

**Issues emerging from the implementation of e-government**

Several key issues have emerged from the generic cross-government assessments that have been carried out to date by the NAO. The main themes are discussed in more detail in this section.

The establishment of MIIIT as “the political champion of the application of information and communication technologies within the Government and the broad national community and economy at large”<sup>11</sup> was a pivotal step in the development of e-government initiatives.

<sup>11</sup> Statement is taken from the web site of the Ministry for Investment, Industry and Information Technology.

Over the past five years, MIIIT (with the technical support of MITTS) has emerged as the key central unit for the planning, coordination and control of critical ICT required to build and sustain the delivery of increasingly complex e-government services. Key areas in which MIIIT exerts control include decisions on major investments in infrastructure and on the choice of core common components (such as the design and development of a common secure identification mechanism for users - a fundamental prerequisite for the roll-out of sophisticated transactional and integrated e-services).

Putting as many public services on line as possible and focusing on transaction-based e-government services has been a Government policy and MIIIT has been crucial for spearheading the roll-out of web applications to achieve these objectives.

### *Securing ownership and leadership of the e-government initiatives in public entities*

NAO's assessment of various e-government projects implemented across government has also highlighted the importance of the commitment and direct involvement of public entities' senior and line management in the identification and implementation of e-government initiatives.

It was observed that in the best studied cases, e-government initiatives were successfully implemented with the strong leadership and drive of key staff in public entities. Management was also essential for ensuring that sufficient resources are allocated to the projects and to foster acceptance of the changes. Some entities also designed a suitable internal structure to introduce change and improvement to their processes.

Findings collected during fieldwork, however, also show that such drive from management in public entities was not always evident and this lack of "ownership", vision, strategy or participation in the e-government process limited the progress or the final outcome of some of the studied projects. NAO opines that this is a key focus

area which needs the attention of senior management within Ministries and public entities (as core business owners).

### *Fully exploiting the opportunities of technology-enabled change*

The pressure to reduce the cost of public administration and to improve the public sector's productivity encourages taking a wider look at how the development of online services can also lead to the overall transformation of back-office processes, structure and culture in the public sector. Most of the launched online services have experienced minimal back-end changes and this scenario offers considerable opportunities for future cost savings, service improvements and efficiency gains.

NAO, however, recognizes that bringing e-government in the mainstream efforts to reform government requires a much more complex and difficult change process than using ICT to put public services on line without fundamentally disrupting existing ways of delivering them.

Projects involving the complex re-engineering of back office structures and processes require strong collaboration and joint action of key stakeholders such as the OPM, line Ministries, MIIIT, Ministry of Finance, and senior management in public entities. They also entail allocating considerable time and resources to implement and overcome entrenched cultural and organizational barriers. In addition, the implementation of such reforms necessitates developing effective internal communication channels and providing strong leadership, training and incentives to help secure the benefits of technology. Clearly, as already outlined, all this cannot succeed without first obtaining the active commitment, collaboration, participation and drive of senior officials, management and key staff.

ICT and public sector reforms also offer a way of breaking out of the silo environment of the public sector. One of the key challenges faced is how to provide specific client groups with single integrated

e-services and develop common processes within government in order to achieve economies of scale, reduce duplication and provide seamless services. Many public services can be fragmented and complex and NAO's analysis shows that some e-government proposals have been unable to move forward at a satisfactory pace because of insufficient collaboration amongst various players and difficulties in finding ways of how to integrate different business processes. In many cases there was resistance to fundamental cultural and organizational changes.

#### *Encouraging take-up*

Data from surveys carried out by NAO with 483 citizens and 363 businesses between December 2004 and April 2005 show that:<sup>12</sup>

- Two out of every three citizens were aware of the government's online presence on the internet, while one in four had directly accessed a government web site and/or an online public service, at least once over the preceding year.<sup>13</sup> In the case of businesses, online access to public services varied considerably between the smaller businesses (employing up to four employees) and those representing the larger organisations (over five employees). The smaller enterprises, in fact, reported considerably lower levels of awareness and access when compared with larger firms.

- Access to government web sites and online services by citizens was found to be inversely related to age, and there was also a strong correlation between the level of

education attained and the use of electronic services.

- One in six citizens considered communication via a computer as being one of the methods of dealing with government when asked for their three most preferred channels of communication. This trend was also reflected in the case of small enterprises.

- Around half of interviewed citizens and two out of every three small business stated that they did not use personal computers. Conversely, usage of computers by enterprises with five or more employees was found to be nearly universal.

- The majority of citizens who accessed a government website had done so to obtain information or download forms. In addition, business users cited the submission of application forms and enquiries as services most frequently accessed.

These findings suggest that making public services available online is not enough in itself, and that public service providers need to actively develop strategies to encourage and motivate the public to interact with them electronically. The NAO surveys also indicate that many potential users (such as, the less educated, the older age brackets, and the small enterprises) may have not yet clearly understood the benefits of online public services or are not aware of the options already available on the internet.

MIIT contends that one of the major constraints faced by the Ministry, as well as by the public service / public sector in general, are limited advertising budgets, given the current financial constraints on public expenditure. MIIT indicated that successful nation-wide advertising campaigns aimed at increasing awareness and usage of e-government services require considerable funds and there are currently tight cost-control restrictions on such expenditure.

<sup>12</sup> The survey involving the participation of citizens is representative of the age distribution of the national population. In the case of the business survey, respondents represent sizeable heterogeneous groups of respondents spread across the entire business community. Therefore, although the results of the business survey are not statistically representative, they are relevant and a good indicator of current trends.

<sup>13</sup> Government web sites and providers of online services were described to participants as comprising both the core public service and the wider public sector, including commercial organisations in which government at that time had a majority shareholding interest, such as Maltacom plc and Airmalta plc.

### *Continual improvement by the public entities*

Continual improvement is necessary in order to keep the e-government process dynamic and relevant and NAO observed during fieldwork carried out over the past two years that there is scope for further development to be made once online services have been launched. MIIT has pointed out that it gives great importance to continuously maintain and support the developed online services. However, the responsibility for identifying and implementing areas for improvement, upgrades or new developments lies with the line Ministry or public entity concerned. NAO opines that this is another key focus area which needs the attention of senior management within Ministries and public entities (as core business owners).

NAO findings also highlight the need for the development in public entities of management information systems and monitoring processes to periodically review and improve the level of service offered online and ensure that the initiatives are on

the right path. Public entities, as owners of the services concerned, should be actively involved in the collection of usage and performance data relating to the quality of these services, and in the utilisation of such data to evaluate and improve the performance of online services offered to citizens and businesses. Such reviews can include, for example, assessments of the costs, efficiency gains and service improvements. Web site owners should also perform regular surveys amongst their clients, gathering feedback and suggestions for improvements in existing services and the launching of new ones. This can be online and ongoing, with some incentive to participate.

NAO also opines that the exchange of best practices amongst public entities should also be encouraged in order to accelerate the successful implementation of e-government initiatives. Mechanisms are needed to report publicly on progress and benefits being derived from e-government initiatives.

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# Preliminary Study Report Performance Audit

## Occupational Health and Safety

### The Construction Industry

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#### Introduction

Occupational health and safety plays an important role because of its direct impact on the working conditions and the working life of workers in all economic sectors. It is considered as a multidisciplinary field that requires commitment by several different players – in fact the Construction Industry operates within a complex matrix comprising various stakeholders and duty holders having multiple interests.

The Occupational Health and Safety Authority (OHSA) was established to bring about improvements in the general levels of health and safety for all workers in the place of work. Prior the establishment of this independent Authority, the responsibilities for occupational health and safety pertained to the Departments of Health and of Labour.

Poor health and safety at work can result in death, major injury and ill health. Despite extensive legislation, employees remain exposed to occupational risks and there is still a significant burden of work-related ill health. Accidents and work related illnesses also burden stakeholders (Government, employees, employers, insurance companies, etc.) with significant costs.

During 2005, 4,002 accidents<sup>1</sup> at work were reported, six of which resulted in fatalities. Three of these fatalities involved workers in the Construction Industry. In its annual report, the Occupational Health and Safety Authority reported that most of these

accidents could have been avoided with appropriate good practice.<sup>2</sup>

Since the OHSA is in the process of introducing a management information system, it was decided to defer this study until such time (which is expected to be around two years) as would permit a more in-depth and meaningful review of the Authority's activities. Nevertheless, issues which came to light during preliminary audit work are being reported in this preliminary report.

#### Audit Focus and Objectives

##### Audit Objectives

The audit was intended to focus on initiatives undertaken by the Occupational Health and Safety Authority in relation to the Construction Industry and was aimed at identifying issues which possibly may be hindering the attainment of higher safety standards within the Construction Industry.

This audit was also after determining:

- i the appropriateness of OHSA's work to ensure that construction sites are safe and healthy;
- ii the adequacy of awareness campaigns and training provided by the OHSA in influencing the attitudes of employers, employees and other industry stakeholders with regards to occupational health and safety.

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<sup>1</sup> These accidents refer to claims for injury benefits payable under the Social Security Act. They consist of all type of injuries (minor, serious and fatal).

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<sup>2</sup> Occupational Health and Safety Authority, Report of Activities for the period October 2004–September 2005 (p18).

## The Operational Framework

The Occupational Health and Safety Authority Act, 2000 is the principal legislation which sets out the functions of the OHSa. In addition to this Act the Construction Industry is regulated by Legal Notice 281/2004 which transposes the 1992 EU directive on the subject which was enacted in Malta in May 2004.

The OHSa has primarily operated in accordance with the national policy relating to occupational health and safety. This implies that since its establishment, the Authority's priority has been to raise awareness, educate and promote the benefits of occupational health and safety. The OHSa maintains that this circumstance necessitated the adoption of 'a soft approach' in relation to enforcement.

## Injury and Ill Health Statistics

### Injury Statistics

The OHSa maintains that the compilation of national statistics relating to occupational health and safety is hampered since precise data regarding the number of workers in the Construction Industry does not exist. This situation arises due to the mobility of workers, the general lack of membership to any union, the duration of works on small projects and the utilisation of foreign workers.

Article 51 of Legal Notice 52 of 1986 stipulates that employers must report work related injury and ill health to the Authority in cases of fatal or accidents resulting in serious injuries. The OHSa is only maintaining fatal injury records.

Despite the above constraints, injury rates for most sectors, including the construction sector, have shown a declining trend. During 2004 and 2005, the accident rate within the Construction Industry declined from 5.94 to 5.82 for every one hundred gainfully occupied persons within the Construction Industry.<sup>3</sup>

## Ill Health Records

The Authority has the obligation to collate and analyse data and statistics on occupational ill health, as defined in Paragraph 9(h) of the Occupational Health and Safety Authority Act, 2000. However, actions in this regard are restricted to initiatives taken by the Authority and DSS in developing a form (NI 30) which is to be completed by an applicant for illness/injury benefit purposes. This form can be used by both parties, albeit for different purposes (that is the processing of social security claims by the DSS and the maintenance of statistics by the OHSa). Since the OHSa only receives a copy of this document with the applicant's consent, the risk exists that the Authority would not be kept informed of all cases of reported ill health.

The highly complex medical, technical and legal issues involved in associating a particular disease with the working environment also hamper the maintenance of statistical data relating to occupational ill health. Although such illnesses are usually reported under the Social Security Act, no governmental authority has sought to identify a realistic incidence of work related ill health. However, during 2006 these issues have started to be addressed through discussions held by OHSa with the Health Division within the ambit of a Pan-European project.

## Ensuring that construction sites are safe and healthy

The Authority's work to ensure that construction sites are safe and healthy mainly centres around the work-place visits that are carried out. Such visits are conducted for three main reasons, namely:

- i to investigate complaints on alleged poor health and safety practices.
- ii to investigate injuries, ill health, near misses and fatalities.

<sup>3</sup> According to the National Statistics Office, the number of gainfully occupied persons employed within the Construction Industry for years 2004 and 2005 totaled 10,549 and 11,323 respectively. The number of reported accidents during 2004 and 2005 amounted to 627 and 659 respectively.

iii to ascertain adherence with occupational health and safety legislation.

Routine work place visits are mainly related to enforcement – a critical aspect in ensuring occupational health and safety. The Authority is empowered to order that works be discontinued and can take legal action in cases of non-compliant employers. Work place visits also enable the Authority to provide advice or, in certain cases, issue warnings to employers who fail to satisfactorily address health and safety risks at the work place.

During 2005, 1,364 workplace visits were carried out by OHSA officers, out of which 371 related to the Construction Industry. These construction visits resulted in ten convictions in the criminal courts for breach of occupational health and safety regulations.

### Resources available to the Authority

The OHSA's inspectorate unit consists of ten inspectors that may carry out work place visits in all sectors. Consequently, due to its lack of resources, the Authority can afford to allocate an official and a trainee officer to manage and perform inspections at construction sites. However, another three officers visit construction sites particularly on matters related to machinery and dangerous chemicals, including asbestos. The remaining inspectors perform work place visits in the other industrial sectors. It is worth mentioning that on several occasions since the Authority's establishment (for example, in 2005 during June and September), the OHSA directed all its officers to carry out construction site inspections, thus increasing the number of inspections by 263.

The Authority has voiced its concern about the lack of resources available to it, particularly through its annual reports.<sup>4</sup>

<sup>4</sup> The OHSA's annual report for financial years 2005 states that: "the Authority's current manpower levels are far short of the perceived requirements".

### Visits to Construction Sites

In view of its lack of resources, the OHSA is not in a position to assume a pro-active role when conducting visits to construction sites. This implies that the Authority is not targeting inspections according to the potential risk posed (based on various criteria such as: the type of work being undertaken, past compliance record of the firm carrying out the works, number of workers employed on site, type of machinery being used, etc.).

The following issues were also deemed to diminish the effectiveness of the OHSA's enforcement role:

- i Construction sites' inspections are generally carried out following the receipt of complaints from either construction workers or members of the general public, or following serious accidents where a magisterial enquiry was initiated.
- ii It is not fully informed of where construction works (of certain materiality as defined by the Health and Safety Act) are being undertaken – thus hampering the process of targeting workplace visits by the Authority. This situation occurs since the OHSA is generally not being informed by owners of sites where construction works are being carried out. A formal agreement whereby the Malta Environment and Planning Authority (MEPA) informs the OHSA of development applications does not exist. OHSA's attempt to obtain cooperation from MEPA in this regard, as well as from the Local Councils vis-à-vis permits issued for the use of construction machinery (such as cranes), did not bear the desired result.
- iii During the period May 2004 and June 2006, the Authority received 97 notification forms of construction works being undertaken – most of which were received after being demanded by the Authority's Occupational Health and Safety Officers. The construction sector is regulated by LN 281/2004 which assigns an important role to clients. The client, amongst others, is duty bound to appoint a project

supervisor for the design stage and the construction stage and to keep and make available any health and safety files for inspection. These provisions are not reflected in the OHSA Act as the latter refers to the contractual relationship between the employer and his employees. This makes the enforcement of the provisions relating to clients administratively difficult to implement.

- iv The OHSA does not have documented criteria<sup>5</sup> relating to the prioritisation of inspections following complaints. Inspections following complaints are usually jointly prioritised by the OHSA's site officers and the senior manager. The inspectors stated that they prioritise inspections according to the risk to injury that they allocate following the receipt of complaints.
- v As at end September 2005, only 126 (65 per cent) of the 194 complaints received during the financial year (October 2004 – September 2005) were followed up with work place visits. By the time of writing this report the outstanding complaints referred to in this paragraph were dealt with. The Authority claims that in view of its lack of resources it only follows up complaints posing the highest risks in terms of occupational health and safety.
- vi Inherent specificities in this sector hamper the Authority's initiatives vis-à-vis occupational health and safety. These include the mobility of workers, the general lack of membership to any organisation, the duration of works on small projects and the utilisation of foreign workers. The presence of foreign workers (often having a refugee status) creates communication barriers and difficulty in tracing them when required.

### Management Information System

The OHSA is in the process of introducing a management information system.

<sup>5</sup> The OHSA has an enforcement policy and procedures document whereby it stresses that enforcement should focus on those activities that give rise to the greatest risk or where the hazards are less well managed. The document does not, however, contain defined criteria in determining cases of high risk to injury and/or ill health.

Currently, the data relating to works visits (including construction site visits) is not centrally maintained or kept in a standard format. Information on inspections is recorded either manually or in electronic format. However, the electronic data lacks critical information relating to works visit, such as the outcome of inspections, action taken and court decisions.

This situation restricts the OHSA from developing works visits / inspection targeting criteria and from reliably monitoring and evaluating the outcome of these initiatives.

### Machinery and Equipment

The OHSA is also responsible for maintaining registers of plant and machinery, intended for use at work which in the opinion of the Authority provide a serious occupational health and safety risk. The plant and machinery mainly consist of lifts<sup>6</sup>, hoists and cranes. The onus to file a report on the working condition of a lift to OHSA rests with the holder. Although crane<sup>7</sup> owners are legally bound to request an inspection on the machine's condition, they are not compelled to inform the OHSA accordingly. Such an inspection is to be carried out by a competent person who has the obligation to issue a certificate detailing the working state of the machine.

The Authority does not have a database of all the Construction Industry plant and machinery currently in Malta. This situation arises since the local licensing authorities or the Department of Customs are not obliged to keep the OHSA informed when any such machinery / equipment is imported to Malta. However, lately the Authority has approached ADT to forward such information on a regular basis.

The OHSA is constrained to update its records when it:

<sup>6</sup> Lifts usable by the general public.

<sup>7</sup> Incorporating both movable and immovable tower cranes.

- i encounters any machinery and equipment on construction sites during inspections; and
- ii is notified that machinery and equipment (such as lifts) have been certified by a competent person to be in good working order.

This situation gives rise to incomplete records and as a result weakens the effectiveness of the OHSA's initiatives with regards to:

- i monitoring compliance with occupational health and safety legislation, and
- ii taking enforcement action where risks are most prevalent, as stipulated by the Occupational Health and Safety Authority Act, 2000.

### Awareness Campaigns and Training

The Authority's mandate extends to promoting the dissemination of information regarding occupational health and safety, and the methods required to prevent occupational injury, ill health and death.

The OHSA is also empowered to promote education and training on occupational health and safety, and emergency and first aid response at work places.

The NAO sought to evaluate the effectiveness of the OHSA's 'awareness and training' role through the Authority's activities within the Construction Industry. The following issues were identified:

- i During 2005, the OHSA delivered 19 public and 35 customised training courses (requested by a particular entity). These training courses mainly related to general occupational health and safety issues and were attended by 1,488 persons. In 2005, the Authority organised five courses directed at the Construction Industry which were attended by 311 persons.
- ii During 2004 the Authority organised a seminar for architects and civil engineers, with the objective of explaining their role in

the implementation of the regulations. This initiative was accompanied by a mailing campaign with the collaboration of the Chamber of Architects. The seminar was repeated the following year.

- iii The OHSA can only afford to allocate two full time officials to organise its occupational health and safety awareness campaigns. The Authority claims that the lack of full-time officials dedicated to awareness campaigns limits the OHSA's ability to maintain detailed records of such activities. Consequently, the Authority is not in a position to fully monitor and gauge the effectiveness of these initiatives.

iv Lack of resources limits the OHSA's options regarding the themes chosen for campaigns. In fact, the themes for awareness campaigns are generally related to funds provided purposefully by the European Agency for Health and Safety at Work to enable member states of the European Union to organise campaigns regarding the Agency's selected topic. Generally the theme is selected with the consent of all EU member states. In this regard, the OHSA strives to encourage other members to opt for topics that are relevant for Malta<sup>8</sup>. The OHSA does not have additional human or financial resources to target awareness campaigns to local industrial sectors which may pose a higher occupational health and safety risks other than those selected by the European Agency.

- v From 2002 up to July 2006, the Authority compiled 17 publications in the form of leaflets concerning occupational health and safety, seven of which directly concerned the Construction Industry. The Authority keeps records of bulk distributions, namely, distributions to trade unions, Chamber of Architects and other entities as well as the number of downloads (of these leaflets) from its website. However, it does not possess the necessary structure to deliver these leaflets directly to the employers and employees. This situation hinders any

<sup>8</sup> In fact the OHSA has objected to proposed themes that were related to forestry and mining, since they are not relevant for the local scenario.

further analyses regarding the effectiveness of such leaflets.

### Conclusion

Preliminary audit work undertaken by the NAO has shown that despite its lack of resources the Authority has strived to raise occupational health and safety awareness and enforcement of relevant regulations within all economic sectors, including the Construction Industry. Such work included the Code of Practice for the Construction Industry, which is intended to provide practical guidelines to this industry. The Authority's initiatives are intended to contribute towards decreasing the number of accidents at work and its enforcement work has led to employers being prosecuted for breach of occupational health and safety regulations.

However, the lack of resources available to the OHSA significantly limits the Authority's options in embarking on more occupational health and safety initiatives. To

an extent, the Authority is a more reactive rather than a pro-active institution in all aspects of its activities – a fact that has been acknowledged in various OHSA annual reports.

The introduction of an effective MIS would permit the Authority to fully satisfy its legal mandate to analyse occupational health and safety information, as well as data regarding its operations. This would enable the Authority to be able to plan and execute its occupational health and safety initiatives more effectively, particularly with regards to sectors which pose high health and safety risks, such as the Construction Industry.

The opportunity exists for increased co-operation, namely through the sharing of information, between various governmental entities and the OHSA regarding construction works, including machinery and equipment utilised. Such cooperation would facilitate the OHSA's work in planning on site visits / inspections, which in turn would strengthen the enforcement regime.