

Report of the
Auditor General

Public Accounts 1997

National Audit Office
Notre Dame Ravelin
Floriana

December, 1998

Mr Speaker,

As required by Sub-Section 108 (5) of the Constitution of Malta and Para. 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997, I submit my report on the accounts of the Government of Malta and the workings of the National Audit Office for the year ended 31 December, 1997.

Yours sincerely,

J. G. Galea
Auditor General

The Hon. Speaker
House of Representatives
Valletta

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Audit Certificate



Audit Certificate

Audit Certificate on the Public Accounts of the Government of Malta to the House of Representatives

Audit Mandate

I have examined the accounts of the departments and offices of the Government of Malta and the Financial Report of the Accountant General for the year ended 31 December 1997. Also examined were the accounts of such other public authorities or other bodies administering, holding, or using funds belonging directly or indirectly to the Government of Malta, where prescribed by or under any law for the time being in force in Malta

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

As described in the Statement of Responsibilities of the Accountant General and Accounting Officers on page 16, the onus for the proper discharge of financial administration and the preparation of financial statements lies on the Accountant General and the Accounting Officers. It is the Auditor General's responsibility to form an independent opinion on these statements, based on the audits carried out by this Office, and to submit a report thereon, in terms of Section 108 of the Constitution and para. 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997, to the House of Representatives.

Basis of Opinion

I have carried out the audit referred to above in accordance with the provisions of the Auditor General and National Audit Office Act, 1997. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the statements as well as a critical assessment thereof. The International Organisation of Supreme Audit Institutions' (INTOSAI) Auditing Standards were used as guidelines of procedures and practices to be followed in the conduct of the audits.

I have planned and performed audits so as to obtain as much information and explanations as possible in order to provide me with relevant and reliable evidence to give reasonable assurance that financial statements are free from material misstatement, whether caused by error, fraud or other irregularity.

This Office carried out audits, reviews and inspections so as to provide a certain degree of assurance that:

- A. adequate safeguards exist for the collection of public moneys, and that the laws, directions or instructions relating to them have been duly observed;
- B. expenditure has been properly authorised and made for the purposes for which the funds have been appropriated by the House of Representatives;
- C. inventory items and stores are properly procured, recorded and controlled and appropriately disposed of;
- D. the figures contained in the annual Government of Malta Financial Report are correctly stated.

The examination of the Government Financial Report and individual Departmental Votes was carried out on a limited sample basis. The audit of revenue and stores was particularly restricted. Audit examiners also had to rely heavily on correspondence with the auditees rather than actual on site examinations. The opinion expressed must therefore be viewed within this context.

In terms of sub-para. 5 (ii) of the First Schedule of the Act, this Office reports that, subject to instances mentioned in the findings of the Report, all the information and explanations required for the carrying out of its duties were obtained.

Opinion

In my opinion, compliance with a number of regulations and procedures needs to be addressed by the government through its senior officers. In particular, consistency needs to be applied throughout government operations for the purpose of ensuring that financial statements are being properly presented. This is necessary for financial control and budgetary purposes.

A review of the Financial Administration and Audit Act and relative Regulations has been carried out by the Ministry of Finance and Commerce. These are now being vetted by Finance in conjunction with the Attorney General. The updating and revision of rules and regulations are long overdue and essential to reflect current day requirements in government financial accounting and administration.

Audit examinations carried out by this Office have revealed the following issues of particular concern for 1997:

- significant increase in Public Debt;
- substantial Budgetary Deficit;
- substantial increase in arrears of revenue and risks in arrears becoming statute-barred. The question also rises as to whether the Financial Report should start including a statement of arrears of revenue;
- whether Letters of Comfort/Bank Guarantees, which amount to around Lm 500 million and are considered to constitute contingent liabilities, should start being disclosed in the Financial Report;
- inadequate internal audit functions within Ministries;

- arrears due by Government in respect of contracts on public works, medical stores, etc., which run into several millions of Maltese Liri. These are not reflected in the Financial Report as the latter is compiled on a cash basis, in line with current government regulations. Again, the question arises as to whether amounts unpaid by Government by the year end for works and services already rendered should start being included in a statement in the Financial Report;
- difficulties in the settlement of Advances made to officers travelling abroad;
- misclassification of transactions out of Recurrent and Capital Expenditure items;
- the procurement of goods and supplies by Departments without first issuing the appropriate government local purchase order;
- excess of expenditure over approved budgetary estimates;
- internal control shortcomings relating to incomplete documentation, inadequate supervision, lack of proper records, inadequate separation of duties;
- the Government's Public Account still not formally reconciled with the Central Bank bank account since June 1992;
- deficiencies relating to the legal basis of service pensions;
- no additional Departments having their accounting systems converted to the Departmental Accounting System (DAS) during 1997. The existence of two accounting systems within Government Departments, some with the old system and others with the DAS, is not conducive to an efficient accounting control situation for the Treasury Department;
- inventory control often not kept strictly in accordance with Government regulations;

- official Stores Regulations still not published;
- discrepancies in Unallocated Stores.

Except for the above qualifications, most of which are long-standing issues, I confirm that the Annual Government Financial Report and statements included therein agree with the records held at the Treasury. The annual Ministry budget allocations approved by the House of Representatives have been utilised in accordance with the provisions of the Financial Administration and Audit Act and other relevant government rules and regulations. Due regard was also given to the regulations governing the recording, collection and deposit of public moneys.

Other Reports

Apart from the above-mentioned statutory audit, this Report also includes a number of special reports, including Value for Money ones, carried out in terms of Paras. 8 and 9 of the First Schedule of the Auditor General and National Audit Office Act, 1997.

Joseph G. Galea

Auditor General

December, 1998

Statement of Accountant General's and Accounting Officers' Responsibilities

The Accountant General, as the chief accounting officer in terms of the provisions of the Financial Administration and Audit Act, 1962 (Cap. 147 of the Laws of Malta), is charged with the general management and supervision of all accounting procedures of Government.

In terms of Section 65 of the said Act, the Accountant General shall submit to the Auditor General a statement of the Consolidated Fund and a statement of the receipts and payments of any fund or account created by this or any other law.

In accordance with Section 67 of the same Act, the Accountant General shall submit to the Auditor General a report on the accounts and finances of the Government, known as the Financial Report, not later than six months after the close of every financial year.

Section 2 of the Act defines “*accounting officer*” as “*a person holding or acting in the office of permanent head of a government department and includes every person who is charged with the duty of collecting, receiving or accounting for, or who in fact collects, receives or accounts for, any public moneys, or who is charged with the duty of disbursing, who does in fact disburse, any public moneys, and every person who is charged with the receipt, custody or disposal of, or the accounting for, public stores, or who in fact receives, holds or disposes of public stores*”.

Section 12 of the same Act defines the duties of accounting officers: “*Every accounting officer shall be subject to the provisions of this Act and any regulations made thereunder and shall perform such duties, keep such books and render such accounts as may be prescribed by or under this Act or by instructions issued by the Minister*” responsible for finance.

Part I

Introduction



Introduction

Role of the National Audit Office

The National Audit Office, headed by the Auditor General, is responsible for the external audit of central and local Government on behalf of Parliament. The Office, which is now an autonomous body, was established in 1997 and succeeded the Audit Office which was a government department falling under the responsibility of the Ministry in charge of finance. The Auditor General is now an officer of the House of Representatives. He is assisted by officers, who he is empowered to employ directly to help him carry out his functions.

The mandatory and primary objective of the Office, in terms of the Constitution and the Auditor General and National Audit Office Act, 1997 (hereinafter referred to as the Act), is to provide independent information, assurance and advice to Parliament on the way Treasury, government departments and certain non-central government entities (including local authorities), account for and use taxpayers' moneys. Another objective, in terms of the Act, is to establish whether public moneys have been expended economically, efficiently and effectively.

The audit field during 1997 included central government receipts and payments totalling around Lm1,326.5 million (against Lm1,120 million for the previous year). These encompassed revenue of Lm684.8 million (including Lm170.6 million loans), recurrent expenditure of Lm538.3 million (including Lm41.1 million public debt servicing) and capital expenditure of Lm103.4 million (including Loan to MDD of Lm24.6 million).

The National Audit Office conducted the following audit examinations:

Financial Audits: These audits, carried out in terms of Sub-section 108(5) of the Constitution and Para. 1 of the First Schedule of the Act, aim to ensure that financial statements of government ministries and departments are being properly presented, that they are in agreement with financial rules and regulations, and that proper internal controls are in place.

Value for Money Audits: These audits, carried out in terms of Sub-para. 8(a) (ii) of the First Schedule of the Act, are intended to address the economy, efficiency and effectiveness of programmes and activities achieved in major fields of government-related revenue and expenditure and in the management of government-related resources.

Special Audits: These audits or investigations, which may be of a financial or value for money nature, are carried out in terms of Sub-paras. 8(a) and 9(a) of the First Schedule of the Act. Such audits may be carried out on the initiative of the Auditor General, at the request of the Minister responsible for finance or at the request of the Public Accounts Committee of the House of Representatives. They relate to revenue, expenditure and resources belonging directly or indirectly to government in terms of Sub-para. 9(a) of the First Schedule of the Act.

Audits contracted out on behalf of the Auditor General: Audit duties relating to local government are contracted out to private sector auditors. The role of the Auditor General in terms of the Local Councils Act, is twofold. The first is an administrative role concerned with the appointment and remuneration of the private sector auditors, known as local government auditors. The second role is a technical one which is intended to lend support to auditors and to ensure that their observations and recommendations are given due consideration.

During 1998, apart from the customary yearly financial audits, local government auditors were engaged to carry out value for money audits on resurfacing and maintenance of roads, including pavements, in respect of all sixty-seven local councils.

A consultant was also engaged during 1998 to assist in the carrying out of audits of a number of non-central government organisations (referred to as “*Other Bodies*” in this Report) which were subject to audit in terms of the Act.

Audit Report

The Report starts with the overall Audit Certification of the statements of the departments and offices of the Government of Malta and the consolidated Financial Report.

Part I outlines the role and duties of the Auditor General and reports the activities and developments at the National Audit Office during 1998, in terms of Sub-para. 5 (i) of the Act. It also describes its relationship with the Public Accounts Committee and the National Audit Office Accounts Committee;

Part II identifies issues of a common concern throughout central government departments and offices. Also included in this chapter are findings related to audits of non-central government entities;

Part III reveals findings of a material nature discovered during audits in specific Ministries or Departments;

Part IV contains a synopsis and examination of the 1997 Government Financial Report together with appropriate audit comments and views, where warranted. Also included in this Part are comments relating to Letters of Comfort/Bank Guarantees;

Part V comprises reports or executive summaries of reports relating to value for money audits carried out by this Office in terms of its Corporate Plan. It also contains Special Audits carried out on the initiative of the Auditor General or following requests by the Minister responsible for finance or as directed by the Public Accounts Committee.

Independence of Auditor General and National Audit Office

The independence of this Office is entrenched in Section 108 of the Constitution. This independence is a vital factor in the value taxpayers can place on the Office's work. Such independence is guaranteed by the Auditor General's statute as an officer of the House of Representatives (Sub-section 108(2)). The Auditor General also has access to any records and other information and explanations as he may require (Sub-section 108(5)). He is empowered to appoint officers as he may consider necessary to assist him in the proper discharge of his duties (Sub-section 108(10)(a)). Furthermore, he is not subject to the authority or control of any person (Sub-section 108(12)).

Appointment of Deputy Auditor General

The Deputy Auditor General, Mr John A. Bonnici, was appointed to the National Audit Office by the President on the 15 April 1998 following a resolution of the House of Representatives in terms of Sub-section 108(9) of the Constitution. The resolution won the unanimous approval of the House of Representatives.

This appointment has helped to strengthen the senior management structure of the Office.

National Audit Office's relationship with Parliament

The Public Accounts Committee

The Auditor General submits his annual Audit Report to the Speaker of the House of Representatives. This Report is automatically and permanently referred to the Public Accounts Committee which is entitled to review the Report and may hold hearings on its contents. It takes evidence from senior officials of ministries and departments or other government related bodies. Apart from the Audit Report, the P.A.C. also reviews the activities of non-central government organisations, the accounts of which are presented to Parliament.

The main function of the National Audit Office is to act as a watchdog to government financial operations and activities. The Public Accounts Committee on its part helps to ensure that findings of the N.A.O. are given their due attention. Accounting officers are now requested to account for the actions of their organisation directly to the P.A.C. at its hearings.

The P.A.C. is an effective institution in enhancing transparency and accountability in government-related operations. The Committee is also interested in seeing that value for money and quality of service are given to taxpayers. It is therefore also a useful means of pushing forward the concept of value for money auditing.

N.A.O. is again pleased to note that, thanks to the presence of the P.A.C., the improvement in the timeliness and substance of replies to queries and reports by this Office, as well as action taken to rectify relative shortcomings, have been sustained.

The National Audit Office Accounts Committee

The expenses of the N.A.O. are a charge on the Consolidated Fund. The National Audit Office Accounts Committee of the House of Representatives, appointed by Parliament earlier this year, is required to submit to the House of Representatives, at least once a year, a report on the activities of the N.A.O. and on the examination of any estimates prepared by the Auditor General in terms of Para. 14 of Part IV of the Second Schedule of the Act. The report for the 1998 activities and estimates was presented by this Office to the Committee on 16 March 1998. These estimates were then presented by the Committee to the House for the latter's consideration on 23 March 1998 (Sitting No. 203) in terms of Para. 10 of Part III of the Second Schedule of the Act.

In terms of Para. 18 of Part V of the Second Schedule of the Act, the Committee also appoints an auditor to certify the accounts of the N.A.O.. The auditor was appointed on 26 May 1998. The certified accounts of the N.A.O. for

1998 are to be presented to the House in early 1999, together with any comments by the Committee thereon, in terms of Para. 21 of Part V of the Second Schedule of the Act.

International Relations

During 1998 this Office was represented at the following events, which related to training, conferences, seminars, audit assignments and familiarisation visits:

1. Familiarisation visit at the National Audit Office (Sweden) on the 15 - 17 April by the Auditor General and a senior official to enquire upon the control structures in Sweden, value for money auditing carried out at the N.A.O. (Sweden) and the audit of agencies' performance indicators by the latter.
2. Audit of Rome Embassy from 18 to 26 May by two officials. The objective of the audit included (i) determining adherence to Government's regulations and Ministerial policies by embassy, and (ii) assessing embassy's operations in respect of Head Office objectives;
3. Training in value for money, financial and EDP auditing (International Auditor Fellowship Programme) between 8 June and 30 October in Washington (USA) by one senior official.
4. EUROSAI Seminar on 24 - 26 June in Lisbon (Portugal) attended by the Auditor General. The theme discussed was the independence of Supreme Audit Institutions of Public Finance with respect to the Legislative, Executive and Judicial Powers.
5. Meeting on 29 June at the National Audit Office (UK) by the Auditor General, Deputy Auditor General and a senior official, to enquire upon the functions of the Public Accounts Committee (UK) and to discuss the possibility of the N.A.O. (UK) to provide assistance in

the reorganisation, development and training for the local N.A.O. in value for money auditing;

6. Meetings on 21 and 23 September at the Audit Commission (UK) and the Northampton General Hospital (UK) attended by the Deputy Auditor General and three other officials. Themes discussed were:
 - Audit Commission - the work and role of the Commission. The type of value for money auditing carried out on Local Authorities and health areas were also discussed.
 - Northampton General Hospital - control systems in the procurement of catering supplies, pharmaceutical and surgical items, estate management and hospital waiting lists;
7. Training workshop in value for money auditing, organised by United Nations Development Programme (UNDP) in Bratislava (Slovak Republic) on 26 and 27 October attended by one official;
8. Conference in November in Lima (Peru) on Environmental Auditing from 1 to 5 November attended by one official. N.A.O. is a member of the Working Group on Environmental Audit of INCOSAI. Topics discussed involved:
 - Specific Issues in environmental auditing relevant to particular regions, including (i) co-operation and co-ordination in environmental auditing between different SAIs, (ii) natural resource accounting, and (iii) sustainable development;
 - Information exchange: to facilitate the exchange of information and experience in environmental auditing;
 - Guidelines, methods and techniques: to publish guidelines and information on environmental auditing for use by SAIs;

9. Conference on 7 to 14 November in Montevideo (Uruguay) attended by the Auditor General. Malta is a member of the Accounting Standards Committee of INCOSAI. Themes discussed were:
 - The role of the SAIs in preventing and detecting fraud and corruption.
 - Improving public governance through the work of the SAIs and the outcome of INTOSAI Committees and Working Groups

Organisation, Staff and Recruitment

As on 1 November 1998 the N.A.O. staff consisted of 33 audit and supporting staff. These include:

- The Senior Management Group which consists of the Auditor General, Deputy Auditor General and an Officer in Scale 5;
- 4 Senior Principals and 2 Principals who are in charge of audit sections, with wide responsibility for the audit of the Financial Report and departmental accounts. They also conduct value for money audits and other assignments;
- 1 Assistant Principal, 2 Executives, 4 Clerks and 1 Customs Officer who undertake audit field work, operating individually or in teams;
- 2 Senior Principals, 1 Principal and 4 Clerks who are on audit support duties, performing clerical, secretarial and administrative services.
- 2 other Senior Principals are currently seconded with Ministries.
- 7 Messengerial and Industrial Grades.

The table presented below shows the staff position (non-messengerial and non-industrial) of the Office during the period 1992 to 1998.

Staff Profile

Grade Description	1992	1993	1994	1995	1996	1997	1998
Auditor General	1	1	1	1	1	1	1
Deputy Auditor General	0	0	0	0	0	0	1
Head 1/Grade 4	1	1	1	1	0	0	0
Officer in Scale 5	4	4	3	3	2	1	1
Senior Principal	0	0	0	0	7	5	8
Principal	16	16	16	13	5	3	3
Assistant Principal	3	3	3	2	2	2	1
Executive Officer	4	5	0	8	6	5	2
Clerk	12	11	14	7	10	10	8
Seconded with N.A.O.	2	2	2	2	2	2	1
Total	43	43	40	37	35	29	26

During 1998 negotiations were held between the National Audit Office and the employees' representatives on the status of the former Audit Department employees. This Office is presently holding meetings with the Office of the Prime Minister with the purpose of having these employees engaged with the N.A.O. on a temporary basis. The N.A.O. is proposing that these employees will continue to retain all their rights including those pertaining to the Pensions Ordinance, Widows' and Orphans' Pensions Act, as well as sickness benefits.

The Office will start the process of recruitment immediately discussions with the Management and Personnel Office of the OPM are finalised and the agreement with the Union is signed.

Training

One of the most important ongoing strategic requirements is to ensure that N.A.O. staff have the range of capabilities necessary to meet the emerging needs and expectations of Parliament and the public.

To achieve this aim, the Office is providing an environment which enables our employees to enhance their skills and achieve their full potential. During the year, training in compliance and financial audit was given to existing staff. Further training was given to a selected number of staff in the use of IDEA software (Interactive Data Extraction and Analysis).

The Office is currently sponsoring three officers. One is attending an International Diploma Course in Computing Studies, another is undergoing a course in Management Studies whilst another is attending a course leading to City and Guilds in General Engineering. Members of the staff have also attended IT related courses organised by S.D.O.

Senior officials have also been identified to attend courses in Management and Information Technology, Presentation Skills Management through People, Project Management, Business Planning and Finance Management, Cost Effective Management, Chairing and Managing Meetings and Writing Skills.

A Training Programme has been developed to provide new recruits with the skills and expertise required. The N.A.O. will also be supplementing in-house skills by engaging consultants and technical expertise.

Information Technology at the N.A.O.

The Local Area Network installed at the N.A.O. has been linked to Magnet, the central government computer server, thus permitting the Office to have access to applications in other departments.

Last May audit examiners attended a two-week workshop at the MITTS training centre at Swatar relating to the auditing of the Departmental Accounting System. Subsequently, access rights to live data on a read only basis was granted enabling N.A.O. staff to examine on-line and in real time the accounts of those departments (around 20) which were using the system. However, since at that time the

examination of the 1997 accounts was already at an advanced stage, limited use of these rights have as yet been made.

It is hoped that, once the necessary routines have been implemented, the auditing of the 1998 accounts of those departments connected to the system will be carried out on-line.

At present this Office is also conducting negotiations with MITTS regarding an IT support agreement. The possibility of further access rights to other systems being granted to this Office is also being considered.

Conclusion

The Office is still going through a difficult transitional period due to lack of human resources. Financial audits could not be carried out in sufficient detail. However, more emphasis was made on special audits and value for money audits which were considered to be of public interest.

It is envisaged that, following the expected engagement of new recruits during 1999, financial audits will be given more emphasis. The Office will also endeavour to continue giving more prominence to value for money audits. Certain time must, however, pass before the reorganisation of the Office and the engagement and training of new recruits will start having a positive effect on the work of the Office.

Ministries and Departments have recently been requested, through an N.A.O. circular, to provide the necessary office accommodation for N.A.O. staff to enable the Auditor General to carry out his constitutional duties more efficiently, as provided for in the Act. Office accommodation is already provided at the Treasury and a similar arrangement is about to be concluded with the Ministry for Gozo.

I wish to thank all audit staff for their effort in assisting me in the compilation of this Audit Report. I would also like to

acknowledge the co-operation afforded to me by the auditees which, in most cases, has been readily forthcoming.

Part II

Corporate Issues



Corporate Issues

Introduction

Audit issues of a common nature throughout Ministries and Departments have been identified in this chapter. Reference is made to these themes as “*corporate issues*”.

These corporate matters involve general non-compliance with government rules and regulations, inefficiencies within government accounting and financial management systems and suggestions for improvement thereof.

In certain instances, these issues require corrective action by the Permanent Secretary of the Office of the Prime Minister or of the Ministry responsible for finance.

The audits fall under the following categories:

- ***Audit Survey*** - Audit based mainly on questionnaires, discussions with auditees and the review of records and documents;
- ***Audit Enquiry*** - Examination based mainly on correspondence between N.A.O. and the auditee;
- ***Follow-up Audit*** - Comments relating to issues referred to in previous years. Audits carried out during previous years but which has still not been settled or continues to be of current interest;

Findings of audits relating to certain non-central government organisations are found in this part of the Report

CENTRAL GOVERNMENT ACCOUNTING SYSTEM - FOLLOW-UP AUDIT

Background

In the 1994 Audit Report it was stated that although the cash-based accounting system adopted by the government may be easy to operate and clearly reveals at any point in time the surplus or deficit (on a cash-basis) in the Consolidated Fund, the system has a number of drawbacks.

Government Financial Statements (namely the Government Financial Report), only recognise revenue once money is received and expenditure once payments are actually made. It also does not provide a proper statement of affairs which comprises all assets and liabilities, such as prepayments, accruals, arrears of revenue/debtors, creditors, inventories and stores.

In the 1994 Report, it was stated that governments with advanced economies were moving towards accruals based accounting.

Accrual-based means *“a basis of accounting that recognises transactions and other events when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate”* (cfr.. Exposure Draft 1 - Presentation of Financial Statements (August 1998) by the International Federation of Accountants (IFAC) - Public Sector Committee).

This Office had suggested that Government should consider the possibility of introducing an accruals-based public sector accounting system over a certain time-frame. It is of the opinion that Financial Statements with such an accounting basis would provide more useful financial information. Such an accounting system would provide a more realistic view of financial transactions carried out during a particular year. Furthermore, it would provide a picture of the value of Government Assets and Liabilities at a particular point in time.

Developments

The IFAC - Public Sector Committee has issued an Exposure Draft guideline for Governmental Financial Reporting in 1998. In this guideline, it is stated that *“although relatively few governments currently use accrual accounting, there is a growing trend towards accrual accounting as part of wider financial management reforms”*.

In the address by the President of Malta on the occasion of the opening of the ninth Parliament, on 24 October 1998, it was stated that *“It is necessary to gradually change from the present cash-based accounting system to an accruals-based system. To enable the implementation of this and other changes the Government will, amongst others, amend the Financial Administration and Audit Act and the Financial Regulations issued thereunder”*.

Comments

This office is pleased to note that accruals-based accounting is to be given active consideration. It believes that, apart from the benefit of providing better financial information, this basis of accounting would also provide a better framework for accountability and transparency in government activities, programmes and operations.

Issues relating to arrears of revenue due to government, amounts due by government, inventories, stores, etc., which have been mentioned in various write-ups in this Report, would be reported upon in the Government Financial Report in an accruals-based accounting system and therefore more attention would be given to such issues by the Administration.

TRAVEL ABROAD ON OFFICIAL GOVERNMENT BUSINESS - AUDIT SURVEY

1997 Expenditure on Travel Abroad

Total actual expenditure amounted to Lm940,745 (including the Lotto Department - vide Appendix K7, Financial Report,

1997), which is Lm246,205 lower than the estimated amount for the year in question. Details of estimated and actual expenditure by Ministry/Department are given in table on page 37.

A breakdown of how these funds were utilised is shown in the table hereunder. Overseas Subsistence/Accommodation and Overseas Hospitality (amounting totally to Lm556,075 in 1997) are initially given to officials travelling abroad in the form of Travel Advances. Part of these Advances are eventually refunded by the officials concerned following their return from the visit abroad.

<i>Components of Expenditure on Travel Abroad - 1997</i>	
	<i>Lm</i>
Tickets	328,675
Overseas Subsistence/Accommodation	545,872
Overseas Hospitality	10,203
Removal & Relocation Expenses (MFA)	55,995
Total	940,745

**Breakdown Of Expenditure On Travel By Ministry/Department
(January - December, 1997)**

Ministry/ Department	Approved Estimate	Actual Expenditure	Variance
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Office of the President	40,000	4,786	-35,214
House of Representatives	65,000	62,286	-2,714
OPM	110,000	64,335	-45,665
AFM	9,000	24,870	+15,870
Information	8,000	3,894	-4,106

Home Affairs	31,200	18,841	-12,359
Police	15,000	17,166	+2,166
Correctional Services	500	-	-500
Gozo	9,000	4,368	-4,632
Foreign Affairs & Environment	390,000	347,318	-42,682
Environment	26,500	25,345	-1,155
Economic Affairs & Finance	66,650	21,504	-45,146
Treasury	1,000	203	-797
Inland Revenue	25,000	17,111	-7,889
Customs	10,000	8,443	-1,557
VAT (CET)	10,500	200	-10,300
Statistics	10,000	4,485	-5,515
Contracts	1,200	6	-1,194
Audit	4,000	2,680	-1,320
Education & National Culture	25,000	24,650	-350
Education	14,000	24,005	+10,005
Libraries & Archives	2,000	1,277	-723
Museums	5,000	4,811	-189
Youth, Sport & Culture	5,000	2,560	-2,440
Ministry for Commerce	28,500	18,704	-9,796
Imports & Domestic Commerce	7,700	3,552	-4,148
Ministry for Tourism	16,000	12,328	-3,672
Justice & Local Councils	28,000	20,919	-7,081
Legal	6,000	5,876	-124
Judicial	4,500	3,706	-794
Ministry for Industry	6,200	3,855	-2,345
Ministry for Transport & Ports	12,000	8,256	-3,744
Civil Aviation	25,000	23,453	-1,547
Licensing & Testing	2,000	180	-1,820
Min. of Public Works & Construction	35,500	27,514	-7,986
Health, Elderly & Family Affairs	49,000	47,662	-1,338
Care of the Elderly	4,000	532	-3,468
Family Affairs	9,500	7,563	-1,937
Min for Social Welfare	3,000	4,018	+1,018
Social Security	6,000	4,962	-1,038
Labour	16,500	14,248	-2,252
Ministry for Housing	3,000	409	-2,591
Joint Office	1,000	-	-1,000
Ministry of Agriculture & Fisheries	35,000	44,222	+9,222
Lotto	5,000	3,642	-1,358
Totals	1,186,950	940,745	-246,205

Expenditure on Travel Allowances in 1997 included settlement of expenses (amounting to Lm53,634) relating to Advances incurred prior to 1 January 1993 when Advances were made from a Below-the-Line Account held at the Treasury Department and controlled by the Ministry responsible for finance.

1997 Advances

This Office recorded a total of 730 advances availed of during 1997 in connection with official travel abroad on government business. As on 31 October 1998, documents for verification in respect of 96 of these Travel Advances had still to be submitted to this Office as required by standing regulations. These Advances carry a face value of Lm46,451 (i.e. 4.9% of the total expenditure in 1997 for Travel Abroad) and make up 13% of the 730 Advances identified by this Office. Ownership is shown in the table below:

Dept./ Ministry	No. of outstanding advances	Sums advanced Lm
Finance and Commerce	3	2,041
Social Welfare	1	850
Transport and Ports	8	1,795
Foreign Affairs & Environ.	8	4,950
Attorney General	3	1,800
House of Representatives	1	88
Home Affairs	2	625
Law Courts	1	925
Education	9	7,382
Health	20	7,792
Licensing & Testing	1	377
Museums	2	239
Family Welfare	1	275
Libraries	2	549
Youth, Sport & Culture	3	932
Statistics	6	922
Tourism	10	7,155
Environment Protection	15	7,754
Total	96	46,451

Pre-1997 Outstanding Advances

Apart from the 96 outstanding advances disclosed above, another 407 advances covering period 1980 to 1996, and showing a face value of Lm347,491, are also outstanding with this Office due to non-submission of documents to this Office or failure to satisfy in full related audit queries.

Out of these 407 Advances, 236 totalling Lm205,470 were made from the Below-the-Line Account from the Treasury during the years 1980-1992. The remaining 171 Advances, totalling Lm142,021, were made direct from the expenditure recurrent votes of the departments concerned during the years 1993-1996.

Action taken by the National Audit Office

- i) Ministries/Departments were initially requested to submit statements of expenses and related documents as required by Financial Regulations so that these Advances would be accounted for;
- ii) Those Departments which failed to take action to account for these Advances were reported to the Permanent Secretaries concerned;
- iii) Before Permanent Secretaries were appointed for each Ministry, this irregularity was, at the end of the financial year, reported to the Ministry responsible for finance;
- iv) This matter has been featuring regularly in the Annual Reports since 1990.

Difficulties encountered by Departments to account for these Advances

- i) Requests made by accounting officers to officials travelling abroad to submit statements of expenses are not always complied with;
- ii) Accounting Officers encounter difficulties in enforcing officials who are not public officers, and who are in receipt of travel advances, to comply with Financial Regulations;
- iii) Several problems are met by Departments to account for Advances which were made to public officers, advisors and members of Parliament who are now retired or, in a few instances, deceased.

RETURN OF ARREARS OF REVENUE, 1997 - AUDIT SURVEY

Background

The timely collection of revenue and control over the extent of arrears of revenue is the responsibility of the Heads of Department who are also the Accounting Officers of their Department.

In terms of Reg. 46(3) of the General Financial Regulations, 1966, Heads of Department are to report to the Accountant General any case which might entail revenue falling unduly into arrears. A copy of this report is also to be forwarded to the Auditor General.

No such reports have been received by this Office.

Heads of Department are also required to submit an annual Return of Arrears of Revenue to the Accountant General by not later than the 31 March for onward transmission to the Auditor General as laid down in Reg. 49(1) of the General Financial Regulations, 1966.

In January of each year, the Accountant General issues a circular requesting departments to submit the return of arrears of revenue for the previous financial year. Copies of these returns are then forwarded to the National Audit Office.

It should however be pointed out that the onus of actual monitoring of the submission of these reports is repeatedly falling on this Office rather than the Treasury. In fact Audit often has to draw the attention of the Accountant General regarding those departments which fail to submit their returns.

Audit Findings

This Office has to report that many of the returns are not submitted in time. Besides reporting to the Accountant General those departments which fail to submit their returns, this Office also takes up the matter directly with the departments concerned if the return is still not submitted. This non-compliance with Financial Regulations is also reported to the Permanent Secretary concerned.

In spite of all these efforts, return of arrears for 1997 were not submitted by the departments shown hereunder:

- Land
- Foreign Affairs
- Prisons

In the case of those departments which failed to submit a return, the balance outstanding on 31 December 1996 was carried forward as still outstanding on 31 December 1997 for comparative reasons.

The arrears of revenue and other monies due to government as on 31 December 1997 are shown in the table on page 42. The information contained therein is based on the returns submitted by accounting officers charged with the supervision of the collection of revenue or other monies due to government.

TABLE VI : ARREARS OF REVENUE - 1997

Ministry/ Department	Outstanding on 31.12.96	Collected during 1997	Written off or not due 1997	Arrears 1997	Outstanding on 31.12.97
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Agriculture and Fisheries	113,836	(a) 3,003	95	(a) 6,314	(a) 117,052
Civil Aviation	639,457	(b)	(b)	(b)	717,155
Customs	(c) 3,701,192	3,354,479	7,436	5,626,758	5,966,035
Education	100,199	20,363	749	7,725	86,812
Inland Revenue:					
Income Tax	167,963,403	(a) 15,061,400	(a) 22,467,391	(a) 42,039,995	172,474,607
Duty on Docs. & Transfers	12,696,794	242,326	2,935,714	3,243,678	12,762,432
Death & Donation Duty	5,118,821	122,480	794,398	313,692	4,515,635
Courts	3,155,237	352,030	27,855	398,582	3,173,934
Social Security	(c) 754,802	159,813	27,454	307,665	875,200
Land	4,246,936	(e)	(e)	(e)	(e) 4,246,936
Health	560,101	80,075	27,897	239,703	691,832
Police	(c) 423,330	(b)	(b)	(b)	(e) 530,281
Office of the Prime Minister:					
T.V. Licences	1,717,045	(b)	(b)	(b)	1,534,850
Wireless Telegraphy	43,695	5,237	-	13,270	51,728
Public Works & Construction	3,871,401	468,729	337,862	424,722	(d) 3,489,532
Trade	68,052	120	52,818	-	15,114
Malta Development Corporation	(c) 5,090,372	891,938	94,587	714,031	4,817,878
Treasury	36,136,747	500,320	215,240	3,335,043	38,756,230
Tourism	(c) 295,541	177,105	1,257	273,863	391,042
Gozo Secretariat	55,996	(b)	(b)	(b)	30,380
Industry	27,250	2,063	-	505	25,692
Information/Printing Press	1,177,488	52,482	26,467	283,791	1,382,330
Public Lotto	336,783	57,377	279,406	-	-
Armed Forces of Malta	186,335	11,819	130,366	4,408	48,558
Joint Office	589,133	(b)	(b)	(b)	(a) 614,133
Licensing and Testing	301,320	92,394	-	518,962	727,888
Contracts	262,397	82,229	1,426	64,184	242,927
Labour	372,122	1,140	-	6,731	377,713
C.E.T./V.A.T.:					
Expenditure Levy	(c) 161,639	23,351	-	17,912	156,200
Refunds to Government	(b)	(b)	(b)	(b)	3,602,386
Value Added Tax	(b)	(b)	(b)	(b)	3,472,500
Customs and Excise Tax	(b)	(b)	(b)	(b)	380,148
Others	21,439	1,579	-	12,024	31,884
	250,188,863	21,763,852	27,428,418	57,853,558	266,307,024

- (a) Estimated
- (b) Details incomplete or not submitted
- (c) Opening balance adjusted
- (d) Return in respect of Manufacturing and Servicing Department not submitted and return for Roads shown separately in 1996 is included with Works
- (e) Return of Arrears incomplete or not submitted - arrears outstanding on 31/12/96 carried forward as outstanding on 31/12/97.

The total amount of arrears for the year ending 31 December 1997 identified by this Office (as on 1 November

1998) was Lm266,307,024. This amount does not represent the actual figure considering that some returns were not submitted and others gave estimated figures.

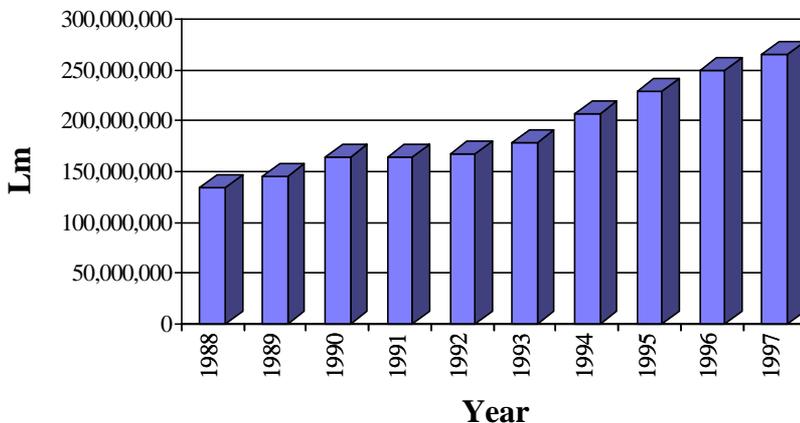
The returns of arrears received have been examined and as a result some opening balances have been adjusted.

Outstanding amounts identified by this Office for the last ten years read as follows:

<i>Year</i>	<i>Lm</i>
1988	134,450,096
1989	144,765,422
1990	164,125,498
1991	164,367,902
1992	166,742,557
1993	178,109,222
1994	207,476,144
1995	228,331,276
1996	249,555,932
1997	266,307,024

The chart below represents the escalation of arrears for the last decade.

Arrears of Revenue (1988 - 1997)



The chart is not comprehensive but based upon arrears reported to this Office over the years. Although it does not represent the total annual figures for arrears due to all

government departments, it is indicative of a consistent increase in arrears due.

The main reasons for the increase in the arrears of revenue, amounting to Lm16,751,092 over the previous year, are:

- i) **Income Tax:** Arrears in 1997 amounting to Lm172,474,607 against Lm167,963,403 in 1996, an increase of Lm4,511,204;
- ii) **Customs:** Arrears in 1997 were Lm5,966,035 against Lm3,701,192 in 1996, an increase of Lm2,264,843;
- iii) **Treasury:** Arrears in 1997 were Lm38,756,230 against Lm36,136,747 in 1996, an increase of Lm2,619,483;
- iv) **V.A.T./C.E.T.:** Arrears of revenue in respect of refunds due to government, V.A.T. and C.E.T. for 1995 and 1996 had not been submitted. These are now included with 1997 arrears for a total amount of Lm7,486,918.

Details on some of the Arrears

Inland Revenue : Lm189,752,674

(i) Income Tax: Lm172,474,607

The figure of Lm172,474,607 (against Lm167,963,403 for the previous year) of the Income Tax Division of the Inland Revenue Department represents the following outstanding book balances in the Department's records:

Categories	Amount as on 31.12.96	Amount as on 31.12.97
	<i>Lm</i>	<i>Lm</i>
Government Employees	13,359,191	10,599,291
Parastatal Employees	3,097,285	3,275,900
Dockyard Employees	832,291	1,595,903
Private Employees	34,163,055	31,417,960

Outside Malta Employees	467,640	468,491
Temporary Residents with Work Permits	4,946,061	4,322,732
Temporary Residents - Entertainers	78,658	70,654
Self-employed	31,967,817	30,997,765
Files "Not to be shown to Husband"	1,630	1,038
Shareholders	7,052,683	6,516,344
Rentiers	10,136,535	8,802,692
Temporary Residents - Settlers	953,922	786,266
Non-residents	701,467	736,353
Partners	182,122	183,488
Estates	17,143	18,321
Partnerships not registered with Trade Department	1,125	1,125
Companies Anonyme	53,860,873	67,474,801
Companies "en commandite"	1,789,392	1,685,774
Companies - Foreign Owned	2,125,033	1,882,102
Companies - Overseas	873,655	646,929
Clubs, Associations, etc.	508,756	373,529
Church (Commercial)	457,883	429,436
Church (Entities)	389,186	187,753

According to the 1997 Annual Departmental Report, the total outstanding book balance for 1997 "represents the total outstanding balances of all claims issued since 1949 less all payments of PAYE and PT for years of assessment in respect of which assessments have been raised, less all settlement tax paid up to 31 December 1997 and less all amounts written off as bad debts. Against this book balance of Lm172,474,607 ... one has yet to set off any overpayments of PAYE/PT held in suspense for years in respect of which assessments have not yet been raised, claims of settlement tax not legally due, and the difference resulting from the revision of preventive (best of judgement) assessments following the settlement of objections. The sum of Lm62,429 was written off during the financial year. The outstanding book balance is a fluctuating figure since it is automatically inflated whenever assessments are issued and similarly reduced quite substantially whenever tax is paid in settlement and assessments under objection are revised".

PAYE, PT and other payments held in suspense up to 31 December 1997 amounted to Lm197,115,561 (against Lm217,128,912 for the previous year). This amount refers to payments made by taxpayers in respect of years which had not yet been assessed up to that date.

Refunds issued during 1997 amounted to Lm2,989,163 (against Lm3,299,197 for the previous year).

The above table reveals substantial reductions in Income Tax arrears for the categories of *Government Employees, Private Employees, Temporary Residents with Work Permits, Self-employed, Shareholders and Rentiers*.

The *Dockyard Employees* category reveals a significant increase in arrears. The department has submitted that it was in a position to determine a considerable number of assessments concerning Dockyard Employees following an agreement reached with the dockyard authorities and the Ministry of Finance in connection with the then unpaid N.I. and P.A.Y.E. deductions.

The *Companies Anonyme* category reveals a large increase of arrears which went up from Lm53,860,873 in 1996 to Lm67,474,801 in 1997. The Department has stated that during 1997 it gave priority to revenue-gain assessments and carried out an exercise to trace defaulters and to raise best of judgement assessments, where necessary.

The Department has recently informed this office that the outstanding book balance has gone down to Lm166 million as on 11 November 1998. Amounts held in suspense on that date stood at Lm199 million. Efforts by the Department to collect outstanding arrears, as well as the full implementation of the F.S.S. system, have contributed to this decrease in arrears.

According to an exercise carried out by the Department, the actual amount of outstanding arrears should amount to roughly around Lm50 million. This exercise assumes that all income tax returns be assessed up to Y/A 1998 and all outstanding objections (which include large amounts of ex-officio and best of judgement assessments) be settled.

(ii) Duty on Documents and Transfers: Lm12,762,432

These arrears are made up of:

- i) Monies due in respect of *Inter Vivos* Lm12,412,219
- ii) Monies due in respect of *Causa Mortis* 350,213

These amounts refer largely to the issue of numerous claims incorporating substantial additional duty and penalties which have been objected to.

(iii) Death and Donation Duty: Lm4,515,635

These arrears are in respect of:

- i) Death and Donation Duty Lm4,497,649
- ii) Entertainment Tax 17,986

This amount includes the imposition of large amounts of additional duty (in respect of Death and Donation Duty) against which objections have been lodged.

V.A.T./C.E.T.: Lm7,643,118**(i) Expenditure Levy: Lm156,200**

The amount of Lm156,200 are arrears of revenue still outstanding in respect of the Expenditure Levy on restaurant services and on expenditure incurred on overseas travel. This tax was introduced in 1990 and was replaced by V.A.T. in 1995.

(ii) Refund to Government of Input Tax on Stocks in respect of V.A.T: Lm3,602,386

This outstanding book balance is subject to variations since it is automatically reduced whenever assessments under objection or claims for refund of excess payment are revised for settlement.

(iii) Value Added Tax: Lm3,472,500

The software available is not programmed to differentiate between amounts for previous years and the current year. The total of Lm3,472,500 is the amount declared to be due

to the Department inclusive of transferred credits, amounts refunded and Audit Assessments plus penalties (for presenting late returns, low declarations and others) less payment (input tax) effected.

This outstanding book balance is subject to changes as it includes considerable amounts of tax assessments and other relevant penalties which are in dispute.

The Department will be taking necessary steps so that next year the presentation of the arrears of revenue will be presented in the established format in terms of standing regulations.

(iv) Customs and Excise Tax: Lm380,148

These outstanding book balances are subject to change as they include considerable amounts of tax assessments and other relevant penalties which are in dispute.

Customs: Lm5,966,035

- i) Post Entries (Customs duty paid after release of merchandise) Lm5,218,443
- ii) Unpaid reimbursement and administration charges i.r.o. services by customs officials at merchants' request 738,620
- iii) Weighing Fees (inclusive of VAT) 6,636
- iv) Sale of cable seals 1,745
- v) Legal Fees 458
- vi) Guarding Fees 133

Health: Lm691,832

- i) Unpaid Hospital Bills Lm407,111
- ii) Refunds (Resignations) 147,856
- iii) Refunds (Overpayments) 5,659
- iv) Hospital Fees (Tests) 130,513
- v) Miscellaneous fines 693

Police: Lm530,281

- i) Weapons Licences Lm98,116
- ii) Trading Licences 48,481
- iii) Wines and Spirits Licences 8,052
- iv) Trading/Wines and Spirits Licences (Local Councils) 76,886

v) Court Investigations - Expert Fees	162,244
vi) Court Investigations - Photo material	136,502

Arrears of Revenue returns for Court investigations in respect of Expert Fees and Photo material not submitted (previous year end figures quoted).

Computerisation of records revealed a number of Trading and Wines and Spirits licences not previously reported upon. This resulted in upward adjustments in opening figures of arrears.

Local Councils took over collection (as agents of Police Department) of Trading and Wines and Spirits Licences during 1997.

The arrears of revenue return was submitted late (on 19 November 1998) and incomplete. The Police Department has been requested to resubmit a complete return.

Joint Office: Lm614,133

Monies due for rents of property transferred to Government under Act IV of 1992

The Joint Office could only submit an estimate of the arrears due. It remarked that the exact figure could not be arrived at since the information is incomplete.

Until appropriate details of the properties transferred to Government are made available to Joint Office, it is not possible to identify the amounts that qualify to be treated as arrears due to Government.

Labour: Lm377,713

Monies due by defaulters as repayments under the self-employment scheme

Social Security: Lm875,200

i) Old Age Pension	Lm93,271
ii) Social Assistance	364,367
iii) Passage Assistance	1,434

iv) Bonus	1,003
v) Children Allowance	10,922
vi) Parental Allowance	98
vii) Pensions Area Offices	37,620
viii) National Insurance	325,692
ix) SABS at source	40,793

The above return of arrears does not include arrears of Social Security Weekly National Insurance contributions.

Courts: Lm3,173,934

i) Court fees	Lm372,815
ii) Criminal fines	476,528
iii) Judicial Police fines	933,688
iv) Traffic, Education and Health fines	1,380,436
v) Notarial fees	423
vi) Gozo Courts fines	10,044

Tourism: Lm391,042

i) White Rocks Holiday Complex	Lm67,621
ii) Mediterranean Conference Centre	185,792
iii) Hotels and Catering Establishments Board	42,958
iv) Local Councils	94,671

Contracts: Lm242,927

i) Monies due in respect of issue of stores made by Central Supplies Section	Lm118,360
ii) Monies due in respect of penalties and damages due to government	124,567

Civil Aviation: Lm717,155

i) Landing fees	Lm148,570
ii) Parking fees	1,595
iii) Passenger Service Charge	116,092
iv) Enroute D.C.A.	14,877
v) Eurocontrol Route Air Navigation Charges	434,837

vi) A.I.P.	116
vii) Met. Services	1,068

Office of the Prime Minister: Lm1,586,578

i) Monies due to Wireless Telegraphy Branch in respect of Licence and Inspection fees and for licence fees due by foreign vessels	Lm51,728
ii) Unpaid Television licences (Arrears collected being retained by PBS Ltd.)	1,534,850

Public Works and Construction: Lm3,489,532

i) Works	Lm1,721,510
ii) Infrastructure fees due from Planning Authority	126,306
iii) Local Councils Contract Units	603,082
iv) Waste Strategy Implementation Department	152,474
v) Roads	886,160

Arrears in respect of Roads were shown separately under Ministry for Transport, Communications and Technology in Audit Report, 1996.

The return of arrears in respect of the Manufacturing and Servicing Department was not submitted.

Malta development Corporation: Lm4,817,878

i) Rent on Factory Premises	Lm3,287,906
ii) Loans - Aids to Industries Scheme	1,529,972

Information/Government Printing Press: Lm1,382,330

i) Photographic Works	Lm19,929
ii) Publications	4,508
iii) Government Gazette	3,654
iv) Standing Orders	24,322
v) Jobbing works	1,305,972
vi) Stationery	23,945

Part of these arrears of revenue, amounting to Lm178,177, are in respect of amounts due to the Below-the-Line Account - Unallocated Stores.

Licensing and Testing: Lm727,888

- | | |
|------------------|-----------|
| i) Road Licences | Lm727,888 |
|------------------|-----------|

These arrears are in respect of road licences for the years 1995 to 1997 only. Other amounts of arrears have to date not been submitted.

Agriculture: Lm117,052

- | | |
|---|----------|
| i) Pitkali Markets | Lm24,526 |
| ii) Loans to Fishermen | 23,006 |
| iii) Sundry services (pruning of trees, spraying, etc.) | 8,997 |
| iv) Sundry revenue | 567 |
| v) Sundry revenue (ex-M.M.U.) | 5,140 |
| vi) Loans to farmers | 54,816 |

Arrears at items (i), (ii) and (iv) are figures for 1996 as returns for 1997 were not submitted. Arrears at (vi) were estimated as a proper return was not submitted.

Treasury: Lm38,756,230

- | | |
|---|------------|
| i) Bearer Tax Levy (ex-BICAL) | Lm3,979 |
| ii) Loans to Hotels | 10,040 |
| iii) Loan and interest to M'Xlokk Fishing Co. Ltd. | 182,890 |
| iv) Loans under Act XI of 1988 (ex-Posterity Fund) to Malta Shipbuilding Co. Ltd. and interest due on these loans | 11,815,000 |
| v) Loans to Industries including interests | 25,819,862 |
| vi) Loan to Marsa Racecourse | 63,000 |
| vii) Interest due on loan to Malta Drydocks Corporation | 859,194 |

Conclusion

Various attempts have been made in the past by the Ministry of Finance to control the rise in arrears of revenue namely:

- i) Permanent Boards of Arrears were established with responsibility for the settlement of arrears of particular departments. These Boards, which ended up with a number of officers forming one-man boards, are apparently more involved in the write-off requests by departments than monitoring departments' performance in terms of arrears recovery.
- ii) In 1993 an Arrears Unit was established at the Finance Ministry to deal specifically with revenue arrears matters.
- iii) In order that recovery and prevention of arrears is given due importance by all departments concerned, the Ministry of Finance even recommended that arrears recovery and/or prevention targets should be incorporated into the performance contracts of senior officials in revenue earning departments.
- iv) Again in the Budget Speech for 1997 (page 93) the Minister of Economic Affairs and Finance announced the setting up of a Revenue Enforcement Unit in the Ministry.

In spite of these initiatives which were taken to tackle arrears of revenue, in the opinion of this Office no significant improvements were registered.

In fact if one were to examine the arrears of revenue for 1997, out of an amount of Lm250,188,863 outstanding as on 31 December 1996, only around Lm21,763,852 or 8.7% were collected. On the other hand there was an amount of Lm57,853,558 in new arrears at the end of 1997.

Recommendations

The recommendations made in the Audit Review of the Return of Arrears of Revenue which was published in the Audit Report of 1996, still stand namely:

- the transfer of staff from other duties to concentrate directly on the collection of arrears;
- the new Revenue Enforcement Unit acting as the supervisor of the Board of Arrears and Departments alike;
- a strategy or system to address inter-departmental arrears of revenue;
- updating of information to write-off uncollectable debts;
- timely invoicing by departments of amounts due, especially in view of the chances that claims may become time-barred;
- the institution and timely issue of legal letters and institution of court action. Major attention should be given to ensure that long-standing arrears do not risk becoming statute-barred;
- withholding of other services/assistance to debtors;
- follow-up procedures and adequate computerisation of records;
- the collection of arrears by deductions at source from other payments due to defaulters;
- more controls and attention by assessors when computing claims;
- imposition of penalties for late payments in terms of relevant legislation;

- further enforcement action by taking appropriate and timely legal action;
- media action directed at creating public awareness about social costs of non-payment of moneys due to Government.

This Office strongly suggests that these recommendations are acted upon and implemented throughout all revenue collecting departments.

This could result in the effective collection of the arrears of revenue and the prevention of new arrears from accruing. The end result would actually also show an improvement to Government's cash flow.

The issue calls for a systematic and corporate effort with the explicit support of the Ministries as regularly solicited in the General Estimates circulars.

INTERNAL AUDIT - AUDIT SURVEY

Background

Introduction

An audit review of the Internal Audit Function within Ministries was undertaken by the National Audit Office.

The Internal Audit Function has on a number of occasions been the topic of discussions within the Public Accounts Committee (P.A.C.). Such discussions highlighted the importance of internal audit as a management tool. Internal Auditing became operational as a function within the ministries in 1994. Four years have now elapsed and the N.A.O. felt that the time has now come to carry out a detailed review of this function.

The objectives of this review were to:

- evaluate the internal audit function within Ministries;
- increase the level of co-operation between Internal Auditors and the N.A.O..

The evaluation of the internal audit function within the Ministries was attained through on site interviews and a questionnaire which was handed to all internal auditors within the Ministries.

As yet, out of the 11 questionnaires handed out, nine internal auditors have responded.

Role of Internal Audit

Internal audit occupies an important review and monitoring function in any organisation. The strength of internal audit lies in its independence characterised by its direct reporting relationship with senior management and non-involvement in the day-to-day running operations of Ministries or Departments. An effective internal audit function will strengthen the internal control structure of an organisation, thereby contributing to the fulfilment of organisational objectives and good corporate governance.

In its Report published in 1993, the Public Service Reform Commission (PSRC) outlined that the devolution of authority had to be balanced with enhanced Public Service performance and accountability. In this respect, Internal Audit was perceived to be a prerequisite to attain the aforementioned Reform objectives since it was to serve as a tool which provided senior management within Ministries assessments relating to value for money in government activities, operations and programmes.

Setting up of Internal Audit Units within Ministries

In January 1992, Government approval was granted and the task to establish Internal Audit was entrusted to the

Financial Management Group of the Management Systems Unit (M.S.U.) supported by an inter-departmental senior advisory group, including a representative of this Office. The aim was to:

“establish a standardised internal audit function for Government Ministries/Departments in support of increased delegation levels, the introduction of decentralised accountability structures and information technology”. (Presentation to Permanent Secretaries, 6 November 1992.)

Four separate calls for applications for the recruitment of internal auditors were made in 1992, 1993 1995 and 1998. The final call for application is still in the recruitment stage. The previous calls for applications were intended to recruit internal auditors at senior and junior levels. Applicants for these posts were selected through an interviewing process prior to undergoing formal training. The training contract was awarded to the Institute of Internal Auditors (U.S.A.). The cost of such training amounted to circa Lm75,000.

Out of 22 Public Service applicants who were selected to undertake the training program, 15 (excluding personnel from the Department of Audit and Parastatals) completed the course and were deployed in ten ministries. To-date only 11 remain employed as internal auditors within the governmental ministries.

In May 1993, the Office of the Prime Minister authorised the setting up of the Audit Policy Monitoring Unit (APMU) within the Ministry of Finance. The APMU, in conjunction with the Management Systems Unit, issued the first document on Internal Audit Policy in August 1993. This Unit has mostly concentrated on the performance of quality reviews of audit units, the compiling and publication of an audit policy manual and the organisation of training courses for internal auditors.

Audit Findings

This review revealed that the internal audit function is seriously understaffed. Despite the individual efforts of internal auditors within the various Ministries, the current internal audit structure is not conducive to efficiency and effectiveness since the internal audit function, as it is intended to operate, can never be executed by a single officer, if any, in each Ministry.

The strength of the internal audit function lies in its independence. This review illustrated that the independence of the internal audit function can be enhanced if instances where internal audit units report to the head of department instead of to the permanent secretary and the participation of internal audit staff in non-audit activities are regularised to conform with standards outlined in the Internal Audit Manual.

Management support for an effective internal audit function is essential. This would not only increase by the further establishment of ministerial audit committees but such a step would provide the impetus for improved performance of ministerial operations.

This exercise illustrated that although the internal audit function is still in its infancy, efforts have been made to establish the function on a sound foundation. The establishing of the Audit Policy Monitoring Unit within the Ministry responsible for finance and the compilation of publication of the Internal Audit manual are positive steps in the right direction.

Conclusion

The National Audit Office cannot over emphasise the importance of the internal audit function to the Public Administration. This Office also agrees with comments made by internal auditors that there should be more communication and co-ordination between them and the

N.A.O. since internal and external audit work is often interrelated.

It is augured that the internal audit function within government ministries and departments is adequately strengthened in order to enhance accountability, internal controls and attain better value for money from Ministerial and Departmental operations.

DELEGATION OF FINANCIAL AUTHORITY - AUDIT ENQUIRY

Background

Section 4 of the Financial Administration and Audit Act (Cap. 174) of 1962 empowers the Minister of Finance to make regulations to put the provisions of this Act into effect.

The procedures regarding the procurement of Stores, Works and Services have since 1966 been regulated by Section J of the General Financial Regulations. Various Legal Notices establishing the limits one can purchase from the open market, through quotations, or following a departmental or Treasury tender have been issued since then.

In April 1996 the Public Service (Procurement) Regulations were published by virtue of Legal Notice 70 of 1996.

The main scope of these regulations was to set out tendering procedures, detail the functions of the Department of Contracts and set out the financial limits for the Director of Contracts, heads of departments and of other officers to enter into contracts on behalf of Government..

Regulation 11 of the said Public Service (Procurement) Regulations, 1996 spells out the procedure for the procurement of equipment, stores, works and services. This particular section came into force on the 1st August, 1996 (Legal Notice 139/96).

Whereas till July 1996, only the Minister responsible for the department effecting such purchase or the head of

department as may be delegated by his Minister could approve a direct order up to a limit of Lm1,000, Legal Notice 70/96 increased the limit to Lm2,500 and empowered the Minister to delegate his authority to his Parliamentary Secretary, the Permanent Secretary or the Head of Department - Regulation 11 (a)(iii).

Furthermore in virtue of Section 11 (b) the Minister responsible for the department may delegate any authority vested in him by the Minister of Finance (as regards variations, penalties and remissions in respect of contracts), to the Parliamentary Secretary, the Permanent Secretary or head of department.

Findings

The National Audit Office has, in March 1998, asked Permanent Secretaries to submit lists of officers within the portfolio of their Ministry who were issued with delegation of financial authority in terms of sections 11 (a)(iii) and 11 (b) of the Public Service (Procurement) Regulations indicating also the date of such authority. Replies submitted by all Ministries revealed that:

- in five Ministries, authority was granted by the respective Ministers after the receipt of N.A.O.'s communication;
- forty seven officials were delegated to authorise purchases from the open market up to a limit of Lm2,500 - section 11 (a)(iii);
- only three Permanent Secretaries and seven Directors have been authorised to approve variations, penalties and remissions in respect of contracts - section 11 (b);
- no financial delegation was authorised to any officer within the Ministry or Department falling under the portfolio of the Minister of Housing and Local Councils.

Ministries were requested to keep National Audit Office informed whenever additional authorities are issued or current ones revoked.

CLASSIFICATION OF ITEMS RELATED TO CAPITAL EXPENDITURE - FOLLOW-UP AUDIT

Background

Examinations of Recurrent and Capital Expenditure Accounts of Government Departments and Ministries have again revealed that “*goods and services*” are not always appropriately classified under the proper Recurrent and Capital Expenditure Items of Account.

Comments

Goods and services are normally classified and disclosed by department and standard item (object of expenditure). In certain instances, items are classified by Capital Project under Capital Expenditure, although such items would also be relevant to the Recurrent Expenditure Codes of Account.

This Office again reiterates that there should be consistency and clear distinction between the classification of Recurrent and Capital Expenditure.

Recommendations

Ministries and Departments should be issued detailed guidelines to ensure standardisation in the allocation of costs to the appropriate Recurrent and Capital items of Expenditure.

A study should also eventually be made to improve such classification to reflect more appropriately Government activities.

LOCAL PURCHASE ORDERS DRAWN UP AFTER ACTUAL PURCHASE OF GOODS - AUDIT SURVEY

Background

An examination of 1997 Recurrent and Capital Expenditure vouchers revealed a significant number of Local Purchase Orders (L.P.O.s) and Goods and Services Purchases Orders (G.S.P.O.s) which were drawn up after the goods were actually purchased. This is a common problem in several Government Departments.

Findings

Departments submitted different reasons for this state of affairs. Among such reasons were the urgency of goods or services required and the difficulty in obtaining precise prices prior to execution of services, e.g. computer repairs.

There were, however, also instances where the normal procedure was not followed for no particular valid reason.

Conclusion

It is important that L.P.O.s/G.S.P.O.s be drawn up prior to goods being purchased as otherwise their purpose as a control procedure would be defeated.

Departments have mainly replied that although occasions may crop up when the normal procedure of issuing an L.P.O./G.S.P.O. prior to obtaining goods or services may not be feasible, such as in the instances mentioned earlier, they will endeavour to follow the regular procedure as a rule.

PERFORMANCE INDICATORS - FOLLOW-UP AUDIT

Background

Performance Indicators may be defined as quantified descriptions of outputs and performance related to the macro and micro objectives of the entity concerned. They are intended as tools to measure the economy, efficiency and effectiveness and quality of service of particular activities and programmes in an entity.

In last year's Audit report (pages 96-99) it was stated that, whereas departments do set strategic objectives and short-term goals (in Business and Financial Plans) they are usually set at a macro level but not at more detailed levels in the organisation. Such objectives are furthermore often not linked to specific performance indicators. It was further stated that no standard procedures throughout government exist on how to compile performance indicators and on what use can be made of such indicators.

Recommendations

It is felt that the time has arrived for Ministries and Departments to start adopting performance indicators (where these do not exist) at the various levels of these organisations. This Office reiterates that such indicators would serve as a strong management tool in the formulation of policies, business and financial plans and in the monitoring and execution of the Ministries' and Departments' objectives.

INVENTORIES - AUDIT ENQUIRY

Background

The recording of government movable assets in accordance with established regulations has featured consistently in the Audit Annual Reports. It was reported that due attention was not being given by management to the maintenance of asset records notwithstanding that substantial investments are being made in movable assets.

Audit Enquiry

In February 1998 an Inventory Questionnaire, based on the points contained in Circular MFCPFI 15/77 dealing with Inventory control regulations, was submitted to all Ministries and Departments enquiring on the state of their:

- inventory ledger;
- distribution sheets and
- room inventory lists.

Enquiries were also made on whether:

- the inventory is on the prescribed form
- records are on loose leaves which are pre-numbered and controlled
- the inventory is computerised
- inventory was compiled from an '*ad hoc*' stocktaking
- there is an inventory of special items

Audit Findings

A total of 206 questionnaires were returned to the N.A.O. It is pertinent to point out that included in this figure are 62 questionnaires which refer to the Ministry of Health, Care of the Elderly and Family Affairs and 57 questionnaires which fall under the Gozo Secretariat. Not all the Ministries/Departments submitted the information requested. Questionnaires were not received from:

- Museums Department
- House of Representatives
- Youth and Sports Department

- Works Division
- Corradino Corrective Facilities
- Customs and Excise Tax Department
- Area Offices - Social Security
- Ministry of Education
- Education Department
- All Government Schools (except Gozo schools)
- Police Department (including Police Stations)

Non submission of the requested information from the above mentioned departments may indicate that (i) regulations are not being complied with and (ii) asset management is not being given the importance it merits.

Although all the questions posed in the questionnaire were directly related to an efficient inventory management control, an analysis of the four major aspects which contribute to adequate safeguarding of government movable property, based on the questionnaires received, revealed that:

- 62% (128 out of 206) of the inventory ledgers held by Ministries/Departments were up-to-date
- 38% (78 out of 206) of the ledgers were out-of-date or did not exist

Out of the 168 (up-to-date and out-of-date) inventory ledgers:

- 22% (37) were computerised
- 65% (109) were compiled following an 'ad hoc' stocktaking exercise

Questionnaires received also showed that:

- 32% (65 out of 206) of room inventory lists being out-of-date or not in existence.

A. Inventory Ledgers

The inventory ledger is the main record which a department has to resort to in determining its moveable assets. The inventory is to be maintained up-to-date at all times and to this effect the above quoted Finance circular stipulates that the responsibility for keeping the inventory should be entrusted to an officer not below the rank of an executive officer or equivalent grade.

It also places the responsibility on the Head of Department to ensure that all items of furniture, equipment, and other items falling under inventory charge are actually shown on inventories of their Department and that they are kept scrupulously up-to-date.

It is also evident from the returns submitted that a good number of Departments/Divisions have no officer-in-charge inventory. Having 38 % of government premises without an inventory and/or an inventory which is out-of-date is not a good indication at all that Government has a sound inventory management.

B. Computerised Inventory Ledgers

The number of inventories which have been stated to be computerised is 37, which represents 22% of the Departments/Divisions which claim to hold inventory records, irrespective of the state such inventories are in. A number of departments are taking initiatives to computerise their inventory records. However in the absence of standing regulations a number of difficulties emerge, namely:

- lack of standardisation of records and software across government departments
- lack of audit trails since most of the software in use does not provide this facility

C. 'Ad hoc' stocktaking

Departments which have inventory postings heavily in arrears, or where original inventory cannot be traced, are resorting to 'ad hoc' stocktakings. The Inventory Circular under reference permits the compiling of 'ad hoc' inventories but only under two conditions. It also lays down certain criteria in rendering them "official":

- i) **Missing inventories:** When the old inventory cannot be traced a Board should investigate and establish how it came to be missing and who is responsible for the loss. An 'ad hoc' inventory is to be compiled from all items physically existing on site. This inventory is test checked by a representative of the National Audit Office who shall report his findings to the Minister of Finance. The Department concerned should obtain authority from Finance for the recognition of the new inventory.
- ii) **Out-of-date inventories:** When an inventory is out-of-date, an 'ad hoc' inventory is compiled. Any purchases made subsequent to the last audited items shall be added to the old inventory after scrutinising all the expenditure vouchers covering the period when no entries were made in the inventory. The old inventory as amended is compared to the 'ad hoc' inventory and a list of discrepancies drawn up. The 'ad hoc' inventory is to be test examined by the National Audit Office. The necessary authority from Finance is to be obtained by the Department concerned for the official recognition of the 'ad hoc' inventory and for the write off of any discrepancies that may have resulted.

65 % of available inventories were compiled from 'ad hoc' stocktakings without adhering to the steps envisaged in the inventory circular and referred to in (i) and (ii) above. Failure to follow the standing procedure may not guarantee the adequate safeguarding of moveable assets and may indeed give rise to possible abuse.

D. Room inventory lists

Room inventory lists are meant to hold the person in possession of any asset personally responsible for the item issued on one's name. They are also a deterrent against wilful loss. The lists are kept in duplicate and are held by both the holder of the asset and by the officer in charge inventory. Any additions or deletions from these lists are countersigned by both personnel.

Room inventories may be considered as safeguards in case of the loss of the inventory ledger and are useful in recompiling the inventory if necessity arises. 32 % of replies submitted indicate that the room inventories are either out-of-date or do not exist.

Conclusion

The information supplied by the auditees and the records and documents referred to by them have not as yet been verified as to their correctness and reliability. Replies submitted, however, already indicate that the existence of inventory records and the maintenance of up-to-date inventory ledgers are major problems all across government.

The National Audit Office acknowledges that the present regulations issued in 1977 may not be conducive to effective asset management. They do not cater for computerised inventory records, do not include parameters *vis-à-vis* the value and life cycle of items which should be recorded and a mode for the expedient disposal of unserviceable and obsolete items.

Moreover, Government's intention to change its financial system from a cash-based to accruals-based system may meet serious obstacles in view of the defective or non-existent inventory recording systems.

Recommendations

In view of the current state of affairs this office recommends that:

- in the absence of more up-to-date regulations, the provisions of MFCPFI 15/77 be strictly adhered to and enforced by Heads of Department;
- an inventory officer be appointed in every department and be given the necessary co-operation to execute such duties effectively;
- Ministry responsible for finance formulates government policy regarding the computerisation of furniture and equipment inventories;
- due consideration be given to link inventory records with the DAS accounting system;
- annual inventory stocktaking exercise be carried out by an official of the department, other than by the officer in charge inventory;
- writing off authority following Boards of Survey be granted promptly;
- new additions should have reference to date of purchase and value in preparation for the eventual introduction of accrual-based accountancy.

STORES - FOLLOW-UP AUDIT

Background

The General Financial Regulations, 1966 and the Public Service “*Procurement*” Regulations - L.N. 70/96, relate “*inter alia*” to procedures concerning the procurement of stores operated by government departments. These regulations, however, do not provide a specific operational framework of the stores control function within government.

The National Audit Office has for the past years reported that the lack of Stores Regulations is hindering the efficient and effective management of stores within government

departments (cfr.. Report of the Auditor General 1996, page 96). Furthermore, the lack of specific regulations is presenting difficulties in enforcing effective control related to the stores function.

Annual Stocktaking

Regulation 111 of the General Financial Regulations, 1966 stipulates that departments holding stock items perform an annual stocktaking exercise and furnish the Auditor General with the resultant report.

The Stores Section within the Contracts Department (former Central Supplies Section) has informed this Office that in view of the phasing out exercise and the lack of personnel it was unable to comply with the requirements of this Regulation.

No stocktaking returns were forthcoming from the Ministry of Public Works and Construction and from the Gozo Secretariat.

Computerisation of Stores

The Management Systems Unit Business Plan for 1993 reported that the company was planning to introduce a stores management system across government. The M.S.U. Business Plan for 1996 stated that the Company began and, in some cases completed, implementation of the Stores Management System (STORIT) in 28 government departments.

Despite the above, Ministry of Finance has not yet communicated its opinion to this Office about the system and whether it has granted its approval for its implementation.

Conclusion

The Stores function within government is an important function since it assumes a vital support role for other government operations. Furthermore, stores within certain departments are of significant value.

This Office reiterates that the compilation and implementation of Stores Regulations is to be treated as a matter of priority by the Ministry of Finance.

As in the case of inventory, the introduction of accrual-based accounting would be more difficult if “stores” are not properly recorded or valued.

UNALLOCATED STORES - AUDIT ENQUIRY

Background

According to the Treasury Financial Report (vide Appendix M page 266), the book value of the Unallocated Stores as on 31st December, 1997 stood at Lm 3,247,890. These stores form part of the Assets of Government and are included in the Statement of Assets and Liabilities.

These stores are termed “*supplies of general character required for ordinary work and services carried out during the course of a financial year*” (Sub-section 109 (2) of the General Financial Regulations). Such stores are held by the **Ministry of Public Works and Construction**, the **Department of Information** and the **Department of Contracts**.

Funds for the acquisition for such stores are provided by an Advance Warrant wherein the Minister of Finance authorises the withdrawal from the Treasury Clearance Fund, as provided in Section 37 of the Financial Administration and Audit Act 1992, the required amount. The said Warrant stipulates that the amount so advanced shall be charged to a Suspense Account and repaid from the Votes and Subheads of the various departments to which the stores are issued.

Through a circular issued in January of each year, the Accountant General asks the departments holding such stores to submit a statement on a prescribed form showing:

- i) the value of the stores held in the Suspense Account at the end of the financial year. The figure should agree with that shown in the Treasury books, and
- ii) the value of the closing stock held at the end of the year which is arrived at by adding to the actual stock on hand on the 31st December the debtors (arrears) and any work-in-progress.

Although the two amounts reported by the department at (i) and (ii) should, in principle, tally, any resulting discrepancy should be investigated by the department concerned and reported to Treasury.

Findings

Ministry of Public Works and Construction

This Ministry at present operates five accounts the total of which as on 31st December, 1997 amounted to Lm1,596,771 according to the Treasury Books.

The Ministry last submitted the return to the Accountant General in May 1992 which covered the balance of the different accounts as on 31st December, 1991.

It cannot therefore be established what is the discrepancy (if any) between the value of the stores as per the Suspense Account and the value of the actual stock on hand.

The position of the different accounts for the years 1990 to 1997 as on the 31st December was as follows:

Balances as per Treasury Books

					1994 to
--	--	--	--	--	----------------

Item	1990	1991	1992	1993	1997
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Petrol	144,348	118,902	118,627	118,627	118,627
Penetration Bitumen	488,672	793,913	1,308,525	1,303,125	825,787
Emulsified Bitumen	312,684	387,726	215,419	186,362	-
Diesel	379,109	384,956	384,956	384,956	384,956
Lubricants	824	140	141	141	140
Precast Concrete	267,261	267,261	267,261	267,261	267,261
Total	1,592,898	1,952,898	2,294,929	2,260,472	1,596,771

An examination of the figures obtained from the Treasury books and reproduced above reveals that:

- i) there were no movements in all the accounts during these last four years (1994 to 1997);
- ii) the book balances of petrol, diesel, and lubricants have remained unchanged since 31st December 1991 i.e. for the last 7 years;
- iii) for the last 8 years i.e. since December 1990, the value, as appearing in the Treasury Books, of Precast Concrete has been the same.

This would indicate that no movements (issues/sales) in these accounts have been effected in these last few years. In the way such a Suspense Account is operated, the stock, valued as per amounts shown in the Treasury books, should strictly speaking, still be in hand. Considering the nature of the items being dealt with, it is unlikely that stocks still exist. The reasons why such balances are still appearing in the books of the Treasury may include:

- i) receipts from sales not credited to the respective Suspense Account;
- ii) funds voted to cover unallocated stores purchases expended on unrelated purchases;
- iii) wastage (normal or otherwise);
- iv) uncollected arrears; and

- v) stores written off without crediting the account with the cost of the “deficient stores”.

Department of Information (Government Printing Press)

Stores that were purchased through Advance Warrants cover stationery and paper for printing. According to the Treasury books, the account at the Government Printing Press as on 31st December, 1997 stood at Lm 343,119. Except for year ending 1997, the Printing Press has always submitted the return to the Accountant General whereas the 1995 return was submitted late in 1996 and the figures quoted could not be considered to present a true picture of the stock position. The Printing Press has always shown discrepancies between the stock value that should be found on hand and the actual balance found on stocktaking (after effecting the necessary adjustments). The following table shows the value of the stock as per the Treasury book, the value of the actual stock and the difference in stock value as reported by the department.

Discrepancies in Stock Value

Year ending	Treasury books	Stock on hand	Discrepancy
	Lm	Lm	Lm
1990	806,190	616,024	190,166
1991	737,233	634,898	102,335
1992	753,288	693,943	59,345
1993	777,145	768,671	8,474
1994	418,848	339,471	79,377
1995	375,416	(a)	(a)
1996	350,623	247,265	103,357
1997	343,119	(b)	(b)

(a) return submitted late

(b) return not submitted

One would notice that the discrepancies vary from one year to the other and this would suggest that the department was

not consistent in the method adopted in establishing the value of the stock on hand.

With the Government Printing Press, work-in-progress is an important factor and if this element is partially or totally ignored, it would make all the difference. The discrepancy ranges between Lm 8,474 in 1993 and Lm 190,166 in 1990. Other factors that may have contributed to the discrepancies were:

- i) transfer vouchers credited to Revenue instead of to the Suspense Account;
- ii) non issue of claims for jobs carried out;
- iii) claims undercharged;
- iv) damaged paper written off or disposed of without crediting the Suspense Account with its equivalent value;
- v) wastage (normal or otherwise);and
- vi) arrears written off or not recorded;

Contracts Department (Central Supplies)

The Government Central Supplies had, for a number of years, been the supplier of items of a general nature to Government departments and to Parastatal Organisations.

Except for the years 1992 and 1993, the Central Supplies have always submitted the returns to Treasury indicating in each year the resulting discrepancies between the account value and the value of the adjusted actual stock on hand.

The position for the years ending 31 December was as follows:

Discrepancies in Stock Value

Year ending	Treasury books	Stock on hand	Discrepancy
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>

1990	3,418,362	3,418,362	Nil
1991	3,003,762	3,003,762	Nil
1992	3,114,279	*	*
1993	3,086,607	*	*
1994	1,970,302	1,884,014	86,288
1995	1,614,004	1,568,079	45,925
1996	1,462,120	1,412,439	49,681
1997	1,308,000	1,266,769	41,231

* return not submitted

It can again be safely stated that the discrepancy varies from one year to the other indicating inconsistency in the stock taking process. Other reasons are surely similar to those pertaining to the Government Printing Press.

Conclusion

The Accountant General has, year in year out, drew the attention of the Ministry of Works regarding the non submission of the returns. However apart from this reminder, no further action has ever been taken. Regarding the other two Accounts, the Accountant General has in June 1997 confirmed to this office that no remedial action had till then been taken to reconcile the Accounts with Stock Value Control. The position till time of going to print has not changed. No Warrants have been issued for the purchase of Unallocated Stores for these last four years.

The accounts at the Ministry of Public Works and Construction are no longer in operation (last entries effected in 1994). Purchase of Petrol, Diesel and Lubricants are being effected from the Recurrent Vote of the Ministry. Monies received by the Ministry for supplies issued to government departments are credited back into the standard item Transport (Fuel) if paid in the same year of issue.

The Central Supplies is being phased out, and the Government Printing Press has since 1994 been operating a Revolving Fund. The only entry in the Unallocated Stores Account of these two departments is the crediting of the

account with monies received from any sales or issues effected.

Recommendations

Considering that:

- i) monies advanced for the purchase of these stores were issued from the Treasury Clearance Fund which is made up of monies belonging to third parties;
- ii) such monies advanced have to be repaid into this Fund;
- iii) the balances in the Suspense Account are either dormant as in the case of the Ministry of Works and Construction or very slow moving as in the case of the Government Printing Press and the Department of Contracts (Central Supplies);
- iv) there is a considerable quantity of obsolete and damaged items at both the Printing Press and Central Supplies;
- v) the total value shown in Appendix M in the Treasury Financial Report and reproduced in the Statement of Assets and Liabilities does not reflect the true value of the stock;
- vi) *tale quale* sales by Central Supplies to third parties are rendering substantially less than the book value;
- vii) depreciation of stock affects the value of the stock;
- viii) the Minister of Finance had at para. 9 of M.F. Circular 9/92 commented that advances made by the Treasury were not being repaid promptly according to the directions stated in the same warrant; and
- ix) the matter has been reported upon in previous Audit Reports without any remedial action whatsoever being taken by the Ministry of Finance or by the Accountant General to tackle the irregularity,

it is recommended that Ministry of Finance appoints a Board to:

- assess the real value of the discrepancy between the balance as per the Treasury Account and the actual physical stock on hand at the Government Printing Press and Central Supplies;
- determine the reasons for such discrepancies;
- ascertain that the departments holding such stores are chasing their debtors and the possibility or otherwise of arrears being collected or be considered as bad debts; and
- analyse the five accounts held by the Ministry of Public Works.

After considering the outcome of the Board's investigations and its recommendations, Ministry of Finance should liaise with the Departments concerned so that any overall savings in their expenditure votes at the end of the year be credited to the respective Suspense Account so as to close the respective Advances in question.

THE YEAR 2000 PROBLEM - AUDIT ENQUIRY

Background

The Year 2000 Problem, or as it is more commonly referred to, the Millenium Threat, came about because in the past, to save memory space, computer programmers referred to years by their last two digits rather than by all four (98 rather than 1998). As a consequence some computers now cannot differentiate between the year 2000 and the year 1900. This could mean that some computers and other electronic equipment will produce meaningless information or fail completely.

Perception of the problem

This problem is no longer being regarded as purely an I.T. problem. People in both the public and private sector recognise that the date change may impact areas of the business well outside the traditional I.T. departments.

Two major areas which could affect central government are:

Embedded systems: Many pieces of equipment vital to the day to day running of government departments contain microprocessors which may not work accurately. This may include medical equipment, safety equipment and communications equipment.

Third parties: Some, if not most, government departments depend on goods or services provided by third parties. Ensuring Year 2000 compatibility in government systems may not be enough if third party systems fail. Failure on the part of suppliers of electricity, water, communication and banking services will have an impact on government agencies.

Developments

OPM Circulars Nos. 18/98 dated 20 April 1998 and 31/98 dated 5 August 1998 enjoined Heads of Departments to check with suppliers whether non-I.T. related equipment will work properly after 1 January 2000 or may require adjustments. M.I.T.T.S. Ltd. had already been entrusted with the task of checking I.T. related equipment and systems.

N.A.O. was, at one time, preoccupied that this problem was not being given the attention it deserved by some departments. For this reason in September 1998, Permanent Secretaries were requested to inform N.A.O. whether departments falling under their jurisdiction had:

- i) ensured that business critical systems, including those that impact directly on the general public, have been tested for year 2000 compliance;
- ii) had tested or obtained assurance that other non-I.T. related equipment dependent on micro-chip calendar is year 2000 compliant; and
- iii) had ensured that contingency plans are in place should failure by other organisations jeopardise the smooth functioning of their departments after 1 January 2000

To date, only Education and Finance have failed to comply with this Office's request. From the replies received it appears that departments are aware of the problem and are actively seeking assurance from suppliers of non-I.T. related equipment where applicable.

With regards to I.T. equipment and systems, the Chief Executive of M.I.T.T.S. Ltd. confirmed that all Government information systems and all equipment for which M.I.T.T.S. is directly responsible have been tested for year 2000 compliance. All non-compliant systems and equipment have been identified and action has been taken to ensure that these are fully compliant by the end of next year.

Conclusion

In view of the potential impact of the problem, this Office intends to keep monitoring progress during the remaining months in order to ensure that lack of positive action does not result in failure of systems and equipment that are critical to central government

OTHER AUDITS

Specific Organisations and Funds - Audit Survey

Background

In terms of Sub-section 1(a) of the First Schedule of the Auditor General and the National Audit Act, 1997 the accounts of the bodies listed below were examined and subjected to a limited financial and compliance audit for the period ending 31 December 1997.

- | | |
|-------------------------------------|--|
| Transport and Communications | <ul style="list-style-type: none">. Pension and Contingency Fund. Port Workers Scheme. Pilotage and Mooring Fund |
| Home Affairs | <ul style="list-style-type: none">. Custodian of Enemy Property |
| Agriculture and Fisheries | <ul style="list-style-type: none">. Fur and Feather Association. Agrarian Society. Horticulture Society. Gozo Agriculture, Industrial and Cultural Society. Society for the Protection and Care of Animals |
| Social Policy | <ul style="list-style-type: none">. Co-operatives Board. Marriage Advisory Council - Cana Movement. Conservatorio Vincnezo Bugeja |
| Education | <ul style="list-style-type: none">. Manoel Theatre. University of Malta. Society of Arts, Manufacture and Commerce. Marquis Scicluna Trust Fund. St. Patrick Residential School. Captain O.F. Gollcher Foundation |
| House of Representatives | <ul style="list-style-type: none">. Ombudsman |
| Economic Services | <ul style="list-style-type: none">. Malta Development Corporation |

Audit Issues

Custodian of Enemy Property: The accounts for 1993 to 1997 were examined and found to be in agreement with the books and supporting statements. It is to be noted that draft legislation prepared for the administration's winding up was prepared and has been presented to Cabinet with a memo. With the advice of the Attorney General, it is being suggested that Government establishes a three-year moratorium period for claims against the administration.

Manoel Theatre: The issue about the part repayment of a loan given to a musician with the orchestra to purchase an instrument was settled and the remainder of the payment amounting to Lm1,402 was made on 19 October 1998.

The Management Committee in 1997 changed the accounting date of their accounts to 31 August. The accounts for this year, therefore, covered an eight-month period from 1 January to 31 August. The accounts show a surplus of Lm29,663 as compared to a deficit of Lm9,090 in the previous twelve-month period ending 31 December 1996. As from 8 September 1997, the orchestra no longer formed part of the Manoel Theatre Management Committee.

Fur and Feather Association: The books of accounts were prepared up to 28 February 1998 and adjustments had to be made to submit accounts closing on 31 December 1997, which is the closing date of the Association's financial year according to their statute.

The accounts, which were audited by a private sector auditor, were examined and found correct. However, the forthcoming observations were made to the representative of the Association:

- i) subsidiary books were incomplete;
- ii) the present manual system needs to be changed as it is very rudimentary.

Remedial action is going to be taken to update the books and to change the present system of accounting.

Pension and Contingency Fund (Port Workers Scheme):

The accumulated funds up to June 1998 amounted to Lm7,749,835. Following insistence by this Office to invest monies more profitably, the Committee of the Fund made the following investments:

- i) Lm700,000 in Malta Government Stock @ 7.8% (First issue 2013);
- ii) Lm31,400 Maltacom plc shares at a total cost of Lm28,260;
- iii) Lm700,000 in Malta Government Stock @ 7.2% (2008) issued on 1/7/98.

Regulation 48 of the Port Workers Regulations provides that the earnings of port workers are guaranteed. The Pension and Contingency Fund may have to be used for such purposes when there is a shortfall in the guaranteed annual earnings in any year.

In 1998 an agreement was reached between the Committee and the Minister on the basis that workers who retire from work because of sickness or injury would receive a minimum gratuity of Lm6,520 up to a maximum of Lm8,000. This sum is worked out at the rate of Lm250 for every year of service.

On queries raised by this Office as to whether the scheme should be wound up, the Permanent Secretary replied that he did not believe that this should be done before the provision on guaranteed earnings is likewise removed from the Port Workers Regulations.

Marquis Scicluna Trust Fund: The Director of Finance of the University of Malta submitted accounts for 1997 which were audited by a private firm of auditors. These accounts were examined and found correct. However, the accounts for the years 1994 to 1996 are still outstanding since only draft and unsigned accounts were submitted to this Office for the respective years.

Malta Development Corporation: The Corporation, apart from receiving a subvention from Government, carries out business on a regular basis with entities which are owned by Government.

The financial statements for the years 1995-1997 were audited by a private firm of auditors and were submitted to this Office on 29 September 1998. These statements incorporate the activities which were financed by way of a subvention voted by Government under Capital Vote "Promotion of Industries" and "Investment Incentives" only. The statements do not include expenditure out of the votes for the "Construction of factories" and for the "Maintenance of Industrial Estates".

The Corporation is responsible for the administration and collection on behalf of Government of rent due in respect of Government-owned factories being within the Industrial Estate. The rents collected are deposited into a bank account and are regularly transferred to the Treasury. Although responsibility for the collection of rents rests with the Corporation, all rental income accrues to the Government and is not reflected in the financial statements of the Corporation.

University of Malta: The accounts of the University for 1996 and 1997 were audited by a firm of C.P.A.A.'s and an internal control report for 1997 was presented to the University which contained the following remarks:

Capital Projects Funding

- **Non-compliance to purchase regulations**

The auditors' remarks were in respect of non-compliance to purchasing regulations where the placing of orders with suppliers were made directly, thus bypassing the Purchasing and Supply Section. The University agreed that all orders, including those for which the University will be refunded, should be properly authorised by the

Purchasing and Supply Section. Instructions were being issued to all Departments/Institutes stressing this point.

In another instance, Purchase Orders were raised where a call for tenders should have been made. The authorities agreed with recommendations that arrangements should be made to select specific suppliers after tenders or quotations are obtained in the case of continuous or regular supplies.

Budgetary Procedures

- **Unexpended balances of special funds**

The methods of the creation of funds for specific purposes were not being monitored to ensure that the purpose for which they were set up was being properly followed, utilised, recorded and accumulated. Regular monitoring and review of all fund accounts should be carried out by a senior official within the Finance Department or alternatively by an internal auditor. Management commented that a formal review of all unexpended balances was being carried out to ascertain whether any funds are still, if at all, necessary and such review is to be applied on an annual basis.

General

- **Bank Reconciliations**

Bank Reconciliations are being performed on a timely basis but are forwarded for review without supporting documentation. Moreover, reconciling items, such as stale cheques, are not followed up and are being carried forward from one reconciliation to another. These may create the risk of errors and irregularities passing unnoticed. Management took cognisance of the point raised.

- **CET Reconciliations**

The CET paid by the University (and reclaimable from CET Department) based on a report generated by an

accounting software package was not being reconciled to the CET accounts in the General Ledger prior to the return being submitted to the CET Department. This is being corrected and an officer was made responsible for ensuring that the reconciliation in question is made prior to the completion of the CET return.

St. Patrick Residential School: The financial statements for 1997 were prepared and audited by a private firm of auditors. The latter reported that the accounts are in agreement with the books, which were properly held. These accounts give a true and fair view of the state of affairs of the school for the year and of the deficit as at 31 December. The following weaknesses were, however, reported upon in the Management Letter:

- i) Bank Reconciliations are not carried out on a regular basis with the result that errors and omissions remain undetected until the year end audit. The Bursar should ensure that all current bank accounts are reconciled with the bank statements every month.
- ii) Computer equipment purchased for the school, amounting to Lm7,800, was incorrectly recorded in the books as only Lm3,600, representing the amount actually paid by 31 December 1997. The books are kept on an accrual basis and if transactions are recorded on a cash basis, inaccuracies will result in the accounting system. The auditor recommended that invoices are recorded in full, irrespective of their date of payment.
- iii) Documents supporting expenditure do not bear evidence of authorisation by the Bursar or Rector. When signing cheques, the responsible appointees should examine and sign the supporting invoice as evidence of approval.
- iv) The Bursar is not always aware of expenditure prior to its incurrance. It is more effective to approve expenditure in advance than at time of payment, when the commitment has been made. The auditor recommended that the Bursar introduces a form of purchase order that will enable expenditure to be authorised beforehand.

Mediterranean Conference Centre: No accounts were prepared by M.C.C. for 1994 and 1995. The accounts for 1996 and 1997 were audited by private sector auditors. These have been submitted to N.A.O. in December 1998. No examination of these accounts has therefore been carried out to date by this Office.

A performance review on the workings and activities of this organisation was carried out and completed in 1998 by this Office. The relative report will be published during 1999.

Conclusion

An internal report has been prepared where observations and recommendations were made to create a strategy for improvement in the way the audit of non-central government agencies and non-government organisations which receive subventions, subsidies or grants from Government could be more effectively carried out.

Part III

Departmental Issues



Departmental Issues

Introduction

Ministries, their constituent departments and Local Councils have been subjected to a number of Financial audits. The nature of audits conducted are identified in the title of each write-up. These audits, as in the case of “*Corporate Issues*”, fall under the categories of Audit Surveys, Audit Enquiries and Follow-up Audits.

Audits contracted out - Audits for Local Councils were contracted out to private sector auditors.

OFFICE OF THE PRIME MINISTER

HOME AFFAIRS

Permits Issued by the Traffic Control Board - Follow-up Audit

Background

The placing of tables and chairs on a public site requires a Police permit in terms of Regulation 25(a) of the Police Licences (Amendment) Regulations 1990. When filing a request for a police permit, applicants are required to produce development permission from the Planning Authority and encroachment permit from the Lands Department. When permits from these two entities are

produced, the request is processed further by the Police by obtaining the views of other Government Departments concerned. Following this procedure, the Police permit is finally issued.

Comments

The current procedure is long, laborious and often duplicated. The number of agencies, both control and consultative, which are involved make it almost impossible to deliver a definite decision within a reasonable period of time.

Recommendations

N.A.O. recommended the setting up of a committee representing the agencies involved to establish guidelines, review, and co-ordinate procedures for the granting of such licenses.

Developments

A committee made up of representatives of the Planning Authority, Land Department, the Traffic Control Board, Estates Management Department, Local Councils and the Ministry of Tourism, under the Chairmanship of the Police, was, in fact, convened and is currently working on a comprehensive, across-the-board policy which will take into account the requirements of all departments.

As current legislation requires all three control agencies to issue a formal decision, this committee is working towards the drafting of a legal notice which will make the setting up of a common Licensing Authority possible. This authority will regulate and control the issue of such permits.

Loss of revenue results once placings are made without any fees being paid on the plea that permits are being processed.

CORRECTIONAL SERVICES

Payments of Overtime and Allowances to Corradino Correctional Facility Personnel - Audit Survey

Background

The following two issues were examined by this Office:

- A. Allegations of abuse in the payment of allowances made to C.C.F. personnel;
- B. Medical Officer refunded substantial amounts for overtime performed at C.C.F. and extra duties carried out in health centres.

Comments

A. This Office requested the Correctional Services Department to submit the following information regarding the payments of allowances made to C.C.F. personnel:

- monthly breakdown of allowances paid during 1997;
- reason for allowance and relevant authority;
- amount of these allowances relating to duty on Sundays/public holidays;
- whether off-duty days falling on a Sunday are availed of during the week
- whether authorisation is required in such instances and, in the affirmative, by whom.

Requested information and clarification from C.C.F. was not forthcoming to this Office.

An interim reply submitted by C.C.F. stated that replies to the above queries could not be given because of lack of personnel

B. The examination of overtime and extra duty made to the medical officer revealed certain irregularities in both attendance hours and payments. Records made available to this Office indicated:

- excessive working hours;
- instances when the medical officer was on duty at C.C.F. and health centres concurrently;
- gate log showing different entry/exit times than those registered on attendance sheet;
- discrepancies between amounts paid by C.C.F. and those reimbursed by Health Department;
- deductions in payments for which no definite explanations were given.

It is to be pointed out that the above is inconclusive mainly due to the fact that C.C.F. failed to produce all the requisite documents and information. Moreover, this Office did not have access to all the relevant details. Data integrity was also questionable in certain instances. The Director (Correctional Services) has replied that a deduction of Lm357 (out of an amount of Lm1,339 for the period April to July 1996) was made from the medical officer's payroll in question as it was confirmed that the medical officer was actually working at the Public Health Centre between certain working hours when he should have actually been on duty at the Corradino Correctional Facility.

This Office could not verify whether the amount deducted was sufficient due to the fact that relative attendance sheets records could not be traced.

Moreover, the N.A.O. would like to remark that Director (C.C.F.) drew the attention of the medical officer that extra hours of attendance were highly on the increase following which the medical officer refrained from claiming overtime for extra attendances.

Conclusion

The issues mentioned above are significant. However, of even more concern to this Office is the fact that it was unable to obtain sufficient evidence to verify the operation of internal controls. The situation is one in which nobody is apparently held accountable.

GOZO SECRETARIAT

Directorate for Projects and Development - Victoria Stores (Works Division) - Audit Survey

Background

An inspection of the Victoria stores pertaining to the Works Division within the Directorate of Projects and Development (Gozo) was carried out during May 1998.

This store supplies stock to all sections within the Works Division (Gozo) and is one of two main stores that the Division operates. Around one thousand issue forms have been processed up to 1 November 1998.

Store accounting is performed manually. An inventory of permanent items, including tools issued to personnel is also kept.

The objectives for this inspection were to:

- ascertain that regulations and generally accepted principles are being adhered to;
- Public assets are being adequately safeguarded.

Audit Observations

Although no serious discrepancies were noted, a number of issues relating to internal controls were lacking or rendered inoperative. Such a state of affairs could potentially lead to a

situation where the safeguarding of public assets could be jeopardised.

The National Audit Office is preoccupied by the number of issues which deviate from generally accepted accounting procedures. The fact that stock procured is not always charged to the relevant item and that, on occasion, job numbers are not quoted on stores issue forms creates accounting anomalies.

Procedures concerning the upkeep of inventories relating to permanent items do not strictly adhere to current regulations. Moreover the fact that no internal mechanism is in place to retrieve tools from retiring personnel is not only resulting in a loss of public moneys (which is as yet to be quantified) but is also encouraging a *laissez faire* attitude.

This Office has previously commented on the possibility that the Works Division in Gozo centralises its store function. The relative smallness of Gozo should not pose any insurmountable logistics problems. Furthermore, the volume and nature of work at both Works Division Stores are very similar.

Recommendations

The National Audit Office recommended that:

- i) Issues relating to internal controls be immediately addressed/enforced by management.
- ii) Current accounting practices relating to the procurement of stock be rectified to adhere to accepted practices and financial regulations.
- iii) Consideration be given for the computerisation of the stock control system.

- iv) Issues relating to the centralisation of the stores function within the Works Division (Gozo) be addressed by Management.

Management Comments

Issues related to internal controls are being addressed by Management. The Directorate is to commence communications with the Ministry of Finance so as to enable the Department to open a below-the-line account for unallocated stores and therefore solve the problem of charging procurement of material direct to expenditure votes.

The installation of a computerised stock control system has been discussed and will be considered in conjunction with the centralisation of stores.

The audit concern regarding the centralisation of stores at Xewkija had been under consideration prior to the Audit Review. This centralisation is also intended to meet the need of other branches within the Projects and Development Department.

Such a centralisation however requires that a store be constructed to meet the needs of the Department. A structural engineer has been consulted regarding a site at the Manufacturing and Servicing Section at Xewkija and plans are to be drawn up in the near future in order to submit the necessary application to the Planning Authority. It is hoped that the necessary permit be obtained and that funds would be available for this project.

MINISTRY OF FOREIGN AFFAIRS AND ENVIRONMENT

Recurrent Expenditure 1997 - Audit Survey

Background

An audit of Recurrent Expenditure incurred by the Ministry of Foreign Affairs (Head Office) during 1997 was undertaken. The Head Office budgetary allocation for financial year 1997 amounted to Lm2,221,701 (cfr. 1997 Estimates p103). Treasury records indicate that LM2,271,322 were expended (cfr. Financial Report 1997 p77).

The objective for this review was to verify whether regulations and other generally accepted procedures were being adhered to.

Audit Concerns

Procurement of Goods and Services: The Public Service “*Procurement*” Regulations (Legal Notice 70/96) regulate procurement within the public service. Paragraph 11 lays out the procedures and sets out financial limits. Moreover it stipulates that purchases of the same or closely similar material in separate lots shall not exceed a total value of LM10,000 in six months.

Three instances were indicated where the provisions of the above quoted paragraph were not adhered to. In two cases, amounting to Lm29,579 and Lm35,795, Head Office purchased goods or services (mainly furniture) of a similar nature in batches from the same supplier. In the third case, amounting to Lm20,915, the Ministry utilised period contract rates (in respect of transportation of goods) offered by the Ministry of Social Security to the same Contractor. The Ministry of Foreign Affairs stated that the suppliers contracted are renowned for their efficiency and reliability. Circumstances, moreover, arise where specific jobs have to be catered for on an ad hoc basis and thus tenders could not be issued.

N.A.O. opines that since the total cost of batches exceeded the limits set out in the Legal Notice and the goods procured from the individual suppliers were of a similar nature, either calls for tenders (departmental or through the Department of

Contracts) or else Ministry of Finance approval for a direct order should have been resorted to. Competitive tenders, furthermore, generally prove to be more economical.

The Ministry of Foreign Affairs is currently exploring possibilities to regularise its position by preparing short/long term plans to avoid repetition of such eventualities..

Commitments and Local Purchase Orders: A number of Commitments and/or Local Purchase Orders were generated by the Ministry following the receipt of invoices from Suppliers. Such an approach does not conform to generally accepted accounting practices and the General Financial Regulations 1966 which stipulate that (i) commitments are to be recorded prior to the procurement of goods or services and (ii) Local Purchase Orders are to be drawn up and authorised before purchasing any goods or services.

The Ministry of Foreign Affairs stated that there are instances when the procurement is required immediately. Similar emergency situations are now few and isolated cases since the Ministry managed to introduce a certain discipline in such matters. Nevertheless, instances like transportation, urgent repairs and other services will remain where purchase orders will have to be necessarily drawn up historically.

Completeness of Documentation: The nature of business at the Ministry of Foreign Affairs necessitates the hiring of chauffeur-driven transportation to host visiting delegations and other important guests. The Ministry has an internal system to control and account for such eventualities.

The audit review, however, identified a few occasions where transport documentation was incomplete. The Ministry has already taken action to regularise this matter and is evaluating the possibilities of redesigning forms to enhance control and accountability.

Newspapers: During 1997, the Ministry of Foreign Affairs incurred an expenditure amounting to LM25,460 relating to the purchase of local newspapers. On the Ministry's

initiative, a new approach was adopted to reduce such costs. The new system implemented during December 1997 is expected to reduce costs of newspapers and postage by over Lm12,000. The Ministry envisages that a similar exercise to reduce the costs of buying foreign newspapers and periodicals will be undertaken shortly.

In order to enhance its operations, the Ministry of Foreign Affairs has commissioned a retired Maltese Ambassador to update and consolidate instructions relating to various areas of operations and to compile an Administrative Instructions Manual.

Budgetary Excesses at London High Commission - Audit Survey

Background

The Malta High Commission in London closed its 1997 Recurrent expenditure accounts with a total overrun of LM58,989, Lm33,373 of which were excesses on its Personal Emoluments allocation. The Ministry of Finance approved the virement of funds from under-spent cost-centres to offset excess expenditure.

Forecasts made in August 1998 indicated that the London High Commission would incur an excess of around Lm40,000 on its personal emoluments' allocation (owing to an under provision of funds for salary and allowance payments) and a further Lm15,000 on its Operational and Maintenance Expenses (mainly due to a back dated claim for VAT on Rent and Service Charges for Malta House, which is still being contested).

Developments

Since the Ministry of Foreign Affairs informed the High Commission of the situation expenditure has been considerably contained.

Replacement of Vehicle by London High Commission - Follow-up Audit

Background

Replacement of Embassy Vehicle: In the previous Annual Audit Report, this Office reported that the official car at the Malta high Commission in London had been replaced on the initiative of the High Commissioner. Prior authorisations from the Ministry of Foreign Affairs and the Ministry of Finance were not sought (cfr. Report of the Auditor General 1996 pp 35-36). The purchase of this car contributed to budgetary overshoots at this Mission (vide above). The cost of the new vehicle amounted to DM54,474.

Developments

Covering approval has been granted by the Ministry of Finance in terms of MF Circular No. 5/96 for the direct order placed for the purchase of a new car by the London High Commission provided funds were available and the cost of the purchase was considered to be fair and reasonable.

It is to be pointed out that these two conditions have not been met since:

- a) funds were not available and the unauthorised outlay for the car's purchase had to be covered by substantial virements redirected to the London cost centre and
- b) Head Office was not aware of the transaction and could not certify the 'fair and reasonable' clause.

Moreover the Ministry insisted that the six-year old official car was in good condition and did not need replacing.

Recommendation

In order to minimise the risks of re-occurrence of such events and enhance accountability, N.A.O. reiterates advice given by Attorney General to the Ministry of Foreign Affairs that financial authority, in conformity with current Financial Regulations, in Missions be vested in the most senior Public Officer.

Audit of the Paris Embassy- Dues from ex Ambassador of Malta in Paris - Follow-up Audit

Background

In 1994, an audit inspection at the Malta embassy in Paris revealed that the rate of payments of global emoluments to the Ambassador was considered to be anomalous. The Ministry adjusted the rate of payment of the emoluments but only sought legal advice to recover the over paid amount of Lm8,277 in December 1996.

Developments

In his advice, the Attorney General stated that action to recover the moneys involved is time-barred.

MedEcology Foundation - Audit Survey

Background

An examination of the Financial Statements of MedEcology Foundation for the period ended 31 December 1996 was undertaken to review the regularity of the relationship between the Foundation and the Environment Protection Department (within the Ministry of Foreign Affairs and the Environment).

Findings

Collection of revenue by MedEcology was not in terms of General Financial Regulations. Monies collected by the latter related to Public Funds.

Such monies therefore had to be collected by public officers and transferred to the Public Account.

When exceptions are made to this rule, these must be regulated through formal means, i.e. through some form of agency agreement. Verbal agreements, as there was in the case in question, should not be embarked upon in matters relating to public funds.

Developments

The partnership between the Foundation and the Environment Protection Department was not continued and a fund-raising lottery organised by the Foundation was withheld.

The Foundation took the issue up with the Office of the Ombudsman. The matter is still pending.

MINISTRY OF EDUCATION AND NATIONAL CULTURE

DEPARTMENT OF EDUCATION

Excess Expenditure in Allowances and Free Milk - Audit Enquiry

Background

In August 1997, the National Audit Office requested the Education Department to state what led to the increase over the budgeted amounts in respect of Item 16 - Allowances

and Item 4019 - Free milk to school children for 1996. The expenditure involved in these two items were:

	Estimates	Actual	% Increase
	<i>Lm</i>	<i>Lm</i>	
Allowances	956,800	1,177,383	23%
Free Milk	145,000	224,999	55%

Developments

To date no explanation has been given notwithstanding the fact that the Permanent Secretary was informed that the query has remained unanswered.

International School of English - Follow-up Audit

Background

The Statement of Accounts of the International School of English within the Education Department for the year ending 31 December 1996, was submitted to the National Audit Office in April 1997. Queries raised on these accounts are still unanswered in spite of reminders submitted to the Education Department and to the Permanent Secretary at the Ministry of Education and Culture.

Findings

The points raised cover:

- the adjustment of the income by Lm1,201 thus reducing the takings by an equivalent amount;
- discrepancies in the income and expenditure figures appearing in the statement submitted to N.A.O. as compared to the amounts shown in the Treasury books for the same year ending; and

- the non-issue of general receipts to cover tuition fees paid by students and by student organisations.

Developments

The Department has also failed to submit the statement for year ending 31st December 1997. According to the Treasury books, actual expenditure for 1997 amounted to Lm 19,712 as against an estimate of Lm20,000 whereas actual revenue collected from item 0429 - Receipts from foreign students was Lm 40,919 against an estimate of Lm80,000.

MUSEUMS

Items of antique or artistic value - Audit Enquiry

Background

The Museum of Fines Arts keeps an inventory of special items ranging from works of art such as paintings, sculptures and ceramics to antiques such as furniture, silver etc. These items belong to the State and form part of the national collection of Malta, together with items held by the President's three palaces, Ministries, Departments, Embassies and Government owned churches, which are on loan from the Museums Department.

Throughout the year, members of the Museum of Fine Arts carry out physical checks in a number of ministries and departments to ascertain that no items of antique or artistic value have gone missing.

Findings by Museum of Fine Arts

During the course of these inspections a number of items could not be traced.

Department of Tourism

Two unframed boat paintings by Michael Lewis presented to the Museum by the artist himself in 1970 were passed to the Secretariat for Tourism in April 1990 and duly received.

During an inspection in 1996 by Museum officials, these two paintings measuring 122 cm by 115 cm could not be traced. Efforts to trace them have proved fruitless. In July 1997 the Department of Tourism requested the Management and Personnel Office of the Prime Minister to appoint a Board to investigate and report on the two missing unframed oils on canvas. No writing off has as yet been authorised since the Ministry of Finance does not consider the Board's report to be exhaustive enough to cover all aspects of this matter.

Casa Catalunya

In October 1996 Museum personnel carried out a check of special items at Casa Catalunya. Four works which were assigned between 1990 and 1991 to the then Parliamentary Secretariat for Youth and Culture could not be traced. The items are still missing. N.A.O. had in January, 1998 enquired with the Permanent Secretary, Ministry of Justice and Local Council whether the matter had been reported to the competent authorities for a Board to be set up to look into the matter.

This office was in June 1998 informed by the Ministry of Justice that the question of appointing a Board was being dealt with by the Ministry of Finance. The paintings represent:

- a watercolour by J.M. Borg entitled “View of Mdina and Chadwick Lakes” (Inventory Ref. 5767)
- a watercolour by Paul Caruana entitled “G]all-Pinta” (Inventory Ref. 5807)
- a linoleum print titled “God of Thunder and his Wife” by Jacob Afolabi (Inventory Ref. 4551)

- oil on canvas by Alfred Briffa entitled “FAO Commemoration” (Inventory Ref 679)

Two other items which were still held at Casa Catalunya in 1996 but went missing since then were:

- i. a Hispano-Moresque two handled bottle (Inventory Ref. 6395) and
- ii. “Duetto” in Terracotta and gold paint by Gabriel Caruana (Inventory Ref. 11933).

Girgenti Palace

In July 1996, officials from the Museums of Fine Arts carried out a physical check of special items held at the Girgenti Palace. During this inspection seven items, all contemporary paintings, could not be traced. The paintings are:

- “The Elm” - G.W. Vassallo (Inventory Ref. 1643-44)
- “The City” - Luciano Micallef (Inventory Ref. 859-860)
- “Undersea Plants” - Pawlu Grech (Inventory Ref. 5019-20)
- “Autumn Trees” - Nina Vasselinova Filipova (Inventory Ref. 5855-56)
- “Marsaxlokk, Malta” - Martine Rigaud (Inventory Ref. 5901-02)
- “Winter Landscape” - Risto Komi (Inventory Ref. 6321-22)
- “Summer over the Lake” - Liu Jun-Gang (Inventory Ref. 7761-62)

Although the Curator, National Museums of Fine Arts, submitted a reminder in January 1998 to the Office of the Prime Minister enquiring about the discrepancies, no reply has to date been supplied.

Ministry of Education

In 1996 an inspection was also held at the Ministry of Education where eight works could not be accounted for. These were:

- “Waves” - Ceramics on board - Sina Farrugia - (Inventory Ref. 4571)
- “Abstract” - Mixed media - T. Ingleton - (Inventory Ref. 5755)
- “Towards Gozo” - Lithograph - Norbert Attard - (Inventory Ref. 5867)
- “Landscape with wreck” - Water colours - Paul Caruana - (Inventory Ref. 5869)
- “Chameleon” - Oil on canvas - author unknown - (Inventory Ref. 5873)
- “Glazed vase” - Ceramics - Charles Agius - (Inventory Ref. 6087)
- “Mahogany table” - 121 cm (diam.) - Maltese 19th Century - (Inventory Ref. 6089)
- “St. Joseph the Worker” - Oil on canvas - Martin Gatt - (Inventory Ref. 7737)

Notwithstanding the fact that the Curator, National Museum of Fine Arts has, in January 1998, submitted a reminder to the Ministry of Education enquiring about the discrepancies that were reported to them in October, 1996, to date the Ministry has failed to reply.

Conclusion

“The responsibility for inventorising items of artistic or antique value and other valuable items having certain proprietary or special characteristics rests with the head of department “. Furthermore “any transfer, loan or other change in the location of the item shall be noted on the ledger account duly supported by properly authorised vouchers”. These two statements emerge from MFCPFI Circular 15/77 dealing with Inventory Control Regulations and MF Circular 9/88 on Inventory Control re Items of Antique or Artistic Value.

Since not all departments were able to comply with the regulations regarding these special items due to lack of know-how in compiling such inventories, the Museum of Fine Arts has inventoried and photographed over 7000 items since 1988.

Although inspections by Museum officials have been carried out in a number of ministries and departments, several other ministries/departments have never had their items physically checked. Consequently it does not mean that the items referred to above are the only ones that are missing throughout all government buildings.

It can be stated that the periods of ministry changes or re-shuffles is the time when special items are shifted from one locality to another and frequently the steps to be taken as stipulated in the Inventory Circular are not adhered to.

Long-standing Arrears of Revenue at Museums Department - Audit Enquiry

Background

In June 1998 this Office requested the Department to state what action was being taken to collect arrears of revenue due from the period 1990 to 1995, amounting to Lm8,475, and to state how it was being ascertained that the amounts

due did not become statute-barred. These arrears covered “*ad valorem*” examination fees of exported and imported antiques and payments for museum admission tickets.

Comments

This issue is considered as serious in view of the possibility of amounts becoming statute-barred due to insufficient follow-up action by the Department to collect amounts due.

Developments

In spite of repeated reminders sent by this Office to the Department, as well as a copy of the query to the Permanent Secretary of the Ministry concerned, no reply has to date been received.

Excessive Cash On-site at Museums Department - Follow-up Audit

Background

This office has reported in its 1996 Annual Report (cfr. page 71) that excessive cash was being kept at Museum sites, an irregularity which the department has been aware of for a long time and for which it has been trying to find a remedy. Since 1994, the department has experienced three thefts and a hold up.

The system in practice called for the most senior amongst the Custodian and Guides at the sites on the day to deposit remittances to bank at nearby Bank branches. This system was, however, objected to by one of the unions and therefore could not function effectively.

Developments

The Director of Museums had stated that the situation would improve on appointing Museum officials. The Museum officers have, however, to date not been appointed because of contestation by candidates on the final result of

interviews and the consequent ruling by the Public Service Commission for the interviews to be repeated. Collections from sites are therefore still not being timely deposited to the bank, in contravention to Regulation 36 of the General Financial Regulations.

Conclusion

This matter has been dragging on for far too long. It has furthermore not yet been ascertained by the Department whether the job description of the Museums Officers, once appointed, would include daily remittance of income to bank. This issue still has to be decided upon.

This Office reiterates that this problem must be dealt with without further delay especially in view of the security risks involved in such a situation.

MINISTRY OF HEALTH, CARE OF THE ELDERLY AND FAMILY AFFAIRS

CARE FOR THE ELDERLY

Food Provisions at St. Vincent de Paule Residence - Audit Survey

Background

During the course of an examination of the catering facilities available at St. Vincent de Paule Residence in 1998, N.A.O. examined the system adopted by the hospital kitchen in requisitioning foodstuffs from the main store.

The procedures operating at the time of inspection revealed that the officer-in-charge Stores received the daily hospital occupancy from the various wards throughout the hospital and, in turn, issued a quota of food items per head.

Eventually, these food stuffs were passed on to the main kitchen to produce the menu set for that particular day.

Audit Findings

Up to the date of the audit visit no food item passed on to the main kitchen were ever returned to the main store. On the day of N.A.O.'s visit, it transpired that some 27 items had remained surplus to the day's requirements. It has been observed that, following this visit, several items of foodstuffs are now being reported as over-issued to the main kitchen and returned to the main store on a regular basis.

In the light of these findings, discussions were held with the department's officials so that new procedures be implemented without delay so as to eliminate the large wastage of food supplies in circulation, which could also lead to fraud and theft. Given the high amount of surplus items found, it was also deemed necessary that the department should further investigate the matter. Regrettably, the department took the view that, since it was not aware of any surplus items at SVPR kitchen, it was not in a position to take any measures before the matter was pointed out by N.A.O..

This Office reiterates that this issue has not been seriously addressed by management in the first instance. It is, in fact, management's responsibility to obtain reasonable assurance about the prevention and detection of misstatement and material error. For these motives, management should, and is, required to take appropriate action on any evidence of impropriety and non-responsibility, irrespective of whether or not gross/culpable negligence has been established. On N.A.O.'s insistence, steps were taken to change the ordering system so that the Kitchen Catering Manager became responsible for the daily orders made from the provision stores.

In a more recent N.A.O. inspection at SVPR it was noted that, at the stores section, postings in stock ledgers and victualing book had fallen behind by almost six months.

N.A.O. was informed that, in a meeting held earlier this year, between officials at SVPR and the Department for the Care of the Elderly, it was decided to carry out an “*ad hoc*” stocktaking exercise.

Resultant stock balances were to be taken as opening balances and new ledger sheets were to be opened for each item. It was envisaged that this would facilitate the running of the store, current data would be available and “*old*” ledgers could then be brought up to date without hindering stores' operations. Additionally, bin cards, till then not retained, were to be introduced. The “*ad hoc*” stocktaking exercise was, in fact, carried out during the last week in April and early May last.

However, despite the above, some issues seem to have been ignored and, furthermore, the envisaged improvements have not materialised.

Audit Concerns

N.A.O. is preoccupied by a number of issues which deviate from generally accepted norms. This Office's main concerns regarding the above are:

- i) although the “*old*” ledgers have been brought up to date, the “*new*” ledgers, introduced after the stocktaking exercise undertaken in April/May, fell behind and are already in arrears. Likewise, bin cards are not being regularly updated and consequently stock balances cannot be determined from any source;
- ii) due to the situation highlighted above purchases are being procured as deemed necessary by the store officer. Maximum/minimum stock and reorder levels have not been maintained;
- iii) no reconciliation was effected between closing balances in “*old*” ledgers and the “*new*” stocktaking balances and as a result the materiality of resultant discrepancies cannot be determined;

- iv) no Finance authority was sought to undertake the stocktaking exercise indicated above as is required by standing regulations;
- v) victualing returns for period December 1997 to date are not being compiled on the requisite form. The reason, it was stated, was to expedite the compilation of such returns;
- vi) no clear divisions of responsibility are in force at the Provisions Store. Additionally, records (ledgers, bin cards, victualing returns) are presently being maintained by a Health Assistant.

Conclusion

The situation at S.V.P.R. kitchen and stores leaves much to be desired.

The Department has informed N.A.O. that a Departmental Board of Inquiry has been appointed to investigate.

However, this Board was only appointed in August, after a lapse of almost nine months from N.A.O.'s first inspection. Additionally, although it had to submit its report within six weeks from appointment, the Board has not, to date, presented its findings.

MINISTRY FOR SOCIAL WELFARE

SOCIAL SECURITY BENEFITS

Social Security Sick Leave Benefits - Follow-up Audit

Background

Sick leave certificates are submitted to the Social Security head office in Valletta where the entitlement rate for sickness benefit is worked out. Once the benefit rate is established, relevant documents are submitted to the Gozo branch from where benefit cheques are subsequently issued.

It was observed that adjustments made in the rate of sickness benefit paid were forwarded to Gozo on a small slip of paper indicating the new rate of pay. Queries raised by the public regarding these adjustments, especially deductions, could not be satisfactorily justified as no reasons were given by head office for the changes effected.

Update

In response to this Office's observations, steps were taken to improve procedures. Presently, instructions from head office regarding both underpayments (additions) and overpayments (deductions):

- are given on a proper minute sheet
- are clear and explanatory
- bear the signature and rubber stamp of the officer authorising adjustments.

These steps have proved beneficial to staff and improved the quality and effectiveness of the service given to beneficiaries.

MINISTRY FOR ECONOMIC AFFAIRS AND FINANCE

TREASURY

Bank Reconciliation of the Public Account - Follow-up Audit

Background

The Public Account (where all receipts and payments of public moneys are accounted for, as required by Section 15 of the Financial Administration and Audit Act, 1962), is kept with the Central Bank of Malta. The term “*public moneys*” is defined as all revenue, loan, trust and other moneys received or held by, or on account of the Government of Malta.

The Public Account opened the year 1997 with a debit book balance of Lm10,903,755 and closed with a debit book balance of Lm12,584,697 as on 31 December 1997. Deposits and withdrawals during the year amounted to Lm1,144,385,495 and Lm1,142,704,553 respectively.

All transactions made by government are processed through the Public Account. These transactions effect the Consolidated Fund as well as the other Funds and Accounts held/administered by the Treasury.

Departments remit/account to the Treasury all end-of-year cash balances. The year end cash-in-hand element at the Treasury amounted to Lm1,960,510.

Audit Issue

As already pointed out in previous Audit Reports this Office has (since July 1993) been insisting with the Treasury Department to bring up-to-date the reconciliation exercise of the Public Account.

In order for the Treasury to reconcile and certify the bank balance as per Treasury Cash Book with the bank balance as submitted by the Central Bank of Malta, all elements constituting the reconciliation exercise have to be completed. The last time this has been carried out was in June 1992.

The elements constituting the reconciliation exercise and the last month a reconciliation was carried out in each case as on November 1998 are shown below:

- | | | |
|------|----------------------|----------------|
| i) | Debit Notes | August 1997 |
| ii) | Credit Notes | June 1992 |
| iii) | Remittance Statement | July 1997 |
| iv) | Cheques Issued | September 1994 |
| v) | Cancelled Drafts | October 1998 |
| vi) | Unpresented Drafts | September 1994 |

The Accountant General, however, informed this Office in July 1998 that a task group has now been set up between MITTS and the Treasury to prepare an in-depth systems analysis of the whole bank reconciliation process with the aim of streamlining and improving the system. It is also the objective of the task group to devise the new process to be, as much as possible, IT intensive.

Furthermore the Accountant General stated that the task group will be commencing work immediately. It is expected that a new bank reconciliation process will become effective with effect from May/June 1999.

This Office is now marking time and will report on progress made in 1999.

Service Pensions system - Follow-up Audit

Background

Treasury Service Pensions, Gratuities, Bonuses and other allowances under the different Pensions Acts amounted to Lm19,030,134 in 1997 against Lm18,475,872 in the previous year (cfr. Financial Report, 1997 pp. 90).

Deficiencies related to the legal basis of service pensions are again being highlighted by this Office. These problems have to date not been addressed.

Key Findings

Regulation 18(3) - Part B of the General Financial Regulations: “*The General Estimates*”, directs that:

“pensionable emoluments shall be distinguished from those not pensionable by an asterisk or other indication”.

The fundamental purpose of this regulation is to highlight, as part of a wider accountability process, the distinction between pensionable and non-pensionable emoluments. This distinction is not being made in the Estimates report.

Estimates: Layout of Vote 16: Pensions

General Financial Regulation 10(1) states that:

“Where the expenditure of a department is provided by special law, the amount provided by law shall be suitably indicated so that the estimates will show under each head every item which is expected to come in course of payment during the year of estimate, including not only those which are submitted to the House of Representatives for discussion and appropriation but also those which, being already provided, are included in the estimates for information only.”

Item 4119 of Vote 16 does not provide a complete breakdown of expenditure incurred under the various appropriating laws. Pensions paid in terms of the Police Ordinance (Cap. 164) and the Armed Forces of Malta Act (Cap. 220) are in fact not shown separately.

Amendments to Police Ordinance/AFM Act need re-ordering

Certain sub-sections (published as amending Act X of 1990 to Cap 164 and Legal Notice 47/90 to LN 91/70 (Cap. 220) being provisions regulating the computation of pensions are out of sequence with the rest of the legal text (English and Maltese versions):

- Reg. 4(3)(d) in Schedule III (Act X of 1990 amending cap 164);
- Reg. 4(3)(d) in Schedule III Part II (LN 47/90 amending LN 91/70 (Cap.220))

This renders complex the interpretation of such provisions as N.A.O. contends that corrective measures ought to be taken to clarify these provisions.

Contributions by Public Bodies towards Pension Costs: Provisions not enforced or unenforceable?

The constituting laws of public entities created since 1975 (with three exceptions, namely: the University, the Planning Authority and the National Audit Office) include the following blanket clauses:

*“the terms and conditions of employment shall be **comparable** with those of employees in the service of the Government” and*

*“the (entity) shall pay to the government towards pension costs such **contributions** as are determined by the minister responsible for finance in respect of the cost of pensions and gratuities earned by an officer (detailed for duty with/who has accepted permanent employment with the entity) aforesaid during the period commencing on the date of such officer's acceptance/ in which he is so detailed.”*

Similar enabling provisions exist at the Proviso to Section 8A of Cap. 93 supplementing the above, to cater exclusively for cases where entities are companies constituted under the Commercial Partnerships or the Companies Act:

*“provided further that no such order shall be made unless such company or entity shall first have bound itself with the government to **contribute** towards the government the difference between the cost of the pension or gratuity payable at the time of retirement from the company or entity and the cost of the pension or gratuity, as the case*

may be, computed at the time of the termination of the service with the government for the aforementioned reason of full time employment with the company or entity.”

The constituent laws of entities which are statutory bodies generally interpret such contributions as equal to:

*“such **proportion** of the pension/gratuity costs on retirement as the term of service of the employee (now 'officer' or 'servant' of the body) with the Government bears to the total term of his service with the Government and the body”;* (cfr. Sec. 34; Cap 272 Enemalta Corporation Act)

while in the case of companies contributions are defined as equal to:

*“the **difference** between the cost of the pension or gratuity payable at the time of retirement from the company or entity and the cost of the pension or gratuity, as the case may be, computed at the time of the termination of the service with the Government”.* (cfr. Sec.8A; Cap93)

Legal provisions that differ on the relatively simple matter of the method *how* a contribution should be calculated and when the contributions become due, render their enforcement that much more difficult.

The fact remains that despite Lm20 million or so budgeted annually and regularly burdened on the Consolidated Fund not a single contribution has ever been advanced to Revenue by any public body towards cost of pensions to officers retiring in its employ.

The cumulative figure, by now practically unrecoverable, will probably have run into hundreds of thousands if not millions of Liri. Several thousands of Liri are lost to the Consolidated Fund each year through the Executive's inability, due to the impracticalities already mentioned, to

formalise, timely raise and regularly pursue, sustainable claims on the entities concerned.

The anticipated acceleration in the partial privatisation of public entities increases the need for Government to appropriately address this issue.

Misinterpretation of Pensionable Emoluments in Cap 280 - Members of Parliament Act

The uncertainty that surrounds the definition of “*pensionable emoluments*” is by no means confined to Cap.93.

In 1995 in fact a claim was put forward that pensions under Cap. 280 were being incorrectly computed due to a misinterpretation of the terms “*pensionable emoluments*” and “*current pensionable emoluments*” to be found in Cap. 280. The relative adjustments were effected by Cabinet decision backdated to 1989 only. Legal advice gave the legal language as too obscure an interpretation to invalidate the claims.

Indeed the obscure law language itself may account for the fact that no one seems to have managed to devise a prescribed form for the computation of pensions under Cap.280 since the date of its coming into effect in 1979.

The opportunity should be taken at an opportune time to clarify the law language and to incorporate an appropriate pension form.

Ex gratia Pensions

Attention was drawn in Annual Report for 1995 (page 115) for the need of:

“an accompanying statement (with the Estimates) listing beneficiaries of Pensions Specially Authorised, the circumstances in which and the authority under which these pensions are granted”.

Despite that write-up, details remained unpublished in subsequent Estimates of Expenditure for the financial years 1996, 1997 and 1998.

Recommendations

The service pension area remains conditioned by a state of organisational and legislative complexities. The Auditor General has had occasion previously - even through these Annual Reports - (cfr. Annual Report, 1995; pp. 101-102) to call for a more co-ordinated effort towards a solution. The Executive has not, however, yet addressed points raised by N.A.O.

Conclusion

This is the fourth successive occasion, in as many years, that this Office has reported on the general management of service pensions: and it seems that N.A.O. is now down to recapping past comments and recommendations.

The National Audit Office has no adverse comments to make on Management's performance *within the scope of their own delegated authority*. Responsiveness has generally been positive though necessarily limited to curing effects resulting from the application of complex, perhaps '*anachronistic*', aspects of the pension laws.

The latter will tend to recur until inadequacies are remedied through legislation. Dealing with the cause would essentially be an exercise in amending and updating rules and regulations.

INLAND REVENUE DEPARTMENT

Income Tax Assessments under Objection - Follow-up Audit

Background

Pending letters of objections during the period 1992 and 1997 were as follows:

Assessments under Objection

	1992	1993	1994	1995	1996	1997
Opening Balance	43,869	46,542	43,276	43,824	45,506	53,584
Objections Received	6,699	4,745	7,634	7,444	14,971	13,322
Objections Disposed of	4,026	8,011	7,086	5,762	6,893	12,897
Closing Balance	46,542	43,276	43,824	45,506	53,584	54,009
Increase/Decrease over Previous Year	6.09%	-7.02%	1.27%	3.84%	17.75%	0.79%
Assessments Issued to Taxpayers	191,821	126,829	205,338	139,916	312,573	216,913
Objections Received/ Assessments Issued	3.49%	3.74%	3.72%	5.32%	4.79%	6.14%

The number of pending letters of objections has increased from 46,542 in 1992 to 54,009 in 1997, a 16% increase. “*Ex officio*” assessments dating back to the 1980s continue to feature significantly among these objections.

Comments

It is positive to note that the number of objections disposed of nearly doubled from 6,893 in 1996 to 12,879 in 1997. However, the percentage of objections received against assessments issued on taxpayers has been steadily increasing from 3.49% in 1992 to 6.14% in 1997.

Department's Response

The Department has been requested to explain this increase. This Office is still awaiting a reply.

Taxpayer Investigations - Follow-up Audit

Background

During 1997 thirty-five investigation cases were concluded as a result of a spontaneous declaration application. Most investigative work during the past few years involved work

connected with such applications filed for the purposes of the Spontaneous Declaration scheme.

The Department was also required by this Office to settle a number of queries on taxpayers which have been pending for several years.

Comments

It has to be pointed out that not enough prominence may have been given by the Department to investigate tax evasion. There are also currently eleven queries originating from this Office which are still pending (down from eighteen during 1996). These involve suspected under-declarations of income. This Office must again point out that the time taken by the Department to settle such N.A.O. queries is unduly long.

Developments

The Department has recently informed this Office that more personnel were being deployed on audit and investigative work. Cases for investigation are now being selected under different criteria, and a new approach to audit and investigative techniques is being adopted. The Department is also making use of data available to the C.E.T. Department through direct access to the latter's network.

MINISTRY FOR COMMERCE

IMPORTS AND DOMESTIC COMMERCE

Penalties due by Student Workers - Audit Enquiry

Background

Department of Trade records reveal nine instances of student workers who still owed Lm14,740 in penalties

between them (for failing to honour their contractual obligations as student workers). These penalties have been outstanding for over eight years.

Comments

In three cases (with penalties amounting to a total of Lm6,000), court proceedings were instituted. However, court judgements were decided against the Department as penalties became statute-barred (one of these court judgements has been appealed against by the Attorney General). In two other instances (amounting totally to Lm3,000), the Attorney General advised the Department against legal action as this would prove fruitless due to prescription. In two further instances, court action was decided in favour of the Department.

The Attorney General is, however, encountering difficulties in enforcing payment (Lm1,865) in one of these cases as debtor resides abroad. In the other cases (for Lm2,000), debtor gave notice of appeal. In two further cases (amounting totally to Lm1,875), legal action has been taken against the debtors concerned. Court proceedings are still pending.

Department of Trade's Response

In the five instances of student-worker penalties which were deemed to have become statute-barred, judicial Letters and Warrants of Seizure had been filed by the Attorney General. The judicial Acts were, however, not executed because they did not contain the correct address of the debtors. Subsequent Judicial Acts for recovery of amounts due were not timely as the period allowed to elapse rendered these penalties statute-barred

The Department of Trade contends that timely letters and regular reminders had been sent to the Attorney General for appropriate action to be taken in all cases of penalties due by student workers who retired from government service prior to expiration of their contract with government. With

regard to the incorrect addresses, the Department remarked that data of addresses at time of submission to the Attorney General was correct. When, after the lapse of time, the Attorney General remarked that addresses were incorrect, the Department obtained the correct addresses from relevant sources and notified the Attorney General accordingly.

Attorney General's Response

The Attorney General replied that addresses supplied were not correct because they were probably outdated given that the persons concerned may have changed their place of residence after terminating their employment with the Department of Trade. Information relating to whereabouts of debtors was not always timely. The Attorney General also stated that debtors use various methods to avoid service of judicial acts upon them thus putting their creditors at peril on the plea of prescription through no fault of the latter.

Office's Opinion

This Office contends that any shortcomings relating to the timely recoupment of amounts due from debtors need to be addressed by government as this problem relating to the risk of amounts becoming statute-barred may be common throughout government departments.

MINISTRY OF PUBLIC WORKS AND CONSTRUCTION

Concerts at Ta' Qali National Park - Audit Survey

Background

The Ta' Qali National Park Committee within the Ministry of Public Works and Construction staged seven concerts at the Ta' Qali National Park during the summer of 1998.

Upon enquiry as to whether there was any policy decision that such activities be undertaken by this Ministry rather than the Ministry responsible for Education and Culture, it was stated that the organisation of such performances was in line with the policy to make use of the park for cultural events and activities for mass entertainment - rather than allowing the place to fall into disuse.

Various outlets were entrusted with the sale of concert tickets at a commission of fifty cents per ticket. Supporting Bands participating in the concerts also acted as ticket vendors and received Lm1 commission on each ticket sold. A discounted price was established for Public Service employees who purchased concert tickets from the Ministry.

The Organising Committee, working jointly with the Police, broke a chain of fraudsters circulating false tickets for two concerts.

The Committee effected concert related transactions through a Below-the-Line Account and through overdraft facilities with a local Bank.

Audit Concerns

Cash Inspection: Reconciliation between cash collected with the number of discount tickets sold from the ticket office at the Ministry of Public Works and Construction could not be performed by this Office since the Committee did not make available all relevant documentation.

At the time of the inspection, the Committee was not in a position to categorically state and provide documentation of moneys (circa Lm100) forwarded to another member of the Committee. To date this Office has not been provided with the necessary documentation to conclude this particular exercise.

Overdraft facilities: The Ministry informed the National Audit Office that in order to expedite matters, especially

because the Committee was contractually committed to effect advance payments to the international Bands, overdraft facilities with a local Bank were sought. The Ministry also stated that the Committee effected all payments directly to the Bands through bank drafts thus avoiding middlemen, the payment of commissions and agency fees which would could have amounted to Lm22,000.

N.A.O. opines that the Ministry of Public Works and Construction should have followed the accepted government practices and procedures stipulated in regulations 87 - 90 of the General Financial Regulations to effect advance payments. Furthermore, the adherence to these regulations would have resulted in savings of over Lm1,300 which the Ministry incurred through accrued interest on the overdraft in question.

Capital funds to settle overdraft account: Payment and Transfer Vouchers amounting to Lm92,468 were drawn up to settle advance payments to artists and the closing of the overdraft account. The Ministry, however, utilised capital funds (which were initially earmarked for the construction of Delimara and Burmarrad Parks) allocated for the roofing over of the open Greek Theatre at Ta' Qali National Park - a project which at the time of compiling this Report was in the tender adjudication stage.

The Ministry of Public Works and Construction did not seek Ministry of Finance approval in terms of Circular 9/92 to effect the virement in question. It is pertinent to point out that the Ministry of Finance had approved the issue of the Greek Theatre Roofing Project on the premise that funds were available.

This Office is also preoccupied that the Treasury effected the above mentioned transactions when Ministry of Finance approval was not indicated on relative documentation.

Treasury has recently informed this Office that it deems this matter as an unfortunate case which was badly initiated at

source. Furthermore, the Treasury considers this matter as an eye opener for future reference.

Estimated Loss: A statement of Estimated Income and Expenditure regarding performances at Ta' Qali scheduled for 1998 indicated that a loss of around Lm50,000 would be incurred. Final Accounts, however are still in the process of compilation.

On enquiry, the Ministry stated that the Committee arrived at ticket prices after taking into consideration the prices that were charged for similar events in the past and the demand envisaged for each concert. Sponsorships were also sought. Nevertheless, the Committee insisted that the objective of these concerts was not commercial viability but promotion of the National Park.

Sponsorships: The Committee estimated that patronage and sponsorships (in cash and in kind) would amount to over Lm88,000. The Committee however stated that some sponsorships emanating from governmental and parastatal entities (unspecified) may not materialise. Although sponsorships demands were made in writing, agreements were made informally (verbally). The Committee stated that the complimentary tickets issued to these entities confirm the informal agreements. Moreover further sponsorships may not be honoured since a "Booklet" which was to contain advertisements was not published.

Conclusion

The National Audit Office is preoccupied at the way internal controls intended to safeguard government's interests and promote openness and accountability were by-passed. Furthermore informal agreements cannot be encouraged.

The Ta' Qali National Park Committee insists that commercial viability was not the main objective of the concerts. This Office, however, is of the opinion that the staging of such concerts is a commercial activity and should

have been treated as such; indeed a consultant in these matters formed part of the Committee.

Moreover it is still not clearly understood why such activities were carried out under the auspices of the Ministry of Public Works and Construction when ad hoc funds were voted by the House of Representatives under Vote 19 for general cultural activities (Estimates 1998).

The Ministry is currently conducting an enquiry relating to the above mentioned activities held at Ta' Qali National Park.

This Office will audit final accounts when these are submitted by the Ministry of Public Works and Construction.

Overtime performed by M.S.D. (Works Division) Personnel - Audit Survey

Background

An audit examination of the internal controls relating to overtime performed at the Manufacturing and Servicing Department (MSD) of the Works Division was undertaken during June 1998.

The objective for this audit was to ascertain the adequacy of these internal controls.

Relevant documentation, namely time sheets and punch cards, was reviewed. This Office also carried out a roll call at M.S.D. as part of the assignment.

Overtime at MSD is generally performed according to exigencies. Payment for overtime during the period January to June 1998 amounted to Lm69,275. MSD is reimbursed for overtime performed at user departments. The

performance of overtime requires the prior approval of the Permanent Secretary.

The Finance and Administration Department of the Works Division has a centralised system to cater for salaries and wages within the Division (except for the Waste Management Strategy Implementation Department).

Amendments to salaries and wages are compiled by the department concerned. Documentation is then referred to the Finance and Administration Department, generally on a weekly basis, for vetting and verification prior to submission to Treasury for payment

The Personnel Section of the Works Division stated that there is no formal documentation regarding the daily submission of attendance sheets.

The Personnel and Administration Sections at MSD (Marsa) are responsible for the compilation of amendments in respect of salaries and wages. MSD employs 298 and 247 personnel at the Marsa and Kirkop Workshops respectively.

Attendance is recorded by means of time sheets for administrative and senior technical grades and punch cards for other workers. Personnel required to perform duties on sites are to obtain a 'pass' which is authorised by the immediate senior officer.

Such a pass is then presented to Security Officers upon exit from workshops. It is pertinent to point out that MSD Management has issued an internal memo dated 23 February 1998, regarding the strict observation of official hours and the recording of attendance.

Overtime records are endorsed by respective Officers in Charge and Director MSD.

Audit Findings

The starting point of this exercise was a roll call performed after office hours at the Marsa Workshop on the 3 June

1998. The main objective of the roll call was to test whether internal controls regarding overtime accounting were adequate.

The roll call and subsequent review by this Office of the overtime system revealed the following observations:

(1.) A daily record of personnel who are to perform overtime is not kept.

The roll call exercise entailed a reconciliation of personnel present at a particular moment to formal documentation illustrating the members of staff who are supposed to be in attendance at their place of work.

Such documentation is deemed as a fundamental internal control, especially in the performance of overtime. MSD Management present during the roll call inspection had to rely on information provided by their subordinates as to the personnel performing overtime and the site/s of works where such overtime was being performed.

(2.) Administration personnel do not sign log in/out times for overtime

Overtime is accounted for by forms drawn up by Officers in charge of various Sections. Such lists are then submitted to Director MSD for his endorsement. Moreover, personnel performing overtime on the workshop premises are required to sign out on attendance sheets kept at the Security Guard's room.

However, it transpired that staff performing duties at the Administration Section do not generally sign log in/out times on attendance sheets when performing overtime. In fact daily attendance records (May 1998) reviewed by Audit reveal only log out times of Administration Personnel at the end of normal office hours.

Furthermore, time sheets relating to the Administration Section were not available at the guard room during the time

Audit conducted the roll call. It was explained by MSD personnel that Administration staff sign in and out at the Personnel Section.

This situation implies that if none of the Personnel Section staff are available on the premises, then Administration staff would not be able to sign attendance records.

It is observed that a number of members of staff pertaining to the Administration Section did not even sign out at the end of normal office hours on the day of inspection.

The only evidence relating to this Section performing overtime is a form endorsed by Director MSD outlining the names of personnel, date and hours of overtime performed.

However such forms which are drawn up in duplicate, except for the Administration Section, are not sequentially pre-numbered, and in some cases unutilised space on the form is not crossed out, leaving the possibility that extra names be added to same form after the Director's endorsement.

The duplicate copy is kept by the senior officer in charge of the respective section. Furthermore, these forms do not always illustrate the purpose of overtime performed by the Administration Section.

The Director, M.S.D stated that overtime in the Administration Section is performed upon his instructions.

(3.) Personnel working on works sites do not sign/punch out at the end of overtime

Personnel detailed to perform duties at various sites of works present a pass authorising their departure from the Workshop which is then noted on punch card.

Most personnel performing overtime on sites of works, however, do not return to the Workshop to punch their logging out time. The only indication to the duration of overtime performed is the above mentioned lists of

personnel compiled by respective Officers in Charge and endorsed by Director, M.S.D.

M.S.D Management stated that it would not be practical to ask personnel to return to the Workshop to punch out after overtime since this would increase transport costs and decrease production (time wastage in travelling time).

Moreover, personnel would not have been in a position to punch out since punch clock/cards premises are locked at the end of normal hours.

It was explained that a time keeper is not detailed to attend to the punch room (after normal hours) unless twelve or more members of staff remain after normal hours to perform overtime since the presence of a time-keeper in such circumstances would not be cost-effective.

Audit agrees that it would not be practical to ask personnel to return to the Workshop to sign out. However such a situation severs the audit trail to the proper recording and accounting of attendance.

Moreover, individual responsibility is substantially diminished and shifted on officers in charge and Senior Officers endorsing the payment of overtime.

(4.) Missing Information on Punch Cards

All punch cards at the Marsa Workshop were reviewed by Audit during the roll call. It was observed that some punch cards had the following information lacking:

- i) No reason noted on cards for not punching at commencement of working hours;
- ii) Pass authorising departure from Workshop not noted on cards;

iii) Punch cards indicated that relative staff members were awarded 'a day off gratis'.

N.A.O. feels that this lack of information on punch cards again restricts the audit trail and diminishes the concept of accountability. Moreover such practices can be potentially conducive to irregularities.

Audit feels obliged to point out that Management, when granting time off as a reward, is not acting within established practices as outlined in the Estacode.

Conclusions and Recommendations

The enforcement of procedures relating to personnel attendance is of fundamental importance to Management, especially in an environment such as the MSD where a substantial number of persons are employed and operations tend to be labour intensive.

This review illustrated that internal controls relating to attendance need to be tightened up at the Manufacturing and Servicing Department. The current state of affairs is conducive to potential irregularities.

Although every member of personnel is directly responsible for his own actions, such a situation tends to diminish the concepts of accountability and responsibility from the individual. Moreover, the lack of documented evidence of attendance during normal office hours and overtime, burdens unnecessarily Senior Officials and Management with the extra responsibility of certifying employee attendance even when such senior officials are not themselves present at the Workshop.

In view of the foregoing the National Audit Office recommends that:

1. Officers in Charge submit a list of personnel detailed to perform overtime to Director MSD and the most Senior

Officer in attendance during the performance of overtime.

2. (a) Administration personnel sign out at the time of termination the day's work. Moreover attendance sheets are to be kept at a location which is accessible to all members of this Section.
- (b) Overtime Forms are to be correctly filled in - deleting all unutilized space on the form.
3. Personnel sign/punch out even if working off the Workshop premises. Relative documentation can be returned (e.g. by the most senior officer) on site to the Workshop and left with Security Officer after the termination of the day's work.
4. Time Keepers make authorised adjustments immediately to punch cards.

Ministry's Comments

The Permanent Secretary at the Ministry of Public Works and Construction instructed that issues highlighted in the report be addressed by MSD Management and that recommendations be duly implemented.

LAND DEPARTMENT

Collection and Acquisition Functions - Follow-up Audit

Background

A review of the revenue collection and acquisition functions of this Division was performed during 1997 (cfr. Report of the Auditor General 1996 p.73).

The report highlighted concerns relating to internal controls within the Revenue Section. Moreover the Report stressed

the need to review the operational framework of the Land Acquisition function since government was not only incurring heavy losses through its inability to process revenue matters promptly but the situation also brought about criticism from the Ombudsman.

Developments

Follow-up action by the Division is dependent on the level of resources available - an issue which was amply emphasised in the Report. Unfortunately these resources are extremely scarce and presently, according to the Division, the situation is even worse than that prevailing when the Report was prepared. In this regard, there is not much that the Division can do except insist for the recruitment of additional staff.

The Division is also considering Information Technology as an option to alleviate its problems. The Division is planning a number of IT projects related to the Division's core functions of land management and land acquisition. In this regard, a thorough Business and Systems analysis is to be shortly commenced by MITTS Ltd. Again, however, the Division considers that the success or otherwise of its plans will be mainly dependent on whether the right level of funds is made available to carry through such projects.

MINISTRY OF AGRICULTURE AND FISHERIES

National Aquaculture Centre - Follow-up Audit

Background

The 1996 Audit Report write-up on this issue (pages 75 - 76) stated that no revenue was collected from the Aquaculture Centre of the Fisheries and Aquaculture Department although the Centre generated its own revenue. It was stated that revenue received at the Centre went

straight to Malta University Services Ltd (MUS). There was only an informal agreement between the Ministry and Company to regulate the financial and administrative procedures between the two bodies in respect of the Centre.

Furthermore, no accountability and audit trail existed at the National Aquaculture Centre (NAC) in respect of revenue and expenditure effected by the Malta University Services Ltd on behalf of the Centre.

Developments

A dispute exists between the Ministry and M.U.S. Ltd regarding outstanding monies due to/from N.A.C. The Ministry has, moreover, requested Police to carry out investigations on alleged irregularities committed in relation to monies due to N.A.C. and bonuses (connected with the production of fingerlings) which were paid to N.A.C. employees by a private fish farm instead of by M.U.S.

Pitkali Markets - Follow-up Audit

Background

An audit review which was carried out during 1995 revealed, “*inter alia*”, that there was the need of updating the Agricultural Produce (Marketing) Regulations and the necessity for more control on the sales process of the Pitkali Markets.

Developments

The Ministry recently reported to this Office that

“MEU submitted a preliminary report regarding the Strategic Review of the Pitkali Markets. The report identified a number of options for a way forward. During a meeting held recently at this Ministry with MEU and MITTS the preferred option was identified, namely to adopt a new management structure. MEU were requested to assist the Department of Agriculture to rewrite the

Agricultural Produce (Marketing) Regulations to provide management with a legal mandate that gives them the ability and the authority to react quickly and effectively to problems that arise. It was agreed that this re-drafting of the Regulations should be given top priority. In the meantime action has been initiated by MITTS to install the required infrastructure for the eventual point of sale system”.

This system is intended to effect better control in the registration and management of Pitkali produce stocks, as well as better control on the distribution and allocation of that stock to the different purchasers.

In last year’s Audit Report it was also stated that the Department of Agriculture had informed this Office that the Economic Crime Squad was requested to investigate alleged abuses and irregularities in the marking system at the Pitkali Markets.

The Ministry of Agriculture and Fisheries has recently reported that the Economic Crime Squad has submitted its remarks on this report to the proper authorities. The Ministry stated that it was expected that the Economic Crime Squad would review its preliminary report and produce a final report on the matter.

MINISTRY OF JUSTICE AND LOCAL COUNCILS

Local Councils Department - Audits Contracted Out

Background

The amount of funds allocated during 1997 was Lm6.25 million in ordinary funds and Lm2.5 million allocated for special needs.

In terms of Sub-section 65 (1) of Act XV of 1993 - The Local Councils Act, 1993 - the accounts of the sixty-seven local councils were audited on behalf of this office by seven private sector audit firms. The Audit Reports covered financial year ended 31 March 1998.

In accordance with Regulation 3(3) of Legal Notice No. 156 of 1993 Local Government Auditors have up to June 30 to submit the financial statements and the relative audit reports.

Submission of Audited Reports

Only 8 audited reports were submitted within the established deadline. The delay in the submission of the remainder was due to the following:

- A number of Local Councils delayed the submission of the Audit Reports by taking an unduly long time in approving the financial statements after these were drawn up by the Local Government Auditors;
- Delays were worsened because Local Councils found it difficult to obtain a quorum at meetings to discuss the accounts during the General Election campaign.

A reminder was sent on 20 August 1998 to Local Government Auditors who had yet to submit Audit Reports. Up to the time of publication Audit Reports have not been submitted for the Local Councils of Mosta, Paola and Sannat. These have not as yet been approved by their respective Councils.

Management Letters

In terms of Regulation 7(1) of Legal Notice 156 of 1993 on the Local Councils (Audit) Regulations, management letters

were submitted to the Mayors by the auditors highlighting audit findings and recommendations.

There were instances where the mayors' replies were submitted later than the time specified in Regulation 7(3) of L.N. 156 of 1993.

Ten management letters have still to be received by this Office whilst the Mayor's response to management letters is still being awaited from twenty-three Local Councils.

The following issues were raised in a number of these letters:

- Bank reconciliation statements should bear evidence that they have been reviewed and certified correct on a monthly basis;
- List of outstanding creditors should be periodically reviewed to ensure that old accounts are being settled or cleared;
- Not all Local Councils abided by the Local Councils Department's instructions to keep separate bank accounts for Special Needs Funds as distinct from Ordinary Funds;
- At least three quotations should be sought prior to the acquisition of goods and services costing between Lm100 and Lm1,000 to ensure that the Council derives better value for money;
- All purchases are to be evidenced by a proper tax invoice addressed to the Council. Moreover, every cash payment should be accompanied by a fiscal receipt;
- Evidence of adequate insurance cover should be obtained from all contractors prior to execution of contracts;
- Performance Bonds must always be obtained for tenders issued;

- Quarterly financial reports should be prepared by the Secretary and presented to the Council at the appropriate time. Items exceeding the budgeted limits should be dealt with in the revised estimates and approved by the Council;
- One Local Council awarded three contracts, one of which was the highest offer, to its mayor. The Local Council defended its action stating that the mayor would “*provide a more effective service because of his dual responsibility*”.

Value for Money Audits

In terms of Section 66(2) of the Local Councils Act, Local Government Auditors were engaged to carry out Value for Money Audits during 1998 on all the sixty-seven local councils. The topic for the audit was “*Resurfacing and Maintenance of Roads including pavements*”. The period to be covered was 1 April 1994 to 31 March 1997.

Reports on this audit are being received by this Office. An executive brief covering all the significant findings in the audits will also be drawn up and presented to this Office by the Local Government Auditors following the completion and presentation of all the Value for Money reports.

JUDICIAL

Expenditure Accounts - Audit Survey

Background

The Law Courts have, between August and October 1996, embarked on a programme of refurbishment works. This was carried out before the start of the Forensic Year which commences on 1 October. The works were entrusted to four different contractors on direct order basis.

Findings

On the 24 October, the Director General sought the approval of his Minister to cover the works which had already been completed. With General Elections prevailing at the time, the request does not seem to have been considered. In any case since works and services were worth more than Lm2,500 in each case, it was the Minister of Finance who had to approve the direct orders.

In December 1996, the Permanent Secretary at the Ministry of Justice and Local Councils had asked the Director General at the Law Courts to seek the required Finance approval for the settlement of the claims in question. This was only done in April 1998 after the matter was taken up by this office following an audit survey on the 1997 expenditure vote of the Law Courts.

The works and services carried out in 1996 and paid for from the 1997 votes as arrear charges included:

- Contractor A: Lm5,688 to cover labour and material for the painting of several halls;
- Contractor B: Lm5,432 to cover wood staining and other repair and services;
- Contractor C: Lm9,392 to cover replacement of marble floor in the foyer and adjacent area; and
- Contractor D: Lm12,403 to cover painting of court halls and corridors and Lm3,840 electrical repairs, maintenance and services.

Conclusion

In October 1998 Permanent Secretary, Ministry of Finance informed Director General (Courts) that approval for direct orders which exceeded the Lm2,500 limit is issued by the Ministry prior to the placing of orders and not afterwards. Furthermore since payments for the works carried out in

1996 were already settled, the Ministry cannot grant a covering approval.

The payments of the works and services in question have been effected in breach of the standing regulations as they remain uncovered by Finance approval.

Part IV

Analysis of the Financial Report



Analysis of the Financial Report - 1996

Introduction

This part includes an examination of the 1997 Financial Report statements and accounts. These were submitted to this Office by the Accountant General in terms of Section 67 of the Financial Administration and Audit Act, 1962 and examined by the Auditor General in terms of Sub-para. 1(e) of the First Schedule of the Auditor General and National Audit Office Act, 1997.

Statements of the Consolidated Fund Account, showing the comparative positions in 1996 and 1997, and the receipts and payments of funds created by law were published in Government Gazette No. 16617 of the 15 May 1998 after being reconciled with Treasury Books by this Office in accordance with Sub-para. 1(c) of the First Schedule of the Auditor General and National Audit Office Act, 1997.

To attain a comprehensive view of the government financial operations, reference should be made to both this Audit Report and the 1997 Financial Report.

Consolidated Fund Statement (CFS) - 1997

The following Consolidated Fund Statement comprises the aggregate annual receipts and payments belonging to Government and comparative estimates for 1997.

Whereas the Budget presented to Parliament envisaged that Expenditure (Warrant No. 2) was to exceed Revenue (inclusive of loans) by Lm8,580,000, by the end of the year Revenue had exceeded Expenditure (Warrants No. 2 and 4) by Lm43,112,052.

The Consolidated Fund closing deficit balance decreased from Lm71,978,785 in 1996 to Lm28,866,733 in 1997.

Consolidated Fund - 1997

	Estimated		Actual	
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Opening deficit balance as on 1/1/97				(71,978,785)
Revenue				
Ordinary	514,700,000		504,412,034	
Grants	10,500,000		9,810,700	
Loans	82,120,000		145,958,437	
Further Loans (Drydocks)	-	607,320,000	24,600,000	684,781,171
Expenditure				
Recurrent	(509,445,001)		(497,189,262)	
Public Debt Servicing	(41,780,000)		(41,088,199)	
Capital:	(112,683,004)	(663,908,005)*	(103,391,658)	(641,669,119)
Excess 1997		(56,588,005)		43,112,052
Closing deficit balance as on 31/12/97				(28,866,733)

* Lm615,900,000 appropriated by Warrant No. 2
Lm48,008,005 appropriated by Warrant No. 4 (Supplementary)

Revenue

Details of Revenue collected during 1997, classified by heads and subheads, as compared with the Estimates, are shown in Appendix C of the Financial Report. No reasons to justify for the substantial departures from the Estimates are ever given in the Financial Report. The importance of additional explanatory comments, where warranted, is once again stressed by Audit.

Government Ordinary Revenues by Major Sources

Lm (000's)

Period	Tax Revenue						Non-Tax Revenue
	Income Tax	National Insurance Contrib.	V.A.T./ C.E.T	Licences , Taxes & Fines	Customs & Excise	Total	
1995	99,758	115,480	78,108	54,556	32,595	380,497	102,337
1996	93,308	126,173	78,633	51,682	31,981	381,777	65,699
1997	110,53	142,184	84,606	54,281	43,197	434,807	69,605

Shortfall in Ordinary Revenue

Budgeted ordinary revenue for 1997 was Lm514,700,000 (against actual ordinary revenue of Lm447,475,543 for 1996). Actual ordinary revenue for 1997, however, amounted to Lm504,412,034, a decrease of Lm10.3 million.

This shortfall in ordinary revenue was offset by an increase of Lm88.4 million in local loans which includes a new local loan of Lm24.6 million to finance Malta Drydocks that was not envisaged in the Estimates. There was also a decrease of Lm689,300 in Grants

The following table shows the main items which contributed to this shortfall:

Shortfall in Ordinary Revenue

	ACTUAL 1996 Lm	BUDGET 1997 Lm	ACTUAL 1997 Lm	Variation Actual 1997 - Budget 1997 Lm
04 OPM				
Public Corporations				
0693 Contribution by Telemalta	400,000	400,000	100,000	(300,000)
14 Min. for Economic Affairs & Finance				
<i>Grants</i>				
0704 Italy - Fourth Financial Protocol	14,865,671	9,100,000	8,848,828	(251,172)
0705 E.U. - Fourth Financial Protocol	-	500,000	-	(500,000)
<i>Loans</i>				
0804 C.O.E. - S.D.F. (San Raffaele Hospital)	-	4,400,000	2,478,411	(1,921,589)
0806 E.U. - Third Financial Protocol (Air Traffic Service)	978,297	850,000	-	(850,000)
0807 E.I.B. - (Sewerage Project II)	-	2,600,000	-	(2,600,000)
17 Inland Revenue				
Licences, Taxes and Fines				
0232 Duty on Documents	11,640,954	13,000,000	12,379,466	(620,534)
0240 Levy on sale of Immovable Property	820,535	900,000	548,115	(351,885)
Income Tax				
0171 Income Tax	93,307,549	114,137,000	110,539,303	(3,597,697)
18 Customs				
Excise Duty				
0132 Machine-made Cigarettes	9,232,556	12,400,000	11,772,713	(627,287)
19 Value Added Tax and Replacement				
0161/0162 VAT/CET	78,632,605	90,000,000	84,606,370	(5,393,630)

	ACTUAL 1996 Lm	BUDGET 1997 Lm	ACTUAL 1997 Lm	Variation Actual 1997 - Budget 1997 Lm
90 Public Lotto <i>Lotteries</i> 0681 Lotto Profit	3,859,007	3,800,000	3,458,177	(341,823)
29 Import and Domestic Commerce (Trade) 0330 Commercial Partnerships	519,640	500,000	254,815	(245,185)
30 Tourism Licences, Taxes and Fines 0209 Licences to hotels and catering establishment	646,229	620,000	489,273	(130,727)
32 Legal (Public Registry) <i>Fees of Office</i> 0326 Public Registry Fees	424,984	500,000	379,462	(120,538)
36 Ministry for Transport & Ports <i>Licences, Taxes and Fines</i> 0212 Operating Licences	-	400,000	149,997	(250,003)
37 Civil Aviation 0522 Passenger service charge - retained portion	1,682,796	2,300,000	1,969,694	(330,306)
38 Licensing & Testing <i>Licences, Taxes and Fines</i> 0242 Motor Vehicle registration tax	19,710,000	24,400,000	19,659,442	(4,740,558)
39 Min of Public Works & Construction <i>Reimbursements</i> 0465 Services rendered to Local Councils	939,368	2,515,000	1,197,451	(1,317,549)

Analysis of the Financial Report

	ACTUAL 1996 Lm	BUDGET 1997 Lm	ACTUAL 1997 Lm	Variation Actual 1997 - Budget 1997 Lm
40 Land Rents				
0615 Rent of commercial tenements	1,367,492	2,110,000	1,760,749	(349,251)
0616 Rent of property occupied by Govt. Depts.	3,261,499	3,350,000	3,131,190	(218,810)
<i>Miscellaneous Receipts</i>				
0902 Sale of Government lands, etc.	521,202	500,000	382,939	(117,061)
47 Social Security Reimbursements				
0191 Social Security Contributions	126,172,744	144,765,000	142,183,590	(2,581,410)
50 Joint Office				
Miscellaneous Receipts				
0911 Sale of ex-Church property	38,127	1,200,000	801,089	(398,911)

Expenditure

The appropriations for expenditure during 1997 were effected through two Warrants - Number 2 and 4. Warrant No. 1, which had subsequently been superseded by Warrant No. 2, had been issued in terms of Section 23 of the Financial Administration and Audit Act, 1962, since the Appropriation Act for financial year 1997 had not come into operation at the commencement of the financial year. Warrant No. 3 was superseded by the issue of Warrant No. 4. Warrants Nos. 2 and 4 were appropriated under the following Laws:

	<i>Lm</i>
(i) Appropriation Act (Voted Services)	443,273,156
(ii) In terms of Special Laws	208,456,536
(iii) In terms of the Constitution	12,178,313
	663,908,005

Analysis of Appropriations

Appropriation Act (Voted Services)

	<i>Lm</i>
Appropriated by Act II of 1997	403,957,151
Appropriated by Act XXVIII of 1997 (Second Appropriation Act)	39,316,005
	443,273,156

Special Laws

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

	<i>Lm</i>
a) Electoral (Franchise Method of Election, and Registration of Voters) Ordinance (Cap. 99); and the Electoral (Polling) Ordinance (Chapter 102)	800,000
b) Expenses of the Broadcasting Authority - Broadcasting Act, 1992 (Act XII of 1991) Section 24 (1) (a)	400,000
c) Expenses of the Commission for Investigation of Injustices - Act XV of 1987, as amended by Act XVIII of 1989	116,211
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)	53,200
f) Social Security Act, 1987 (Act X of 1987) Section 117 (1)	155,758,000

	<i>Lm</i>
g) Pensions Ordinance (Cap. 93)	18,300,000
h) Widows' and Orphans' Pensions Act (Cap. 58)	155,000
i) Personal Injuries (Emergency Provisions) Ordinance (Cap. 111)	35,000
j) 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 XIII of 1981 (Cap. 280)	250,000
k) Expenses of the Office of the Ombudsman, Ombudsman Act, 1995 Sec 10(4)	145,000
l) Expenses of the Permanent Commission against Corruption (Act XXII of 1988)	50,000
m) Interest plus contribution to the Fund i.c.w. ex-Church property loan 0-Registered Stock and Security Ordinance 1959 (Cap 16)	2,465,000
n) Interest plus contribution to the Fund i.r.o. Local Stock - Registered Stock and Security Ordinance 1959 (Cap 16)	2,023,000
o) Interest plus contribution to the Fund i.r.o. Government Stock - Registered Stock and Security Ordinance 1959 (Cap 16)	24,585,125
p) Interest on Local Development Registered Stock - Registered Stock and Security Ordinance 1959 (Cap 16)	13,000
q) Interest on Malta Government Stocks - Local Loans Ordinance (Cap 16)	3,305,000

208,456,536

In terms of the Constitution

In terms of Sub-section 107(2) of the Constitution the following amounts were appropriated in respect of:

	<i>Lm</i>
The President of Malta	15,488
The Attorney General	9,400
Judges and Magistrates	270,368
The Director of Audit	8,700
The Public Service Commission	20,482
	<hr/>
	324,438
In terms of Section 106 as applied to the Public Debt	11,853,875
	<hr/>
	<u><u>12,178,313</u></u>

Excess of Expenditure over Estimates

Supplementary Estimates for 1997 amounted to Lm48,008,005 (explanations for excesses are found in the said Estimates). These were approved by the house of Representatives in December 1997.

There was also other overspending on items which, however, was offset by savings from items within the same Department or Ministry through the normal procedure of virements in terms of Sub-section 24(1) of the Financial Administration and Audit Act.

Overspending on items over revised estimates occurred mainly in the following instances:

Excess of Expenditure over Revised Estimates

	Actual 1996	Revised Estimates 1997	Actual 1997	Variation Actual 1997/ Estim. 1997
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Vote 6: AFM Item 16 Allowances	1,183,866	1,000,000	1,115,607	115,607
Vote 9: Police Item 16 Allowances	1,579,930	1,572,800	1,640,959	113,159
Vote 11: Gozo Item 16 Allowances Item 21 Utilities	1,089,755 152,570	903,933 191,600	1,114,370 397,218	210,437 205,618
Vote 23: Ministry of Education and National Culture Item 4010 Stipends to University Students Item 4024 Contribution towards the financing of Church Schools Item 4025 Stipends to Sixth Form/Junior College Students	4,077,708 6,322,405 1,187,039	4,100,000 7,570,000 1,215,000	4,257,982 7,909,000 1,327,458	157,982 339,000 112,458
Vote 24: Education Item 16 Allowances Item 21 Utilities	1,177,383 33,409	1,000,000 265,000	1,115,687 397,664	115,687 132,664
Vote 30: Ministry for Tourism Item 27 Transport	126,776	22,000	131,293	109,293
Vote 39: Ministry of Public Works and Construction Item 12 Staff - Salaries and Wages Item 16 Allowances Item 27 Transport	9,712,796 741,375 826,439	14,169,903 711,000 829,500	14,333,631 867,956 1,022,993	163,728 156,956 193,493
Vote 43: Care of the Elderly Item 22 Materials and Supplies	509,530	617,000	727,413	110,413
Vote 51: Ministry of Agriculture and Fisheries Item 21 Utilities	143,222	130,000	277,083	147,083
CAPITAL I: Prime Minister Item 12 Malta Civil Protection Plan	197,964	1,780,000	2,959,687	1,179,687

CAPITAL IV: Ministry of Education and National Culture				
Item 2 Ministry: University of Malta	1,196,413	2,000,000	3,236,472	1,236,472
Item 8 Education: Refurbishment and Maintenance of Government Schools	144,378	500,000	799,790	299,790

	Actual 1996	Revised Estimates 1997	Actual 1997	Variation Actual 1997/ Estim. 1997
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
CAPITAL X: Ministry of Public Works and Construction.				
Item 12 Public Bldgs, Plant, Equipment: Outstanding payments on completed capital works	85,224	50,000	2,380,651	2,330,651
Item 26 Tal-Qroqq Junction	-	800,000	1,186,574	386,574
Item 31 Land: Acquisition of property for public purposes	895,060	500,000	695,990	195,990
CAPITAL XI: Ministry of Health, Care of the Elderly and Family Affairs				
Item 17 Community Care of the Elderly: Community-based hostels	302,665	400,000	514,869	114,869
CAPITAL XIII: Ministry for Housing				
Item 4 Housing: Major repairs to Government tenements	476,403	500,000	679,889	179,889

Assets and Liabilities

According to Sub-section 67(j) of the Financial Administration and Audit Act the Accountant General shall prepare “*a statement of assets and liabilities of the government at the end of the financial year*”.

Not all government assets and liabilities are included in this statement. As the government accounting system is cash based and not accrual based it is not possible to include assets such as immovable property, inventory, stock and debtors, and liabilities such as arrears of revenue.

The statement of Assets and Liabilities (vide Appendix I on page 241 of the Financial Report) may therefore be looked upon as a statement of end-of-year balances in the Treasury books which result from cash transactions in the public account during the year.

Loans Made by Government

Balances and other details of all loans issued by government as on 31 December, 1997 (vide Appendix E on page 222 of the Financial Report) are summarised as follows:

	<i>Lm</i>
i) Loans under Act II of 1956	10,017
ii) Loans under Act VI of 1957	33,703
iii) Loans under Act XI of 1988 (Posterity Fund Loans)	17,659,555
iv) Other Loans	119,638,015
	<hr/> 137,341,290 <hr/>

Loans at (iii) were transferred to government on the winding up of the Posterity Fund in accordance with the provisions of the Central Bank of Malta Act, 1967 as amended by Act No. XI of 1988. The Fund was wound up on 31 May, 1988. A breakdown of these loans is shown hereunder:

	<i>Lm</i>
Malta Drydocks Corporation	7,056,000
Malta Shipbuilding Company Limited	10,300,000
Telemalta Corporation (Maltacom)	303,555

Other Loans at (iv) include the following:

Lm

Housing Scheme	64,004
Aids to Industries Scheme	188,789

Lm

MGI - (i) MDC - Investment in Industry	4,290,442
(ii) Malta Shipbuilding Co. Ltd.	88,263,629
Malta Drydocks Corporation	1,039,711
Marsaxlokk Fishing Company Limited	121,927
Security in favour of Malpro Ltd.	1,000,000
Malta Drydocks Corporation	24,600,000

Loans made by Government in 1997 amounted to Lm28,123,500. A loan of Lm24,600,000 was made to Malta Drydocks Corporation and loans amounting to Lm3,523,500 were made to Malta Shipbuilding Co. Ltd. After deducting Lm752,067 loan repayments, the balance of loans as at 31 December 1997 was Lm137,341,290 against Lm109,972,476 on 31 December 1996, a net increase of Lm27,368,814.

It was observed, however, that no repayments have been effected for a number of years in respect of the loans shown hereunder:

	Outstanding Balance	Year of last repayment
	<i>Lm</i>	
Aids to Industries Scheme	188,789	1992
Tourism - Loans to Hotels	6,672	1991
Agriculture-Assistance to Co-operatives	41,600	1988

In the case of loans made to Malta Shipbuilding Co. Ltd and Marsaxlokk Fishing Co. Ltd., no repayments were effected on balances standing at Lm88,263,629 and Lm121,927 respectively.

Outstanding loan repayments and interest stood at Lm38,686,986 as on 31 December 1997. A breakdown of this figure is shown hereunder:

	<i>Lm</i>
1. Loans to hotels	10,040
2. Loans to Industries	25,819,862
3. Malta Drydocks Corporation	859,194
4. Loan under Act XI of 1988 (Posterity Fund Loans)	11,815,000
5. Loan/Interest to M'Xlokk Fishing Co. Ltd.	182,890

These figures represent the biggest share of arrears of revenue due to Treasury as per Table of Arrears of Revenue on page 42.

The Statement of Loans made by Government as at 31 December 1997 also shows a balance amounting to Lm92,554,071 in respect of loans made through the Malta Government Investments Ltd to 30 industries. Lm88,263,629 are in respect of loans to Malta Shipbuilding Co. Ltd. and Lm4,290,442 to the other 29 industries. Issues made during 1997 amount to Lm3,523,500 to Malta Shipbuilding Co. Ltd. No repayments of loans were effected during 1997.

Apart from the above-mentioned balance of Lm88,263,629 in respect of loans made to Malta Shipbuilding Co. Ltd, another balance of Lm10,300,000 is shown in respect of loans to the same Company under Act XI of 1988 (Ex-Posterity Fund).

Moreover, up to December, 1997 an outstanding balance of Lm9,291,722 is shown under the Statement of Advances in

Appendix L, page 263 of the 1997 Financial Report. This amount is in respect of a special advance made through the Director of Industry to Malta Shipbuilding Co. Ltd. in connection with the construction of ships.

Outstanding interest payments on these loans amounting to Lm24,590,334 were also due to Government on 31 December, 1997. Government also invested an amount of Lm 12,200,000 as share capital in respect of 12,200 shares (61%) in Malta Shipbuilding Co. Ltd.

Loan repayments amounting to Lm2,517,649 due by 23 companies at the end of 1997 were not effected. Interests amounting to Lm1,726,879 were also not paid.

In the case of certain loans to Industries through the Malta Development Corporation, no terms for repayment were stipulated in the Treasury Books. In December, 1990 the Secretary, Ministry of Finance informed this Office that it was not considered propitious at the time that terms of payment be stipulated and that action be taken through MIMCOL for the eventual collection of these loans. This Office is not in a position to report any progress being registered regarding the collection of these loans.

Loans (i), (ii) and (iii) on page 162 were made by virtue of legislation quoted in each respective case. Loan of Lm24,600,000 to Malta Drydocks Corporation, although not quoted as being made under separate legislation in Appendix E, was in fact also made by virtue of an Act, namely Act VI of 1997. The other loans at (iv) were provided from voted funds in the Estimates and approved administratively.

Other Investments

Other investments of a permanent nature, some of which earn revenue, are shown separately in the Statement of Other Investments (vide Appendix H (1) on page 240 of the Financial Report). At the end of 1997, the total of these investments is given as Lm31,778,030, inclusive of

Lm30,278,030 invested in Industry through the Malta Development Corporation.

It should however be pointed out that a permanent debenture stock bearing interest at 6% per annum in respect of valuation of net assets passed by Government to the Water Services Corporation as on 20 January 1992 has to-date still not been issued in favour of Government in terms of Section 35 of the Water Services Corporation Act XXIII of 1991.

As this debenture stock has not been quantified, it could not be properly accounted for in the Treasury Books and shown under the Statement of Other Investments. As a result the Total shown as Other Investments as on 31 December 1997 is not correct.

The matter was brought to the attention of the Permanent Secretary, Ministry of Finance on 2 July 1998 in order to regularise the position but up to the time of writing this report this Office was still waiting for a reply.

Investments in Industry amounting to Lm30,278,030 comprise government share-holding in eighty six (86) different companies, some entirely financed by government, others are joint ventures with the private sector.

In 1988, the bulk of the investments made over the years through the Malta Development Corporation were transferred to Malta Government Investments Limited (M.G.I). A return submitted by this company to the Accountant General showed the total investment in seventy (70) companies as Lm29,561,689 on 31 December 1997.

However it was estimated that the Net Book Value of these companies only amounted to Lm9,463,747, a provisional loss of Lm20,097,942. The return also pointed out that twenty nine (29) of these companies are in liquidation, seven (7) have ceased operation, twelve (12) are just

awaiting tax clearance before they can be struck off and two (2) never commenced operations.

The Statement of Other Investments also shows, under Enemalta Corporation, the titles of two holdings but omits the relative values from the total amount of these investments (cfr. page 240). One of the holdings is in the form of a permanent debenture in respect of the value of assets taken over by the Electricity Division under Act XXIV of 1963 (Lm 5,309,382), while the other is a permanent capital contribution (Lm 524,999).

The investment certificates were inspected in terms of Para. 1 (b) of the First Schedule of the Auditor General and National Audit Office Act, 1997 (previously Section 46 of the Financial Administration and Audit Act, 1962) and verified with:

- the Statement of the Board of Trustees appointed in terms of Section 42 of the Financial Administration and Audit Act, 1962;
- the Statement of Foreign Securities held at the Central Bank of Malta;
- the Treasury Allotment Register as regards the Local Development Registered Stock ; and
- the report dated 11 June 1998 by the Board of Survey appointed in terms of Reg. 98 of the General Financial Regulations, 1966.

Advances

Appendix L on pages 263 to 265 of the Financial Report includes also a detailed statement of balances remaining outstanding as on the 31 December 1997 in respect of advances made to various Government departments, agencies and organisations as well as to Government delegations proceeding abroad.

These assets (excluding unallocated stores and loans under Act VI of 1957) totalled Lm55,352,236 as against Lm33,231,844 still outstanding on the 31 December 1996.

The main outstanding advances were the following:

	<i>Lm</i>
i) various advances made to government delegations in connection with visits abroad	267,860
ii) advance made to the Malta Development Corporation on 24 July, 1984 for the purchase of Verdala Hotel	1,015,150
iii) advance made to Permanent Secretary, Ministry of Finance to provide bridging finance facilities to Malta Drydocks Corporation during 1996	5,000,088
iv) advance made to the Director of Industry to meet expenditure in connection with the construction of ships at Malta Shipbuilding	9,291,722
v) advance made to the Works Division in the Ministry for the Environment to meet expenditure in connection with the construction of the new Air Terminal building	934,167
vi) advance made to Commissioner of Land to enable the Land Department to pay compensation to Tigne residents	951,078

vii)	advance made to Ministry of Finance to enable him to advance to the Bank of Valletta Employees Foundation, the amount required for the purchase by the Foundation of 1,385,406 ordinary shares in Bank of Valletta Ltd.	1,558,582
		<i>Lm</i>
viii)	advance made to the Ministry of Finance to meet expenses in preparation for and in connection with the holding of the Mediterranean Crans-Montana Forum Conference held in Malta in October 1995.	562,213
ix)	advance made to Ministry of Finance to provide the Malta Drydocks Corporation with the necessary funds for the settling of the Social Security Contributions due by the Corporation during 1995 as employer and in respect of employees, and also to provide bridging finance facilities to M.D.C. during 1995	3,538,323
x)	advance made to Permanent Secretary, Ministry of Health, Care for the elderly and Family Affairs for the payment of awards under the Merit Award Scheme within the said Ministry during 1997	298,029
xi)	advance made to Permanent Secretary, Office of the Prime Minister to enable him to settle personal emoluments, Social Security Contributions and PAYE of Malta Shipbuilding Co. Ltd. employees, together with other expenditure incurred by Malta Shipbuilding Co. Ltd. during 1997	1,846,997
xii)	four (4) advances made to Permanent Secretary, Office of the Prime	

	Minister to provide bridging finance facilities to Malta Drydocks Corporation during 1997	15,529,816
xiii)	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	9,590,000
		<i>Lm</i>
xiv)	advance made to Permanenet Secretary, Ministry of Public Works and Construction to enable him to support operational costs of Water Services Corporation during 1997	3,500,000
xv)	advance made to Permanent Secretary, Ministry of Industry and Economic Affairs to enable him to settle import duty and excise tax on imports chargeable on material and equipment intended to be used on the Gozo ferries being built by Malta Shipbuilding Co. Ltd.	342,000

Notes on Advances made by Government

Following the verification of these advances made by Government against the Advance Warrants authorising this expenditure, it was noted that:

Malta Drydocks - Loan to settle dues mainly in respect of Income Tax, PAYE, National Insurance Contributions and Treasury Clearance Fund Advances - Lm24,600,000: this advance, which was made in the form of a loan, was cancelled on the insistence of N.A.O. as the loan raised by Government for this specific purpose could not be credited to the Treasury Clearance Fund but, as in the case of other loans raised by Government, had to be credited to the Consolidated Fund and passed to Revenue. The loan to Malta Drydocks was then made out from Capital Expenditure and it features in Appendix E,

Statement of Loans made by Government (Financial Report, page 222).

Exported Potatoes 1992 - Lm59,799: this advance was made in 1992 and the Ministry for Food, Agriculture and Fisheries was instructed to account for and repay this advance out of proceeds from exports of potatoes during the subsequent seasons. To-date this advance has still not been repaid.

Construction of Ships at Malta Shipbuilding Co. Ltd. - Lm9,291,722: several advances were made for this purpose, the first one in 1991. The Director of Industry was directed to repay these advances when the Russian customer pays his dues or else the ships are sold to third parties. Although the ships were sold, to-date these advances have still not been repaid.

Mediterranean Crans Montana Forum - Lm562,213: an advance of Lm220,000 and another of Lm402,587 were made in 1995 and 1996 respectively for the purpose. These advances should have been repaid out of proceeds from participants at the conference. To-date only Lm60,374 were repaid leaving an amount of Lm562,213 still outstanding.

Purchase of surplus locally caught fish for export - Lm35,786: when this advance was made in 1988, the Director of Agriculture was directed to repay this advance in due course out of Below-the-Line Account No. 8393, Fish Marketing Scheme. To-date this advance is still outstanding.

C.S.C.E. Meeting - Lm29,532: this advance should have been repaid by participating states but although it was made in 1990, to-date it is still outstanding.

C.S.C.E. Mediterranean Seminar, 1993 - Lm50,721: this advance was made in 1993. Although this advance should have been accounted for and repaid by the participating states to the meeting, to-date it is still outstanding.

Conversion Works at Fort St. Angelo - Lm37,817: this advance made in 1982 and 1983 should have been repaid out of monies recouped from Cottonera Properties Ltd.

This company has since ceased operations and to-date this advance is still outstanding.

New Air Terminal - Lm934,167: when this advance was made, the Minister of Finance directed that the monies advanced are to be repaid by the Director of Works out of repayments made by Malta International Airport Co. Ltd. Although this advance was made in 1991, to-date it is still outstanding.

Merit Award Scheme 1997 - Lm298,029: this advance made in 1997, had to be repaid out of the Consolidated Fund in the Financial Year 1998 from Recurrent Vote 43, Ministry of Health, Care of the Elderly and Family Affairs. However, up to October 1998, an amount of Lm30,387 was still not accounted for and repaid to the said advance.

Public Broadcasting Services Ltd. - Lm13,958: this advance should have been repaid either out of funds that were being paid at that time to Telemalta Corporation or out of funds which will eventually be provided by Government. Although this advance was made in 1992, to-date it is still outstanding.

Visits abroad by Government delegations - Lm267,860: vide Audit comments on page 36.

Euro Mediterranean Conference 1997 - Lm80,000: this advance was made to Ministry for Foreign Affairs to meet expenditure in connection with the holding of the Conference. Repayment had to be effected by funds emanating from European Union Contribution towards the financing of the Conference. To-date no repayments have been effected.

Enemalta Corporation 1997 - Lm9,590,000: this advance was to be repaid by Enemalta Corporation over a period of 2 years starting on 1 January 1998. Up to October 1998, no repayments had been effected.

Operational cost of Water Services Corporation 1997 - Lm3,500,000: repayment of this advance by Water

Services Corporation had to be made over a period of 3 years starting on 1 January 1998. To-date no repayments have been effected.

Malta Drydocks Corporation - Lm24,068,227: between 1994 and 1997 four (4) advances were made to Malta Drydocks Corporation. On 31 December 1997 the balance still outstanding in respect of these advances amounted to Lm24,068,227. Although no time limit was stipulated for the repayment of these advances, it was directed that repayment be effected out of proceeds receivable from Malta Drydocks Corporation from avarious debtors and pledges in favour of Government and from monies due to the Corporation.

Malta Shipbuilding Co. Ltd. - Lm2,188,997: two (2) advances were made in 1997, one for Lm342,000 and another for Lm1,846,997. Repayments are to be effected according to terms of agreement to be reached between Government and Malta Shipbuilding.

Regulations Governing Advances

Regulation 89 of the General Financial Regulations, 1966 states that it shall be the duty of the Accounting Officers to see that such special advances are repaid as early as possible in the manner specified in the warrant.

Furthermore, in M.F. Circular No. 9/92 addressed to Ministers, the Minister of Finance pointed out that amounts advanced by Warrants are not being repaid promptly according to the directions stated in the same warrants.

The Minister directed that *“in the case of Advance Warrants, the amounts advanced by the Treasury may not always be repaid by the end of the financial year in which the warrants are issued. However, the accounts have to be closed according to the repayment schedule stipulated in the warrants”*.

This Office regrets to state that the Financial Regulations and the directives issued by the Minister of Finance are not

always being followed as illustrated by the “Notes on Advances” already made in this write-up on page 170.

Although primarily it is the responsibility of the Head of Department to timely account for these warrants this Office feels that the Treasury, in conjunction with the Ministry of Finance, should monitor these advance warrants to ensure that they are accounted for and repaid as stipulated by the Minister of Finance.

It should finally be pointed out that, if for any reason these advances could not be repaid as directed in the warrants, the monies advanced would have to be written-off and funds are to be provided for in the Estimates of Expenditure to repay these outstanding advances.

Unallocated Stores

These stores form part of the Assets of Government and are included in Appendix I - Statement of Assets and Liabilities of the Financial Report. Audit comments on these Stores are made on pages 72 to 79.

Bank and Cash Year End Balances

The Cash in hand of the Public Account and other values held at the Treasury as at 31 December, 1997, were verified from the certificates given by the Board of Survey appointed for the purpose, who certified that the cash at night safe at the Central Bank of Malta as on 31 December 1997 amounted to Lm1,960,510. This balance agrees with the amount of cash in hand at the Treasury shown on page (i) of the Financial Report.

The Cash at Bank as shown in Treasury Books amounted to Lm12,584,697 (debit) (vide page (i) of the Financial Report). This could not, however, be verified as correct as a reconciliation statement was not drawn up by the Accountant General to confirm that the Treasury Books’ bank balance agrees with the Central Bank’s certificate

dated 31 December, 1997 which showed a balance of Lm21,422,237 in the Public Account (vide page (i) of the Financial Report).

Further audit comments on Treasury Reconciliation are made on pages 118 to 120.

Public Debt

On 31 December 1997 the Public Debt (inclusive of Treasury Bills outstanding at year end) amounted to Lm661,404,848 (vide Appendix F on pages 223 to 226 of the Financial Report). This amount represents an increase of Lm146,877,630 over the corresponding figure for 1996.

This figure works out as follows:

	<i>Lm</i>
Total of New Loans	519,747,421
Total Repayment of Loans	(371,227,370)
Currency Adjustments (loss)	(1,642,421)
Net Increase of the Public Debt	<u>146,877,630</u>

The following payments in connection with the Public Debt were made out of the Consolidated Fund. (Vote 52 - Public Debt Servicing).

	<i>Lm</i>
i) Interest on loans	26,473,422
ii) Interest on short term borrowing (Treasury Bills)	5,741,979
iii) Contribution to Sinking Funds	8,867,547
iv) Loan repayment ' <i>Massa Frumentaria</i> '	<u>5,251</u>
	<u>41,088,199</u>

As the amount of Lm905,000 in respect of Item 12 - Sumitomo Bank Ltd. is shown as “loan repayment” (vide Appendix D of the Financial Report, page 197), the repayment of this loan should therefore have been made directly from expenditure. Instead the amount voted for “*loan repayment*” was transferred to the Sinking Fund of this loan and the repayment was made from the Sinking Fund.

The amount of Lm5,861,335 shown as payment made out of the Sinking Fund is made up of:

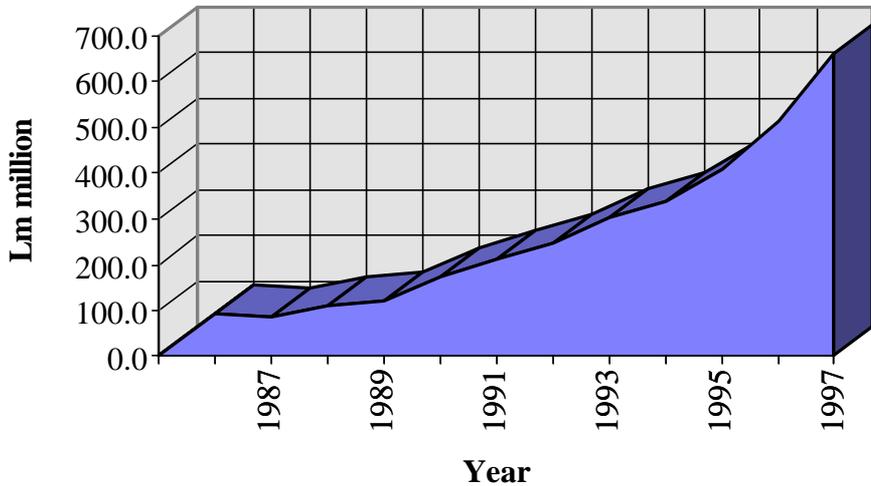
	<i>Lm</i>
i) Payment of Local Loans	1,160,849
ii) Payments of Foreign Loans	4,299,728
iii) Loss on currency adjustments	400,758
	5,861,335

Changes in Public Debt Over Time

Year	Local Loans *	Foreign Loans	Total	Change over preceding year
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
1983	27,463,168	42,408,837	69,872,005	(+) 9,849,857
1984	27,463,168	45,307,673	72,770,841	(+) 2,898,836
1985	27,463,168	42,523,931	69,987,099	(-) 2,783,742
1986	27,463,168	35,438,845	62,902,013	(-) 7,085,086
1987	56,739,332	29,841,496	86,580,828	(+) 23,678,815
1988	82,305,970	28,137,320	110,443,290	(+) 23,862,462
1989	92,453,568	26,889,039	119,342,607	(+) 8,899,317
1990	36,530,342	37,494,731	174,025,073	(+) 54,682,466
1991	166,927,555	44,706,884	211,634,439	(+) 37,609,366
1992	197,422,988	48,397,851	245,820,839	(+) 34,186,400
1993	254,289,976	50,479,865	304,769,841	(+) 58,949,002
1994	283,012,722	56,264,165	339,276,887	(+) 34,507,046
1995	355,820,170	53,432,607	409,252,777	(+) 69,975,890
1996	462,737,905	51,789,313	514,527,218	(+) 105,274,441
1997	610,956,313	50,448,535	661,404,848	(+) 146,877,630

* Inclusive of Treasury Bills balances at year end

Public Debt (1987 - 1997)



Letters of Comfort/Bank Guarantees - Audit Enquiry

Background

Letters of Comfort/Bank Guarantees issued to corporations, authorities, limited liability companies in which government has a shareholding or other bodies constitute contingent liabilities to Government.

The contents of the Financial Report are compiled in terms of Sub-sections 67(a) to 67(o) of the Financial Administration and Audit Act, 1962. These are shown as Appendices A to N in the 1997 Financial Report. Sub-section 67(j) of the said Act stipulates that a statement of assets and liabilities is to be drawn up.

No reference is made to Letters of Comfort/Bank Guarantees in the Act. These are not mentioned in the Financial Report.

Comments

This Office again points out that, although the Financial Administration and Audit Act does not stipulate that Letters of Comfort/Bank Guarantees are to be mentioned in the Financial Report, it is contended that, being a form of contingent liabilities, they should still be included, preferably as a note to the statement of Assets and Liabilities.

Developments

In 1998 the Minister of Finance and Commerce issued a directive whereby no new guarantees/letters of comfort were to be issued in the near future.

A detailed list of Letters of Comfort/ Bank Guarantees submitted to this Office by the Ministry of Finance and Commerce revealed a balance of Lm 498,023,683 as on 30 June 1998 (against Lm 518,213,921 as on 31 December 1997 and Lm 519,324,133 as on 31 December 1996). This amount was made up as shown in the table on page 179.

Sinking Funds

The total market value of the Sinking Funds, of which eleven (11) are for the redemption of Local Development Registered Stock, thirty five (35) for the redemption of Malta Government Stock and seventeen (17) for the redemption of foreign loans, stood at Lm55,774,594. The amount was invested as follows:

	<i>Lm</i>
i) Special deposits accounts with the Central Bank of Malta	10,714,916
ii) Mid-Med Bank Ordinary Share	12,292,684
iii) Treasury Bills	32,766,994
	<u>55,774,594</u>

The deposits mentioned at (i) were verified against the Central Bank's certificate. The Mid-Med Bank Ordinary Shares mentioned at (ii) were reconciled against the relative certificate warrants..

Letters of Comforts/Bank Guarantees

Beneficiary	30.6.98	31.12.97	31.12.96*
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Air Malta Co. Ltd (Foreign)	52,521,115	55,856,687	61,282,040
Air Malta Co. Ltd (Local)	8,100,000	8,100,000	0
Malta Counter trade Co. Ltd	3,023,418	3,064,521	2,808,308
Malta Drydocks Corporation	41,449,560	51,626,095	56,479,404
Enemalta Corporation	77,122,941	80,195,569	73,866,977
Malta Gantry Manufacturing Ltd	9,244,247	9,561,017	7,695,347
Housing Authority	20,014,796	21,301,990	24,294,215
Malta International Airport Ltd	7,566,238	7,566,238	10,021,863
Lohombus Corporation	60,000,000	60,000,000	60,000,000
Master Antenna Ltd	0	145,856	142,809
Malta Development Corporation	3,966,545	4,033,298	4,003,783
METCO Ltd	2,882,538	2,890,878	2,789,862
Malta Government Investment Ltd	11,378,820	11,843,873	12,084,991
Pitkali Crates Ltd	0	0	977
Public Broadcasting Services Ltd	1,480,000	1,500,000	1,600,000
SGS Thomson Microelectronics (Malta)	2,800,049	6,799,097	9,460,755
San Lucian Oil Co. Ltd	442,415	597,046	903,682
Self Employment Scheme	30,000	50,000	206,000
Malta Shipbuilding Co. Ltd	7,005,075	7,620,935	5,249,071
VAT Fiscal Registers Co. Ltd	0	1,229,122	2,519,728
Water Services Corporation	29,105,954	27,665,949	28,330,783
Telemalta Corporation	0	1,331,703	22,292,293
Win Cargo Containers Ltd	3,998,157	3,977,720	3,217,346
Youth Specialisation Studies Scheme	8,542	9,078	10,354
Gozo Channel Co. Ltd	457,545	492,761	3,044,888
Grand Hotel Verdala Ltd	0	0	124,344
Kordin Grain Terminal Co. Ltd	687,094	735,704	828,714
Freeport Industrial Storage Malta Ltd	853,383	913,450	1,018,673
Freeport Investments Ltd	848,511	904,239	1,032,792
Freeport Terminal (Malta) Ltd	91,170,186	82,893,746	77,212,183
Malta Freeport Corporation	16,390,700	18,011,285	21,094,777
Malta Government	20,326,701	21,404,616	24,510,529
Gozo Ferries Co. Ltd	21,545,537	22,314,836	0
Medigrain Ltd	15,000	0	0
Malta Desalination Services	1,572,742	1,504,967	0
Rotos Ziravia Pumps	0	56,000	0
Tripoli Sewage Treatment Plant	816,424	816,424	0
I.B.R.D.	1,167,412	1,167,412	1,167,412
M.I.G.A.	31,958	31,809	29,233
TOTAL	498,023,603	518,213,921	519,324,133

* Figures for 31.12.96 have been updated and amended.

Foreign Loans and Grants

Foreign grants received by Government in 1997 amounted to Lm9,810,700. Foreign loans amounted to Lm3,308,437 (vide Appendix C on page 14 of the Financial Report).

Revenue through reimbursement of expenditure on projects financed from foreign loans and grants shows a variation from the 1997 approved Estimates for the following reasons:

	Grant/Loan	Budget 1997	Actual Revenue 1997	Variation	Explanations
A	GRANTS:	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	
i.	E.U. Second Financial Protocol	400,000	273,960	(126,040)	Claims could not be submitted to be processed in Brussels as implementation of project took longer than expected.
ii.	Italy - Third Financial Protocol	-	112,957	112,957	Funds expected to be received in 1996 were delayed and received in 1997. This represents the final tranche of the Italo-Maltese Financial Protocol.
iii.	Italy - Fourth Financial Protocol	9,100,000	8,848,828	(251,172)	The monies relate to claims submitted in 1997 which were expected to be received in that year but were re-imbursed in January 1998 and accounted for in that year. The variation is also due to a less favourable rate of exchange than anticipated.
iv.	E.U. Fourth Financial Protocol	500,000	-	(500,00)	The fourth Financial Protocol was originally intended as a pre-accession protocol. However no financing agreements were ever signed and therefore no expenditure could be incurred and eventually claimed from Brussels.
B	LOANS:				
i.	C.O.E. - S.D.F. (San Raffaele Hospital)	4,400,000	2,478,411	(1,921,589)	Expenditure on the project was lower than anticipated. As a result the loan advanced by C.O.E. was lower than envisaged since the amount that can be claimed is equivalent to 44% of the actual expenditure.
ii.	E.U. Third Financial Protocol (Sewerage Project)	270,000	830,026	560,026	Work on sewerage project (I) moved at a faster rate than anticipated and as a result all claims were in fact submitted and re-imbursed in 1997.
iii.	E.U. Third Financial Protocol (Air Traffic Services)	850,000	-	(850,000)	As the projects planned i.c.w. the Air Traffic Services were not implemented no expenditure could be incurred and eventually claimed from Brussels.

iv	E.I.B. - (Sewerage Project II)	2,600,000		-	(2,600,000)	The implementation of this project was slowed down by too many technical problems and as a result no claims could be submitted to E.I.B.
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Statement of Abandoned Claims, Cash Losses and Stores Written Off

Appendix N on page 267 of the Financial Report, 1997, reproduced hereunder, is a Statement of Abandoned Claims, Cash Losses and Stores Written Off for 1997.

Statement of Write Offs - 1997

Department	Abandoned Claims	Stores Written Off	Cash Losses	Total
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Armed Forces of Malta	115,786	38	-	115,824
Civil Aviation	-	5,135	-	5,135
Courts of Justice	432	-	-	432
Customs	117,477	-	17	117,494
Education	2	1,590	-	1,592
Gozo	-	30	-	30
Imports and Domestic Commerce	10,048	-	-	10,048
Inland Revenue	61,154	-	65	61,219
Lands	401,221	-	-	401,221
Licensing and Testing	-	-	163	163
Ministry for Social Welfare	428	-	-	428
Ministry for Transport and Ports	-	-	92	92
Ministry for Agric. & Fish.	-	1,973	-	1,973
Ministry of Foreign Affairs & Env	-	1,137	-	1,137
Ministry of Health, Elderly & Family Affairs	753	555	-	1,308
Ministry of Public Works & Const	3,855	954	-	4,809
Office of the Prime Minister (Wireless & Telegraphy)	-	-	20	20
Police	111	115	-	226
Public Lotto	279,406	-	25	279,431
Treasury	145,240	-	-	145,240
V.A.T. (C.E.T.)	99	-	10	109
TOTALS	1,136,012	11,527	392	1,147,93

No explanations or details on the entries are given in the Statement of Write Offs.

It has been remarked by this Office in previous Audit Reports that full details should be rendered to Parliament

not only of the extent but also of the nature of the write-off of public moneys.

From examinations carried out it results that:

- a) the amount of Lm115,786 under the **Armed Forces of Malta** covers (i) Lm4,287 which were due by the Malta Development Corporation for services rendered by the Task Force in 1987 to (a) the Corporation itself - Lm1,988 and (b) to the White Rocks Holiday Complex - Lm2,299; and (ii) Lm111,499 which were due by the Works Department during period 1984 to 1993 covering Dejma Wages - Lm106,675, Helicopter and Patrol Craft conveyance - Lm4,556 and miscellaneous other dues - Lm268;
- b) Merchants Requests, Post Entries in duty and legal fees amounting to Lm105,206 written off in 1996 but not shown in the Financial Report (cfr.. Page 140 of the 1996 Annual Report) have now been included in the 1997 statement and form part of the global amount of Lm117,494 shown under **Customs**. This amount includes also writing offs granted in 1997 covering various amounts for Merchants Requests and Duty and a sum of Lm2,280 due by Enemalta Corporation during the years 1990 to 1994;
- c) a write-off under the **Imports and Domestic Commerce** shows an amount of Lm10,048 being the value of 338.05 metric tonnes of cement which reached Malta damaged. This formed part of a consignment of 2500 metric tonnes imported under the Bulk Buying Scheme in October 1982;
- d) 147 Income Tax claims written off in June 1997 totalling Lm21,433 and a further 176 claims amounting to Lm39,721 and written off in July 1997 make up the bulk of the amount of Lm61,219 shown under the **Inland Revenue**;
- e) the amount of Lm401,221 shown under **Land** comprised mainly an amount of Lm400,000 being rent due for the year 1996 in respect of Dock No. 6, Malta

Drydocks in terms of the Malta Government/Malta Drydocks Agreement (16 May 1989);

- f) the amount of Lm1,137 under **the Ministry of Foreign Affairs and Environment** covers the cost of four air-conditioners valued US\$3,000 (Lm1,072) and other items found missing from Malta's Embassy in Baghdad in July 1995 following a break-in;
- g) the sum of Lm4,809 were written-off under the **Ministry of Public Works and Construction**. Lm3,066 covers various claims to residents in Paceville for resurfacing of four streets which claims were eventually found not to be due; and various other amounts under Lm15 which make up a total of Lm495.50 covering period 1950 to 1965;
- h) Lm279,406 being remaining balance due to the **Lotto Department** by the Kursaal Company Ltd. was written off after all legal efforts to recoup the full amount of Lm336,783 have been exhausted;
- i) interest amounting to Lm145,240 paid by Government on behalf of the Malta International Airport Ltd. in respect of European Investment Loan D and which M.I.A. has failed to settle, is the main item shown under the **Treasury**. The interest covers the period October 1991 and April 1992. The Malta International Airport argued that since the agreement between itself and Government was signed in February 1992, the amount claimed by Government was not due. After referring the matter to the Attorney General for advice, Ministry of Finance authorised the writing off.

Part V

Special Reports



Special Reports

Introduction

In terms of Sub-Paras. 8(a) and 9(a) of the First Schedule of the Auditor General and National Audit Act, 1997, this Office has made a number of special reports. These are included in, or referred to, in this Part. These reports relate to:

1. issues of a value for money nature, carried out on the initiative of the National Audit Office;
2. issues of a financial or value for money nature carried out following requests made by the Minister responsible for finance or by the Public Accounts Committee.

These audits fall under the following categories:

Preliminary Survey - A preview examination of particular activities within an entity with the purpose of identifying areas for further in-depth studies of a mainly value for money nature;

Value for Money - Audit which reviews the economy, efficiency and/or effectiveness of particular activities, operations and/or programmes of an entity;

Special Audit - Audit carried out on the initiative of the Auditor General, on request made by the Minister responsible for finance or on request made by the Public Accounts Committee;

COMPTROLLERSHIP OF BICAL - SPECIAL AUDIT

Background

A request made by the Minister responsible for finance relating to the comptrollership of BICAL could not be acceded to as this Office contended that, since public funds were not directly or indirectly involved, the request did not fall within the functions of the Auditor General as provided for under the Constitution (Section 108) and under the Auditor General and National Audit Office Act, 1997.

REVIEW OF MIDI CONSORTIUM'S COST AUDIT OF MANOEL ISLAND AND TIGNE' POINT PROJECT - SPECIAL AUDIT

Background

In terms of Sub-Para. 9(a) of the First Schedule of the Auditor General and National Audit Office Act, the Minister responsible for finance requested this Office, in March 1998, to report on the review of the MIDI Consortium's cost calculations for providing the infrastructure and restoration works in order to verify whether costs on such works (relating to the Manoel Island and Tigne' Point project) were reasonable within the context of the proposed development, existing time frames and market conditions. The envisaged return by the MIDI Proposal was composed of cash amounts and benefits in kind.

Developments

The co-ordinator of the Government Negotiating Team (appointed by Government to represent its interests in the ongoing negotiations with the MIDI Consortium) was requested, on 29 April 1998, to furnish this Office with all the necessary information and documentation of the Manoel Island and Tigne' Point project. This information was not forthcoming. The audit exercise was therefore discontinued.

PURCHASE OF IMMOVABLE PROPERTY BY HOUSING AUTHORITY - SPECIAL AUDIT

Background

By means of communication dated 27 August 1998, and in terms of Sub-Para. 9(a) of the First Schedule of the Auditor General and National Audit Office Act, the Minister responsible for finance requested the Auditor General, together with the Director of Contracts, to investigate the whole process leading to the signing of a number of promises of sale entered into on 14 August 1998 by the Housing Authority for the purchase of immovable property by the Authority in question.

Issues on Compilation of Report

In terms of the request, the report was to be submitted by the 31 August 1998.

In its report, the N.A.O. stressed the importance that reports should not be made jointly with other bodies which do not enjoy the same constitutional safeguards as the Auditor General. This Office also expressed doubts as to whether the carrying out of such a joint assignment was correct. As, however, the conclusions reached independently by the Director of Contracts and the Auditor General in this case were in conformity to each other, this Office proceeded with the joint presentation of the report. The N.A.O. is also

of the strong opinion that time-frames in the submission of reports should not be imposed upon the Office. Nevertheless, as the Auditor General was explicitly requested by the Minister responsible for finance to draw up the report, and in view of the delicate nature of the issue, it was decided by the Office to comply with the request.

Presentation of Report

The report was completed and presented to the Honourable Speaker of the House of Representatives and to the Minister responsible for finance on the 31 August 1998. The Secretary to Cabinet was furnished with a copy of the said report.

ACQUISITION OF PROPERTY BY MID-MED BANK PLC - SPECIAL AUDIT

Background

In terms of Sub-Para. 9(a) of the First Schedule of the Auditor General and National Audit Office Act, the Minister responsible for finance requested this Office, on 17 December 1997, to carry out an examination of the events surrounding the adjudicating process conducted by Mid-Med Bank plc in connection with the Bank's Head Office building upgrading project.

Methodology

This Office engaged the services of a team of three architects/engineers as consultants in this assignment. The N.A.O. team obtained and examined relevant documentation and conducted various interviews with the Mid-Med Bank civil engineer consultants and with the Bank's Chairman and Board of Directors who were in office at the time of the adjudication process.

Presentation of report

The report was completed and presented to the Honourable Speaker of the House of Representatives on the 30 October 1998.

TENDER FOR THE SUPPLY OF FINANCIAL SOFTWARE APPLICATIONS, HARDWARE, NETWORK SYSTEMS AND ASSOCIATED SERVICES TO ENEMALTA CORPORATION - SPECIAL AUDIT

Background

By virtue of Sub-Para. 9(a) of the First Schedule of the Auditor General and National Audit Act, the National Audit Office was requested by the Minister responsible for finance to review the process for the issue of tender for the supply of Financial Software Applications, Hardware, Network Systems and Associated Services to Enemalta Corporation.

The Terms of Reference for this assignment included the review of:

- The tender specifications when compared with the Corporation's Information System Requirements;
- The Tendering and Adjudication process;
- The Analysis of Tender Responses Report as prepared by the Corporation's Consultants and the report compiled by the Reviewing Committee (Enemalta appointed this Committee to review the process associated with this tender);
- Endorsement of the way forward in the adjudication.

Methodology

This Office engaged the services of two foreign experts to assist it in this assignment. The N.A.O. team examined relevant documentation and carried out interviews with Enemalta officials.

Presentation of Report

The Report was presented to the Speaker of the House of Representatives on the 14 July 1998 and tabled in Parliament on the 26 October 1998.

EXPENDITURE INCURRED BY MINISTRY OF JUSTICE AND LOCAL COUNCILS IN 1997 - SPECIAL AUDIT

Background

The N.A.O. received a detailed anonymous letter, dated 9 March 1998, alleging excessive expenditure within the Secretariat of the Ministry of Justice and Local Councils. This Office, on its own initiative and in terms of Sub-Para. 9(a) of the First Schedule of the Auditor General and National Audit Office Act, investigated the points raised in the aforementioned letter.

Presentation of Report

The report was completed and presented to the Hon. Speaker of the House of Representatives on the 27 October 1998 and was laid on the Table of the House of Representatives on the 28 October 1998.

AUDIT ASSIGNMENT ON GOVERNMENT TRANSPORT - PRELIMINARY SURVEY

Background

In 1997 the total expenditure for transport amounted to Lm5,147,695, an increase of Lm234,119 over 1996. A breakdown of the component expenditure is presented in table hereunder.

Details on Transport expenses incurred by ministries and departments during 1997 are given in table on page 195.

Components of Transport Expenditure

	1996	1997
	<i>Lm</i>	<i>Lm</i>
Maintenance of Vehicles	467,336	360,811
Hire of Transport	1,140,241	1,387,328
Hire of self-drive cars	503,591	504,792
Hire of impressed vehicles	1,436,645	1,435,997
Fuel	1,112,788	1,178,831
Payment for personal use		
Transportation of goods	252,975	279,936
Malta/Gozo expenses		
Totals	4,913,576	5,147,695

The National Audit Office is currently reviewing the use of government transport within ministries and departments. The objectives for this assignment are to evaluate whether:

- Regulations and directives relating to transport matters are being adhered to;
- Accounting for transport is being performed in accordance with regulations and other accepted procedures;
- Costs incurred reflect value for money.

Audit Methodology

The first phase of the exercise entailed that all ministries and departments complete a questionnaire. Most questionnaires have now been completed and returned to the N.A.O. It must, however, be pointed out that some of the questionnaires received were not adequately compiled and this Office is still chasing ministries and departments concerned to furnish all the information requested.

Most of the data collected during the first phase of the assignment has now been entered into a database. It is envisaged that the N.A.O. will commission consultants to assist in the evaluation of information collated.

Moreover, this Office will perform inspections to verify data submitted and to ensure that 'transport' related internal controls are being adequately enforced by departments concerned.

Conclusion

It is envisaged that the report relating to this assignment will be published during 1999.

Breakdown of Transport Expenditure by Ministry/Department - 1997

Department/Ministry	Voted In Estimates	Maint. of Vehicles	Actual Expenditure				
			Hire of:			Fuel	Others
			Transport	Cars	Impressed		
Lm	Lm	Lm	Lm	Lm	Lm	Lm	
Office of the President	16,000	14,329	-	857	-	7,180	-
House of Representatives	5,000	2,866	-	-	-	2,421	-
Office of the Prime Minister	62,900	18,514	7,009	9,400	-	17,835	4,372
Public Service Commission	1,500	44	-	-	-	287	-
Armed Forces	250,000	2,941	10,692	-	6,154	306,501	-
Information	17,400	976	1,789	5,989	-	3,109	167
Home Affairs	37,500	2,943	2,707	6,744	-	9,088	-
Police	215,000	12,674	-	6,131	-	226,917	6,436

Correctional Services	7,000	5,934	-	903	-	1,020	-
Gozo	282,860	8,158	43,592	14,840	163,983	38,014	40,075
Foreign Affairs & Environment	117,850	38,948	28,222	3,240	5,746	19,329	25,628
Treasury	2,000	215	-	-	-	467	-
Inland Revenue	28,000	2,298	112	1,062	-	4,840	9,198
Customs	10,000	6,949	-	-	-	10,662	11,784
V.A.T (C.E.T.)	15,000	2,848	-	-	-	2,016	29,263
Statistics	7,900	-	-	1,600	3,232	1,031	547
Contracts	5,000	887	-	-	-	1,223	30
Audit	9,500	108	-	-	5,341	1,173	1,307
Min. of Educ. & Nat. Culture	90,000	4,253	313	22,980	-	12,454	970
Education	1,112,000	11,124	972,580	31,906	130,819	37,375	15,053
Libraries and Archives	2,500	1,242	-	14	-	749	991
Museums	9,800	-	-	7,204	-	3,184	2,159
Youth, Sport and Culture	12,500	264	11	10,838	-	6,434	32
Ministry for Commerce	50,500	5,969	-	22,410	2,791	9,451	242
Imports and Domestic Comm.	9,400	1,091	-	4,294	-	2,543	225
Ministry for Tourism	22,000	837	-	12,455	110,009	7,992	-
Environment	80,000	470	-	25,040	52,993	15,699	3,009
Min. of Econ. Aff. & Finance	30,600	8,432	-	1,359	107	7,964	1,298
Min. of Just. & Local Councils	38,000	4,647	3,034	30,117	-	9,849	687
Legal	9,000	1,068	3,971	1,750	-	2,032	718
Judicial	202,000	-	194,577	-	-	6,403	-
Land Registry	1,500	-	-	63	-	510	241
Ministry for Industry	19,000	3,498	-	7,247	6,440	6,025	319
Ministry for Transport & Ports	12,000	3,321	240	5,066	-	4,281	-
Civil Aviation	55,000	69,735	48	-	-	17,489	1,192
Licensing & Testing	5,500	-	-	3,576	-	1,012	-
Min. of Public Works & Const.	829,500	1,657	1,320	170,765	621,752	185,062	42,437
Land	24,000	-	-	6,067	10,036	5,296	2,123
Min. of Health, Elderly & Fam.	253,000	60,085	7,984	23,698	62,517	81,602	42,303
Care of the Elderly	26,000	13,830	-	11,291	5,030	21,667	2,078
Family Affairs	40,000	3,486	-	11,022	9,774	8,712	1,961
Ministry for Social Welfare	107,350	8,570	79,773	2,869	-	5,661	3,874
Social Security	70,000	822	10,611	2,361	27,025	8,493	8,676
Labour	20,310	-	-	-	12,640	1,742	4,736
Ministry for Housing	27,000	-	46	10,852	9,639	4,384	2,964
Joint Office	9,000	227	-	5,833	-	1,870	511
Min. of Agriculture &	330,000	33,590	18,697	22,949	187,328	47,598	7,880
Lotto	14,400	898	-	-	2,641	2,185	4,450
TOTALS:	4,602,270	360,811	1,387,328	504,792	1,435,997	1,178,831	279,936

PERFORMANCE REVIEW OF MANUFACTURING AND SERVICING SECTION (WORKS DIVISION) OF THE GOZO SECRETARIAT - VALUE FOR MONEY AUDIT

Background

An audit review of the Maintenance and Services Section pertaining to the Directorate of Projects and Developments within the Gozo Secretariat was carried out during March 1998. A preliminary survey of this review was performed during 1997.

The Maintenance and Services Section provides electrical, plumbing, carpentry and mechanical services to Government. M.S.S employs 98 personnel and during 1998 has been allocated the following funds:

	<i>Lm</i>
Personal emoluments	627,570
Operational and maintenance	<u>39,182</u>
Total	<u>666,752</u>

Audit Objectives

The objectives of this review were to:

- ensure that this Section was complying with regulations;
- establish whether operations performed by this Section reflect value for money expended.

Scope and Methodology

In order to attain the above objectives, interviews were held with various members of the staff within this Section. Relevant documentation, namely job cards and stores issue forms, was reviewed. Inspections on stores and fuel were also carried out.

Since a substantial part of expenses incurred by M.S.S relate to personal emoluments (94%), this exercise also focused on aspects relating to efficiency and productivity.

Job Cards

The procedure used by M.S.S to account for the deployment of personnel and materials utilised on a particular job is through the job card system. This system

entails that a job card is opened for each task performed and, as such, costs for any particular job can be established. Moreover the job card system is designed to provide internal control and management information.

In order to fulfil the audit objectives, the Audit Team intended to account for personnel utilisation by performing a reconciliation between the total number of man hours available to the M.S.S. and the number of man hours accounted for through job cards.

However, a job costing exercise could not be carried out since not all job cards included the man hours expended on each job. Moreover, instances were noted where man-hours allocated for a particular job appeared to be inflated.

The M.S.S. Administration stated that:

- Job sheets for minor works where only direct labour is involved are not drawn up.
- M.S.S. was recently instructed by the Directorate for Projects and Development (no formal documentation was presented) not to include cost of man hours for services rendered to the Works Division within the Projects and Developments Department.
- Personnel deployment remains unrecorded if the officer in charge of a particular workshop is unavailable through vacation or sick leave. Moreover it was stated that no member of staff is willing to assume responsibility to update records in the absence of the officer in charge.

This Office opines that such a situation diminishes the concept of accountability and poses potential problems vis-à-vis the management of personnel and the safeguarding of materials. Moreover this situation does not enable management to evaluate accurately the performance of this Section.

It is recommended that issues relating to job cards be addressed immediately by the Directorate of Projects and Development

Performance and Efficiency

In view of the situation described in the previous Section, the Audit Team adopted a different strategy to assess M.S.S. performance. A 5% sample of job cards (which during 1997 totalled 306) were reviewed. Interviews were also held with each officer in charge to establish whether generally accepted practices and procedures were being followed by M.S.S..

The above approach revealed the following concerns:

Mechanical Section

Most job cards pertaining to this Section include man hours expended on tasks. However, it was observed that in some cases man hours quoted appear to be over estimated for the job performed. It was also noted that job cards do not always provide description of all works performed on a particular vehicle.

It was also observed that for relatively trivial jobs, heavy plant and vehicles can remain unoperational for a considerable number of days. Officer in charge explained that such a situation arises due to;

- lack of availability of parts, especially for old vehicles;
- lack of machinery, such as vulcanising equipment;
- other urgent works.

Hiring of Plant Equipment

M.S.S. hires out heavy plant to other sections within the Projects and Developments on behalf of Manufacturing and Servicing Department of the Works Division (Malta). The existing practice relating to repairs and maintenance on these vehicles entails that MSD (Malta) supplies the required parts. Repairs are performed by M.S.S. personnel.

However, the cost of man-hours incurred for such repairs are not recouped by M.S.S.. This situation deviates from standard accounting practice.

Moreover the benefits associated with renting vehicles/plant machinery are not being fully reaped because the principle that the contractor (i.e. M.S.D. [Malta]) is responsible for the repairs and maintenance of his fleet is not being practised.

Road Marking Section

This Section performs work related to traffic sign fixing and road marking on behalf of Local Councils in Gozo. Job costing for road marking and sign posting is in accordance with M.S.U. 1995 rates. It was however observed that these rates do not cover all the expenses incurred by this Section. Such a situation arises either through:

- efficiency related problems and/or
- M.S.U. rates established in 1995 being outdated.

Traffic signs are manufactured by the Traffic Sign co-operative at M.S.D. Marsa and are fixed by M.S.S.. During 1997 Manufacturing and Services Section did not recover any funds in respect of traffic sign fixing - such traffic signs are manufactured by the Traffic Sign Co-operative based at the Manufacturing and Servicing Department of the Works Division Malta.

Payment for the supply and fixing of 213 traffic signs was made by Local Councils directly to the M.S.D. (Marsa).

Discussions are under way in order to enable the M.S.S. (Gozo) to recoup the fixing costs.

Carpentry Section

Efficiency is hindered by the lack of adequate machinery in the carpentry workshop. It was observed that a substantial amount of time is wasted as the machinery available in this workshop is in dire need of upgrading. Officer in charge workshop commented that many have to resort to using their own personal equipment and power hand tools. On the

other hand, M.S.S. Management stated that personal special tools are only used rarely. Moreover, workshop management efficiency related difficulties are being encountered. These include:

- time wastage on works carried out externally;
- lack of transport facilities raises the situation where personnel use their personal vehicles for the transport and installation of finished goods;
- low quality of timber procured requires more time for a quality finish;
- pre-manufacturing wastage of timber (15-20%);
- the quantity of timber manufactured by the carpentry workshop, valued at Lm4,885 is considered low in relation to the number of personnel (20) employed by this Section - (20).
- Safety concerns highlighted in last year's Preliminary Survey still prevail - machinery is operated without the use of safety guards.

Further to the above concerns, instances were noted whereby personnel (in each section) are performing duties either above or not within their respective grade.

The opportunity exists for Management to make a comprehensive study regarding the introduction of co-operatives in accordance with existing government policy to alleviate efficiency related problems. Moreover, it is recommended that safety issues be addressed immediately by Management. Controls should be established to regulate the productivity of personnel assigned duties off M.S.S. premises.

Stores

During the course of this exercise an inspection of stores at M.S.S. was carried out. Stock levels are minimal and procurement is only effected to cater for current demand. There are 3 personnel employed by this store.

This store services M.S.S. and is one of two Works Division (Gozo) main stores, the other being situated in Victoria. Despite the historical/traditional difference in the role of these two main stores there exists a number of similarities of operation, namely that they both stock similar (general) use items.

Although some consider that the Victoria store is more centrally located, in reality there is only minimal distance and it seems that the Works Division (Gozo) could just as easily be served from the M.S.S. store in Xewkija. Works Division in Gozo is not reaping economies of scale advantages through the centralisation of the stores function.

During the course of inspection at M.S.S. stores the following observations were made:

- i) Ledger postings were in arrears. Some documentation has been pending in excess of 7 weeks. This situation arose since a substantial amount of stores issue forms (SIF's) could not be posted in ledgers as job numbers for particular tasks remained unallocated.
- ii) Timber stock levels appear to be in excess of requirements. Officer in charge stores claimed that such overstocking is due to bulk procurement (3.75m³ of 1.5" red deal boards took approximately nine months to be consumed). Bulk procurement is resorted to reduce the costs and inconvenience of transporting timber from Malta. Moreover, M.S.S. Management stated that the quality of timber is enhanced through a longer storage period since this enables the timber to dry up further.
- iii) Other types of timber were also inspected and in most cases maximum and minimum stock levels are non-existent. Stores management also claimed that pre-manufacture wastage could be reduced if timber boards be procured according to demand.
- iv) It was also noted that a considerable amount of obsolete/unserviceable items are held in store. Such

items create unnecessary administrative and control difficulties and are occupying valuable storage space.

- v) M.S.S. store did not submit to this Office the annual stock taking report in terms of Regulation 111 of the General Financial Regulations, 1966. Currently, stores personnel are performing a stock taking exercise and results will be submitted to this Office.

It is recommended that:

i) all pending documentation be processed immediately;

ii) action be initiated to dispose unserviceable items;

iii) the centralisation of the stores function within the Works Division (Gozo) be evaluated by Management.

Fuel and Lubricants Section

This Section supplies fuel and lubricants to heavy plant and vehicles pertaining to the Works Division Gozo.

An inspection of stock and ledger balances revealed that all postings were duly entered in ledger and stock tallied with ledger balances.

It is pertinent to point out that the fuel bowser which transports fuel to the various work sites is still registered with the old number plates and is in dire need of replacement. Furthermore, the metre calibration for the supply pump installed on this bowser is questionable.

Audit recommends that Management explores the possibility of replacing the afore mentioned bowser and regularise situation regarding vehicle number plates with Licensing and Testing Department.

Transport

Attendance of impressed vehicle drivers is kept at M.S.S.. It was observed that these vehicles were deployed at other sections and M.S.S. only supplied fuel to the vehicles in

question upon submission of an authorised requisition. Currently only one impressed truck is attached to the M.S.S..

The following issues were noted during the review:

- Fuel fund allocation for 1998 was Lm7,000, out of which Lm3,000 were expended to cover invoices dating back to 1997.
- M.S.S. management claimed that such fund allocation is inadequate and the need for virements from other votes will surely arise in the near future.
- distribution of transport is uneven especially since carpenters use their own personal vehicles to transport finished goods,
- three heavy vehicles are still registered with old number plates.

A number of old jeeps used mostly by the various districts in Gozo often require maintenance and repairs. The continued utilisation of these vehicles is questionable when the costs of repairs are taken into consideration. Moreover difficulties are often encountered in the procurement of parts.

Conclusions and Recommendations

The Manufacturing and Servicing Section in Gozo is encountering efficiency and productivity related problems. This report has highlighted a number of factors which contribute to this situation. Such a situation is unfortunate since a substantial number of personnel employed by this Section can be classified as skilled. Moreover, personnel have displayed skill flexibility on a number of occasions.

The need for workshop/gang supervision is evidently lacking. This is hindering productivity and quality aspects. It is pertinent to point out that M.S.S. lacks IT equipment. It

was observed that management had a laborious and time consuming task to collect and analyse data in order to evaluate overall performance.

The limited time available for this review and the lack of documentation did not enable the Audit Team to assess performance accurately. Nevertheless it is evident that value for money considerations at M.S.S. need to be addressed. Moreover the concept of accountability is also diminished through the lack of complete documentation.

In view of the above the National Audit Office recommends that:

- i) Documentation relating to tasks performed by M.S.S. be completed in all cases.
- ii) The establishment of co-operatives within the various trades available at M.S.S. should be explored by Gozo Secretariat Management. The opportunity also exists to evaluate the possibility of centralising skills available within the Secretariat. Personnel should be encouraged to exploit the advantages of government policy relating to co-operatives.
- iii) The potential advantages of centralising stores pertaining to the Works Division in Gozo be evaluated by Gozo Secretariat Management.
- iv) Controls be established to regulate the productivity of personnel assigned duties off M.S.S. premises.
- v) Vacant posts pertaining to skilled and supervisory grades be addressed by Management.
- vi) M.S.S. should ensure that it recoups all moneys due for services rendered.
- vii) IT equipment should be supplied to M.S.S. to enable management to monitor and assess performance.

Management Comments

The Director for Projects and developments stated that:

- i) Instructions on the proper use of Job Cards had been issued and observance of these instructions would be reviewed periodically;
- ii) The possibility of setting up a co-operative had been considered at length and various meetings held. To date it has not been possible to set up this co-operative due to financial and other considerations;
- iii) The centralisation of stores pertaining not only to the Works Branch but also other branches within the Projects and Development Department had already been considered and, given the availability of resources, would be put into practice;
- iv) The proper use of Job Cards and their reviews was agreed to. These would enhance the control of productivity both within and out of M.S.S. premises;
- v) A detailed report on the restructuring of the Works Branch including the M.S.S. Section was drawn up. It was planned to proceed with the restructuring in the near future with a view to solve problems relating to lack of skilled and supervisory grades;
- vi) Procedures existed to recover moneys due for services rendered. Where these procedures were not being applied effectively discussions were under way so that, as far as possible, such moneys were recouped;
- vii) It was appreciated that the installation of I.T. equipment would assist management to monitor and assess performance. To date this has not been possible due to lack of funds allocated to I.T. equipment. Arrangements were being considered to relocate a personal computer to be assigned to M.S.S.

VALUABLES AND OTHER ITEMS BELONGING TO PATIENTS/RESIDENTS IN HOSPITALS/HOMES FOR THE ELDERLY - VALUE FOR MONEY AUDIT

Background

Earlier during the year, N.A.O. issued a comprehensive questionnaire to all government-owned Hospitals and Homes for the elderly to identify ways and means how valuables and other items belonging to patients in Hospitals and residents in Homes for the elderly are currently accounted for. The questionnaire consisted of 23 questions and the replies received highlighted the under-mentioned situation.

Hospitals

Although it appears that there is a general policy adopted regarding valuables and items brought in by patients, N.A.O. is concerned by a number of issues emanating from the replies given, namely:

- although a “*Valuables Register*” is retained and valuables are listed, these are not appraised;
- instances of theft of valuables were reported in two out of five Hospitals and an allegation of theft was made by a patient during a visit to an out-patients’ clinic;
- none of the Hospitals’ personnel hold power of attorney on behalf of patients nor do they keep/cash-in patients’ cheques except for Mount Carmel Hospital where an Almoner is present; it was not indicated what happens at other Hospitals in cases of long-term hospitalisation or the absence of relatives;

- moneys belonging to residents at Mount Carmel Hospital are deposited in a “*Below-the-Line*” Treasury account. Requests by residents for withdrawals of money are made through the Almoner;
- at St. Luke’s and Sir Paul Boffa Hospitals, keys of private residences are, at times, kept with other personal items belonging to patients - in the case of Mount Carmel, these are retained by the officer-in-charge Stores; the returns submitted did not indicate whether, in such instances, prior authorisation was acquired;
- in case of death, valuables are passed to next of kin (or, to the Almoner in Mount Carmel’s case) - however, both at St. Luke’s and Mount Carmel Hospitals, allegations of theft have been made by relatives of the deceased;
- in most cases it was reported that there is no standard policy regarding other items and/or furniture brought in by residents although, in case of death, all Hospitals reported that these items are returned to either relatives of deceased or Almoner.

Homes for the Elderly

In the replies given by Homes for the elderly, N.A.O. came across a number of deficiencies in the system adopted, namely:

- there is no common policy regarding valuables brought in by residents on admittance into homes
- valuables are neither listed nor appraised
- a “*Valuables Register*” is not retained nor are safe deposit boxes for use by residents available in the Homes
- instances of theft of valuables were reported in four out of six Homes, although it was stated that, in most cases, items were later found

- all Homes reported that none of the Homes' personnel hold power of attorney on behalf of residents nor do they keep/cash-in residents' pension cheques. However, it is not clear what happens in instances where residents do not have relatives or are unable to administer their finances/valuables
- in most cases it was reported that there is no standard policy regarding other items and/or furniture brought in by residents although, in case of death, all Homes reported that these items are returned to the relatives of deceased
- there are no safeguards to reduce the possibility of abuse in cases of mental infirmity and/or absence of relatives.

St. Vincent de Paule Residence

The situation at St. Vincent de Paule Residence differs slightly from that reported in Homes for the elderly in that a number of measures are taken which increase accountability, viz:

- a service does, in fact, exist where residents can deposit money/valuables for safekeeping
- valuables are listed in a ledger in the presence of witnesses and a receipt listing all items is given to the resident (if sound of mind) or retained in file in the ward. Valuables are, however, not appraised
- a general "*Valuables Register*" is retained by Administration
- money belonging to residents at St. Vincent de Paule Residence is deposited in a "*Below-the-Line*" account at the Treasury although a sum is retained to meet residents' requests for small amounts of cash

- an authorised employee is responsible to cash-in D.S.S. old-age allowances and pension cheques on behalf of residents
- in the event of death, a return showing the amount of money, valuables and other personal items, together with the particulars of relatives, is forwarded to the Accounts Section at Head Office
- in case of other items/furniture brought in by residents, a form is filled by Administration, a copy of which is given to resident and another retained in ward.

Although the situation at St. Vincent de Paule Residence seems to be more positive than that reported in homes, the above clearly indicates the need for regulations to ensure the proper safekeeping of valuables and other personal items belonging to residents.

Conclusion

N.A.O. is concerned at these lack of safeguards given the vulnerability of aged persons in general and patients/residents in Hospital/Homes for the elderly in particular.

One may freely express concern that such failure to provide adequate monitoring and control may easily result in fraud, abuse and mal-administration. N.A.O. strongly feels that the authorities concerned should introduce without delay a comprehensive policy which will safeguard all such items.

For this purpose the responsible authorities were requested by this Office to state what immediate remedial steps/action they intend to introduce to address the state of affairs prevailing in these institutions.

As a result of the above, a number of positive measures were initiated to rectify the issues brought up by this Office. In fact, instructions were given to the heads of Homes to implement a common policy regarding valuables brought in by residents and which addresses the concerns highlighted above.

Furthermore, it is also envisaged that a new draft of regulations be proposed to the Parliamentary Secretary for the Care of the Elderly for eventual publication as a Legal Notice. This would give essential added basis for protecting the elderly against possible abuse.

The Department of Health has to date not submitted its comments on N.A.O.'s findings in respect of St. Luke's, Boffa, Mount Carmel, Gozo General and Zammit Clapp Hospitals.

REPORT ON MATERIAL VARIATIONS BETWEEN REVISED ESTIMATES AND ACTUAL FIGURES FOR 1997 - SPECIAL AUDIT

Background

On 30 April 1998, the Public Accounts Committee requested the Auditor General to submit his views on the significant variations which resulted between revised estimates and actual figures for 1997.

Presentation of Report

A report on this matter was duly submitted to the Committee on the 7 May 1998.