NAO
National Audit Office
MALTA

Audit of Gozo Channel Company Limited: Public Service Obligation Bid Feasibility and Operational Considerations

Report by the Auditor General
May 2015

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Abbreviations

AG	Auditor General
ATS	Automated Ticketing System
BOV	Bank of Valletta
BPR	Business Process Reengineering
CAGR	Compound Annual Growth Rate
CdB	Common Database
CEO	Chief Executive Officer
COLA	Cost of Living Adjustment
DCR	Daily Cash Report
DoC	Department of Contracts
GCC	General Contracts Committee
GCCL	Gozo Channel Company Limited
GFCL	Gozo Ferries Company Limited
HR	Human Resources
HSBC	Hong Kong and Shanghai Banking Corporation
ICT	Information and Communications Technology
L.N.	Legal Notice
MGI	Malta Government Investments Limited
MGOZ	Ministry for Gozo
MICS	Marine and Industrial Consultancy Services Limited
MIMCOL	Malta Investment Management Company Limited
MT	Metric Tonnes
NAO	National Audit Office
NI	National Insurance
NPV	Net Present Value
PwC	PricewaterhouseCoopers
SFM	GCCL Accounting Programme
TM	Transport Malta
US	United States of America
USD / US$	US Dollar

Executive Summary

Executive Summary

1. In a letter dated 23 December 2013, the Minister of Finance requested the NAO to carry out an enquiry and report on:

   a. the operations of the GCCL for the years 2010 to 2012; and
   b. whether due diligence was exercised in the submission made by the Company, jointly with GFCL, in reply to a call for tenders for the provision of maritime transport between Malta and Gozo, published by the Ministry for Infrastructure, Transport and Communication (MITC) in 2011 and subsequently awarded to the Company.

2. To address the above concerns, the following terms of reference were established:

   a. review the audited financial statements of Gozo Channel Company Ltd for the years 2010 to 2012 and, where necessary and feasible, seek external confirmation;
   b. examine in detail those areas identified as areas of materiality and/or major risk to the Company. These may include, though not necessarily be limited to: payroll, purchase of fuel, trade receivables and payables, and revenue from the sale of tickets;
   c. determine what due diligence/feasibility studies were undertaken by the Company prior to the submission of its offer for the Malta-Gozo transport tender;
   d. review the bases of the award of tender to the Company; and
   e. assess the impact/outcomes to the Company resulting directly from this tender.

3. With reference to sub-point (b), following the review of GCCL's management accounts, the NAO opted to review three operational functions, that is, payroll, ticketing and fuel. The selection of these operational elements was based on the principle of materiality in terms of revenue and expenditure. In order to establish whether the situation reported upon with respect to 2010-2012 persisted to date, or otherwise, the NAO also reviewed certain aspects of GCCL's operations in 2014. This extension of scope to 2014 was applied only to instances where shortcomings were identified, thereby allowing the Office to ascertain whether corrective action was implemented.

4. Hereunder are the main findings and conclusions established by the NAO, as well as relevant recommendations deemed appropriate.

Joint Venture Bid

5. On 16 April 2004, the GCCL entered into a Public Service Obligation (PSO) agreement with the Government of Malta. This agreement stipulated that Government was to subsidise the cost of specific passenger categories as well as night and cargo services. While this agreement had expired on 16 April 2011, the GCCL still operated under the same terms and conditions stipulated by the 2004 PSO until 30 September 2011. On 30 September 2011, GFCL and GCCL (that is, the JV), were awarded a new PSO contract, following a public call for tenders issued by MITC in February 2011. The bid submitted by the JV was the only offer received by MITC and was deemed compliant with requirements. In this sense, the Office considers the basis of the award to the JV as regular. The validity of this second PSO agreement extends to 30 September 2017.

6. The business plan submitted in the PSO tender bid included a number of strategic actions deemed prudent by the GCCL. The financial projections anticipated that the JV would generate an 8.4 per cent (post-tax) internal rate of return on investment over the PSO term while operating within the bid's parameters, that is, honouring fixed fares, PSO and timetable obligations. Notwithstanding the PSO bid forecasts, the financial results registered in 2011 and 2012 were below the projected targets. In 2011, the GCCL was to register a profit of €1.9 million; however, the Company recorded profits of €1 million. Furthermore, in 2012, which represented the first full year of the new PSO agreement, the GCCL registered a net loss of approximately €1.7 million against the projected profit of €0.5 million.

7. The most salient factors contributing to variances registered in relation to the PSO bid projections were the following:

   a. Cash at bank and in hand decreased substantially from €4.9 million in 2011 to €1.2 million in 2012. These figures were €4.4 million and €7.7 million less than projections for 2011 and 2012, respectively;
   b. The GCCL received approximately €1.1 million less in PSO agreement compensation in 2011, that is, from an envisaged €4.9 million to an actual €3.8 million. Inaccuracies in budgeting resulted in a further deduction of €0.3 million, with the GCCL receiving €3.5 million;
   c. The PSO tender bid was based on the assumption that traffic would increase annually by 2.8 per cent. Lower traffic registered resulted in €0.3 million less in actual revenue, excluding VAT, when compared with the projected ticketing revenue in 2011, while the corresponding discrepancy for 2012 was an adverse variance of €0.8 million;
   d. The GCCL budget for 2011 projected the generation of €1.3 million in other operating revenue, while the corresponding amount for 2012 stood at €1.4 million. In effect, the GCCL earned a total of €1.8 million in 2011 and 2012, which resulted in an aggregate adverse variance of €1 million;
   e. It was projected that total payroll costs would be €5.9 million in 2011 and €5.8 in 2012. In fact, the GCCL's total payroll cost for 2011 was €6 million and €6.2 million in 2012;
   f. Projected vessel costs amounted to an annual €4.7 million for both 2011 and 2012. Higher actual costs were incurred by the GCCL, with an expenditure of €5 million in 2011 and €5.1 million in 2012; and
   g. The PSO bid forecasted the cost of vessel overhauls with respect to two out of the three vessels at €1.2 million each, one scheduled for 2011 and the other for 2012. Overruns were incurred in this respect, amounting to €0.6 million in 2011 and €0.7 million in 2012. Aside from these overhauls, significant expenditure not included in the bid was incurred with respect to the installation of the hoistable deck on one of the vessels, which expense amounted to €5.7 million.

8. Various possible factors were cited by the GCCL as contributing to the Company's failure to achieve the set targets, including:

   a. The GCCL stated that the factors contributing to the decrease in cash flow included the payment of a €0.5 million dividend, the revised PSO payment, expenses relating to the overhaul of vessels, and the installation of the hoistable deck;
   b. Although the new PSO agreement was to come into effect on 1 January 2012, this was brought forward to 30 September 2011. This change in the date of effect resulted in the GCCL receiving approximately €1.1 million less in compensation in 2011, that is, from €4.9 million to €3.8 million. Inaccuracies in budgeting resulted in a further deduction of €0.3 million, with the GCCL receiving €3.5 million;
   c. With respect to traffic growth targets not realised, the GCCL referred to major roadworks, the construction of the new terminal building at Ċirkewwa and the inclement weather experienced during 2012 as determining factors;
   d. Another factor influencing traffic figures related to instances where foot passengers who had travelled to Gozo aboard the ferry returned to Malta via 'tour boats', thereby costing the Company significant amounts in terms of lost ticket revenue;
   e. The GCCL's failure to realise the anticipated other operating income related to the Company's inability to lease out commercial space at the anticipated rates, not capitalising on advertising revenue, discrepancies attributable to the onboard cafeteria and the non-charging of fees for the Mġarr terminal car park;
   f. The GCCL attributed payroll-related discrepancies to the revision of salaries in the collective agreements entered into in 2012, where the PSO projections only contemplated COLA. Other elements cited as influential in this regard were the promotions awarded with no clear justification and poor management control of absenteeism and sick leave;
   g. Overruns in projected vessel costs were mainly attributed to the cost of fuel and lubricating oil, with an adverse variance of €0.3 million in 2011 and €0.6 million in 2012. The bid contemplated that the GCCL would hedge its exposure to fuel costs for the term of the PSO; however, the Company entered into no such hedging agreements; and
   h. The payment of the €5.7 million expense incurred with respect to the installation of the hoistable deck on the MV Ta' Pinu was an issue of contention between the GCCL and the GFCL, with each claiming that the other was to cover such costs. Although the issue has now been resolved, with the GFCL accepting responsibility for payment, the NAO is of the opinion that the recovery of such dues by the GCCL is at worst unlikely and at best delayed, since settlement is contingent on the GCCL registering a profit, a substantial part of which would then be directed to the GFCL.

9. In light of all of the above, the NAO sought to augment its understanding of the factors that were deemed influential in the GCCL's failure to achieve targets established in the PSO bid. In essence, the NAO was seeking to establish whether the projections submitted in the tender bid had not been met because such projections had been overoptimistic in the first place, due to lack of action by the GCCL, or attributable to factors beyond the GCCL's direct control.

10. The NAO considers the context within which such a bid was drawn up as an element of critical importance. To this end, the GCCL indicated that in the run up to the submission of the PSO bid, the Company was in a healthy financial state, which could have imparted a misplaced sense of security. Moreover, by the closing date for the collection of the PSO tender, twelve parties had collected the document, constraining the JV to price the bid very competitively.

11. This Office is also cognisant of the fact that the GCCL is expected to operate as a private enterprise, but is then somewhat constrained by its public sector status. The challenges faced by the Company in this sense limit its flexibility across various facets of its operations, ranging from the determination of fares to salary structures, while other obligations imposed on the Company may not necessarily be commercially viable. Another factor that the NAO deemed relevant to the management of the GCCL was the absence of a CEO for significant stretches of time during the period under review. This Office considers this management role as central to the efficient and effective functioning of the GCCL and its void bore significant negative impact on all of the GCCL's operations.

12. The reduction of revenue generated from the new PSO agreement was to be compensated for by the GCCL through the implementation of various initiatives and cost saving measures. The NAO is of the opinion that certain initiatives were not seen through due to insufficient action on the part of the GCCL, such as the case of fuel hedging, where the Company failed to carry out the necessary studies to establish how it could hedge its exposure. Other aspects of the bid were not attained due to the overambitious nature of the targets set. The lease of commercial space aboard the vessels and at the terminals, as well as advertising revenue are cases in point. In this Office's view, other factors that may have limited the GCCL's attainment of the PSO-set targets were beyond the direct control of the Company. Such unforeseen circumstances include the major roadworks undertaken during the period under review. Other factors contributed to the GCCL's failure to realise projections. The substantial increase in salaries that was brought about through the coming into force of two collective agreements, which were not anticipated in the PSO bid, is one such factor. Another factor was the reluctance to impose fees for use of the terminal car park, which subsequently led to adverse variances registered with respect to income targets set in the PSO bid.

13. Notwithstanding the above, the NAO's closer scrutiny of the 2011 and 2012 financial statements indicated that the elimination of the PSO effect led to financial results comparable to those of previous years. Despite the reduced PSO revenue generated post September 2011, in 2014, the GCCL registered a profit of €0.06 million, which although representing an unfavourable variance of €1.1 million in relation to the tender bid projections, was a marked improvement over the losses made in 2012 (€1.7 million) and in 2013 (€1 million). This improvement was mainly brought about by increases of approximately €1.1 million in revenue each year during 2013 and 2014. The major proportion of these revenue increases was with respect to ticket sales, with an increase of €1 million registered in 2014 and €0.9 million in 2013. Furthermore, during 2014, the aggregate revenue from ticketing and the PSO contract exceeded the PSO bid projections by €0.3 million. Another notable improvement was recorded with respect to other operating revenue from vessels, whereby an increase of €0.2 million was made from 2012 to 2014. In the main, this was due to the increase of €0.2 million in cafeteria revenue, which effectively more than doubled during this two-year period. Meanwhile, the increase in revenue during this period corresponded to an increase in total operating expenses of €0.5 million. Cash at bank and in hand increased by €0.2 million between 2012 and 2014, although, in 2014, this was €10.5 million less than projected in the tender bid.

14. Although the applicability to future PSO bids is somewhat limited, the NAO is of the opinion that proposals put forward by the GCCL should be based on realistic projections. Where possible, the relevant study and analysis key in determining the possibility of the realisation of specific objectives should be carried out in order to avoid situations where projections deviate from set targets at the outset. The

NAO acknowledges that certain aspects of PSO-type bids are complex and involve coordination with other stakeholders, hence implying that control over the outcome of such aspects may not be wholly within the control of the GCCL. Nevertheless, the NAO is of the opinion that prudence should be exercised under such circumstances.

15. Assuming that the targets set are realistic and achievable, then the GCCL should ensure that sufficient resources are allocated in order to attain such goals. The NAO deems insufficient action on the part of the GCCL as not a valid justification in explaining the Company's failure to achieve the set goals.

16. The NAO recommends that all provisions stipulated in the PSO agreement should be honoured by both parties, the GCCL and Government. Any deviations thereto and arising from outside of the control of the GCCL should be reflected through corresponding amendments to the agreement. By way of example, the GCCL's provision of a free service to Gozo as part of a wider Government initiative to support the Gozitan economy was not considered in the PSO agreement. On such occasions, the Company was not fully reimbursed for expenses incurred.

Liquidity and Solvency

17. The NAO carried out an analysis of the financial health of the GCCL, particularly in terms of its trade receivables and payables, as well as liquidity and solvency considerations, indicative of the Company's short-term and long-term viability. This Office established that the financial health of the GCCL depends upon the GFCL's ability to pay the considerable outstanding amount owed to the former. As things stand, should the GFCL fail to settle such dues, doubts would be raised on the GCCL's going concern status.

Fuel Procurement

18. In total, three fuel contracts were in effect during 2010 to 2012. One of these contracts was signed with Falzon Fuel Services Limited and covered the period January to July 2010, which contract was subsequently extended for a further five months. This contract covered the fuel requirements of the MV Malita. The GCCL also awarded a direct contract to Falzon Fuel Services Limited for the provision of fuel for the MV Ta' Pinu and MV Gaudos for July and August 2010. The other contract was signed with Salvu Zammit and Sons Limited on 27 May 2011 for a period of three years. However, this contract came into effect on 24 March 2012 due to pending disputes between the GCCL and the supplier.

19. While the NAO's analysis focuses upon contracts in place, its greatest concern centres on the multiple instances when the procurement of fuel was not regulated by any contractual agreement. In this Office's understanding, such a situation exposes the GCCL to substantial risk, rendering the Company's dependence on the supplier as one without the necessary safeguards. This serious shortcoming represents a failure on the part of the GCCL's management, with the Company not adequately anticipating and securing fuel contracts in a timely and equitable manner. This Office's concern in this respect intensifies when one considers that the fuel expense incurred by the GCCL, when not covered by a contract, exceeded €5.6 million.

20. Although the contract with Salvu Zammit and Sons Limited was entered into in May 2011, it eventually came into effect in March 2012. This delay was due to a dispute between the GCCL and the supplier over the indemnity coverage that was to be provided in the insurance policy. In light of the advice provided by the DoC, the GCCL

acceded to the Supplier's position due to the substantial cost of the delay, which, according to the NAO amounted to approximately €88,000. This Office is of the opinion that this situation could have been averted had the tender document been more specific as to the level of indemnity required. Furthermore, the NAO considers the lag in referring the matter to the DoC as excessive, thereby directly delaying the resolution of the matter.

21. A dispute arose with respect to the 2012 contract with Go Fuels Limited (previously referred to as Salvu Zammit and Sons Limited) with regard to persistent unpaid balances in excess of €1 million by the GCCL. The dispute was referred for arbitration, where the GCCL was deemed to be in breach of the contract with regard to excessive unpaid balances because it was not effecting the interpretation and implementation of the contractual obligations in bona fide. Notwithstanding the Arbitrator's decision that the contract be terminated, an appeal was filed by the GCCL. This appeal effectively put on hold the implementation of the ruling to terminate the contract, with Go Fuels Limited continuing to supply the GCCL. At the time of writing, the outcome of the appeal remained pending.

22. The NAO reviewed all the documentation provided by the GCCL in relation to quality testing, quantity reconciliation and price verification of a sample of bunkerings. The NAO's main concern relating to the testing of fuel quality specifications centred on the fact that the GCCL did not systematically submit samples for testing at independent laboratories, citing cost considerations. In this regard, the NAO maintains that good practice entails that frequent random samples of fuel are sent for laboratory analyses to assure that a quality product was being purchased, particularly so in view of the materiality of the expense at hand. The major shortcoming identified by the NAO with respect to price-related verifications undertaken was the fact that no documentation was provided by the GCCL confirming that the price paid for purchases made between January and November 2010 from Salvu Zammit and Sons Limited was that agreed on. Following testing undertaken by the NAO, the financial impact of errors identified was deemed immaterial when considering the total outlay for fuel purchased by the GCCL.

23. With respect to the verification of quantities of fuel procured by the GCCL, the NAO's concern was drawn to certain purchases made from Falzon Fuel Services Limited. This Office noted that there were a number of months wherein the MV Malita's fuel meters were not functional and therefore did not record the volume of fuel transferred. Compounding matters in this case was the fact that the majority of the barge fuel meter readings that should have been noted were also left empty. Moreover, the NAO expresses concern that for the MV Ta' Pinu, the GCCL did not trace the bunkering operations checklists for the period 20 August 2010 to 14 January 2011, hence this Office was unable to verify the regularity of such transactions, or otherwise.

24. The NAO urges the GCCL to ensure that fuel contracts in force seamlessly follow one another, ascertaining that there are no lacunae in the transition from one contract to the next. The GCCL's management should adequately plan for the issuance of calls for supply and anticipate possible delays that might arise by ensuring that such action is taken in a timely manner.

25. With reference to the verifications of the quality of purchased fuel, the GCCL should adopt a more systematic approach to ensure that the procured fuel is according to the specifications stipulated in the relevant contracts. As indicated, the NAO is of the opinion that regular random samples should be independently tested in order to ensure compliance in terms of quality-related specifications.

26. On the other hand, with regard to quantity-related verifications, the NAO considers it unacceptable that the GCCL was in a position where it could not objectively determine the fuel received. This Office urges the GCCL to take all necessary measures to prevent such reoccurrences.

Wages, Salaries and Directors' Fees

27. This review of wages and salaries entailed the analysis of the GCCL payroll, with particular attention directed towards the various employee and payment categories. The NAO reviewed basic salary computations corresponding to samples selected for 2010 to 2012, each equivalent to an approximate 50 per cent of the GCCL's complement. Therefore, this exercise was based upon a stratified sample ranging between 120 and 138 employees. In total, this Office detected 37 errors relating to basic pay, which in aggregate, amounted to €17,154. However, the NAO could not determine the accuracy or otherwise of the basic salary paid to another 48 employees since the documentation made available by the GCCL was insufficient.

28. Of significant concern to the NAO is the fact that the GCCL has a tacit agreement with its employees whereby breaks are considered as forming part of the shift. The NAO considers this arrangement as irregular since the break should not be considered as part of the working week.

29. Notwithstanding the reduction in staff complement from 2010 to 2012, where the GCCL's workforce decreased by 31 employees, equivalent to approximately 10 per cent, payroll costs increased from €5,895,742 in 2010 to €6,037,299 in 2012. The GCCL's average salary during 2010 amounted to €23,678, while in 2012 this stood at €26,538. Such payroll cost increases, attributable to wage raises and promotions, came at a time when the GCCL was faring particularly poorly in financial terms, and denotes imprudent practices, poor management control and a failure to safeguard the Company's long-term sustainability.

30. The NAO established that for the period 2010 to 2012, overtime attributable to operational delays, sick leave and roster was not covered by formal authorisation. Lack of overtime approvals are of notable concern to this Office, as these signify a lack of management control over overtime hours, which precludes the appropriate monitoring of overtime costs a priori and presents the risk of the utilisation of overtime hours when not necessarily required, further exacerbating the GCCL's wages and salary costs. This concern is accentuated by the fact that overtime for the period 2010 to 2012 cost the GCCL in excess of €1.8 million.

31. Over the audit period, the proportion of overtime costs to the GCCL's total payroll expense increased significantly from 8 per cent in 2010 to 14 per cent in 2012. In addition, 15 per cent of the GCCL wage expenditure was attributable to night, Sunday and public holiday allowances. In the NAO's opinion, the lack of overtime authorisation and the considerable increase in overtime costs registered manifested in instances when employees of the GCCL recorded exorbitant hours of overtime. According to the GCCL, a formal overtime approval procedure was implemented with effect from early 2014, that is, shortly after the commencement of this audit.

32. Other payroll-related shortcomings identified by the NAO included:

    a. 12 instances of incongruence where the GCCL erroneously deducted incorrect amounts with respect to income tax and NI, some of which were deemed relatively material, such as the overpayment of €1,396 and €1,012 in income tax and €591 in NI;

b. there appears to be a broad consensus that the GCCL is overstaffed, particularly with respect to the Company's seaborne and terminal staff. In the case of seaborne staff, this was attributed to the safety manning levels, which were deemed excessive. With regard to terminal staff, concerns highlighted included challenges relating to the redeployment of staff and the fact that terminal operations were not strictly part of the GCCL's core business;
c. personal agreements that the GCCL entered into with officials in grades that do not ordinarily merit such arrangements, some of which are already covered by the collective agreements; and
d. the issuance of staff roster prior to the drawing up of the operational plan. The NAO expresses concern at this state of affairs and deems this to represent poor practice as this undermines the management of staff deployment and control of overtime.

33. This Office considers the inclusion of break periods as part of the working hours as irregular and deems it necessary for the GCCL to take corrective action in this regard. The NAO is of the opinion that the official working hours must be extended to incorporate, at least, the minimum break period as stipulated in the Organisation of Working Time Regulations (L.N. 247 of 2003 as amended by L.N. 259 of 2012).

34. In view of the absence of any formal system regulating the approval of overtime during the audit period, the NAO urges the GCCL to adopt a standardised procedure for the authorisation of overtime. The importance of implementing such a procedure is highlighted by the fact that during the period 2010 to 2012, overtime costs amounted to in excess of €1.8 million. The GCCL should only resort to overtime in cases of genuine need that ought to be determined by the exigencies of the service delivered. These exigencies should be determined by the GCCL's operational plan and duly reflected in staff rosters. The NAO is of the opinion that such measures would contribute towards the control of such expenditure and avoid instances where particular staff recorded excessive hours of overtime.

35. The NAO recommends that a more prudent approach is adopted by the GCCL in future revisions to salaries. The need for prudence is accentuated by the considerable payroll cost increases registered at the time when the Company was in a dire financial situation. The resort to personal contracts of employment, aside from those entered into with the GCCL senior management, should be avoided.

36. The NAO urges the GCCL to review the payroll-related errors identified in the report and, where in agreement, rectify accordingly. Erroneous payments wherein the GCCL employee was underpaid should be corrected; however, attention must also be directed towards the instances when the GCCL overpaid its employees and the prompt recovery of such dues followed through.

Revenue from Ticket Sales

37. The GCCL adopted two approaches in keeping track of passenger and vehicle traffic, namely the Veslog report and the Passenger and Vehicle Count (P&V) report.[1] Under the Veslog system of record-keeping, data relating to passenger and vehicle counts was recorded by the GCCL staff stationed at the Ċirkewwa and Mġarr terminals through the use of tally-counters. On the other hand, the P&V report was created directly from the ticketing system.

[1] P&V data include manual ticket sales.

38. The comparison of P&V Mġarr data with Veslog Ċirkewwa data results in significant discrepancies, with Veslog Ċirkewwa consistently reporting higher traffic figures. In this sense, the average annual variance was that of over 95,000 passengers and 11,000 vehicles. While the registered discrepancies are substantial in all years, the most significant variance in terms of passengers, at 106,000 passengers, was recorded in 2012. With regard to vehicle data, the most prominent discrepancy was noted in 2014, where a variance in excess of 21,000 vehicles was registered.

39. Applying weighted fare rates to the variances registered by the GCCL between the Mġarr-based P&V report and the Ċirkewwa Veslog results in significant potential yearly losses of ticketing revenue. With respect to the period 2010-2012 and 2014, the potential ticket revenue losses amounted to €1,451,159 in aggregate.

40. In seeking to understand the anomalies and inconsistencies that emerged in terms of passenger and vehicle-related traffic, the NAO held a number of meetings with the current and former GCCL senior management, who provided different explanations with respect to the highlighted discrepancies. Various possible explanations were put forward, including, human error, weak management control resulting in susceptibility to possible abuse by the GCCL's employees, the return trip effected by means of private tour boats thereby bypassing the Mġarr terminal, instances of faults in the software system, and the purchase of vehicles by Gozitan residents. An internal audit report reviewed by the NAO also highlighted other possible factors, such as passenger-related access control weaknesses and scanner-resetting issues.

41. Although the NAO acknowledges the possible differences in recorded figures attributable to these factors, the annual discrepancies are far too large to be explained in these terms. This Office maintains reservations regarding the integrity of passenger and vehicle related data and considers explanations put forward by the GCCL as improbable, as the consistency, magnitude and directionality of the error indicates otherwise. Such discrepancies heighten the NAO's concerns and indicate a lack of sufficient control being implemented by the GCCL. The continuous nature of such significant variances should have drawn the GCCL management's attention, particularly in view of the materiality of lost revenue, estimated by this Office at €1.5 million over the four years reviewed.

42. The NAO reconciled the total cash received from the tickets sold against the total cash deposited for the sampled months. Through the reconciliation of cash received and deposited by the GCCL, it transpired that although the cash received from ticket sales within the sampled months was eventually deposited at the bank, there generally was a time lag before this was done. In fact, the average undeposited ticket sales for the months sampled ranged between €31,000 (17 ticket sellers) and €131,000 (16 ticket sellers). In the NAO's opinion, the failure to deposit cash receipts from ticket sales in a timely manner is unacceptable and good practice dictates that ticket sale receipts are deposited on a daily basis.

43. The GCCL indicated that, aside from claiming any discrepancies found, no further action was taken with respect to delays in the deposit of ticket sales. This Office deems this to be unacceptable because, as matters stand, nothing is actively done to deter delays in ticket sale deposits and prevent the inappropriate retention of ticket sale revenues by its employees. This Office noted that the balances unpaid to the GCCL were most pronounced in the case of a number of ticket sellers, who had an average of undeposited ticket sales for particular months as high as €27,394, €28,211 and €33,694.

44. The NAO is of the opinion that passenger and vehicle traffic data constitutes a critical source of management information, bearing direct impact on all aspects of the GCCL's operations. This data should serve as the basis for key decisions taken by the GCCL and therefore, inconsistencies in this sense undermine the reliability of intelligence on which such decisions are taken. The fact that different sources of traffic data are inconsistent with one another should serve as the impetus for the GCCL to investigate the underlying factors leading to such discrepancies. Certainly, inaccuracies in traffic data represent an indication of potential lost revenue which, given the discrepancies, could be significant.

45. To this end, the NAO recommends that the GCCL consider possible short-term and long-term solutions to rectify this situation. One possible short-term measure entails the introduction of a ticketing system at the Ċirkewwa terminal, which would ensure that no passenger boards the ferry without a paid ticket. This measure would address the loss in revenue experienced by the GCCL as a result of return journeys provided by tour boats. Other solutions of a more long-term nature essentially entail the full automation of ticketing-related processes, with specific reference hereby made to the purchase and validation of tickets.

46. The NAO recommends that the GCCL implements and enforces a strict policy where daily cash receipts from ticket sales are deposited on a daily basis. This Office is of the opinion that the Terminal Duty Manager tasked with overseeing each shift should be held responsible for the collection of all receipts. Furthermore, weekly reconciliations of tickets sold should be carried out without fail by the Accounts Department. The NAO considers such measures as an initial step that should be taken by the GCCL in ensuring that the ticket sellers do not unnecessarily retain the Company's cash receipts. Instances of serious irregularities should undoubtedly be dealt with strictly.

Chapter 1
Introduction

Chapter 1 – Introduction

This initial chapter presents a contextual setting to Gozo Channel Company Limited (GCCL). In particular, this chapter highlights the Company's functions and the extent of usage of its services, while also providing a concise outline of its history, focusing on events in recent years. Finally, details of the terms of reference, together with the methodology employed, are elaborated on.

1.1 Background Considerations

1.1.1 In 1979, the Government of Malta set up the GCCL to maintain, develop, and run a sea transport service to and from Malta, Gozo and elsewhere, which, through the transport of passengers, freight and mail, served the multiple socio-economic interests of the Maltese Islands. Various laws and regulations, including the Merchants' Shipping Act and European Union (EU) directives, as well as international conventions, regulate the ferry service.

1.1.2 Since its inception, the GCCL has provided a year round service consisting of the scheduled trips from Mġarr and Ċirkewwa (including night trips), additional journeys/shuttle service during seasonal peaks, the freight service, and the transport of hazardous cargo. The GCCL is also responsible for the operation and management of the associated harbour terminals. The availability of a dependable and consistent ferry service between the Maltese Islands provides residents of Gozo with the ability to travel to Malta on a daily/frequent basis for employment, education and health reasons, and serves as the vital infrastructure necessary for internal tourism. Furthermore, the Gozo-Malta ferry service potentially serves to decrease the disparity between the Gross Domestic Product per capita in Malta (€18,137 at market prices in 2013) and Gozo and Comino (€12,269).[2]

1.1.3 The three vessels being utilised by the GCCL at present were built in the years 2000 to 2002 by the then Malta Shipbuilding Company Limited and are owned by Gozo Ferries Company Limited (GFCL). Malta Government Investments Limited (MGI) fully owns the GCCL and the GFCL.

[2] Gross Domestic Product figures cited as per National Statistics Office's Regional Gross Domestic Product: 2000 – 2013, published in December 2014.

1.1.4 Table 1 illustrates the number of trips the GCCL made and the number of passengers/vehicles transported during 2010, 2011 and 2012. The figures presented are based on categorisations according to the origin of the customer segment or other particular groups, for instance senior citizens, commercial, night trips and special events. A detailed breakdown of the figures presented in Table 1 is reproduced in Appendix A. While the data presented in Table 1 provides an annual account of passenger and vehicle movements, one must note that traffic is subject to notable seasonal fluctuations. While Maltese residents account for regular annual traffic, with peaks during weekends and in specific periods such as Carnival (February), Easter (March/April), the Feast of the Assumption (August) as well as during long weekends, that of tourists registers elevated levels of traffic during the summer months.

Table 1: Trip and passenger/vehicle statistics, 2010-2012

Category	2010	2011	2012
Number of trips	20,008	19,816	19,515
Standard fare passengers/vehicles	2,036,592	2,083,274	2,040,212
Gozo fare passengers/vehicles	1,510,496	1,553,488	1,555,302
Senior fare passengers/vehicles	309,236	348,650	364,356
Night fare passengers/vehicles	15,296	25,536	32,640
Commercial	53,858	55,256	56,740
Other event-related passengers/vehicles	45,344	-	-
Total traffic	3,970,822	4,066,204	4,049,250

Source: GCCL Management Accounts 2010, 2011 and 2012

1.1.5 As indicated in Table 1, the number of trips fell by around 2.5 per cent, from 20,008 in 2010 to 19,515 in 2012. Making reference to the detailed figures presented in Appendix A, one notes that the number of foot passengers originating their journey from Malta rose by 40,708 (2.7 per cent) between 2010 and 2011 and dropped by 16,300 (1.1 per cent) in 2012. Meanwhile, the number of cars and drivers originating from Malta increased by 1.4 per cent between 2010 and 2011 and decreased by 20,006 (5.2 per cent) in 2012. Gozitan foot passengers increased by 47,804 (5.2 per cent) between 2010 and 2012, with most of the increase registered during the first year of this period. In addition, worthy of note is a decrease of 9,970 (2.2 per cent) in the number of vehicles registered to Gozitans crossing over between 2011 and 2012. A significant increase was registered with respect to the number of senior foot passengers (non-Gozitan) utilising the service between 2010 and 2012, up 20.7 per cent, that is, 52,944 passengers. The amount of commercial vehicles also rose by 2,882 (5.4 per cent) during this period. In total, traffic on the GCCL's vessels increased by 95,382 (2.4 per cent) between 2010 and 2011 and decreased by 16,954 (0.4 per cent) during the following year.

1.2 Recent History of GCCL

1.2.1 On 16 April 2004, the GCCL was granted a direct Public Service Obligation (PSO) contract valid for six years through the then Ministry for Competitiveness and Communication, to provide sea transportation services as set in the contract. The PSO funds granted to the GCCL in the later years of the contract were approximately €5 million in 2007, €4 million in 2008, €4.3 million in 2009, and €4.5 million in 2010. Until the contract's expiry, the agreement between the GCCL and the GFCL was for the GCCL to pay the GFCL a yearly charter fee. The GFCL was to assume responsibility for expenditure relating to capital and major improvements to the vessels, while maintenance costs were to be borne by the GCCL.

1.2.2 On the contract's expiry, the GCCL was granted an extension of its contract, effectively extending the period covered by the 2004 PSO from April 2010 to September 2011.

Following negotiations undertaken by the Maltese Government, the EU agreed to the arrangement whereby one operator would provide the service, subject to the issue of a call for tenders open to European ship operators. To this end, the Ministry for Transport issued a public call for tenders on 8 February 2011, which tender was deemed to be in accordance with the EU Maritime Cabotage Regulation No. 3577/92/EEC of 7 December 1992. The submission deadline was set at 1 April 2011. Even though a number of companies purchased a copy of the tender document, only the Joint Venture (JV), composed of the GCCL and the GFCL, submitted an offer by the indicated closing date. The JV based its financial offer, shown in Table 2, on 2009 statistics, as was in fact stipulated in the tender document.

Table 2: Calculation of the value of JV's financial offer

Type of Compensation		Compensation per unit (€)	2009 Statistics	PSO based on 2009 statistics (€)
Gozo residents (per passenger)	Foot passengers	0.01	433,970	4,340
	Resident driver & car	0.10	223,245	22,325
	Resident rider & motorcycle	0.01	4,402	44
Kartanzjan holders (per passenger)	Foot passengers	1.15	138,950	159,793
	Driver & car	1.15	52,768	60,683
	Rider & motorcycle	1.15	403	463
Marsamxett/Valletta to Mġarr (per trip)		594	282	167,508
Night Service (per trip)		165	1,638	270,270
Total				685,426

1.2.3 The JV was awarded the contract, valid for six years, with effect from 30 September 2011. In a separate JV agreement, signed by the GCCL and the GFCL on 15 March 2011, the parties agreed that the vessels owned by GFCL would be used exclusively by the GCCL in the provision of the services related to the PSO. No compensation/consideration was due by the GCCL with respect to the chartering of the vessels. However, payment was due to GFCL based on 85 per cent of the JV free cash flow, as stipulated in the JV agreement. This free cash flow was broadly defined as the aggregate profit before tax of both JV parties, adjusted to add back bank interest and depreciation, and to deduct tax and qualifying capital expenditure (representing capital expenditure incurred by the GCCL during the PSO term in relation to the terminal/s, other shore facilities and the vessels). In the first full year of the PSO (2012), the GCCL received €656,020 with respect to this contract.

1.2.4 Aside from the above-indicated developments leading to the award of contract to the JV, the NAO noted that the GCCL had experienced considerable management turnover in the years leading to and during the actual concession, affecting the Company's financial performance, among other aspects. It is important to note that the most recent long-term GCCL CEO retained office from 1999 to 2007. The paragraphs below summarise a timeline of events presented in a Board memorandum addressing this issue. This memorandum, dated 6 June 2012, was addressed to the Chair of the Malta Investment Management Company Limited (MIMCOL)/MGI and was prepared by the Chief Executive Officer (CEO) of MIMCOL/MGI, who was for a time GCCL's Acting Chair.

1.2.5 According to the memorandum, in late 2009, the GCCL's attention was drawn to the fact that the PSO tender was to be issued on 8 January 2010. In this context, and given that there were only a few weeks between this date and that of the CEO's resignation in November 2009, the Board chose to defer the recruitment of a new CEO until after the PSO issue was resolved so that the Company could attract suitably qualified individuals. At the time, the Board agreed that, temporarily, the GCCL's Chair would also be its de facto CEO.

1.2.6 In October 2010, the Chief Financial Officer (CFO) position was also vacant (eventually filled in 2012). In November 2010, a member of the GCCL Board resigned following the publication of allegations of fraudulent practices (in matters unrelated to the GCCL). The number of directors therefore decreased to eight.

1.2.7 In November 2011, shortly after the start of the implementation of the PSO contract, the GCCL Chair since 2008 and its de facto CEO from November 2009, was involved in an incident following which he was asked to resign by the Government. As a temporary measure, Deputy Chair GCCL was asked by the Minister of Finance to fill the post left vacant by the departing Executive Chair GCCL. At this point, none of the remaining directors were contributing in an executive capacity.

1.2.8 In December 2011, another GCCL Director was implicated in corrupt practices (likewise in matters unrelated to the GCCL), and following his resignation, the number of Board directors decreased to six. Due to the proviso that a quorum of at least five directors was required to convene board meetings, the Acting Chair informed the Ministry of Finance of the situation and the fact that new directors needed to be appointed.

1.2.9 The process that was to lead to the eventual recruitment of a new CEO commenced in December 2011; however, this was delayed as the former GCCL Executive Chair had initiated legal action with a view to possible reappointment. A new CEO was eventually appointed in December 2012.

1.2.10 In March 2012, another GCCL Board member submitted her resignation. This negatively affected the Company as this Director had been managing GCCL's procurement from the time when the acting CEO had resigned. At this point, the number of Directors had reached the quorum level; however, within a few days of this resignation, another Board member also resigned. This situation was rectified later in March 2012, when the Ministry of Finance appointed five new Directors.

1.2.11 In GCCL's Board meeting minutes of 27 July 2012, the Chair expressed concern regarding the CEO's absence, which resulted in him having to assume considerable executive responsibilities that were deemed incongruent with his non-executive role. The Chair further stated that, aside from the post of CEO, there were other important posts vacant within the Company, such as that of the Chief Operations Officer.

1.2.12 During a meeting with the NAO, the Company's former Chair explained that a CEO would have better handled the responsibilities of the Company's day-to-day running. Furthermore, the former GCCL Chair stated that the Company was facing liquidity problems and was not being professionally managed. This was illustrated by the GCCL's failure to implement the new PSO agreement. During his tenure as GCCL Chair, rather than focusing on high level strategic concerns, his attention was caught up in dealing with the matter relating to the appointment of the new CEO, operational and human resources (HR) related issues, as well as disputes between the Company's management and masters.

1.3 Terms of Reference and Methodology

1.3.1 In a letter dated 23 December 2013, the Minister of Finance requested the NAO to carry out an enquiry and report on:

a. the operations of the GCCL for the years 2010 to 2012; and
b. whether due diligence was exercised in the submission made by the Company, jointly with GFCL, in reply to a call for tenders for the provision of maritime

transport between Malta and Gozo, published by the Ministry for Infrastructure, Transport and Communication (MITC) in 2011 and subsequently awarded to the Company.

1.3.2 To address the above concerns, the following terms of reference were established:

a. review the audited financial statements of Gozo Channel Company Ltd for the years 2010 to 2012 and, where necessary and feasible, seek external confirmation;
b. examine in detail those areas identified as areas of materiality and/or major risk to the Company. These may include, though not necessarily be limited to: payroll, purchase of fuel, trade receivables and payables, and revenue from the sale of tickets;
c. determine what due diligence/feasibility studies were undertaken by the Company prior to the submission of its offer for the Malta-Gozo transport tender;
d. review the bases of the award of tender to the Company; and
e. assess the impact/outcomes to the Company resulting directly from this tender.

1.3.3 With reference to sub-point (b), following the review of GCCL's management accounts, the NAO opted to review three operational functions, that is, payroll, ticketing and fuel. The selection of these operational elements was based on the principle of materiality in terms of revenue and expenditure. In order to establish whether the situation reported upon with respect to 2010-2012 persisted to date, or otherwise, the NAO also reviewed certain aspects of GCCL's operations in 2014. This extension of scope to 2014 was applied only to instances where shortcomings were identified, thereby allowing the Office to ascertain whether corrective action was implemented.

1.3.4 The methodology adopted by the Office in the address of the above-referred terms of reference focused on two main aspects, that is, the collection of information through semi-structured interviews and the review of documentation relating to the various issues under analysis. To this end, a detailed account of the methodology employed with respect to this audit is provided in Appendix B.

1.4 Report Structure

1.4.1 The rest of this report is organised in the following manner:

a. **Chapter 2 – Joint Venture Bid**
This chapter provides a detailed analysis of the actual financial and operational performance of the GCCL in 2011 and 2012. To this end, comparisons were drawn to the projections as submitted in the PSO tender bid, with a view to identifying the reasons behind such variances and establishing whether due diligence was exercised in the submission of the bid. The results indicated substantial adverse discrepancies in revenue and expenditure compared to the projections in the PSO tender bid document submitted by the JV. These projections were not realised for various reasons, namely, overambitious forecasts, insufficient action on the part of the GCCL, and other reasons beyond the Company's direct control.

b. **Chapter 3 – Operational Considerations (1): Liquidity and Solvency**
This chapter provides an analysis of the financial health of the GCCL, particularly in terms of its trade receivables and payables, as well as liquidity and solvency considerations, indicative of the Company's short-term and long-term viability. The financial health of the GCCL hinges upon the GFCL's ability to pay the considerable outstanding amount owed to the former. As things stand, should the GFCL fail to settle such dues, doubts would be raised on the GCCL's going concern status.

c. **Chapter 4 – Operational Considerations (2): Fuel Procurement**
Fuel is one of the GCCL's major expenses, equating to an approximate 30 per cent of the total operating expenses incurred during 2010-2012 and amounting to an aggregated €9.75 million over this three-year period. In this respect, the NAO focused its attention on examining the GCCL's fuel procurement process, agreements entered into and subsequent disputes arising therefrom. Furthermore, the NAO reviewed the processes relating to the verification of the quality, quantity and price of the fuel procured, while also examining the fuel consumption levels registered by each of the GCCL vessels.

d. **Chapter 5 – Operational Considerations (3): Wages, Salaries and Directors' Fees**
Another operational aspect selected for further analysis by the NAO represented the GCCL's largest cost component, that is, wages, salaries and directors' fees, which accounts for approximately half of the Company's total operating costs. During the period 2010 to 2012, the GCCL's payroll cost amounted to €5.9 million, €5.8 million and €6 million, respectively. In addressing this aspect of the GCCL's operations, the NAO focused on two aspects of verification. First, the NAO undertook compliance testing intended to establish whether payroll payments tallied with applicable employee contracts and collective agreements. Second, this Office reviewed the GCCL's staffing levels with a view towards identifying possible savings.

e. **Chapter 6 – Operational Considerations (4): Revenue from Ticket Sales**
Another issue analysed by the NAO in its examination of the GCCL's operations between 2010 and 2012 was the sale of tickets, which accounted for the vast majority of the GCCL's revenue throughout the audit period. For these years, the GCCL registered in excess of €30 million in ticketing revenue. In this context, this Office's analysis mainly centred on a review of passenger and vehicle traffic, with particular analytical emphasis directed towards ticket sales registered by the GCCL, and how such revenue reconciled with cash received.

f. **Chapter 7 – Conclusions and Recommendations**
In this chapter, the conclusions drawn by the NAO with respect to the PSO bid submitted by the JV and the operational considerations reviewed are put forward. The operations analysed represented the main cost components and revenue source of the GCCL, namely, fuel procured, payroll costs and ticketing revenue. This review was undertaken against a wider understanding of the financial health of the GCCL, particularly in terms of its liquidity and solvency considerations. Where relevant, recommendations are proposed intended at addressing concerns identified.

g. **Appendices**
The appendices included with this report are intended at providing a detailed breakdown passenger and trip statistics. Appendix B sets out the methodology employed in this audit.

Chapter 2
Joint Venture Bid

Chapter 2 – Joint Venture Bid

This chapter provides a detailed analysis of the actual financial performance of the GCCL in 2011 and 2012. To this end, comparisons were drawn to the projections as submitted in the PSO tender bid, with a view to identifying the reasons behind such variances and establishing whether due diligence was exercised in the submission of the bid. The results indicated substantial adverse discrepancies in revenue and expenditure compared to the projections in the PSO tender bid document submitted by the JV. These projections were not realised for various reasons, namely, overambitious forecasts, insufficient action on the part of the GCCL, and other reasons beyond the Company's direct control.

2.1 Background

2.1.1 On 16 April 2004, the GCCL entered into a PSO agreement with the Government of Malta. This agreement stipulated that Government was to refund the costs incurred with respect to ferry ticket rebates granted to Gozitan residents and elderly citizens, and for the variable costs incurred in order to operate night and cargo services (hereinafter referred to as the 'regulated services'), following the deduction of revenues from the related trips. While this agreement had expired on 16 April 2011, the GCCL still operated under the same terms and conditions stipulated by the 2004 PSO until 30 September 2011. On 30 September 2011, GFCL and GCCL (that is, the JV), were awarded a new PSO contract, following a public call for tenders issued by the Ministry of Infrastructure, Transport and Communications (MITC) in February 2011. The bid submitted by the JV was the only offer received by MITC and was deemed compliant with requirements. In this sense, the Office considers the basis of the award to the JV as regular. The validity of this second PSO agreement extends to 30 September 2017. Among other provisions regulating the operational and technical requirements to be fulfilled by the JV, the PSO sets out the compensation to be received for the regulated services, at the rates shown in Table 3.

Table 3: PSO Compensation

Type of Compensation		Compensation per Unit (€)
Gozo residents (per passenger)	▪ Foot Passenger	0.01
	▪ Resident Driver & Car	0.10
	▪ Resident Rider & Motorcycle	0.01
Kartanzjan Holders (per passenger)	▪ Foot Passenger	1.15
	▪ Driver & Car	1.15
	▪ Rider & Motorcycle	1.15
Marsamxett/Valletta to Mġarr (per trip)		594
Night Service (per trip)		165

2.1.2 In preparation for the PSO tender bid submission, the JV set up a working team that met five times between February and March 2011. Aside from PricewaterhouseCoopers (PwC), the firm tasked with providing financial advisory services, this working team was composed of the Chair and Deputy Chair of the GCCL, Fenech Farrugia Fiott Legal (in the capacity of legal adviser), and Bureau Veritas (as the technical adviser).

2.1.3 On 8 February 2011, PwC was appointed by the GCCL to advise on the formulation of the PSO tender bid. Its involvement consisted of conducting a review of the PSO tender document, identifying the major issues arising therefrom, providing advice on the financial and economic parameters of the bid, and assisting in the compilation of all supporting documentation required with the bid submission as established in the PSO tender document. PwC also aided the GCCL in the compilation of the financial projections in line with the tender document requirements, based on the extrapolation of historical traffic figures and on market research and assumptions provided by the GCCL. As a result, the business plan submitted in the PSO tender bid included a number of strategic actions deemed prudent by the GCCL directors in office at the time. PwC also assisted the JV in articulating the payment mechanism that was to regulate the two constituent companies.

2.1.4 The financial projections were prepared for a six-year period, as set out in the PSO tender. These projections anticipated that the JV would generate an 8.4 per cent (post-tax) internal rate of return on investment over the PSO term while operating within the bid's parameters, that is, honouring fixed fares, the PSO and timetable obligations.

2.1.5 The main assumptions and the draft financial model were presented to and debated by the working team during its meetings. The NAO sought to obtain a copy of the minutes with respect to these working team meetings from the GCCL; however, such documents were not forthcoming, with the GCCL's present management indicating that they were not aware of such minutes.

2.2 Financial Situation

2.2.1 In a memo by the Chief Executive Officer (CEO) MIMCOL/MGI (who was Deputy Chair GCCL at the time of the PSO tender process), dated 24 February 2014 and submitted to Chairs GCCL and GFCL, it is specified that the companies' external auditors had intimated their intention to qualify their reports due to reservations on the going concern status of the Company.

2.2.2 Due to various conflicting figures within the different financial statements made available to this Office at the time of writing, that is, the 2011 and 2012 draft financial statements and management accounts, the NAO deemed the utilisation of the figures presented in the GCCL's management accounts as the most suitable with respect to this audit report. This decision was based on the premise that the GCCL's management accounts were more detailed and more readily comparable to the projections included as part of the PSO tender bid.

2.2.3 Table 4 presents an analysis of the statement of comprehensive income projected in the PSO tender bid in comparison with the GCCL's actual results for 2011 and 2012.

Table 4: Variance between actual and projected statement of comprehensive income, 2011-2012

	2011			2012		
	GCCL Actual	PSO Projections	Variance	GCCL Actual	PSO Projections	Variance
	(€)	(€)	(€)	(€)	(€)	(€)
Revenue						
Ticketing Revenue	10,166,065	10,477,000	(310,935)	10,034,371	10,869,000	(834,629)
PSO Agreement	3,535,690	4,875,000	(1,339,310)	656,020	793,000	(136,980)
Other Operating Revenue	913,299	1,341,000	(427,701)	889,314	1,440,000	(550,686)
Total Revenue	14,615,054	16,693,000	(2,077,946)	11,579,705	13,102,000	(1,522,295)
Expenditure						
Vessel Expenses	(8,805,215)	(8,349,000)	(456,215)	(9,135,545)	(8,256,000)	(879,545)
Terminal Expenses	(2,628,621)	(2,711,000)	82,379	(2,765,879)	(2,674,000)	(91,879)
Maintenance & Engineering Overheads	(310,819)	(330,000)	19,181	(246,131)	(330,000)	83,869
Total Operating Expenses	(11,744,655)	(11,390,000)	(354,655)	(12,147,555)	(11,260,000)	(887,555)
Gross Operating Profit/(Loss)	2,870,399	5,303,000	(2,432,601)	(567,850)	1,842,000	(2,409,850)
Selling, General & Admin Costs	(973,258)	(969,000)	(4,258)	(895,377)	(967,000)	71,623
Depreciation	(234,800)	(463,000)	228,200	(216,552)	(466,000)	249,448
Charter Fee	(670,860)	(894,000)	223,140	0	0	0
Financial Income	15,253	53,000	(37,747)	8,943	178,000	(169,057)
Taxation	0	(1,150,000)	1,150,000	0	(31,000)	31,000
Net Profit/(Loss)	1,006,734	1,880,000	(873,266)	(1,670,836)	556,000	(2,226,836)

2.2.4 As can be noted in Table 4, results for 2011 and 2012 were below those projected. In 2011, the actual profit realised for the year was €873,266 less than that projected in the PSO bid. Furthermore, in 2012, which was the first full year of the new PSO, the GCCL registered a net loss of approximately €1.7million, starkly contrasting the net profit projected in the PSO bid.

2.2.5 Further indication of the GCCL's precarious financial situation at the time is illustrated in Table 5, which provides a comparison of the cash at bank and in hand in 2011 and 2012 to the relevant projected amounts in the tender bid.

Table 5: Variance between actual and projected cash at bank and in hand, 2011-2012

	2011			2012		
	GCCL Actual	PSO Projection	Variance	GCCL Actual	PSO Projection	Variance
	(€)	(€)	(€)	(€)	(€)	(€)
Cash at Bank & In Hand	4,945,343	9,356,000	(4,410,657)	1,238,538	8,916,000	(7,677,462)

2.2.6 As presented in Table 5, the cash at bank and in hand fell by around 75 per cent (€3.7 million), from €4.9 million in 2011 to €1.2 million in 2012. This significant reduction corresponds to more than the relevant amount attributable to the PSO decrease experienced between 2011 and 2012, which only accounted for €2.9 million, as opposed to the €3.7 million registered variance. The variances between the actual amount of cash at bank and in hand and its corresponding projected amount as presented in the PSO tender bid were also significant. Actual figures reported by the GCCL stood at €4.4 million and €7.7 million less than projections in 2011 and 2012, respectively.

2.2.7 In light of all of the above, the NAO sought to augment its understanding of the factors that were deemed influential in the GCCL's failure to achieve targets established in the PSO bid. In essence, the NAO was seeking to establish whether the projections submitted in the tender bid had not been met because such projections had been overoptimistic in the first place, due to lack of action by the GCCL, or attributable to factors beyond the GCCL's direct control. To this end, the NAO sought the views of incumbent and former senior management officials within the GCCL with respect to the subject matter.

2.2.8 According to the GCCL's former Deputy Chair (also the GCCL's Acting Chair for the period November 2011 to March 2012), the Company's problem was one of cash flow, and that, among other things, the GCCL was directed to pay out dividends of €0.5 million by the Ministry of Finance. Although the payment of dividends in 2011 was effected at a time when the Company had a healthy cash flow, this coincided with other factors that were ultimately detrimental to the Company's cash flow, which included the revised PSO payment, expenses relating to the overhaul of vessels and the installation of the hoistable deck.

2.2.9 In addition, the Deputy Chair GCCL cited the fact that, at the time, the Company was an organisation operating without the guidance of a permanent CEO tasked with, among others, ensuring that the enforcement of strict day-to-day controls was appropriately seen through. Further commenting in this respect, the former Deputy Chair GCCL stated that the Company was expected to operate as a private enterprise, but was then constrained by its public sector status. Elaborating on this point, notable incongruence existed in terms of this expectation to operate as a private enterprise, clearly manifested when one considered that the average annual salary of a GCCL employee was relatively high, and despite the GCCL being a monopoly, it had no flexibility to increase fares because of its commitment to adhere to the PSO conditions. Furthermore, reference was made to instances when the GCCL would provide a free service as part of a wider Government initiative to support the Gozitan economy. The former Deputy Chair GCCL indicated that the Company was not fully reimbursed for such events, yet expected to deliver the service despite the fact that this was not contemplated in the PSO agreement.

2.2.10 According to another memo submitted by the CEO MIMCOL/MGI to Chair MIMCOL/MGI on 6 June 2013, of major influence on the PSO tender submission were the operational results the GCCL had reported over the preceding two years. Indeed, the GCCL's reliance on Government funds fell from €3.7 million in 2007 to just over €2 million in 2010. Moreover, the GCCL board minutes state that possibly, given that at the time of the PSO tender the GCCL was relatively buoyant in cash, there was a misleading sense of security. The minutes also state that the underlying reason for the current situation was principally the extremely optimistic projections presented in the PSO tender bid, in terms of revenue generation and costs. Furthermore, some assumptions were evidently unrealistic and it should have been clear from the outset that the forecasted figures, particularly in terms of cash generation, were always going to prove difficult to fulfil.

2.2.11 In the June 2013 memo referred to above, the CEO MIMCOL/MGI stated that, by the closing date for the collection of the PSO tender, twelve parties had collected the document. The JV, therefore, had a significant inclination to price the bid very competitively. Indeed, according to this memo, the submitted offer was intended to secure breakeven rather than profitability. Eventually, only the JV submitted a bid. According to the memo, this was mainly because it was particularly difficult for any other company to meet the precise obligations specified in the tender without the availability of the three vessels, MV Ta' Pinu, MV Gaudos and MV Malita, the owner of which, GFCL, was already committed to the GCCL.

2.2.12 It is pertinent to note that in 2014, the GCCL registered a profit of €59,538, which, although representing an unfavourable variance of €1,058,462 in relation to the tender bid projections, was a marked improvement over the losses made in 2012 (€1,670,836) and in 2013 (€1,035,252). This improvement was mainly brought about by increases of approximately €1.1 million in revenue each year during 2013 and 2014, totalling €2,175,655. The major proportion of these revenue increases was with respect to ticket sales, with an increase of €973,490 registered in 2014 and €865,249 in 2013. Furthermore, during 2014, the aggregate revenue from ticketing exceeded the PSO bid projections by €396,110. Another notable improvement was recorded with respect to other operating revenue from vessels, whereby an increase of €212,807 was made from 2012 to 2014. In the main, this was due to the increase of €196,167 in cafeteria revenue, which effectively more than doubled during this two-year period. Meanwhile, the increase in revenue during this period corresponded to an increase in total operating expenses of €488,536, while administrative expenses and overheads registered a decrease of €43,253. Cash at bank and in hand increased by €156,808 between 2012 and 2014. Notwithstanding this, in 2014, cash at bank and in hand was €10,508,654 less than projected in the tender bid.

2.2.13 Following the above general comparative overview of PSO projections and GCCL actual figures, this analysis proceeds through further detailed elaboration on the different line items presented in Table 4. In essence, this analysis focuses upon:

a. revenue;
   i. financial income;
   ii. effective date of PSO;
   iii. considerable decrease in PSO;
   iv. revenue from ticket sales;
   v. other income;
b. expenditure;
   i. payroll;
   ii. vessel costs;
   iii. capital costs;
   iv. terminal costs;
   v. maintenance costs; and
   vi. selling, general and administration costs.

2.3 Revenue

Financial Income

2.3.1 As illustrated in Table 6, the PSO projections forecasted financial income of €53,000 and €178,000 for 2011 and 2012, respectively. However, according to the GCCL's management accounts, the total financial income amounted to €15,253 in 2011 (€37,747 less than projected), which subsequently fell to €8,943 in 2012 (€169,057 less than projected).

Table 6: Variance between actual and projected financial income, 2011-2012

	2011			2012		
	GCCL Actual (€)	PSO Projection (€)	Variance (€)	GCCL Actual (€)	PSO Projection (€)	Variance (€)
Financial Income	15,253	53,000	(37,747)	8,943	178,000	(169,057)

2.3.2 The discrepancies depicted in Table 6 arose due to the variances incurred between the projected and actual figures with respect to other components of revenue and expenditure that affected the GCCL's cash flow and profitability. These issues are further elaborated upon throughout this Chapter.

Effective Date of the PSO

2.3.3 A factor bearing important significance in terms of GCCL's finances was the drawing forward of the date of effect of the new PSO agreement terms to 30 September 2011 rather than 1 January 2012. The PSO projections assumed that the new agreement was going to come into force as of January 2012, and therefore, that in 2011, the GCCL would receive compensation for the regulated services at the rates set out in the previous PSO for the entire year.

2.3.4 In the review of the GCCL 2012 budget, PwC flexed the financial projections for 2011 to reflect the actual signing date of the PSO. These flexed projections are reproduced in Table 7, which also presents the variances between the actual figures and the (original) flexed projections. As illustrated, had the new PSO agreement become effective on 1 January 2012, the projected PSO for 2011 would have been €4,875,000. Eventually, the new PSO was brought forward by three months, with the revised projected figure to reflect this change being €3,786,000. However, GCCL's actual PSO revenue was €3,535,690. Therefore, a variance of €250,310 is attributable to inaccuracies in budgeting with respect to the tender bid projections, while the GCCL also received €1,089,000 less in reimbursement for the period October to December 2011 due to the change in the PSO's effective date.

Table 7: Variance between ticket sales and PSO revenue projections/flexed projections and actual figures, 2011

	[A]	[B]	[C]	[A]-[B]	[A]-[C]
	2011 Actual (€)	2011 Projections (€)	2011 Flexed Projections (€)	2011 Variance Projections (€)	2011 Variance Flexed (€)
Revenue					
Ticketing Revenue	10,166,065	10,477,000	10,477,000	(310,935)	(310,935)
PSO Agreement	3,535,690	4,875,000	3,786,000	(1,339,310)	(250,310)
Other Operating Revenue	913,299	1,341,000	1,341,000	(427,701)	(427,701)
Total Ticket Sales & PSO	14,615,054	16,693,000	15,604,000	(2,077,946)	(988,946)

Considerable Decrease in the PSO

2.3.5 According to the June 2013 memorandum submitted by CEO MIMCOL/MGI, the impact of the decrease in the PSO upon the GCCL's finances was significant. Table 8 reproduces an abridged version of the statement of comprehensive income for the years 2007 through 2012 while simultaneously seeking to highlight the magnitude of the PSO effect upon the GCCL's finances through its hypothetical elimination.

Table 8: Elimination of PSO Effect on GCCL

	2007 (€)	2008 (€)	2009 (€)	2010 (€)	2011 (€)	2012 (€)
Net Profit/(Loss)	1,317,000	86,000	2,291,160	2,474,272	1,006,734	(1,670,836)
PSO Contract	5,015,000	3,999,000	4,317,361	4,506,156	3,535,690	656,020
Elimination of PSO Effect	(3,698,000)	(3,913,000)	(2,026,201)	(2,031,884)	(2,528,956)	(2,326,856)

2.3.6 This Table renders evident the central role played by the PSO in terms of the GCCL's financial viability. When one eliminates funds obtained by the GCCL through the PSO from the Company's net profit/loss workings, the overall effect is a reduction in losses incurred, from approximately €3.7 million in 2007, to €2.3 million in 2012. Closer scrutiny of the 2011 and 2012 financial statements indicates that the elimination of the PSO effect leads to financial results comparable to those of previous years.

Revenue from Ticket Sales

2.3.7 The yearly traffic growth rate forecasts, which formed the basis of the PSO submission, were based on the average annual increase in traffic in the preceding eight years, while also taking into consideration the numerous initiatives set out in the GCCL's marketing strategy. These initiatives were articulated in the business plan submitted as part of the tender bid, and among others included the 'Gozo Winter Weekend Breaks Scheme', 'Come to Gozo again', 'Gozo by night scheme', and 'Immorru Għawdex'. In the eight years prior to the bid submission, the GCCL had experienced a two per cent to three per cent annual increase in its overall traffic. The overall actual average annual increase in passengers in the previous eight years was that of 2.2 per cent, while that for vehicles was three per cent. Malta originating passengers had increased on average by one per cent per annum while Malta originating vehicles had increased by an average of 2.1 per cent per annum. On the other hand, Gozo originating passengers accounted for an average increase of 4.3 per cent per annum, while the corresponding increase in vehicles was that of four per cent.

2.3.8 Table 9 presents the detailed statistics that were utilised in the PSO bid submission. Therein, it was stated that the trends resultant from the examination of the five years preceding the bid submission were considered in developing future expectations for the six-year term of the PSO. As indicated, the passengers carried by the GCCL increased from 3.5 million in 2006 to 4 million in 2010. This represented a compound annual growth rate (CAGR) of 3.4 per cent. The PSO tender bid stated that the increase in passengers registered during these years corresponded to the growth in traffic of Gozitan and Maltese residents as well as that of tourists. Standard fare passengers increased from 1.9 million in 2006 to 2 million in 2010 (1.8 per cent CAGR). Foot passengers increased at an average annual rate of 1.5 per cent, whereas standard fare paying car and driver traffic increased at a rate of 3.8 per cent. The number of Gozo originating passengers increased by 3.4 per cent, with the most noteworthy increase resulting from car and driver passengers (4.1 per cent CAGR). The number of Gozo originating foot passengers increased by 2.9 per cent CAGR. In the five-year period preceding submission, there was a considerable increase in travel by senior citizens, especially when one compares 2006 with 2007. This increase is attributable to the fact that senior foot passengers crossing over to Gozo were not charged a fee with effect from November 2007. Up until this date, Malta originating senior citizens were charged a fare of €1.75 per passenger. Also noteworthy was the fact that commercial vehicle traffic had increased to 55,000 units in 2010 (3.7 per cent CAGR in the period 2006-2010).

Table 9: Historical Passenger Numbers

	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Actual	CAGR %
Standard Fares						
Foot Passengers	1,404,000	1,437,000	1,494,000	1,345,000	1,492,000	1.5%
Car and Driver	324,000	338,000	360,000	354,000	376,000	3.8%
Motorcycle and Rider	5,000	5,000	7,000	8,000	7,000	8.7%
Child	155,000	61,000	164,000	147,000	155,000	0.1%
Sub-total Standard Fares	1,888,000	1,841,000	2,025,000	1,854,000	2,030,000	1.8%
Gozo Fares						
Gozo Resident	876,000	917,000	926,000	950,000	983,000	2.9%
Car and Driver	441,000	472,000	485,000	504,000	519,000	4.1%
Motorcycle and Rider	6,000	8,000	9,000	10,000	9,000	7.4%
Sub-total Gozo Fares	1,323,000	1,397,000	1,420,000	1,464,000	1,511,000	3.4%
Senior Fares						
Foot Passengers	105,000	220,000	191,000	196,000	256,000	25.0%
Car and Driver	27,000	32,000	42,000	48,000	53,000	18.1%
Sub-total Senior Fares	132,000	252,000	233,000	244,000	309,000	23.6%
Total Standard pax. Tickets	3,343,000	3,490,000	3,678,000	3,562,000	3,850,000	3.6%
Commercial	47,000	53,000	55,000	52,000	55,000	3.7%
Night Fares	14,000	1,000	1,000	9,000	15,000	-
Events/Other	20,000	4,000	10,000	13,000	6,000	-
Winter Scheme	48,000	127,000	109,000	70,000	45,000	-
Total Passengers	3,472,000	3,675,000	3,853,000	3,706,000	3,971,000	3.4%

Source: Joint Venture PSO tender bid, 2011

Note:

1.The figures cited in the PSO tender bid with respect to 2010 differ slightly from those stated in the GCCL management accounts for 2010, as featured in Table 1.

2.3.9 The PSO tender bid's financial plan was based on the assumption that traffic would increase by 2.8 per cent per annum. The PSO tender bid projections included specific annual growth rate expectations for the tickets sold to different passenger categories as set out below:

a. Malta originating passengers: 2.3 per cent CAGR – from 1.6 million in 2011 to 1.8 million in 2017;
b. Gozo originating passengers: 2.5 per cent CAGR – from 1 million in 2011 to 1.1 million in 2017;
c. senior citizen passengers: 6.7 per cent CAGR – from 0.3 million in 2011 to 0.5 million in 2017;
d. Malta originating vehicles and drivers: 2.7 per cent CAGR – from 0.4 million in 2011 to 0.5 million in 2017 – it was assumed that incoming independent travellers would increase because of more tourists travelling with low cost airlines;
e. Gozo originating vehicles and drivers: 2.5 per cent CAGR – from 0.5 million in 2011 to 0.6 million in 2017 – this assumption was based on past performance and growth expectations;
f. senior citizens vehicles and drivers: 3.3 per cent CAGR – from 57,000 in 2011 to 70,000 in 2017; and
g. commercial vehicles: 2.5 per cent CAGR – from 57,000 in 2011 to 67,000 in 2017 – retaining the same mix of vehicle length as experienced over the preceding recent years.

2.3.10 Moreover, in the first two years post-award of the PSO, a higher growth rate was generally assumed on the basis that the strategic marketing initiatives identified in the business plan would translate into higher traffic. For instance, in the Standard Fares category – the Company's main source of revenue – traffic (and consequently revenue) was forecasted to increase by three per cent and four per cent for the

Passengers and Vehicle/Driver categories, respectively, and then become constant at a two per cent yearly growth rate.

2.3.11 As illustrated in Tables 10 and 11, there is a marked difference between the projected and actual figures with respect to passenger traffic and revenue registered by the GCCL during 2011 and 2012.

Table 10: Variance between actual and projected number of trips and passengers, 2011-2012

	2011			2012		
	Actual	Projection	Variance	Actual	Projection	Variance
Number of Trips	19,816	19,920	(104)	19,515[1]	19,920	(405)
Foot Passengers	2,859,326	2,898,000	(38,674)	2,873,392	3,035,000	(161,608)
Car & Driver	973,084	1,007,000	(33,916)	946,886	1,049,000	(102,114)
Motorcycle & Rider	17,868	17,000	868	17,000	17,000	0
Child	155,742	161,000	(5,258)	150,530	165,000	(14,470)
Events/Winter Schemes/Others	4,928	51,000	(46,072)	4,702	51,000	(46,298)
Total Passengers/ Vehicles	4,010,948	4,134,000	(123,052)	3,992,510	4,317,000	(324,490)
Commercial	55,256	57,000	(1,744)	56,740	59,000	(2,260)
Total traffic	4,066,204	4,191,000	(124,796)	4,049,250	4,376,000	(326,750)

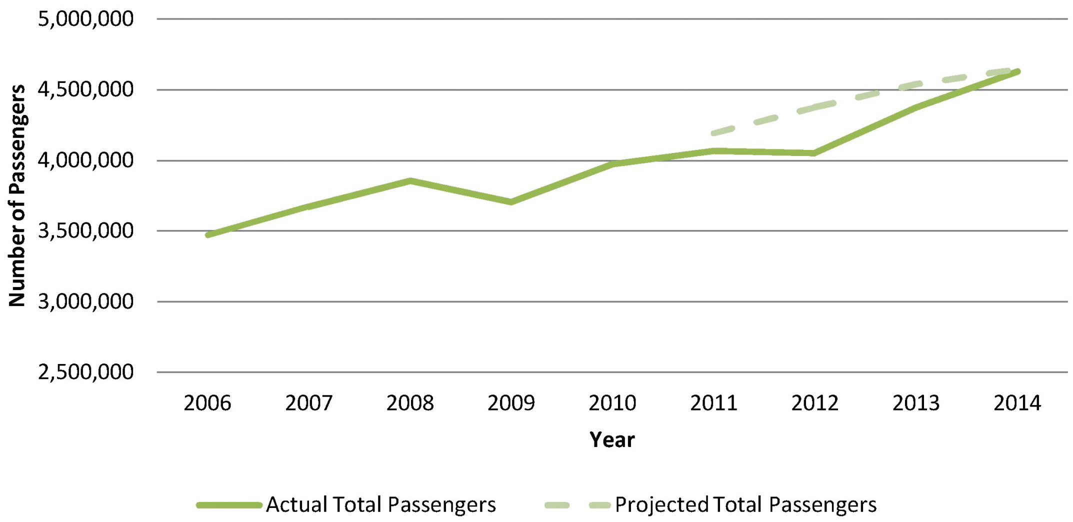
Table 11: Variance between actual and projected ticketing revenue, 2011-2012

	2011			2012		
	Actual (€)	Projections (€)	Variance (€)	Actual (€)	Projections (€)	Variance (€)
Foot Passengers	4,158,419	4,195,000	(36,581)	4,133,103	4,335,000	(201,897)
Car & Driver	5,466,962	5,664,000	(197,038)	5,284,309	5,900,000	(615,691)
Motorcycle & Rider	54,119	51,000	3,119	50,136	53,000	(2,864)
Child	89,552	93,000	(3,448)	86,555	95,000	(8,445)
Events/Winter Scheme/Others	20,076	107,000	(86,924)	19,178	111,000	(91,822)
Commercial	1,140,755	1,214,000	(73,245)	1,148,339	1,256,000	(107,661)
Frequent Traveller Cards	189,834	44,000	145,834	187,378	46,000	141,378
Discounts	(95,843)	-	(95,843)	(36,992)	-	(36,992)
Total revenue inc. VAT	11,023,874	11,368,000	(344,126)	10,872,006	11,796,000	(923,994)
Total revenue excl. VAT	10,166,065	10,477,000	(310,935)	10,034,371	10,869,000	(834,629)

2.3.12 As rendered evident in Table 10, the actual number of trips made in 2011 was less than forecasted by 104 trips. This variance continued to increase in 2012, with the number of trips projected to remain the same as in 2011, but actually decreasing by 301 (1.5 per cent). Total traffic, while projected to be 4,191,000 in 2011, actually stood at 4,066,204 (124,796 less when compared with the forecasted amount). While the projections forecasted an increase of 185,000 in 2012, the actual figures declined by 16,954 (0.4 per cent). This resulted in a discrepancy of 326,750 less passengers when compared with the projected figures for 2012 (Figure 1 refers). These variances translated into €310,935 less actual revenue, excluding VAT, when compared with the projected revenue in 2011, while the corresponding discrepancy in 2012 was an adverse discrepancy of €834,629. As also shown in Figure 1, passenger numbers increased by 324,178 in 2013 while the projections anticipated an increase of 165,572 passengers. In 2014, the actual number of passengers rose by a further 253,982 and exceeded the projections for that year by 16,590 passengers.

2.3.13 A more detailed analysis of the various fare categories applicable to passenger and vehicle-related traffic and revenue is provided below. The data cited in paragraphs 2.3.14 through 2.3.18 corresponds to the detailed tables presented in Appendices C and D.

Figure 1: Comparison of actual and projected total passengers, 2011-2014



2.3.14 The actual number of foot passengers originating from Malta was less than that projected in 2011 by 18,722, resulting in €43,177 less revenue than projected. Furthermore, while the projections forecasted an increase of 46,000 foot passengers originating from Malta, the GCCL actually registered a decrease of 1.1 per cent, widening the 2012 variance between the actual and projected figures to 81,262 passengers, resulting in €189,600 less revenue than projected. A similar trend emerged with respect to the category of cars and drivers originating from Malta. In 2011, actual car and driver traffic was less than that projected by 17,280, resulting in €133,529 less revenue than projected. Furthermore, while the projections forecasted an increase in the number of cars and drivers originating from Malta in 2012, registered figures actually reveal a decrease of 20,006 (5.2 per cent). Therefore, the variance between the actual and projected figures in 2012 was 53,286, resulting in €415,562 less revenue than projected.

2.3.15 Meanwhile, there were 4,372 more Gozitan foot passengers than projected in 2011, resulting in an increase in revenue of €2,389 when compared with the projections. However, while the number of Gozitan foot passengers increased marginally by 0.6 per cent in 2012, equivalent to 6,018 passengers, this category was projected to increase by 38,000, thereby resulting in an adverse variance of 27,610 between the actual and projected figures. This resulted in a decrease of €16,151 in revenue when compared with the projected amount. The Gozitan car and driver category registered results that were less than projected in 2011 by 21,066, resulting in €83,919 less revenue. Instead of increasing further by 19,000 in 2012 as had been projected, cars and drivers originating from Gozo decreased by 9,970 (2.2 per cent) when compared with the actual 2011 figures. This widened the variance between the actual and projected figures for 2012 to 50,036, resulting in €202,547 less revenue.

2.3.16 The total number of senior passengers was projected to be 15,350 higher than the actual figure in 2011. Given that senior passengers do not pay a fare, the revenue generated from this category was €2,323 higher than forecasted due to the number of senior car and driver passengers being higher than forecasted. While the amount of senior passengers increased by 4.5 per cent in 2012, the projections for this category were for it to rise by 13.7 per cent. This disparity widened the variance between the actual and projected 2012 figures for senior passengers, which amounted to 49,644. In revenue terms, senior fare revenue, which was projected to increase by €20,000, actually decreased by €13,337. Therefore, the actual revenue generated in 2012 was less than the projected amount by €31,014.

2.3.17 The number of night passengers increased, surpassing the forecasted growth in this category's projections. Indeed, the actual traffic registered surpassed the projected figure by 3,536 in 2011 and 4,640 in 2012. This translated into higher revenue than that forecasted by €14,071 in 2011 and €22,677 in 2012.

2.3.18 On the other hand, commercial traffic was less than that projected by 1,744 in 2011 and by 2,260 in 2012. This resulted in actual revenue being lower than that projected by €73,245 in 2011 and €107,661 in 2012.

2.3.19 As indicated in Tables 4 and 7, because of the decreased amount of passengers in the sectors for which the PSO refund was granted, PSO revenue differed from the projected amounts by €250,310 (flexed projection) in 2011 and by €136,980 in 2012.

2.3.20 Various possible factors were put forward as possible explanations as to why the expected growth in passenger numbers did not materialise. The GCCL Board meeting minutes of 10 July 2012 make reference to the adverse effect posed by traffic disruptions in Malta and Gozo upon the Company's passengers. The incumbent GCCL Financial Controller also explained that this was mainly due to major road construction works that were being carried out during this period. She stated that in fact, the GCCL had experienced an increase in passengers since the works were completed. Similarly, PwC stated that this decrease in passenger/vehicle traffic was possibly attributable to the major road construction activity underway at the time and the removal of the vessels from service for refit.

2.3.21 On the other hand, the former Deputy Chair GCCL stated that there were two main reasons why the expected growth in passenger numbers envisaged in the PSO tender bid did not materialise. First, prospective passengers were discouraged as Ċirkewwa had turned into a building site during the construction of the new terminal building, making the traffic situation very difficult. Second, during winter 2012, the Maltese Islands experienced inclement weather, which further contributed to the downturn in terms of expected passenger growth. Aside from these two factors, the former Deputy Chair GCCL stated that there was a notable loophole with regard to foot passengers to GCCL's detriment. He explained that since the fare for a return trip is paid for in Gozo, there were instances where foot passengers who had travelled to Gozo by ferry returned to Malta onboard a 'tour boat'. On the matter relating to the considerable discrepancies between the number of foot passengers leaving Malta and those returning, the former Deputy Chair GCCL claimed that this was costing GCCL significant amounts in terms of lost ticket revenue; however, more on this specific issue is put forward in the ensuing Chapter.

Other Income

2.3.22 At a strategic level of understanding, the GCCL's plans were to partially replace the lost PSO revenues with other sources of operating income. This income was to include revenue earned on-board the vessels (mainly the cafeteria contribution, advertising income and commissions) as well as terminal-related income (cafeteria leases, concessions, advertising, other rentals and the Ċirkewwa car park). PwC's understanding was that the projections within the PSO tender bid were based and supported by market research carried out by the GCCL, including enquiries with potential tenants.

2.3.23 According to the PSO tender bid, the GCCL budget for 2011 projected the generation of €1.3 million in other operating revenue. This included revenue from the on-vessel cafeterias, retail outlets and advertising revenue, as well as the lease of retail outlets at the Mġarr terminal. The projections assumed that other operating revenue would increase by €0.9 million to €2.2 million by 2017. The projected increase reflected new revenue sources including €0.3 million from the operation of car parks at Mġarr and Ċirkewwa (assumed to be commissioned in January 2013) and €0.1 million net revenue from the Ċirkewwa terminal cafeteria concession. The projections also targeted growth in existing revenue sources. Total other operating income for 2012-17 was projected at €11.6 million.

2.3.24 The PSO tender bid denoted that approximately 60 per cent of on-board revenue was generated by the cafeterias. This revenue was forecasted to increase from €0.7 million in 2011 to €0.9 million in 2017. The spend per passenger was expected to rise from €0.32 in 2011 to €0.36 in 2017. The increase in this revenue source was therefore driven by the forecasted increase in passengers. In addition, advertising revenue from displays aboard the vessels was budgeted at €0.16 million in 2011. The PSO tender bid projections assumed that the JV would maintain this level of income, adjusted for inflation. Moreover, the tender bid specified that GCCL generated approximately €0.2 million from on-board retail outlets, while the leisure cruising and chartering services offered by the Company were budgeted at €37,000 in 2011. The projections assumed that the JV would retain this level of income adjusted for inflation. Other income from vessels, such as courier and postal services, as well as vending machine rentals on-board the vessels, was forecasted to remain constant over the six-year period.

2.3.25 Income from terminals was expected to increase from €0.15 million in 2011 to €0.32 million in 2017. This increase reflected:

a. €100,000 per annum, as of 2013, from the leasing of the new cafeteria at the Ċirkewwa terminal;
b. €40,000 per annum from the leasing of car-hire facilities at the Mġarr terminal; and
c. €30,000 per annum for each terminal, generated from the outlet leasing at both the Mġarr and Ċirkewwa terminals (once commissioned, projected in 2013).

2.3.26 Other rental income from terminals, amounting to an estimated €24,000, included vending machine rentals and the leasing of space for ATMs at the Mġarr and Ċirkewwa terminals. The projections included in the tender bid assumed that the JV would maintain this level of income, adjusted for inflation.

2.3.27 Furthermore, the projections assumed that the JV would generate an equal amount of revenue from advertising displays at the Ċirkewwa terminal as raised from the Mġarr terminal. Kiosk and cafeteria revenue from the Mġarr terminal was assumed to remain constant at €20,000 yearly, adjusted for inflation.

2.3.28 With respect to car park revenue, in 2012, the GCCL was expected to start generating revenue from the operation of the 120-space car park in Mġarr. In the first year, the car park was forecasted to generate €39,000 in revenue, increasing to €66,000 in 2013 and to €149,000 by 2017, translating into a daily average of €3.40 per car park space. The projected revenue was based on the assumption that the average car park utilisation would be of 23 per cent between 6am and 8pm. Similar assumptions were made with respect to the Ċirkewwa car park, which according to plans, was to commence registering revenue halfway through 2013, set at €71,000, which would eventually increase to €160,000 in 2017. The difference in estimated revenue between the Mġarr and Ċirkewwa car parks was attributable to the fact that the latter was to be of a larger capacity. The daily average revenue per car park space at Ċirkewwa was assumed to be around €3.65, with the same average utilisation as that of the Mġarr car park.

2.3.29 In providing further clarifications on the matter, the former Deputy Chair GCCL stated that there had been resistance with respect to the charging of fees for the Mġarr terminal car park, and while the Board had been aware that there would be resistance, it had also assumed that it would be able to overcome this situation. Furthermore, the former Executive Chair stated that the GCCL was incurring lease and maintenance costs for this car park without any compensation. The GCCL deemed this situation as unreasonable, stating that TM was to either allow the GCCL the opportunity to generate income from the car park, or revoke the lease fee that was being incurred if the generation of income was not possible.

2.3.30 As can be seen in Table 12, in 2011, other operating income was €427,701 below that projected in the PSO tender bid. In 2012, the variance between the forecasted amount and the actual figure increased to €550,686.

Table 12: Variance between actual and projected other operating revenue, 2011-2012

	2011			2012		
	Actual (€)	Projections (€)	Variance (€)	Actual (€)	Projections (€)	Variance (€)
Vessels – Other Operating Revenue						
Cafeteria Net Income[3]	626,584	663,000	(36,416)	608,275	703,000	(94,725)
Charters	36,205	37,000	(795)	-	39,000	(39,000)
Passes/Couriers	10,500	12,000	(1,500)	10,962	12,000	(1,038)
Advertising Revenue	35,136	160,000	(124,864)	52,475	164,000	(111,525)
Commissions and Outlets	70,545	193,000	(122,455)	98,484	199,000	(100,516)
Other	15,957	50,000	(34,043)	19,618	51,000	(31,382)
	794,927	1,115,000	(320,073)	789,814	1,168,000	(378,186)
Terminals						
Rent of outlets	76,989	155,000	(78,011)	59,049	160,000	(100,951)
Advertising revenue CKW/MGR	240	50,000	(49,760)	240	52,000	(51,760)
Kiosks and cafeterias MGR	36,300	21,000	15,300	36,659	21,000	15,659
Revenue from car park MGR	0	0	0	0	39,000	(39,000)
Other income	7,347	0	7,347	3,582	0	3,582
Bus/Boat service	(2,504)	0	(2,504)	(30)	0	(30)
	118,372	226,000	(107,628)	99,500	272,000	(172,500)
Total Other Operating Income	913,299	1,341,000	(427,701)	889,314	1,440,000	(550,686)

2.3.31 With respect to other operating income generated from on-board the vessels, this was €320,073 below what was projected in 2011 and again €378,186 less in 2012. This discrepancy mainly consisted of variances between the actual and projected figures with respect to cafeteria sales, advertising revenue and revenue from commissions and outlets. Cafeteria sales, projected to generate €663,000 in 2011, in fact generated €626,584. In 2012, this source of revenue was further projected to increase by €40,000; however, sales actually decreased by €18,309, translating into a further widening of the gap between the actual and projected figures for 2012 to €94,725. With regard to the cafeteria, in July 2012, the Board of Directors was aware that a number of cafeteria employees were colluding and committing pilferage. The matter had, at the time, already been referred to the Police. Discrepancies were also registered in on-board advertising revenue, specifically €124,864 in 2011 and €111,525 in 2012. Revenue from commissions and outlets, while registering an increase of €27,939 in 2012 was far less than projected. Indeed, the discrepancies between the projected and actual figures with respect to this revenue source were €122,455 in 2011, and €100,516 in 2012.

[3] Value added generated by cafeteria, i.e. revenue less directly attributable costs excluding payroll.

2.3.32 Other operating revenue from terminals decreased by €18,872 from €118,372, whereas it was forecasted to increase by €45,000 from €226,000. The main component of operating revenue from terminals was revenue from the lease of outlets, which was forecasted to increase substantially from €74,297 in 2010 to a level of €155,000 in 2011 and €160,000 in 2012. In effect, revenue arising from the said operations remained the same in 2011 (€76,989) and decreased in 2012 (€59,049).

2.3.33 Some element of justification was put forward by the former Executive Chair, who stated that various initiatives were considered by the GCCL, yet such initiatives did not materialise during his tenure, or thereafter. These included the generation of revenue from the leasing of terminal space to various commercial outlets, the provision of a courier service, the installation of photovoltaic panels and the lease of advertising space.

2.4 Expenditure

Payroll

2.4.1 Table 13, compiled by the NAO, illustrates all the expenses incurred by the GCCL in relation to payroll. These include wages and salaries, other staff costs, directors' fees, as well as catering-related salaries for 2011 and 2012.

Table 13: Variance between actual and projected payroll, 2011-2012

	2011			2012		
	Actual (€)	Projected (€)	Variance (€)	Actual (€)	Projected (€)	Variance (€)
Wages & Salaries						
Vessels	(3,368,883)	(3,187,000)	(181,883)	(3,490,528)	(3,120,000)	(370,528)
Catering	(374,325)	(386,000)	11,675	(418,314)	(366,000)	(52,314)
Terminal	(1,359,486)	(1,416,000)	56,514	(1,435,941)	(1,409,000)	(26,941)
Maintenance & Engineering	(253,402)	(283,000)	29,598	(219,067)	(282,000)	62,933
Selling, General & Administration	(379,317)	(371,000)	(8,317)	(421,735)	(359,000)	(62,735)
Total Wages and Salaries	(5,735,413)	(5,643,000)	(92,413)	(5,985,585)	(5,536,000)	(449,585)
Directors' Fees	(102,878)	(118,000)	15,122	(51,715)	(119,000)	67,285
Other Staff Costs						
Vessels	(65,649)	(68,000)	2,351	(104,562)	(69,000)	(35,562)
Terminal	(62,138)	(30,000)	(32,138)	(27,718)	(31,000)	3,282
Maintenance & Engineering	(3,891)	(4,000)	109	(3,445)	(4,000)	555
Selling, General & Administration	(16,932)	(82,000)	65,068	(10,534)	(84,000)	73,466
Total Other Staff Costs	(148,610)	(184,000)	35,390	(146,259)	(188,000)	41,741
Total Payroll Costs	(5,986,901)	(5,945,000)	(41,901)	(6,183,559)	(5,843,000)	(340,559)

2.4.2 PwC stated that the forecasting of employee wages was discussed at length at the time of the PSO tender bid, as it was considered one of the key determinants to the successful outcome of the JV's bid within the context of potential competing bids from other market players. In the PSO tender bid, it was projected that in 2011 payroll costs would be €5.7 million. This was made up of €3.2 million vessel payroll costs; €1.4 million terminal payroll costs; €0.3 million maintenance payroll costs; €0.4 million on-vessel cafeteria payroll and cafeteria administration payroll costs; €0.4 million administrative payroll costs; and €0.1 million directors' fees.[4] The figures projected for 2012 were similar. The forecast of other staff costs that were to be incurred by the GCCL amounted to €0.2 million for both 2011 and 2012.

[4] The cost components do not tally with the €5.7million due to a rounding error.

2.4.3 In the PSO tender bid, it was assumed that in 2011 and the six-year period of the public service contract, there would be 45 retirements across all departments, eight in 2011 and 37 between 2012 and 2017. Of the 37, 12 were expected to be replaced, mainly in seaborne operations. As stated in the GCCL board minutes of 22 June 2012, such projections did not materialise at the time. Seven employees retired in 2011, one of whom was re-employed during the same year. Another nine employees retired between 2012 and 2014 while eight employees were employed between 2011 and 2014. Wages and salaries for 2011 were budgeted to amount to €5.6 million, and expected to decrease to €5.1 million by 2017. Moreover, in 2011, the GCCL was planning to reduce overtime as a result of increased efficiency in operations and extraordinary overtime costs not being incurred. As shown in Table 13, the actual wages and salaries paid in 2011 was €92,413 more than projected. In the following year, there was an adverse forecast of €449,585 as the expenses in relation to wages and salaries, instead of decreasing by €107,000 as projected, spiralled upwards by €250,172.

2.4.4 A large portion of the adverse variance in total wages and salaries was due to vessel payroll costs. Indeed, while the payroll costs of vessel employees were expected to be reduced from €3.2 million in 2011 to €3 million in 2017, the actual amount incurred with respect to such wages in 2011 was €181,883 higher than projected. Furthermore, instead of the projected decrease, in 2012 payroll costs of vessel employees increased by 3.6 per cent, therefore widening the adverse variance between the actual and projected figures to €370,528.

2.4.5 In 2011, a favourable variance between the actual and projected figures with respect to the Catering, Terminal and Maintenance and Engineering wages was recorded. The largest of these, attributable to the Terminal wages and salaries, amounted to €56,514. These favourable variances changed into adverse ones in all, bar the Maintenance and Engineering wages and salaries. Following the unfavourable variance between the actual and projected payroll registered with respect to the vessel employees, the largest unfavourable variance in 2012 related to the Selling, General and Administration wages and salaries, which amounted to €62,735.

2.4.6 Actual expenses with respect to Directors' fees were €15,122 less than projected in 2011. This favourable variance further increased to €67,285 in 2012, as the actual fees paid to the Directors in this year decreased by €51,163.

2.4.7 Overall favourable variances between the actual and projected Other Staff Costs were registered in 2011 and 2012. These amounted to €35,390 in 2011 and €41,741 in 2012. The component with respect to which the largest favourable variance was registered was the Other Staff Costs attributed to Selling, General and Administration, amounting to €65,068 and €73,466 in 2011 and 2012, respectively. This considerable favourable variance offsets the adverse variance of €32,138 with respect to the Other Staff Costs attributed to the Terminal in 2011 and the €35,562 adverse variance with regard to the Vessels Other Staff Costs in 2012.

2.4.8 The net effect of the Wages and Salaries, Directors' Fees and Other Staff Costs on the total Payroll Costs was that, in 2011, an unfavourable variance of €41,901 between the actual and projected figures was registered. However, while the total payroll costs were projected to decrease by €102,000, these in fact increased by €196,658, resulting in an adverse variance of €340,559 in 2012.

2.4.9 During May and November 2012, new collective agreements for other and seaborne employees, respectively, came into force. These featured increases in wages and salaries retrospectively taking effect as from 1 January 2012. As shown in Table

4, these increases came at a time when the GCCL was facing significant financial problems. The former Deputy Chair GCCL explained that it was Government that had given a higher than expected increase in wages. To this end, the former Deputy Chair stated that the GCCL Board was determined for wages to rise by the Cost of Living Adjustment (COLA) only and, in fact, the GCCL had resisted any increases higher than the COLA. Indeed, according to PwC, based on the status of the ongoing discussions at the time of the PSO tender bid, it was decided that the projections should only provide for the COLA. In fact, this understanding was supported by the workings utilised in compiling the PSO tender bid. However, during Carnival 2011, following threats of strikes by the Union, the issue was taken up by the Ministry for Finance, the Economy and Investment (MFEI) and, as indicated earlier, on 1 January 2012, the new collective agreements came into force.

2.4.10 In a paper dated 5 July 2012, presented to the Board by two Directors, it was indicated that one of the factors impacting the GCCL's profitability was the high wages and promotions of unqualified staff, some granted under collective agreements while others (managerial) awarded with no clear justification and outside of the established wage structures. Consequently, the argument was put forward that this state of affairs had raised other calls for salary increases in grades outside of the collective agreements. According to the incumbent GCCL Chair and GCCL Financial Controller, and as also confirmed by PwC, these two collective agreements had not been taken into account in the original PSO projections, and therefore further compounded matters.

2.4.11 The former Deputy Chair GCCL explained that the excessive salary expenditure was also due to lack of internal controls with respect to monitoring absenteeism and sick leave. Collusion between workers to create overtime was also suspected. Moreover, in comparison to overseas operators, the former Deputy Chair stated that while employee costs for the GCCL amounted to around 50 per cent of total expenditure, a Washington State Department of Transportation report published in 2010 indicated that a number of US, European and other ferry operators spent an average of 42.8 per cent and a median of 40.7 per cent of total operating costs on labour, with figures ranging from 12.6 per cent to 71.1 per cent.

2.4.12 Furthermore, in a 25 June 2012 report prepared by the GCCL Financial Controller, it was stated that were it not for the MV Malita overhaul and the MV Ta' Pinu car deck, the 2012 payroll would have been higher by €211,000, as all wages paid by the GCCL to its employees who were working on the vessels at the shipyard were capitalised. Considering such capitalised wages as part of the payroll costs would imply a more dire situation with respect to the 2012 total payroll costs. These would in fact amount to €6.4 million, that is, €551,559 higher payroll costs than projected.

Vessel Costs

2.4.13 As stated in the PSO tender bid, the projections provide for €1 million in vessel repairs and maintenance per annum to cover annual surveys, routine and ad hoc maintenance. Such provision was in line with the costs incurred in the years preceding bid submission. Furthermore, insurance, registration and other fees were assumed at €0.3 million in 2012, as were the other vessel costs. Both of these figures were in line with the 2011 budget, increasing annually by inflation.

2.4.14 In the term covered by the PSO tender bid projections, fuel costs were based on an annual fuel consumption of 5.2 million litres. It was assumed that the GCCL would continue to carry out around 20,000 trips per annum with a fuel consumption rate of 109 litres/trip, in line with that registered in 2010. The projected fuel cost was based on the forward prices in the international oil market (NYMEX crude oil as at 18 March 2011), which ranged between US$102/barrel in 2012, decreasing to US$93/barrel by 2017. The US Dollar to Euro foreign exchange rate was also based on forward rates quoted by Bloomberg on 21 March 2011, which ranged between 1.3967 for 2012 and 1.4002 in 2017. The projected costs also included a provision of three per cent on the fuel price for fuel hedging costs on the assumption that the JV would hedge its exposure to fuel costs for the term of the PSO.

Table 14: Variance between actual and projected vessel cost, 2011-2012

	2011			2012		
	Actual (€)	Projected (€)	Variance (€)	Actual (€)	Projected (€)	Variance (€)
Repairs & Maintenance	(1,043,134)	(967,000)	(76,134)	(896,733)	(986,000)	89,267
Insurance	(262,486)	(275,000)	12,514	(250,951)	(280,000)	29,049
Registration & Other Fees	(15,502)	(15,000)	(502)	0	(16,000)	16,000
Other Vessel Costs	(212,151)	(269,000)	56,849	(257,723)	(274,000)	16,277
Fuel Cost	(3,236,373)	(3,034,000)	(202,373)	(3,553,945)	(3,047,000)	(506,945)
Lubricating Oil	(226,712)	(148,000)	(78,712)	(162,789)	(98,000)	(64,789)
Total	(4,996,358)	(4,708,000)	(288,358)	(5,122,141)	(4,701,000)	(421,141)

Note:

1. The actual vessel expenses do not include wages and salaries and other staff costs for Vessels and Catering and therefore do not match their corresponding figure in Table 4. The wages and salaries have been presented separately in Table 13 in order to more accurately draw comparisons with the PSO bid.

2.4.15 As illustrated in Table 14, the total Vessel Costs were projected to decrease marginally from 2011 to 2012. Instead, in 2011, actual vessel costs were higher than projected by €288,358, and further increased by €132,783 in 2012. Therefore, the adverse variance with respect to the actual vessel costs when compared with projected figures increased to €421,141 in 2012. In 2011, the actual repairs and maintenance costs were higher than those projected by €76,134. However, while repairs and maintenance costs incurred with respect to the vessels were projected to increase, they actually decreased by €146,401 in 2012. This resulted in a favourable variance of €89,267 in 2012. Another notable favourable variance was registered with respect to other vessel costs, amounting to €56,849 in 2011. Meanwhile, the largest adverse variances between the actual and projected vessel costs over the two years being analysed in this Chapter were registered with respect to the cost of fuel and lubricating oil. In 2011, the actual costs exceeded those projected by €281,085, while in 2012 the amount actually spent exceeded projections by €571,734.

2.4.16 As stated in the PwC document dated 3 December 2012, entitled 'Considerations giving rise to uncertainty regarding going concern', the PSO was a six-year contract that did not contemplate fare increases, therefore, when submitting its bid, the GCCL had intended to enter into a fuel hedging agreement to protect the Company against unfavourable movements in fuel prices. However, the NAO established that the GCCL had not entered into any such agreements with respect to the period under review.

2.4.17 Incongruent feedback was obtained by this Office as to why the GCCL failed to enter into hedging agreements. The GCCL's Financial Controller, as well as the GCCL's incumbent and former Chairs, stated that the Company's fuel supplier, who purchased from Enemalta Corporation, had indicated that hedging on such small amounts was not possible. According to the GCCL's Financial Controller, Enemalta Corporation confirmed the fuel supplier's reply that hedging was not possible because the GCCL purchased a small amount of marine gas oil. The GCCL sought further advice from BOV and HSBC on this matter. The former stated that it did not provide any hedging services, while the latter advised that should hedging be possible, due to the volatility of the market, it should only be entered into for a maximum period of one year and not over a period of six years as requested by the GCCL.

2.4.18 The request for hedging agreements to cover an uninterrupted period of six years emanates from the GCCL's understanding of that stated in the PSO bid, which read as follows, "*The Projections assumed that GCL would hedge its exposure towards fuel costs and foreign exchange for the period covered by the PSC and provide for 3% hedging costs on input cost*." This Office maintains that this statement could and should have been interpreted otherwise, with successive periods addressed by multiple hedging agreements corresponding to the overall six-year period covered by the PSO.

2.4.19 During a meeting that the NAO held with PwC, the latter opined that there should be scope for the GCCL to hedge part or all of its fuel costs. Perhaps, given the quantities of fuel involved, the GCCL had determined that such a hedge was not worthwhile. However, the GCCL could still have hedged its currency risk.

2.4.20 The source of the above-referred incongruence materialises when one considers developments that took place with respect to hedging while this audit was underway. In April 2014, the GCCL indicated to the NAO that it had recently contacted Air Malta plc to provide further advice on this issue. Following the receipt of such advice, the GCCL had contacted four hedging companies; however, in order to enter into hedging agreements, the GCCL had to present its latest audited financial statements to the hedging companies for their further evaluation, which was not possible as such statements had not yet been finalised. In this context and at the time of writing, the GCCL had not yet entered into any hedging agreements with the contacted companies.

2.4.21 Although efforts at securing favourable hedging arrangements are commended by the NAO, this Office questions why such initiatives were not taken sooner. It is in the NAO's understanding that the feasibility of entering into such hedging agreements should have been explored prior to commitments made by means of the PSO tender bid. Of further concern to the Office is the fact that mid-way through the six-year PSO agreement, the GCCL has not yet established whether it is able to hedge its fuel costs or otherwise.

Capital Costs

2.4.22 In the PSO tender bid it was stated that, in 2010 and 2011, two of the vessels, the MV Ta' Pinu and MV Gaudos, respectively, had undergone a major overhaul survey. The MV Malita was scheduled to undergo a similar overhaul in 2012. The cost of this overhaul was estimated at €1.2 million, which was in line with the estimated cost of surveys carried out on the other GCCL vessels. The PSO tender bid also specified that no improvements to the vessels were anticipated at the time of the PSO tender bid. Costs incurred in this sense, although paid for by the GCCL, were to be borne by the GFCL.

Table 15: Variance between actual and projected capital costs, 2011-2012

	2011			2012		
	Actual (€)	Projected (€)	Variance (€)	Actual (€)	Projected (€)	Variance (€)
MV Gaudos Overhaul	(1,800,787)	(1,200,000)	(600,787)	-	-	-
MV Malita Overhaul	-	-	-	(1,863,797)	(1,200,000)	(663,797)
MV Ta' Pinu Car Deck	-	-	-	(5,746,511)	0	(5,746,511)
Total	(1,800,787)	(1,200,000)	(600,787)	(7,610,308)	(1,200,000)	(6,410,308)

2.4.23 As indicated above, in 2011, an overhaul estimated to cost €1.2 million was carried out on MV Gaudos. However, as shown in Table 15, the actual cost incurred with respect to this overhaul was that of €1.8 million. Similar budgetary overruns were noted in the case of the MV Malita overhaul in 2012. Furthermore, the GCCL board minutes of 22 June 2012 stated that the initial quotations provided by Palumbo for regular overhauls of the vessels were considerably less when compared to the final bills received.

2.4.24 The third capital expenditure featured in Table 15, that is, the addition of the hoistable deck on the Ta' Pinu vessel carried out in 2012, was not included in the PSO tender bid projections. In effect, this investment cost the JV €5.7 million, causing obvious adverse effects to the GCCL's profitability and liquidity. During the NAO's meeting with the GCCL officials, the Company claimed that while the project was not financially feasible, it was carried out because it was socially beneficial. However, according to the former GCCL Executive Chair, the hoistable deck was also needed to reduce extra trips, and consequently, fuel and overtime costs.

2.4.25 Further comments in this respect were put forward by the former Deputy Chair GCCL, who explained that a trip would break even if the vessel carried around 56 vehicles. The capacity of the MV Gaudos and MV Ta' Pinu was around 86 vehicles, while that of the MV Malita was around 156 vehicles. During shuttle service, the trips would typically be operating at full capacity on only one way, while the return trip would be practically empty. Therefore, even when operating at maximum capacity, without the hoistable decks, the GCCL could have readily been registering a loss on trips undertaken during the shuttle service due to the less than break-even capacity on the return trips. To this effect, the former Deputy Chair GCCL stated that, while the hoistable deck was not viable (as it was difficult to have a payback period of five years, and the GCCL had no guarantees that it would win the bid again after 2017), it nonetheless needed to be done. Indeed, the former Deputy Chair GCCL proceeded to claim that the Company was performing better nowadays due to the investment on the hoistable deck. It is in this sense that the argument supporting the installation of hoistable decks was made, to maximise profits by increasing capacity to counter the inevitable losses that would nonetheless be incurred on return trips.

2.4.26 In the review of the GCCL 2012 budget, PwC stated that the hoistable deck investment was omitted from the tender bid projections as it was assumed that specific funding would be raised for this purpose. Such funding would be repaid out of any savings brought about by this investment. Furthermore, the GCCL Board minutes dated 22 June 2012 specified that it was considered that this capital expenditure would be financed by a third party.

2.4.27 During a meeting with the NAO, PwC stated that the investment in the hoistable deck had been under consideration since at least 2009, when the firm was appointed to carry out an appraisal of the additional investment required to carry out improvements to the vessel. This study, dated 20 February 2009, had advised the GCCL that the hoistable deck project was not feasible. This conclusion was based on the following assumptions:

a. useful life of the vessel was based on the book value in line with Ta' Pinu's remaining depreciable useful life (22 years from 2009);
b. capital cost of the project was €5 million for retrofitting a movable deck and €1 million for the carrying of dangerous goods;
c. demand was expected to remain constant;

d. vehicle capacity was 118 not 156 as two ramps of MV Malita were rarely used due to the carriage of large vehicles; and
e. 1,460 single trips per annum would be reduced as a result of this capital investment.

2.4.28 PwC had anticipated a negative net present value (NPV) of €406,000 together with a payback period of 14 years for this project. Should the vessel be modified to carry 'dangerous goods' the NPV would decrease by a million, that is, €1,406,000, with the same payback period.

2.4.29 However, consequently, another feasibility study was conducted by MGI, dated 11 July 2011, after the GCCL directors identified new assumptions that were deemed to account for a fairer representation of this project. MGI based their model on the following assumptions:

a. useful economic life of the vessel was calculated on 33 years (as per Scottish Ferries Review industry average);
b. the demand behaviour pattern exhibited growth, maturity and decline over the useful life of the vessel;
c. different scenarios were generated relating to optimistic, pessimistic, historical and hybrid scenarios; and
d. the required rate of return of this project was established at 8.6 per cent.

2.4.30 According to the MGI study, this project was considered feasible, yielding a positive NPV of around €3.8 million with a payback period of between five and six years. Should the vessel be modified to carry 'dangerous goods', the NPV would be €2.8 million with a payback period of between six and seven years.

2.4.31 Another issue in relation to the hoistable deck expenditure related to which entity was to assume responsibility for its payment. In this regard, the former Deputy Chair GCCL explained that before the JV Agreement, the GCCL was responsible for the maintenance of the vessels while GFCL, as owner of the vessels, was responsible for the capital expenditure related to the vessels. Clause 8.1 of the JV Agreement signed between the GCCL and the GFCL stated that the GFCL was to receive 85 per cent of the JV's free cash flow. This free cash flow is broadly defined as the aggregate Profit Before Tax of both parties to the agreement, adjusted to add back bank interest and depreciation, and to deduct tax and qualifying capital expenditure. The qualifying capital expenditure represents an expenditure of a capital nature incurred by the GCCL in relation to the terminal, other shore facilities and the vessels during the PSO term. It explicitly excludes expenditure on the addition of hoistable ramps and/or the upgrade of the vessels to carry dangerous goods, unless the parties specifically agreed otherwise in writing prior to the relevant party incurring such expenditure. According to PwC, by inference, such expenditure should have been borne by GFCL.

2.4.32 PwC further elaborated on this matter, stating that if the projected cash flows were to materialise, this expense would be covered by GFCL. If, however, these cash flows were not to materialise, GFCL would face severe cash flow problems, and these would indirectly affect the GCCL as the Company originally paying for the deck and seeking refund of this amount from GFCL. As indicated in the minutes of the Board meeting held on 17 December 2013, the GCCL had been informed that the GFCL had no funds, and was therefore not in a position to pay the outstanding amount of €8 million to the GCCL. According to the GCCL, following discussions held between the GCCL, GFCL and MGI, invoices to the GFCL in relation to the hoistable deck and overhaul expenditures have now been issued.

2.4.33 Aside from the above presented issues, the NAO noted that the hoistable deck had also incurred substantial cost overruns, with the major variance being in Palumbo Shipyard's invoices for the intermediate docking, modification works and installation of the MV Ta' Pinu's hoistable deck. The former Deputy Chair GCCL explained that one had to keep in mind that the GCCL was operating without a CEO and that all the Board members were non-executive directors so there was no permanent presence monitoring controls. The MV Malita vessel already had a hoistable deck and TTS Ships Equipment AS, a Norwegian company, held the copyright to its designs. Therefore, according to the former Deputy Chair, the GCCL had two options: either to award a direct contract to the Norwegian Company or to issue a tender. The Board opted for the former. However, during the execution of works, there was an error in measurements that emerged when Palumbo was fitting the deck, resulting in costly adjustments of €67,528, excluding VAT, being incurred at Palumbo Shipyards, of which €47,150, excluding VAT, were to be paid by TTS Ships Equipment AS. While the Company responsible for the design of the deck acknowledged the error, it only paid for part of the additional costs incurred. The former Deputy Chair stated that the GCCL did not pursue higher compensation so as not to jeopardise possible future relations with the Company, particularly in view of their ownership of design rights.

Terminal Costs

2.4.34 The cost of the port facilities (terminal management fee) was presented as per the draft agreement, that is, at €800,000 per annum rising to €950,000 per annum upon the commissioning of the new Ċirkewwa terminal. Moreover, insurance costs were projected to increase to €137,000 by 2017 in line with inflation. Utility costs were anticipated to increase marginally by approximately €20,000 per annum due to the planned installation of the photovoltaic cells at the new Ċirkewwa terminal. Repairs and maintenance were forecasted to become stable in 2013 at €82,000, after accounting for the expected savings with respect to the GCCL's ticketing IT systems. Other terminal expenses included registration fees, wages for subcontracted services, printing of tickets, cleaning expenses, safety equipment maintenance and baggage trailer service costs. These costs were estimated to remain stable, bar an extra €30,000 per annum in cleaning expenses in relation to the new terminal.

Table 16: Variance between actual and projected terminal costs, 2011-2012

	2011			2012		
	Actual (€)	Projected (€)	Variance (€)	Actual (€)	Projected (€)	Variance (€)
Terminal Management Fee	(767,785)	(772,000)	4,215	(800,000)	(800,000)	0
Insurance, Registration & Other Fees	(111,543)	(122,000)	10,457	(134,428)	(124,000)	(10,428)
Cost of Utilities at Mgarr Terminal	(92,295)	(145,000)	52,705	(135,505)	(147,000)	11,495
Repairs & Maintenance	(119,792)	(97,000)	(22,792)	(128,158)	(31,000)	(97,158)
Others	(115,583)	(129,000)	13,417	(104,129)	(132,000)	27,871
Total[1]	(1,206,998)	(1,265,000)	58,002	(1,302,220)	(1,234,000)	(68,220)

Note:

1.The actual terminal expenses featured in Table 16 do not include wages and salaries and other staff costs for terminal and therefore do not match their corresponding figure in Table 4. The wages and salaries have been presented separately in Table 13 in order to more accurately draw comparisons with the PSO bid.

2.4.35 Table 16 illustrates that in 2011 there was an overall favourable variance of €58,002 between the projected terminal costs and the corresponding actual figure. However, in the following year, the actual terminal costs increased by €95,222 instead of decreasing by €31,000 as projected. In fact, the overall variance for 2012 is an adverse one of €68,220. The largest adverse variances between the actual and projected terminal costs over the two years were registered with respect to the terminal repairs and maintenance. In 2011, the actual costs exceeded those projected by €22,792, while in 2012, the amount actually spent exceeded that forecasted by €97,158. Moreover, in 2011, there was a favourable variance of €52,705 between the actual and projected Mġarr terminal utilities cost.

Maintenance Costs

2.4.36 Maintenance costs were projected to remain constant, increasing only in line with inflation since the GCCL was not envisaging any major capital expenditure that was to affect maintenance costs.

Table 17: Variance between actual and projected maintenance costs, 2011-2012

	2011			2012		
	Actual (€)	Projected (€)	Variance (€)	Actual (€)	Projected (€)	Variance (€)
Subcontracted Costs	(20,947)	(14,000)	(6,947)	(7,435)	(15,000)	7,565
Workshop General Expenses	(20,071)	(13,000)	(7,071)	(3,013)	(13,000)	9,987
Store Rent	(8,077)	(8,000)	(77)	(8,077)	(8,000)	(77)
Motor Vehicle Expenses	(4,430)	(8,000)	3,570	(5,094)	(8,000)	2,906
Total[1]	(53,525)	(43,000)	(10,525)	(23,619)	(44,000)	20,381

Note:

1.The actual maintenance and engineering overheads featured in Table 17 do not include wages and salaries and other staff costs for maintenance and engineering and therefore do not match their corresponding figure in Table 4. The wages and salaries have been presented separately in Table 13 in order to more accurately draw comparisons with the PSO bid.

2.4.37 With respect to maintenance costs, Table 17 shows that in 2011 there was an overall adverse variance of €10,525 between the actual and projected maintenance costs. This turned into a favourable variance of €20,381 in 2012.

Selling, General and Administration Costs

2.4.38 In the PSO tender bid, all administration costs featured in Table 18 were forecasted to remain relatively constant between 2011 and 2017.

Table 18: Variance between actual and projected selling, general and administration costs, 2011-2012

	2011			2012		
	Actual (€)	Projected (€)	Variance (€)	Actual (€)	Projected (€)	Variance (€)
Professional Fees	(180,998)[1]	(120,000)	(60,998)	(114,078)	(122,000)	7,922
Rent	(20,025)	(12,000)	(8,025)	(30,449)	(12,000)	(18,449)
Insurance and Licences	(54,167)	(51,000)	(3,167)	(53,178)	(52,000)	(1,178)
Communication Costs	(39,915)	(51,000)	11,085	(50,286)	(52,000)	1,714
Motor Vehicle Expenses	(56,800)	(66,000)	9,200	(70,151)	(67,000)	(3,151)
Printing & Stationery	(19,020)	(14,000)	(5,020)	(12,348)	(15,000)	2,652
Advertising	(17,994)	(22,000)	4,006	(23,053)	(22,000)	(1,053)
General Expenses	(88,788)	(62,000)	(26,788)	(60,013)	(63,000)	2,987
Unclaimables Write-off	3,575	0	3,575	2,163	0	2,163
Total[2]	(474,132)	(398,000)	(76,132)	(411,393)	(405,000)	(6,393)

Notes:

1.For 2011, Professional Fees included payments for consultancy received regarding the PSO Tender, which amounted to €94,799.

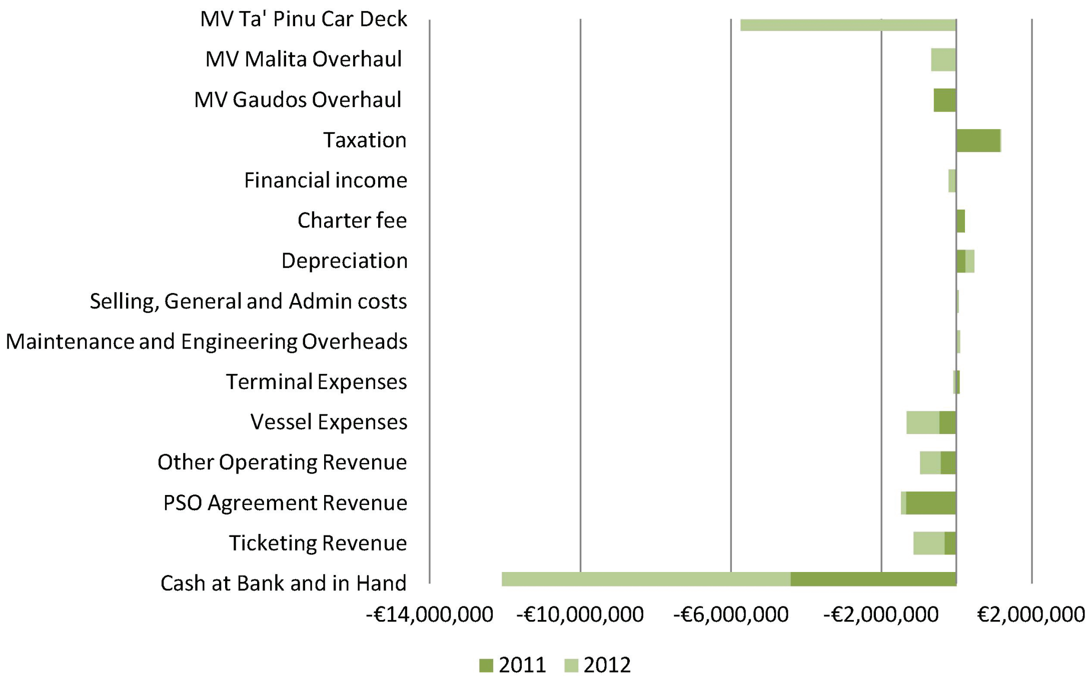
2.The actual selling, general and administration costs featured in Table 18 do not include wages and salaries and other staff costs for selling, general and administration costs and the directors' fees and therefore do not match their corresponding figure in Table 4. The wages and salaries have been presented separately in Table 13 in order to more accurately draw comparisons with the PSO bid.

2.4.39 As illustrated in Table 18, in 2011 there was an overall adverse variance of €76,132 between the projected and the actual selling, general and administration costs. The main components constituting this adverse variance in 2011 were the professional fees (adverse variance of €60,998) and the general expenses (adverse variance of €26,788). Both of these components' adverse variances were turned into favourable ones in 2012. This resulted in a significantly lower overall adverse variance of €6,393 between the actual and projected figures registered in 2012. In 2012, the largest adverse variance was the rent expense, which stood at €18,449.

2.5 Summary

2.5.1 In summary, Figure 2 provides a graphical illustration of the variances between the PSO projections and the GCCL's actual results as presented in this Chapter. The positive (negative) amounts represent favourable (unfavourable) variances. The largest absolute unfavourable variances were registered with respect to cash at bank and in hand and the MV Ta' Pinu Car Deck. It has since been established that this latter sum was to be settled by GFCL.

Figure 2: Variances between PSO projections and actual results



Chapter 3
Operational Considerations (1): Liquidity and Solvency

Chapter 3 – Operational Considerations (1): Liquidity and Solvency

This chapter provides an analysis of the financial health of the GCCL, particularly in terms of its trade receivables and payables, as well as liquidity and solvency considerations, indicative of the Company's short-term and long-term viability. The financial health of the GCCL hinges upon the GFCL's ability to pay the considerable outstanding amount owed to the former. As things stand, should the GFCL fail to settle such dues, then doubts would be raised on the GCCL's going concern status.

3.1 Trade Receivables and Payables

3.1.1 The first aspect reviewed by the NAO was GCCL's liquidity (reflecting the Company's ability to pay short-term debts) and solvency (the ability to meet long-term debts and obligations), that is, two key indicators of the Company's financial health. To this end, Table 19 illustrates the trade receivables and payables for the years 2010 through 2012 as well as with respect to 2014.

Table 19: Trade receivables and payables

Year	Trade Receivables (€)	Trade Payables (€)
2010	3,857,808	3,168,343
2011	3,264,387	2,881,910
2012	2,844,326	5,903,114
2014	8,545,775	6,966,815

Source: Management Accounts 2010 - 2014

3.1.2 As can be noted, between 2010 and 2011, a decrease of €593,421 (15 per cent) was registered with respect to the GCCL's trade receivables. Such receivables further decreased by €420,061 (13 per cent) during 2012.

3.1.3 With respect to trade payables, following a decrease of €286,433 (9 per cent) between 2010 and 2011, there was a substantial increase of €3,021,204 (105 per cent) between 2011 and 2012. This was, in the main, the result of increases in payments due to Transport Malta (TM) (an increase of €956,601 from 2011 to 2012) and fuel-related expenses (an increase of €352,664 from 2011 to 2012). Furthermore, a number of new creditors in 2012 related to the hoistable deck investment carried out during the year. The major creditor, Palumbo Shipyards, had an outstanding amount payable of €312,681 as at end 2012. Additionally, a number of creditors, which on the statement of financial position were classified as falling due within one year, had the same outstanding amounts listed in the years 2010 through 2012. Despite the improvement in the trade receivables noted above, the GCCL was still unable to pay its creditors in a timely manner, indicating that the GCCL was experiencing cash flow problems in 2012.

3.1.4 This Office also noted that in each of the three years examined, a small number of debtors and creditors accounted for a large proportion of the amounts to be received and paid, respectively. For instance, in 2012, two debtors accounted for over 90 per cent of the total receivables, while 10 creditors made up 90 per cent of the total amount owed. It is pertinent to note that the largest debtor in 2012 was GFCL, owing the GCCL €1,965,768.

3.1.5 As at end 2014, the amount of trade receivables was €8,545,775. This amount was largely composed of the receivables due by GFCL (€8,000,878) in relation to capital expenditure paid for by the GCCL, and tax refunds on fuel purchases due by the Comptroller of Customs (€345,033). If one were to omit the significant increase in trade receivables by the GFCL, this amount would have been similar to 2012 levels.

3.1.6 It is pertinent to note that the classification of trade receivables and payables employed by the NAO was based on information as presented in the GCCL's management accounts. The NAO questions the classification of capital expenditure on behalf of the GFCL as a trade receivable as appropriate, and would instead classify it under other debtors. Notwithstanding this, and for purposes of consistency, the NAO maintained the classification as employed by the GCCL.

3.1.7 As at end 2014, the amount of trade payables was €6,966,815. This represented an increase of 18 per cent over the relevant amount in 2012. A substantial portion of this sum (91.5 per cent) was composed of six creditors, namely: TM (€3,937,488 – an increase of 142 per cent over 2012), Drydocks Malta (€854,290), Cassar Fuel Limited (€573,669), Malta Shipyards (€502,631), Enemed Company Limited (€264,222), and Malta Shipbuilding Company Limited (€248,125). The amounts for Drydocks Malta, Malta Shipyards and Malta Shipbuilding Company Limited have remained unchanged since at least 2010.

3.2 Liquidity Ratios

3.2.1 Table 20 presents the GCCL's current and quick ratios for the years 2010 through 2012, and for 2014.

Table 20: Current and Quick Ratios

Year		Current Assets (1)	Stocks (2)	Current Liabilities (3)	Current Ratio (1)/(3)	Quick Ratio [(1)-(2)]/(3)
2010		16,580,155	2,000,875	9,426,344	1.76	1.55
2011		16,666,992	1,972,822	8,776,702	1.90	1.67
Including GFCL debt	2012	17,732,074	1,919,212	11,459,217	1.55	1.38
	2014	13,186,804	1,745,902	7,860,668	1.68	1.46
Excluding GFCL debt	2012	6,554,629	1,919,212	11,459,217	0.57	0.40
	2014	5,579,064	1,745,902	7,860,668	0.71	0.49

Source: Management Accounts 2010 - 2014

3.2.2 During 2010 and 2011, the GCCL had sufficient current assets in place to honour its current liabilities. While the Company's current ratio with respect to 2012 and 2014 appeared to present a healthy outlook, the situation was in reality somewhat less positive. In 2012 and 2014, the GCCL's largest asset consisted of receivables due by GFCL in relation to capital expenditure paid for by the former. Omitting this asset from the current assets figure results in an unhealthy current ratio of 0.71 in 2014. This ratio represents an improvement over that for 2012 (0.57), which was the first full year of the JV agreement. The NAO's argument to exclude GFCL from the reported current assets of 2012 and 2014 was based upon findings stated in paragraph 2.4.32, wherein the GCCL Board was informed that the GFCL had no funds from which to settle the outstanding amounts owed, hence rendering the recovery of such dues by the GCCL as at worst unlikely, and at best delayed.

3.2.3 Further refining the current ratio is the quick ratio, which calculates whether the most liquid assets a company has can cover its current liabilities. Similar results emerge with respect to this ratio. Indeed, while the most liquid assets held by the GCCL were sufficient to cover its current liabilities during the audit period (if one were to include GFCL debt as part of current assets in 2012), eliminating GFCL from the relevant debtor lists results in a further weakened quick ratio of 0.40 in 2012 and 0.49 in 2014.

3.3 Long-term Solvency Ratios

3.3.1 Table 21 presents ratios designed to measure the GCCL's ability to meet its long-term financial obligations. The total debt to total asset ratio measures the share of a company's assets financed through debt. The higher the ratio, the riskier the firm's operating position is and the lower its financial flexibility.

Table 21: Long-term Solvency Ratios

Year		Total Liabilities (€)	Total assets (€)	Stakeholders' equity (€)	Income before interest & taxes (€)	Interest expense (€)	Total Debt to Total Assets (%)	Total Debt to Equity (%)	Interest coverage
		(1)	(2)	(3)	(4)	(5)	(1)/(2)	(1)/(3)	(4)/(5)
2010		9,863,101	16,997,632	7,021,763	2,506,109	31,837	58	140	79
2011		9,067,874	17,090,212	8,022,339	970,780	29,903	53	113	32
Incl. GFCL debt	2012	11,750,389	18,098,330	6,347,941	(1,625,403)	45,432	65	185	-
	2014	8,151,840	13,524,066	5,372,226	89,192	29,654	60	152	3
Excl. GFCL debt	2012	11,750,389	6,920,885	6,347,941	(1,625,403)	45,432	170	185	-
	2014	8,151,840	5,916,326	5,372,226	89,192	29,654	138	152	3

3.3.2 During the audit period, if one were to include the GFCL debt as part of GCCL's total assets, then GCCL had sufficient assets to cover its debts. However, while from 2010 to 2011 the total debt to total asset ratio decreased by 5 percentage points, in 2012 this ratio increased from 53 per cent to 65 per cent, implying that the GCCL had a higher degree of financial leverage in 2012. This resulted in the interest paid increasing by 52 per cent in 2012, from €29,903 in 2011 to €45,432. For 2014, this ratio stood at a similar level to that registered in 2012 and the GCCL paid €29,654 in interest payments during this year. As indicated above and in clause 2.4.32, financial results indicated that GFCL faced severe cash flow problems from 2012 onwards, which could affect the GCCL's prospects of obtaining such receivables. If one were to exclude the GFCL debt from the GCCL's total assets in the case of 2012 and in 2014, the GCCL would not have sufficient assets to cover its debts. Under this scenario, the ratio would have been at 170 per cent in 2012 and 138 per cent in 2014. Therefore, if GFCL were unable to repay the GCCL, this would raise doubts on the going concern status of the GCCL.

3.3.3 Another measure of a company's financial leverage is the total debt to total equity ratio, which compares the relative shares of debt and equity utilised to fund a company's assets. In the case of the GCCL, throughout the audit period, the portion of assets provided by the creditors always exceeded the portion of assets financed by the shareholders. While the reliance on creditor finance decreased in 2011 from 140 per cent to 113 per cent, there was a significant increase of 72 percentage points in such creditor finance in the following year. Such a high ratio once again indicates that the GCCL was unable to generate an adequate amount of cash with which to settle its debts. In 2014, the total debt to total equity ratio was still high and stood at 152 per cent.

3.3.4 Another solvency ratio calculated in this analysis is the interest coverage ratio, which is utilised to establish the number of times a company can pay the interest expenses on unsettled debt out of its earnings before interest and tax. The lower the ratio, the more the company is hampered by debt expense and the higher the possibility of it going bankrupt. In 2010, the GCCL had an extremely high margin of safety as measured by such ratio. This indicated that the borrowing of money had a positive effect on the GCCL and that substantial additional debt capacity remained. The interest coverage ratio decreased in 2011; however, it was still quite high. In 2012, the GCCL incurred a loss before interest and taxes and was therefore unable to cover the interest expense out of such losses. This position is unsustainable and could affect the GCCL's going concern status as it could potentially compromise the ability to honour future interest payment obligations. This situation was reversed in 2014, at which point the Company registered a small profit and had an interest coverage ratio of 3.

Chapter 4
Operational Considerations (2): Fuel Procurement

Chapter 4 – Operational Considerations (2): Fuel Procurement

Fuel is one of the GCCL's major expenses, equating to an approximate 30 per cent of the total operating expenses incurred during 2010-2012 and amounting to an aggregated €9.75 million over this three-year period. In this respect, the NAO focused its attention on examining the GCCL's fuel procurement process, agreements entered into and subsequent disputes arising therefrom. Furthermore, the NAO reviewed the processes relating to the verification of the quality, quantity and price of the fuel procured, while also examining the fuel consumption levels registered by each of the GCCL vessels.

4.1 Background on Fuel Procurement

4.1.1 According to the PSO tender bid, dated 30 March 2011, the GCCL procured marine diesel fuel for its vessels solely from its designated supplier, Salvu Zammit and Sons Limited, following a call for supplies issued in January 2004. In addition, the PSO specified that no contractual agreement, aside from standard trading terms, was in effect. However, the NAO noted that at this time, Falzon Fuel Services Limited was also supplying the GCCL with fuel for the MV Malita.

4.1.2 In total, three fuel contracts were in effect during 2010 to 2012. One of these contracts was signed with Falzon Fuel Services Limited and covered the period January to July 2010, which contract was subsequently extended for a further five months. This contract covered the fuel requirements of the MV Malita. The GCCL also awarded a direct contract to Falzon Fuel Services Limited for the provision of fuel for the MV Ta' Pinu and MV Gaudos for July and August 2010. The other contract was signed with Salvu Zammit and Sons Limited on 27 May 2011 for a period of three years. However, this contract came into effect on 24 March 2012 due to pending disputes between the GCCL and the supplier. Figure 3 renders evident the notable gaps in contractual agreements regulating the purchase of fuel, with the GCCL entering into direct negotiations with suppliers to cover its requirements. While the NAO's analysis focuses upon contracts in place, its greatest concern centres on the multiple instances when the procurement of fuel was not regulated by any contractual agreement.

Figure 3: Timeline illustrating GCCL fuel contracts, 2010-2012

	2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Contract 1 Falzon Fuel Services Ltd [MV Malita]	Contract from Jan-Jul 2010 extended for further five months											
Contract 2 Salvu Zammit and Sons Ltd / Go Fuels Limited [all vessels]						Contract signed for three years with effect from May 2011 but not entered into				Contract came into effect in March 2012		
Contract 3 Falzon Fuel Services Ltd [MV Ta' Pinu & MV Gaudos]			Jul-Aug 2010									

4.2 Fuel Supply by Falzon Fuel Services Limited

4.2.1 On 29 November 2009, the GCCL notified the Department of Contracts (DoC) that the Customs Department had sequestered all the barges of Salvu Zammit and Sons Limited and authorised it to supply fuel only to the GCCL ferries. The GCCL claimed that this concession was limiting bunkering operations to Sa Maison, which in turn hindered the GCCL's operations. Due to this state of affairs, the GCCL claimed that Salvu Zammit and Sons Limited could not offer the Company the required level of flexibility, resulting in operational problems, delays and expenses. Consequently, the GCCL asked the DoC for endorsement to award a contract to Falzon Fuel Services Limited for the supply of fuel to MV Malita for a six-month period in accordance with the procedures stipulated in Legal Notice (L.N.) 178/2005 entitled Public Procurement of Entities Operating in the Water, Energy, Transport and Postal Services Sector Regulations, 2005. Throughout this six-month period, the GCCL specified that it would publish a tender for the supply of fuel for all three vessels. The estimated total cost for the MV Malita's fuel supply for the six-month period in question was €1 million, excluding VAT.

4.2.2 In an email dated 2 December 2009, the DoC enquired with the GCCL whether Enemalta Corporation (EMC) could furnish the necessary fuel instead of third party suppliers. Under such circumstances, the GCCL would not require the DoC's endorsement nor the issue of a call for tenders as contracts between contracting authorities were exempt from the application of L.N. 177/2005 (entitled Public Contracts Regulations) and L.N. 178/2005. The DoC proceeded to state that if the arrangement with EMC was not possible, then the GCCL would have to substantiate why it was asking for approval to acquire supplies specifically from Falzon Fuel Services Limited.

4.2.3 The GCCL replied on 8 December 2009, claiming that EMC had informed the Company that it traded in vehicle fuel (presumably unleaded petrol and diesel) and not in bunker fuel (presumably referring to marine diesel fuel). Furthermore, in this correspondence, it was stated that EMC's trading of bunker fuel on behalf of the GCCL would be costly, and in the circumstances, the GCCL had to utilise an economic operator's services. Although not specified at this stage, in an email to MFEI dated 11 May 2010, the GCCL put forward the case that Falzon Fuel Services Limited was the only other licensed bunkering operator aside from Salvu Zammit and Sons Limited.

4.2.4 On 16 December 2009, the GCCL was informed that the General Contracts Committee's (GCC) had granted it approval to enter into a negotiated procedure with Falzon Fuel Services Limited and conclude a contract worth €1 million for a six-month fuel supply. This approval was subject to these four conditions:

a. the supplies were necessary for the company's smooth operation;
b. the most cost-effective basis was considered when suggesting the procurement;
c. funds were available; and
d. action to publish a call for tenders would be taken.

4.2.5 The contract with Falzon Fuel Services Limited for the supply of marine gas oil to MV Malita was signed by the then GCCL Chair and the Contractor on 5 January 2010 and was valid for six months from the commencement date. According to the contract, the Contractor had to provide marine gas oil in conformity with prescribed specifications.

4.2.6 As specified above, this contract was for a maximum value of €1 million, exclusive of VAT. According to the contract, payment was to be made in Euro and would be based on the Contractor's invoices (setting out the quantity of fuel bunkered, the days during which bunkering occurred, as well as the price) calculated on the following formula: basis Platts Marketscan cost, insurance and freight (CIF) Med High Genova/Lavera, average of the marine gas oil (DMA) quotes for the month of delivery, plus a premium of $50 per metric ton (MT). The contractor would charge an additional cost for transportation, which varied according to the fuel supply's destination:

- Marsa ex-Wharf - €2 per MT
- Sa Maison - €5 per MT
- Ċirkewwa - €10 per MT
- Gozo - €24 per MT, ferry expenses included.

The NAO noted that the €1 million stipulated in the contract was not exceeded during the established six-month period.

4.2.7 As per the GCC's fourth condition specified in paragraph 4.2.4 (d), an open call for tenders for the supply of 16,500 MT of marine gas oil to the GCCL over a period of three years was published on 28 May 2010, while the contract with Falzon Fuel Services Limited was still in place. The deadline for the submission of bids was 25 July 2010. It was in this context that the GCCL requested the GCC to grant it an extension of the validity period for the supply of fuel for the MV Malita from Falzon Fuel Services Limited for an additional five months, by which time it was envisaged that the fuel supply tender for all three vessels would be awarded. Furthermore, at that stage, only an extension in terms of the contract's period of validity was required as the amount of fuel that had been procured under this contract was below the €1 million cap. Indeed, during the first six months, the GCCL had spent €609,603 for the supply of fuel to the MV Malita from Falzon Fuel Services Limited. The GCCL was notified that the endorsement for the five-month extension was granted under the same conditions as per the original contract (bar the fourth clause, as action was already underway – paragraph 4.2.4 (d) refers) by means of an email dated 19 July 2010.

4.2.8 Here, the NAO noted that the €1 million capping was exceeded during this contract's extension. Total payments effected by the GCCL to Falzon Fuel Services Limited with respect to fuel for the MV Malita during the original contract and its extension amounted to €1,193,299.

4.2.9 Moreover, during the contract's extension, aside from supplying fuel to MV Malita, as was in fact stipulated in the contract, Falzon Fuel Services Limited also supplied fuel to the other two vessels operated by the GCCL. In an email to MFEI dated 11 May 2010, the GCCL wrote that it had been informed by the Customs Department that Salvu Zammit and Sons Limited was being banned from providing bunkering services due to issues with the Customs Department. The GCCL asked the MFEI to, in accordance with L.N. 178/2005, endorse the utilisation of the services of Falzon Fuel Services Limited to bunker the MV Ta' Pinu and the MV Gaudos for a maximum of €450,000 (excluding VAT), which supply would ensure that the GCCL could carry on its service for the ensuing four weeks. The GCCL anticipated that the issue between the Customs Department and Salvu Zammit and Sons Limited would be resolved within this timeframe. The GCCL was requesting the services of Falzon Fuel Services Limited as this Company was reportedly the only other licensed bunkering operator aside from Salvu Zammit and Sons Limited.

4.2.10 MFEI replied that the GCCL could place a direct contract with Falzon Fuel Services Limited for the provision of marine bunkering services up to a maximum of €412,000 excluding VAT and that the Direct Order (DO) Section could not extend this facility beyond this threshold.

4.2.11 On the same day, the Customs Department notified the GCCL that Salvu Zammit and Sons Limited was authorised to bunker the ferries with effect from 12 May 2010, that is, a day after the GCCL had obtained the DO Section's approval for alternative arrangements. The GCCL therefore requested MFEI to maintain the granted endorsement to purchase fuel from Falzon Fuel Services Limited thereby making it possible for the GCCL to have a fallback position should Salvu Zammit and Sons Limited not be in a position to operate.

4.2.12 Such approval was also granted on 12 May 2010; however, when and if it was utilised, the GCCL had to inform the DO Section with respect to the amount involved. Moreover, the approval would become void once the fuel tender was awarded. On 18 June 2010, the GCCL requested an activation of the direct contract with Falzon Fuel Services Limited for the fuel supply for the MV Ta' Pinu and the MV Gaudos in view of difficulties encountered with the management of Salvu Zammit and Sons Limited. Approval to proceed was granted by MFEI on the same date. Therefore, from 30 June 2010 to 28 August 2010, Falzon Fuel Services Limited supplied all the fuel utilised by the GCCL.

4.2.13 On 27 August 2010, the GCCL wrote to MFEI stating that it had exhausted the amount approved and requested approval for an additional €412,000, excluding VAT. This amount was deemed to suffice until the completion of the fuel tender adjudication process. However, MFEI replied that since the amount in question exceeded the ministerial threshold (cumulatively, €412,000, excluding VAT) in terms of L.N. 178/2005, such request required DoC's clearance. The endorsement of the Permanent Secretary MFEI was obtained before this request was presented to the DoC.

4.2.14 On 13 September 2010, the GCCL was informed that the DoC's approval for the bunkering of fuel through a negotiated procedure with Falzon Fuel Services Limited had been granted for a total value of €412,000. The approval was granted under the previous conditions. However, the GCCL never made use of the additional allocation as it started bunkering fuels from Salvu Zammit and Sons Limited again as from the 1 September 2010. In sum, during July and August 2010, the GCCL paid Falzon Fuel Services Limited €368,780 with respect to the supply of fuel for the MV Gaudos and the MV Ta' Pinu.

4.2.15 Aside from the fuel supplied by Salvu Zammit and Sons Limited, Falzon Fuel Services Limited also continued providing the GCCL with fuel until 18 March 2012, therefore even after the contract extension referred to above had expired. The NAO requested the GCCL to provide this Office with the relevant contracts that should have regulated the Company's dealings with Falzon Fuel Services Limited for the remaining period; however, the reply put forward indicated that no agreements with Falzon Fuel Services Limited, corresponding to the above-indicated period, existed. Some element of justification was put forward by the GCCL, when stating that an insurance-related issue suspended the coming into effect of the tender and resulted in the GCCL purchasing fuel from Salvu Zammit and Sons Limited and Falzon Fuel Services Limited. Notwithstanding the limited information provided by the GCCL, the NAO is of the opinion that such a vague response detracts from the expected standard of accountability that one would expect the GCCL to operate by. The shortcomings associated with the vagueness of GCCL's response was further accentuated when one considers the fact that the Company paid Falzon Fuel Services Limited €1,753,423 following the expiry of the extended contract with respect to the MV Malita.

4.3 Fuel Supply by Salvu Zammit and Sons Limited/Go Fuels Limited

4.3.1 During the entire audit period, bar the two months referred to above during which Falzon Fuel Services Limited was the GCCL's sole fuel supplier, Salvu Zammit and Sons Limited supplied the GCCL with fuel. From 2010 until March 2012, no contract beyond standard trading terms was in place, after which period the agreement between the GCCL and Salvu Zammit and Sons Limited came into force. The standard trading terms were based on the January 2004 call for supplies as referred to in the PSO bid; however, despite requests for documentation relating to this call, the GCCL did not provide this Office with any information requested in this sense. The NAO was informed that all purchases were effected through email correspondence exchanged between the GCCL and the Contractor. In March 2012, a contract for the supply of marine gas oil came into effect between Salvu Zammit and Sons Limited and the GCCL. This contract had originally been signed in May 2011, yet its implementation was delayed due to disagreements arising between the two parties. One must note that, in 2012, Salvu Zammit and Sons Limited shifted its bunkering operations to Go Fuels Limited, a subsidiary company having the same directors and shareholders. The necessary amendments were effected in the contract with the GCCL on 10 September 2012.

Tender for the Supply of Marine Gas Oil

4.3.2 As specified above, an open call for tenders issued by the DoC for the supply of 16,500 MT of marine gas oil to the GCCL over a period of three years was published on 28 May 2010. This call for tenders was published and was to be adjudicated in accordance with L.N. 177/2005 and L.N. 178/2005 by means of the three-package procedure. The cost estimate with respect to this tender was €4.3 million[5] and the contract was to be awarded to the lowest priced bid satisfying the administrative and technical criteria specified in the tender document. Two tenderers submitted a bid by the closing date of 20 July 2010, namely Falzon Fuel Services Limited and Salvu Zammit and Sons Limited.

4.3.3 Both offers submitted by the tenderers were deemed administratively and technically compliant. The bid submitted by Falzon Fuel Services Limited was considered to be technically more advantageous. Notwithstanding, the bid submitted by Salvu Zammit and Sons Limited represented the cheapest compliant offer. Table 22 present the financial details relating to offers submitted. Both tenderers' offers were substantially above the estimated budget of €4.3 million for this tender.

[5] The Tender Originators Form and the Contract Award Notice specified that the estimated value of €4.3 million excluded VAT, whereas a memorandum to the GCC submitted by the DoC stated that this amount included VAT.

Table 22: Submitted offers with respect to the supply of marine gas oil to GCCL

Tender No.	Name of Tenderer	Financial offer (based on June 2010 Platts prices)[6]	Ranking
1	Falzon Fuel Services Limited Option A by road tanker	€9,636,162	2
	Falzon Fuel Services Limited Option B by barge	€9,735,162	3
2	Salvu Zammit and Sons Limited by road tanker or by barge	€9,349,348	1

4.3.4 The Evaluation Committee recommended that the tender be awarded to Salvu Zammit and Sons Limited. No objections were filed with respect to this tender award. The contract with Salvu Zammit and Sons Limited was signed by the Director General Contracts on 27 May 2011. The pricing formula, reproduced in Box 1, was to be used throughout the contracted period.

Box 1: Pricing Formula

= (((Platts/ER)+23.00) / 1,176)
+ duty paid of €0.3542 per litre or as revised by the relevant authority
+ VAT of 18 per cent or any rate that will apply as the date of supply

where:

- Platts refers to the price as published in USD per metric ton on the date of delivery on Platts Mediterranean product cargo assessment Genoa/Lavera/Gasoil 0.1 quote CIF MED high;
- ER is the exchange rate as published on the date of delivery on the European Central Bank quote;
- while the 23.00 is the premium per metric ton.

4.3.5 The quality specifications for the fuel were outlined in the contract. Following the signing of the contract, the GCCL requested Salvu Zammit and Sons Limited to submit the necessary documents as per the tender requirements.

4.3.6 In a letter to DoC dated 12 December 2011, the then GCCL Chair indicated that the two parties disagreed over the indemnity coverage to be provided in the insurance policy, which stalled the contract's implementation. Essentially, the two parties disagreed on the interpretation of Article 12 (Box 2 refers) of the Special Conditions of the contract: 'Operation Disruptions' and 'Business Interruption'.

Box 2: Article 12 - Insurance, Special Conditions of Agreement between GCCL and Go Fuels Limited

The Contractor shall own an insurance covering any structural damage by the bunker, barge or bowser, any mechanical faults related to poor quality marine gas oil, any incidents that result in marine pollution (fire, oil spills etc) as per local regulations or any expense in relation to operational disruptions related to the above mentioned incidents.

4.3.7 In this letter, the GCCL contended that both these terms meant that in the event of a claim, the compensation sought from Salvu Zammit and Sons Limited, or their insurers, should comprise all the expenses incurred by the GCCL until normal operation resumed, hence, the GCCL insisted on an indemnity policy of €500,000. In turn, Salvu Zammit and Sons Limited maintained that the indemnity policy was to be reduced from €500,000 to €250,000. Furthermore, Salvu Zammit and Sons Limited argued that their responsibility was limited to the supply of marine gas oil and that in the case of a claim arising with respect to the provision of marine gas oil being of inferior quality, then the liability of the Contractor was only limited to the replacement of the marine gas oil in question. Meanwhile, the GCCL's insurance brokers insisted that a €500,000 indemnity policy was insufficient to cover any potential loss caused by any

[6] The Evaluation Report submitted by the Evaluation Committee listed the financial offer figures as exclusive of VAT whereas a memorandum to the GCC submitted by the DoC listed the same figures as inclusive of VAT.

accident related to marine gas oil delivery. The GCCL sought the DoC's advice on the way forward.

4.3.8 In an email dated 12 January 2012, the DoC specified that Salvu Zammit and Sons Limited appeared to have agreed to obtain an insurance policy covering the disruption of operations. The remaining dispute was over the amount of damages that could be covered through such an insurance policy. The DoC noted that the Special Conditions did not include any reference to a specific amount. Consequently, the DoC stated that without a consensus between both parties, the GCCL's position could be deemed arbitrary. An explanation as to the resolution of this impasse was noted in the GCCL Board meeting minutes of 15 March 2012, wherein it was noted that the GCCL Board had agreed to accede to Salvu Zammit and Sons Limited's position as the delay was resulting in excessive costs for the Company.

4.3.9 The contract was eventually implemented on 24 March 2012, with the delay in the implementation resulting in the GCCL incurring losses of approximately €88,000. This loss was attributable to the fact that the GCCL had been purchasing fuel at current prices, which were higher than the rates that would have been payable had the contract immediately come into effect.

Arbitration Proceedings: Dispute over Outstanding Balances and Amount of Fuel Supplied

4.3.10 Another dispute arose in 2013, at which stage the GCCL had a considerable outstanding balance with Go Fuels Limited. According to Go Fuels Limited, the GCCL persistently had an unpaid balance of over €1 million. For instance, according to Go Fuels Limited, the unpaid balance stood at €1,221,102 as at 6 February 2013 and rose to €1,251,243 as at 14 March 2013.

4.3.11 In a letter dated 14 March 2013, Go Fuels Limited maintained that all GCCL's payments were being made just before the expiry of the ninety days from the payment due date. According to Go Fuels Limited, the GCCL was ignoring the provisions of Article 26 of the Special Conditions, which provided that payments were to be made 30 days after the bunker was delivered (Box 3 refers), and was instead relying on the late payments provisions stipulated in Article 28 (Boxes 4 and 5 refer). According to Go Fuels Limited, this Article should only have been invoked in exceptional circumstances, that is, when the deadline stipulated in Article 26 was not adhered to. Go Fuels Limited also maintained that this payment method was causing difficulty to the Contractor, resulting in the deferral of payment of its customs duty. Go Fuels Limited referred this matter (and another issue, further expounded upon below) to arbitration, with the remedy sought being a declaration that the respondent, the GCCL, was in breach of the agreement and consequently the termination of the agreement.

Box 3: Article 26.1 - Methods of Payment, Special Conditions of Agreement between GCCL and Go Fuels Limited

Payments will be made in Euro. Payments shall be paid by Gozo Channel Company Ltd., Channel House, Mġarr Harbour, Mġarr, Gozo, MALTA. The payments are to be effected after 30 days after delivery of bunkers on board the vessel/s. No payments will be issued by Gozo Channel Company Ltd to third parties. Gozo Channel Company Ltd will effect payment only to the contracted supplier. The supplier is solely responsible to pay third parties.

Box 4: Article 28 - Delayed Payments, General Conditions for Supplies Contracts

28.1 The Contracting Authority shall pay the Contractor sums due within 30 days of the date on which an admissible payment is registered, in accordance with Article 26 of these General Conditions. This period shall begin to run from the approval of these documents by the competent department referred to in Article 26.1 of the Special Conditions. These documents shall be approved either expressly or tacitly, in the absence of any written reaction in the 30 days following their receipt accompanied by the requisite documents.

28.2 Once the deadline laid down in Article 28.1 has expired, the Contractor may, within two months of late payment, claim late-payment interest:
- at the rediscount rate applied by the issuing institution of the country of the Contracting Authority where payments are in national currency;
- at the rate applied by the European Central Bank to its main refinancing transactions in euro, as published in the Official Journal of the European Union, where payments are in euro,
- on the first day of the month in which the deadline expired, plus seven percentage points. The late-payment interest shall apply to the time which elapses between the date of the payment deadline (exclusive) and the date on which the Contracting Authority's account is debited (inclusive).

28.3 Any default in payment of more than 90 days from the expiry of the period laid down in Article 28.1 shall entitle the Contractor either not to perform the contract or to terminate it, with 30 days' prior notice to the Contracting Authority, the Central Government Authority and the Project Manager.

Box 5: Article 28 - Delayed Payments, Special Conditions of Agreement between GCCL and Go Fuels Limited

28.1 Once the deadline laid down in Article 26.1 above has expired:
the Contractor may, within two months of late payment, claim late payment interest at the rediscount rate applied by the issuing institution of the country of the Contracting Authority on the first day of the month in which the deadline expired.

28.2 A contractor would become entitled to the payment of interest at 2% over the rate of interest established by the Central Bank of Malta for that particular period.

4.3.12 According to the Arbitrator, upon the signing of the contract, the GCCL was already not in a position to settle payments as per the stipulated 30-day credit term, but would instead use the maximum credit term according to its interpretation of the contract. This interpretation led to the absurd situation where the GCCL requested a refund of tax from the Customs Department corresponding to payments not yet paid to Go Fuels Limited. In turn, the Customs Department demanded Go Fuels Limited to pay such tax as the GCCL was requesting the refund.

4.3.13 The arbitral award was delivered on 12 February 2014. According to the Arbitrator, the GCCL was in breach of the contract because it was not interpreting and implementing the contractual obligations in bona fide. The Arbitrator upheld the request made by Go Fuels Limited with respect to the change in the GCCL's payment terms and subsequently ruled that the contract be terminated.

4.3.14 Another matter referred to arbitration by Go Fuels Limited in the same proceedings was the GCCL's deduction of the sums due to Go Fuels Limited. In correspondence submitted to the DoC on 22 March 2013, the GCCL claimed that on numerous occasions, the amount of fuel supplied during bunkering had been less than the amount ordered by the GCCL, resulting in the GCCL's refusal to pay the disputed quantities and therefore deducting from the amount due to Go Fuels Limited. Up to December 2012, the amounts deducted by the GCCL corresponded to €7,661; however, also disputed was an amount of €4,420 claimed by Salvu Zammit and Sons Limited.

4.3.15 Go Fuels Limited maintained that the GCCL was not abiding by any stipulated procedure in the agreement, but was simply crossing out the delivery note and indicating what it considered as the correct amount. According to Go Fuels Limited, the GCCL's actions in this respect were in breach of the procedures stipulated by Articles 26 and 40 (Boxes 6 and 7 refer) of the General Conditions of the agreement.

4.3.16 The Arbitrator ruled that the contested amounts were in fact in dispute and that Go Fuels Limited was not agreeing with the procedure adopted by the GCCL. The GCCL maintained that if a settlement procedure were opened, this should have been done by Go Fuels Limited. The Arbitrator maintained that the two parties should have resorted to an 'amicable dispute settlement' in terms of Article 40 but agreed with the GCCL that Go Fuels Limited had to initiate such a procedure (Box 6 refers). Additionally, the cancellation of the amounts due was not considered sufficient reason to request the contract's termination.

Box 6: Article 40 - Amicable Dispute Settlement, General Conditions for Supply Contract

40.1 The Parties shall make every effort to settle amicably any dispute which may arise between them. Once a dispute has arisen, the Parties shall notify each other in writing of their positions on the dispute and any solution which they consider possible. If either Party deems it useful, the Parties shall meet and try and settle the dispute. A Party shall respond to a request for amicable settlement within 30 days of such a request. The maximum period laid down for reaching such a settlement shall be 120 days from the commencement of the procedure. Should the attempt to reach an amicable settlement fail or a Party fail to respond in time to requests for a settlement, either Party shall be free to proceed to the next stage of the dispute-settlement procedure by notifying the other.

4.3.17 Notwithstanding the Arbitrator's decision, that the contract be terminated as a result of the ruling delivered with respect to the dispute over outstanding balances that the GCCL had with Go Fuels Limited (paragraphs 4.3.10 to 4.3.13 refer), an appeal was filed by the GCCL. This appeal effectively put on hold the implementation of the ruling to terminate the contract, with Go Fuels Limited continuing to supply the GCCL. The contract eventually expired on 27 May 2014 and yet, at the time of writing of the report, the outcome of the appeal remains pending. In essence, through the appeal, the GCCL is seeking to reverse the Arbitrator's original ruling with respect to Go Fuel Limited's complaint relating to the dispute over outstanding balances. According to GCCL's lawyer, the outcome of the appeal is expected on 30 September 2015.

4.4 Fuel Quality, Quantity and Price Verification

4.4.1 The GCCL provided the NAO with documentation presenting details of the fuel purchases made by the GCCL during the audit period. In order to verify the correctness of the quantity, quality and the price of fuel, the NAO stratified the population of fuel purchases by year and supplier, and subsequently selected samples from each strata with probability proportional to size. The total sample size was determined assuming simple random sampling, with a confidence level of 95 per cent and a margin of error five per cent. These calculations resulted in a sample size of 182 fuel purchases.

Fuel Quality Verification

4.4.2 The GCCL's fuel bunkering procedures specify that, under the direction of the Chief Engineer, fuel samples were to be taken from the bowser/barge to check the fuel quality, specific gravity and temperature. If the fuel was dirty, or in any way suspected as being of inferior quality than specified in the contractual agreement, the Chief Engineer was to refuse the fuel delivery. The bunkering procedures also state that the samples taken during bunkering were to be sealed and signed by the Chief Engineer and the bowser driver/barge master. Samples taken were to be retained for a period of one year. Also, all samples were to be numbered and appropriately marked.

4.4.3 In view of the above, the audit team reviewed all the documentation provided by the GCCL in relation to the quality testing of the NAO's sample of bunkerings. The GCCL provided all the relevant bunker delivery notes and bunkering operation checklists (bar two, one of which was unavailable and the other was not found in the GCCL's archives). These included the required confirmation that the samples of fuel were taken and that the GCCL had conducted checks for the fuel's specific gravity and temperature. The bunker delivery notes also included confirmation that the samples were filled, sealed in the Chief Engineer's and the Contractor's presence. In the majority of cases, the documentation indicated that the bunkering procedures were being adhered to. The NAO identified only minor deficiencies with respect to the documentation reviewed, noting a few instances when delivery notes were not appropriately signed.

4.4.4 With regard to the NAO's queries relating to any further testing made in connection to the fuel quality specifications listed in the two fuel contracts, the GCCL stated that it normally considered the aforementioned checks as sufficient in determining whether to accept or reject the fuel being supplied. In instances when there was doubt about the fuel quality, and in other randomly selected instances, a sample was sent for further analysis at a laboratory. The GCCL specified that this could not be carried out with respect to each and every bunker because of the expenses that such testing would entail. In this regard, the NAO maintains that good practice entails that frequent random samples of fuel are sent for laboratory analysis to assure that a quality product was being purchased, particularly so in view of the materiality of the expense at hand.

Fuel Quantity Verification

4.4.5 The GCCL's bunkering procedures state that before the commencement of the bunkering operation, the Chief Engineer was to sound the vessel's fuel tanks and record quantities of bunkers in the engine room log book and to complete the appropriate form. Fuel meter readings on the vessel and bowser/barge were to be recorded before and after bunkering. The Chief Engineer was to witness the sounding of the bowser/barge as part of confirmation of the quantities to be delivered to the vessel. Also, after completion of bunkering, the Chief Engineer was to ensure that the vessel's fuel tanks were manually sounded and the bowser/barge empty. Furthermore, the bunkering procedures state that the amount of fuel received was to be calculated and checked against the bunker receipt note. If the amounts corresponded, then the Chief Engineer, the vessel's master and the bowser driver/barge master were to sign the bunker receipt note. In case of disagreement about the quantities of the bunkers delivered, the discrepancies were to be brought to the immediate attention of the bowser driver/barge master and the GCCL's Maintenance and Engineering Unit. The bunkering procedures also note that discrepancies of up to 200 litres were deemed acceptable.

4.4.6 In order to verify whether the above-mentioned bunkering procedures were being adhered to, the NAO analysed the bunker delivery notes and the bunkering operation checklists, which documents served to record the quantity of fuel bunkered.

4.4.7 The NAO's concern was drawn to certain fuel purchases made from Falzon Fuel Services Limited. This Office noted that there were a number of months wherein the MV Malita's fuel meters were not functional and therefore did not record the volume of fuel transferred. Compounding matters in this case was the fact that the majority of the barge fuel meter readings that should have been noted were also not recorded. Moreover, the NAO expresses concern that for the MV Ta' Pinu, the GCCL did not trace the bunkering operations checklists for the period 20 August 2010 to 14 January 2011, hence this Office was unable to verify the regularity of such transactions, or otherwise.

4.4.8 In addition, the NAO noted some instances when the delivery notes lacked the appropriate signatures. There were other instances where the bunkering operation checklists were not complete, for instance with respect to the recording of the sounding and volume, as well as in relation to the recording of the fuel's specific gravity.

Fuel Price Verification

4.4.9 As specified above, there were two fuel suppliers during the audit period 2010-2012. The fuel prices with respect to the fuel purchased from Falzon Fuel Services Limited were based on the contract referred to in the preceding sections, which was initially entered into for six months in 2010 and subsequently extended by a further five months. This contract covered the fuel supply of the MV Malita. In effect, Falzon Fuel Services Limited continued to supply fuel to the GCCL on the same terms until March 2012, despite the expiry of the contract in December 2010. Documentation indicating the renewal of this contract was not made available to this Office. Falzon Fuel Services Limited was also the sole supplier of fuel to the GCCL from 30 June 2010 to 28 August 2010 through a direct contract, which had the same terms as those of the above-mentioned contract. This direct contract entailed the supply of fuel for the MV Ta' Pinu and MV Gaudos.

4.4.10 During the entire audit period, except for the period 30 June 2010 to 28 August 2010, the GCCL also purchased fuel from Salvu Zammit and Sons Limited. From 2010 to February 2011, the GCCL purchased fuel from this supplier through price agreements for separate batches of bunkers. On 3 February 2011, a fixed premium started being charged for each bunker. This agreement applied until the contract with Salvu Zammit and Sons Limited came into effect on 24 March 2012. It is pertinent to note that according to the GCCL board meeting minutes of 21 May 2010 comparisons were drawn between the fuel price per litre paid by the GCCL and fuel prices requested from suppliers that it did not normally purchase from. According to these minutes, at times the GCCL paid its suppliers 10 per cent more than if it had sourced the fuel from other traders. The GCCL attributed this state of affairs to the lack of monitoring with respect to fuel price variances.

4.4.11 This Office verified the accuracy of the price paid by the GCCL for the sampled fuel purchases by comparing the price paid against the terms of any contracts/emails/documentation that the GCCL provided in relation to such purchases. Delivery notes, invoices, receipts and details on the location where the bunkering took place were also provided by the GCCL. The NAO compared the quantity of fuel purchased as specified in the purchase order, the bunker delivery note and the invoice. The NAO also verified whether the exchange rate utilised to determine the fuel price paid to the suppliers was in accordance with ECB historical data and whether the Platts price and premium used in the calculation of the fuel price were correct. The NAO also checked other clauses in the contracts/emails provided, namely the agreed conversion factor from litres to MT and any transport costs in relation to different locations of fuel bunkering.

4.4.12 For fuel purchases made between January 2010 and 14 November 2010 from Salvu Zammit and Sons Limited, the GCCL stated that no documents confirming that the price paid was the one actually agreed upon were found in file. With respect to fuel purchases made during 2010 from the other supplier, Falzon Fuel Services Limited, there was one instance where the higher transport charge for bunkering in Gozo was charged when the bunkering had actually taken place at Sa Maison, adversely affecting the GCCL by €479. In another case, the market price calculated as per the monthly average Platts prices was not correct. This adversely affected the GCCL by €862. Although other instances of discrepancies were noted by the NAO, these were deemed as immaterial.

4.4.13 With respect to the fuel purchases from Falzon Fuel Services Limited made during 2011, there was one case where the monthly average currency exchange rate was not calculated correctly when compared to the daily exchange rates issued by the ECB. In addition and with respect to the same bunker, the GCCL was charged the rate for bunkering in Gozo when this had actually taken place at Sa Maison. In total, these discrepancies adversely affected the GCCL by €512. The NAO noted a reoccurrence of the latter error, entailing the charge of a higher transport fee than that due, adversely affecting the Company by €581. Another irregularity was noted where the bunkering area was not indicated, and in this case, it could not be established whether the transport charge levied (which was the highest possible one stipulated in the contract) was correct or otherwise.

4.4.14 In the case of fuel purchases from Salvu Zammit and Sons Limited/Go Fuels Limited made during 2012, there were two instances where this Office noted discrepancies in the Platts rate applied; however, these discrepancies were deemed immaterial. For fuel purchases from Falzon Fuel Services Limited made during 2012, there was an instance where the transport charge levied was incorrect. In this case, the bunker delivery note specified that the fuel was bunkered at Sa Maison; however, the transport charge was at the rate specified in the contract for fuel bunkered at Gozo. Therefore, the GCCL was overcharged €1,136.

Chapter 5
Operational Considerations (3): Wages, Salaries and Directors' Fees

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Another operational aspect selected for further analysis by the NAO represented the GCCL's largest cost component, that is, wages, salaries and directors' fees, which accounts for approximately half of the Company's total operating costs. During the period 2010 to 2012, the GCCL's payroll cost amounted to €5.9 million, €5.8 million and €6 million, respectively. In addressing this aspect of the GCCL's operations, the NAO focused on two aspects of verification. First, the NAO undertook compliance testing intended to establish whether payroll payments tallied with applicable employee contracts and collective agreements. Second, this Office reviewed the GCCL's staffing levels with a view towards identifying possible savings.

5.1 Background

5.1.1 Another operational aspect selected for further analysis by the NAO represented the GCCL's largest cost component, that is, wages, salaries and directors' fees. During the audit period, this cost accounted for approximately half of the GCCL's total operating costs. In 2010, wages, salaries and directors' fees amounted to €5,895,742, with the Company's average salary at €23,678. In 2011, total payroll costs decreased by 1 per cent to €5,838,291; however, the average salary increased to €24,686. The overall 1 per cent decrease was then followed by a 3.4 per cent increase registered in 2012, resulting in a total cost of €6,037,299 and an average salary of €26,538.[7]

5.1.2 Table 23 features an analysis of the payroll costs incurred according to employee category. As illustrated, over half of the GCCL's payroll expenditure was spent on ferry crew employees. This proportion increased from 60 per cent in 2010 to 64 per cent in 2012. Slightly less than a quarter of GCCL's wage expenditure was attributable to terminal and shore staff employees. It is noted that administrative payroll costs decreased by €123,136 between 2010 and 2012.

[7] The calculation of average wages was based on the midpoint of the number of GCCL employees, including the Board of Directors, according to staff levels as at 1 January and at 31 December.

Table 23: Payroll cost per employee category

Employee category	Payroll cost					
	2010		2011		2012	
	€	%	€	%	€	%
Ferry Crew	3,566,909	60	3,686,354	64	3,856,258	63
Terminal & Shore Staff	1,396,955	24	1,359,486	23	1,435,941	24
Maintenance & Engineering	279,760	5	253,402	4	219,067	4
Administration	596,586	10	482,194	8	473,450	8
Cafeteria Administration	55,532	1	56,855	1	52,583	1
Total	5,895,742	100	5,838,291	100	6,037,299	100

5.1.3 Table 24 groups the GCCL's wages, salaries and directors' fees according to the salary component categories. As can be noted, payments covering basic wages and company National Insurance (NI) were relatively stable throughout the audit period; however, the average basic salary and company NI payments per GCCL employee increased from €16,282 in 2010 to €18,131 in 2012. Furthermore, while overtime payments increased significantly during this timeframe, from €492,695 (€1,979 per GCCL employee) and €501,634 (€2,121 per GCCL employee) in 2010 and 2011, respectively, to €843,740 (€3,709 per GCCL employee) in 2012, bonuses decreased from €748,017 in 2010 to €538,474 and €554,466 in 2011 and 2012, respectively. It is also worth noting that night, Sunday and public holiday allowances consistently accounted for approximately 15 per cent of the GCCL's payroll expenditure throughout the audit period and increased from €3,434 per GCCL employee in 2010 to €4,018 per GCCL employee in 2012.

Table 24: Wages, salaries and Directors' fees per salary component category

Salary component category	Wages, salaries and Directors' fees					
	2010		2011		2012	
	€	%	€	%	€	%
Basic + company NI	4,054,317	69	3,978,459	68	4,124,789	69
Overtime	492,695	8	501,634	9	843,740	14
Night allowance	195,265	3	192,437	3	207,967	3
Sunday allowance	416,958	7	408,194	7	455,502	8
Public holiday allowance	242,967	4	234,173	4	250,737	4
Other/Bonuses	748,017	13	538,474	9	554,466	9
Unutilised leave[1]	-254,467	-4	89,723	2	74,517	1
Adjustments[2]	-	-	-104,808	-2	-473,694	-8
Total	5,895,742	100	5,838,291	100	6,038,024[3]	100

Source: Management Accounts 2010 - 2012

Notes:

1.A negative balance signifies that the closing accrual leave balance is less than the opening accrual balance.

2.The negative adjustments represent wages that were capitalised in relation to the vessel overhaul works undertaken by the GCCL.

3. GCCL has not provided an explanation to this Office with respect to the difference of €725 between the wages and salaries featured in Table 23 and Table 24.

5.1.4 The NAO's analysis with respect to the GCCL's wages, salaries and directors' fees focused on two aspects of verification:

a. compliance testing intended to establish whether payroll payments tallied with applicable employee contracts and collective agreements; and
b. a review of the GCCL's staffing levels.

5.1.5 In order to select a sample for the compliance testing on wages, salaries and directors' fees that was to be carried out, the NAO reviewed the salary details for all the GCCL employees for the years 2010 to 2012. Employees were stratified into three categories: those paid fortnightly, those paid on a four-weekly basis and management and administration employees. A random sample of employees per category was selected for each year. Sampling was carried out using a five per cent margin of error and 95 per cent confidence levels. This resulted in a sample as shown in Table 25. This sample was utilised in the case of testing undertaken with respect to basic pay, tax and NI contributions. In instances where the NAO noted discrepancies in terms of basic pay, further reviews were undertaken with respect to the corresponding overtime, allowances and other payments.

Table 25: Sample selection

Year	Category	Population	Sample
2010	Fortnightly	170	62
	Four-weekly	55	36
	Management	40	40
	Total	265	138
2011	Fortnightly	161	61
	Four-weekly	63	39
	Management	20	20
	Total	244	120
2012	Fortnightly	154	60
	Four-weekly	57	37
	Management	23	23
	Total	234	120

5.1.6 For reasons of practicality and feasibility, a purposive sampling method was employed with respect to the testing relating to clockings as well as the review of overtime and allowance rates. Here, 20 out of the 35 employees having the highest overtime, allowance and other payments in relation to the number of hours worked during the relevant year were selected. In the verification of clockings, overtime, allowances and other payments, the NAO randomly selected one month out of each of the three years in the audit period, namely May 2010, August 2011 and September 2012.

5.1.7 With respect to the sampled employees, the NAO examined the following documents:

a. yearly payslip summaries, salary details and individual payslips for the months sampled;
b. yearly clocking-in and -out records, which also include records of all absences from work (such as, vacation leave, sick leave, duty abroad, etc.); and
c. 30 employment contracts/letters of appointment with respect to employees not regulated by collective agreements.

5.1.8 This Office also examined other documents with respect to this aspect of the audit:

a. the collective agreements covering the period 1 January 2010 to 31 December 2012: two for Seaborne Officers covering the periods 1 January 2005 to 31 December 2011 and 1 January 2012 to 31 December 2016, and two for Other Officers covering the periods 1 January 2006 to 31 December 2008 and 1 January 2012 to 31 December 2015 - with respect to the latter set of employees, the first mentioned agreement remained applicable until the start of the second agreement referred to above;
b. documentation regarding the remuneration of Board Members;
c. a database of all employees working at the GCCL between 1 January 2010 and 31 December 2012, indicating their date of birth, grade, date of employment, employment status (full-time, part-time, reduced), tax computation details (single or married), and date of termination of employment (where applicable) – this

was not always updated and was at times incorrect in relation to the employees' current grade and their date of employment - the NAO sought further updates where necessary;

d. payer's annual reconciliation statements (FS7 form) 2010-2012; and
e. the annual payroll reports 2010-2012.

5.1.9 Aside from the extensive review of the aforementioned documentation, this Office also sourced the views of the GCCL management in relation to this specific aspect of the audit. Such views, provided by past and present senior officials within the GCCL, proved particularly relevant in terms of the review of the Company's staffing levels and possible adjustments thereto.

5.2 Compliance Testing

Basic Salary

5.2.1 Verifications were carried out to ensure that the yearly basic salaries paid were in accordance with the terms stipulated in the relevant collective agreements or individual contracts. The NAO detected multiple errors in the sample that was tested, which in aggregate amounted to €17,154.

5.2.2 For 2010, out of a sample of 138, there were 35 instances (equivalent to 25 per cent of cases reviewed) where the basic pay was not in accordance with the collective agreement, or the applicable employee's personal contract/agreement, or could not be calculated. The discrepancies noted in this respect amounted to an aggregate absolute value of €4,069 and represented a net overpayment of €2,433. Details corresponding to the discrepancies identified ensue:

a. From 2009 to 2011, the GCCL paid a Senior Master, whose salary was covered by a personal contract of employment, erroneous salary increases that were payable to the Masters whose salaries were covered by the collective agreement. Such increases were not included in the Senior Master's personal contract of employment. Due to the aggregation of overpayments made, in 2010 this Senior Master was paid an extra €1,246. This issue is subject to a dispute between the employee and the GCCL;
b. For a First Officer, the correct basic pay could not be determined because the GCCL did not provide the NAO with the dates relating to when this employee was on study leave;
c. In the case of seven Apprentices, GCCL's HR Manager indicated that they were not considered as employees of the Company and were therefore not covered by any collective agreement or contract. The NAO could not verify whether payments made to these Apprentices were in accordance with the ETC's Apprenticeship Scheme as the GCCL did not provide records in this regard;
d. With respect to two Front Desk Officers, two Catering Service Officers, seven Terminal Assistants and six Motormen, the GCCL could not trace the relevant collective agreement which was required by this Office to calculate their basic pay. The GCCL stated that these grades were being phased out by the Company;
e. GCCL erroneously overpaid a Director by €69 as the Company mistakenly paid him an extra week following his resignation from the Board of Directors;
f. A Second Engineer was overpaid by €285 due to the award of an increment three months prior to the due date;
g. A Bosun was suspended on half-pay all throughout 2010 but was granted the full amount of the COLA resulting in an overpayment of €151;
h. Three Workshop Fitters were erroneously overpaid by €178 each while an Electrical/Electronic Officer was underpaid by €515;

i. A Workshop Supervisor was underpaid by €303 as he was not granted the COLA increase for 2010. This underpayment persisted for 2011 and 2012, resulting in a discrepancy of €909;
j. An anomalous situation prevailed with respect to a Security Officer who, according to GCCL, was employed on a personal contract. Nonetheless, reference to this personal contract was noted in the collective agreement for Other Employees covering the period 2006 to 2008, which agreement was still in force during 2010. Following requests raised by the NAO, the GCCL indicated that it had no record of such a contract with this employee, further indicating that the basis of employment was in fact a previous collective agreement. In view of the lack of documentation substantiating this employee's pay, the NAO compared such with the applicable grade in the collective agreement. The resulting discrepancy was that of a possible overpayment of €966.

5.2.3 With respect to the basic salary testing carried out for 2011, out of a sample of 120, there were 28 instances (equivalent to 23 per cent of cases reviewed) where the basic pay was not in accordance with the collective agreement, or the applicable employee's personal contract/agreement, or could not be determined. Such discrepancies amounted to an aggregate absolute variance of €4,052 and a net overpayment of €2,795. The relevant details follow:

a. Due to the aggregation of overpayments made, in 2011 the Senior Master referred to in paragraph 5.2.2(a) was paid an extra €2,093;
b. A Second Engineer was underpaid by €143 as he was not granted an increment emanating from the provisions of the relevant collective agreement for GCCL staff who had been employed with the Company for more than three years;
c. Two Workshop Fitters were erroneously overpaid by €181 while two Electrical/Electronic Officers were underpaid by €243;
d. The Security Officer who was overpaid in 2010 (paragraph 5.2.2(j) refers) was also overpaid in 2011 by €968 for the same reason.
e. With respect to three Cadets, the correct basic pay could not be determined as the GCCL informed this Office that such a grade was not applicable to any scale;
f. Similar concerns emerged with respect to three Apprentices (paragraph 5.2.2(c) refers);
g. The same situation prevailed with respect to the case of two Catering Service Officers, seven Terminal Assistants and six Motormen (paragraph 5.2.2(d) refers).

5.2.4 From the testing carried out, it transpired that for the year 2012, out of a sample of 120, there were 22 instances (equivalent to 18 per cent of cases reviewed) where the basic pay was not in accordance with the collective agreement, or the applicable employee's personal contract/agreement, or could not be determined. Such discrepancies amounted to an aggregate absolute variance of €9,033, yet resulted in a net overpayment by the GCCL of €167. The relevant details of which ensue:

a. Due to the aggregation of overpayments made, in 2012 the Senior Master referred to in paragraphs 5.2.2(a) and 5.2.3(a) was paid an extra €2,103;
b. The Financial Controller was erroneously underpaid by €201 while a Driver was underpaid by €123;
c. Similar to the above, with respect to two Cadets, the correct basic pay could not be determined as already indicated in paragraph 5.2.3(e);
d. Six Directors were in aggregate overpaid by €659 due to their being granted the COLA increase between January and June 2012, despite not being entitled to such an increase. With effect from July 2012, these Directors had their remuneration revised and brought in line with the provisions of the document 'Government Guidelines for Board Appointments';

e. One of the above-referred Directors was paid an additional €810 during 2012. It is pertinent to note that the Director had taken up new responsibilities within the GCCL Board that resulted in an increase in basic pay; however, the NAO was not provided with any formal approval authorising such a revision and was only furnished with a handwritten note indicating such an adjustment;
f. Three Chief Engineers, two Second Engineers, and a Permanent Chief were underpaid due to wrong calculations of either the old or the new rates of their respective collective agreements. This resulted in an aggregate underpayment of €2,890;
g. A Second Engineer was underpaid by €248 due to having retired in August 2012 and not having been paid the retrospective arrears emanating from the collective agreement signed in November 2012 but backdated to January 2012;
h. Another Second Engineer was overpaid by €62 as he was paid arrears which also covered unpaid leave taken;
i. A Clerical Assistant was not paid the arrears amounting to €226 emanating from the collective agreement;
j. A Terminal Assistant who was on loan with the Government was underpaid by €745 according to this Office as the GCCL only increased his salary with the COLA during this time. However, this Office noted that no contract/agreement stating that employees on loan would not benefit from collective agreement increases aside from the COLA was provided to the NAO; and
k. The Security Officer overpaid in 2010 and 2011 (paragraphs 5.2.2(j) and 5.2.3(d) refer) was similarly overpaid in 2012 by €966.

Income Tax and Social Security

5.2.5 As part of this aspect of the audit, the NAO analysed whether the yearly tax paid by the wider sample of employees for the first sampled month of every year was computed correctly (paragraph 5.1.5 refers). The tax amount paid by the GCCL employees is computed automatically by the company's DAKAR payroll software subsequent to the inputting of the relevant employee tax bands. Queries were put forward to the GCCL wherever discrepancies were noted between this Office's workings and the tax amount deducted by the GCCL; however, the GCCL did not provide sufficient justification with respect to 12 of the queries raised. These are listed below:

a. In 2010, from the sample of 138 employees analysed by this Office, the NAO established that the GCCL deducted €65 and €124 more than required in terms of tax for two employees;
b. In the following year, from a sample of 120 employees, the GCCL deducted €291, €186 and €322 in taxes more than required for three employees. With respect to one of the employees, the GCCL indicated that the overpayment of tax was due to the fact that the employee had been employed by the GCCL during that year. However, the NAO deems that such explanations provide insufficient justification, as the amount earned at year-end can be precisely determined and the correct tax deduction made accordingly; and
c. In 2012, from a sample of 120 employees analysed by this Office, a number of errors were noted:
    i. An employee who commenced the year suspended on half pay and resumed his employment in August 2012 had €246 in extra tax deducted by the GCCL;
    ii. Another employee had €279 in extra taxes. The reason provided by the GCCL was that this employee had retired during the year. However, according to the salary details provided by the GCCL to this Office, this employee was still working at GCCL as at end 2012;

iii. Three employees paid €1,396, €241 and €1,012 in extra taxes. The reason provided by GCCL for this was that the employees were on leave without pay. However, according to the yearly payslips provided to this Office, the employees had no unpaid leave during the year;

iv. Another employee paid an extra €547 in taxes. The reason provided by the GCCL was that this employee was engaged by the Company during the year. The NAO considers such justification as insufficient and worse still, factually incorrect. The employee had been employed with the GCCL since at least 2010;

v. Finally, another employee had €140 less in taxes deducted by the GCCL. According to the GCCL, that this was due to the fact that the employee was employed on a contract of service. This is deemed as an insufficient explanation of the shortcoming noted, particularly in view of correctly implemented deductions in similar cases.

5.2.6 The GCCL stated to this Office that if any tax has been miscalculated, then the Inland Revenue Department would notify the employee at the end of the fiscal year. At the time of writing, the GCCL maintained that it had never been received any complaints from its employees regarding such miscalculations.

5.2.7 Utilising the same sample as per the above exercise, the NAO analysed whether the National Insurance (NI) deductions computed automatically by the DAKAR payroll software system were correct. Queries were put forward to the GCCL wherever discrepancies were noted between this Office's workings and the social security amounts deducted by the GCCL. Notwithstanding repeated requests for explanations submitted by the NAO, the GCCL did not provide replies to the following queries:

a. In 2010, an employee paid €591 more in social security than the correct amount; and

b. In 2011, one employee paid €66 more while another employee paid €363 less in social security than the correct amount.

Proper Recording of Hours Worked

5.2.8 The NAO analysed palm reader data in order to establish whether GCCL employees were clocking in and out of work and to verify whether the amount of hours registered in the Company's time and attendance programme tallied with the number of hours (including overtime, Sundays, public holidays and nights) that they were paid for. The sample upon which such audit testing was carried out was based on a selection of 20 out of the 35 employees having the highest overtime, allowance and other payments relating to the number of hours worked during the relevant year. In this sense, 20 employees were selected for one month out of each of the three years in the audit period, namely May 2010, August 2011 and September 2012. Testing of the palm reader clocking system's accuracy, integrity and limitations were deemed outside of the audit's scope.

5.2.9 For the employees sampled, this Office was reasonably assured that the amount of hours recorded in the payslips reconciled with the amount of hours recorded. However, the GCCL did not provide the clockings of the Drivers forming part of the sample, who because of the exigencies of their work, do not clock in but sign attendance sheets. In this context, the NAO could not verify whether the Drivers were being paid for the hours worked as the attendance sheets were not provided by the GCCL despite numerous requests by this Office.

5.2.10 From the testing carried out it transpired that there were instances of employees who were being paid for all the hours clocked, including the mandatory break of 15 minutes when a working day is longer than six hours, as required by the Organisation of Working Time Regulations (L.N. 247 of 2003 as amended by L.N. 259 of 2012). The GCCL stated that the Company has a tacit agreement with its employees whereby breaks are considered as forming part of the shift. The NAO considers this arrangement as irregular, as the break should not be considered as part of the working week.

5.2.11 Furthermore, the NAO noted that a particular employee clocked in and was paid for a total of 21 hours and 38 minutes at a stretch, which is deemed an excessively long period by this Office.

5.3 GCCL Staffing and Payroll Expenditure Levels

5.3.1 The following section of the audit report reviews the factors affecting the GCCL's staffing levels and explores possible means of address when circumstances so warrant. Of particular relevance to this section of the report were:

a. a report drafted by Marine and Industrial Consultancy Services Limited (MICS), dated 25 July 2014, which analysed the manning levels at the GCCL through a review of its employee list and daily passenger/vehicle data; and
b. a document authored by the Malta Investment Management Company Limited (MIMCOL), dated 8 August 2014, which outlined proposals for an operational review and human resource (HR) restructuring at the GCCL.

5.3.2 Both reports specify considerable opportunities for reducing the GCCL's wages and salaries expense. The NAO did not undertake an analysis of the GCCL's optimal staffing levels because of the limited value added of this analysis given the availability of the above-mentioned documents. Delving into current staffing arrangements was also not deemed to be within the audit's scope. Instead, the Office considered it opportune to synthesise and elicit the most salient issues.

Measures to Reduce the Wages and Salaries Expense

5.3.3 The MICS report essentially stated that, through business process reengineering (BPR), which entails redesigning core business processes, it would be possible for the GCCL to operate with a considerable reduction in its number of employees, thereby resulting in lower HR costs. According to this report, contributors to the excessive wages and salaries expenditure were:

a. the fact that the vessels operated by the GCCL have two bridges when even large cruise ships have only one;
b. the utilisation of the inefficient Sea Malta model for management and crew levels;
c. an excessive number of on-board staff given that the service provided is a 20-minute trip in territorial waters;
d. on-shore employee levels which are higher than those of much bigger passenger terminals;
e. more Information and Communications technology (ICT) staff than needed; and
f. a system which does not promote the utilisation of rest periods aboard the vessels.

5.3.4 On the other hand, the MIMCOL report stated that short-term ways to correct this state of affairs comprised:

a. identifying the least possible manning levels in accordance with the safety regulations;
b. considering adjusting work practices to decrease the occurrence of overtime;
c. being more rigorous with respect to sick leave certification;
d. reducing the balance of unutilised annual leave; and
e. right-sizing the number of employees in the following areas:
   i. Masters/First Officers;
   ii. the engine room;
   iii. administration employees;
   iv. crew levels based on rectified safe manning requirements;
   v. terminal staff; and
   vi. ICT.

5.3.5 According to this document, no more than approximately five per cent of the journeys made by the GCCL had in excess of 400 passengers in January, which increased to around 10 per cent in February and 13 per cent in March. Additionally, during the low season, there generally were just two trips per day calling for a full crew complement. Often, there were fewer than 10 vehicles and 25 passengers during night trips. Peak times consisted of the early journeys originating from Gozo, the mid-morning journeys from Ċirkewwa and the mid-afternoon journeys in both directions. The MIMCOL report put forward the argument that the major scope for savings was to be found in the lean to shoulder months where it had to be ascertained that the GCCL's resources corresponded to the decreased activity/demand. The document indicates negotiating with the harbour master in order to transfer the on-board safe manning staff onshore, and substituting a vessel from the schedule with a more cost-effective second-hand craft to cater for off-peak travel as matters for consideration. Moreover, the following measures were proposed:

a. considering hiving off the terminal operations (including terminal staff) to another entity in order to separate the operator from the terminal administrator (similar to the arrangement in place with Air Malta and the Malta International Airport) – resulting in projected savings of €478,732;[8]
b. benchmarking the number of employees against those of a similar operator, backed by the proposed BPR involving:
   i. a complete review of HR;
   ii. an operational reorganisation;
   iii. a re-assessment of the manning levels pegged to demand; and
   iv. a reform of the PSO terms and conditions;
c. retraining employees in order to allow them to take on various tasks (such as mooring men checking tickets and performing other onshore duties); and
d. offering early retirement/voluntary resignation schemes for extra staff - savings depend on the extent of take up and are €0.29m (€0.58m) annually with a 25 (50) per cent take up.

5.3.6 The recommendations outlined in the MIMCOL report entailed:

a. the absorption of terminal staff and mooring men by TM, which entity would then be responsible for operating the terminals; or should the GCCL keep operating

[8] Expected savings need to be adjusted upwards for additional bonuses and overtime and downwards for the service fee that GCCL would have to pay the terminal operator.

the terminals on TM's behalf it would be entitled to ask for compensation from TM;

b. perform BPR in order to identify excess employees and carry out HR right-sizing schemes; and

c. identify Key Performance Indicators to ensure that the GCCL attains and retains the set efficiency levels.

5.3.7 With respect to current measures being implemented by the GCCL intended at reducing the Company's wages and salaries expense, the incumbent Chair specified that unless the GCCL recruited additional employees, the GCCL's workforce would be significantly reduced in about one and a half years. The GCCL Chair added that the Company was looking at measures to reduce sick leave; however, this presented a notable challenge given the prevalent organisational culture. Furthermore, the GCCL Chair stated that it would be considering the possible reallocation, rather than the external recruitment, of employees to address retirements.

Safe Manning Levels – Marine Staff

5.3.8 During various meetings conducted with the GCCL's former Chairs, it was indicated to the NAO that one of the causes of the high payroll costs was the safe manning regulations that the GCCL was obliged to uphold by law. The safe manning levels depend on:

a. requirements emanating from international standards;

b. the number of passengers on board the vessel; and

c. the ability to operate the safety equipment on board should there be an emergency.

5.3.9 According to the GCCL ferries' muster lists, when transporting between 500 to 900 passengers, a crew of at least 15 persons (in specific posts) is required to deploy the safety equipment on board and marshal passengers to the vessels' evacuation stations. According to the GCCL's Chief Engineer, while this number is higher than the minimum required as per the IMO minimum regulations, this number of employees is required in order to operate the vessels' safety equipment. Moreover, the Chief Engineer stated that the safety manning regulations had been discussed with TM, the regulator that approves and issues each vessel's safe manning document, and the compulsory crew number on cargo ships transporting less than 12 passengers was decreased to a minimum of nine. When transporting between 13 and 500 passengers, a crew of 11 is mandatory. According to the MICS report, the GCCL was heavily overstaffed in this respect, which therefore impacted upon the Company's immediate and long-term profitability.

5.3.10 The former Executive Chair deemed the safe manning levels as overly generous, stating that many cargo ships sailing internationally would normally have one Master or Chief Officer and one Chief Engineer or Second Engineer at any point in time. Contrary to this, while the GCCL solely operated in internal waters, it had all these four officials aboard for each cargo voyage. In addition, during his time as Executive Chair, the GCCL had reportedly commenced working on a safe manning review three times but the process always stalled due to the lack of agreement between the parties involved. The proposed amendments specified that a vessel would be manned by eight people, to be increased by another three if there were 900 passengers on board. The concept of shore help had also been considered. Furthermore, reference was made to the fact that personnel employed by third party establishments situated aboard the GCCL vessels could have formed part of the safe manning crew if they attended a fire-fighting course and a general-purpose hand course. The former Executive Chair stated that the contracts entered into by the GCCL with these third parties specified that their personnel were obliged to undergo these courses should the GCCL so request and proceeded to claim that the GCCL could make considerable savings through these measures.

5.3.11 Elaborating further on the matter, the former Executive Chair stated that establishing an 11-man crew for all passenger trips and a seven-man crew for cargo journeys was vital. Referring to action taken when in post, the former Executive Chair stated that initial discussions with TM officials and experts within the sector had highlighted the difficulties in balancing the excessive manning levels adopted with the Company's efficiency. This difficulty in establishing balance was the result of the GCCL's over-employment of staff. Were the manning levels to be revised as indicated, this would result in no overtime for seaborne staff, and along with a new roster for shore-based staff, these measures could result in annual savings of at least €600,000 for the GCCL.

5.3.12 The incumbent GCCL Chair stated that final authority in terms of the establishment and regulation of safe manning levels rested with TM. In his opinion, 12 persons were sufficient to staff a vessel carrying 900 passengers. The safe manning requirements were designed for open seas and it is in this context that the GCCL Chair expressed his frustration at the fact that nobody wanted to assume responsibility for reducing such requirements. With regard to the consideration of third party employees aboard the vessel as forming part of the manning requirements, the GCCL Chair stated that the syllabus for the course they had to attend in order to form part of the safe manning crew had been amended following an incident involving a ferryboat in the Philippines. However, the GCCL Chair indicated that the Company had been waiting for TM's approval for approximately six months. In the meantime, the GCCL was discussing the matter with the third parties in concern; however, there were some rostering-related difficulties that emerged.

5.3.13 Furthermore, as specified by the GCCL's Chief Engineer, the crew members' working hours adhere to the International Convention on Standards of Training, Certification

Box 7: Extract from Company Safe Management System

6.9. Hours of Work

'The hours of work shall be regulated in accordance with industry standards in order to prevent fatigue to shipboard personnel.

In observing rest period requirements overriding operational conditions should be taken in consideration. This is construed to apply only to essential shipboard work which cannot be delayed for safety and environmental reasons or which could not have been reasonably anticipated beforehand.

Although there is no universally accepted technical definition of fatigue everyone involved in ship operation should be alert to the factors which can contribute to fatigue, including, but not limited, to those identified by IMO and take them into account when making decisions on ship operations.

(i) All persons who are assigned duty as officer-in-charge of a watch, or as forming part of a watch, shall have a minimum of ten (10) hours of rest in a 24 hour period.
(ii) The hours of rest may be divided into no more than two (2) periods, one of which shall be of a duration of at least six (6) hours in length.
(iii) The requirements for rest periods laid down in 6.9 (i) and 6.9 (ii) need not be maintained in the case of an emergency or a drill or other overriding operational conditions.
(iv) Notwithstanding the provisions of paragraphs 6.9 (i) and 6.9 (ii), the minimum period of ten (10) hours may be reduced to not less than six (6) consecutive hours provided that any such reduction shall not extend beyond two (2) days and not less than 77 hours of rest are provided during each seven-day period.
(v) The rest period shall always be deemed to commence immediately after the working shift of an employee.'

and Watchkeeping for Seafarers requirements as described in Box 7, and are in line with EU directives.

5.3.14 The MICS report referred to above noted that changes to the system employed with respect to rest periods would result in the possible reduction of staff. The report proposes the adoption of rest periods on board the GCCL vessels as a means of achieving such a goal.

5.4 Increases in Wages and Salaries

5.4.1 A paper presented to the GCCL Board on 5 July 2012 by two Directors and the Company's Financial Controller highlighted the problem with respect to, "*high wages and promotions of unqualified staff - some awarded under collective agreements but others (managerial) without apparent justification and outside any wage structure which in turn has raised other calls for salary increases in grades outside the collective agreement*."

5.4.2 Indeed, as pointed out in paragraph 2.4.9 of this report, new collective agreements raising wages for seaborne and other workers came into force on 1 January 2012, subsequent to threats of industrial action. Such wage raises, at a time when the GCCL was faring particularly poorly financially denotes imprudent practices and a failure to safeguard the GCCL's long-term sustainability.

5.5 Forward Planning

5.5.1 In an interview with the NAO, the former GCCL Executive Chair stated that the employee rosters were being issued before the operational plan was drawn up. Here, the former Executive Chair was making reference to a period where he was engaged as a consultant with MGOZ on GCCL matters, that is, May to November 2013. This was confirmed by the GCCL's Operations Manager, who stated that the operational plan was ordinarily issued on the Friday preceding the week of its implementation, while the roster was circulated on the Thursday preceding the week of its implementation in accordance with the collective agreement.

5.5.2 Contrasting information was provided by the incumbent Chair, who indicated to the NAO that the operational plan was normally issued every Tuesday after the heads of department specified their department's needs for the following week. The number of vessels, crew, trips, expected number of passengers, and any public holidays were planned for and the roster prepared accordingly, ensuring that all shifts were properly manned. Rosters were issued by Thursday latest, as per the union agreement. The GCCL Chair stated that the operational plan and rosters were formal documents that he approved.

5.5.3 The NAO requested documentation in order to establish which of the versions was correct; however, the documents provided by the GCCL failed to indicate the date of issuance of the operational plans and rosters. Should that stated by the GCCL Operations Manager be correct, then the NAO expresses concern at this state of affairs and deems this to be poor practice. The issuance of staff rosters prior to operational plans certainly renders ineffective the role played by the GCCL's HR Department in its role of strategically managing general staff deployment and controlling overtime. Under such a scenario, suitable employee scheduling based on the needs identified in the Company's operational plan for the following week, is questionable.

5.6 Approval of Overtime

5.6.1 The NAO reviewed the manner by which the GCCL controls and approves overtime among its staff. In response to requests raised by this Office relating to staff overtime requests and their subsequent approval, the GCCL's HR and ICT Manager stated that, for the period 2010 to 2012, overtime attributable to operational delays, sick leave and roster was not covered by formal authorisation. Instead, it was stated that such overtime requests were processed as directed by the GCCL Chair, Head of Departments and/or Managers. The GCCL HR and ICT Manager stated that a formal overtime approval procedure was implemented with effect from early 2014, that is, shortly after the commencement of this audit.

5.6.2 Lack of overtime approvals are of notable concern to this Office, as this signifies a lack of management control over overtime hours, which precludes the appropriate monitoring of overtime costs a priori and presents the risk of the utilisation of overtime hours when not necessarily required, further exacerbating the GCCL's wages and salary costs. This concern is accentuated by the fact that overtime for the period 2010 to 2012 cost the GCCL in excess of €1.8 million.

5.7 Overtime and Allowance Levels

5.7.1 As shown in Figures 4 and 5, overtime and allowance payments made by the GCCL represent a significant cost element to the Company. During the audit period, 2010 to 2012, the GCCL's overtime payments increased significantly, both in absolute amounts (from €492,695 and €501,634 in 2010 and 2011, respectively, to €843,740 in 2012) and as a percentage of the GCCL's total payroll expense (from approximately 8 per cent in 2010 to approximately 14 per cent in 2012). Furthermore, night, Sunday and public holiday allowances consistently accounted for approximately 15 per cent of the GCCL's wage expenditure throughout the audit period.

5.7.2 As illustrated in Figures 4 and 5, seaborne employees (categorised as Operations Bridge, Engine, Deck and Catering), who accounted for 56 per cent, 58 per cent and 60 per cent of GCCL employees in 2010, 2011 and 2012, respectively, were paid the majority of overtime and allowance payments effected by the Company (66 per cent, 69 per cent and 72 per cent in 2010, 2011, and 2012, respectively). On the other hand, approximately a quarter of the GCCL's aggregate overtime and allowance expenditure related to terminal employees. Terminal employees accounted for 27 per cent of GCCL employees in 2010 and 2011 and 26 per cent in 2012. The increase in overtime in 2012 was brought about by a 69 per cent increase in terminal employee overtime, from €80,228 in 2011 to €135,197 in 2012 and an 82 per cent increase in seaborne employee overtime from €342,573 in 2011 to €622,224 in 2012. With respect to allowance payments effected by the GCCL, the largest increase in 2012 occurred with respect to seaborne employees, which increased from €573,174 in 2011 to €637,155 in 2012.

5.7.3 During a meeting with the NAO, the incumbent GCCL Chair stated that the reasons for the increased overtime, particularly in 2012, were that the GCCL had built new offices, docked and installed a hoistable deck on the MV Ta' Pinu, and installed flooring and restrooms on the MV Malita. Several employees had been deployed on these tasks to save on dry-docking costs. The incumbent GCCL Chair emphasised that the GCCL overtime levels were not wasteful and that several measures had been taken to reduce overtime. For instance, a number of front desk employees had been redeployed as ticket sellers, given the GCCL's staff shortage in this capacity. Furthermore, the GCCL had reduced the number of employees in the marshalling area and in 2014, cafeteria-related overtime was almost eliminated.

Figure 4: Overtime payments per employee category

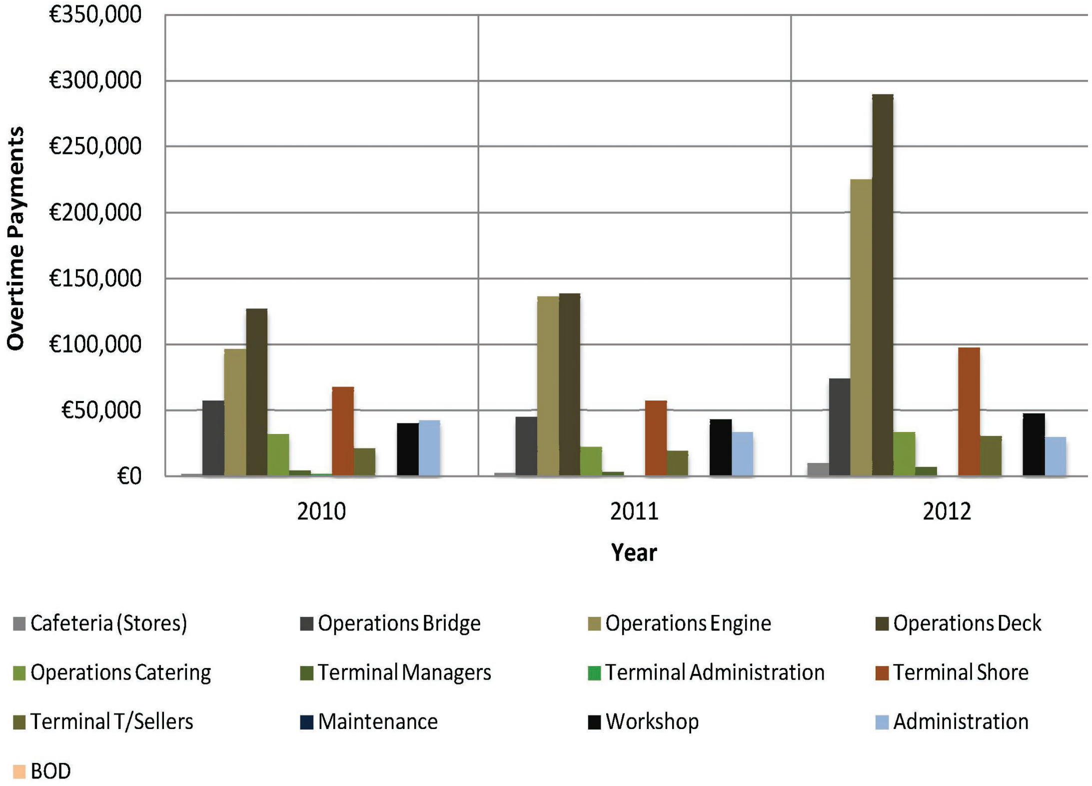
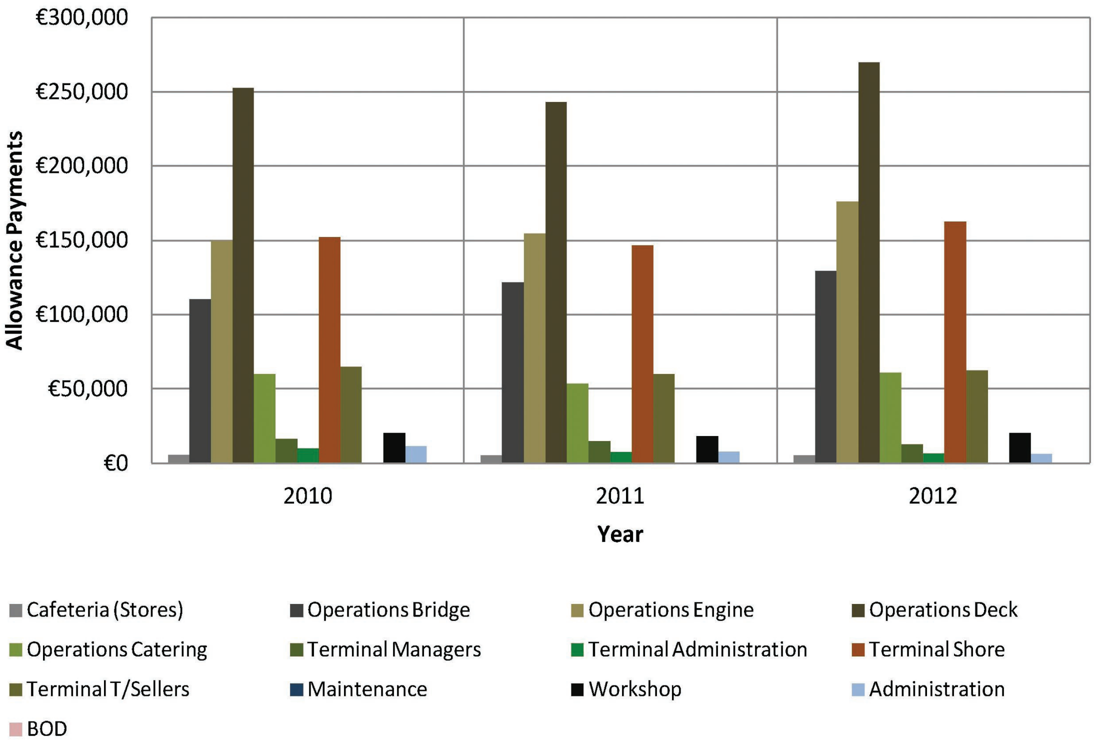


Figure 5: Allowance payments per employee category



5.7.4 Despite the measures outlined, overtime for 2014 stood at €805,006, which, although less, is relatively close to the overtime figure for 2012, which stood at €843,740.

5.7.5 The incumbent GCCL Chair also specified that some measures were difficult to implement because the GCCL was bound to honour the various collective agreements in force. Moreover, in the case of certain categories, the GCCL was short of staff, especially seaborne personnel, inevitably resulting in long overtime hours. The GCCL had not recruited any new employees in the last two years; and while it had issued calls for applications for marine engineers, nobody had applied. The incumbent GCCL Chair stated that an additional problem was that the GCCL could not roster an employee for only one trip, or for say, only two hours. This increased overtime expenses, as even though an employee would only be required for one hour, the GCCL had to pay the employee the minimum four hours of pay. Such requirements stemmed from the collective agreement. Furthermore, the granting of several allowances increased salaries significantly. For example, the GCCL claimed that a cafeteria employee working on a Sunday or a public holiday would cost the GCCL approximately €26 per hour. The GCCL Financial Controller argued that because of the minimum safety manning levels, overtime had to be resorted to if there were not enough staff. Furthermore, when the last trip of the shift exceeded normal hours, the whole crew would be working overtime. Another reason for overtime was that retiring employees were not being replaced.

5.7.6 The NAO noted that there were substantial payments of overtime, allowances and other categories of pay based on hours worked. It is pertinent to indicate that this analysis did not include fixed allowances, which are paid irrespective of hours worked, but focused on aspects of remuneration contingent on actual hours worked. Table 26 ranks the GCCL employees with the highest overtime, allowances and other categories of pay for 2010, 2011 and 2012. The featured employees had the following job titles: Second Engineer, Electrical/Electronic Officer, Chief Engineer, Manager, Permanent Chief Engineer, Workshop Fitter, ICT Clerk and Driver. In 2012, all ten employees earning the highest amounts of overtime, allowance and other payments were seaborne employees.

5.7.7 In 2010, employee number[10] 04, an ICT Clerk worked 1,319 hours of overtime, which equate to 33 40-hour weeks of overtime. On the other hand, in 2011, employee number 38, a Workshop Fitter, worked 1,101 hours, while employee number 40, a Driver, amassed 1,104 hours of overtime (both equivalent to 28 40-hour weeks). In 2012, employee number 18, a Chief Engineer, worked 1,148 hours of overtime, that is, the equivalent of 29 40-hour weeks of overtime.

5.7.8 A number of the employees featured in Table 26 earned more in overtime and allowances than their basic pay. For instance, in 2010, employee number 04, the ICT Clerk referred to above, earned €11,103 in basic pay, yet earned €13,945 in overtime and allowances (the figure for overtime alone, that is €11,414 was also higher than the basic pay of this employee). In 2011, employee number 38, the aforementioned Workshop Fitter, earned €15,503 in basic pay while registering €16,185 in overtime and allowance payments. Also during this year, employee number 40, a Driver, earned €13,625 in basic pay and €14,253 in overtime and allowance payments. In 2012, employee number 18, a GCCL Chief Engineer, earned €26,146 in basic pay and €30,697 in overtime and allowance payments. Furthermore, the total basic pay of the employees featured in the top 10 with respect to their overtime, allowances and payments relating to hours worked in 2012 was €243,238, while their aggregated overtime and allowance payments were €205,539.

[10] The employee number denotes the new employee reference number assigned by the NAO.

Table 26: Highest overtime, allowances and other payments, 2010-2012

Year	NAO employee reference	Grade	Basic pay (€)	Overtime pay (€) [A]	Allowance payment (€) [B]	Other payments (€) [C]	Sub-total (€) [A+B+C]	Total (€)
2010	17	Second Engineer	21,816	4,551	6,732	6,805	18,088	39,904
	20	Electrical/Electronic Officer	16,402	9,575	4,194	4,251	18,020	34,422
	18[1]	Chief Engineer	24,983	7,917	7,528	28	15,473	40,456
	03	Manager (terminated Sept 2010)	15,744	11,999	2,178	1,064	15,241	30,985
	35[1]	Permanent Chief Engineer	24,791	7,706	7,013	245	14,964	39,755
	38[2]	Workshop Fitter	15,440	10,746	3,911	70	14,727	30,167
	04	ICT Clerk	11,103	11,414	2,531	367	14,312	25,415
	37[1]	Chief Engineer	24,983	7,133	6,800	(8)	13,925	38,908
	15	Permanent Chief Engineer	24,983	6,126	7,446	-	13,572	38,555
	36[1]	Chief Engineer	24,983	6,194	6,809	-	13,003	37,986
		Sub-total 2010	205,227	83,360	55,141	12,823	151,324	356,551
2011	39[2]	Chief Engineer	25,844	14,419	8,289	124	22,832	48,676
	36[1]	Chief Engineer	25,844	9,526	7,545	-	17,071	42,915
	38[2]	Workshop Fitter	15,503	12,516	3,669	70	16,255	31,758
	37[1]	Chief Engineer	25,844	8,030	7,610	-	15,640	41,484
	19[2]	Second Engineer	22,584	4,588	6,246	4,785	15,619	38,203
	18[1]	Chief Engineer	25,844	7,342	8,194	-	15,536	41,380
	21	Second Engineer	22,584	8,062	7,409	-	15,471	38,055
	35[1]	Permanent Chief Engineer	25,844	8,217	6,716	(90)	14,843	40,687
	40	Driver	13,625	11,669	2,584	-	14,253	27,878
	06	ICT Clerk/Executive	13,184	9,860	2,769	1,261	13,890	27,074
		Sub-total 2011	216,703	94,228	61,031	6,150	161,409	378,112
2012	18[1]	Chief Engineer	26,146	22,253	8,445	491	31,189	57,335
	16	Second Engineer	22,885	12,014	10,804	2,744	25,644	48,529
	39[2]	Chief Engineer	26,146	14,064	8,386	541	22,991	49,137
	36[1]	Chief Engineer	26,146	13,958	8,796	123	22,877	49,023
	13	Second Engineer	22,885	9,030	9,174	3,790	21,994	44,879
	35[1]	Permanent Chief Engineer	26,146	12,122	8,803	246	21,171	47,317
	19[2]	Second Engineer	22,885	7,600	6,661	5,523	19,784	42,669
	22	Second Engineer	21,929	11,456	7,341	633	19,430	41,359
	23	Second Engineer	21,928	9,218	7,764	1,032	18,014	39,942
	37[1]	Chief Engineer	26,146	10,770	6,881	123	17,774	43,920
		Sub-total 2012	243,238	122,484	83,055	15,247	220,786	464,024

Source: Salary Details Data, GCCL[11]

Notes:

1. Refers to employees who feature in highest rankings for all three years in the audit period.
2. Refers to employees who feature in the highest rankings for two out of the three years in the audit period.

5.7.9 It is interesting to note that an employee who terminated employment with the GCCL in September 2010 still featured in that year's top 10 rankings with respect to overtime, allowances and other payments relating to the number of hours worked. Furthermore, as can be noted in Table 26, four GCCL employees consistently featured in the top 10 rankings with respect to all three years, while another three employees featured in the top 10 rankings for two years out of the three years included in the audit period.

5.7.10 As part of this audit, this Office also sought to examine whether the GCCL paid overtime and allowances correctly and for the hours clocked through a re-computation of the amounts paid. For this aspect of the audit, 20 employees' overtime and allowances were analysed for one month out of each of the three years in the audit period, namely May 2010, August 2011 and September 2012. For all employees sampled, the

[11] There are discrepancies between the management accounts figures and the salary details data due to accrual adjustments and capitalisation of wages paid with respect to the vessel overhauls and the installation of the hoistable car deck.

listed clocked hours with respect to which the employees were to be paid overtime/ allowances tallied with the hours actually paid for. Furthermore, this Office found that only those employees who had errors in relation to their hourly basic pay rates were consequently paid incorrect overtime and allowance payments.

5.7.11 In 2010, the GCCL underpaid two employees by €336 in overtime and allowance payments, which resulted from an underpayment of €818 in basic wages to these employees. Particularly, one of these employees, an Electrical/Electronic Officer, was underpaid by €737. For the same year, this Office established that the GCCL overpaid five other employees an aggregate of €1,063 in overtime and allowance payments, corresponding to €1,785 in terms of basic pay. Out of these, the GCCL overpaid a Security Officer by a total of €1,497 in terms of basic pay, overtime and allowance payments. Overpayments in relation to this Security Officer are contingent on the incongruence highlighted in paragraph 5.2.2(j).

5.7.12 In 2011, the GCCL underpaid three employees an aggregate of €260 in overtime and allowance payments, corresponding to an underpayment of €629 in basic pay for the same employees. During the same year, the GCCL overpaid three of its employees an aggregate of €849 in overtime and allowance payments. The overpayments in basic pay for these employees corresponded to €1,330. The same Security Officer referred to in the previous paragraph was overpaid by €1,543 in terms of basic pay, overtime and allowance payments.

5.7.13 In 2012, the GCCL underpaid seven employees an aggregate of €2,486 in terms of allowance and overtime payments. For these employees, the underpayment pertaining to their basic pay was €3,136. Out of these, two Second Engineers were underpaid by €958 each in terms of their basic pay and were also underpaid in relation to overtime and allowance by €819 and €743. Furthermore, the GCCL overpaid a Senior Master €553 in overtime and allowance payments and €2,103 in basic pay. The same Security Officer highlighted in the two previous paragraphs was overpaid €569 in overtime and allowance payments and €966 in basic pay.

Chapter 6
Operational Considerations (4): Revenue from Ticket Sales

Chapter 6 – Operational Considerations (4): Revenue from Ticket Sales

Another issue analysed by the NAO in its examination of the GCCL's operations between 2010 and 2012 was the sale of tickets, which accounted for the vast majority of the GCCL's revenue throughout the audit period. For these years, the GCCL registered in excess of €30 million in ticketing revenue. In this context, this Office's analysis mainly centred on a review of passenger and vehicle traffic, with particular analytical emphasis directed towards ticket sales registered by the GCCL, and how such revenue reconciled with cash received.

6.1 Analysis of Passenger-related Statistics

6.1.1 The GCCL adopts two approaches in keeping track of passenger and vehicle traffic, namely:

a. The Veslog report, which is utilised to keep a record of all the trips undertaken and ensure the proper staffing of the vessels (which levels are directly dependent upon the amount of passengers). The vessels' Masters manually record this data, which includes details relating to the following parameters, among others: the vessel name, scheduled time, actual time, passenger count and vehicle count. Under this system of record-keeping, data relating to passenger and vehicle counts is recorded by the GCCL staff stationed at the Ċirkewwa and Mġarr terminals through the use of tally-counters.

b. The Passenger and Vehicle Count (P&V) report, which is created directly from the ticketing system. The process for recording the information included within this report differs according to whether the passenger is a foot or vehicle passenger. With respect to foot passengers, when the ticket seller issues a new ticket, a unique ticket number is generated and registered in the ticketing system. When the passenger enters the ticket into the turnstile, the turnstile's barcode scanner reads the ticket number and verifies its validity against the ticketing system. If valid, the passenger is allowed to go through the turnstile, and the ticket is thereafter marked as used/invalid. The ticket is added to the foot passenger count of the current boarding vessel and to the P&V report. With respect to vehicle-based passengers, when the ticket seller issues the requested tickets, a new ticket with a unique ticket number is generated and registered in the ticketing system. The ticket seller then scans the vehicle ticket to open the car barrier (the barrier can only be opened by scanning a vehicle ticket). Thereafter, the vehicle ticket is marked as used/invalid in the ticketing system. Subsequently, the officer at the marshalling area enters the total number of passengers in the respective vehicle and then scans the vehicle ticket on the handheld scanner. During this process, all the vehicle-based passenger tickets would be marked as used/invalid. The relevant count would be added to the current boarding vessel and in the P&V report.

Comparison of P&V Reports to Veslog Reports

6.1.2 Throughout the audit period, the passenger numbers featured in the P&V reports were, when aggregated annually, less than those indicated in the Veslog Mġarr tally, bar the 2011 vehicle count, which was higher by 20 for the P&V report. The ensuing three tables, that is, Table 27, Table 28 and Table 29 provide a comparison of passenger and vehicle traffic registered by the GCCL through its Veslog method and by means of the P&V report. The figures cited correspond to Mġarr-based data, that is, tally counts generated by the GCCL terminal staff and automated ticket-related statistics, which in theory and barring minor instances of human error, should match.

6.1.3 As illustrated in Table 27, passengers and vehicles crossing from Gozo to Malta in 2010, as per the P&V report, were 1,956,491 and 543,232, respectively. On the other hand, those departing from Mġarr, as reported in the Veslog report, were 1,991,387 and 550,518, that is, a discrepancy of 34,896 passengers and 7,286 vehicles. The highest discrepancy with respect to foot passengers was registered in April with 10,661 less persons registered in the P&V report than in the Veslog report. On the other hand, the greatest discrepancy with respect to vehicle traffic was recorded in January, where 2,602 less vehicles were registered in the P&V report than in the Veslog report.

Table 27: Comparison of P&V Mġarr report to Veslog Mġarr, 2010

2010	P&V [Mgarr report]		Veslog [Mgarr report]		Variances	
	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles
January	96,680	32,032	106,341	34,634	(9,661)	(2,602)
February	119,434	37,247	122,606	37,820	(3,172)	(573)
March	141,689	41114	145,143	40,789	(3,454)	325
April	155,791	41,926	166,452	44,510	(10,661)	(2,584)
May	168,288	44,430	174,344	46,350	(6,056)	(1,920)
June	180,221	48,973	180,423	48,935	(202)	38
July	206,337	53,960	206,352	53,908	(15)	52
August	245,657	62,896	245,897	62,978	(240)	(82)
September	206,366	53,883	206,503	53,891	(137)	(8)
October	168,767	45,406	169,132	45,423	(365)	(17)
November	135,397	41,190	136,287	41,236	(890)	(46)
December	131,864	40,175	131,907	40,044	(43)	131
Total	1,956,491	543,232	1,991,387	550,518	(34,896)	(7,286)

Notes:

1. The number of passengers and vehicles represented under the P&V heading include the manual tickets sold when the ticketing system was not operational.
2. It is assumed that the manual tickets issued were utilised when purchased.
3. These assumptions apply to all instances within this Report where reference is made to the P&V report.

6.1.4 As rendered evident in Table 28, discrepancies registered in 2011 were lower than those recorded in 2010. Indeed, the number of passengers and vehicles crossing from Gozo to Malta reported in the P&V report were 2,009,690 and 555,001, respectively, while those departing from Mġarr according to the Veslog report records were 2,015,887 and 554,981. Therefore, a 6,197 more passengers feature in the Veslog report while 20 more vehicles feature in the P&V report. The highest discrepancy noted during 2011 with respect to foot passenger traffic was recorded in June, when

1,760 less passengers were registered in the P&V report than in the Veslog report while the highest discrepancy with respect to vehicle traffic was recorded in July, when 238 more vehicles were registered in the P&V report than in the Veslog report.

Table 28: Comparison of P&V Mġarr report to Veslog Mġarr, 2011

2011	P&V [Mgarr report]		Veslog [Mgarr report]		Variances	
	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles
January	121,690	38,381	121,943	38,396	(253)	(15)
February	108,521	33,587	107,990	33,471	531	116
March	161,242	45,151	162,659	45,280	(1,417)	(129)
April	178,123	46,594	177,587	46,501	536	93
May	173,273	46,374	173,797	46,359	(524)	15
June	181,346	48,871	183,106	49,094	(1,760)	(223)
July	209,952	56,595	210,857	56,357	(905)	238
August	239,406	62,378	240,073	62,382	(667)	(4)
September	206,203	54,189	206,816	54,283	(613)	(94)
October	168,327	44,959	169,119	44,962	(792)	(3)
November	135,035	39,675	135,075	39,649	(40)	26
December	126,572	38,247	126,865	38,247	(293)	(0)
Total	2,009,690	555,001	2,015,887	554,981	(6,197)	20

6.1.5 As depicted in Table 29, in 2012, recorded discrepancies were higher than those registered in 2011. While the number of passengers and vehicles making the trip from Gozo to Malta, as reported in the P&V report, were 1,986,171 and 540,714 respectively, the records in relation to passengers and vehicles departing from Mġarr according to the Veslog report records were 2,000,345 and 543,885. Therefore, discrepancies of 14,174 passengers and 3,171 vehicles were registered. The largest discrepancies with respect to foot passengers and vehicles occurred in September, where 19,422 less passengers and 5,503 less vehicles were registered in the P&V report than in the Veslog report.

Table 29: Comparison of P&V Mġarr report to Veslog Mġarr report, 2012

2012	P&V [Mgarr report]		Veslog [Mgarr report]		Variances	
	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles
January	113,629	35,452	114,151	35,462	(522)	(10)
February	120,510	36,339	121,441	36,670	(931)	(331)
March	143,496	39,650	142,741	39,566	755	84
April	172,215	45,021	172,838	45,231	(623)	(210)
May	176,164	44,907	177,013	44,950	(849)	(43)
June	174,101	45,531	174,753	45,679	(652)	(148)
July	210,109	56,310	210,032	56,512	77	(202)
August	229,754	59,344	231,595	60,563	(1,841)	(1,219)
September	195,932	49,815	215,354	55,318	(19,422)	(5,503)
October	187,616	50,140	175,522	45,283	12,094	4,857
November	142,095	40,690	142,853	41,037	(758)	(347)
December	120,550	37,515	122,052	37,614	(1,502)	(99)
Total	1,986,171	540,714	2,000,345	543,885	(14,174)	(3,171)

6.1.6 The GCCL had indicated to the NAO that the identified discrepancies registered between 2010 and 2012 had been drastically reduced during 2014. To this end, Table 30 presents a comparison of the P&V report to the Veslog Mġarr report for 2014.

Table 30: Comparison of P&V Mġarr report to Veslog Mġarr report, 2014

2014	P&V [Mgarr report]		Veslog [Mgarr report]		Variances	
	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles
January	130,186	40,716	132,124	40,974	(1,938)	(258)
February	127,401	39,261	128,981	39,564	(1,580)	(303)
March	178,456	50,391	179,712	50,642	(1,256)	(251)
April	187,398	49,431	189,349	49,679	(1,951)	(248)
May	202,132	52,612	203,132	52,758	(1,000)	(146)
June	197,870	53,899	198,869	54,028	(999)	(129)
July	233,974	62,514	234,426	62,618	(452)	(104)
August	265,701	69,587	266,374	69,794	(673)	(207)
September	235,204	63,123	235,839	63,288	(635)	(165)
October	199,136	52,529	199,535	52,411	(399)	118
November	157,876	47,506	158,286	47,583	(410)	(77)
December	152,246	46,256	152,781	46,368	(535)	(112)
Total	2,267,580	627,825	2,279,408	629,707	(11,828)	(1,882)

6.1.7 During 2014, the passengers and vehicles crossing from Gozo to Malta, as per the P&V report generated from the ticketing system, were 2,267,580 and 627,825, respectively. However, those departing from Mġarr, as per the Veslog records were 2,279,408 and 629,707, resulting in a discrepancy of 11,828 passengers and 1,882 vehicles. Here, the largest discrepancy with respect to foot passengers was registered in April where 1,951 less foot passengers were registered in the P&V report than in the Veslog report. Similarly, with respect to vehicle-related discrepancies, the largest difference registered between the two methods of recording traffic flows between Gozo and Malta was a variance of 303, noted in February 2014.

6.1.8 As rendered evident in Table 31, the extent of discrepancies registered when comparing P&V report data with statistics derived from the Mġarr Veslog fluctuated erratically during the years being reported upon, with the largest discrepancies being recorded in 2010 and the lowest in 2011. The variances listed in Table 31 are expressed as a percentage in terms of Veslog Mġarr counts.

Table 31: Comparison of P&V Mġarr report to Veslog Mġarr, 2010-2012, 2014

Year	P&V [Mgarr report]		Veslog [Mgarr report]		Variances		Variances (%)	
	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles
2010	1,956,491	543,232	1,991,387	550,518	(34,896)	(7,286)	(1.8%)	(1.3%)
2011	2,009,690	555,001	2,015,887	554,981	(6,197)	20	(0.3%)	0%
2012	1,986,171	540,714	2,000,345	543,885	(14,174)	(3,171)	(0.7%)	(0.6%)
2014	2,267,580	627,825	2,279,408	629,707	(11,828)	(1,882)	(0.5%)	(0.3%)

6.1.9 Applying weighted fare rates based on categorised traffic registered during the relevant year to the variances registered by the GCCL (as represented in Table 31) results in a potential loss of ticketing revenue, excluding VAT, of €291,551. This potential loss is based on discrepancies arising between the two methods employed by the GCCL for recording passenger and vehicle traffic at the Mġarr terminal. This aggregated amount is based on discrepancies arising with respect to the period 2010-2012 and 2014, as in fact illustrated in Table 32.

Table 32: Potential losses due to Veslog Mġarr and P&V variances, 2010-2012, 2014

Year	Variances		Potential Loss in Revenue		
	Passengers	Vehicles	Passengers (€)	Vehicles (€)	Total (€)
2010	(34,896)	(7,286)	98,555	60,553	159,109
2011	(6,197)	20	17,476	(166)	17,310
2012	(14,174)	(3,171)	39,558	26,307	65,865
2014	(11,828)	(1,882)	33,889	15,378	49,267

6.1.10 In seeking to understand the anomalies and inconsistencies that emerged in terms of passenger and vehicle-related traffic, the NAO held a number of meetings with the current and former (Acting) Chairs as well as with GCCL's Financial Controller, who provided different explanations with respect to the highlighted discrepancies. The incumbent GCCL Chair stated that the discrepancies between the P&V report and the Veslog report had been due to faulty software. Substantiating this argument, the incumbent GCCL Chair claimed that the report issued by the system utilised erroneous data and certain elements were double counted. The NAO was provided with correspondence exchanged between the GCCL and the ticketing system supplier that highlighted certain problems with respect to the system. For instance, in December 2013, the GCCL reported to the supplier that they had problems with counts on the scanners and that this had resulted in inaccurate traffic statistics. The supplier identified the fact that there were more exits than entries from within the marshalling zone as the source of these inaccuracies. With respect to other reported count problems, in May 2014, the ticket system supplier stated that its technicians were unsure as to the reasons for such discrepancies and suggested micro network failures while scanning tickets as a possible cause. Notwithstanding the explanations put forward, the NAO does not consider these as sufficiently accounting for all the discrepancies noted for the audit period.

6.1.11 According to the GCCL's Financial Controller, certain discrepancies would always remain, as for instance, delivery personnel parked in the quay, entered the terminal with a card which was recorded in the P&V report, but did not board the ship, and were therefore not counted in the Veslog report. The system utilised by the GCCL reportedly did not have the facility to exempt vehicles such as the aforementioned from incorrectly appearing on traffic data. Notwithstanding, the NAO noted that such an explanation would in fact result in the opposite effect to that registered, inflating P&V records, thereby mitigating the existent incongruence with Veslog data.

6.1.12 According to the former Executive Chair, the discrepancies in the data were due to the lack of controls by the GCCL. When GCCL officials were stationed near the passenger barriers, there could have been situations where a passenger gave a GCCL employee a number of tickets so that a group of people passed the barrier quickly, under the assumption that the GCCL official would devalidate their tickets shortly thereafter. In support of this argument, the former Executive Chair stated that passenger figures had improved when GCCL employees were posted in the area the passengers passed from after devalidating their tickets. Commenting further on the matter, the former Executive Chair claimed that GCCL officials stationed in the marshalling area to devalidate tickets of tourists utilising rental cars could defraud the system by colluding with the ticket seller, not devalidating and retaining the tickets, presumably in the knowledge that such passengers would not be aware of how the system worked and would not recognise the failure to be furnished with a ticket as something irregular. MFEI had issued instructions for the vehicle barrier to be opened solely with a vehicle ticket, which ticket was to be devalidated by the ticket seller and was only scanned for record purposes by the marshalling area personnel. The former Executive Chair argued that it was important that the barrier was opened only with a vehicle ticket, because if the marshalling personnel retained the devalidated ticket, then the ticket seller could issue a passenger ticket in order to open the barrier and give the vehicle passenger a previously devalidated ticket instead. According to the former Executive Chair, one way to curb such abuse was to reconcile ticket issue dates through the cross-checking of data retained by the Operations and Finance Departments, further claiming that the system provided for these types of internal controls.

6.1.13 With regard to the potential discrepancies resulting from tourists utilising rental cars, the incumbent GCCL Chair stated that this situation was being monitored as cameras had been installed. The sourcing of inspectors assigned on an ad hoc basis was also underway, yet tendering-related difficulties had been encountered. Aside from the above-referred measures, the incumbent Chair stated that GCCL was working on a proposal for the installation of a ticketing system in Ċirkewwa and had raised this issue at Cabinet level. Notwithstanding, the Chair GCCL stated that the Ċirkewwa terminal did not accommodate a ticketing system, as there was no holding area for passengers and if there was a long car queue the Ċirkewwa road would be blocked.

6.1.14 The NAO was also provided with an internal audit report dated October 2013 commissioned by the Ministry for Gozo, which among other findings reported that the GCCL management had specified that scanner-resetting issues could have led to abuses in ticket recording. The GCCL Chair informed the NAO that this issue had since been rectified. Furthermore, there could also have been abuses in instances during which the ticket barrier for persons with a disability had not been functional. The NAO was informed that this situation had also been rectified, with the barrier locked by default, and only opened when a person using a wheelchair required access.

Comparison of Veslog Data: Mġarr and Ċirkewwa

6.1.15 Aside from comparisons drawn from the analysis of the Veslog readings and P&V reports, both of which are based on Mġarr traffic, the NAO also deemed it necessary to compare Veslog tally counter readings registered in Mġarr with those registered in Ċirkewwa. Notionally, barring minor discrepancies attributable to human error, the two tally counts should match.

6.1.16 Yet, according to the Veslog report data, incongruity was noted between the number of passengers and vehicles departing from Mġarr and Ċirkewwa. In 2010 (Table 33 refers), 1,991,387 foot passengers and 550,518 vehicles departed from Mġarr (where payment is effected), while 2,040,093 foot passengers and 553,852 vehicles departed from Ċirkewwa. Evident is the considerable difference of 48,706 foot passengers and 3,334 vehicles when comparing departures from the two terminals. The largest discrepancies between the Mġarr and Ċirkewwa Veslog reports, in terms of passenger and vehicle data, were registered in July. During this month, 19,709 less foot passengers and 3,371 less vehicles were registered in the Mġarr Veslog report when compared to the Ċirkewwa one. However, there were a number of months wherein the Veslog Ċirkewwa report registered lower passenger and vehicle numbers than the Mġarr one, the most significant of which occurred in January: 8,407 less foot passengers and 2,213 less vehicles were recorded in the Ċirkewwa Veslog report when compared to the Mġarr one. This trend, characterised by a negative discrepancy in December and followed by a positive discrepancy in January may be attributed to the seasonal effect, with notable traffic to Gozo registered in late December subsequently returning in early January.

Table 33: Comparison of Veslog Mġarr report to Veslog Ċirkewwa report, 2010

2010	Mgarr		Cirkewwa		Variances	
	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles
January	106,341	34,634	97,934	32,421	8,407	2,213
February	122,606	37,820	119,867	37,483	2,739	337
March	145,143	40,789	143,232	41,412	1,911	(623)
April	166,452	44,510	161,613	43,228	4,839	1,282
May	174,344	46,350	181,137	46,183	(6,793)	167
June	180,423	48,935	191,771	50,152	(11,348)	(1,217)
July	206,352	53,908	226,061	57,279	(19,709)	(3,371)
August	245,897	62,978	254,340	62,399	(8,443)	579
September	206,503	53,891	212,145	54,002	(5,642)	(111)
October	169,132	45,423	173,922	46,825	(4,790)	(1,402)
November	136,287	41,236	138,290	40,645	(2,003)	591
December	131,907	40,044	139,781	41,823	(7,874)	(1,779)
Total	1,991,387	550,518	2,040,093	553,852	(48,706)	(3,334)

6.1.17 In 2011, as per Veslog records, 2,015,887 foot passengers and 554,981 vehicles departed from Mġarr while 2,104,098 foot passengers and 561,155 vehicles left from Ċirkewwa (Table 34 refers). This implies a discrepancy of 88,211 in the case of foot passengers, and 6,174 with respect to vehicles. In terms of foot passengers, the highest discrepancy between the two Veslog reports was registered in July and stood at 13,297 more foot passengers departing from Ċirkewwa. Excluding January and December, for reasons already highlighted, the highest discrepancy with respect to vehicles was registered in April and stood at 1,368 more vehicles departing from Ċirkewwa.

Table 34: Comparison of Veslog Mġarr report to Veslog Ċirkewwa report, 2011

2011	Mgarr		Cirkewwa		Variances	
	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles
January	121,943	38,396	120,641	36,812	1,302	1,584
February	107,990	33,471	114,228	33,505	(6,238)	(34)
March	162,659	45,280	169,628	46,471	(6,969)	(1,191)
April	177,587	46,501	186,671	47,869	(9,084)	(1,368)
May	173,797	46,359	179,896	45,559	(6,099)	800
June	183,106	49,094	195,793	50,259	(12,687)	(1,165)
July	210,857	56,357	224,784	57,610	(13,927)	(1,253)
August	240,073	62,382	248,316	63,458	(8,243)	(1,076)
September	206,816	54,283	213,307	55,517	(6,491)	(1,234)
October	169,119	44,962	174,497	44,505	(5,378)	457
November	135,075	39,649	138,940	39,470	(3,865)	179
December	126,865	38,247	137,397	40,120	(10,532)	(1,873)
Total	2,015,887	554,981	2,104,098	561,155	(88,211)	(6,174)

6.1.18 Veslog records indicate that in 2012, 2,000,345 foot passengers and 543,885 vehicles left from Mġarr, while 2,092,184 foot passengers and 548,356 vehicles left from Ċirkewwa (Table 35 refers). This implies a discrepancy of 91,839 foot passengers and 4,471 vehicles. Notable differences were registered in March, June and August, with the largest of these discrepancies occurring in June, where a variance of 17,634 foot passengers and 2,636 vehicles was registered. In August, the discrepancies were 16,761 with respect to foot passengers and 2,385 with respect to vehicles, while in March, the discrepancy with respect to foot passengers was 15,185 and with respect to vehicles, this discrepancy stood at 1,993.

Table 35: Comparison of Veslog Mġarr report to Veslog Ċirkewwa report, 2012

2012	Mgarr		Cirkewwa		Variances	
	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles
January	114,151	35,462	114,206	34,118	(55)	1,344
February	121,441	36,670	123,682	36,491	(2,241)	179
March	142,741	39,566	157,926	41,559	(15,185)	(1,993)
April	172,838	45,231	177,948	45,068	(5,110)	163
May	177,013	44,950	184,428	44,880	(7,415)	70
June	174,753	45,679	192,387	48,315	(17,634)	(2,636)
July	210,032	56,512	216,067	55,783	(6,035)	729
August	231,595	60,563	248,356	62,948	(16,761)	(2,385)
September	215,354	55,318	216,351	53,974	(997)	1,344
October	175,522	45,283	181,337	45,059	(5,815)	224
November	142,853	41,037	149,161	41,466	(6,308)	(429)
December	122,052	37,614	130,335	38,695	(8,283)	(1,081)
Total	2,000,345	543,885	2,092,184	548,356	(91,839)	(4,471)

6.1.19 The comparison of traffic data registered as per Veslog Mġarr report and Veslog Ċirkewwa report was also carried out for 2014 (Table 36 refers). During 2014, foot passenger and vehicle category traffic registered on the Veslog Ċirkewwa report was higher than that recorded on the Veslog Mġarr report. The discrepancy between these two reports stood at 84,225 foot passengers and 19,534 vehicles. The largest discrepancies were registered in February and July. In February, 12,069 more foot passengers and 4,002 more vehicles were registered on the Ċirkewwa Veslog report when compared to those registered on the Mġarr Veslog report; however, this anomaly may be partly attributed to the carnival weekend, which coincided with the beginning of March, hence traffic to Gozo would have been registered in February. In July, these figures stood at 13,153 foot passengers and 3,177 vehicles.

Table 36: Comparison of Veslog Mġarr report to Veslog Ċirkewwa report, 2014

2014	Mgarr		Cirkewwa		Variances	
	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles
January	132,124	40,974	137,461	40,787	(5,337)	187
February	128,981	39,564	141,050	43,566	(12,069)	(4,002)
March	179,712	50,642	176,496	48,147	3,216	2,495
April	189,349	49,679	195,841	51,378	(6,492)	(1,699)
May	203,132	52,758	213,578	55,669	(10,446)	(2,911)
June	198,869	54,028	206,592	55,002	(7,723)	(974)
July	234,426	62,618	247,579	65,795	(13,153)	(3,177)
August	266,374	69,794	277,101	72,837	(10,727)	(3,043)
September	235,839	63,288	238,415	63,727	(2,576)	(439)
October	199,535	52,411	206,542	55,222	(7,007)	(2,811)
November	158,286	47,583	158,079	47,725	207	(142)
December	152,781	46,368	164,899	49,386	(12,118)	(3,018)
Total	2,279,408	629,707	2,363,633	649,241	(84,225)	(19,534)

6.1.20 The review of annualised discrepancies arising from the comparison of Veslog Mġarr with Veslog Ċirkewwa reports provides interesting insight (Table 37 refers). Foot passenger-related variances expressed in terms of Veslog Ċirkewwa hover around the four per cent mark, bar 2010, and consistently register higher traffic figures in Ċirkewwa. A similar trend was observed for vehicle-related data, consistently showing higher counts for Ċirkewwa compared to Mġarr. In 2014, the percentage variance for vehicles increased significantly to three per cent from the corresponding rates for the previous three years, which averaged one per cent.

Table 37: Comparison of Veslog Mġarr report to Veslog Ċirkewwa report, 2010-2012, 2014

Year	Veslog Mgarr		Veslog Cirkewwa		Variances		Variances (%)	
	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles
2010	1,991,387	550,518	2,040,093	553,852	(48,706)	(3,334)	(2.4%)	(0.6%)
2011	2,015,887	554,981	2,104,098	561,155	(88,211)	(6,174)	(4.2%)	(1.1%)
2012	2,000,345	543,885	2,092,184	548,356	(91,839)	(4,471)	(4.4%)	(0.8%)
2014	2,279,408	629,707	2,363,633	649,241	(84,225)	(19,534)	(3.6%)	(3%)

6.1.21 Investigating the matter further, the former Executive Chair stated to the NAO that the GCCL attributed discrepancies in foot passenger data to the scenario where passengers travel to Gozo aboard the GCCL ferries yet return to Malta by means of tour boats. The former Chair and former Acting Chair also made reference to this possible explanation. In this context, the former Chair estimated that this loss in revenue amounted to approximately €400,000 to €500,000 per year in ticket sales not realised. This loss in revenue results from the discrepancy between the Mġarr-based and Ċirkewwa-based Veslog reports. Elaborating on this matter, the former Chair stated that one of the measures initiated by the then Board to counteract this situation was based on the installation of turnstiles at the Ċirkewwa terminal so that the passengers crossing over to Gozo would also purchase tickets from Malta. The points for the turnstiles were installed, although the turnstiles are still not in place.

6.1.22 Applying weighted fare rates based on categorised traffic registered during the relevant year to the variances registered by the GCCL between the Mġarr-based P&V report and the Ċirkewwa Veslog results in significant potential yearly losses of ticketing revenue (Table 38 refers). With respect to the period 2010-2012 and 2014, the potential ticket revenue losses, excluding VAT, amounted to €1,451,159 in aggregate.

Table 38: Potential losses due to Veslog Ċirkewwa and P&V report variances, 2010-2012, 2014

Year	P&V [Mgarr report]		Veslog [Cirkewwa report]		Variances		Potential loss in revenue €		
	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles	Passengers	Vehicles	Total
2010	1,956,491	543,232	2,040,093	553,852	(83,602)	(10,620)	236114	88,262	324,376
2011	2,009,690	555,001	2,104,098	561,155	(94,408)	(6,154)	266,231	51,088	317,319
2012	1,986,171	540,714	2,092,184	548,356	(106,013)	(7,642)	295,867	63,399	359,266
2014	2,267,580	627,825	2,363,633	649,241	(96,053)	(21,416)	275,207	174,991	450,198

6.1.23 The former GCCL Executive Chair stated that the high levels of passenger discrepancies indicated that the tour boat issue was not the only reason for such variances. Furthermore, it did not explain the discrepancies arising with respect to vehicles, which certainly could not have returned to Malta in any other way except aboard the GCCL ferry service. In this context, the former GCCL Executive Chair argued that the ticketing system required modification to curb abuse.

6.1.24 The incumbent Chair put forward explanations possibly accounting for minor discrepancies in vehicle-traffic data. One such explanation related to the purchase of vehicles by Gozitan residents, while another focused on the loading of smaller vehicles onto larger trucks for the return journey only.

6.1.25 Although the NAO acknowledges the possible differences in recorded figures attributable to these factors, the annual discrepancies are far too large to be explained in these terms. This Office maintains reservations regarding the integrity of passenger and vehicle related data and considers explanations put forward by the GCCL as improbable, as the consistency, magnitude and directionality of the error indicates otherwise. The discrepancy between Veslog Ċirkewwa figures and P&V reports indicates an average annual variance of over 95,000 passengers and 11,000 vehicles. These figures heighten the NAO's concerns and, in this Office's view, indicate a lack of sufficient control being implemented by the GCCL.

6.2 Reconciliation of Ticketing Report to Cash Received

6.2.1 As part of the review of GCCL's ticketing operations, the NAO reconciled the sale of tickets as per the Automated Ticket System (ATS) with receipts from such tickets as per Daily Cash Report (DCR). This verification was undertaken with respect to two randomly selected months for each year falling within the audit period, namely January and May 2010, March and August 2011 and May and September 2012.

6.2.2 Receipts for the sampled months amounted to €5,614,628. The NAO reviewed and confirmed that receipts tallied with the value of tickets generated by the ATS.

6.3 Reconciliation of Manual Tickets

6.3.1 During times when the ATS is not operational, the GCCL utilises the so termed 'manual tickets'. According to the GCCL, the manual tickets are pre-numbered and perforated into three sections. One section of the ticket is kept by the ticket seller, another is kept by the client and the third section is collected by the terminal duty officer and sent to the Accounts Department. At the end of their shift, the ticket sellers fill in a form listing the opening and closing stock reference number of the manual tickets sold, the total number of tickets sold and the total value of sales. The GCCL informed the NAO that its Accounts Department carries out the following verifications:

a. that the cut-off period of the opening stock reference number listed in the manual ticket form, sent by the ticket seller, corresponds with the last ticket sold in the previous report;
b. that the physical chits sent by the terminal duty officer are arranged in consecutive numbers and checked with ticket sales as reported by the ticket sellers; and
c. that any discrepancies in sales are adjusted and cash is claimed from or refunded to the ticket sellers.

Furthermore, a list of all the stock of manual tickets held by the individual ticket sellers is retained by the Accounts Department. This is updated every time manual tickets are sold.

6.3.2 During the audit period, the two months with the highest manual ticket sales, categorised on a per year basis, were March 2010 (€26,095), April 2010 (€47,648), April 2011 (€3,981), June 2011 (€14,963), September 2012 (€123,827) and October 2012 (€89,120).

6.3.3 This Office analysed whether for the months listed above:

a. the manual ticket opening stock and closing stock reconciled with the manual ticket sales in order to ensure that all the manual tickets issued by the GCCL were accounted for; and
b. the cash received reflected the sale of these manual tickets.

6.3.4 Due to time constraints, this Office relied on the records furnished by the GCCL and no physical verification of the quantities of manual tickets held took place. The manual ticket opening and closing stocks reconciled with the amount of manual tickets sold during each of the sampled months. Moreover, the records for the months sampled show that the amount of cash generated from the manual tickets was correct.

6.4 Reconciliation of Total Cash Sales and the Total Cash Deposited

6.4.1 The NAO reconciled the total cash received from the tickets sold (both through the ATS and manually) against the total cash deposited for the sampled months. This Office was provided with the ticket sellers' transaction histories as extracted from the GCCL's Accounting Package (SFM). The reliability of this information was successfully verified through the reconciliation of three randomly chosen ticket sellers' actual deposit slips with figures registered in the SFM and through the reconciliation of cash received in the SFM against cash received as per the DCRs for the sampled months.

6.4.2 Through the reconciliation of cash received and deposited by the GCCL, it transpired that although the cash received from ticket sales within the sampled months was eventually deposited at the bank, there generally was a time lag before this was done. In the NAO's opinion, good practice entails depositing ticket sale receipts on a daily basis. This Office analysed the amount of outstanding ticket sale balances at the end of the months of January and May 2010, March and August 2011 and May and September 2012 and the average undeposited ticket sales (utilising end-of-day balances).

6.4.3 As at 31 January 2010, the aggregate amount of undeposited ticket sales stood at €9,624, which was effectively equivalent to 0.62 days' worth of the average daily ticket sales during that month. This amount corresponded to the undeposited ticket sales registered by various ticket sellers (Table 39 refers). However, rendered evident is the fact that the average undeposited ticket sales during this month were higher than the aggregated amount of undeposited sales as at month end, amounting to €31,309 and equivalent to two days' worth of average daily ticket sales registered during this month.

Table 39: Undeposited ticket sales and average daily undeposited ticket sales as at January 2010

NAO ticket seller reference	Undeposited ticket sales as at 31 January 2010 (€)	Average daily undeposited ticket sales during January 2010 (€)
02	1,821	1,823
11	2	4,089
14	38	1,616
24	42	4365
25	1,164	583
26	1	385
27	821	2,738
28	914	2,329
29	1,272	2,134
30	(3)	0
32	456	1,841
33	1,453	2,941
34	2	2
41	(37)	0
42	223	2,846
43	1,460	3,617
44	(5)	0
Total	9,624	31,309

Note:

1. Figures representing a negative balance indicate that the ticket seller had over-deposited and was therefore due payment by the GCCL.

6.4.4 As at 31 May 2010, the amount of undeposited ticket sales stood at €126,876, which was equivalent to 4.41 days' worth of the average ticket sales during that month. Although this was not the largest value of undeposited ticket sales out of the sampled months in absolute terms, it represents the largest amount in terms of ticket sale days when calculated against the average ticket sales during the month. Table 40 categorises the total amount in relation to the relevant ticket sellers. In this particular month, the total average undeposited ticket sales for these ticket sellers was lower than the amount of undeposited ticket sales and stood at €92,875 (equivalent to 3.23 days' worth of the average ticket sales during this month).

Table 40: Undeposited ticket sales and average daily undeposited ticket sales as at May 2010

NAO ticket seller reference	Undeposited ticket sales as at 31 May 2010 (€)	Average daily undeposited ticket sales during May 2010 (€)
02	41,052	33,694
11	931	3,481
14	1,750	3,308
24	14,617	6,243
25	529	1,443
26	151	917
27	951	1,572
28	12,723	4,624
29	10,215	7,190
30	2,525	1,761
32	11,608	6,648
33	7,519	8,008
34	2	2
41	2,536	3,960
42	7,415	4,066
43	7,362	4,342
44	4,990	1,616
Total	126,876	92,875

6.4.5 On 31 March 2011, the total undeposited ticket sales stood at €94,213, that is, equivalent to 3.39 days' worth of the average ticket sales for that month (Table 41 refers). During this month, the total average undeposited ticket sales was lower than the total undeposited ticket sales as at the end of the month and stood at €77,694 (equivalent to 2.8 days' worth of the average monthly ticket sales).

Table 41: Undeposited ticket sales and average daily undeposited ticket sales as at March 2011

NAO ticket seller reference	Undeposited ticket sales as at 31 March 2011 (€)	Average daily undeposited ticket sales during March 2011 (€)
05	6,592	12,405
11	6,170	5,997
12	3	3
14	24	24
24	8,131	3,983
25	12,290	3,020
26	4,444	2,524
27	(1,599)	
28	3,248	4,066
29	13,398	16,580
30	8,870	3,429
32	18,003	8,418
33	6,382	5,505
34	2	2
41	781	3,120
42	7,172	4,708
43	62	3,335
44	240	582
Total	94,213	77,694

Note:

1. Figures representing a negative balance indicate that the ticket seller had over-deposited and was therefore due payment by the GCCL.

6.4.6 In August 2011, the total undeposited ticket sales stood at €117,074, that is, equivalent to 2.78 days' worth of the average daily ticket sales during that month (Table 42 refers). During this period, the total average undeposited ticket sales was €130,563, representing 3.1 days of ticket sales.

Table 42: Undeposited ticket sales and average daily undeposited ticket sales as at August 2011

NAO ticket seller reference	Undeposited ticket sales as at 31 August 2011 (€)	Average daily undeposited ticket sales during August 2011 (€)
05	19,495	27,397
11	5,321	9,308
14	24	24
24	11,343	5,369
25	2,909	4,353
26	178	3,323
27	7,944	8,390
28	9,060	6,625
29	21,729	18,328
30	1,181	5,049
32	16,195	11,146
33	10,494	8,291
41	357	3,575
42	1,293	7,292
43	6,128	8,192
44	3,424	3,904
Total	117,074	130,563

6.4.7 In May 2012, the total undeposited ticket sales stood at €71,960, representing 2.6 days of ticket sales when calculated against the average ticket sales for that month (Table 43 refers). Here, the total average undeposited ticket sales for these ticket sellers was €90,975, representing 3.2 days of ticket sales.

Table 43: Undeposited ticket sales and average daily undeposited ticket sales as at May 2012

NAO ticket seller reference	Undeposited ticket sales as at 31 May 2012 (€)	Average daily undeposited ticket sales during May 2012 (€)
05	9,159	16,309
11	1,487	7,721
24	548	2,475
25	4,238	3,444
26	2,895	2,627
27	3,681	5,325
28	8,085	2,730
29	3,958	13,932
30	930	3,125
32	6,568	8,560
33	4,843	5,817
41	6,169	7,218
42	6,588	3,524
43	8,975	5,014
44	3,836	3,153
Total	71,960	90,975

6.4.8 In September 2012, the total undeposited ticket sales stood at €134,555, that is, 3.7 days of ticket sales when calculated against the average ticket sales for that month (Table 44 refers). The total average undeposited ticket sales for these ticket sellers was similar to the outstanding ticket sales balance at the end of the month and stood at €121,652, that is, equivalent to 3.4 days of ticket sales.

Table 44: Undeposited ticket sales and average daily undeposited ticket sales as at September 2012

NAO ticket seller reference	Undeposited ticket sales as at 30 September 2012 (€)	Average daily undeposited ticket sales during September 2012 (€)
05	27,822	28,211
11	16,740	8,440
24	3,803	2,285
25	2,526	2,251
26	4,183	3,090
27	6,667	12,071
28	0	2,438
29	(663)	0
30	5,611	5,687
31	11,318	9,248
32	9,138	8,790
33	492	5,961
41	19,301	9,820
42	11,520	8,082
43	13,813	12,324
44	2,282	2,954
Total	134,555	121,652

Note:

1. Figures representing a negative balance indicate that the ticket seller had over-deposited and was therefore due payment by the GCCL.

6.4.9 More recently, in December 2014, the total undeposited ticket sales stood at €29,311, that is, 1.2 days of ticket sales when calculated against the average ticket sales for that month. This amount is lower than all the other months sampled aside from January 2010. Table 45 categorises the outstanding ticket balances according to the respective ticket sellers. Furthermore, the total average undeposited ticket sales for these ticket sellers was also the lowest for all the months sampled, bar January 2010, and stood at €58,289, equivalent to 2.4 days of ticket sales.

Table 45: Undeposited ticket sales and average daily undeposited ticket sales as at December 2014

NAO ticket seller reference	Undeposited ticket sales as at 31 December 2014 (€)	Average daily undeposited ticket sales during December 2014 (€)
01	40	(94)
04	0	0
05	(2)	0
07	0	0
08	1,414	1,386
09	134	3,631
10	1	1
11	(1)	0
24	4,843	4,201
25	617	1,745
26	3	1,241
27	0	0
28	3,484	4,221
29	3,984	8,836
30	314	1,738
31	2,202	4,934
32	6,412	6,270
33	10	3,666
41	2,143	6,137
42	518	4,139
43	3,182	4,566
44	14	1,669
Total	29,311	58,289

Note:

1. Figures representing a negative balance indicate that the ticket seller had over-deposited and was therefore due payment by the GCCL.

Action with respect to Delays in Ticket Sales Deposits

6.4.10 The GCCL indicated that, aside from claiming any discrepancies found, no further action was taken with respect to delays in the deposit of ticket sales. This Office deems this to be unacceptable because as matters stand, nothing is actively done to deter delays in ticket sale deposits and prevent the inappropriate retention of ticket sale revenues by its employees. This Office noted that the balances unpaid to the GCCL were most pronounced in the case of a number of ticket sellers, namely, 02, 05, 27, 29, 32 and 43.

6.4.11 During the course of this audit, the Office's attention was drawn to the specific case of ticket seller 29. According to the GCCL, during the months of August and September 2012, this ticket seller sold manual tickets amounting to €28,731 but did not present any DCR or deposit money, bar a DCR dated 12 September 2012 declaring €16,000 in sales, and a deposit of this amount. After the ticket seller was informed about the discrepancy of €12,731, the GCCL decided that his unsold tickets were to be recounted. During the re-counting exercise, the ticket seller apparently recalled that he had €9,700 in an attaché case. He therefore presented another DCR dated 29 November 2012 and deposited this amount. At this point, the amount of €3,031 was still unaccounted for, which amount was eventually confirmed through a stock-take. The ticket seller settled this amount in due time. No further action was taken with respect to this employee other than claiming the outstanding balance. This Office deems the action taken by the GCCL as weak and not representing a sufficient deterrent against the possible misappropriation of Company funds.

6.5 Family Passes

6.5.1 Persons having grandparents, parents and/or brothers/sisters permanently residing in Gozo are entitled to a 'family pass'. The family pass can also be extended to an applicant's spouse and children as long as they reside in the applicant's household and as long as the applicant has grandparents and parents residing in Gozo. A family pass holder is entitled to the same reduced fare as that of a Gozo resident.[12] During the audit period, the number of family passes issued every year increased by two per cent in 2011 (956) over 2010 (938) and by three per cent in 2012 (988).

6.5.2 According to the GCCL, in order to be issued with a family pass, the applicant must submit a form to the Ministry for Gozo (MGOZ) specifying the names and ID numbers of the applicant and the spouse or children who may also be entitled to the family pass. The application also entails the submission of information regarding relatives permanently residing in Gozo. Following verifications carried out by MGOZ, the authorised form is subsequently submitted to the GCCL for the pass to be issued. Among such verifications is confirmation issued by the Police that the basis of the application is correct, that is, that the relative listed in the application form is a permanent resident of Gozo and that the information in their respective ID Card is correct. The NAO is of the opinion that such controls are not sufficient as they do not establish whether the person applying and the relative listed in the application form are actually related.

6.5.3 Family passes are renewed annually. The GCCL maintained that before such renewal takes place, it verified with the most recent electoral register that the person who originally provided the grounds for the issue of the pass was still alive and residing in Gozo. The NAO's concern with respect to the renewal of family passes relates to the fact that changes in the personal circumstances of applicants, altering the eligibility of other family members, were not verified by the GCCL.

6.5.4 This Office analysed whether family passes were being granted according to the established criteria. In this regard, the NAO analysed the application forms pertaining to three random samples composed of 64 persons each (using a confidence level of 90 per cent and a margin of error of five per cent) selected out of three lists of family passes. These family pass lists were categorised according to the year of issue (2010, 2011 and 2012) and included new family passes as well as those being renewed. The NAO's analysis was carried out through the Government of Malta's Common Database (CdB), which was utilised to ascertain the veracity of the information submitted in the application form.

6.5.5 Thirteen, 29 and 59 applications were submitted by the GCCL to the NAO for each respective year. Ninety-one application forms (that is, 47 per cent of the sample)

[12] The fares for Gozo residents are €8.15 for a car and driver and €1.15 for a foot passenger while the car and driver standard fare is €15.70 and the foot passenger standard fare is €4.65. An additional annual fee of €11.65 and €4.65 respectively is paid for the yearly renewal of the Family Pass.

were not retrieved by the GCCL and therefore could not be verified by the NAO. This Office expresses reservation at the GCCL's inability to retrieve the relevant application forms.

6.5.6 In the vast majority of cases, the applications submitted to the NAO by the GCCL satisfied the criteria and did not merit further analysis. However, it was noted that in certain cases, the NAO could not confirm the veracity of the information submitted in the application form through the CdB. In such cases, the NAO submitted queries to the Malta Information Technology Agency (MITA), which is the administrator of this database. In instances when the NAO's query related to address history details of a particular person, MITA forwarded the request to the Electoral Office.

6.5.7 Out of the sample analysed, the NAO noted a particular case where the family pass was granted on an incorrect basis, and two other cases which, although at the time of the application, met the family pass criteria, no longer satisfied such criteria shortly thereafter. In the first case, a man residing in Malta based his family pass application for 2010 on his wife who resided in Gozo. Such family pass was granted in breach of the rules specified to this Office by the GCCL, since the spouse was not officially registered as residing in the same household. While this living situation persisted in the two subsequent years of the audit period, GCCL still granted family passes to this man during this period. In another case, a woman applied for a family pass for her spouse for 2012, basing the application on her parents who resided in Gozo. However, the NAO established that the woman had changed her address several times close to the date of the family pass application. She had resided in Gozo for two and a half weeks, and then moved to Malta three days before submitting the family pass application. Following this, she moved back to Gozo after a month and a half for 2012 from the family pass application date. In another case, a person applied for the family pass on the basis of his grandmother residing in Gozo. However, the NAO established that while as at the family pass application date the grandmother did reside in Gozo, she moved to Malta less than two weeks following the submission of the application.

6.5.8 The NAO noted that certain family pass renewal applications had no details with respect to who the application was based upon. For this reason, the NAO also asked the GCCL to submit all documents/certificates attached to four sampled persons' first family pass application forms as well as any documents generated in relation to their application's verification in order to ascertain whether this procedure was being carried out correctly. For three out of the four applicants in concern, the GCCL submitted an application form and the relevant confirmation issued by the police. No other documents were attached to the application form. For the remaining applicant, nothing other than the family pass application form was found. In this Office's view, this was indicative of a process wherein no checks to ascertain the veracity of the family link between the applicant and their family members were carried out. Indeed, it is pertinent to note that in spite of the limited findings, the NAO maintains that the risk of fraudulent applications remained high due to the lack of controls in place, specifically in terms of controls intended at establishing the link between the applicant and the persons listed as family members in their application.

Chapter 7
Conclusions and Recommendations

Chapter 7 – Conclusions and Recommendations

In this chapter, the conclusions drawn by the NAO with respect to the PSO bid submitted by the JV and the operational considerations reviewed are put forward. The operations analysed represented the main cost components and revenue source of the GCCL, namely, fuel procured, payroll costs and ticketing revenue. This review was undertaken against a wider understanding of the financial health of the GCCL, particularly in terms of its liquidity and solvency considerations. Where relevant, recommendations are proposed intended at addressing concerns identified.

7.1 Joint Venture Bid

7.1.1 On 16 April 2004, the GCCL entered into a Public Service Obligation (PSO) agreement with the Government of Malta. This agreement stipulated that Government was to subsidise the cost of specific passenger categories as well as night and cargo services. While this agreement had expired on 16 April 2011, the GCCL still operated under the same terms and conditions stipulated by the 2004 PSO until 30 September 2011. On 30 September 2011, GFCL and GCCL (that is, the JV), were awarded a new PSO contract, following a public call for tenders issued by MITC in February 2011. The bid submitted by the JV was the only offer received by MITC and was deemed compliant with requirements. In this sense, the Office considers the basis of the award to the JV as regular. The validity of this second PSO agreement extends to 30 September 2017.

7.1.2 The business plan submitted in the PSO tender bid included a number of strategic actions deemed prudent by the GCCL. The financial projections anticipated that the JV would generate an 8.4 per cent (post-tax) internal rate of return on investment over the PSO term while operating within the bid's parameters, that is, honouring fixed fares, PSO and timetable obligations. Notwithstanding the PSO bid forecasts, the financial results registered in 2011 and 2012 were below the projected targets. In 2011, the GCCL was to register a profit of €1.9 million; however, the Company recorded profits of €1 million. Furthermore, in 2012, which represented the first full year of the new PSO agreement, the GCCL registered a net loss of approximately €1.7 million against the projected profit of €0.5 million.

7.1.3 Cash at bank and in hand fell by around 75 per cent (€3.7 million), from €4.9 million in 2011 to €1.2 million in 2012. This significant reduction corresponds to more than the relevant amount attributable to the PSO decrease experienced between 2011 and 2012, which only accounted for €2.9 million, as opposed to the €3.7 million registered. The variances between the actual amount of cash at bank and in hand and its corresponding projected amount as presented in the PSO tender bid were also significant. Actual figures reported by the GCCL stood at €4.4 million and €7.7 million less than projections in 2011 and 2012, respectively. The GCCL stated that the factors contributing to the decrease in cash flow included the payment of a €0.5 million dividend, the revised PSO payment, expenses relating to the overhaul of vessels, and the installation of the hoistable deck.

7.1.4 The new PSO agreement was to come into effect on 1 January 2012; however, this was brought forward to 30 September 2011. This change in the date of effect resulted in the GCCL receiving approximately €1.1 million less in compensation in 2011, that is, from €4.9 million to €3.8 million. In fact, the decrease in terms of PSO revenue was compounded by variations attributable to inaccuracies in budgeting that resulted in a further deduction of €0.3 million, with the GCCL receiving €3.5 million.

7.1.5 The PSO tender bid was based on the assumption that traffic would increase by 2.8 per cent per annum. These targets were not reached, with the number of trips recorded declining by 301 in 2012 and the number of passengers declining by 17,000. This contrasted sharply with the forecasted increase in passenger traffic, which was expected to increase by 185,000 between 2011 and 2012. These discrepancies in traffic, particularly in view of the forecasted growth, resulted in €0.3 million less in actual revenue excluding VAT when compared with the projected revenue in 2011, while the corresponding discrepancy for 2012 was an adverse variance of €0.8 million.

7.1.6 Various possible factors were cited by the GCCL as contributing to the Company's failure to achieve the growth targets. These included major roadworks, the construction of the new terminal building at Ċirkewwa and the inclement weather experienced during 2012. In addition, the GCCL made reference to the instances where foot passengers who had travelled to Gozo aboard the ferry returned to Malta via 'tour boats', thereby costing the Company significant amounts in terms of lost ticket revenue. The justification put forward by the GCCL is supported by results achieved in 2013 and 2014, where an increase in passengers was registered, exceeding the PSO projections by 16,590 in 2014. Here, ticket sale revenue generated by the GCCL exceeded the PSO target by €396,110.

7.1.7 At a strategic level of understanding, the GCCL's plans were to partially replace the lost PSO revenues with other sources of operating income. According to the PSO tender bid, the GCCL budget for 2011 projected the generation of €1.3 million in other operating revenue, while the corresponding amount for 2012 stood at €1.4 million. In effect, the GCCL earned a total of €1.8 million in 2011 and 2012, which resulted in an aggregate adverse variance of €1 million. The GCCL's failure to realise such income related to the Company's inability to lease out commercial space at the anticipated rates, failure to capitalise on advertising revenue, discrepancies attributable to the onboard cafeteria and the non-charging of fees for the Mġarr terminal car park.

7.1.8 In the PSO tender bid, it was projected that total payroll costs would be €5.9 million in 2011 and €5.8 in 2012. In fact, the GCCL's total payroll cost for 2011 was €6 million and €6.2 million in 2012. The GCCL attributed such discrepancies to the collective agreements entered into in 2012, where the PSO projections only contemplated COLA. Other elements cited as influencing the increase in the GCCL's payroll cost were the promotions awarded with no clear justification and poor management control of absenteeism and sick leave.

7.1.9 According to the PSO bid, projected vessel costs amounted to an annual €4.7 million for both 2011 and 2012. Higher actual costs were incurred by the GCCL, with an expenditure of €5 million in 2011 and €5.1 million in 2012. The major source of this discrepancy was the cost of fuel and lubricating oil, which adverse variance amounted to €0.3 million in 2011 and €0.6 million in 2012. The bid contemplated that the GCCL would hedge its exposure to fuel costs for the term of the PSO; however, the Company entered into no such hedging agreements.

7.1.10 The PSO bid forecasted the cost of vessel overhauls with respect to two out of the three vessels at €1.2 million each, one scheduled for 2011 and the other for 2012. Overruns were incurred in this respect, amounting to €0.6 million in 2011 and €0.7 million in 2012. Aside from these overhauls, significant expenditure not included in the bid was incurred with respect to the installation of the hoistable deck on one of the vessels, which expense amounted to €5.7 million. Furthermore, the payment of this expense proved to be an issue of contention between the GCCL and the GFCL, with each claiming that the other was to cover such costs. Although the issue has now been resolved, with the GFCL accepting responsibility for payment, the NAO is of the opinion that the recovery of such dues by the GCCL is at worst unlikely and at best delayed, since settlement is contingent on the GCCL registering a profit, a substantial part of which would then be directed to the GFCL.

7.1.11 No major concerns were identified with respect to the generation of financial income as well as the terminal, maintenance, selling, general and administration costs, as, in the main, adverse variances registered in one year were offset by favourable variances in the other year. The only exceptions in this regard were registered with respect to financial income, where approximately €0.2 million less than forecasted was generated, and professional fees incurred in 2011, where the GCCL recorded an adverse variance of €61,000.

7.1.12 In light of all of the above, the NAO sought to augment its understanding of the factors that were deemed influential in the GCCL's failure to achieve targets established in the PSO bid. In essence, the NAO was seeking to establish whether the projections submitted in the tender bid had not been met because such projections had been overoptimistic in the first place, due to lack of action by the GCCL, or attributable to factors beyond the GCCL's direct control.

7.1.13 The NAO considers the context within which such a bid was drawn up as an element of critical importance. To this end, the GCCL indicated that in the run up to the submission of the PSO bid, the Company was in a healthy financial state, which could have imparted a misplaced sense of security. Moreover, by the closing date for the collection of the PSO tender, twelve parties had collected the document, constraining the JV to price the bid very competitively.

7.1.14 This Office is also cognisant of the fact that the GCCL is expected to operate as a private enterprise, but is then somewhat constrained by its public sector status. The challenges faced by the Company in this sense limit its flexibility across various facets of its operations, ranging from the determination of fares to salary structures, while other obligations imposed on the Company may not necessarily be commercially viable. Another factor that the NAO deemed relevant to the management of the GCCL was the absence of a CEO for significant stretches of time during the period under review. This Office considers this management role as central to the efficient and effective functioning of the GCCL and its void bore significant negative impact on all of the GCCL's operations.

7.1.15 The reduction in revenue generated by the new PSO agreement was to be compensated for by the GCCL through the implementation of various initiatives and cost saving measures. The NAO is of the opinion that certain initiatives were not seen through due to insufficient action on the part of the GCCL, such as the case of fuel hedging, where the Company failed to carry out the necessary studies to establish how it could hedge its exposure. Other aspects of the bid were not attained due to the overambitious nature of the targets set. The lease of commercial space aboard the vessels and at the terminals, as well as advertising revenue are cases in point. In this Office's view, other factors that may have limited the GCCL's attainment of the PSO-set targets were beyond the direct control of the Company. Such unforeseen circumstances include the major roadworks undertaken during the period under review. Other factors contributed to the GCCL's failure to realise projections. The substantial increase in salaries that was brought about by the coming into force of two collective agreements, which were not anticipated in the PSO bid, is one such factor. Another factor was the reluctance to impose fees for use of the terminal car park, which subsequently led to adverse variances registered with respect to income targets set in the PSO bid.

7.1.16 Notwithstanding the above, the NAO's closer scrutiny of the 2011 and 2012 financial statements indicated that the elimination of the PSO effect led to financial results comparable to those of previous years. Despite the reduced PSO revenue generated post September 2011, in 2014, the GCCL registered a profit of €0.06 million, which although representing an unfavourable variance of €1.1 million in relation to the tender bid projections, was a marked improvement over the losses made in 2012 (€1.7 million) and in 2013 (€1 million). This improvement was mainly brought about by increases of approximately €1.1 million in revenue each year during 2013 and 2014. The major proportion of these revenue increases was with respect to ticket sales, with an increase of €1 million registered in 2014 and €0.9 million in 2013. Furthermore, during 2014, the aggregate revenue from ticketing and the PSO contract exceeded the PSO bid projections by €0.3 million. Another notable improvement was recorded with respect to other operating revenue from vessels, whereby an increase of €0.2 million was made from 2012 to 2014. In the main, this was due to the increase of €0.2 million in cafeteria revenue, which effectively more than doubled during this two-year period. Meanwhile, the increase in revenue during this period corresponded to an increase in total operating expenses of €0.5 million, while administrative expenses and overheads registered a decrease of €0.04 million. Cash at bank and in hand increased by €0.2 million between 2012 and 2014. Notwithstanding this, in 2014, cash at bank and in hand was €10.5 million less than projected in the tender bid.

Recommendations

7.1.17 Although the applicability to future PSO bids is somewhat limited, the NAO is of the opinion that proposals put forward by the GCCL should be based on realistic projections. Where possible, the relevant study and analysis key in determining the possibility of the realisation of specific objectives should be carried out in order to avoid situations where projections deviate from set targets at the outset. The NAO acknowledges that certain aspects of PSO-type bids are complex and involve coordination with other stakeholders, hence implying that control over the outcome of such aspects may not be wholly within the control of the GCCL. Nevertheless, the NAO is of the opinion that prudence should be exercised under such circumstances.

7.1.18 Assuming that the targets set are realistic and achievable, then the GCCL should ensure that sufficient resources are allocated in order to attain such goals. The NAO deems insufficient action on the part of the GCCL as not a valid justification in explaining the Company's failure to achieve the set goals.

7.1.19 The NAO recommends that all provisions stipulated in the PSO agreement should be honoured by both parties, the GCCL and Government. Any deviations thereto and arising from outside of the control of the GCCL should be reflected through corresponding amendments to the agreement. By way of example, the GCCL's provision of a free service to Gozo as part of a wider Government initiative to support the Gozitan economy was not considered in the PSO agreement. On such occasions, the Company was not fully reimbursed for expenses incurred.

7.2 Liquidity and Solvency

7.2.1 From 2010 to 2012, the GCCL's trade receivables decreased by €1 million whereas trade payables increased by €2.7 million. Despite the improvement registered in terms of trade receivables, the GCCL was still unable to pay its creditors in a timely manner, which in the NAO's opinion, indicates that the Company was experiencing cash flow problems in 2012.

7.2.2 At face value, the situation appears to have been reversed in 2014, with trade receivables increasing to €8.5 million and trade payables increasing to €7 million. In 2014, trade receivables were largely composed of the amount due by the GFCL, which amounted to €8 million and related to capital expenditure paid for by the GCCL. The NAO does not consider the classification of this expenditure as a trade receivable as appropriate; and is of the opinion that such expenditure should be classified under other debtors. With regard to trade payables, the increase was mainly attributable to amounts due to TM, while this Office also notes that amounts payable to Drydocks Malta, Malta Shipyards and Malta Shipbuilding Company Limited have remained unchanged since at least 2010. Here, the NAO expresses concern at the GCCL's failure to settle these long outstanding dues.

7.2.3 During 2010 and 2011, the GCCL had sufficient current assets in place to honour its current liabilities. While the Company's current ratio with respect to 2012 and 2014 appeared to present a healthy outlook, the situation was in reality somewhat less positive. In 2012 and 2014, the GCCL's largest asset consisted of receivables due by GFCL in relation to capital expenditure. Omitting this asset from the current assets figure results in an unhealthy current ratio of 0.57 in 2012 and 0.71 in 2014. The NAO's argument to exclude GFCL from the reported current assets of 2012 and 2014 is based on the fact that the GCCL was informed that the GFCL had no funds from which to settle the outstanding amounts owed, hence rendering the recovery of such dues by the GCCL as at worst unlikely, and at best delayed. Similar results emerge with respect to the GCCL's quick ratio. In fact, eliminating GFCL from the relevant debtor lists results in a weak quick ratio of 0.40 in 2012 and 0.49 in 2014.

7.2.4 During the audit period, if one were to include the GFCL debt as part of GCCL's total assets, then GCCL had sufficient assets to cover its debts. If one were to exclude the GFCL debt from the GCCL's total assets in the case of 2012 and in 2014, the GCCL would not have sufficient assets to settle amounts owed. In this scenario, the total debts to total assets ratio would have been that of 170 per cent in 2012 and 138 per cent in 2014. Therefore, if GFCL were unable to repay the GCCL, this would raise doubts on the going concern status of the GCCL.

7.2.5 Throughout the audit period, the portion of assets provided by the GCCL's creditors always exceeded the portion of assets financed by the shareholders. While the reliance on creditor finance decreased in 2011 from 140 per cent to 113 per cent, there was a significant increase of 72 percentage points in such creditor finance in the following year. Such a high ratio once again indicates that the GCCL was unable to generate an adequate amount of cash with which to settle its debts. In 2014, the total debt to total equity ratio was still high and stood at 152 per cent.

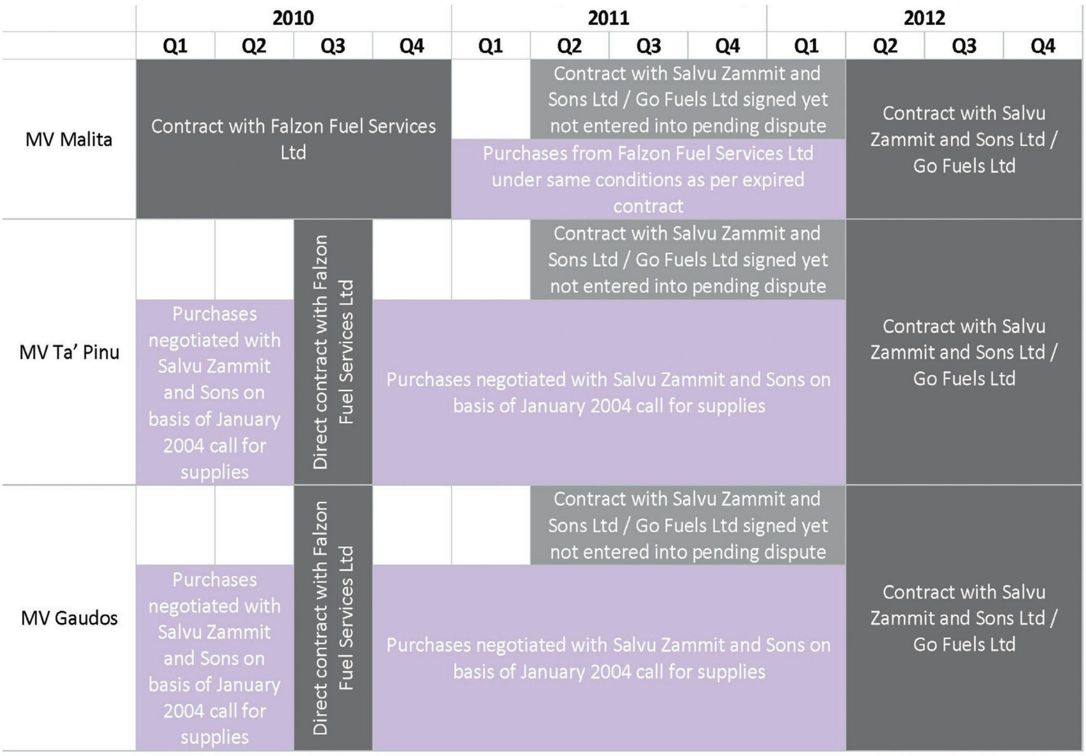
7.2.6 In 2010, the GCCL had an extremely high margin of safety as measured by the interest coverage ratio. This indicated that the borrowing of money had a positive effect on the

GCCL and that substantial additional debt capacity remained. The interest coverage ratio decreased in 2011; however, it was still quite high. In 2012, the GCCL incurred a loss before interest and taxes and was therefore unable to cover the interest expense out of such losses. This situation was reversed in 2014, at which point the Company registered a small profit and had an interest coverage ratio of 3.

7.3 Fuel Procurement

7.3.1 In total, three fuel contracts were in effect during 2010 to 2012. One of these contracts was signed with Falzon Fuel Services Limited and covered the period January to July 2010, which contract was subsequently extended for a further five months. This contract covered the fuel requirements of the MV Malita. The GCCL also awarded a direct contract to Falzon Fuel Services Limited for the provision of fuel for the MV Ta' Pinu and MV Gaudos for July and August 2010. The other contract was signed with Salvu Zammit and Sons Limited on 27 May 2011 for a period of three years. However, this contract came into effect on 24 March 2012 due to pending disputes between the GCCL and the supplier. Figure 6 renders evident the notable gaps in contractual agreements regulating the purchase of fuel, with the GCCL entering into direct negotiations with suppliers to cover its requirements.

Figure 6: Gaps in fuel procurement contracts, 2010-2012



7.3.2 While the NAO's analysis focuses upon contracts in place, its greatest concern centres on the multiple instances when the procurement of fuel was not regulated by any contractual agreement. In this Office's understanding, such a situation exposes the GCCL to substantial risk, rendering the Company's dependence on the supplier as one without the necessary safeguards. This serious shortcoming represents a failure on the part of the GCCL's management, with the Company not adequately anticipating and securing fuel contracts in a timely and equitable manner. This Office's concern in this respect intensifies when one considers that the fuel expense incurred by the GCCL when not covered by a contract (periods highlighted in colour in Figure 6) exceeded €5.6 million.

7.3.3 Although the contract with Salvu Zammit and Sons Limited was entered into in May 2011, it eventually came into effect in March 2012. This delay was due to a dispute between the GCCL and the supplier over the indemnity coverage that was to be provided in the insurance policy. Ultimately, the dispute was referred to the DoC, at which point the Department stated that without consensus between the parties, the GCCL's position could be deemed arbitrary since the Special Conditions did not include any reference to a specific amount. The GCCL Board finally acceded to the Supplier's position due to the substantial cost of the delay, which, according to the NAO amounted to approximately €88,000. This Office is of the opinion that this situation could have been averted had the special conditions been more specific as to the level of indemnity required. Furthermore, the NAO considers the lag in referring the matter to the DoC as excessive, thereby directly delaying the resolution of the matter.

7.3.4 A dispute arose with respect to the 2012 contract with Go Fuels Limited (previously referred to as Salvu Zammit and Sons Limited) with regard to persistent unpaid balances in excess of €1 million by the GCCL. The dispute was referred for arbitration, where the GCCL was deemed to be in breach of the contract with regard to excessive unpaid balances because it was not effecting the interpretation and implementation of the contractual obligations in bona fide. Notwithstanding the Arbitrator's decision that the contract be terminated, an appeal was filed by the GCCL. This appeal effectively put on hold the implementation of the ruling to terminate the contract, with Go Fuels Limited continuing to supply the GCCL. At the time of writing, the outcome of the appeal remained pending.

7.3.5 The NAO reviewed all the documentation provided by the GCCL in relation to quality testing of a sample of bunkerings. In the majority of cases, the documentation indicated that the bunkering procedures stipulated by the GCCL were adhered to with only minor deficiencies identified, where delivery notes were not appropriately signed. The NAO's main concern relating to the testing of fuel quality specifications centred on the fact that the GCCL did not systematically submit samples for testing at independent laboratories, citing cost considerations. In this regard, the NAO maintains that good practice entails that random samples of fuel are sent for laboratory analyses to assure that a quality product was being purchased, particularly so in view of the materiality of the expense at hand.

7.3.6 With respect to the verification of quantities of fuel procured by the GCCL, the NAO's concern was drawn to certain purchases made from Falzon Fuel Services Limited. This Office noted that there were a number of months wherein the MV Malita's fuel meters were not functional and therefore did not record the volume of fuel transferred. Compounding matters in this case was the fact that the majority of the barge fuel meter readings that should have been noted were also left empty. Moreover, the NAO expresses concern that for the MV Ta' Pinu, the GCCL did not trace the bunkering operations checklists for the period 20 August 2010 to 14 January 2011, hence this Office was unable to verify the regularity of such transactions, or otherwise. In addition, the NAO noted some instances when the delivery notes lacked the appropriate signatures. There were other instances where the bunkering operation checklists were not completely filled, for instance with respect to the recording of the sounding and volume, as well as in relation to the recording of the fuel's specific gravity.

7.3.7 The main shortcoming identified by the NAO with respect to price-related verifications undertaken was the fact that no documentation was provided by the GCCL confirming that the price paid for purchases made between January and November 2010 from Salvu Zammit and Sons Limited was that agreed on. Following testing undertaken by the NAO, the financial impact of errors identified was deemed immaterial when considering the total outlay for fuel purchased by the GCCL.

Recommendations

7.3.8 The NAO urges the GCCL to ensure that fuel contracts in force seamlessly follow one another, ascertaining that there are no lacunae in the transition from one contract to the next. The GCCL's management should adequately plan for the issuance of calls for supply and anticipate possible delays that might arise by ensuring that such action is taken in a timely manner.

7.3.9 With reference to the verifications of the quality of purchased fuel, the GCCL should adopt a more systematic approach to ensure that the procured fuel is according to the specifications stipulated in the relevant contracts. As indicated, the NAO is of the opinion that regular random samples should be independently tested in order to ensure compliance in terms of quality-related specifications.

7.3.10 On the other hand, with regard to quantity-related verifications, the NAO considers it unacceptable that the GCCL was in a position where it could not objectively determine the fuel received. This Office urges the GCCL to take all necessary measures to prevent such reoccurrences.

7.4 Wages, Salaries and Directors' Fees

7.4.1 This review of wages and salaries entailed the analysis of the GCCL payroll, with particular attention directed towards the various employee and payment categories. The NAO reviewed basic salary computations corresponding to samples selected for 2010 to 2012, each equivalent to an approximate 50 per cent of the GCCL's complement. Therefore, this exercise was based upon a stratified sample ranging between 120 and 138 employees. In total, this Office detected 37 errors relating to basic pay, which in aggregate, amounted to €17,154. However, the NAO could not determine the accuracy or otherwise of the basic salary paid to another 48 employees since the documentation made available by the GCCL was insufficient.

7.4.2 A verification of the income tax and NI deductions of employees sampled for basic salary computations was also undertaken by the NAO. This Office detected 12 instances of incongruence where the GCCL erroneously deducted incorrect amounts with respect to income tax and NI. Certain discrepancies were deemed relatively material by the NAO, such as the overpayment of €1,396 and €1,012 in income tax and €591 in NI.

7.4.3 Another aspect of payroll reviewed by the NAO related to the clocking of hours worked by the sampled GCCL employees and the verification of whether payments tallied with the recorded hours. Here, the NAO employed a purposive sampling method and selected 20 out of the 35 employees having the highest overtime, allowances and other payments in relation to the number of hours worked per year. This Office was reasonably assured that the amount of hours registered in the payslips reconciled with the number of hours recorded. The only exception noted was that of the Drivers who registered hours worked on attendance sheets, which were not provided to this Office.

7.4.4 Of significant concern to the NAO is the fact that the GCCL has a tacit agreement with its employees whereby breaks are considered as forming part of the shift. The NAO considers this arrangement as irregular since the break should not be considered as part of the working week.

7.4.5 From information gathered by the NAO, there appears to be a broad consensus that the GCCL is overstaffed. This situation of overstaffing was most often cited with respect to the Company's seaborne and terminal staff. In the first instance, the root cause stems from the requirements established in terms of the vessel's safety manning levels, which were deemed excessive, particularly when one considers that the service provided is a 20-minute trip in territorial waters. Here, specific reference was made to cargo trips and night service crossings, where the possibility for further reductions was most feasible. In the second instance, reference was made to the possible over-staffing of terminal operations, in part attributed to the challenges faced when reallocating staff and also conditioned by the fact that ticketing is not a fully automated process. Another consideration put forward in this respect was the possible hiving off of terminal operations from the GCCL, whose core business is the provision of a ferry service and not terminal management.

7.4.6 Notwithstanding the reduction in staff complement from 2010 to 2012, where the GCCL's workforce decreased by 31 employees, equivalent to approximately 10 per cent, payroll costs increased from €5,895,742 in 2010 to €6,037,299 in 2012. The GCCL's average salary during 2010 amounted to €23,678, while in 2012 this stood at €26,538. Such payroll cost increases, attributable to wage raises and promotions, came at a time when the GCCL was faring particularly poorly in financial terms, and denotes imprudent practices, poor management control and a failure to safeguard the Company's long-term sustainability. This shortcoming in terms of governance is rendered more evident in the personal agreements that the GCCL entered into with officials in grades that do not ordinarily merit such arrangements, such as a Driver, Workshop Supervisor and Executive, whose grades are also covered by the collective agreements, and a Driver/Office Assistant, Terminal Maintenance Person, ICT Clerk and Leading Electrical Officer Afloat. Aside from such agreements, a paper presented to the GCCL Board in July 2012 indicated that certain promotions of other staff within the parameters of the collective agreements were unwarranted and exacerbated this situation.

7.4.7 Contrasting information was provided to the NAO with respect to the manner in which operational plans and staff rosters are drawn up. In the case that the staff roster is issued prior to the drawing up of the operational plan, then the NAO expresses concern at this state of affairs and deems this to represent poor practice. The issuance of staff rosters prior to operational plans certainly renders ineffective the role played by the GCCL's HR Department in its role of strategically managing general staff deployment and controlling overtime. In such a scenario, suitable employee scheduling based on the needs identified in the Company's operational plan for the following week, is questionable.

7.4.8 The NAO reviewed the manner in which the GCCL controls and approves overtime among its staff. In response to requests raised by this Office relating to overtime approval, the GCCL stated that, for the period 2010 to 2012, overtime attributable to operational delays, sick leave and roster was not covered by formal authorisation. According to the GCCL, a formal overtime approval procedure was implemented with effect from early 2014, that is, shortly after the commencement of this audit. Lack of overtime approvals are of notable concern to this Office, as these signify a lack of management control over overtime hours, which precludes the appropriate monitoring of overtime costs a priori and presents the risk of the utilisation of overtime hours when not necessarily required, further exacerbating the GCCL's wages and salary costs. This concern is accentuated by the fact that overtime for the period 2010 to 2012 cost the GCCL in excess of €1.8 million.

7.4.9 Over the audit period, the proportion of overtime costs to the GCCL's total payroll expense increased significantly from 8 per cent in 2010 to 14 per cent in 2012. In addition, 15 per cent of the GCCL wage expenditure was attributable to night, Sunday and public holiday allowances. The majority of overtime and allowance payments effected by the GCCL, ranging from 66 per cent in 2010 to 72 per cent in 2012, were paid to seaborne employees, while approximately 25 per cent of such costs related to terminal employees. In the NAO's opinion, the lack of overtime authorisation referred to in the preceding paragraph and the considerable increase in overtime costs registered manifested in instances when employees of the GCCL recorded exorbitant hours of overtime. The NAO's concern in this regard was specifically drawn to an ICT Clerk who recorded 1,319 hours of overtime in 2010, and a Driver who, in 2011, registered 1,104 hours of overtime.

Recommendations

7.4.10 The NAO urges the GCCL to review the payroll-related errors identified in the report and, where in agreement, rectify accordingly. Erroneous payments wherein the GCCL employee was underpaid should be corrected; however, attention must also be directed towards the instances when the GCCL overpaid its employees and the prompt recovery of such dues followed through.

7.4.11 This Office considers the inclusion of break periods as part of the working hours as irregular and deems it necessary for the GCCL to take corrective action in this regard. The NAO is of the opinion that the official working hours must be extended to incorporate, at least, the minimum break period as stipulated in the Organisation of Working Time Regulations (L.N. 247 of 2003 as amended by L.N. 259 of 2012).

7.4.12 In light of the consistency of views expressed and reports reviewed in relation to the GCCL's level of staffing, the NAO encourages the Company to undertake an analysis of staff deployed across its various operations. Particular efficiency gains may exist in the reduction of safety manning levels for specific types of trips, such as cargo and night service crossings. In this regard, the NAO encourages the GCCL to instigate the review of such manning levels through coordination with TM, while bearing in mind the requirements as stipulated by the applicable international standards.

7.4.13 The NAO recommends that a more prudent approach is adopted by the GCCL in future revisions to salaries. The need for prudence is accentuated by the considerable payroll cost increases registered at the time when the Company was in a dire financial situation. The resort to personal contracts of employment, aside from those entered into with the GCCL senior management, should be avoided. Furthermore, the NAO urges the assimilation of such personal contracts to grades already established by virtue of the relevant collective agreements. Where posts regulated by personal contracts are not covered by such agreements, then the GCCL should make provisions to include such grades in future collective agreements.

7.4.14 In view of the absence of any formal system regulating the approval of overtime during the audit period, the NAO urges the GCCL to adopt a standardised procedure for the authorisation of overtime. The importance of implementing such a procedure is highlighted by the fact that during the period 2010 to 2012, overtime costs amounted to in excess of €1.8 million. The GCCL should only resort to overtime in cases of genuine need that ought to be determined by the exigencies of the service delivered. These exigencies should be determined by the GCCL's operational plan and duly reflected in staff rosters. The NAO is of the opinion that such measures would contribute towards the control of such expenditure and avoid instances where particular staff recorded excessive hours of overtime.

7.5 Revenue from Ticket Sales

7.5.1 The GCCL adopted two approaches in keeping track of passenger and vehicle traffic, namely the Veslog report and the P&V report.[13] Under the Veslog system of record-keeping, data relating to passenger and vehicle counts was recorded by the GCCL staff stationed at the Ċirkewwa and Mġarr terminals through the use of tally-counters. On the other hand, the Passenger and Vehicle Count (P&V) report was created directly from the ticketing system.

7.5.2 The NAO noted considerable discrepancies in traffic data recorded by the GCCL under the two systems. Comparison of the P&V Mġarr data to the Veslog Mġarr data indicated variances, with more passengers and vehicles registered in the Veslog Mġarr system than the P&V Mġarr system, bar vehicle traffic in 2011. The most acute discrepancy occurred in 2010, where approximately 35,000 more passengers and 7,000 more vehicles were recorded in the Veslog Mġarr report.

7.5.3 Comparing Veslog Mġarr data with Veslog Ċirkewwa data, the discrepancy between the two sources is more pronounced. Annual passenger traffic recorded in Ċirkewwa was consistently higher than that at Mġarr, particularly with respect to the years 2011, 2012 and 2014. Here, the discrepancy in terms of passengers ranged between an approximate 84,000 to 92,000. A similar trend was noted with respect to vehicle traffic, with the highest discrepancy recorded in 2014, where over 19,500 more vehicles were recorded at Ċirkewwa.

7.5.4 The comparison of P&V Mġarr data with Veslog Ċirkewwa data results in the largest discrepancies, with Veslog Ċirkewwa consistently reporting higher traffic figures. In essence, these discrepancies represent the aggregation of variances presented in the above two paragraphs. While the registered discrepancies are substantial in all years, the most significant variance in terms of passengers, at 106,000 passengers, was recorded in 2012. With regard to vehicle data, the most prominent discrepancy was noted in 2014, where a variance in excess of 21,000 vehicles was registered.

7.5.5 Applying weighted fare rates to the variances registered by the GCCL between the Mġarr-based P&V report and the Ċirkewwa Veslog results in significant potential yearly losses of ticketing revenue. With respect to the period 2010-2012 and 2014, the potential ticket revenue losses amounted to €1,451,159 in aggregate.

7.5.6 In seeking to understand the anomalies and inconsistencies that emerged in terms of passenger and vehicle-related traffic, the NAO held a number of meetings with the current and former GCCL senior management, who provided different explanations with respect to the highlighted discrepancies. Various possible explanations were put forward, including, human error, weak management control resulting in susceptibility to possible abuse by the GCCL's employees, the return trip effected by means of private tour boats thereby bypassing the Mġarr terminal, instances of faults in the software system, and the purchase of vehicles by Gozitan residents. An internal audit report reviewed by the NAO also highlighted other possible factors, such as passenger-related access control weaknesses and scanner-resetting issues.

7.5.7 Although the NAO acknowledges the possible differences in recorded figures attributable to these factors, the annual discrepancies are far too large to be explained in these terms. This Office maintains reservations regarding the integrity

[13] P&V data include manual ticket sales.

of passenger and vehicle related data and considers explanations put forward by the GCCL as improbable, as the consistency, magnitude and directionality of the error indicates otherwise. The discrepancy between Veslog Ċirkewwa figures and P&V reports indicates an average annual variance of over 95,000 passengers and 11,000 vehicles. These figures heighten the NAO's concerns and, in this Office's view, indicate a lack of sufficient control being implemented by the GCCL. The continuous nature of such significant variances should have drawn the GCCL management's attention, particularly in view of the materiality of lost revenue, estimated by this Office at €1.5 million over the four years reviewed.

7.5.8 The NAO reconciled the sale of tickets effected through the ATS with receipts from such tickets as recorded in the DCR. Receipts for the six sampled months amounted to €5.6 million and tallied with the value of tickets generated by the ATS. In addition, the NAO reconciled manual tickets, issued at times when the ATS is not operational, with stock movements and cash receipts. In total, the NAO tested six months where manual ticket sales amounted to €0.3 million and detected no irregularities in this sense.

7.5.9 The NAO reconciled the total cash received from the tickets sold against the total cash deposited for the sampled months. Through the reconciliation of cash received and deposited by the GCCL, it transpired that although the cash received from ticket sales within the sampled months was eventually deposited at the bank, there generally was a time lag before this was done. In fact, the average undeposited ticket sales for the months sampled ranged between €31,000 (17 ticket sellers) and €131,000 (16 ticket sellers). In the NAO's opinion, the failure to deposit cash receipts from ticket sales in a timely manner is unacceptable and good practice dictates that ticket sale receipts are deposited on a daily basis.

7.5.10 The GCCL indicated that, aside from claiming any discrepancies found, no further action was taken with respect to delays in the deposit of ticket sales. This Office deems this to be unacceptable because, as matters stand, nothing is actively done to deter delays in ticket sale deposits and prevent the inappropriate retention of ticket sale revenues by its employees. This Office noted that the balances unpaid to the GCCL were most pronounced in the case of a number of ticket sellers, who had an average of daily undeposited ticket sales for particular months as high as €27,394, €28,211 and €33,694. Somewhat more ambiguous was the case of a particular ticket seller who, at end March 2011, deposited €1,600 worth of sales that had not yet been realised, and therefore was effectively owed this amount by the GCCL.

7.5.11 Underscoring the NAO's concern with respect to the delay in ticket sale deposits and the inaction of GCCL in addressing such a situation was the case of a particular ticket seller who misled the Company through the under declaration of ticket sales for August and September 2012. During a reconciliation, the discrepancy was detected and this ticket seller apparently recalled that he had €9,700 in an attaché case, which was still short of the amount due by just over €3,000. The entire amount was eventually settled. Despite the seriousness of this shortcoming, the GCCL took no further action on the matter.

7.5.12 The NAO analysed whether family passes were being granted according to the established criteria, which pass effectively entitles the holder to the same reduced fare as that of a Gozo resident. This Office requested 192 applications, of which 91 were not provided by the GCCL. This Office expresses reservation at the GCCL's inability to retrieve the relevant application forms as this detracted from the NAO's ability to review such a process. In the majority of cases where the applications were submitted to the NAO, these satisfied the criteria and did not merit further analysis.

Notwithstanding the few cases deemed irregular by the NAO, this Office maintains that the risk of fraudulent applications remains high due to the lack of controls in place, specifically in terms of controls intended at establishing the link between the applicant and the persons listed as family members in their application.

Recommendations

7.5.13 The NAO is of the opinion that passenger and vehicle traffic data constitutes a critical source of management information, bearing direct impact on all aspects of the GCCL's operations. This data should serve as the basis for key decisions taken by the GCCL and therefore, inconsistencies in this sense undermine the reliability of intelligence on which such decisions are taken. The fact that different sources of traffic data are inconsistent with one another should serve as the impetus for the GCCL to investigate the underlying factors leading to such discrepancies. Certainly, inaccuracies in traffic data represent an indication of potential lost revenue which, given the discrepancies, could be significant.

7.5.14 To this end, the NAO recommends that the GCCL consider possible short-term and long-term solutions to rectify this situation. One possible short-term measure entails the introduction of a ticketing system at the Ċirkewwa terminal, which would ensure that no passenger boards the ferry without a paid ticket. This measure would address the loss in revenue experienced by the GCCL as a result of return journeys provided by tour boats.

7.5.15 In the NAO's view, other solutions of a more long-term nature essentially entail the full automation of ticketing-related processes, with specific reference hereby made to the purchase and validation of tickets. This Office is of the understanding that the main difficulty in the implementation of a fully automated system would relate to the considerable different fare categories and how the system would distinguish one from the other. In this regard, the NAO considers the utilisation of the e-ID as one possible way to implement this system. Alternatively, the introduction of frequent use cards may be considered, in line with those typically used in public transport systems, which approach could readily be supported by the introduction of online ticket purchase options. In concept, this card would represent an extension of the Daily Commuter Travel Card made reference to in the PSO agreement, effectively widening its scope of use.

7.5.16 The NAO recommends that the GCCL implements and enforces a strict policy where daily cash receipts from ticket sales are deposited on a daily basis. This Office is of the opinion that the Terminal Duty Manager tasked with overseeing each shift should be held responsible for the collection of all receipts. Furthermore, weekly reconciliations of tickets sold should be carried out without fail by the Accounts Department. The NAO considers such measures as an initial step that should be taken by the GCCL in ensuring that the ticket sellers do not unnecessarily retain the Company's cash receipts. Instances of serious irregularities should undoubtedly be dealt with strictly.

7.5.17 With reference to the issuance of family passes, the NAO recommends that the GCCL should retain records of such applications and ensure that verifications undertaken by the Company adequately ensure the eligibility of applicants to such passes.

Appendices

Appendix A – Trip and Passenger Numbers (detailed), 2010-2012

	2010	2011	2012
Number of Trips	20,008	19,816	19,515
Standard Fares			
Foot passengers	1,492,204	1,532,912	1,516,612
Car & Driver	376,290	381,720	361,714
Motorcycle & Rider	7,202	7,606	6,528
Child	155,206	155,742	150,530
Bicycle	2,248	2,234	2,128
Towed Trailer	2,574	2,694	2,574
NSTS Discount	848	352	126
Discount on Advert	20	14	-
Sub-total Standard Fares	**2,036,592**	**2,083,274**	**2,040,212**
Gozo Fares			
Gozo Resident Fare	927,586	969,372	975,390
Car & Driver	455,718	457,934	447,964
Motorcycle & Rider	7,566	8,904	8,964
Senior Fare	55,788	47,942	49,646
Senior Driver & Car	62,828	68,024	71,882
Senior Rider & Motorcycle	1,010	1,312	1,456
Sub-total Gozo Fares	**1,510,496**	**1,553,488**	**1,555,302**
Senior Fares			
Foot passengers	256,030	290,854	308,974
Car & Driver	53,206	57,796	55,382
Sub-total Senior Fares	**309,236**	**348,650**	**364,356**
Night Fares			
Passenger	10,538	17,880	22,644
Car & driver	4,568	7,610	9,944
Motorcycle & Rider	190	46	52
Sub-total Night Fares	**15,296**	**25,536**	**32,640**
Events/other	106	-	-
Winter Scheme Passengers	31,678	-	-
Winter Scheme Car & Driver	13,560	-	-
			-
Total Passengers/Vehicles	**3,916,964**	**4,010,948**	**3,992,510**
Commercial	53,858	55,256	56,740
Total Traffic	**3,970,822**	**4,066,204**	**4,049,250**

Appendix B – Methodology

1. This audit was carried out in terms of Para 9(a) of the First Schedule of the Auditor General and National Audit Office (NAO) Act, 1997 (Act XVI of 1997) and in accordance with generally accepted procedures and guidelines applicable to the NAO.

2. In order to establish a preliminary understanding, the audit team conducted a review of the documentation relating to the GCCL. This documentation included press coverage with respect to the GCCL, as well as the latest audited GCCL financial statements available at the time (2009 and 2010).

3. Once sufficient preliminary information was collected, the audit team examined the actual financial and operational performance of the GCCL in 2011 and 2012 in comparison to the projections put forward in the PSO tender bid. With respect to this particular objective, the audit team analysed the following documentation:

   a. MITC documents in connection with the tender for the provision of maritime transport services for goods and passengers between Malta and Gozo;
   b. the GCCL's financial and management accounts for 2010-2012 and the management accounts for 2014;
   c. the 2004 and 2011 PSO agreements;
   d. the MGI feasibility study on the hoistable deck for M.V. Ta' Pinu;
   e. the JV's bid for the provision of maritime transport services for goods and passengers between Malta and Gozo;
   f. GCCL Board Meeting minutes for 2010-2012, and various reports attached to these minutes;
   g. documents/memos/emails provided by interviewees;
   h. documentation regarding the variation in the vessel overhaul bill;
   i. correspondence with respect to efforts undertaken by the GCCL to hedge its fuel purchases; and
   j. a report prepared by PwC entitled 'Review of 2012 Budget'.

4. Semi-structured interviews were utilised to collect further information regarding relevant issues pertinent to the GCCL and identify the context and causes behind the variances resulting from the actual financial and operational performance of the GCCL in 2011 and 2012 and the projections put forward in the PSO tender bid. The audit team held meetings with the incumbent GCCL Chair and Financial Controller, three former Chairs, one of whom occupied the role in an acting capacity, and representatives from PwC. The audit team recorded these meetings, and the minutes were sent to the interviewees for their verification. Whenever deemed necessary, the NAO requested supplementary documentary evidence in order to corroborate the feedback collected. Such interviews aided the NAO to form an opinion on whether due diligence was exercised in the PSO tender bid submission.

5. A range of information sources and techniques was utilised to carry out an examination pertaining to the other objective of this investigation, that is, the operations of the GCCL for the years 2010 to 2012. With respect to this part of the audit, the review focused on aspects of the GCCL's trade receivables and payables, payroll, fuel and ticketing.

6. In order to evaluate whether the GCCL was able to settle its short-term and long-term debts, as well as other obligations, the audit team examined the Company's

financial statement information by computing and analysing a number of liquidity and solvency ratios.

7. Furthermore, the audit team reviewed the salary details for all the GCCL employees for the years 2010 to 2012. Employees were stratified into three categories: those paid fortnightly, those paid on a four-weekly basis, and management and administration employees. A random sample of employees per category was selected for two months for each year from 2010 to 2012: January and May 2010, March and August 2011, and May and September 2012, using a 10 per cent confidence interval and 95 per cent confidence levels. This selection of months is hereinafter referred to as the sampled months and served as the basis for other testing carried out, unless otherwise specified.

8. With reference to particular aspects of payroll-related testing, the Office deemed it unfeasible to review all employees within the original sample. Therefore, the NAO limited its testing to 20 cases out of the 35 highest paid employees in terms of the aggregation of annual overtime, allowances and other payments relating to the number of hours worked. This process was repeated for one month out of each of the three years in the audit period, namely May 2010, August 2011 and September 2012. The type of sample selected for each particular analysis this Office conducted is indicated in the relevant section of the report.

9. With respect to the sampled employees, the NAO examined the following documents:

   a. yearly payslip summaries, salary details information and individual payslips for the months sampled; and
   b. yearly clocking in and out records, which included records of all absences from work (such as vacation leave, sick leave, and duty abroad).

10. This Office also examined other documents with respect to this component of the audit:

   a. the collective agreements covering the period 1 January 2010 to 31 December 2012: two agreements for Seaborne Officers covering the periods 1 January 2005 to 31 December 2011 and 1 January 2012 to 31 December 2016, and two for Other Officers covering the periods 1 January 2006 to 31 December 2008 and 1 January 2012 to 31 December 2015;
   b. the individual contracts with respect to the GCCL employees in various grades serving between 1 January 2010 and 31 December 2012;
   c. documentation regarding the remuneration to Board Members;
   d. a database of all the GCCL employees between 1 January 2010 and 31 December 2012, indicating their date of birth, grade, date of employment, employment status (full-time, part-time, reduced), tax computation details (single or married), and date of termination of employment (where applicable);
   e. payer's annual reconciliation statements (FS7 form) for the period 2010 to 2012; and
   f. the annual payroll reports for 2010 to 2012.

11. Testing was carried out to ensure that the actual amount paid in terms of basic salary was in line with the terms stipulated in the relevant collective agreement or individual contract, and whether applicable deductions, such as fringe benefits tax, were being effected. This Office also analysed the clocking records of the sample of employees selected in order to check whether the amount of hours clocked tallied with the amount of hours (including overtime, Sundays, public holidays and nights) paid for. Furthermore, the audit team examined whether the GCCL paid overtime and

allowances according to the sampled employees' contract or collective agreement through the verification of the amounts paid. The NAO also analysed whether the yearly tax paid by the sampled employees was computed correctly.

12. The audit also explored the factors affecting the GCCL's staffing levels. Of particular relevance to this part of the audit was:

    a. A preliminary report by MICS, dated 25 July 2014, which analysed the manning levels at the GCCL through a review of the Company's staff complement as well as daily passenger/vehicle data; and
    b. A document by MIMCOL, dated 8 August 2014, which outlined proposals for an operational review and HR restructuring at the GCCL.

13. With respect to the aspect of ticketing revenue, the audit team analysed the number of passengers utilising the ferry service and tickets sold by the GCCL, directing particular attention to the discrepancies between the different sources of data. The audit team also analysed whether 'family passes' were being granted according to the established criteria. In this regard, the NAO analysed the application forms corresponding to three random samples that were categorised according to the year of issue (2010, 2011 and 2012). The analysis was carried out through the Government of Malta's Common Database (CdB), which was utilised to ascertain the veracity of the information submitted in the application form. The audit team also reconciled the sale of tickets from the ATS with revenue received from such sales as recorded in the DCR. This analysis was undertaken with respect to the sampled months. The NAO also analysed whether the manual ticket opening stock and closing stock reconciled with the amount of manual tickets sold, and whether the cash received reflected the sale of these manual tickets. This analysis was carried out with respect to the two months having the highest manual ticket sales during each particular year (March and April 2010, April and June 2011, September and October 2012). This Office also reconciled the total cash received and total cash deposited for the sampled months.

14. The documentation utilised by the NAO with respect to the audit of ticketing revenue, and issues related thereto, included:

    a. the GCCL's ticketing system contract;
    b. ticket sales, trip statistics and rebate schedules for 2010 to 2012;
    c. the daily lists of sales made by each individual seller and the electronic daily lists issued;
    d. sample deposit slips showing the deposits made for each month;
    e. a log showing the daily movements of manual tickets;
    f. the GCCL daily and monthly cash reports;
    g. transaction lists extracted from the GCCL's accounting system indicating deposits from ticket sales; and
    h. lists of persons having a family pass and the selected sample's application forms.

15. With respect to the review of fuel procured by the GCCL, the NAO examined the fuel tender process and the agreements the GCCL entered into with respect to fuel procurement, as well as disputes arising with suppliers. The audit team also investigated issues relating to the verification of quality, quantity and price of the fuel procured. This review was based on a sample of fuel purchases and entailed verifications with contracts and documentation that the GCCL provided in relation to such purchases. The audit team also carried out an analysis of the fuel consumption levels of the three vessels utilised by the GCCL in relation to the following factors:

    a. monthly average fuel consumption per engine hour for each of the vessels;
    b. daily average fuel consumption per engine hour for all vessels;

c. weather conditions; and
d. average duration of trips.

16. Specific documentation utilised by the NAO in its review of fuel procurement undertaken by the GCCL included:

a. Department of Contracts documents in relation to the issuing and evaluation of the GCCL's fuel tender;
b. fuel purchases for 2010 to 2012, including disputed amounts and relevant documentation;
c. fuel consumption reports;
d. fuel contracts entered into by the GCCL;
e. documents certifying the quality and quantity of fuel received; and
f. delivery notes, invoices and receipts, and location of bunkering.

Appendix C – Comparison of Variance between Number of Trips and Passenger Numbers Projections and GCCL Actual Figures (detailed), 2011-2012

	2011			2012		
	Actual	Projection	Variance	Actual	Projections	Variance
Number of Trips	19,816	19,920	(104)	19,515	19,920	(405)
Standard Fares						
Foot Passengers	1,533,278	1,552,000	(18,722)	1,516,738	1,598,000	(81,262)
Car & Driver	381,720	399,000	(17,280)	361,714	415,000	(53,286)
Motorcycle & Rider	7,606	8,000	(394)	6,528	8,000	(1,472)
Child	155,742	161,000	(5,258)	150,530	165,000	(14,470)
Bicycle	2,234	-	2,234	2,128	-	2,128
Towed Trailer	2,694	-	2,694	2,574	-	2,574
Sub-total Standard Fares	**2,083,274**	**2,120,000**	**(36,726)**	**2,040,212**	**2,186,000**	**(145,788)**
Gozo Fares						
Gozo Resident Fare	969,372	965,000	4,372	975,390	1,003,000	(27,610)
Car & Driver	457,934	479,000	(21,066)	447,964	498,000	(50,036)
Motorcycle & Rider	8,904	8,000	904	8,964	8,000	964
Senior Fare	47,942	58,000	(10,058)	49,646	60,000	(10,354)
Senior Driver & Car	68,024	66,000	2,024	71,882	68,000	3,882
Senior Rider & Motorcycle	1,312	1,000	312	1,456	1,000	456
Sub-total Gozo Fares	**1,553,488**	**1,577,000**	**(23,512)**	**1,555,302**	**1,638,000**	**(82,698)**
Senior Fares						
Foot passengers	290,854	307,000	(16,146)	308,974	353,000	(44,026)
Car & driver	57,796	57,000	796	55,382	61,000	(5,618)
Sub-total Senior Fares	**348,650**	**364,000**	**(15,350)**	**364,356**	**414,000**	**(49,644)**
Night Fares						
Passenger	17,880	16,000	1,880	22,644	21,000	1,644
Car & driver	7,610	6,000	1,610	9,944	7,000	2,944
Motorcycle & rider	46	-	46	52	-	52
Sub-total Night Fares	**25,536**	**22,000**	**3,536**	**32,640**	**28,000**	**4,640**
Events/other	-	6,000	(6,000)	-	6,000	(6,000)
Winter scheme	-	45,000	(45,000)	-	45,000	(45,000)
Total Passengers/ Vehicles	**4,010,948**	**4,134,000**	**(123,052)**	**3,992,510**	**4,317,000**	**(324,490)**
Commercial	55,256	57,000	(1,744)	56,740	59,000	(2,260)
Total traffic	**4,066,204**	**4,191,000**	**(124,796)**	**4,049,250**	**4,376,000**	**(326,750)**

Appendix D – Comparison of Variance between Ticketing Revenue and GCCL Actual Figures (detailed), 2011-2012

	2011			2012		
	Actual (€)	Projections (€)	Variance (€)	Actual (€)	Projections (€)	Variance (€)
Standard Fares						
Foot Passengers	3,564,823	3,608,000	(43,177)	3,526,400	3,716,000	(189,600)
Car & Driver	2,996,471	3,130,000	(133,529)	2,839,438	3,255,000	(415,562)
Motorcycle & Rider	30,994	31,000	(6)	26,602	32,000	(5,398)
Child	89,552	93,000	(3,448)	86,555	95,000	(8,445)
Bicycle	1,285	-	1,285	1,224	-	1,224
Towed Trailer	18,791	-	18,791	17,954	-	17,954
Sub-total Standard Fares	**6,701,916**	**6,862,000**	**(160,084)**	**6,498,173**	**7,098,000**	**(599,827)**
Gozo Fares						
Gozo Resident Fare	557,389	555,000	2,389	560,849	577,000	(16,151)
Car & Driver	1,866,081	1,950,000	(83,919)	1,825,453	2,028,000	(202,547)
Motorcycle & Rider	20,702	18,000	2,702	20,841	19,000	1,841
Senior Fare	-	-	-	-	-	-
Senior Driver & Car	236,383	229,000	7,383	249,790	236,000	13,790
Senior Rider & Motorcycle	2,263	1,000	1,263	2,512	1,000	1,512
Sub-total Gozo Fares	**2,682,818**	**2,753,000**	**(70,182)**	**2,659,445**	**2,861,000**	**(201,555)**
Senior Fares						
Foot Passengers	-	-	-	-	-	-
Car & Driver	319,323	317,000	2,323	305,986	337,000	(31,014)
Sub-total Senior Fares	**319,323**	**317,000**	**2,323**	**305,986**	**337,000**	**(31,014)**
Night Fares						
Passenger	36,207	32,000	4,207	45,854	42,000	3,854
Car & Driver	48,704	38,000	10,704	63,642	44,000	19,642
Motorcycle & Rider	160	1,000	(840)	181	1,000	(819)
Sub-total Night Fares	**85,071**	**71,000**	**14,071**	**109,677**	**87,000**	**22,677**
Events/Other	-	24,000	(24,000)	-	25,000	(25,000)
Winter Scheme	-	83,000	(83,000)	-	86,000	(86,000)
Commercial	1,140,755	1,214,000	(73,245)	1,148,339	1,256,000	(107,661)
Frequent Traveller Cards	189,834	44,000	145,834	187,378	46,000	141,378
Discounts	(95,843)	-	(95,843)	(36,992)	-	(36,992)
Total revenue inc. VAT	**11,023,874**	**11,368,000**	**(344,126)**	**10,872,006**	**11,796,000**	**(923,994)**
Total revenue excl. VAT	**10,166,065**	**10,477,000**	**(310,935)**	**10,034,371**	**10,869,000**	**(834,629)**

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