Report by the

Auditor General

Public Accounts

N A O
National Audit Office
MALTA

Annual Audit Report

Public Accounts 2016

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List of Abbreviations

AAR	Annual Audit Report
AG	Attorney General
AIIB	Asia Infrastructure Investment Bank
ARR	Arrears of Revenue Return
AWAS	Agency for the Welfare of Asylum Seekers
BO	Budget Office
CBM	Central Bank of Malta
CFMS	Corporate Financial Management System
CoJ	Courts of Justice
CPD	Civil Protection Department
CPSU	Central Procurement and Supplies Unit
CSF	Civil Society Fund
CVA	Controlled Vehicular Access
DAS	Departmental Accounting System
DC	Department of Contracts
DCS	Director Corporate Services
DMD	Debt Management Directorate
DO	Direct Order(s)
DOC	Department of Customs
DS	Detention Service
DSO	Detention Service Officer
DSS	Department of Social Security
EAMS	Euro Area Member States
EBU	Extra Budgetary Units
EFSF	European Financial Stability Facility
EU	European Union
FMS	Fleet Management System
FR	Financial Report
FRA	Fiscal Responsibility Act
FS	Financial Statements
FSS	Final Settlement System
FS3	Payee Statement of Earnings
FS7	Payer's Annual Reconciliation Statement
GBMPDMA	Government Borrowing and Management of Public Debt Management Act
GDP	Gross Domestic Product
GHRC	Grand Harbour Regeneration Corporation
GPD	Government Property Division
IPSAS	International Public Sector Accounting Standards
IRD	Inland Revenue Department
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
JC	Junior College

LES	Local Enforcement System
LESA	Local Enforcement System Agency
LN	Legal Notice
MATS	Malta Air Traffic Services Ltd
MCA	Malta Communications Authority
MCDMS	Ministry for Competitiveness and Digital, Maritime and Services Economy
MCVS	Malta Council for the Voluntary Sector
MDH	Mater Dei Hospital
MEDE	Ministry for Education and Employment
MFA	Ministry for Foreign Affairs
MFC	Malta Film Commission
MFIN	Ministry for Finance
MFSS	Ministry for the Family and Social Solidarity
MGI	Malta Government Investments Ltd
MGOZ	Ministry for Gozo
MGS	Malta Government Stocks
MHAS	Ministry for Home Affairs and National Security
MITA	Malta Information Technology Agency
MPA	Malta Police Association
MPF	Malta Police Force
MPGF	Malta Police General Fund
MSDC	Ministry for Social Dialogue, Consumer Affairs and Civil Liberties
MSE	Malta Stock Exchange
MTI	Ministry for Transport and Infrastructure
NAO	National Audit Office
NSO	National Statistics Office
OECD	Organisation for Economic Co-operation and Development
ORC	Other Ranks Canteen
PACBU	Public Administration Collective Bargaining Unit
PDMAC	Public Debt Management Advisory Committee
PMR	Private Mobile Radio
PO	Purchase Order
PPR	Public Procurement Regulations
PSMC	Public Service Management Code
SSC	Social Security Contributions
SEPA	Single Euro Payments Area
TM	Transport Malta
TOIL	Time Off In Lieu
UoM	University of Malta
VAT	Value Added Tax
VERA	Vehicle Registration and Administration System
VOPS	Voluntary Organisations Project Scheme
VRN	Vehicle Registration Number
WAM	Weighted Average Maturity

Guide to using this Report

As a result of the various Financial and Compliance audits carried out by the National Audit Office, the Auditor General is hereby presenting separate Audit Opinions, on the financial and compliance audits respectively, to the House of Representatives.

In line with normal practice, we sought to spread our reviews across Government Ministries and Departments or across Government-wide activities in accordance with the NAO Annual Audit Programme drawn up from year to year. We have also attempted to make this Report as user friendly as possible and thus have tried to adopt common language, although this was not always possible due to the technicality of some of the issues raised.

This Report is presented by ministerial portfolios as featuring in the Government of Malta Financial Estimates 2016, each containing either the Ministry itself, or one or more Departments or Entities which were the subject of our review. Most audit reports under the ministerial portfolios have the following structure:

Background

Includes a brief description of the relevant activities, roles and operations of the respective Ministry, Department or Entity under review. Where applicable, it may also include new legislation governing such Entity.

Good Practice

Makes reference to any areas where the NAO expressed satisfaction on full compliance, solely in respect of specific areas subjected to audit review, and where this was applicable.

Key Issues

Highlight any material findings or outcomes of our audit and any major developments impacting on the respective Ministry, Department or Entity.

Control Issues

Outline any shortcomings that came to our attention relating to the Ministry's or Department's internal control and internal checking mechanisms. These controls are expected to be in place so as to serve as an effective safeguard of public assets and resources.

Compliance Issues

Summarise instances whereby the relative Ministry, Department or Entity lacked compliance with effective legislation, standing General Financial Regulations and/or Circulars issued from time to time.

Recommendations

This is the most important part of our Report since ultimately our principal objective is to ensure that public resources are used in the best manner possible, in line with existing public finance management rules and regulations. Thus, it outlines our suggestions to the respective Ministries and Departments, to encourage them to address any weaknesses that came to our attention, as well as to consolidate and improve upon the management and proper discharge of public funds. In general, our recommendations are aimed at improving the internal control systems, addressing areas where there is lack of compliance with pertinent rules and regulations, and promoting good practice in the best interest of the taxpayer.

Management Comments

Seek to include, in as comprehensive a manner as possible, the Management's reaction to the NAO's comments and action taken, or planned to be taken, so as to address in a timely manner the issues and any shortcomings identified.

Executive Summary

The **Financial Report** (page 15), incorporating Financial Statements and Accounts for the year 2016, was submitted by the Accountant General in terms of the Financial Administration and Audit Act, 1962. Following examination, in terms of the Auditor General and National Audit Office Act, 1997, it is emphasised that:

- Letters of Comfort and Bank Guarantees reached almost €1.5 billion. These may translate into dues by Government should the companies call upon the former to make good for their debts;

- excesses of actual over budgeted figures of various items of Expenditure were once again reported, these being similar to those reported last year. Four Ministries reported an excess in both their Capital and Recurrent Votes. The reasons for these reoccurrences are being noted accordingly;

- a detailed statement showing outstanding Advances made to various Government Departments, Agencies and Organisations is being provided, including the Ministry for Finance's plans to have such amounts settled. Pending advances at year-end totalled €76 million, of which €49.4 million will continue to be repaid from public funds out of an annual budgetary provision;

- following the enactment of the Government Borrowing and Management of Public Debt Management Act in July 2017, a number of measures will be implemented by Treasury thereby introducing a risk management framework with supporting Information Technology systems, together with a code-of-conduct and conflict-of-interest rules for debt management officers. An overview of Government's strategy on public debt during 2016 is also outlined;

- the Government is in the process of implementing within Central Government, a system of accrual accounting based on the International Public Sector Accounting Standards (IPSAS) as adopted by the Maltese Government. To date, six Draft IPSAS along with the relative User Guidelines, have been published, whilst seven others are in the process of being presented to the related stakeholders; and

- the move towards accruals-based accounting necessitated the introduction of a core Corporate Financial Management System. Following the tender process, the contract with the selected service provider was signed and the related timescales through three phases have been set. The total estimated cost is €11.6 million, out of which €10.87 million are eligible for the European Regional Development or European Social funds.

Shortcomings were noted by the NAO in relation to the collation and reporting of **Creditors** as at 31 December 2016 while testing the submissions of four different Ministries. Creditors' year-end balances were not all in agreement with third-party confirmations. Furthermore, creditors' balances were not reported in full in both the annual Creditors' and Accrued Expenditure Returns submitted to the Treasury Department, whilst a number of errors were noted in the total list making up the amount reported. (pages 73, 119, 131,153)

Though disbursements from public funds on **Church Schools** almost doubled over a 10-year period, from €32 million to €63 million, it was not possible for the NAO to verify whether such expenditure was duly authorised and properly accounted for, due to the various limitations in the audit trail. (page 78)

From a physical inspection carried out in a number of **Gozo Schools** it was noted that there was lack of control over inventory items. (page 86)

An audit on the collection of annual circulation licence fees by **Transport Malta** and the procedures for the collection of dues in relation to contravention tickets implemented by the **Local Enforcement System Agency** revealed a number of shortcomings in relation to the latter. In particular, the controls in relation to the chasing of debts resulting from contraventions due on scrapped and garaged vehicles, were weak. Additionally, no procedures were in place to address the collectability of dues still pending upon the transfer of vehicles. This was also the case whenever relevant instalments in fulfilment of payment agreements were not made as stipulated. The NAO is concerned about the inherent risk created by the fact that temporary lifting of contravention tickets is done by the external supplier, coupled with the fact that the LES is not in a position to extract the report of such instances itself. (page 104)

The NAO is satisfied that procedures in relation to the tendering process of selected projects carried out by the **Grand Harbour Regeneration Corporation** were in place and in their majority adhered to. A number of shortcomings in relation to Contract for Service Agreements awarded by the Corporation were noted by the NAO during the year under review. (page 113)

Significant delays were noted in the transfer of funds emanating from fees collected on behalf of Government by the **Malta Communications Authority**. Furthermore, in several cases, no independent verifications were being carried out on information submitted by operators with respect to equipment held. (page 126)

Although the Central Procurement and Supplies Unit within the Ministry for Energy and Health adopt cost efficient measures in relation to **Medicines and Surgical Materials** expenditure, the actual consumption depends entirely on requests generated from different entities, which are not ultimately held accountable for a pre-established budgetary provision. (page 136)

No major changes were made to the terms and conditions of the contract for the management of the car park at **Mater Dei Hospital** which was effective from 1 August 2007. The main shortcomings emanating from the service concession contract split was not addressed and consequently the Government continued to lose substantial amounts of revenue. (page 142)

While the Government is paying significant amounts of money to film production companies by way of cash rebates with very good results in so far as film production in Malta is concerned, verifications carried out at the **Malta Film Commission** concluded that effective controls are not in place to ensure that income attributable to Government in the form of tax payable is actually paid in full. (page 164)

The main concern identified from an audit at the **Malta Air Traffic Services Ltd** related to the complete reliance on an intergovernmental organisation, namely the Eurocontrol, for the collection of income associated to the provision of air navigation services. (page 172)

From verifications carried out during an audit of expenditure at the **Detention Service** within the Ministry for Home Affairs and National Security, it transpired that internal controls in the payroll process were lacking, indicating that there was minimal monitoring, if at all, to ensure effective management of human resources. (page 180)

Although there was a net surplus position at the end of 2016, the **Malta Police General Fund** was still in an unstable financial situation. Furthermore, the payment of mandatory contributions by members of the Police Force was still being effected by cash, rather than through more effective options available. (page 199)

A review of the **Arrears of Revenue** Return for 2016 submitted by Ministries/Departments in terms of Treasury Circular No. 3/2017, revealed that 59% of the reported gross arrears of revenue of approximately €3 billion, were deemed to be statute-barred (€1,735,551,471). A further €177 million are under contestation, 91.5% of which pending Court action. Furthermore, information submitted reported that an amount of €40,044,002 was collected during January 2017, with a resulting unpaid net balance of €516,189,727, representing an increase of 29% over the same amount as at 31 January 2016. (page 206)

A clean audit opinion was issued following the financial audit on the Financial Statements of the **Co-operatives Board** for the year ended 31 December 2016. Few issues, of a compliance nature, were also noted. (page 226)

Financial Audit Opinion

Opinion on the Financial Audit to the House of Representatives

Audit Mandate

As stipulated by Article 108(5) of the Constitution of Malta and para. 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997, I am hereby reporting on the presentation of the statements and accounts prepared by the Accountant General in fulfillment of the provisions of Article 67 of the Financial Administration and Audit Act, 1962, for the financial year under review.

We consider the primary users of the statements and accounts to be Parliament and the Public Accounts Committee.

Respective Responsibilities of the Accountant General and Accounting Officers

As determined by the Financial Administration and Audit Act, 1962, the onus for the proper discharge of financial administration and the preparation of statements and accounts rests with the Accountant General and the Accounting Officers. They are also responsible for institution and application of such internal controls as deemed necessary, to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and to ensure that the audited entities' operations are in accordance with the pertinent rules and regulations.

These officers are entrusted with the sound management of public funds. They are therefore to demonstrate transparency, accountability and integrity in their actions, and are to exercise good governance for the resources with which they are entrusted.

Auditor's Responsibilities

The NAO's responsibility is to obtain reasonable, rather than absolute, assurance as to whether statements and accounts of Government Ministries and Departments, as well as of other entities that were subject to audit, are free from material misstatement. Thus it is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA) will always detect material misstatements, arising from fraud or error.

Basis for Opinion

We conducted our financial audit in accordance with the relevant ISAs, the applicable public sector perspective provisions, and in line with the NAO's auditing practices.

An audit of financial statements involves performing procedures to enhance the degree of confidence that intended users have in the financial statements and accounts under review. The procedures selected depend on the auditors' judgement, which entails the assessment of risk, evaluation of internal controls, consideration of sensitivity of particular areas and other qualitative factors, as well as the assessment of materiality in terms of value, nature or context in which it occurs.

We have complied with independence requirements in accordance with the International Standard of Supreme Audit Institutions (ISSAI) 30 *Code of Ethics* and NAO *Code of Professional Conduct* and have fulfilled my ethical responsibilities in accordance with such codes. I have also adhered to avoidance of conflict of interest regulations as stipulated by Article 108(3c) of the Constitution of Malta and fulfilled the independence requirement in accordance with Article 108(12) of the aforementioned Constitution.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion, which only draws on conclusions upon areas that have been examined.

Opinion

Clean Opinion

In my opinion, the statements and accounts subjected to our audit were fairly presented in accordance with the stated accounting policies applicable to the public sector by the Government of Malta.

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

A separate audit opinion is being published dealing with the compliance aspect.

Charles Deguara
Auditor General
29th November 2017

Financial Report

Analysis of the Financial Report 2016

Introduction

Statements of the Consolidated Fund Account, showing the comparative positions in 2015 and 2016, and the receipts and payments of funds created by law, were laid on the Table of the House of Representatives during Sitting No. 501 on 3 April 2017, after being reconciled with Treasury Books by the Auditor General in accordance with Sub-para. 1(c) of the First Schedule of the Auditor General and National Audit Office (NAO) Act, 1997.

The Financial Report (FR) statements and accounts for year 2016 were submitted by the Accountant General in terms of Article 67 of the Financial Administration and Audit Act, 1962, and were examined in terms of Sub-para. 1(e) of the First Schedule of the Auditor General and NAO Act, 1997. The Report was laid on the Table of the House of Representatives during Sitting No. 8 on 3 July 2017 of the Thirteenth Legislature.

Further details of Government financial operations can be found by making reference to both the Annual Financial Statements (FS) and the FR for 2016.

Consolidated Fund Statement – 2016

As detailed in Article 102(1) of the Constitution of Malta, the Consolidated Fund incorporates all moneys raised or received by the Government of Malta, not being revenues or other moneys payable into some other fund, being a fund established by or under any law, for the time being in force in Malta for a specific purpose. All disbursements out of the Consolidated Fund are authorised by means of Appropriation Acts of Parliament, which include the Supplementary Estimates.

The House of Representatives approved the year 2016 Budget (Estimates) for an expenditure of €4,362,543,000, as authorised by Warrant No. 1 of 2016 issued on 23 December 2015, and a further €158,474,000 approved by Supplementary Estimates Warrant No. 2 of 2016 dated 19 December 2016. Following the closure of the 2016 Accounts, actual expenditure amounted to €4,356,210,000, which resulted into an excess of revenue of almost €62 million, as detailed in Table 1, leading to an end-of-year consolidated negative balance of €108,168,000.

Table 1: Consolidated Fund 2016

	Estimated (Original & Supplementary)		Actual	
	€'000's	€'000's	€'000's	€'000's
Opening Consolidated Balance as on 1 January 2016				(170,138)
Revenue				
Ordinary (incl. Grants)	3,613,244		3,806,963	
Capital	612,875	4,226,119	611,216	4,418,179
Expenditure				
Recurrent	(3,328,803)		(3,264,338)	
Public Debt Servicing	(768,705)		(768,579)	
Capital	(423,509)	(4,521,017)	(323,293)	(4,356,210)
Net Cash Flow		(294,898)		61,969
Closing Consolidated Balance as on 31 December 2016				**(108,168)**

Figures in Statement may not add up due to rounding.
(Source: FR 2016, page xv)

Table 2 hereafter shows the same end-of-year consolidated balance, highlighting figures relating to the Surplus for 2016, amounting to €8,870,000, as well as the financing of present Foreign and Local Loans, totalling €544,803,000. This led to a total Public Sector Borrowing Requirement of €535,932,000. The issue of new Local Loans amounted to €597,902,000.

Table 2: Consolidated Fund 2016

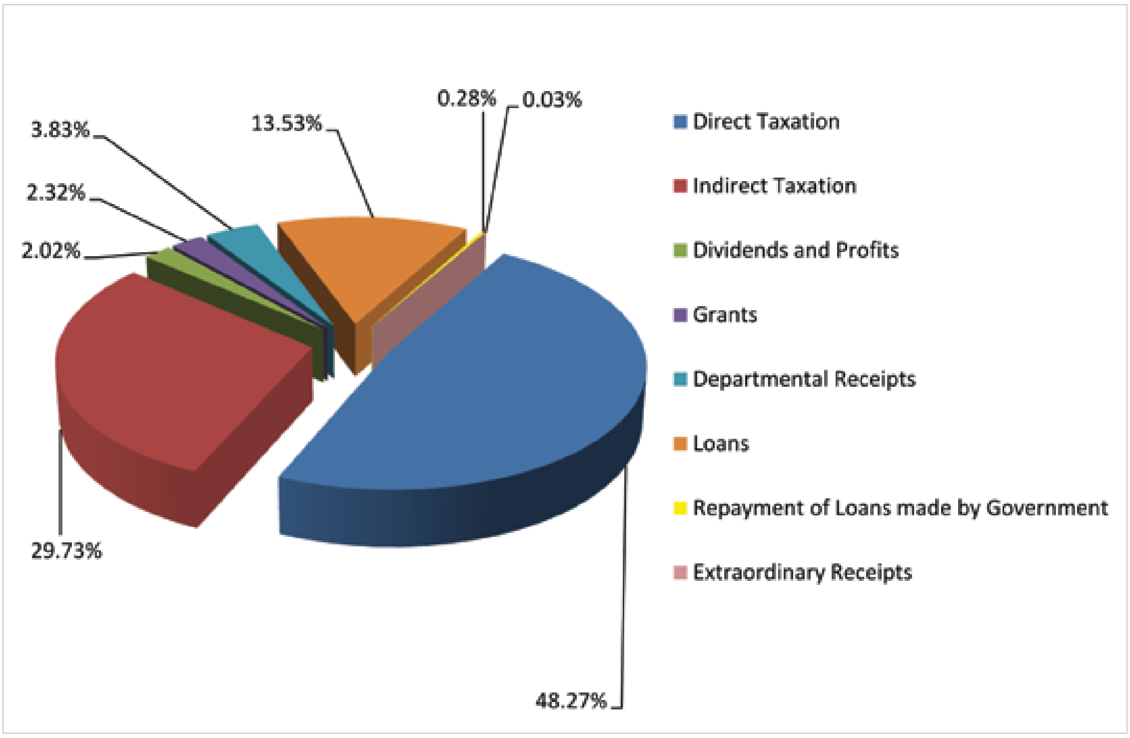
	2016	
	€'000's	€'000's
Total Recurrent Revenue		3,806,963
Total Recurrent Expenditure	(3,487,792)	
Capital Expenditure	(310,300)	
Overall Expenditure		(3,798,092)
Surplus		8,870
Financing (excluding New Loans)		
Foreign	(6,465)	
Local	(538,338)	
Total Financing		(544,803)
Public Sector Borrowing Requirement		(535,932)
Opening Consolidated Balance as on 1 January 2016	(170,138)	
Local Loans Issuance	597,902	
		427,764
Closing Consolidated Balance as on 31 December 2016		**(108,168)**

Figures in Statement may not add up due to rounding.
(Source: FR 2016, page xvii)

Revenue

Actual Total Revenue collected during 2016 amounted to €4,418,179,000, representing a 6.5% increase over the previous year. Chart 1 hereafter shows the different categories of Revenue as a percentage of Total Consolidated Revenue.

Chart 1: Revenue by Category as a percentage of Total Revenue



(Source: FR 2016, page xx)

Details of Revenue collected during 2016, classified by heads and subheads, as compared with the Estimates, are shown in FR pages xxi to xxiii, including reasons justifying variation.

For the financial year 2016, it transpired that the Grand Total Variation in Revenue amounted to a favourable variance of €192,060,000, as compared to €54,155,000 in 2015.

Some of the major recognised variances are listed in Table 3. Explanations for these variances, were provided by the Ministry for Finance (MFIN).

Table 3: Major Variances in Revenue for Financial Year 2016

Revenue	Budget Estimates €'000's	Actual €'000's	Variation €'000's
Tax Revenue			
Direct:			
Income Tax	1,206,700	1,328,270	121,570
Indirect:			
Excise Duties *of which* Tobacco	9,930	3,552	(6,378)
Licences, Taxes and Fines *of which* Duty on Documents	94,000	135,326	41,326
Non Tax Revenue			
Fees of Office *of which* Individual Investor Programme	24,000	51,461	27,461
Miscellaneous Receipts *of which* Sale of Government Lands, etc.	14,850	5,493	(9,357)

(Source: FR 2016, pages xxi-xxiii)

Reasons for Variations

Direct Tax Revenue – Income Tax

The favourable variance arose mainly due to enhanced enforcement and an increase in employment, in line with economic growth. The actual increase exceeded the element factored in the related budget estimation. Upon enquiry, the Budget Office (BO) affirmed that the total amount of arrears collected in year 2016 for 2015 and preceding years, amounted to €92.4 million. However, the NAO noted that this figure did not tally with the amount reported by the Inland Revenue Department in its Annual Return of Arrears.

Following checks with the Department regarding the discrepancy, the BO was informed about the different methodologies applied. The Annual Return of Arrears for 2016 includes an estimate of FSS Tax, apart from FSS SSC, pertaining to December 2015, whilst such amounts are not included in the Fiscal Responsibility Act (FRA) reports. Apart from this, Capital Transfer Duty, if one considers the total, is not included in the FRA report either. The NAO was informed that MFIN shall be engaging with the Department with a view towards encouraging it to apply the same methodology in future.

Indirect Tax Revenue – Excise Duties (Tobacco)

Less excise than estimated was registered as duty on tobacco, resulting in an adverse variance amounting to €6,378,000. MFIN confirmed that this was due to a misclassification at budget presentation time, in that expected revenue under excise duty on machine-made cigarettes was erroneously shown under excise duty on tobacco. On the other hand, the actual revenue during the year was subsequently recorded under the proper item.

Licences, Taxes and Fines – Duty on Documents

The upsurge in revenue arising from Duty on Documents resulted from an increase in the number of contracts and the corresponding total value over 2015. The favourable variance of €41,326,000 outweighed the corresponding element factored into the original estimates.

Non Tax Revenue – Fees of Office (Individual Investor Programme)

Higher revenue under Fees of Office was generated from the Individual Investor Programme. As the year progressed, it transpired that actual proceeds were higher than the amounts estimated at budget time. In fact, during 2016, 265 applications were successfully processed, resulting in a €27,461,000 revenue improvement in the Consolidated Fund.

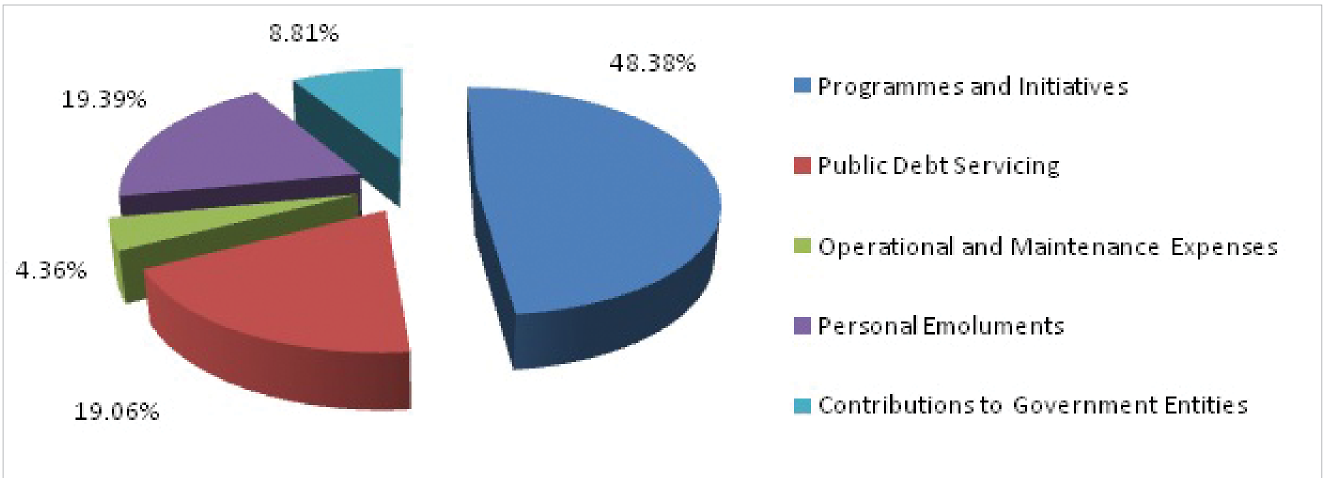
Miscellaneous Receipts (Sale of Government Lands, etc.)

The adverse variance in revenue collected from sale of Government lands of €9,357,000 was partially compensated by favourable variances in other categories under Miscellaneous Receipts. MFIN confirmed that according to the Government Property Division (GPD), the shortfall arose mainly due to the fact that as from January 2016, the Division was under investigation regarding cases of sale of land and property contracts. Due to such circumstances, all tender procedures were suspended especially those regarding the sale of land, thus leading to a drop in sales. Furthermore, all files were being scrutinised by a Commission, in order to determine those cases which could be processed. This led to adverse repercussions on the revenue from sale of land in 2016.

Expenditure

The Total Recurrent Expenditure during 2016 amounted to €4,032,916,656, representing a 10% increase over the previous year. The amount includes €768,578,778 in relation to Public Debt Servicing. Chart 2 hereafter shows the different categories of Expenditure as a percentage of Total Recurrent Expenditure.

Chart 2: Recurrent Expenditure by Category as a percentage of Total Recurrent Expenditure



(Source: FR 2016, pages xxiv-xxvi)

During 2016, a Total Capital Expenditure amounted to €323,293,000 as opposed to €622,540,000 in 2015.

The appropriations for expenditure during 2016, authorised by the issue of MFIN Warrant Nos. 1 and 2, were made under the following Statutes:

		€
a.	Appropriation Act	2,741,249,338
b.	In terms of Special Laws	1,776,528,000
c.	In terms of the Constitution	3,239,662

Analysis of Appropriations

a. *Appropriation Act*

	€
Appropriated by Act XLI of 2015 (Original Budget)	2,599,705,338
Appropriated by Act LVIII of 2016 (Supplementary)	141,544,000

b. *Special Laws*

The following amounts (including Supplementary Estimates as detailed in Warrant No. 2 of 2016) were appropriated in terms of the various laws as indicated:

Table 4: Amounts Permanently Appropriated in terms of the various Laws

Description	2016 €	2015 €
Expenses of the Electoral Commission – General Elections Act (Cap. 354)	350,000	370,000
Expenses of the Broadcasting Authority – Broadcasting Act, 1992 (Act XII of 1991 – Cap. 350)	583,000	583,000
Expenses under Re-letting of Urban Property Ordinance (Cap. 69) and Agriculture Leases (Re-letting) (Cap. 199)	77,000	81,000
Land Acquisition (Public Purposes) Ordinance (Cap. 88)	115,000	115,000
Social Security Act, 1987 (Act X of 1987 – Cap. 318)	900,700,000	869,600,000
Pensions Ordinance (Cap. 93)	93,000,000	88,380,000
Expenses of the Office of the Ombudsman (Cap. 385)	1,025,000	1,140,000
Expenses of the Permanent Commission Against Corruption (Act XXII of 1988 – Cap. 326)	40,000	40,000
Interest plus contribution to the Sinking Funds in respect of Local Government Stock – Registered Stock and Security Ordinance 1959 (Cap. 161)	759,770,194	636,089,033
Interest plus contribution to the Sinking Funds in respect of Foreign Loans (Cap. 213)	7,794,351	8,281,967
Malta Arbitration Centre (Act II of 1996 – Cap. 387)	75,000	67,000
Expenses of the NAO (Act XVII of 1997 – Cap. 396)	3,000,000	2,700,000
Refunds under Value Added Tax/Customs & Excise Tax Acts	2,200,000	1,388,000
Widows' and Orphans' Pensions Act (Cap. 58)	520,000	500,000
Personal Injuries (Emergency Provisions) Ordinance (Cap. 111)	46,000	50,000
Members of Parliament (Retiring Allowances) (Act XVII of 1966), Members of Parliament Pensions Act (Act XXVI of 1979) as amended by Act XIII of 1981 and Act VII of 1989 (Cap. 280)	1,900,000	1,500,000
Short Term Borrowing – Treasury Bills Act (Cap. 133)	563,075	2,907,000
€56,378,732 Interest payable on ex-Malta Drydocks/Malta Shipbuilding Co. Ltd Loans (Act XV of 2003)	1,089,380	2,247,000
Lease of Parliament Building – Budget Measures Implementation (Act V of 2012)	3,680,000	3,680,000
Totals	**1,776,528,000**	**1,619,719,000**

Following queries forwarded to the BO, the following explanations were provided explaining major increases of actual expenditure over the previous year:

Social Security Act, 1987 (Act X of 1987 – Cap. 318)

The increase of €31,100,000 in 2016 over the previous year's budget was due to rises in the number of beneficiaries, as well as the cost of living element by which social security benefits are indexed. These increases were estimated for and the total vote provisions were only exceeded by 0.2%, when comparing the 2016 approved estimate to the 2016 outturn.

Pensions Ordinance (Cap. 93)

A higher budgetary allocation over the previous year, totalling €4,620,000, was made available due to higher sums payable to cover retiring officers by way of pensions and gratuities due. In fact, during 2016, €84.2 million were issued as pensions, whilst €8.6 million were paid out as gratuities.

Interest plus contribution to the Sinking Funds in respect of Local Government Stock – Registered Stock and Security Ordinance 1959 (Cap. 161)

The higher amount permanently appropriated in 2016 was required to cover servicing of Government debt in response to actual borrowing requirements.

c. *In terms of the Constitution*

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

	€
The President of Malta	88,936
The Attorney General	78,956
Judges and Magistrates	2,980,525
The Public Service Commission	91,245
	3,239,662

Budgetary Procedure for 2016

Following NAO query, the BO provided a detailed description of the 2016 budgetary process' main elements, as outlined below.

The top-down[1] approach for budgetary allocations has been in use for the past years and was also adopted in 2016, which process commenced through MFIN Circular No. 1/2015, '2016 – 2018 Business and Financial Plans'. By means of this Circular, all Ministries, Departments and Entities, were requested to submit their respective expected revenue, as well as recurrent and capital expenditure projections. Ministries were asked to look specifically into the published projections for 2016 (apart from 2017), ensuring that in the Business and Financial Plans to be submitted, revenue does not fall below, and expenditure does not exceed, the published projections on a Ministry basis.

Given that Government's policy remained one of ensuring a further reduction in the yearly fiscal deficit, Ministries were encouraged to strive towards expenditure containment and the enhancement of revenue generation.

[1] This means that MFIN sets the overall expenditure ceiling and sub-ceilings, and delegates detailed resource allocation decisions to line Ministries.

Indications for additional funding, if any, were to be kept at an absolute minimum, limited only to those instances where non-provision of funds, above the parameters set through the said Circular, would adversely impact the core workings of the respective Ministries, Departments and Entities.

In line with the FRA, the plans to be compiled, were to be based on the most recently announced medium-term fiscal strategy. Dedicated statements showing the three-year revenue and expenditure projections for 2016 to 2018, at Ministry level, had been integrated in the 2015 Financial Estimates publication. These projections were to serve as the parameters within which the Government business and financial planning exercise for 2016 and the years that follow, was to be undertaken.

Following assessment of the financial plans received from all line Ministries, MFIN went on to assess the requests submitted and compare against its internal projections for the years 2016 to 2018, which included considerations on revenue and expenditure trends, known commitments and performance for the current year (which at that point was 2015).

Following assessment, a first round of bilateral meetings was held between MFIN's Permanent Secretary and each Ministry's respective Permanent Secretary, together with key officials from the Budget Affairs Division, as well as from the line Ministries and their respective entities. The contents of the financial plans submitted were discussed during these meetings and any points requiring further clarifications were handled accordingly.

A second round of bilateral meetings was then held between the Minister for Finance and the Minister responsible for the line Ministries, together with key officials as necessary. The main purpose of these meetings was to address any issues which required further consideration, as well as to discuss new initiatives which Government was planning to undertake. Together with any budget measures being contemplated, the revenue and expenditure projections were adjusted to incorporate due changes as deemed appropriate, keeping in view, however, the fiscal framework targeting a reduction of 0.7% in the Government's deficit over Gross Domestic Product (GDP) for 2016. Eventually, the projections comprised the 2016 Financial Estimates, which were presented to Parliament.

Excess of Expenditure over Estimates

The Supplementary Estimates contributed in part to the overall fiscal outturn for 2016, with the other contributing element being revenue performance. Table 5 portrays those votes whose expenditure exceeded budgeted figures, by well over €1 million. In particular, four Ministries reported this excess in both their Capital and Recurrent Votes.

Table 5: Excess of Expenditure over Original Budget by Vote

Vote	Original Budget 2016	Actual 2016	Variation
	€	€	€
Recurrent Expenditure			
Vote 5: Office of the Prime Minister	27,201,000	33,828,095	6,627,095
Vote 10: Government Property Division	5,275,000	7,088,099	1,813,099
Vote 13: Ministry for Education and Employment	242,364,000	250,540,923	8,176,923
Vote 14: Education	216,059,000	217,801,092	1,742,092
Vote 20: Ministry for the Economy, Investment and Small Business	34,434,000	35,772,402	1,338,402
Vote 24: Pensions	91,124,000	96,880,876	5,756,876
Vote 31: Ministry for Energy and Health	73,754,000	77,132,499	3,378,499
Vote 32: Health[2]	466,889,000	498,137,660	31,248,660
Vote 34: Social Policy	269,825,000	274,307,560	4,482,560
Vote 35: Social Security Benefits	898,700,000	900,699,995	1,999,995
Vote 37: Elderly and Community Care	88,025,000	94,326,752	6,301,752
Vote 38: Ministry for Justice, Culture and Local Government	37,906,000	39,479,219	1,573,219
Vote 41: Ministry for Tourism	50,791,000	67,353,685	16,562,685
Public Debt Servicing			
Vote 25: Public Debt Servicing	761,105,000	768,578,778	7,473,778
Capital Expenditure			
Vote II: Office of the Prime Minister	10,945,000	11,967,711	1,022,711
Vote V: Ministry for Education and Employment	33,051,000	35,136,372	2,085,372
Vote X: Ministry for the Economy, Investment and Small Business	32,579,000	38,405,796	5,826,796
Vote XV: Ministry for Tourism	6,707,000	16,699,661	9,992,661
Totals	**3,346,734,000**	**3,464,137,175**	**117,403,175**

(Source: FR 2016 pages xi-xiii, 44-172)

Excess expenditure over original budgeted figures exceeding €1 million occurred in the Line Items shown in Table 6. It is interesting to note that same Line Items experienced a similar excess of expenditure during 2015, as portrayed in the same Table. In some of the cases noted, the 2016 excess was even higher than the one reported in the previous financial year.

[2] During April 2016, the Ministry for Health was split up from the original Ministry for Energy and Health.

Table 6: Excess of Expenditure over Original Budget/Revised Estimates by Item

Vote, Item	Original Budget 2016	Revised Estimates 2016[3]	Actual 2016	Variation Actual 2016/ Revised Estimates 2016	Variation Actual 2016/ Original Budget 2016	Variation Actual 2015/ Original Budget 2015
	€	€	€	€	€	€
Vote 5: Office of the Prime Minister						
Item 5365: CHOGM 2015	3,000,000	6,200,000	6,031,887	(168,113)	3,031,887	2,070,281
Item 5808: EU – Africa Summit	-	2,400,000	2,315,690	(84,310)	2,315,690	2,994,720
Vote 10: Government Property Division						
Item 5672: Dues to Malita p.l.c.	-	3,400,000	3,660,000	260,000	3,660,000	3,650,000
Vote 14: Education						
Item 27: Transport	7,600,000	9,250,000	8,994,952	(255,048)	1,394,952	1,569,901
Vote 15: Ministry for Sustainable Development, the Environment and Climate Change						
Item 5426: Solid Waste Management Strategy	15,500,000	16,900,000	17,400,000	500,000	1,900,000	2,253,846
Vote 22: Ministry for Finance						
Item 5737: Compensation Payments	5,000	5,000	4,754,723	4,749,723	4,749,723	1,026,965
Vote 31: Ministry for Energy and Health						
Item 5649: Feed-in Tariff	5,500,000	5,500,000	8,961,336	3,461,336	3,461,336	2,000,000
Vote 32: Health						
Item 30: Contractual Services	33,040,000	38,040,000	40,102,628	2,062,628	7,062,628	3,822,904
Item 5400: Medicines and Surgical Materials	92,000,000	94,250,000	94,164,594	(85,406)	2,164,594	8,015,090
Item 6029: Mental Health Services [Mount Carmel Hospital]	29,300,000	29,600,000	33,504,362	3,904,362	4,204,362	2,415,657
Vote 35: Social Security Benefits						
Item 5141: Retirement Pensions	466,000,000	468,000,000	479,228,190	11,228,190	13,228,190	3,805,598
Item 5148: Disability Pensions/Allowance	14,500,000	14,500,000	17,131,737	2,631,737	2,631,737	2,329,205

[3] Revised estimates are made up of the Original Budget 2016 and the Supplementary Estimates for the same Item.

Table 6: Excess of Expenditure over Original Budget/Revised Estimates by Item *cont./*

Vote, Item	Original Budget 2016	Revised Estimates 2016[3]	Actual 2016	Variation Actual 2016/ Revised Estimates 2016	Variation Actual 2016/ Original Budget 2016	Variation Actual 2015/ Original Budget 2015
	€	€	€	€	€	€
Vote37: Elderly and Community Care						
Item 30: Contractual Services	13,000,000	19,000,000	18,102,958	(897,042)	5,102,958	2,563,805
Vote 41: Ministry for Tourism						
Item 6794: Malta Tourism Authority	40,500,000	56,300,000	55,750,000	(550,000)	15,250,000	4,999,999
Capital Vote II: Office of the Prime Minister						
Item 7104: Acquisition of Property for Public Purposes	7,500,000	9,500,000	9,044,149	(455,851)	1,544,149	3,399,051
Capital Vote III: Ministry for European Affairs and Implementation of the Electoral Manifesto						
Item 7805: External Borders Fund	975,000	975,000	2,747,229	1,772,229	1,772,229	6,982,922
Capital Vote VI: Ministry for Sustainable Development, the Environment and Climate Change						
Item 7902: EU Cohesion Fund 2007 – 2013	700,000	1,400,000	9,935,285	8,535,285	9,235,285	8,075,163
Item 7913: EU Agricultural Fund for Rural Development 2007 – 2013	-	1	5,494,191	5,494,190	5,494,191	7,430,260
Capital Vote VII: Ministry for Transport and Infrastructure						
Item 7283: Road works relating to EU Funding	4,000,000	4,000,000	7,732,946	3,732,946	3,732,946	3,999,777
Capital Vote XV: Ministry for Tourism						
Item 7256: Film Industry Incentives (Subvention)[4]	6,000,000	15,790,000	15,659,001	(130,999)	9,659,001	3,372,902

[4] This Item was under the Ministry for Home Affairs and National Security during Financial Year 2015.

The following reasons as published in the Supplementary Estimates of Expenditure 2016 and/or further submissions from the BO following the NAO queries, were forwarded in respect of the repeated excess expenditure over original budgeted figures of the above-quoted Line Items.

Vote 5: Office of the Prime Minister – Item 5808: EU Africa Summit

Although an original budget was not allocated, a supplementary amount of €2.4 million was provided to cover payments due in 2016 with respect to the European Union (EU) – Africa Summit function.

Vote 10: Government Property Division – Item 5672: Dues to Malita p.l.c.

Even though an original budget was not allocated under this Vote, the required budgetary provision was allocated in the 2016 Estimates, under Vote 2 House of Representatives. The MFIN was informed that until such time as the certification for the works at the Parliament building is finalised, the amount due for rent and eventually payable by Parliament, is converted into an equivalent sum paid by the Government Property Division. It was a matter of transferring the budget from one vote to another, without exceeding the total budget.

Vote 22: Ministry for Finance – Item 5737: Compensation Payments

Despite the negative variation, the MFIN did not deem it necessary to resort to supplementary estimates, as the shortfall was offset by savings under other items within the same vote. As reported in the FR 2016 (page 86), the total approved recurrent expenditure amount under the pertinent Vote was not exceeded.

The shortfall registered was due to payments arising from various decisions taken during the year under review, including compensation paid to ex-Sea Malta employees by way of employment termination and redundancies, as well as grievances of Armed Forces of Malta personnel.

Vote 31: Ministry for Energy and Health – Item 5649: Feed-in Tariff

Similar to the previous item, the Ministry did not opt for additional funds, due to savings under other items within the same vote. The shortfall for year 2016 arose following claims made by Enemalta p.l.c. to cover refunds in relation to Feed-in Tariff dues by Government, owing to a higher amount of photovoltaic panels installations than originally estimated.

Vote 35: Social Security Benefits – Item 5141: Retirement Pensions

A supplementary amount of €2 million was provided to cover the provisions in respect of various beneficiaries, which turned out to be higher than originally estimated, as well as other adjustments. Moreover, savings in other items within the same vote were utilised to offset the additional funds requirement.

Vote 37: Elderly and Community Care – Item 30: Contractual Services

Along with the original budget, a supplementary estimate of €6 million was provided due to the higher than originally estimated payments in response to service demands within the various units running the national service for the elderly. Examples include cleaning and catering services, as well as agreements, which St. Vincent de Paul Residence needed to enter into with Unions to cover the increase in number of carers due to nursing shortages. Supplementary funding was also required to settle bills accruing from previous years, until due certifications were made.

Vote 41: Ministry for Tourism – Item 6794: Malta Tourism Authority

During 2016, a supplementary amount of €15.8 million was needed by the Authority to cover actual requirements during the year under review, arising from an expansion of the marketing support programme undertaken by the Authority.

Capital Vote II: Office of the Prime Minister – Item 7104: Acquisition of Property for Public Purposes

An additional €2 million were provided during the year to cover expenditure related to past expropriation payments and to enable the GPD to meet its legal obligations with respect to various Court cases.

Capital Vote VI: Ministry for Sustainable Development, the Environment and Climate Change – Item 7902: EU Cohesion Fund; and Item 7913 – EU Agricultural Fund for Rural Development, both for 2007 – 2013

Supplementary amounts have been provided for both Item 7902 and Item 7913 in order to settle claims classified as non-eligible costs in respect of projects co-financed by the EU, in addition to transfers resulting from savings registered under other items within the same Vote.

Capital Vote VII: Ministry for Transport and Infrastructure – Item 7283: Road works relating to EU Funding

The negative variance arose due to the need to cover non-eligible components arising during the year on projects, which are mainly funded by the EU.

Capital Vote XV: Ministry for Tourism – Item 7256: Film Industry Incentives (Subvention)

In 2016, supplementary funds of €9.79 million were provided to cover incentives on a number of films produced. Additional claims were made by the Malta Film Commission and which materialised during the year under review, under the Financial Incentives for the Audiovisual Industry, Legal Notice (LN) 37/2008, as amended by LNs 24/2014 and 47/2015. As per established procedure, the respective film productions are to present their invoices and receipts, which are audited and reported to the said Commission. Details regarding the NAO's audit findings features separately under the respective Ministry.

Assets and Liabilities

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

This Statement may be looked at as a statement of end-of-year balances in the Treasury books, which result from cash transactions accounted for in the Public Account during the year. Given that Central Government accounts are cash-based, not all Government's assets and liabilities are included in this statement as would be under an accrual-based accounting system.

Assets

Table 7 represents the Statement of Assets.

Table 7: Statement of Assets

	2016	2015
	€'000's	€'000's
Public Credit		
Shareholding	858,684	838,545
Other Investments[5]	113,571	113,569
Loans	55,545	67,729
	1,027,800	1,019,844
Investments held on behalf of		
Sinking Funds (Local)	195,668	150,759
Sinking Funds (Foreign)	17,314	21,300
Trust Funds	1,207	1,578
	214,188	173,637
Advances		
Advances	75,931	96,037
Bank and Cash		
Banks[6]	7,025	6,549
Central Bank of Malta – Public Account	211,369	94,484
	218,394	101,033
Total Assets	**1,536,313**	**1,390,551**

Figures in Statement may not add up due to rounding up.
(Source: FR 2016, page 190)

Public Credit – Shareholding

As at 31 December 2016, the value of direct investments stood at €858,684,210 (€838,545,381 in 2015). This was made up of €527,598,577 unlisted shares valued at purchase cost, and €331,085,633 listed shares, valued at market price as at year-end.

The following were the major changes in investments during the year:

New Investments

Asia Infrastructure Investment Bank

The Asia Infrastructure Investment Bank (AIIB) is a multilateral development financial institution. It started operating in January 2016, following a participatory process where its founding members, including Malta, developed the core philosophy, principles and polices, value system and operating platform. The AIIB focuses on the development of infrastructure and other productive sectors in Asia, including energy and power, transportation

[5] Opening balance of Other Investments defers from the balance as stated in the Annual FS 2016, due to the new balance for Euro Coins issued in 2015.
[6] This consists of bank accounts held by Foreign Embassies/Commissions and the National Lottery Good Causes Fund bank account.

and telecommunications, rural infrastructure and agricultural development, water supply and sanitation, environmental protection, urban development and logistics.

The Government's initial capital subscription to the AIIB amounted to €495,774, whilst the second instalment and respective revaluations amounted to €528,797 in aggregate. As at year-end 31 December 2016, the Government held 136 subscription shares (40% paid up) amounting to €1,024,571 (USD2,700,000).

Selmun Palace Hotel Co. Ltd

Air Malta p.l.c. and KM Holdings Ltd held the entire shareholding in Selmun Palace Hotel Co. Ltd. Through a Share Transfer Agreement dated 24 March 2016, both companies transferred their entire shareholding to the Government and Malta Industrial Parks Ltd, respectively.

The Government acquired 9,999 Ordinary Shares in Selmun Palace Hotel Co. Ltd, fully paid up, for the agreed price of €1. The Government also agreed to settle all the Company's liabilities for loans and overdraft facilities with a local bank, hypothecary guarantees granted by the Company to the bank and shareholder loans granted to the company for the sum of €10,910,000.

Increases in Investments

Air Malta p.l.c.

In accordance with the Subscription Agreement dated 6 October 2012 entered into between the Government and Air Malta p.l.c., the Government further subscribed to 52 million Ordinary Shares, being its pro rata share of the issue by the company of 53,088,957 shares of €1, offered to all shareholders of Air Malta p.l.c. By end-of-year 2016, the Government paid the cash sum of €4,784,000, thus resulting in 100% paid up share capital.

Moreover, in connection with the 78 million shares allotted to Government in 2012 by virtue of the same Agreement, the Government paid €7,200,000, thus resulting also in 100% paid up share capital. Government's shareholding in Air Malta p.l.c. as at 31 December 2016, stood at 99.98%.

Bank of Valletta p.l.c.

By means of Board resolution dated 17 December 2015, Bank of Valletta p.l.c. capitalised the amount of €30 million from the company's reserves for the purpose of a bonus issue of an equal amount of fully paid Ordinary Shares with a nominal value of €1 per share.

Based on the allocation ratio of one bonus share for every 12 shares held, a total amount of 7,569,035 Ordinary Shares were allotted to Government. To this effect, the nominal value of Government's investment as at 31 December 2016 amounted to €98,397,456. However, shares in Bank of Valletta p.l.c. experienced a drop in market value during the year under review, in contrast with the rise reported during 2015.

Termination of Investment

Malta Information Technology and Training Services Ltd

Government's shareholding in Malta Information Technology and Training Services Ltd, valued at €1,862,567, did not feature in the Statement of Investments as at 31 December 2016 and hence was struck-off as per Notice of Registry of Companies published on 19 April 2016. Treasury confirmed that funds were transferred to Government as per Transfer and Adjustment dated 27 January 2017.

Movements in Values of Existing Investments

During 2016, the cost of investments in:

a. Council of Europe Development Bank;
b. International Bank for Reconstruction and Development;
c. Malta Freeport Corporation Ltd;
d. International Energy Group Malta Ltd;
e. Mediterranean Offshore Bunkering Co. Ltd; and
f. Multilateral Investment Guarantee Agency,

collectively increased by €405,740 due to changes in the United States Dollar exchange rate.

Public Credit – Other Investments

Investment in Industry

A Schedule of Investments submitted by Malta Government Investments Ltd (MGI) to the Accountant General initially showed that the total cost of investment in 42 companies amounted to €16,329,595 as at 31 December 2016. Following the NAO's verification, it resulted that three further investments were to feature in said schedule. According to the MGI, the reason for their exclusion related to value being immaterial.

The MGI estimated that the net book value of these investments amounted to €14,076,549 after an accumulated provisional loss of €2,253,046. Further details are provided in Table 8.

Table 8: Investments through Malta Government Investments Ltd

Investment Type	No. of Companies	Cost	Provisional Loss	Net Book Value
		€	€	€
Subsidiary Companies	27	14,871,478	1,146,504	13,724,974
Associated Companies	2	1,455,948	1,106,542	349,406
Other Companies of Minority Interest	16	2,169	-	2,169

The Schedule includes seven companies that were undergoing liquidation procedures, and another five companies that were struck off as per Malta Financial Services Authority Registrar of Companies.

At the end of 2016, the total of investment in industry as reported by Treasury amounted to €16,351,879 as against €16,350,729 on 31 December 2015, a slight increase of €1,150 over the previous year. Such movement was mostly due to a new investment in Housing Project Management Unit amounting to €1,160.

It is to be noted that indirect investments at year-end, as reported by Treasury, do not tally with the MGI aggregate balances reported. The difference of €22,284 between Treasury's and the MGI's records emanates mostly of an investment of €22,369 in Topwear Ltd that was not reported on the MGI records, this being an investment made from Government funds by the former Malta Development Corporation.

Movements in 'Other Investments'

Euro Coins

During 2016, the Central Bank of Malta (CBM) made Euro Coin issues on behalf of Treasury totalling €4,321,617, bringing the total amount of Euro Coins in circulation as at 31 December 2016 to €72,832,000.

Dividend/Profit Received

Central Bank of Malta

During the year under review, a total dividend of €50 million was approved by the CBM to the Treasury Department, consisting of 2016 net profits due to Government. Up to end September 2017, an aggregate of €42 million were received in five tranches, with the last tranche expected to be received in November 2017.

Malta Financial Services Authority – Capital Fund

Total surplus funds amounting to €8 million were received in one tranche from the Malta Financial Services Authority during 2016, in terms of Section 26(3) of the Malta Financial Services Act (Cap. 330).

Inspection of Securities/Investments – Government Securities Board

The purpose of the Government Securities Board is to verify and certify the List of Securities held by the Government at year-end, with the relative Stock Certificates held by Treasury.

The Board is made up of three members, namely the Chairperson, this being MFIN Permanent Secretary, a Malta Investments Management Company Ltd representative and the Accountant General. The NAO is in receipt of a certified List of Securities by the respective Board.

Public Credit – Loans made by Government and Repayments thereof

Balances and other details of all loans issued by Government as on 31 December 2016 as reported in Appendix E of FR 2016, are summarised as follows:

		€
a.	Loans under Act II of 1956	23,099
b.	Other Loans	55,522,000

Other Loans at (*b*) consist of the following:

	€
Aids to Industries Scheme	3,718
Agriculture – Assistance to Co-Operatives	66,620
Water Services Corporation	4,367,885
Loan Facility Agreement with the Hellenic Republic	50,683,923
Loan – Mariam Al Batool	399,854

(Source: FR 2016, page 173)

Existing Loan Agreements

Agriculture – Assistance to Co-Operatives

A total balance of €66,620 was still due as at year-end by four different Co-Operatives, for loans forwarded to them during the period 1983 to 1985.

Water Services Corporation

The loan to the Water Services Corporation is interest free, and repayable either through a direct payment to Treasury in the event that no subvention is required by the Corporation or through a Transfer Voucher in the event that the Government's subvention is still required. The initial amount of the 1999 loan was of €10,482,180.

According to Treasury receipts, a loan repayment amounting to €200,000 was effected by the Corporation during the year 2016.

Loan Facility Agreement with the Hellenic Republic

The loan to the Hellenic Republic originated from an €80 billion Loan Facility Agreement signed between the Euro Member States (the Lenders) except Greece, and the Hellenic Republic (the Borrower), dated 8 May 2010. The maximum amount that the lenders contribute under the Facility was established in this Agreement, which in Malta's case, this stood at €74,543,026.

The balance of the Maltese loan facility agreement with the Hellenic Republic as at 31 December 2016 amounted to €50,683,923. The principal repayments are scheduled between 15 June 2020 and 15 September 2026.

Loan – Mariam Al Batool

During 2011 and 2012, as per agreements dated 28 April 2011 and 14 December 2011, Government lent a total of €399,854 to the Mariam Al Batool School, following a suspension of the financial subsidy which the School used to receive from Libya. The repayment dates were scheduled at a rate of €25,000 at end of each quarter for the period March 2014 to December 2017. However, up to the writing of this Report, none of the 15 payments due totalling €375,000, were honoured. Upon enquiry, the Treasury confirmed that there were no repayments during the year, whilst no indication was given why the School failed to honour the agreements.

Repaid Loan

Loan Facility Agreement with Air Malta p.l.c.

The last repayment of €11,984,000 was made in March 2016, in line with the loan agreement dated 15 November 2012 and Set-off Payment and Agreement signed on 9 January 2015, between the Government and Air Malta p.l.c. Hence, Air Malta p.l.c. settled its commercial loan with Government during the year under review. This settlement was done against a set-off of the remaining unpaid balance due by Government on the first and second issues.

Investments held on behalf of Sinking Funds

Article 27 of the Local Loans (Registered Stocks & Securities) Ordinance (Cap. 161) requires the Treasury to invest any contributions made in the Sinking Fund and any return generated from the investment in other financial assets. Therefore, contributions and investment income generated are invested or reinvested again in Government Securities. Any investment of this type is excluded from total Government debt on consolidation.

The following is a breakdown of Investments held on behalf of Sinking Funds:

Table 9: Sinking Funds Investments

Investment	Sinking Funds – Local	Sinking Funds – Foreign
	€	€
Central Bank of Malta Deposit Accounts	117,913,133	17,313,681
Malta Government Stocks	77,754,499	-
Totals	**195,667,632**	**17,313,681**

(Source: FR 2016, pages 195-196)

Advances

Accounting for Advances

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

Appendix L of the FR incorporates a detailed statement of balances remaining outstanding as on 31 December 2016, in respect of advances made to various Ministries on behalf of Government Departments, Agencies and Organisations.

Pending advances were reported as amounting to €75,931,237 as on 31 December 2016, as against €96,037,248 outstanding by the end of the previous year.

Outstanding Advances

Outstanding advances as at 31 December 2016, apart from advances forwarded to the former Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd, were the following:

Table 10: Outstanding Advances

Description	Amount €
Malta Development Corporation on 24 July, 1984 for the purchase of Verdala Hotel	1,724,785
Ministry of Finance to the Bank of Valletta Employees Foundation, for the purchase by the Foundation of 1,385,406 ordinary shares in Bank of Valletta Ltd in 1995	1,742,799
Commissioner of Inland Revenue, to meet loans in terms of Article 4 of the Monte Di Pieta' Act (No. XXXIX) of 1976	295,899
Ministry of Finance, for the purchase of shares held by Enemalta Corporation in Mediterranean Offshore Bunkering Co. Ltd	9,317,494
Treasury, for the purchase of shares held by Sea Malta Co. Ltd in Mediterranean Offshore Bunkering Co. Ltd.	1,109,173
Ministry of Finance and Commerce, to be utilised as a loan facility by the Maltacom Employees Foundation, to purchase ordinary shares in Maltacom p.l.c. in 1998	4,907,504
Ministry for Economic Services, for the purpose of settling during 1999 and further servicing costs of Malta Freeport loans	1,977,644
Ministry for Economic Services, to meet expenditure in connection with the privatisation process of the Malta Freeport operations	2,118,836
Ministry for Economic Services, for the purpose of settling Malta Freeport equipment claims	10,482,180
Treasury for the purchase of Medigrain shares from Mid-Med Bank p.l.c. in 1999	(2,569)
Ministry of Finance, advanced to Mid-Med Employees Foundation, for the purpose of investment, pursuant to the agreement dated 3 December 2002 and entered into between Malta Government and the Foundation in the interest of the members of the said Foundation	6,988,120
Ministry of Finance, the Economy and Investment for the purpose of extending loan Facilities to Mariam Al Batool School	399,854
Total	**41,061,719**

Remarks

Purchase of Verdala Hotel – €1,724,785

This advance was made to Malta Development Corporation on 24 July 1984 for the purchase of Verdala Hotel, and is still showing in the books of Malta Enterprise as due to Government. This company entered into a deed of sale in 1997. Legal proceedings covered outstanding dues to Malta Enterprise and the unfulfilled obligations for the development and operation of a new hotel complex. MFIN was informed by Malta Enterprise that the matter is still pending with legal proceedings in Court. Hence, no indication is yet available as to when this issue will be settled.

Bank of Valletta Employees Foundation – €1,742,799

Treasury stated that Bank of Valletta Foundation benefitted twice from the tax at source withheld on its holding of shares in Bank of Valletta p.l.c. In the first case, the amount of tax at source was transferred on MFIN request and credited against the loan account balance in terms of the 1995 Loan Agreement between the Government of Malta and the Foundation. The latter claimed the tax at source as credit in its income tax return through the self assessment system, which claim eventually resulted in a tax refund. A repayment was received from the Foundation during 2016 in terms of the repayment schedule. MFIN shall continue to pursue the annual repayments of the balance due on this advance.

Loans in terms of Article 4 of the Monte Di Pieta' Act (1976) – €295,899

Amounts are still being paid out of and repaid into this account according to throughput in respect of this activity in terms of the mentioned legislation as administered by the Capital Transfer Duty Department.

Purchase of Mediterranean Offshore Bunkering Co. Ltd Shares from Enemalta and Sea Malta Co. Ltd – €9,317,494 and €1,109,173, respectively

As in previous years, MFIN confirmed that the amount advanced is planned to be repaid out of proceeds forthcoming from the eventual privatisation of the Mediterranean Offshore Bunkering Co. Ltd.

Loan to Maltacom Employees Foundation – €4,907,504

As in previous years, MFIN is pursuing the repayment of the loan through annual amounts due, together with possible renegotiation with the Foundation of the original terms under which the loan was granted.

Malta Freeport Loan Servicing – €1,977,644

MFIN stated that it will continue to gradually repay this advance out of the annual budgetary provision under Item 7189 (Contribution towards the Treasury Clearance Fund) of the MFIN Capital Vote, as is done each year in the case of other similar past advances. During 2016, a repayment of €3,000,000 was made in respect of Malta Freeport Loan Servicing.

Purchase of Medigrain Shares from Mid-Med Bank p.l.c. – (€2,569)

During 2016, a repayment of €617,496 was made in respect of Medigrain Shares. During 2017, action will be taken by the Treasury Department to adjust the indicated over-repayment amounting to €2,569 accordingly, thus closing off this advance account.

Malta Freeport Privatisation Process and Malta Freeport Equipment Claims – €2,118,836 and €10,482,180, respectively

As confirmed by MFIN, both advances are planned to be repaid from public funds out of the annual budgetary provision under Item 7189 (Contribution towards Treasury Clearance Fund) of MFIN Capital Vote.

Mid-Med Bank Employees Foundation – €6,988,120

As stated by MFIN, the repayment of this loan is expected to commence in 2018, when the 15-year moratorium of the loan agreement expires.

Other Outstanding Advances

Further pending advances to be repaid out of the 'Contribution towards Treasury Clearance Fund' are listed below:

Table 11: Pending Advances to the former Malta Shipbuilding Co. Ltd and Malta Drydocks Corporation

Description	Amount
	€
Construction of ships at Malta Shipbuilding Co. Ltd	21,643,890
Malta Drydocks Corporation – 2001	13,225,628
Total	**34,869,518**

MFIN stated that it plans to continue to repay these advances out of the annual budgetary provision under Item 7189 (Contribution towards the Treasury Clearance Fund) of MFIN Capital Vote, as is in the case of other past advances issued to the shipyards. In fact, as indicated in the 2016 FR, an amount of €16,385,000 of public funds was utilised in part-settlement of the advance of Malta Drydocks Corporation – 2001.

Central Bank of Malta Public Account

Treasury submitted to the NAO outstanding monthly reconciliation statements for the Public Account for the period January to December 2016.

As reported in last year's Annual Audit Report (AAR), the NAO noted that discrepancies classified as '*Other Adjustments*' between the reconciled balance as per CBM Statement and the balance reported in the Cash Book, fluctuated from €4 million in January 2016 to €4.3 million as at December 2016. Treasury confirmed that "*This discrepancy may arise from a number of adjustments performed during the year*."

With regards to the Reconciliation for the period June 1992 to December 2001, Treasury once again confirmed that no development could be registered in this respect, and its position remained the same as detailed in the 2015 AAR[7].

[7] Treasury still maintains that the start-off date of the new reconciliation exercise should be January 2002. Treasury stated that during the indicated 10-year period, there had been various changes both in Government's accounting system and in that of the CBM, making it impossible to embark on any kind of reconciliation for the years in question. This decision is based on cost considerations and human resources requirements.

Boards of Survey

Boards of Survey at Treasury and at the Ministry for Gozo were appointed in terms of Section 98 of the General Financial Regulations, 1966, in order to take account of moneys, deposits and other values as at 31 December 2016.

The Report from the Board of Survey (Gozo) reached this Office in March 2017, with no adverse remarks. However, at the date of writing of this Report, the NAO had not yet received the Board of Survey report certifying, amongst others, the correctness of the List of Securities held at Treasury for the year ended 2016.

Ministerial/Departmental Bank Accounts

Treasury Circular No. 1/2017 – 'End of Year (2016) Statements of Account Cash in Hand and Bank Balances held at Local Commercial Banks and Central Bank of Malta', issued on 6 January 2017, requested Heads of Departments and other Accounting Officers to submit both soft and hard copies of the Return indicating the cash and bank balances as at 31 December 2016, including the position of each bank account held both at local commercial banks and the CBM. In addition, officers were to submit a hard copy of these statements to the Treasury, clearly indicating those bank accounts against which a liability exists, as well as identifying bank accounts in respect of Trust Funds.

The respective balances were published accordingly in the FR 2016 (pages i to vii refer). Whilst the credit balance as per Bank Statement consists of the 'Liability', 'Trust' and 'Resulting Balances', the 'Debit Balance' on the other hand, should portray only credit card accounts. An exception to this was noted in the case of three Ministries/ Departments, which had overdrawn balances as at year-end totalling €122,980. As in the previous year, the majority of this overdrawn balance pertained to the Ministry for Sustainable Development, the Environment and Climate Change and related to two particular overdrawn accounts secured with a bank guarantee. Treasury Department queried such overdrawn balances with the respective Ministries and Departments, and corrective action was taken as necessary.

The NAO noted that two particular year-end balances pertaining to the Maltese Embassy in Warsaw were reported erroneously. In fact, testing revealed that the FR 2016 was overstated by €19,859. The Treasury Department was informed accordingly and corrective action was to be taken.

Liabilities

Table 12 features the Statement of Liabilities.

Table 12: Statement of Liabilities

	2016 €'000's	2015 €'000's
Public Debt	**5,225,824**	**5,111,737**
Euro Coins issued on behalf of Treasury	**72,832**	**68,510**[8]
Treasury Bills	**254,000**	**222,050**
Deposits		
Court and Other Deposits	146,419	143,531
Other	23	23
	146,442	**143,554**
Funds		
Sinking Funds	212,981	172,059
Contingencies Fund	1,165	1,165
Trust Funds	2,093	2,018
	216,240	**175,241**
Total Liabilities	**5,915,337**	**5,721,093**
Excess of Total Liabilities over Total Assets	**(4,379,024)**	**(4,330,542)**
Accumulated Fund		
Consolidated Fund at year-end	(108,168)	(170,138)
Net Public Debt/Public Credit	(4,270,856)	(4,160,404)
	(4,379,024)	**(4,330,542)**

Figures in Statement may not add up due to rounding up.
(Source: FR 2016, page 191)

[8] A revised balance of Euro Coins supersedes the figure published in the Annual FS for 2015, as explained under 'Public Credit – Other Investments' in the 2015 AAR.

Public Debt

Debt Composition

In general, Government's borrowing programme includes Malta Government Stocks (MGS), and Treasury Bills. The Government sets the long-term Public Debt management goal, and its preference as to the type of debt and the maturity profile helps provide the market with long-term confidence about the nature of Government's future borrowing consistent with an acceptable level of risk.

Debt Composition of the Government Sector Debt as at end-of-year stood as follows (Tables 13 and 14 refer):

Table 13: Debt Composition – Domestic and External

2016		2015	
Domestic Debt	**External Debt**	**Domestic Debt**	**External Debt**
%	%	%	%
96.67	3.33[9]	96.41	3.59[9]

(Source: Refer to Table 14 for percentage calculations)

Table 14: Government Sector Debt

Type of Debt	2016 Amount	2016 Percentage of Total Debt	2015 Amount	2015 Percentage of Total Debt
	€'000's	%	€'000's	%
Malta Government Stocks (Consolidated)	5,084,012	88.76	4,922,119	88.04
European Financial Stability Facility (Rerouted Debt)[10]	171,189	2.99	171,189	3.06
Treasury Bills	254,000	4.43	222,050	3.97
Extra Budgetary Units and Local Councils	126,504	2.21	120,494	2.16
Euro Coins	72,832	1.27	68,510	1.23
Domestic Loans with Commercial Banks	-	-	56,379	1.01
Foreign Loans	19,370	0.34	29,770	0.53
Total Debt	**5,727,907**	**100**	**5,590,511**[11]	**100**

(Source: Budget Speech 2018; Quarterly Accounts for General Government: Q2/2017 – National Statistics Office News Release No. 170/2017; Government Finance Data: January – December 2016 – National Statistics Office News Release No. 058/2017; DMD)

[9] Excludes the MGS held by non-residents which in 2016 amounted to 7% (2015: 6%) and includes the European Financial Stability Facility (EFSF) (Debt Rerouting).

[10] The EFSF was established on 7 June 2010 for providing stability support to Euro Area Member States (EAMS). The EFSF finances such support by issuing or entering into bonds, notes, commercial paper or other financing arrangements. The operations are backed by guarantees of the EAMS on the basis of an agreed 'Adjusted Contribution Key'. On 27 January 2011, Eurostat decided that the debt issued by the EFSF for each support operation must be rerouted to the Public Accounts of the EAMS providing guarantees, proportionately to their contribution key. Therefore, the recording of such flows will impact the Gross Government Debt (as defined in the Maastricht Treaty), but not the Net debt (i.e. Total debt minus cash and cash equivalents).

[11] Public Debt balance as at 31 December 2015 has been updated from the balance reported in the previous year's AAR to provide a more accurate analysis as per most recent publications.

Public Debt Percentages

Table 15 portrays debt as a percentage of the GDP as at 31 December.

Table 15: Debt as a Percentage of Gross Domestic Product

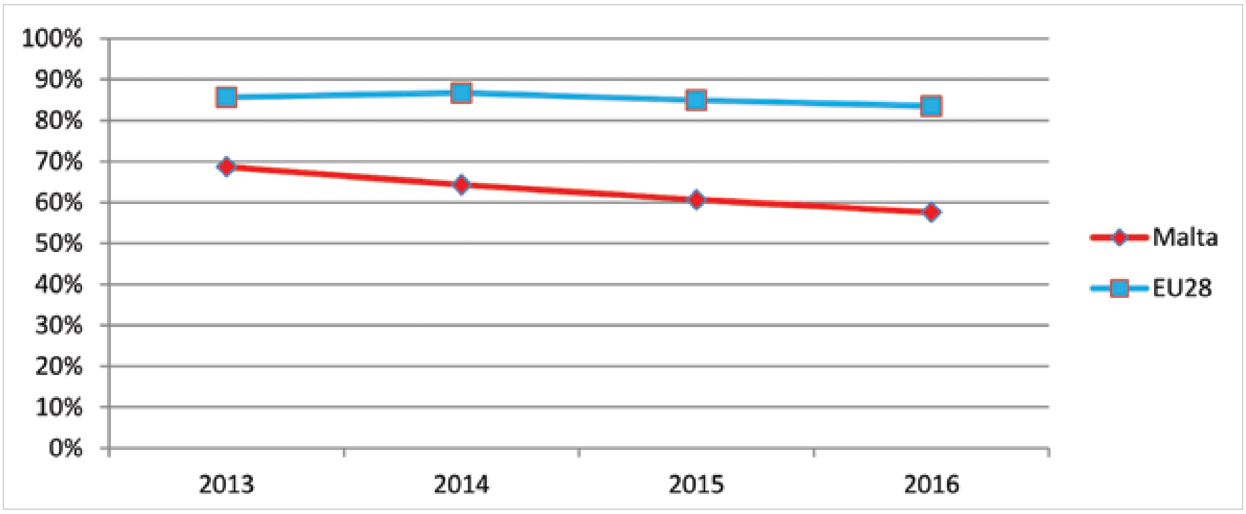
2016			2015		
Public Debt	Gross Domestic Product	Ratio Public Debt to Gross Domestic Product	Public Debt	Gross Domestic Product	Ratio Public Debt to Gross Domestic Product
€'000's	€'000's	%	€'000's	€'000's	%
5,727,907[12]	9,943,139[13]	57.61	5,590,511[12]	9,274,479[14]	60.28

As at end-of-year 2016, the percentage of Government's debt to the country's GDP amounted to 57.61%, resulting in a decrease of 2.67% over the previous year. This indicates that the economy grew faster than debt during 2016. Government Debt-to-GDP ratio has successfully declined below the 60% Treaty requirements.

As reported in the Government's Annual Report, which was issued by MFIN in June 2017, in line with Article 41 of the FRA, the Debt-to-GDP ratio decreased faster in 2016 compared to a planned decline of 1.3% points of the GDP as per 2016 Stability Programme target, thus reflecting a better than expected primary balance[15].

Moreover, it was noted that as at the end of years 2013 to 2016, Malta had a considerably lower Government Debt-to-GDP ratio than that of the EU28[16]. In fact, as at end 2016, the average Debt-to-GDP ratio, reported in the Eurostat News Release 67/2017, for the EU28 amounted to 83.5%, when compared to the same ratio recorded in Malta, being 57.6%. Whilst, the 57.6% Debt-to-GDP ratio takes into consideration the latest revisions by the National Statistics Office, the 83.5% related to the EU28 does not include such revisions. Chart 3 below refers.

Chart 3: Government Debt-to-GDP Ratio (2013 to 2016)



(Source: Eurostat News Release No. 67/2017 – Provision of deficit and debt data for 2016; Budget Speech 2018)

[12] Source: Table 14 above refers.
[13] Source: Budget Speech 2018; Gross Domestic Product: Q2/2017 – National Statistics Office News Release No. 141/2017.
[14] The GDP balance as at 31 December 2015 has been updated from the figure reported in the previous year's AAR to provide a more accurate analysis as per most recent publications. Source: Gross Domestic Product: Q2/2017 – National Statistics Office News Release No. 141/2017.
[15] Primary balance is Government's net borrowing or net lending, excluding interest payments on consolidated Government liabilities.
[16] EU28 refers to the total 28 Member States, which form the EU.

Local Loans

On 31 December 2016, the local Public Debt amounted to €5,727,907,000, representing an increase of €137,396,000 over the corresponding reported figure for 2015. In addition to the MGS totalling €5,084,012,000, the closing local Public Debt balance is inclusive of Treasury Bills outstanding at year-end, debts of Extra Budgetary Units (EBU) and Local Councils, as well as Euro Coins, amounting to €254,000,000, €126,504,000 and €72,832,000 respectively (Details in Table 14).

Foreign Loans

The authorisation and regulation of raising foreign loans is governed by the Development Loan Act (Cap. 229), which authorises the Government of Malta to enter into agreements with foreign governments, international organisations or other institutions, to obtain financing from abroad to support Malta's economic development.

Whereas all domestic borrowing by the Maltese Government is issued by way of public offer of securities, all foreign borrowing is made up in the form of bilateral non-marketable loans with foreign governments and international institutions.

The policy of borrowing from overseas through bilateral agreements with foreign governments/organisations lies within the remit of MFIN, and is usually sought to finance specific projects. All loan agreements are subject to the final approval of the Minister for Finance, after consulting the CBM on the terms and conditions of each loan. The Debt Management Directorate (DMD) is ultimately responsible for the recording and servicing of such loans. The process of sourcing foreign loans falls exclusively under the responsibility of MFIN.

A detailed analysis of the existing foreign loans due, which as at end 2016 stood at €19,370,000, is provided in Table 16.

Table 16: Foreign Loans Analysis

Foreign Loan	Financing Purpose	Year of Issue	Amount Disbursed	Interest Rate	Date of Maturity	Balance due as at 31 December 2016
				%		€'000's
Council of Europe Fund for Development 2003	Mater Dei Hospital	2003	€75.5 million	4.65	07/05/2018	15,100
Council of Europe Fund for Development 2002	Mater Dei Hospital	2002	€25.5 million	5.06	11/12/2017	2,550
European Union Loan C	Solid Waste Composting Project	1987	€3 million	1.00	15/09/2027	1,206
European Union Loan B	Improvements in the Grand Harbour	1979	€5 million	1.00	15/11/2018	382
Government of Canada	Telephone cables and equipment	1974	CAD 1 million	-	31/05/2024	132
Total						**19,370**

(Source: FR 2016, page 177; AAR 2015, page 46)

In addition to the aforementioned foreign loans, the closing external Public Debt[17] balance of €190,559,000 is inclusive of the EFSF Rerouted Debt amounting to €171,189,000 (Details in Table 14).

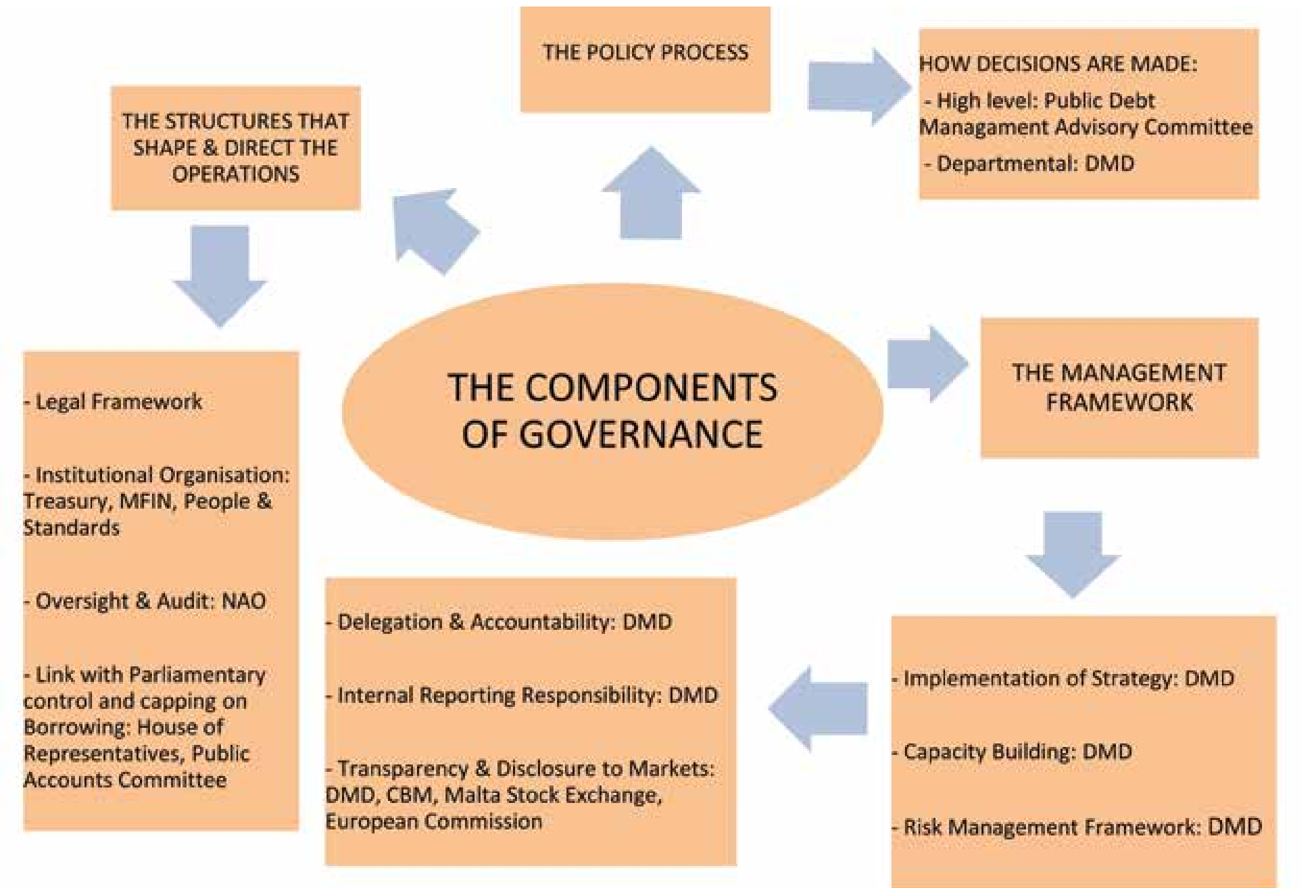
Debt Management

The principal objective of the DMD in its debt and cash management activities is to raise funds, as well as to carry out other financial transactions in such a way as to ensure that the:

a. central Government borrowing programme (short, medium and long-term) is financed prudently and cost effectively consistent with an acceptable level of risk;
b. annual debt servicing expenditure is met at the lowest possible borrowing costs over the long-term and taking into account a prudent level of risk;
c. development of the domestic financial markets is given the necessary support; and
d. liquidity of Government funds is adequate to meet Government's payment obligations as and when they fall due.

The figure below explains how the Maltese Debt Management works in practice.

Figure 1: Debt Management in Practice



(Source: 'The functions of a Sovereign Treasury – Treasury of Malta Perspective')

[17] External Debt (or Foreign Debt) is the total debt a country owes to foreign creditors, complemented by internal debt owed to domestic lenders.

Government Borrowing and Management of Public Debt Act, 2017

During 2016, the Treasury continued to work on the proposed new legislation governing the borrowing and debt management of central Government. In fact, the new Government Borrowing and Management of Public Debt Management Act (GBMPDMA) was then enacted as law on 19 July 2017.

The new legislation shall bring the management of central Government debt in line with International Best Practices in debt management adopted by most industrial countries of the world. The scope of the GBMPDMA is to provide for the governance aspects, high-level policy objectives and institutional arrangement for prudent management of the Government's debt, cash position, as well as liquidity and reserve funds, as detailed in Article 3 of the said Act.

General Economic Factors

General economic factors are likely to have an influence on the nature and extent of Public Debt Management activities. During the year 2016, such factors mainly included:

a. Low Interest Rates

The persistent low interest rate environment within which the DMD had to operate during 2016 had a dual effect. On one hand, it posed a challenge having to raise the needed funding in a small domestic market, whereby investors were being charged negative interest on all Treasury Bills tenor issues, and the MGS investors were experiencing historically low coupons being offered across the entire yield curve. On the other hand, low interest rates had a positive effect on interest expenditure.

b. Brexit

The Brexit vote brought about some increased levels of volatility. The still high degree of uncertainty surrounding the future shape of Brexit has created further volatility in the European bond markets, including local ones as events developed. The channel through which Brexit developments could have affected the DMD was through the effects of a potential depreciation of the Euro, which could have led to higher inflation in the Euro area, compelling the European Central Bank to raise short-term interest rates. However, since the June 2016 UK Referendum the reverse occurred, with the British Pound depreciating considerably against the Euro. This resulted in deflationary pressures on the Euro zone price levels, which bound the European Central Bank to maintain its loose monetary policy. These developments contributed to the persistence of low interest rates in the Euro zone money and capital markets during 2016.

Main Aspects of Debt Management

The five main aspects of Debt Management that need to be audited every year, as part of International Best Practices, include:

Figure 2: Main Aspects of Debt Management

Methodology for the Analysis of Public Debt

As part of this year's analysis of Public Debt, the NAO deemed it appropriate to forward to the DMD a number of queries relating to each of the five main aspects of Debt Management. These questions were based on the existing local Legal Framework and the latest Revised Guidelines for Public Debt Management dated 1 April 2014, as prepared by the World Bank and the International Monetary Fund. Moreover, in preparation for the adoption and implementation of the International Public Sector Accounting Standards (IPSAS)[18] as adopted by the Maltese Government[19], this Office featured a number of additional questions, based on a number of related International Standards of Supreme Audit Institutions (ISSAIs)[20], as well as material issued by the United Nations Institute for Training and Research, all relating to the auditing of Public Debt.

The applied standards are outlined as follows:

a. ISSAI 5410 – Guidance for Planning and Conducting an Audit of Internal Controls of Public Debt
b. ISSAI 5421 – Guidance on Definition and Disclosure of Public Debt
c. ISSAI 5440 – Guidance for Conducting a Public Debt Audit – The Use of Substantive Tests in Financial Audits

In this regard, the Directorate provided a detailed description of the main elements comprising the 2016 Debt Management, as further outlined.

[18] IPSAS are a set of accounting standards issued by IPSAS Board for use by public sector entities around the world in the preparation of the accrual-based FS.
[19] The adoption and implementation of IPSAS by the Maltese Government will revolutionise the current accounting system from a cash to an accruals-based one.
[20] The ISSAIs were issued by the International Organisation of Supreme Audit Institutions.

Characteristics of Public Debt Management Activities

The following two tables[21], as listed in ISSAI 5440, provide checklists of issues drawn from the aforementioned Guidelines for Public Debt Management, which auditors consider when developing their understanding of public debt management. The lists are illustrative and not intended to encompass every characteristic that might be present in the International Organisation of Supreme Audit Institutions countries.

Table 17: Characteristics of Public Debt Management Activities – Institutional Arrangements

Common Institutional Arrangements	Is this feature present in DMD?
An annual borrowing authorisation	Yes
A public debt ceiling limit	Yes[22]
Domestic and foreign currency public debt programs managed together	Not Applicable
Separate public debt management agency	No
Separate front and back offices	Yes
Separate Risk Management Unit (middle office)	Yes
Formal guidelines for managing market and credit risk	No[23]
Annual public debt management reports	Yes
Regular external peer reviews of public debt management activities	No
Annual audits of public debt management transactions	Yes
Code-of-Conduct and conflict of interest guidelines for public debt management staff	No[24]
Business recovery procedures in place	Yes

(Source: ISSAI 5440 – Guidance for Conducting a Public Debt Audit – The Use of Substantive Tests in Financial Audits; Replies provided by the DMD and/or noted by the NAO throughout the Analysis of Public Debt Management)

[21] The two tables were originally compiled by the International Organisation of Supreme Audit Institutions on the basis of a questionnaire sent to public debt managers in many countries in order to identify the key features of public debt management operations. The tables are not meant to be a comprehensive list of factors that should be present in all public debt management arrangements.

[22] In the case of Malta, the public debt ceilings arise from three different legislations or Parliamentary resolutions.

[23] No formal guidelines for managing market and credit risk are available at the DMD. However, upon enquiry, the DMD provided a detailed explanation of how the Directorate manages such risk, as explained further on under 'Risk Control Plan and Procedures' in this Report.

[24] A Code-of-Conduct for public debt management staff is planned to be implemented by early 2018. Further details are outlined later in this Report under 'Responsibilities and Accountabilities'.

Table 18: Characteristics of Public Debt Management Activities – Features of Primary and Secondary Markets

Features of Primary Markets for Public Debt Instruments	Is this feature present in DMD?
Auctions used to issue domestic public debt	Yes
Fixed-price syndicates used to issue domestic public debt	Not Applicable
Benchmark issues for domestic market	Yes
Pre-announced auction schedule	Yes
Central bank participates in the primary market	No
Primary Dealer[25] System	No[26]
Universal access to auctions	Yes
Limits of foreign participation	No
Collective action clause, domestic issues	Yes
Collection action clause, external issues	Not Applicable
Features of Secondary Markets for Public Debt Instruments	
Over-the-counter market	Yes
Exchange-traded market mechanism	Yes
Sound clearing and settlement systems	Yes
Limits on foreign participation	No

(Source: ISSAI 5440 – Guidance for Conducting a Public Debt Audit – The Use of Substantive Tests in Financial Audits; Replies provided by the DMD and/or noted by the NAO throughout the Analysis of Public Debt Management)

Further details on the above-mentioned characteristics will follow in this Report.

Malta Government Stocks – Strategy and Implementation

Government's 2016 borrowing strategy was broadly on the same lines as that of previous years. It continued to tap the domestic capital market, by issuing fixed-rate-Euro-denominated securities (zero currency risk) in the medium and long-term maturity horizons. The conventional fixed-rate MGS constitute Treasury's primary financial instrument by which central Government's borrowing requirements are funded.

As can be seen from the Bid-to-Cover ratios in Table 19 below, there was strong participation from both institutional and retail investors. This strong demand for the MGS has mitigated the risk of relying too much on few domestic players within the local capital market.

Table 19 summarises the issuance performance of the MGS for the year 2016, including the level of overall participation in the MGS issuances.

[25] A Primary Dealer is a bank/financial institution that buys Government securities directly from a Government, with the intention of reselling them to others, thus acting as a market maker of Government securities.

[26] In the absence of a Primary Dealer System within Treasury, the DMD has in place a comprehensive process of reconciliation, including daily reconciliations between Treasury's selling agents and Treasury's accounting system.

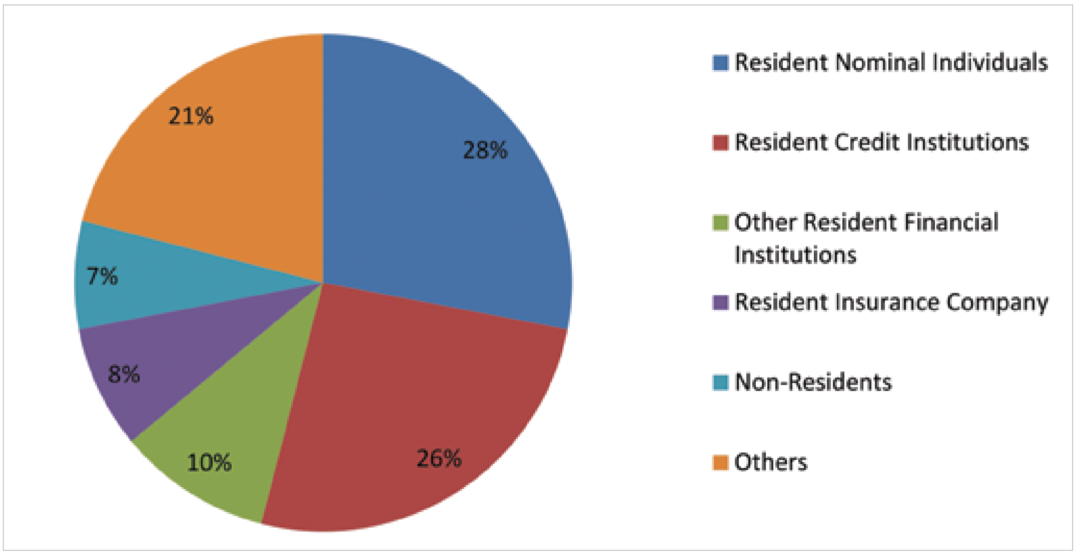
Table 19: 2016 Malta Government Stocks Issuance Performance

Date	On offer (plus over-allotment) €'million	Total participation €'million	Bid-to-Cover
February[27]	120 + 80	201.9	1.7
March[28]	50 + 30	151.3	3.0
August[27]	100 + 60	185.8	1.9
October[27]	100 + 60	187.8	1.9
Totals	**370 + 230**	**726.8**	

(Source: DMD 2016 Annual Report, page 4)

The distribution of the MGS among the different types of investor categories as at 31 December 2016 is depicted in Chart 4. The two most significant holders of the MGS are resident nominal individuals and resident credit institutions, with 28% and 26% respectively. Resident insurance companies held 8%, whilst other resident financial institutions held 10%. The level of non-resident holdings increased one percentage over the year to 7%. Holdings by other investors, principally resident entities not falling under the main categories, including non-profit entities, Local Councils and public non-market units collectively amounted to 21%.

Chart 4: Malta Government Stocks Holder Distribution as at 31 December 2016

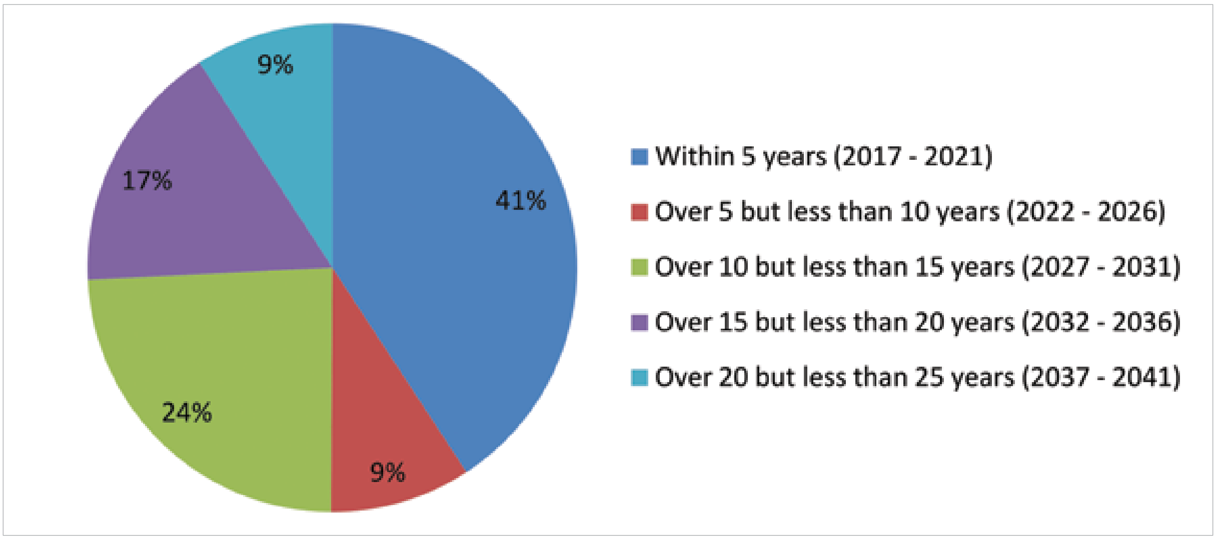


(Source: DMD 2016 Annual Report, page 5)

The gross outstanding nominal value of the MGS as at 31 December 2016 reached €5,206,453,986, representing a 3.6% increase over the end-2015 balance. Forty-one percent of the total existing MGS, as at 31 December 2016, are due for redemption by Government within five years. Moreover, a further 9% are due for redemption ranging between six and ten years. Further analysis is illustrated in Chart 5.

[27] February, August and October issues were over-subscribed by retail investors.
[28] Issue (by auction) targeted for institutional investors only.

Chart 5: Maturity Profile of Malta Government Stocks as at 31 December 2016



(Source: FR 2016, pages 174-176)

The refinancing volume within the next five years is more or less equally distributed over the five-year period, thus making the refinancing of maturing debt more manageable. As it had done in the past, the DMD may also make use of Bond switches to mitigate further the rollover risk, if it is deemed appropriate. In the current low interest rate scenario where interest rates touched historical lows, the DMD deemed it suitable to issue longer dated bonds with a relatively attractive coupon intended for investors in search of bonds that yield a higher return. Moreover, in 2016, the Directorate continued tapping the longer end of the yield curve, extending it further to 2041.

At the end of the year 2016, the Weighted Average Maturity (WAM) of the MGS was extended further to 9.8 years, a 13% increase over last year's metric, which stood at 8.7 years. This was a deliberate policy adopted during the years mainly intended to bring about an easing in redemption profile thus limiting roll-over risk.

The WAM compares very well with other EAMS, as well as with other G7[29] countries. In fact, a publication of the Organisation for Economic Co-operation and Development (OECD) on the Sovereign Borrowing Outlook for the year 2016, estimated that the average of outstanding marketable central Government Debt in selected OECD countries has been close to eight years in 2015.

Treasury Bills – Strategy and Implementation

The Directorate also issued weekly Treasury Bills to support its daily cash management activity given that Treasury Bills is the only instrument used in the management of cash operations. As in previous years, in 2016 the Directorate made extensive use of the instrument in order to manage the cash balance at the CBM and smooth the fluctuations in the balance arising from the mismatch between the timing of receipts and payments. As at the end-of-year 2016, the Treasury Bills balance was increased by €32 million over the 2015 closing balance, to reach €254 million.

The year 2016 was fully characterised by negative yields across the global money market spectrum. This implies that bidders were willing to pay, rather than receive interest, to lend their money to the Government. In fact, the interest earned on Treasury Bills issued in 2016 amounted to €779,047, compared to €75,539 earned in the previous year.

[29] The Group of 7 (G7) is a group consisting of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States. These countries, with the 7 largest advanced economies in the world, represent more than 64% of the net global wealth.

Funding Programme

In 2016, funds were raised to finance:

a. the redemption of four MGS amounting to €417.8 million;
b. the repayment of a bank loan of €56.4 million with a commercial bank maturing in 2016; and
c. to effect changes in central Government's debt portfolio, in line with Government's debt management policies.

Risk Control Plan and Procedures

The main risks faced by the DMD are further explained in Figure 3:

Figure 3: Main risks faced by Debt Management Directorate

a. Market Risk

The Directorate's exposure to market risk is mainly related to the interest rate given that all marketable debt is issued in the domestic currency. The interest rate risk exposure is managed in two main areas arising from weekly cash management operations and on a daily basis monitoring of the interest rate in the MGS secondary market.

b. Interest Rate Risk

The interest rate risk of central Government Debt portfolio as at the end-of-year 2016 for debt maturing in respect of Floating-Rate Notes within one and five years, stood below the Euro Area average. For prudence purposes, and in order to mitigate the risk from an increase in interest, the Directorate keeps the level of Floating-Rate Debt below 10%. As at 31 December 2016, such ratio stood at 4.77%.

c. Exchange Rate Risk

At the end of 2016, all central Government Debt was denominated in domestic currency, except for a minor balance of €132,154, representing only less than 0.002% of the total debt at year-end, rendering such risk immaterial.

d. Refinancing Risk

Rollover risk is traditionally and conceptually assessed by the debt metric known as the WAM. As already highlighted under the maturity profile of the MGS, over the past years, the DMD has pursued a strategy of lengthening the average maturity of its debt portfolio. This contributed to a reduction of rollover risk.

e. Liquidity Risk

The DMD takes a broader time horizon of the cash flow projections based on information made available to the Directorate. These projections are fine-tuned every week before the Treasury Bills' take-up. When planning the monthly Treasury Bills' calendar, the Directorate's officials take into consideration various factors, such as the expected stream of revenue and expenditure, as well as financing items falling due in a particular week and the target balance of Treasury Bills at the end of the year.

Despite ongoing challenging market conditions prevalent through the priod under review, in particular the negative/low yield environment, the DMD successfully delivered its cash management objectives conducting smooth retail issuances.

f. Credit Risk

The financial transactions that arise from the DMD's activities are recorded in the Consolidated Fund. The Directorate is responsible for the liabilities side of the financial transactions, which mainly involves the issuance of Government securities. The monitoring of receipts arising from investments held by Government does not fall within the remit of the DMD, except for the receipt of interest from the Greek loans[30]. Moreover, the Treasury does not enter into derivative contracts related to the management of risk of its debt portfolio. Thus, risks arising from counterparties from such contracts do not arise.

g. Settlement Risk

The Directorate encounters no such risk, since Treasury does not have any interest swap agreements or any other financial contracts directly related to the risk management of its portfolio. As a result, the DMD's exposure to the delivery of a security after the payment is made, is only limited to a small number of transactions related to the Sinking Funds. The exposure arising from these transactions does not create any risk in view of the quality of the counterparties with which such transactions are conducted. Moreover, in the case where investors who were successful at the auction and allotted Treasury Bills or the MGS, fail to pay the amounts due, the Directorate will not register the investment in their name with the Malta Stock Exchange (MSE). In addition, the retail investors who subscribe for the MGS are required to pay for the Stocks applied for with the application.

h. Operational Risk

The Directorate ensures that its business operations are fully supported by efficient and secure systems and processes. The identification, monitoring and mitigation of operational risks are discussed with Senior Management staff and functional teams on a regular basis. Senior staff regularly monitors and reviews significant risk issues stemming from existing, as well as new business activities. In order to ensure that reputation risk is kept to the minimum, the Directorate keeps a customised operational logbook, whereby all officers involved in Debt Management operations document the critical actions that must be taken in connection with the servicing of debt. Moreover, an important element in the DMD's control framework to mitigate the risks arising from human errors is the segregation of duties to ensure independent checking and reconciliation, as well as avoid concentration of key activities on individuals or small groups of staff. A case in point is the segregation of duties, which takes place between front and back office activities.

[30] A financial transaction entered into by Malta as an EAMS, as part of its commitments at European level to participate in a financial support programme to the Hellenic Republic.

i. Fraud Risk

In order to minimise such risk, the DMD's systems and procedures include a number of functions inbound in all processes as a means of control, such as approvals and authorisations from senior staff prior to proceeding with a particular process. A number of random checks are performed throughout all processes in order to avoid as much as possible errors and other risks. Moreover, the outcomes of the Directorate's debt issuance processes are immediately published on the Treasury's website, and are thus subject to scrutiny by external users. When it comes to the external users, the DMD performs a number of checks on the data received from third parties, including information received from Investment Services Providers.

Risk Management Framework

In 2013's AAR, the NAO recommended that an implicit risk management framework was to be created and regularly updated by the DMD as necessary. This will provide the necessary evidence that the structured risk plan is actually carried out. In the same AAR, the Directorate commented that the forthcoming GBMPDMA shall require the Minister for Finance to prepare a medium-term Debt Management strategy. Such strategy will set forth Government's strategic priorities that guide its borrowing policies and Debt Management operations, and seeks to achieve the objectives of public Debt Management, by assessing the range of cost and risks to the debt portfolio.

The strategy, covering a time horizon of a minimum of three years, is to be approved by the Minister for Finance and shall take into account:

a. the future borrowing needs of the Government;
b. the current conditions and medium-term outlook on macroeconomic and market conditions;
c. macroeconomics and other shocks to which the economy is exposed; and
d. any other factors that may be related to market development and the public debt management strategy.

The NAO satisfactorily noted that these points were actually included in the new GBMPDMA, enacted in July 2017. Upon enquiry by this Office for an update on this matter for the year 2016, the DMD stated that since the Act was not yet enacted, the medium-term Debt Management strategy was not yet formally compiled. Notwithstanding this, Government's strategic priorities, risk management tolerances, as well as policies, were thoroughly discussed during the Public Debt Management Advisory Committee (PDMAC) meetings. Various meetings were also held during the year with the CBM and the MSE, to discuss risk management, the medium term macro-economic outlook, as well as market conditions, including other factors that may be related to market development.

Moreover, the DMD explained that it considers the management of risk related to the management of the Government debt portfolio as an integral part of a wider strategic debt management framework based on the best practices of comparable sovereign borrowers. The risk management function is a central feature of the Directorate. It is a fact that strategic benchmarks play a key role in the control of risk. In its function as a management tool, the benchmark requires the Government to specify its risk tolerance and other portfolio preferences concerning the trade-off between expected cost and risk.

Debt Sustainability Analysis

The International Monetary Fund Guidelines require public debt managers to regularly conduct stress tests of the debt portfolio based on the economic and financial shocks to which the Government and the country more generally are potentially exposed. In this regard, the Economic and Policy Department within MFIN performs Debt Sustainability Analysis and presents alternative debt trajectories based on alternative GDP forecast, interest rate and primary balance, including a scenario with a call of contingent liabilities.

Other functions performed by the Debt Management Directorate

During 2016, the DMD carried out additional but equally crucial functions, including:

a. monitoring of Government Debt and the Debt Portfolio;
b. coordination with Monetary, Fiscal and Financial Sector Policies;
c. promoting efficient markets in Public Debt Instruments; and
d. maintaining relations with Stakeholders, Sovereign Credit Rating Institutions and Other Institutions.

Responsibilities and Accountabilities

The operational responsibility for debt management activities of the DMD is separated into Front, Middle and Back Offices with distinct functions and accountabilities, and separate reporting lines. This is in line with the Best International Practices. The Front Office executes Government's debt policy regarding the issuance of securities, the Middle Office undertakes market research and analysis, while the Back Office deals with the registration, administration and settlements of central Government debt.

International Guidelines recommend that staff involved in debt management should be subject to a code-of-conduct and conflict-of-interest rules regarding the management of their personal financial affairs. In this regard, the Directorate confirmed that based on the NAO's previous years recommendations, a draft code-of-conduct was approved by MFIN and will be discussed with the debt management officers.

In addition, the DMD pointed out that all the issuances of MGS are subject to the scrutiny of all the members of the PDMAC. The final decision on which stock and coupon is to be issued on the primary market is discussed and approved by the PDMAC.

Internal Audit Function

Similar to what was reported in last year's AAR, the DMD stated that even though it does not have an Internal Auditor, there are a number of functions inbound in all processes as a means of control, including authorisations from senior staff prior to proceeding with a particular process, and random checks of the work performed. Moreover, the DMD stated that from time to time Senior Management reviews and monitors the internal controls and updates them where necessary, without introducing unnecessary bureaucratic procedures which may hinder the efficiency of the day-to-day operations of the Directorate.

Additionally, as with all Departments, the DMD is subject to any internal audits that the Internal Audit and Investigations Department may wish to undertake, apart from external ones conducted by the NAO.

Accounting, Communication and Information Technology Systems in place

All transactions in connection with the MGS and Treasury Bills are recorded on the Departmental Accounting System (DAS). As a means of control, a small number of officers within the DMD have access to DAS, whilst there is one Senior Officer within the Directorate responsible for inputting all debt transactions in DAS.

The DMD aims at using a transparent debt management framework supported by strong internal and external communication policy. The Directorate views transparency in its debt management operations as an enabler of credibility, accountability and predictability. The DMD adopts consistent standard measures and indicators, as well as publishes the central Government debt statistics in a timely manner. Moreover, the Treasury announces and publishes all the data/information in connection with the MGS and Treasury Bills on its website, and disseminates information to the MSE and Investment Services Providers.

The Directorate keeps all data in respect of the MGS issuance, Treasury Bills, and interest payable, on spreadsheets, which were specifically compiled to accommodate the Directorate's requirements. These templates are used to conduct the MGS and Treasury Bills auctions, compile auction results and publications to the market, as well as serve as a general database for the Middle Office from which analytical reports, budgeting forecasts and plans are compiled. In this regard, the spreadsheets are central to the DMD achieving its objectives for the release of accurate debt management data.

In addition, the Directorate has in place business continuity arrangements to ensure it is able to continue its market operations in the event of an internal or external incident that undermines the operations. With the support of the Information and Communications Technology Business Unit within Treasury and the Malta Information Technology Agency (MITA), there is Information Technology (IT) recoverability of data facilities. The DMD also has online access (viewing facility) to the MGS Register maintained by the MSE, and to the Public Account held at the CBM.

As already recommended in the previous years' AAR, the debt management activities should be supported by a reliable, accurate and comprehensive IT management system with proper safeguards, which produces accurate debt data and ensures timely payment of debt service. The IT management system is to capture all relevant cash flows, be fully integrated with the Government's accounting system, as well as enable the management of the medium-term strategy, cash management and contingent liabilities.

Upon enquiry by this Office for an update on this issue, the DMD confirmed that this will be addressed once the Corporate Financial Management System (CFMS)[31] is implemented. Any new debt reporting system to be procured by Treasury must be compatible with the CFMS and thus a new system can only be procured once the CFMS is fully implemented. Nevertheless, the safeguards for timely payment of the debt servicing (interest/capital repayment) depend on the close coordination among Treasury, the MSE and the CBM, as well as having in place an audit trail system as that adopted by Treasury to track the movements of pending processes until payment is effected. The MSE generates the interest and redemption reports through their IT infrastructure in line with the statutory provisions and existing agreement between Treasury and the MSE. Upon receipt of the electronic payment file, it is referred to the CBM to be uploaded in the CBM's system; the Single Euro Payments Area ('SEPA')[32], for execution of payment on the due date.

Business Recovery Procedures

A back up of all data and information held on the aforementioned spreadsheets is kept by MITA in accordance with Government's policy. The IT Section within Treasury is responsible for these daily backups. Similarly, operational transactions related to the management of the Government Debt Portfolio are held and backed up on MITA servers, whilst the maintenance of the Government Securities' Register is under the responsibility of the MSE.

In addition, the DMD holds a hard copy of all the applications received in respect of all Stocks issued for seven years after the maturity date of the security. This represents one year more than the Government's discharge of liability on the Stock as prescribed by the law. The NAO recommends Treasury to consider keeping a scanned copy of these applications, thus saving on storage space.

[31] The CFMS shall be a full-accrual accounting package that Government will be implementing as part of its move towards accrual accounting.

[32] The 'SEPA' is where more than 500 million citizens, over 20 million businesses and European public authorities can make and receive payments in Euro under the same basic conditions, rights and obligations, regardless of their location.

Financial Aspect

Table 20 portrays the servicing cost of the central Government Debt.

Table 20: Central Government Debt Interest Expense

Description	2016 €	2015 €	Variance €
Local Loans: Treasury Bills	379	108,047	(107,668)
Malta Government Stocks	221,035,014	228,158,924	(7,123,910)
Ex-Malta Drydocks/Malta Shipbuilding Co. Ltd Loan	1,089,378	2,246,458	(1,157,080)
Sub-Totals (Local)	**222,124,771**	**230,513,429**	**(8,388,658)**
Foreign Loans	1,329,351	1,817,317	(487,966)
Totals	**223,454,122**	**232,330,746**	**(8,876,624)**

(Source: FR 2016, pages 139-141)

During year 2016, the overall servicing cost of Government's debt totalled €223.5 million, resulting in a decrease of €8.9 million over the previous year.

Notwithstanding the higher level of outstanding MGS when compared to 2015, the interest expenditure on MGS in 2016 amounted to €221 million, or a 3.1% less than the interest paid in 2015. These results were achieved as Treasury started to reap the benefits of the low interest environment that characterised the sovereign debt market in the past years, whereby the Treasury managed to replace Stocks offering higher coupons with Stocks offering lower coupons. Moreover, in 2016, Treasury took the opportunity to lock debt at very low interest rates, whilst at the same time it extended further the WAM of the MGS portfolio. The strategy to issue the MGS in the long end of the curve was intended to take advantage of the low interest rate environment and lock in at low rates for long dated Stocks, as well as satisfy the strong demand from the retail sector. In fact, this strategy has had a positive impact on the WAM of central Government's debt portfolio. In addition, the MGS portfolio Weighted Average Coupon[33] as at 31 December 2016 continued to decrease to 4.25% from 4.56% a year earlier.

Furthermore, the servicing cost on ex-Malta Drydocks/Malta Shipbuilding Co. Ltd loan, foreign loans and local short-term debt decreased by €1.2 million, €0.5 million and €0.1 million respectively.

Contingent Liabilities

As already reported in previous years' AARs, risk assessment needs to be carried out by the DMD prior to a Guarantee being granted in favour of the entity. Moreover, where contingent liabilities exist, information on their cost and risk aspects should be disclosed in the Public Accounts. Since it was stated in the same Reports that Government Guarantees were not being managed by the DMD, but resided within the MFIN, this Office expressed its opinion that there should be a link between Treasury and the MFIN with regards to Government Guarantees. Furthermore, this Office had recommended that the Directorate should be properly equipped to be able to assess the risks associated with a particular guarantee before it is actually granted.

In addition, the NAO also recommended that Government should monitor the risk exposures that it is entering into through its explicit contingent liabilities, and ensure that it is well informed of the associated risks of such liabilities.

[33] The Weighted Average Coupon of the MGS portfolio is the weighted average gross interest rate of the outstanding MGS portfolio at a particular point in time, in this case, 31 December 2016.

In such cases, the DMD should not only be informed of the contingent liabilities that the Government intends to undertake, but also be conscious of the conditions that could trigger such liabilities.

Upon enquiry by this Office, during this year's analysis, the DMD confirmed that up to the date of writing of this Report, the responsibility, including the scrutiny of Government Guarantees, lied within MFIN remit.

Cash Management

Strategy and Implementation

The latest Revised International Guidelines stipulate that there should be cost-effective cash management policies in place to enable the authorities to meet their financial and budgetary obligations as they fall due. The need for cost-effective cash management recognises that the window of opportunity to issue new securities does not necessarily match the timing of expenditures. A liquidity buffer consisting of cash, liquid financial assets, and contingent credit lines can provide flexibility in debt and cash management operations, in the event of temporary financial market disturbances.

In seeking to ensure that sufficient funds are always available to meet any net daily Government cash shortfall, the DMD collaborates with the Cash and Banking Units of the Treasury to obtain timely forecasts of central Government cash flows and end-of-day account balances. The efficiency and effectiveness with which cash management operations are conducted, very much depends on having accurate, detailed and timely cash forecasts, which are communicated to the Directorate.

In formulating these forecasts, Treasury relies heavily on the information provided by Ministries and Departments. For this purpose, all Ministries and Departments are required to send on the first week of January, a statement of Cash Flow Projections, split on a month-by-month basis, covering a financial year ending on 31 December. To streamline and secure a more reliable forecast of cash flows, both major revenue earning and heavy spending Departments are required to submit their Statement every month, with cash flow revisions submitted on a weekly basis in advance.

Moreover, the DMD seeks to maintain an adequate minimum balance at the CBM. In this context, the Directorate issues Treasury Bills on a weekly basis to fine-tune any fluctuations to the cash balance at the CBM. In this way, it offsets the impact on the CBM's cash balance, which arises from the mismatch between the timing of receipts and payments, and at the same time ensures that adequate cash is available to meet Government's daily expenditure.

The Directorate has also developed a spreadsheet model which forecasts Government's financing needs for a number of weeks ahead. Such forecasts are derived using a hybrid approach, by basing forecasts on previous years' trend of actual revenue and expenditure, whilst factoring in current budgetary forecasts of income and expenditure for the year. This model takes into account foreseeable substantial expenditure items, which would be 'accurately known' well in advance, such as wages, social security benefits, interest payments and redemptions.

Close coordination between Cash and Banking Units of the Treasury and the DMD is vital for the latter to take debt issuance decisions, in the context of achieving its objective, to meet Government's daily obligation in the most cost-effective manner.

Liquidity Buffer

In the unlikely event that emergency funds would be required after the Treasury Bills' auction is held, and cannot be met, either in full, or partly from the CBM account, the DMD can resort to the temporary transfer of funds from:

a. the Sinking Funds to the CBM account, and redeposited again in the former together with the interest due; and
b. other Department bank accounts held with the CBM, after directly consulting the particular Department.

Government Annual Report

(Source: Government Annual Report 2016 published by MFIN in June 2017)

In June 2017, MFIN published the Government's Annual Report for the year 2016, in line with Article 41 of the FRA. As required in terms of Article 41(2) of the same Act, the Government's Annual Report provides information on the execution of the Budget for 2016 and compares the outcomes with the strategic objectives and priorities outlined in the fiscal strategy and the fiscal targets, as announced in the Budget for the same year. It analyses how the Government has respected the principles and rules stipulated in the FRA.

The Government's Annual Report also shows how the fiscal and budgetary policies in the completed budget year are in line with the Medium-Term Objective stipulated in the fiscal strategy, and provides explanations regarding any deviations in the context of the Government's European commitments, in particular the terms of the Stability and Growth Pact.

Moreover, in July 2017, the Malta Fiscal Advisory Council published its overall assessment of the Government's Annual Report, in line with Article 13 of the FRA. The Council considered that the 2016 Annual Report published by MFIN adequately met the requirements prescribed in Article 41 of the FRA. However, the Council encouraged MFIN to explore more fully the reasons why certain fiscal targets have been missed or exceeded, in order to draw useful insight, thus improving the forecasting framework in future rounds. The Council also suggested that MFIN's Annual Report could serve as a good medium through which the Ministry reacts publicly to the recommendations made by the Council, thereby contributing to further enhanced fiscal transparency.

Letters of Comfort and Bank Guarantees

The position of Contingent Liabilities as at 31 December 2016, otherwise referred to as Government Potential Debt, as reported upon in Part I of the FR 2016 and comparative figures for 2015 are reproduced in Table 21.

Table 21: Contingent Liabilities

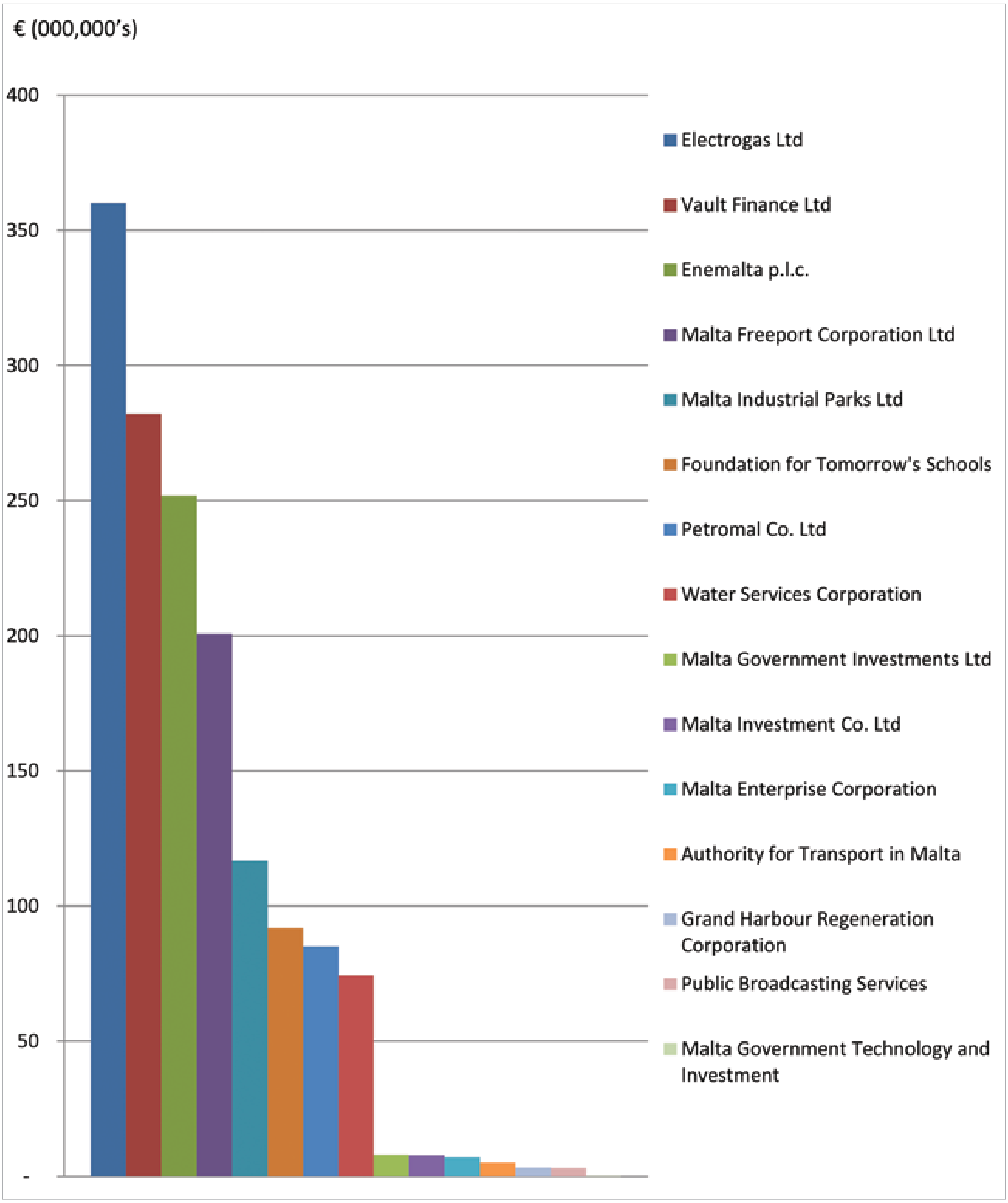
	2016 €	2015 €
Government Guarantees:		
Local	809,541,065	812,171,140
Foreign	655,428,566	644,520,281
	1,464,969,631	1,456,691,421
Letters of Comfort	31,268,828	25,276,434
Totals	**1,496,238,459**	**1,481,967,855**

Premiums received by Government during 2016, with respect to Letters of Comfort and Bank Guarantees amounted to €1,417,788, which revenue was appropriately accounted for under 'Guarantee Fees' in MFIN vote.

The shortfall in guarantee premiums from the previous year (2015: €11,756,545) was caused by a one-time payment during 2015 in respect of a guarantee issued in favour of Electrogas Ltd, covering the whole duration of the loan facility. Moreover, in 2015, the majority of guarantees in favour of Enemalta p.l.c. were also withdrawn.

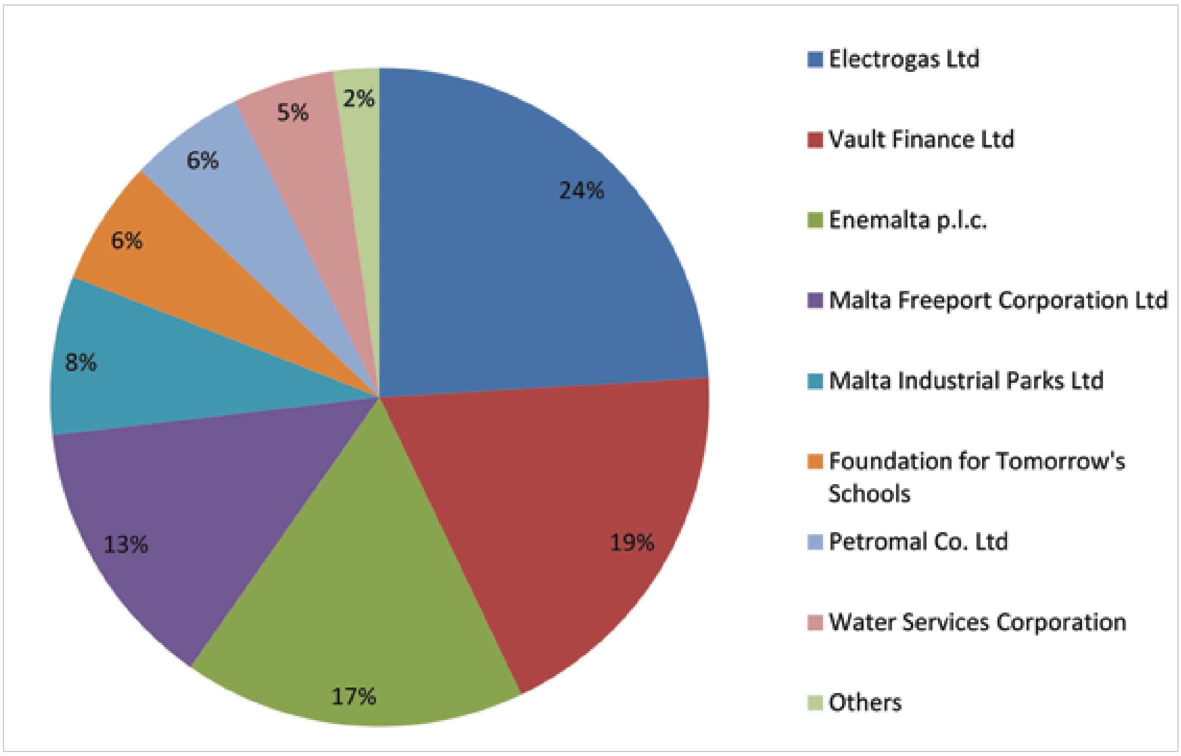
A breakdown by entity is shown in Chart 6, representing a spread of 36 Letters of Comfort and Bank Guarantees issued in favour of 15 entities.

Chart 6: Letters of Comfort and Bank Guarantees for the year ended 31 December 2016



Indeed, the majority of these guarantees were given to eight entities, accounting for 98% of the aggregate outstanding amount as at end 2016. The energy sector absorbed 66% of such guarantees, whilst other sizeable guarantees related to water services, the industrial sector and education. Chart 7 refers.

Chart 7: Outstanding Guarantees



Further details of each Letter of Comfort and Bank Guarantee is explained in Table 22.

Table 22: Actual Guarantees made by Government

Beneficiary	31 Dec 2016 €	31 Dec 2015 €	Remarks
Enemalta p.l.c.	140,154,672	146,673,368	This Guarantee secures loan taken on 22 September 2008 to part-finance the Corporation’s investments in the national electricity supply system and distribution network.
	11,637,234	34,117,600	A Letter of Guarantee was issued for €50,000,000 on 9 December 2010, to secure loan facility in connection with the construction of interconnector between Malta and Sicily.
	100,000,000	100,000,000	This Guarantee secures loan for €100,000,000, taken on 20 December 2010, to part-finance the construction of the interconnector between Malta and Italy.
	251,791,906	**280,790,968**	

Table 22: Actual Guarantees made by Government *cont./*

Beneficiary	31 Dec 2016 €	31 Dec 2015 €	Remarks
Malta Enterprise Corporation	698,816	987,558	The Letters of Comfort issued to cover the Loan Guarantee Scheme taken over from the Institute for the Promotion of Small Enterprise Ltd, and the New Enterprise Loan Guarantee Scheme, were replaced by Letters of Guarantee for €2,911,717, dated 19 May 2009 and 3 March 2010.
	2,500,000	2,500,000	Letter of Guarantee issued on 6 July 2001 to secure loan/credit facilities made available to the Corporation.
	-	2,036,890	A Letter of Guarantee issued on 21 October 1991 for the amount of €5,823,433 was reduced to €2,500,000 in 2012.
	-	101,680	On 26 February 2015, a Letter of Guarantee was issued with a local bank to secure overdraft facility of €500,000.
	1,380,649	1,232,473	On 12 August 2015, a Letter of Guarantee for €2,500,000 was issued to secure increased overdraft facility to finance soft loan schemes.
	2,378,630	1,710,335	On 3 November 2015, a Letter of Guarantee for €2,500,000 was issued with a local bank to secure increased overdraft facility to finance soft loan schemes.
	6,958,095	**8,568,936**	
Water Services Corporation	39,830,621	46,531,583	Two Letters of Guarantee issued on 30 April 2007 in connection with Loan 1 facility for €22,594,922 and to secure general banking facility for €4,658,747. Another Letter of Guarantee was issued on 1 October 2008, originally for €37,269,974, to cover general banking facility. Letter of Guarantee with a local bank issued on 30 April 2007 for €9,317,494 to secure Loan 2 facility was cancelled during the year.
	34,519,056	36,818,437	On 30 November 2007, the Water Services Corporation entered into a Guarantee agreement with a foreign bank for €40,000,000 to undertake a project concerning investments in the sector of water supply and wastewater collection and treatment.
	74,349,677	**83,350,020**	

Table 22: Actual Guarantees made by Government *cont./*

Beneficiary	31 Dec 2016 €	31 Dec 2015 €	Remarks
Malta Freeport Corporation Ltd	-	3,540	Letter of Guarantee was issued in substitution of the Letter of Guarantee covering the balance on the loans of €18,052,644.
	200,754,838	200,754,838	On 20 January 2004, Malta Freeport Corporation Ltd entered into a Currency SWAP agreement with a private company over the 2028 bonds (original denomination US $250,000,000). This SWAP agreement is guaranteed by the Government of Malta, but does not increase the overall exposure of the Government of Malta. As a result, the currency denomination has been changed to Euro.
	200,754,838	**200,758,378**	
Malta Industrial Parks Ltd	14,150,667	15,844,552	Letter of Comfort issued on 31 January 2007 in connection with the development of a specialised facility at Luqa Airport leased land. This Letter of Comfort was replaced by a new one dated 10 March 2011 for €27,000,000, and again superseded on 10 July 2012.
	2,431,790	2,511,054	Letter of Comfort dated 10 March 2011 for €6,000,000 replaced a former Letter of Comfort issued on 4 February 2008 to secure loan facility in connection with capital projects. This Letter of Comfort was amended to €4,500,000 and dated 10 July 2012.
	9,012,925	-	A Letter of Comfort was issued with a local bank on 25 July 2014 to secure loan facility for the construction of an aircraft hanger and taxi way within the Malta International Airport.
	9,636,293	10,045,647	A Letter of Guarantee, originally amounting to €13,000,000, was issued to secure loan facility. This was superseded by Letter of Guarantee dated 10 July 2012 for €11,650,000.
	498,912	754,811	A Letter of Guarantee, originally amounting to €7,500,000, was issued with a commercial bank in connection with the Medavia Project, to replace a Guarantee dated 4 March 2010 in favour of Malta Enterprise. This was superseded by a Letter of Guarantee dated 10 July 2012.
	8,534,777	8,059,796	On 9 August 2012, Letter of Guarantee was issued to secure loan facility of €12,000,000.

Table 22: Actual Guarantees made by Government *cont./*

Beneficiary	31 Dec 2016 €	31 Dec 2015 €	Remarks
Malta Industrial Parks Ltd *cont./*	-	595,000	Letter of Guarantee issued on 10 July 2012 with a local bank to supersede the one issued on 12 June 2009 to cover a Bank Guarantee facility.
	1,298,455	1,380,774	Letter of Guarantee issued on 3 January 2013 with a local bank to secure loan facility of €3,000,000.
	27,425,012	28,526,129	On 5 December 2014, a Letter of Guarantee was issued for €29,600,000 to secure loan facility.
	43,673,353	45,640,482	On 24 September 2014, a Letter of Guarantee was issued to secure a loan facility of €50,000,000.
	116,662,184	**113,358,245**	
Malta Government Technology and Investment	**164,404**	**290,318**	A Letter of Comfort was issued for €1,000,000 on 12 February 2009 to secure loan facility. This was replaced by a Letter of Guarantee dated 12 March 2009 for the same amount.
Malta Government Investments Ltd	**8,000,000**	**8,000,000**	On 23 April 2014, a Letter of Guarantee was issued to secure loan facility of €15,000,000.
Foundation for Tomorrow's Schools	**91,746,451**	**76,241,307**	A Letter of Guarantee issued on 29 August 2013 to secure loan facilities for €123,200,000 in replacement of Letter of Guarantee dated 19 September 2011.
Authority for Transport in Malta	-	1,087,868	A Letter of Guarantee was issued for €11,086,270 on 11 August 2011 to replace the former Letter of Guarantee, amounting to €13,976,240, which was issued on 29 March 2010. This was cancelled during the year.
	5,000,000	5,000,000	On 31 January 2014, a Letter of Guarantee was issued to secure loan facility of €5,000,000 to replace Letter of Comfort of €56,000,000 dated 9 February 2011.
	5,000,000	**6,087,868**	
Grand Harbour Regeneration Corporation	2,378,224	2,192,972	A Letter of Comfort issued on 31 October 2012, to secure overdraft facility and finance services/works associated with the City Gate project. This Letter of Comfort was replaced by a new one dated 27 January 2015 for €2,500,000. Subsequently, this Letter of Comfort was replaced by one for €3,300,000 dated 3 March 2015.
	750,000	-	A Letter of Comfort was issued with a local bank on 4 July 2013 to secure general banking facility to finance the working capital requirement of the Corporation.
	3,128,224	**2,192,972**	

Table 22: Actual Guarantees made by Government *cont./*

Beneficiary	31 Dec 2016 €	31 Dec 2015 €	Remarks
Public Broadcasting Services	2,545,222	3,030,856	Letter of Comfort issued on 26 September 2012 to secure loan facility up to €6,800,000 to finance investment in equipment upgrade and the development of the company's properties.
	330,000	53,656	A Letter of Guarantee was issued on 20 April 2015 to secure guarantee facility of €330,000.
	2,875,222	**3,084,512**	
Vault Finance Ltd	**282,026,435**	**290,548,560**	Letter of Guarantee issued on 31 December 2012 to secure loan facility for €318,500,000 and replace Enemalta Guarantees.
Electrogas Ltd	180,000,000	160,273,638	A Letter of Guarantee was issued on 31 July 2015 to secure loan facilities with two local banks for €90,000,000 each.
	180,000,000	160,273,638	A Letter of Guarantee was issued on 31 July 2015 to secure loan facilities with two foreign banks for €90,000,000 each.
	360,000,000	**320,547,276**	
Malta Investment Management Co. Ltd	**7,781,023**	**1,451,495**	On 30 April 2014, a Letter of Guarantee was issued to secure loan facility of €10,000,000.
Petromal Co. Ltd	**85,000,000**	**85,000,000**	On 27 August 2014, a Letter of Guarantee was issued to secure a loan facility of €85,000,000 to finance the takeover of Enemalta's Petroleum Division.
Enemed Ltd	**-**	**1,697,000**	Letter of Comfort was issued on 16 February 2015 in connection with a foreign exchange facility of €8,000,000.
Totals	**1,496,238,459**	**1,481,967,855**	

These Letters of Comfort and Bank Guarantees offered to Government entities and the EBU may translate into dues up to almost €1.5 billion by Government, should the companies call upon the latter to make good for their debts. This represented an increase of €14,270,604 (0.96%) over the amount reported in the previous year, which movement also represented 0.14% of the GDP for 2016, bringing total guarantees at 15.12% of the GDP.

Government's exposure of €1,496,238,459 differs from that as reported by the National Statistics Office (NSO), at €1,399,258,879 the latter reporting Guarantees to Eurostat in line with the European System of Accounts (ESA2010). Upon further enquiry, the NSO confirmed that, "... *the sector coverage is the General Government Sector; made up of the Budgetary Central Government, the Extra Budgetary Units and the Local Government*." The NSO eliminated "*Guarantees granted between units of General Government* ... ... *as their debt is already accounted for in the government debt* ...", i.e. the NSO data includes guarantees granted by the EBUs but excludes guarantees provided to the EBUs.

Creditors' Analysis

In order to facilitate regular monitoring and evaluation of the implementation of the approved budget, Article 39(5) of the FRA, 2014, mandates that "*Heads of Ministries, Departments, Authorities and other entities shall ensure full observance and compliance with the statutory and other reporting requirements as provided in this Act or as may be prescribed, from time to time, by the Ministry for Finance, the Treasury and/or the National Statistics Office* ...". Failure to abide by the provisions of the Act shall lead to disciplinary proceedings.

According to MF Circular No. 10/2001 – 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors', a quarterly analysis of creditors shall be submitted on the prescribed template to the Accountant General within seven days after the end of the specified monthly period.

Fifty-three Ministries and Departments submitted to Treasury an 'Analysis of Creditors' as at 31 December 2016, in the required accruals' template. Total creditors reported in this analysis amounted to €114,312,575 as at year-end. Corradino Correctional Services, the Institute for Tourism Studies and the Gozo General Hospital failed to submit to Treasury the 'Analysis of Creditors' form as at year-end 2016. The opening balance as at 1 January 2016 was made up of balances submitted by the same amount of Ministries and Departments, with an aggregate amount of €137,336,618. At the end of the year under review, eight Ministries and Departments reported a 'Nil' creditors balance in their Return. Merely, €279,802 of total creditors related to contested amounts. Table 23 shows an ageing analysis of the remaining creditors' balances as at 31 December 2016:

Table 23: Ageing of Remaining Creditors

Days Overdue	2016		2015	
	Amount Due	Percentage	Amount Due	Percentage
	€	%	€	%
01 - 30	12,322,689	10.81	38,501,487	28.09
31 - 60	16,231,334	14.23	16,204,592	11.82
61 - 90	13,019,808	11.42	11,804,408	8.61
91 - 180	9,491,372	8.32	10,997,050	8.02
181 - 360	11,448,565	10.04	8,621,141	6.29
Over 360	51,519,005	45.18	50,956,623	37.17
Totals	**114,032,773**	**100**	**137,085,301**	**100**

Credit balances overdue by over 360 days related mainly to the GPD, Mater Dei Hospital and Sir Paul Boffa Hospital, with aggregate amounts of €44,603,179, €5,717,061 and €527,047 respectively.

Moreover, for the first time, this Office conducted a number of audits, from the financial and compliance aspects, on the reported creditor balances of these four Ministries:

a. Ministry for Competiveness and Digital, Maritime and Services Economy
b. Ministry for Family and Social Solidarity
c. Ministry for Foreign Affairs
d. Ministry for Gozo

The main scope of these audits was to assess the Ministries' compliance with the pertinent Treasury Circulars regulating the collation and reporting of creditor balances as at 31 December 2016, together with a financial audit of figures submitted to Treasury.

Audits of the aforementioned ministries revealed that considerable work has yet to be done in view of the shortcomings identified. Detailed findings are reported upon, in this publication, under the respective Ministry.

School Council Fund

The opening balance in the 2016 Statement of Revenue and Expenditure pertaining to the School Council Fund of the Ministry for Education and Employment (MEDE), as reported in Part I of the FR, stood at €1,254,695. This figure does not agree with the closing balance as reported in the FR of the previous year of €1,243,448, by a net effect of €11,247, mainly resulting from the following:

a. Five schools were omitted from the 2015 list of closing balances. The aggregate balance as at 1 January 2016 in respect of these schools amounted to €53,640.

b. A balance of €42,681 included in the 2015 list and relating to a particular school, was not included as part of the opening balance for the year 2016, since the MEDE confirmed to Treasury that such bank account was actually an Imprest account and not a School Council Fund account.

As stated in the FR 2016, the Opening Balance, Total Revenue, Total Expenditure and Closing Balance figures, as submitted by the MEDE are different from the balances as published in the FS 2016, the latter certified as agreeing to Treasury Books. In the same note in the FR, Treasury explained that such discrepancy is due to some schools being omitted in the FS. Table 24 refers.

Table 24: Variances between the Financial Report and the Financial Statements

	Opening Balance as at 1 January 2016	Total Receipts	Total Payments	Closing Balances as at 31 December 2016
	€	€	€	€
Financial Statements	1,220,850	2,031,027	1,951,808	1,300,069
Financial Report	1,254,695	2,113,002	1,978,245	1,389,452
Variances	**33,845**	**81,975**	**26,437**	**89,383**

(Source: FR 2016 page xxxvii, FS 2016 page 13)

From correspondence between the MEDE and Treasury, it transpired that the reasons which led to the major differences between the balances reported in the FS 2016 and later in the FR for the same year, were as follows:

a. The aggregate closing balance of €77,874 pertaining to two schools were omitted from the FS but included in the FR.

b. Another school had its balances revised in the FR, with the difference in the closing balance resulting in an understatement of €7,217 portrayed in the FS.

Upon enquiry by this Office on such recurring annual variances, communication with Treasury remarked that Treasury as a Department is not in a position to ensure completeness of submissions. In June, when the Department presents the FR, they "... *confirm these balances with the respective bank statements* ...".

Moving towards Accruals-based Accounting

(Source: Treasury)

Although Government is using a Cash-based System for its accounting of central government operations, accrual accounting concepts are currently in use, with such system defined as Modified Accrual Accounting (Cash-based DAS plus Accrual Accounting Templates). The NSO uses the information received on the Accrual Accounting Templates from the Treasury for the compilation of the European System of Accounts Government Statistics as required by Eurostat.

As reported in more detail in last year's Report by the Auditor General – Public Accounts 2015, the Government of Malta has now adopted the strategy to prepare for the full implementation in Central Government of accrual accounting based on IPSAS. The national standards shall be based on IPSAS, but may include amendments to reflect local needs and requirements. In fact, the current draft versions are referred to as 'IPSAS as adopted by the Maltese Government'.

Up to the date of writing of this Report, Treasury had published the below listed six Draft IPSAS along with the relative User Guidelines, as adopted by the Maltese Government:

a. IPSAS 13 Leases
b. IPSAS 16 Investment Property
c. IPSAS 17 Property, Plant and Equipment
d. IPSAS 21 Impairment of Non-Cash-Generating Assets
e. IPSAS 26 Impairment of Cash-Generating Assets
f. IPSAS 31 Intangible Assets

These Draft IPSAS are currently being reviewed by a Malta Institute of Accountants Sub-Committee, which is assisting the IPSAS Team. Any revisions to these standards following this review will be forwarded to the IPSAS Board for approval.

The IPSAS Team, chaired by the Treasury Department, has also discussed the following standards, which will be presented to the related stakeholders as draft IPSAS as adopted by the Maltese Government:

a. IPSAS 9 Revenue from Exchange Transactions
b. IPSAS 11 Construction Contracts
c. IPSAS 12 Inventories
d. IPSAS 19 Provisions, Contingent Liabilities, Contingent Assets
e. IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)
f. IPSAS 32 Service Concession Arrangements: Grantor
g. IPSAS 39 Employee Benefits

The move towards Accruals-based accounting necessitated the introduction of a CFMS. Following the tender process, the contract with the selected service provider was signed on 10 July 2017. The timescales of the contract are as follows:

a. Phase One, which is the piloting stage, is to be concluded within 18 months from contract signature, with the core CFMS going live in pre-agreed sites.
b. Phase Two is to be concluded within 30 months from contract signature, with the core CFMS going live in all the Ministries and Departments.
c. Phase Three with the implementation of other potential systems, which shall be determined during the course of such implementation.

Estimated Project Contract costs, including a 10-year maintenance agreement, totals €11.6 million. Out of these, a total of €10.87 million are eligible for the European Regional Development or European Social funds.

Good Practice

The NAO is satisfied that requested documentation was available. Moreover, once again, Treasury and MFIN staff were cooperative at all times during the conduct of the analysis. More importantly, the NAO satisfactorily noted that most recommendations were acted upon, with corrective action being taken immediately, wherever possible.

Compliance Audit Opinion

Opinion on the Compliance Audits to the House of Representatives

Audit Mandate

As stipulated by Article 108(5) of the Constitution of Malta and para. 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997, I am reporting on whether the audited entities, subjected to review, are in compliance with identified criteria, namely, the applicable rules and regulations, as well as the principles of sound financial management, among others.

We consider the primary users of the Annual Audit Report to be Parliament and the Public Accounts Committee.

Respective Responsibilities of the Accountant General and Accounting Officers

As determined by the Financial Administration and Audit Act, 1962, the onus for the proper discharge of financial administration rests with the Accountant General and the Accounting Officers. They are also responsible for the institution and application of such internal controls as deemed necessary, to enable the processing and recording of financial transactions to be free from material misstatement, whether due to fraud or error, and to ensure that the audited entities' operations are in accordance with the pertinent rules and regulations.

These officers are entrusted with the sound management of public funds. They are therefore to demonstrate transparency, accountability and integrity in their actions, and are to exercise good governance for the resources with which they are entrusted.

Auditor's Responsibilities

The NAO's responsibility is to obtain reasonable, rather than absolute assurance as to whether statements and accounts of Government Ministries and Departments, as well as of other entities that were subject to audit, are free from material irregularity. Thus it is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA) will always detect non-compliance and material misstatements, arising from fraud or error.

Basis for Opinion

We conducted our compliance audits in accordance with the relevant ISAs, the applicable public sector perspective provisions, and in line with the NAO's auditing practices. Regularity audits involve audit procedures to test compliance with standing rules and regulations, as well as with the principles of sound financial management, through direct testing of transactions.

The procedures selected depend on the auditors' judgement, which entails the assessment of risk, evaluation of internal controls, consideration of sensitivity of particular areas and other qualitative factors, as well as the assessment of materiality in terms of value, nature or context in which it occurs. Our audit sample is designed to provide an estimate of the level of error in the audited population. Our approach is thus not designed to gather data on the frequency of error in the population as a whole.

We have complied with independence requirements in accordance with the International Standard of Supreme Audit Institutions (ISSAI) 30 *Code of Ethics* and NAO *Code of Professional Conduct* and have fulfilled my ethical responsibilities in accordance with such codes. I have also adhered to avoidance of conflict of interest regulations as stipulated by Article 108(3c) of the Constitution of Malta and fulfilled the independence requirement in accordance with Article 108(12) of the afore-mentioned Constitution.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion, which only draws on conclusions upon areas that have been examined.

Opinion

Adverse Opinion

Based on the audit work performed, I am of the opinion that the activities of a number of the audited entities under review were not, in all material respects, in compliance with the pertinent rules and regulations, and compliance deviations were pervasive.

In terms of para. 5(ii) of the First Schedule of the Act, I am to report that, except for instances reported upon, I received all the information and explanations required for the carrying out of my duties.

A separate audit opinion is being published dealing with the financial aspect.

Charles Deguara
Auditor General
29th November 2017

Ministry for Foreign Affairs

Ministry for Foreign Affairs

Creditors

Background

Government departments are presently obliged to follow the guidelines as per MF Circular No. 10/2001 – 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors'. This circular, which was introduced specifically to prepare for the eventual change to accrual accounting, covers the necessary procedures for the proper management and control of debtors and creditors within each Ministry and their respective Departments. It stipulates that creditors' records are to be updated to reflect accurate details of the amounts payable by the Department and to submit a quarterly analysis of creditors to the Accountant General.

To this effect, in accordance with Treasury Circular No. 15/2016 – 'Closing of Accounts for Financial Year 2016', the analysis of creditors as at end of December 2016 was to be submitted by 13 January 2017.

Financial Information

Total creditors reported by the Ministry for Foreign Affairs (MFA) to Treasury as at 31 December 2016 amounted to €61,071, all pertaining to the year under review.

Audit Scope and Methodology

The scope of this audit was to analyse whether MFA, which includes the Head Office, Permanent Secretary's Office and the 35 Missions, was abiding with the respective circular, in presenting adequate and timely reports. Furthermore, it was also aimed to provide reasonable assurance on the effective controls applied on creditors.

The audit and recommendations thereto also sought to instigate the Ministry to make the necessary changes in preparation for the eventual adoption of accrual accounting.

A sample of nine creditors, amounting to 89% of the total creditors reported as at year-end, was selected for testing, on the basis of materiality, but also taking into consideration the nature of transactions. Circularisation letters were sent to confirm or otherwise the balances shown as per auditee's records. The National Audit Office (NAO) also compared the invoices paid after year-end, from the Departmental Accounting System, with the list of creditors provided by MFA and vouched a sample of transactions to supporting documents, such as invoices, payment vouchers and receipts.

Limitation on Scope of Audit

NAO could not confirm the existence of three balances out of the nine sampled suppliers, who failed to submit a response to the balance confirmation letter.

Control Issue

Incomplete Information on Creditors

The Corporate Services Directorate confirmed that the Analysis of Creditors is only updated with invoices forwarded from the Head Office. The overseas Missions do not send any information on their outstanding invoices and hence the respective amounts are not included.

The review revealed an aggregate omission of €88,501 from the creditors' list prepared by MFA. To this effect, the latter claimed that either "*invoices were not provided to this Ministry or invoices were not finalised, therefore payment could not be identified* ...".

Furthermore, NAO observed that there was no indication on invoices when these were received. Thus, it could not be ascertained whether such amounts had to be recorded as creditors or accrued expenditure.

Further testing carried out on 2015 invoices paid in 2016 also revealed a discrepancy of €93,169 which was not reported as creditors at the end of the previous year.

Compliance Issue

Lack of Awareness of Pertinent Circular

During a meeting held with senior staff within the Ministry, it was verbally stated that they were not aware of the pertinent circular that explains the procedures for the proper management and control of debtors and creditors.

Recommendations

Control Issue

Incomplete Information on Creditors

Considering the materiality of the amounts omitted when compared to the reported figures, MFA is to coordinate with all Departments and overseas missions in order to compile accurate and timely information on their creditors. Furthermore, Departments are expected to establish ways and means to be in a position to determine when an invoice was actually received. This will enable a proper cut-off date for the compilation of the creditors' lists and facilitate the reconciliation process with the suppliers' statements.

Compliance Issue

Lack of Awareness of Pertinent Circular

In view of the transition to accrual accounting and the importance of identifying, as much as possible, an accurate figure of liabilities at year-end, the provisions of cited circular are to be duly followed.

Management Comments

In its reply, Management fully concurred with NAO's reviews and comments and confirmed that all recommendations have been duly considered. The following comments were submitted:

Incomplete Information on Creditors

The Ministry shall be embarking on an exercise towards the end of the financial year to take a snapshot of all commitments due to be paid in the respective financial year but yet shall be settled in the following financial year. It is also being hoped that the new financial management system to be introduced by the Government of Malta will assist to collect all necessary financial data.

Lack of Awareness of Pertinent Circular

All officers working within the financial management section of this Ministry have been provided with a copy of the said circular. Moreover, Missions Abroad are being reminded of such provisions by way of a circular. Currently the DCS Office is preparing a Manual of Financial Procedures to be circulated amongst all members of staff managing finances in the said missions which is being tentatively scheduled to be circulated in August 2018.

Ministry for Education and Employment

Church Schools

Expenditure

Background

The audit covered expenditure on Church Schools incurred by the Ministry for Education and Employment (MEDE) during 2016, from Recurrent Vote 13, line item 5024 under Programmes and Initiatives. The total disbursements from this account, which were equivalent to the approved budget, amounted to €63 million.

The criteria under which the State is to finance Church Schools is defined by Article 6 of the agreement entered into between the Holy See and the Republic of Malta, dated 28 November 1991. A total of 39 schools comprising a student population of 17,120[1], together with the Secretariat for Catholic Education, benefited from this amount.

The Government allocation is intended to cover approved teaching, non-teaching salary costs and a 10% contribution towards general expenses. Fund transfers are effected bi-monthly in advance, in line with the said agreement.

Audit Scope and Methodology

The scope of this audit was to verify whether during financial year 2016, expenditure incurred on Church Schools was duly authorised and properly accounted for. The administrative and management procedures, as well as the adequacy of internal controls, were also analysed.

From the start of the audit, meetings held at MEDE and the Secretariat for Catholic Education revealed that information held was incomplete and thus a proper audit trail could not be verified. In fact, a walkthrough test of the process from the initial approval of resources until the ultimate transfer of public funds exhibited various gaps.

Limitation of Scope

Substantive testing could not be performed with the information made available to the National Audit Office (NAO). The following shortcomings, which are explained in further detail later on in this Report, were encountered:

- inadequate documentation supporting the budgeting process;
- no official records of workings to back up the entitlement to resources; and
- absence of a detailed monthly breakdown of the actual staff expenditure financed by the State.

[1] Information relates to scholastic year 2016-2017.

Key Issues

Substantial increase in Expenditure

Disbursement from public funds over a 10-year period almost doubled; the amount spiralled from €32 million to €63 million. In comparison, the student population increased by just 3%, leading to the indicative cost per student rising from €1,923 to €3,680 during the same period. Table 1 refers.

Table 1: Analysis of Student Population and relative Government Expenditure

Scholastic Year	Number of Students	Financial Year	Government Expenditure	Indicative Cost per Student
			€	€
2007-2008	16,659	2007	32,028,884	1,923
2008-2009	16,474	2008	32,116,000	1,949
2009-2010	16,482	2009	34,500,000	2,093
2010-2011	16,669	2010	38,499,999	2,310
2011-2012	16,691	2011	46,200,000	2,768
2012-2013	16,784	2012	47,199,998	2,812
2013-2014	17,057	2013	48,499,999	2,843
2014-2015	17,211	2014	54,130,326	3,145
2015-2016	17,171	2015	60,249,449	3,509
2016-2017	17,120	2016	63,000,000	3,680

Without going into the merits of the educational aspect, in the absence of adequate controls as highlighted further down in this Report, the continuous increase in expenditure involved is of significant concern.

Lack of documentation to support the Budget Allocation

In order to determine the financial contribution of the State in due time, Article 7 of the above-mentioned agreement requires the Secretariat for Catholic Education to submit to MEDE the staff complement required by Church Schools for the following scholastic year, with an indication of the respective remuneration of each, by the end of August annually. In this regard, the following issues transpired:

a. The budget requirement for financial year 2016 was only made available for audit purposes in July 2017, after four weeks from NAO's request and following several reminders. This delay raised doubts as to whether such information was available at the Ministry.

b. Workings provided show a budgeted expenditure of €62,285,152. No consideration was given to the annual interest derived from the Foundation for Church Schools, which amounted to €3.65 million, setting-off part of this expenditure. As a result, these figures could not be reconciled with the €63 million allocated.

c. Although NAO requested further documentation related to the 2016 budgetary allocation from MEDE, no such records were made available. The NAO could not therefore review the budgeting process.

Reconciliation not performed

MEDE representatives confirmed that no reconciliation was ever performed in order to ascertain whether the total funds transferred actually tallied with the approved staff expenditure.

Monthly Claims not substantiated

Individual salary costs approved for payment by MEDE could not be reconciled against claims made by the Secretariat for Catholic Education as the latter did not keep a detailed breakdown of the actual monthly staff expenditure borne by the State. It is pertinent to note that an NAO audit conducted in 2001 had already brought this matter to the attention of the relevant authorities. Following this year's audit, the Secretariat agreed to start keeping detailed monthly records with immediate effect to back up its claims.

Entitlement to Resources

According to MEDE, each school's entitlement was always computed in accordance with the Guidelines to Church Schools' Entitlement of Resources dated 29 July 2011. This could not be confirmed by NAO as relevant official records were not made available for audit purposes.

Recommendations

Key Issues

Considering the substantial outlay of public funds channelled towards Church Schools, priority to establish sound internal controls and a complete audit trail is imperative and urgent.

NAO is aware that MEDE is contemplating the concept of 'envelope funding' to meet Church Schools' financial requirements. To this effect, the Ministry is encouraged to appoint a task force with the objective of establishing the best way forward, bearing in mind legal implications pursuant to the existing agreement. The proposal should be cost-effective and simultaneously simplify the funds allocation process, to enhance manageability, both by the Ministry and the Secretariat for Catholic Education.

Management Comments

Management concurred with the recommendations put forward by NAO and submitted feedback as reproduced hereunder:

MEDE will carry out a reconciliation exercise in the first quarter of each year to establish that the workings of the previous year were correct. The reconciliation exercise is to include 4 schools selected at random each year. By end March 2018 a reconciliation exercise for year 2017 is to be carried out.

MEDE will start requesting a reconciliation exercise from the Secretariat for Catholic Education to establish any savings or shortfalls as early as possible.

MEDE has a working group which is currently testing the envelope funding for Church Schools. This working group will be setting a way forward to be approved by PS MEDE. A consultation process will then be initiated.

Junior College

Personal Emoluments

Background

Ġian Franġisk Abela Junior College (JC) was established as part of the University of Malta (UoM) through Legal Notice 123 of 1995. It is governed by a Board in line with the Statute laid down in the first schedule to the foregoing subsidiary legislation.

JC personal emoluments are incorporated with the payroll of UoM and processed through the latter's system. Gross emoluments paid out to JC employees in 2016, comprising 182 academics and 44 support and administrative staff, amounted to €7,703,151, which represented circa 10% of UoM annual payroll expenditure.

Audit Scope and Methodology

The scope of the audit was to establish whether sufficient internal controls were in place for the payment of salaries and allowances effected to the various categories of employees at JC during financial year 2016, as well as to ensure adherence to applicable regulations and agreements.

Various meetings were held with Management and Administrative Officers during the course of the audit, in order to gain knowledge on the internal controls and adopted procedures. A sample of 10 employees, spread out amongst various grades was selected for testing, mostly based on the materiality of allowances and/or overtime payments.

From a review of the collective agreement it transpired that academic staff is eligible to an annual allocation from the Academic Resources Fund. Although not processed through the payroll, verification by the National Audit Office (NAO) was carried out since the annual outlay was deemed substantial. The respective testing focused on the expenditure reports submitted by the academic staff included in the sample.

Limitation of Scope

The scope of the audit was hindered due to the general disregard of emails and reminders sent to UoM staff by the NAO. The following information and/or documentation requested for audit purposes was still not provided by end October 2017 when this write-up was concluded:

- confirmation of minutes of the introductory meeting;
- salaries accounts transaction listings for 2015 and 2016;
- financial statements for 2015 and 2016;
- clarification about JC's reporting requirements to the Minister;
- the Payer's Annual Reconciliation Statement (FS7) for the year 2016; and
- a breakdown of the disbursements from the Academic Resources Fund.

Key Issue

Financial Reporting Concerns

JC budget allocation under line item 6374, which for the year 2016 stood at €9.5 million, is shown separately from line item 6701, relating to UoM and which amounted to €67,680,000. However, financial transactions pertaining to both entities are accounted for together for reporting purposes. According to Management, JC is treated as a faculty within UoM. As already indicated under Limitation of Scope, NAO's verification was limited as the respective official financial statements were not provided for audit purposes.

Control Issues

Lack of Control on Overtime

The majority of overtime payments tested were only officially approved after the overtime was performed and not beforehand. This points to lack of control over overtime and related expenditure.

Moreover, two out of the three sampled officers who claimed overtime did not record the extra hours on the attendance sheets. The only documentation available to support payments effected were the individual claims, in which the officers entered the date, time and the number of hours worked. The absence of attendance sheets means that the necessary verification and hence their endorsement could not be performed by the Payroll Office before overtime claims were processed for payment. Total amount paid on overtime by JC in 2016 amounted to €61,663.

Shortcomings related to Remuneration Rates and Allowances

a. Matriculation Examination Services

Three JC academic sampled staff were remunerated an aggregate amount of €11,327 in the relative payrolls for matriculation examination services. The respective Director provided the rates applicable for setters, markers and reviewers, for the three examination levels[1], which rates were last revised during September 2014. From enquiries made it was established that proposed rates have to be officially authorised, however no evidence of such approval was provided for audit purposes.

b. Area and Subject Coordinator Allowances

Area and subject coordinators receive allowances of €600 and €1,000 respectively per annum. In 2016, this expense totalled €21,000. However, despite several requests for source documentation, evidence of authorisation of these amounts was not provided for audit purposes; therefore the amount in question could not be validated.

The coordinators may be appointed for a four-year period and may also be eligible for reappointment. It was observed that the respective reappointment of a subject coordinator was not backed up with the necessary documentation.

[1] Secondary, Intermediate and Advanced.

Compliance Issues

Late submission of Returns to the Inland Revenue Department

The Payee Statement of Earnings (FS3) of all employees, together with the FS7 for the year 2016, had to be submitted to the Inland Revenue Department by 15 February 2017. However, FS3s made available were dated 30 March 2017. Moreover, according to the auditee, the FS7 had not yet been generated by the time the management letter was concluded in May 2017, signifying another delay in submission.

Lack of Control over Advances from the Academic Resources Fund

The Academic Resources Fund[2] is intended for staff to support their teaching, activities related to curriculum developments, and the promotion of their subject in schools. The allocation for year 2016 was €1,967 for each of the academic staff irrespective of grade, which in aggregate could reach the maximum amount of €357,994.

Testing revealed that supporting documents for expenditure incurred from this fund by academics were not always available.

Although the Finance Office is responsible to perform random audits regularly to ensure that expenditure is in line with the established policies and procedures, no evidence was provided that such checks were being carried out.

Recommendations

Key Issue

Financial Reporting Concerns

Management's attention is to be drawn to Legal Notice 123 of 1995 which, amongst others, states that JC is accountable to the Minister through its own Board as established in the Statute. Thus, it is advisable that Management obtains legal advice to address this issue without delay.

Control Issues

Lack of Control on Overtime

The performance of overtime is to be justified and officially authorised prior to its commencement. Management is also encouraged to introduce an automated system to record all staff attendances, both for control and security purposes. Besides being more efficient, such system would also facilitate the cumbersome manual process related to the present payroll function. The respective records can also substantiate claims for overtime and the relative payment.

Shortcomings related to Remuneration Rates and Allowances

Applicable rates are to be backed up by the necessary authorisation. Additionally, appointments as well as reappointments are to be substantiated with supporting documents in order to ensure a complete audit trail.

[2] Source: Collective Agreement for Academic Staff of the University of Malta and Academic Staff of the Junior College 2014 – 2018.

Compliance Issues

Late submission of Returns to the Inland Revenue Department

Late submissions are subject to penalties emanating from the relative legislation. Thus, the pertinent returns are to be timely forwarded to the respective Department.

Lack of Control over Advances from the Academic Resources Fund

The regular verification of expenditure reports is encouraged since the annual outlay from this fund is considered substantial. Besides ensuring compliance with prevailing policy and procedure guidelines, such checks will enhance accountability.

Additionally, the supporting documents attached to the expenditure reports are to be checked upon submission to the Office of Human Resource Management and Development to ensure that all have been duly forwarded before the advance for the subsequent year is given to the eligible individuals.

Management Comments

Management concurred with the majority of observations put forward by NAO and submitted its feedback as reproduced hereunder:

Financial Reporting Concerns

The Junior College is treated as any other Faculty within the University and has been treated so since 1995 when the then Sixth Form was transferred on the books of the University as the Junior College. The Junior College does not have a separate administrative structure from the University and although there is a Junior College Board (all academic entities within the University have a Board), this ultimately responds to the University's Council, which is the administrative governing body of the University and members of the Council sit on the same board as representatives of the Council. In addition there are no separate collective agreements, employees are employed by the University under its PE number and they enjoy the same rights and obligations of their counterparts at the University. Moreover, the legal representative of the Junior College is the Rector.

Nonetheless, we will follow the recommendation to seek legal advice on the matter.

Lack of Control on Overtime

We take cognisance of the observations made. Although overtime requests for approval may not always reach central offices on time we still keep tabs on the overtime and if not justifiable this is questioned and until it is reasonably justified we do not approve payment. In addition, there is a budget within which overtime can be paid setting a limit to the payments. Unfortunately, much of the overtime is a necessity as a result of the reduced hours during summer, during which period we would be processing examinations results and admissions of new students, while carrying out construction and refurbishment works which are impossible to do during term time while students and staff are there. We are currently working on automating the approval process on our system as part of the implementation in order to eliminate time lags between the request being sent and the receipt and approval of the same.

In relation to the non-recording of overtime on the attendance sheets, this is not always possible since the attendance sheet is not always accessible especially during weekends and late after hours. The salaries department does not *depend on the attendance sheets for payment of overtime but on the requests for payments sent by the respective heads. The requests for payment of overtime are signed by the respective heads within the department since they are responsible for assigning the overtime.*

With respect to electronic time-recording we are currently working on the tender for the procurement of such devices. A couple of years ago we had already drafted the specifications for this tender but we had to retract it since the Data Protection Commissioner gave us guidance that biometrics cannot be used for time recording purposes and hence we had to find ways to ensure that whatever we do there is no violation of laws while ensuring accuracy of data.

For the reasons stated above, overtime cost has always been an issue and the University has been seeking ways to try to curb overtime costs. Our operations extend beyond the normal working hours of administrative and technical staff making overtime inevitable. We have tried to negotiate shifts and extended summer hours to try to decrease on overtime costs in our collective agreement negotiations without any success. On the other hand, it is to be noted that at the Junior College most of the overtime is covered by funds generated from sources other than the Government budgetary allocation.

Shortcomings related to Remuneration Rates and Allowances

a. Matriculation Examination Services

These rates have been proposed to and approved by MEDE when there was a change in the price structure of MATSEC examinations to ensure sustainability.

b. Area and Subject Coordinator Allowances

These allowances have been in force prior to our employment. We will search for the appropriate documentation and submit as necessary.

In relation to appointments, these are approved by Council and can be found in the Council minutes.

Late submission of Returns to the Inland Revenue Department

This was the second year that we were issuing payroll through our system. Unfortunately we experienced some glitches which hindered us from submitting the relevant data on time. The Inland Revenue was made aware of this.

Lack of Control over Advances from the Academic Resources Fund

Observations noted. An audit of 10% of the reports is carried out. Unfortunately, at the time of the audit this had not yet been carried out. With respect to late submissions, no amounts are advanced before compliance to submit the reports is observed. In relation to missing supporting documentation (receipts) most of the missing documentation related to Internet expenditure. This is expected as most staff is acquiring Internet as part of a bundle and then they can withdraw funds according to a table of rates that is provided by our IT Services in accordance to the Internet speed they acquire. We ask them to keep receipts for their bundled services and then we ask them for a copy of the receipts when and if their report is audited. We do this to ensure that we do not breach Data Protection Laws on personal data.

Gozo Schools

Inventory and Contractual Cleaning Expenditure

Background

Since 2006, both primary and secondary state schools in Malta have been grouped into 11 Colleges, with each College falling under the direct remit of a College Principal who is responsible for monitoring the operation, administration and general conduct of the schools. Each College also has a Precincts Officer, in charge of managing all ancillary staff, such as general hands, gardeners and individuals performing cleaning of schools within the College.

This audit covered financial year 2016 and focused on the Inventory, as well as Contractual Cleaning Services, of Gozo Schools.

Statistics and Financial Information

According to the Inventory Database extracted from the 'e1 finance' system[1], in 2016, the total cost of inventories distributed amongst all Gozo Schools amounted to €3,860,408, of which total assets costing €3,336,024 are located at the Primary Schools, €23,811 at the Middle School and €500,573 at the Secondary School.

During the year under review, cleaning costs incurred by Gozo Schools reached an aggregate amount close to half a million euros[2], over 80% of which were wages paid to school janitors[3].

Audit Scope and Objectives

Gozo Schools' Inventory

The objective of this audit was to evaluate the inventory process to ensure that there are adequate internal controls and that inventory management is in compliance with the applicable regulations. The audit also focused on verifying the existence of assets as recorded in the 'e1 finance' system and to determine whether physical items were duly accounted for.

Cleaning Expenditure

The cost effectiveness of cleaning expenditure was also analysed, including the evaluation of the control system pertaining to the procurement and payments effected in respect of such contractual services. An exercise to check whether cleaning expenditure incurred by each school was proportionate to the number of students was also undertaken.

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[1] Provided for audit purposes on 15 March 2017.

[2] During 2016, cleaning at Nadur and Xagħra Primary, as well as Victoria Middle and Secondary Schools, was also performed by Community Work Scheme workers. The latter were paid directly by the Community Work Scheme Enterprise Foundation and thus no costs were incurred by MEDE.

[3] The remaining 20% related to sub-contracted cleaning costs (€49,118) and purchases of cleaning materials (€16,825). However, both amounts do not cover all of 2016, due to the matters referred to in the 'Cleaning Expenditure' paragraph under 'Limitation of Scope'.

Audit Methodology

Gozo Schools' Inventory

The electronic Inventory Database, generated from 'e1 finance' system, was checked to ascertain compliance with MF Circular No. 14/99 – 'Government Accrual Accounting: Revised Inventory Control Regulations'. Moreover, a physical inspection was carried out at four schools[4] to inspect a sample of assets. Memos and guidelines issued from the Inventory Department within the Ministry for Education and Employment (MEDE) were also obtained to ensure conformity with the applicable Inventory Control Regulations.

Cleaning Expenditure

Testing on cleaning expenditure entailed an analysis of such expenditure incurred by each school during a sample of a six-month period, namely January to June 2016. Verifications on contractual cleaning services comprised reconciliations of hours billed to attendance records. Specimen signatures were also obtained[5] to ascertain authenticity of the signatures in the said attendance sheets.

Limitation of Scope

Gozo Schools' Inventory

Physical inspections revealed that the majority of inventory items were not tagged with an asset identification number or this differed from that included in the Inventory Database. In such cases, the National Audit Office (NAO) Auditors could not confirm or otherwise the physical existence of fixed assets and vice versa. Moreover, although physical inspection of inventory items at Gozo Schools was carried out during October and November 2015, by the time this audit was concluded in March 2017, the system was not yet updated.

Cleaning Expenditure

The invoices covering the provision of cleaning services for the period August to December 2016 for Nadur Primary, as well as September to December 2016 for Sannat and Victoria Primary Schools, were not made available by conclusion of the audit[6]. Moreover, the Materials and Supplies Imprest reports provided for audit purposes only covered the period 1 January to 30 November 2016. As a result the necessary verifications on the said invoices could not be performed and the amount incurred on cleaning materials during December 2016 could also not be established. Furthermore, the analysis of cleaning expenditure for proper comparison purposes could only be performed for the six-month period January to June 2016.

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[4] Sannat, Nadur and Victoria Primary, as well as Victoria Secondary Schools.

[5] During a visit performed by NAO Auditors at the three Gozo Schools having sub-contracted cleaning, namely Nadur, Sannat and Victoria Primary Schools.

[6] Such invoices (except those covering the months October to December 2016) were forwarded to NAO on 26 July 2017. These were stamped as received by MEDE on 20 April 2017.

Control Issues

Gozo Schools' Inventory

Various Shortcomings in the Electronic Inventory Database

The Inventory Database provided for audit purposes did not fully comply with the provisions of MF Circular No. 14/99 and relevant instructions issued from the Inventory Department. The following shortcomings relate:

a. Occasionally, the description of the assets as included in the inventory lists lacked important details resulting in instances where the nature of the respective item could not be ascertained[7]. In this regard, discussions held during the audit visit revealed that when inventory items not falling under the established categories are purchased, a new description in the database is requested, however, delays to create such description result in the said assets being eventually recorded under generic descriptions.

b. Homogeneous items having the same location and asset identification number, such as chairs and desks, were included in the database individually, rather than as one group of assets with the respective number of units being reflected in the quantity.

c. Consumables, disposable or perishable items such as stationery items, having a trivial value, were still recorded as inventory items.

d. A number of items inputted in the database were either obsolete, damaged or to be disposed of.

e. On certain instances, assets were classified under the wrong asset category.

f. Despite that the 'e1 finance' system provides the facility of attaching an invoice to each transaction being inputted, no invoices were uploaded in support of any purchases of fixed assets, thus losing full audit trail.

Inventory Write-offs

According to standing procedures, 'Write-off Forms' were to be compiled by the Heads of Schools requesting permission to remove from the Inventory Database those items which were not physically traced. The following shortcomings relate:

a. Despite that write-offs are to be approved by the Permanent Secretary or the Director General (Operations), the respective requests of two of the sampled schools were not accordingly endorsed. The statement, certifying that the assets were found to be obsolete, unserviceable or beyond economical repair, was also left blank.

b. 'Write-off Forms' were not provided to support the list of missing items of the other two schools selected for review. In the case of one of these schools, the respective list was not even endorsed by the Head. Regardless of the lack of approvals, the items listed as missing were still removed from the Inventory Database of the two schools in question.

[7] Examples of such descriptions include 'Schools', 'Educational', 'Technical/Specialised' and 'Pictures'.

Shortcomings identified during a Site Inspection

A physical audit inspection on the inventory items situated in a number of selected rooms at the sampled four Gozo Schools was carried out during March 2017. The following transpired:

a. The majority of inventory items located at the schools were not physically tagged. This made traceability very difficult, especially when analogous items were located in the same room. Moreover, in the few instances where items were tagged, the respective asset identification number differed from that included in the Inventory Database.

b. Many of the items were not located in the same rooms and/or site as those indicated in the Inventory Database, implying that inventory records are not being updated regularly and hence do not reflect accurate and precise information.

c. Out of the seven rooms selected for checking, only one room contained an inventory list, however, this was last updated on 8 January 2007 and thus did not reflect the additions and write-offs occurring from the said date onwards.

d. Various assets, which the Heads described as outdated, damaged or worn-out, were still found at the schools.

Divergences from applicable Regulations

Guidelines issued by MEDE in September 2015 tolerate the non-labelling of student chairs and desks, due to their mobility, whilst the change of location of such items in the Inventory Database is not required to be recorded upon every movement and "... may be done at least at the start of each scholastic year". This is in contradiction to both the provisions of MF Circular No. 14/99 and a memo issued in December 2014, by the Assistant Director, Procurement and Administration, titled 'Recording Inventory Assets', wherein it is stipulated that any inventory transfer is to be notified to the Inventory Section.

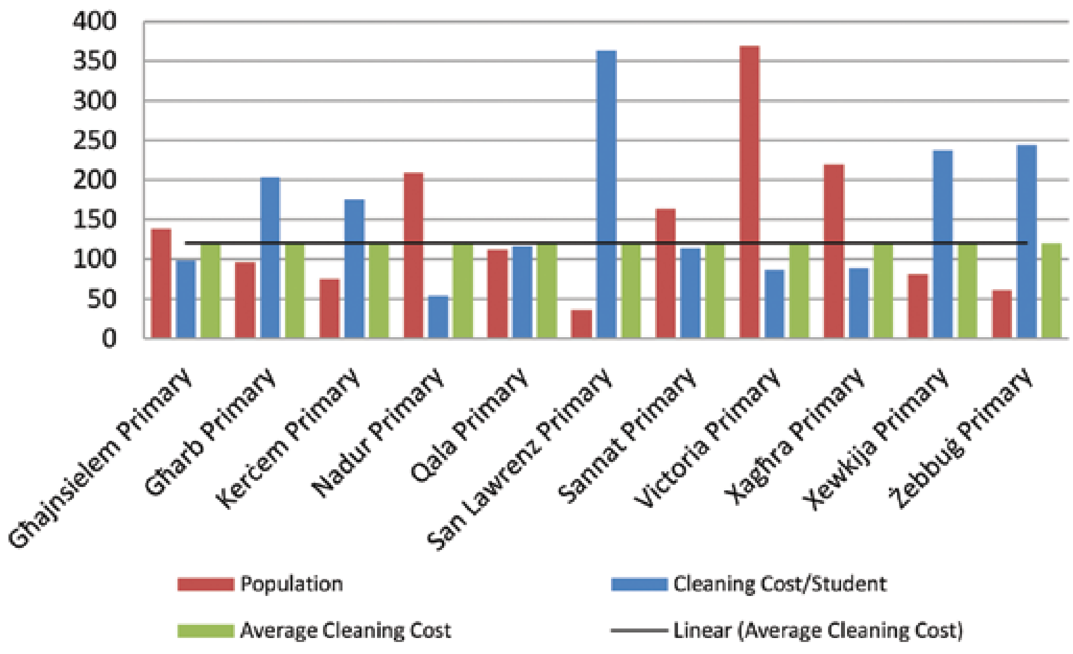
Cleaning Expenditure

Incomparable Cleaning Costs per Student

An analysis of cleaning expenditure incurred by all Gozo Primary Schools revealed that, as depicted in Chart 1, for the six-month period January to June 2016, cleaning costs ranged from €54 to €363 per student[8]. This primarily results from a significantly low population in certain schools, thereby ensuing a higher operational cost per student. The observations below also indicate that the necessary internal controls in this area are not in place.

[8] The average expenditure across all Primary Schools in Gozo stood at €120.

Chart 1: Average Cleaning Cost per Student per School



Hours of Sub-contracted Cleaning required not substantiated

a. Costs related to the outsourced service provided to Nadur Primary School during the sample period increased substantially, escalating to four times as much from March to July 2016[9]. Although attendance records of cleaners were endorsed by school representatives, documentation indicating the actual school's requirements was not provided. Thus, the substantial increase could not be justified.

b. On one particular day, a sub-contracted janitor signed two attendance sheets, at two schools, with identical working hours. Both attendance records were approved by the College's responsible officer.

c. Despite that sub-contracted janitors' attendance sheets are only approved if these are endorsed by Heads of Schools, from the sample reviewed, in at least four instances, this was not the case.

Procurement not covered by any Documentation

a. From February 2016, the cleaning contractor started providing services at Nadur Primary School, despite that this was neither included in the direct order approval granted by the Ministry for Finance in December 2015, nor in the respective contract signed on 21 May 2016, after the award of tender. This means that such procurement was effected directly from the open market without the necessary Finance approval[10].

b. Further to the above, the terms agreed upon with the contractor concerning cleaning services at Nadur Primary School could not be retrieved by the latter, thus hindering validation of invoiced hours and chargeable rates.

[9] From €1,113 to €4,428.
[10] According to MEDE, a covering approval is being sought for additional cleaning hours in various schools.

Invoiced Amounts not backed up by Supporting Documentation

The only documentation provided with respect to the month of May 2016 for Nadur Primary School was the invoice indicating the total hours of service and the respective charge. As a result, validation of the respective payment was not possible.

Divergences from the Contracted Service Terms

According to the respective contract in place during 2016, the cleaning contractor was to provide four hours of services at Victoria Primary and a total of 24 man-hours at Sannat Primary daily. The following were noted:

a. With the exception of a three-week period, between January and June 2016, attendance records of Victoria Primary covered eight hours per day, i.e. double the initial allocated hours. Moreover, no replacement was sent when the cleaner was on vacation or sick leave; thus, the real need for eight hours of cleaning per day is also questionable.

b. Contrary to the contract's terms of reference, no formal request was ever raised for cleaning services during school holidays (skola sajf), notwithstanding that the number of cleaning hours at both schools remained unchanged during the summer of 2016.

c. Despite that the cleaning service is to be carried out within specified timeframes[11], these were not always being observed.

Pending Invoices not accrued for

Review of the accruals' list provided for audit purposes revealed that pending cleaning invoices[12], which according to the Director (Finance and Administration) were not yet forwarded by the respective service provider by the time this audit was concluded, were not recorded therein.

Recommendations

Control Issues

Gozo Schools' Inventory

Various Shortcomings in the Electronic Inventory Database

The updating of the Inventory Database is to be given utmost priority, even in view of Government's move to accrual accounting in the very near future. Moreover, all assets are to be recorded therein with an accurate and detailed description, enabling traceability from purchase, as well as to the respective location. Periodic physical verification of inventory items is also recommended.

Inventory Write-offs

Write-off approvals are to be duly sought and appropriately documented, clearly indicating the name of the officer granting the relevant authority and the respective date. Heads of Schools are also to be instructed to fully comply with the applicable regulations and to duly compile the 'Write-off Forms'.

[11] Between 08:00 and 16:30 hours during full days and between 08:00 and 13:00 hours during half days.
[12] Estimated to be over €30,000.

Shortcomings identified during a Site Inspection

For control purposes, MEDE is to instruct Heads of Schools to ensure that identification numbers are affixed to all assets falling within their responsibility. Moreover, movements of tangible fixed assets are to be invariably recorded in the Inventory Database. In this regard, the introduction of transfer notes, raised and endorsed by the officer responsible for inventory management, may also be considered.

Room inventory lists are to be compiled and kept in all the respective rooms. Regular inspections are to be carried out to ensure that the regulations, established to safeguard Government's assets, are rigidly adhered to and the required procedures to write-off obsolete inventory items executed.

Divergences from applicable Regulations

The provisions of MF Circular No. 14/99 are to be complied with. Heads of Schools are to ensure that all items are physically marked with a permanent identification number and that any movement of inventory items from one location to another is reflected in the official inventory records.

Cleaning Expenditure

Incomparable Cleaning Costs per Student

Given the abnormal cleaning costs per student, in a number of schools where the student population is very low, MEDE is encouraged to find solutions where staff performing cleaning duties are shared between different schools to become more cost effective.

Hours of Sub-contracted Cleaning required not substantiated

MEDE is recommended to implement adequate controls, particularly ensuring that timesheets prepared by contracted cleaning staff are accurate and that these are being appropriately vetted by a responsible officer. Supervision over the sub-contracted employees is also encouraged to ascertain the proper provision of cleaning services. Departures from contracted cleaning hours are to be clearly documented and justified, whilst invoiced hours and rates are thoroughly checked against supporting records before payments are effected. Attendance sheets are not to be approved unless endorsed by the respective Head of School.

Procurement not covered by any Documentation

The procurement process is to be carried out in line with the Public Procurement Regulations, thus ensuring fairness and transparency.

Invoiced Amounts not backed up by Supporting Documentation

The Department is to ensure that contracted cleaning services are supported by reliable timesheets, enabling verification.

Divergences from the Contracted Service Terms

Regular checks, aimed specifically at ensuring that contracted terms and conditions are abided with, are to be incorporated in the monitoring process. Moreover, any changes are to be formally approved, documented and endorsed by both parties.

Pending Invoices not accrued for

MEDE is to adhere to the provisions of MF Circular No. 10/2001 – 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors' and accordingly record all obligations for goods and services that have been received but not yet invoiced by year-end as accrued liabilities. This will result in more complete, accurate and timely information whilst maintaining effective control over creditors, as well as easing the eventual transition to accrual accounting.

Management Comments

MEDE concurred with the majority of the highlighted observations, as well as with the proposed recommendations. The following comments and reservations were submitted:

Gozo Schools' Inventory

MEDE has allocated an Officer for the management of Gozo Inventory, who, together with the Finance and Administration Officer deployed within the Gozo College, will be supervising and facilitating all inventory related processes, as well as updating the related procedures. This Officer will also be responsible of:

- ensuring that the provisions of MF Circular No. 14/99 are being adhered to;
- performing regular spot checks and compiling reports with the respective findings; and
- ascertaining that all assets are affixed with an identification number.

A plan to inspect all schools has also been agreed upon, whereby all Gozo Schools shall be inspected by December 2017. Room inventory lists will also be available in all rooms.

Extensive exercises on depleted items are to be carried out, ensuring that schools are removing obsolete items following the appropriate procedures. A checklist has been formulated by the Inventory Officer to ensure that all required data and signatures are in place when compiling the 'Write-off Forms' and that required approvals have been sought. Such task is to be coordinated and finalised by December 2017. Action is also to be taken with respect to assets allocated under wrong categories.

MEDE stated that the extensive exercise currently being undertaken to streamline all the assets codes with those of Malta for more standardisation will be concluded by February 2018, thereby eliminating the existing anomalies between physical asset codes and respective codes in the Inventory Database.

Various Shortcomings in the Electronic Inventory Database

Regarding the creation of new categories in the 'e1 finance' system, it was commented that these are continuously being created as the need arises. As for homogenous items not included in the database as one group of assets, MEDE stated that "*chairs and desks in classrooms do not constitute to be 'part of a set' as they can be moved from one classroom to another as required, so they are listed separately*". Moreover, the uploading of invoices in the 'e1 finance' system was also regarded as "*... a very lengthy process and is not advisable that is carried out by the schools*" since "*... hardcopies of the invoices are filed at the respective schools and can be retrieved anytime*".

Cleaning Expenditure

MEDE is aware that the monitoring system needs to be further enhanced. Accordingly, as from the scholastic year 2017/2018, a reform will be implemented whereby officers in supervisory grades will have the monitoring of cleaning as one of their main duties. It was also stated that all cleaning invoices "*... are certified correct by the Precinct Officer within the College*" which "*... certification relates to the verification of the cleaning hours according* *to the tender as well as the timesheets*. *After this verification is done invoices are forwarded to the Finance Section to be vetted for precarious work and if all verifications are positive invoices are paid within the same week*".

With regard to the procurement of cleaning services at Nadur Primary School, it was pointed out that in September 2017, MEDE took the necessary action to regularise the contract with the Department of Contracts.

Incomparable Cleaning Costs per Student

The Department pointed out that "*although certain schools have low student population, the physical spaces are nevertheless utilised*. *Therefore cleaning needs to cover the whole school area and not part or thereof, regardless of the school population*. *This increases the cleaning rate per student*".

Divergences from the Contracted Service Terms

During the summer period, the threshold of 35 hours of cleaning services per day, as stipulated in the tender, was not exceeded. Moreover, regarding cleaning services not being carried out within the specified timeframes, it was commented that, "*one has to keep in mind that the cleaning is being performed in schools* ... ... *what is important is that cleaning is performed with no disruption to the school*".

Ministry for Social Dialogue, Consumer Affairs and Civil Liberties

Support to Voluntary Organisations and Civil Society Fund

Expenditure

Background

The then Ministry for Social Dialogue, Consumer Affairs and Civil Liberties (MSDC) was responsible for the management of the non-governmental and voluntary sector.

The financial estimates for the line items selected for audit purposes, namely 5070 – 'Support to Voluntary Organisations' and 5726 – 'Civil Society Fund', show that the approved budget for 2016 was €800,000 and €450,000[1], whereas actual expenditure, as per the Treasury Financial Report for the same year, amounted to €767,369 and €143,863 respectively.

The following information on the two line items reviewed refers:

5070 – 'Support to Voluntary Organisations'

The main expenditure recorded in this line item covers the Voluntary Organisations Project Scheme (VOPS), which is administered by the Malta Council for the Voluntary Sector (MCVS) on behalf of the Ministry. The objective of this scheme is to promote and encourage a culture of volunteering and to foster cooperation in the volunteer sector with local and international bodies. The amount of €700,000 allocated for the year under review was to be distributed to voluntary organisations to implement projects between 1 January 2016 and 30 April 2017, up to a maximum period of 12 consecutive months.

5726 – 'Civil Society Fund'

Through the Civil Society Fund (CSF), which fund is also managed by MCVS, amounts are provided to Civil Society Organisations to facilitate their affiliation with and participation in European groupings and training related to European Union policy and/or programmes. The 2016 call was to cover relevant activities carried out between 1 July 2015 and 30 June 2016. The financial contribution to each organisation was not to exceed 80% of the total eligible costs or €6,000, whichever is the lowest.

Audit Scope and Methodology

The main scope of the audit was to ensure transparency and non-discrimination when distributing funds. Furthermore, the National Audit Office (NAO) verified that all the required documentation was submitted and vetted accordingly before the distribution of funds. An introductory meeting was held with the then Permanent Secretary at MSDC, as well as with the Executive Secretary and Fund Manager within MCVS.

[1] This budget allocation included amounts to be paid to the 'big five' non-Government entities, namely the General Retailers and Traders Union, Union Ħaddiema Magħqudin, Malta Employers' Association, General Workers' Union and Forum Malta, as well as to another particular association. Such amounts were ultimately disbursed from line item 5089 – 'Assistance to non-Government Organisations', through a virement.

The audit sample was primarily based on the characteristics[2] of the population. From line item 5070, seven voluntary organisations benefitting from VOPS, as well as all 15 clubs and/or groups receiving other financial assistance, in aggregate amounting to €235,775 were selected; whilst seven[3] Civil Society Organisations were chosen from line item 5726, to the tune of €51,944. The sampled amounts represent 31% and 36% respectively of the actual expenditure. Shortcomings noted during the audit but falling outside the selected sample are also reported upon.

Key Issues

Weak Internal Controls

No Deputising Officer

Following the assessment of the VOPS applications by the appointed evaluators, MCVS' role is to monitor the process of the successful projects, including the submission of reports and receipts supporting the claimed expenditure. However, only one MCVS official was assigned such role. It further transpired that, although five out of the seven sampled organisations were granted the full amount for the 2016 call, the required evaluation of the final reports and related receipts was still pending the necessary verifications.

Lack of Standard Working Procedures

CSF guidelines stipulate a number of criteria in order for an applicant to be eligible. However, a standard checklist to be filled in by MCVS officers was not in place. Due to this insufficient audit trail, NAO was not in a position to obtain a good understanding of the assessment methods being used by the two MCVS officials, who worked separately on each CSF application submitted.

Funding not substantiated

During the introductory meeting with the Ministry, it was established that as from year 2015, one particular association in Malta was to receive €30,000 per annum. However, the necessary evidence substantiating the amount in question for the year under review, as well as other supporting documentation, was not available. Consequently, the application was to be automatically rejected in line with the pertinent guidelines; however, it was still accepted.

Furthermore, €10,473 from the reimbursed amount of €30,000 was in respect of a three-day meeting held in Malta even though the guidelines specify that funds were to be allocated either for affiliation fees to European organisations or for attending related conferences and/or meetings abroad. MCVS claimed that this was considered as an exception.

[2] Examples of such characteristics included organisations benefiting from both schemes in question and/or receiving funds in excess of the established amounts, as well as beneficiaries not included in the respective published results.

[3] This does not include an association, since the amount funded for year 2016 was ultimately transferred to another line item.

Control Issues

Support to Voluntary Organisations

Subjective Financial Capacity Assessment of the Beneficiary

As per VOPS guidelines, the applicant must show that it has stable and sufficient financial resources to support 40% of the amount granted. According to MCVS, the evaluators use the audited accounts and/or the annual returns submitted by the organisation to assess the financial capacity. However, which financial information was taken by the evaluators as a basis for analysis was not established, suggesting that this was subject to interpretation.

Moreover, it was noted that all the 15 evaluation sheets reviewed indicated that the financial capacity was calculated on 20% and not 40% as per guidelines. This means that the evaluators have used a percentage which is different to the established one to calculate the indicator in question.

Required Documents not submitted

In line with the guidelines, unless annual returns, as submitted to the Commissioner for Voluntary Organisations, are forwarded with the application, the latter is considered ineligible. However, one application from those sampled, was still processed and funding of €25,000 provided, notwithstanding that the respective organisation did not submit its annual returns. In fact, the first two evaluators indicated that financial capacity to support implementation of the project was unsatisfactory, both giving three marks out of ten in their assessment. Incongruously, the third evaluator gave nine marks. In the circumstances, the basis on which such eligibility was approved cannot be understood.

Changes to Markings not endorsed

Seven out of the fifteen evaluation sheets reviewed (47%), which included changes to the original markings, were not endorsed by the respective evaluator; whilst one of the evaluation sheets was not signed.

Irregularities in Financial Assistance

A total of 15 clubs and/or groups received an aggregate amount of €59,300 as financial assistance during 2016, from one of the line item reviewed, namely 5070. According to MSDC, such assistance was considered as contingency. Consequently, testing was carried out in line with the Voluntary Organisations Contingency Fund Rules of Procedures, whereby such funds are to provide financial support to voluntary organisations and/or individuals working in the voluntary sector in case of predicament, exceptional situations or in such cases that are not eligible to request funding support under other funding lines. The following irregularities were noted:

a. Since approval from the right level of authority within MSDC, for eight payments amounting to €12,300, was not evident, NAO could not confirm that such payments were duly approved.

b. The respective rules of procedures state that a pre-financing of 80% of the approved amount is to be granted. However, 14 out of the 15 sampled entities received 100% in one installment, whilst 90% was advanced to the remaining entity.

c. Although a requisite, receipts were not submitted by 13 out of the 14 beneficiaries who received the 100% funding. This weakens the necessary controls in confirming that funding was used for what it was ultimately requested.

d. In eight out of the nine instances wherein amounts approved exceeded €1,000, the required contract indicating the respective obligations was not drawn.

Civil Society Fund

Overpayments

Testing carried out on seven of the sampled organisations, which received funds from CSF, revealed overpayments in five cases. Although, if taken individually, amounts are not always material, the high incidence of inaccuracies is of concern.

Published Results not updated

The results that were published online, regarding amounts awarded from CSF in 2016, did not include all the beneficiaries. When this Report was finalised, such list was still not updated with 10 organisations receiving an aggregate amount of €75,840.

Contributions not formally backed up

During the introductory meeting, NAO was informed that the Government had decided to contribute €58,200 each annually to five particular non-Government entities known as the 'big five', whilst a specific association was to receive the annual sum of €30,000. However, MCVS was not in possession of any official supporting documentation from where such entitlement emanates. This shortcoming was already encountered during a previous audit titled 'Forum Malta fl-Ewropa' and reported upon in the Annual Audit Report by the Auditor General – Public Accounts 2008.

Recommendations

Key Issues

Weak Internal Controls

In order to ensure business continuity, as well as enhancing internal controls within MCVS, the key person dependency risk is to be mitigated by appointing another official and splitting the process accordingly. This will create segregation of duties and also avoid delays in processing the applications.

Standard working procedures are to be established for the checking of application forms and their eligibility. This is required to streamline the evaluation methodology and ensure transparency of the selection process. Furthermore, such workings and supporting documentation are to be duly filed, for ease of reference as well as for audit purposes.

Funding not substantiated

Disbursements from public funds are not to be effected unless the required evidence of the amount claimed and all documentation stipulated in the related guidelines are submitted. Moreover, only eligible costs are to be reimbursed.

Control Issues

Support to Voluntary Organisations

Subjective Financial Capacity Assessment of the Beneficiary

NAO acknowledges that a financial calculator was designed for the 2017 call. However, in future similar instances, procedures are to be established beforehand, in order to minimise the risk of discrimination between the applicants. In addition, evaluation sheets are to be amended accordingly to avoid any misinterpretation.

Required Documents not submitted

Unless all the required documentation is submitted with the application, it cannot be considered eligible.

Changes to Markings not endorsed

Evaluators are to endorse any changes and include the respective date, to give assurance that changes were made with their consent and in a timely manner.

Irregularities in Financial Assistance

The Voluntary Organisations Contingency Fund Rules of Procedures are to be invariably followed, to ensure that financial support is fairly distributed and to enable proper verification.

Civil Society Fund

Overpayments

Reimbursement of flights and per diem allowances are to be provided in line with the established rates. Furthermore, overpayments are to be recovered accordingly, evidence of which is to be provided to NAO.

Published Results not updated

For the sake of transparency, a list of all organisations benefiting from CSF is to be published accordingly in a timely manner.

Contributions not formally backed up

Whilst acknowledging that amounts were established when such contributions were still not under the remit of MCVS, the latter is to ensure that any amounts distributed from public funds are authorised in writing from the right level of authority.

Management Comments

Management concurred with most of the observations put forward by NAO; however, no reference was made to three shortcomings. The relevant comments are being shown hereafter.

Weak Internal Controls

Indeed, it would be adequate if additional manpower is dedicated to cover the role as specified and even to adhere to the four eye principle and segregation of duties as applicable. This could mean that the Council would need to invest in human resources as stated in the report.

The issue has been noted and these payments were given due to the tight budgetary timeframe commitment. The Council outlined that this main issue arises due to the fact that there is only one Fund Manager to cover the funds. Ideally there should be additional human resources as indicted before so as to ensure that allocated timeframes are met.

We are in agreement that a standard checklist should be in place so as to act as a tool for double checking that Guidelines in force are being thoroughly implemented and on the other hand as stated in the report, the checklist will facilitate the audit trail of funds given and projects implemented. On this note the Council has already drafted such checklists to be used in accordance.

Subjective Financial Capacity Assessment of the Beneficiary

To this respect the VOs[4] *are requested to submit a copy of the bank statement as part of the application and as from the year 2017 a declaration statement has been included whereby the beneficiary has to confirm that the VO has sufficient capacity to implement the project as indicated in the Budget Section. With reference to the marks allotted by the evaluators, a financial calculator has been developed to address this issue.*

Required Documents not submitted

The issue was noted and a memo was sent to override this problem and to act as an internal check.

Changes to Markings not endorsed

To this effect the checklists developed will also help to guarantee that such instances and details are not overlooked. This applies also in the case of travel details as outlined in 'Overpayments'.

Irregularities in Financial Assistance

As from the year 2017 new guidelines have been issued so as to ensure consistency and adequate controls in such funding.

[4] Voluntary Organisations.

Ministry for Transport and Infrastructure

Transport Malta

Annual Circulation Licence Fees

Background

A circulation licence fee refers to the fee paid on a motor vehicle when it is first licensed and annually thereafter. Estimated revenue figures for the year 2016 in relation to such fees amounted to €68 million, whilst the actual amount collected during the same period was slightly lower at €66,306,857.

In January 2012, S.L. 65.24 - 'Arrears of Motor Vehicle Licence Fees (Regularisation) Regulations' came into force with the aim of granting "... *immunity from criminal liability and a full or partial exemption from the payment of arrears in circulation licence fees due to the Authority*[1] ...". These regulations, valid until 31 March 2018, set out terms and conditions to regulate vehicles that are scrapped or are to be scrapped; vehicles intended to be garaged; and others which have an expired road licence but which do not fall under any of the other categories. By virtue of these regulations, Transport Malta (TM) requires vehicle owners with accumulated road licence arrears to regularise their position, and in a number of instances, waive pending licence fees upon settlement of certain administrative fees.

According to Article 56 of the Traffic Regulation Ordinance (Cap. 65), circulation licences cannot be renewed unless any fines or penalties due are first settled.

The Local Enforcement System Agency (LESA) was established in 2015 by means of S.L. 497.14 – 'Local Enforcement System (Establishment as Agency) Order', to, amongst others, "... *collecting penalties* ... ... *which may be due to the regional committees or local councils in terms of the Local Councils Act* ...".

Registered Vehicles and Contraventions – 2016 Data Analysis

Reports extracted by the TM for audit testing purposes from the Vehicle Registration and Administration System (VERA), revealed a total of 370,875 registered vehicles in 2016. Out of the total registered vehicles, 341,942 vehicles had an amount of €71,424,169[2] in licences, which during 2016, were either paid or written off against a credit note.

From the data provided it transpired that the total amount due from contraventions as at 31 December 2016 amounted to €14,121,429. A substantial part of this amount (€12,165,455) was due from vehicle owners who as at 31 December 2016 still had a balance due in relation to their annual circulation licence fees. The remaining balance pertained to vehicles whose licence fee had either been paid or written off against a credit note during 2016.

The National Audit Office (NAO) analysed the data provided by the TM showing those vehicles, the licences of which were settled or written off against a credit note during 2016. However, as at 31 December 2016, 12,377 vehicles still had pending contravention tickets of €1,955,974. Of these, licencees of 6,697 vehicles (54%) had made contravention payments amounting to €1,259,721 during the year under review. Table 1 further refers.

[1] Authority refers to the TM.
[2] It was very time consuming to distinguish between the amounts which were paid and those that were written off against a credit note.

Table 1: Pending Contraventions

Category	No. of Vehicles	Contraventions due as at 31/12/2016	No. of Vehicles in relation to which contravention payments were made in 2016	Amount of Contraventions collected during 2016
		€		€
Valid licence as at 31/12/2016	11,059	1,350,388	6,460	1,200,113
Expired licence as at 31/12/2016	456	121,656	215	56,651
No Vehicle Registration Number (VRN) - Scrapped	862	483,930	22	2,957
Totals	**12,377**	**1,955,974**	**6,697**	**1,259,721**

Audit Scope and Methodology

The scope of the audit was to evaluate the level of controls on the collection of annual circulation licence fees by the TM during 2016. The procedures for the collection of dues in relation to contravention tickets implemented by LESA were also assessed.

As part of the audit testing, an assessment of a number of vehicles was conducted on VERA to gain an understanding of the different scenarios, including different combinations of registration statuses (with or without the VRN), as well as dues on licences and contravention tickets. Separate walkthrough tests were also conducted on the Local Enforcement System (LES), being the system used at LESA.

Detailed testing was then carried out on 40[3] vehicles with unpaid contravention tickets amounting to €40,324 and with a valid licence as at 31 December 2016. In those instances when a payment agreement between LESA and the vehicle owner was found in file, the NAO assessed its contents and the relevant payments.

Testing was also carried out in relation to vehicles which had been scrapped during the year under review whilst still having a substantial amount of pending contravention tickets. Furthermore, all the vehicles with a licence ending prior to and during 2016, with unsettled contravention tickets and no payments thereon, were assessed by the NAO to determine whether these had been garaged during the year under review. Instances with high amounts of unpaid contravention tickets were also considered in more detail.

Good Practice

NAO is satisfied that procedures and controls in relation to the accounting of revenue were in place and correctly followed by the TM and accordingly reflected in the Departmental Accounting System.

Furthermore, all relevant documentation at the TM was held in an organised manner and was made available for the audit upon request.

[3] Ten had a substantial amount of unpaid contraventions and the other thirty did not have any settled contraventions.

Key Issues

Limitations on Scope of Audit

Whenever details of a contravention ticket is entered into the LES, a restriction is automatically generated in VERA that impedes the vehicle owner from renewing the driving licence. Contraventions will only be lifted whenever they are paid, petitioned, or there is a judgement in favour of the vehicle owner whereby the fine is no longer due. A restriction created by a pending contravention ticket may also be temporarily removed to allow the vehicle owner to pay the licence following a signed agreement with LESA. Authorisation by a LESA official is required for such temporary lifting, however the actual lifting of the contravention ticket is carried out by the LES system provider.

Because of the inherent risk created by the fact that such temporary lifting of contravention tickets is done by the external supplier, the NAO requested a report showing all the contravention tickets that were lifted during 2016.

Although LESA was to forward this request to the service provider, such report was not provided to the NAO at audit testing stage. It is pertinent to remark that, together with the management comments, LESA subsequently forwarded the ad hoc report in spreadsheet format listing the 'temporary lifting' instances during 2016. Management itself outlined the fact that this report is as provided by the service provider.

The NAO opines that the fact that the LES is not in a position to extract this report itself, but has to rely on its service provider, poses a significant risk that unauthorised lifting of contravention tickets may go unnoticed. This therefore leads the NAO to conclude that LESA is not conducting periodical checks on this practice, which can be considered as a control weakness within the Agency. Due to this risk, the NAO further opted not to conduct any testing, since it has strong concerns on the integrity of the data provided.

Furthermore, although the agreement outlining the relationship between LESA and the LES service provider was requested by the NAO on numerous occasions, said document was also not provided to this Office. Therefore, it was not possible to assess the level of responsibility put on the service provider as regards the lifting of contravention tickets.

Control Issues

No Formal Procedure to chase Contraventions due on Scrapped and Garaged Vehicles

Individuals whose vehicle had an expired licence and who, during 2016 or in prior years had either scrapped or intended to scrap their vehicle, but had failed to inform the TM, were allowed to regularise their position by virtue of S.L. 65.24. The Scheme states that if no contraventions and no Controlled Vehicular Access (CVA) fees are due on the vehicle, all licence arrears, as well as the applicable administration fines to date would be waived. However, if a vehicle has dues on contraventions and/or the CVA fees, the owner is to pay all licence arrears until such date when the last contravention ticket was given.

In line with same regulations, individuals who have garaged a vehicle and intend to keep it garaged, were allowed to regularise their position and benefit from a reduction of 50% of all the arrears in circulation licence fees due in respect of the said vehicle. Nevertheless, if a vehicle had contravention tickets and/or CVA fees, the owner was required to pay all licence arrears until the date of garaging.

Following discussions with the TM and LESA, it transpired that once the vehicle is scrapped and the VRN removed from VERA, the collection of contraventions due is not enforced, since according to the TM, the onus of collection lies with LESA. In fact, Article 3 of S.L. 65.24, states that, "... *in terms of article 56*[4] *of the Ordinance, the Authority shall be exempt from collecting such fines*."

It further transpired that no formal system is in place between the TM and LESA to follow-up on and collect such pending contraventions, thus hindering the possibility of settlement of such dues. The NAO's analysis further revealed that there were 862 scrapped vehicles, which still had €483,930 in unpaid contraventions.

Testing also showed that out of 99 vehicles that were garaged, no payments were traced with regards to €27,140 in contraventions. From the files tested at the TM, no evidence was traced showing that the contraventions due on two such vehicles were being chased. It further transpired that one owner settled only pending licence arrears prior to applying to garage his vehicle.

Contravention Tickets given to an Individual other than the Vehicle Owner

Contravention tickets relating to when the individual is not wearing a seatbelt, running a red light or using a mobile phone whilst driving a vehicle are given specifically to the individual making use of the vehicle (driver or passenger) rather than to the vehicle owner.

A number of such contravention tickets were traced during testing, and when the vehicle's VRN was queried on VERA, such contraventions did not show up, meaning that these amounts were neither chased nor collected.

Non-collection of Contraventions upon Transfer of Vehicles

When the TM was queried about the procedure undertaken upon the transfer of a vehicle, it was confirmed that the Authority does not register the transfer of the road licence from the current to the new owner, until such time as the payment of any pending contravention is settled.

Nevertheless, sample testing revealed that contravention tickets relating to previous vehicle owners are still featuring on the relative VERA and the LES records and none of the amounts due had been collected.

Further analysis showed that in most of these instances, the transfer of the vehicle had been effected when the judgement upon the contravention(s) was still pending. In this regard, LESA confirmed that in those instances where the offender was the owner at the time of issue of the contravention ticket, but had already transferred the vehicle to a third party as at the date of judgement, the restriction set in the LES will not have any effect on VERA. This therefore implies that there is no formal procedure in place to ensure that contraventions which remain due from such situations are chased and collected. Similar instances were also identified in the case of motor dealers, one in particular accumulated over €13,000 in unpaid contraventions as at year end.

Lack of Control over Payment Contracts

From a sampled number of agreements in relation to the payment of contraventions, vetted as part of the audit, it was noted that the relevant payments were not being made as stipulated.

Further assessment also showed that no follow-up was being made in this regard by LESA and when queried about it, Management confirmed that chasing of debts was one of the duties of a lawyer employed by the Authority.

[4] Article 56 of the Traffic Regulation Ordinance (Cap. 65) refers to the non-renewal of road licence pending settlement of fine or penalty.

Lifting of Contravention Tickets without an Agreement

Forty-three contravention tickets amounting to €1,979 were lifted on 24 February 2016 and re-applied on 29 March 2016 in relation to a particular vehicle. The licence for the year ending 28 February 2017 was renewed in the intervening period, on 1 March 2016. An e-mail dated 23 February 2016 from LESA to the system provider was traced, requesting the lifting of such contraventions, in spite of the fact that no payment agreement could be found in their regard.

Testing also revealed that additional contravention tickets of €3,482 were obtained by the vehicle owner since the licence renewal, and that up to the date of writing of this Report, the total contravention tickets of €5,461 remained unpaid.

Contravention Tickets excluded from Payment Agreement

A payment agreement, dated 2 June 2016 in relation to contravention tickets of €688 was also traced during testing. After cross-checking this amount to the contravention tickets listed on the LES, a discrepancy of €895 was noted. It resulted that Tribunal decisions in relation to these contraventions were taken up to May 2015 i.e. before the date of the payment agreement, however for some reason, these were excluded from said agreement.

Recommendations

Control Issues

No Formal Procedure to chase Contraventions due on Scrapped and Garaged Vehicles

The NAO strongly recommends that the TM, in liaison with LESA, introduces enforcement mechanisms to collect pending contraventions whenever a vehicle is going to be scrapped or garaged. Moreover, a system to chase and collect any existing contraventions in relation to those vehicles which have already been scrapped or garaged, and are therefore no longer in circulation, is to be implemented.

Contravention Tickets given to an Individual other than the Vehicle Owner

The introduction of a system to cater for the collection of these types of contraventions could be considered. This would allow these specific individuals to be chased separately and ensure that the contraventions due are duly collected.

Non-collection of Contraventions upon Transfer of Vehicles

The TM and LESA are to specifically address these instances of contravention tickets which remain pending upon the transfer of a vehicle. Procedures should be put in place to invariably ensure that such amounts are flagged for collection as soon as the tribunal reaches a decision.

Lack of Control over Payment Contracts

It is highly recommended that the various agreements entered into by LESA are periodically followed-up to ensure that they are being honoured.

Lifting of Contravention Tickets without an Agreement

Requests for lifting of contraventions should only be considered against a valid reason, and preferably after a signed payment agreement is in place.

Contravention Tickets excluded from Payment Agreement

It is recommended that thorough checks are carried out before entering into an agreement with a vehicle owner to ensure that all contraventions due are included and eventually paid.

Management Comments

Transport Malta

In its reply, the TM took note of the observations outlined by the NAO. Management expressed its full commitment to reinforce, ameliorate and strengthen all and any systems for proper and correct corporate governance and revenue assurance. The following comments were provided by the TM:

By way of a general comment, it was stated that "... *from an Audit Methodology point of view, whereas the declared scope of the audit was "to evaluate the level of controls on the collection of annual circulation fees by TM during 2016" the reported results reflect an audit which concentrated principally on the collection/payment process of contraventions, that is, a set of procedures owned and managed by another entity independent from TM, namely LESA*."

No Formal Procedure to chase Contraventions due on Scrapped and Garaged Vehicles

Management made reference "... *to the provisions of S.L. 497.14 which provide for the establishment of the Local Enforcement System Agency ... ... which is answerable to the Minister responsible for Local Government ... ... and is entrusted, inter alia, with the collection of all penalties and expenses* [*including contraventions*] *due to the regional committees or local councils in terms of the Local Councils Act*."

It was also stated that "... *LESA is an Agency having a corporate and legal personality of its own which is completely independent from TM* ..." and that this "... *applies to practically all Comments made under Section C*[5] *of the report since the chasing of payments for contraventions due is a function which LESA is legally vested to carry out, and not TM*."

Furthermore, "*It is TM's responsibility to refrain from renewing the annual circulation licence until the payment of all contraventions is settled. This procedure is already in place by means of a restriction incorporated in the VERA itself. However, if a vehicle owner opts to take up the arrears regularization scheme, in terms of article 3 of S.L. 65.24 TM is exempted from collecting such fines*." TM therefore stated that it "... *is acting properly and completely in line with the provisions of the quoted legislation. The onus for the collection of contraventions once the vehicle is scrapped and the VRN is removed from VERA lies solely with LESA* ...".

With respect to the recommendation that was put forward in this regard, the TM commented that "... *it is LESA and not TM which needs to implement such a system since this function is entrusted by law on LESA and not on TM* ...". Nevertheless, "...*should it be so requested by LESA, TM will certainly not refrain from collaborating in any manner allowed by law in order to assist the successful implementation of such a system by LESA*."

[5] Control Issues.

Contravention Tickets given to an Individual other than the Vehicle Owner

Management stated that "*When such contraventions are committed by individuals other than a vehicle owner ... ... these are not entered in the VERA of the vehicle in question as otherwise the owner of such a vehicle would be unable to renew the circulation licence fee of such vehicle prior to the settlement of contraventions for which he is not responsible* ...".

Furthermore, "*When a contravention is committed by an Individual other than the vehicle owner, the chasing of the payment of such a contravention cannot be made through any process in the VERA of such a vehicle ... ... and such chasing is to be made by LESA ... ... for example, as LESA chases the payment of a contravention given to a person who is found guilty of violation of the Litter Act, the Education Act, the Tobacco* (*Smoking Control*) *Act etc*.".

Non-collection of Contraventions upon Transfer of Vehicles

It was explained that this situation arises "... *since a contravention will only be flagged on the VERA once judgement is given* ...", on the basic presumption that an accused is not proven guilty until a decision is taken. "*TM has no way of knowing whether a vehicle the transfer of which has been requested has any contraventions on it which are still pending for judgement*. *Even if it did, it cannot, in terms of law, refuse to process a transfer request because of an accusation which is still pending and of which the vehicle owner, unless proved otherwise, is presumed innocent*."

Furthermore, even if judgement "... *is given at post-transfer stage* ..." it cannot simply assign such a contravention on any other vehicle, if any, registered in the offender's name.

As a result, Management emphasised the fact that "... *the payment for such contraventions is a task which falls solely within the remit of LESA which obviously has the right to have recourse to all means of judicial action, in the same way as all other creditors* ... ... *vested with executive title to enforce payment of all sums due*."

Lack of Control over Payment Contracts

Management remarked that "*The Payment Contracts referred to* ... ... *are concluded and signed between LESA and offenders with absolutely no involvement whatsoever from TM*."

Lifting of Contravention Tickets without an Agreement

In its reply, Management stated that "... *TM has no access to the system to lift any such contraventions* ..." *and it also does not* "... *have any right to impose or lift any contraventions in VERA*. *The lifting of such contraventions is only done* ... ... *upon approval of LESA and not TM* ...".

Contravention Tickets excluded from Payment Agreement

Similar to the above "... *TM is completely extraneous to such Payment Agreements which are entered into between LESA and vehicle owners* ...".

Local Enforcement System Agency

The following comments were separately forwarded by LESA Management:

LESA commented that as stated by SL 497.14, it is responsible for "... *collecting pending fines which may be due to Regional Committees and Local Councils from the year 2000 to date*." Additionally, "*The Agency which was regulated in October 2015, introduced a set up to start off chasing these debts which were long overdue*."

In fact, "*One of the urgent initiatives taken by the Agency, was that it was agreed with Transport Malta that whenever a vehicle has to be scrapped, all penalties (citations) have to be paid before the actual scrappage will be effected*...". Thus, in those instances where the vehicle owner scrapped a vehicle without settling its pending contraventions, LESA would have to resort to legal procedures.

Another measure agreed upon by both LESA and TM provides that "... *when a new vehicle will be registered, sold (meaning change of owner), garaged or scrapped, any registrations/transfers will not be effected until pending dues on all vehicles registered on the owner*... ... *will be settled or agreed upon*."

In addition, "*LESA has recently introduced an incentive, of a Debt Collection Agreement which generally covers a twelve month period instalments except in special cases which will be subject to humanitarian circumstances*...". Nevertheless, "... *This Debt Collection procedure is still being conducted as a Pilot Project, reason being the lack of HR* [Human Resources]*Resources*."

Limitations on Scope of Audit

LESA stated that "... *automatic restriction lifting will be effected when a contravention is paid, petitioned, cancelled, changed in judgement or appealed*. *When a repayment agreement is endorsed upon paying the first monthly installments* [sic instalments] *an authorised lifting will be carried out and re-applied within a month* ...". It is only the Director Operations who "... *can authorise this temporary lifting which will be carried out by the service provider* ...".

Contravention Tickets given to an Individual other than the Vehicle Owner

In the case of such contraventions, Management reiterated that "... *a red light, seatbelt or mobile contravention has to be strictly issued to the driver personally*..." explaining why "... *in some cases the offendor* [sic offender] *differs from the owner*...". Similarly, "... *when a passenger is contravening the seatbelt offence* ..." the contravention "... *has to be issued in the name of the passenger, once he/she is of age*." Additionally, "... *The law also regulates that the owner of the car is at all times duly responsible for the vehicle and that is the reason that these contraventions are related to the vehicle number plate*. *These dues will be regularly collected from the owner whilst renewing his licence*."

Non-collection of Contraventions upon Transfer of Vehicles

LESA commented that it "... *will be doing its utmost to submit a formal procedure with Transport Malta in order to collect its dues before any Vehicle Transfer is effected and this applies also in the case of motor dealers*. *Legal Action will follow* ..." in relation to "... *any contraventions which will remain pending upon the transfer of a vehicle subject to a petition referral or a tribunal decision*."

Lack of Control over Payment Contracts

With regards to such controls, Management stated that "... *the lack in HR Resources made it difficult to follow up the chasing of debts as only a part-time Debt Collection Officer was enrolled and the Lawyer was still to be engaged at a later stage*...". In fact, LESA presently has "... *a person who is monitoring the agreements on a monthly basis, by checking that these are being honoured and all payments are being processed regularly without any delays*. *Timely payments are more controlled as the offendor* [sic offender] *is being contacted straight away as soon as he/she falls behind in her repayment*."

In line with the NAO's recommendation, the Agency liaised with its service provider to provide a new report showing the lifting of restrictions on its Local Enforcement Reporting System. This will allow for periodical checks to be conducted.

LESA also confirmed that the LES Service provider "... *has signed an agreement in 2011 with the five Regions* ... ... *which was automatically borne on LESA when it was established on October 1st 2015* ... ...*These tender contracts expire on September 1st 2018* ... ".

Control Issues

LESA commented that prior to its establishment "... *no debt collection or follow-up collection was enforced and no formal procedure was vested between the Local Councils/Regions and TM respectively*." Additionally, "... *Within this last year LESA and TM are meeting up regularly to discuss and lessen* ... ... *procedural mishaps* ..." as well as to introduce the option of the Debt Collection Agreement (with no additional charges or interest) before an owner scraps, garages, sells or registers a new vehicle.

Management stated that LESA is in the process of strengthening its Debt Collection Department by "... e*nrolling a full time Debt Collection Officer and a Legal Advisor in order to follow up* ... ... *pending dues which were never collected in relation to those vehicles which were scrapped/garaged or transferred*."

Lifting of Contravention Tickets without an Agreement

In this case, LESA confirmed that the owner of the vehicle "... *signed* ... ... *a repayment agreement on July 27th 2017, where he had deposited €1000 as part of his €5519.32 dues*." The sum of €1,000 is expected to be repaid every month in order to settle the amount due within six months.

Contravention Tickets excluded from Payment Agreement

The owner of the vehicle in question requested the filing of "... *a petition through his lawyer for the contraventions which were due for the last 12 months*". Additionally, until the date of the agreement, LESA informed the NAO that the sum of €688 was fully repaid and honoured.

Grand Harbour Regeneration Corporation

Capital Expenditure

Background

The Grand Harbour Regeneration Corporation (GHRC) is a government entity falling under the Ministry for Transport and Infrastructure (MTI) and is responsible for the management of capital projects entrusted to it by the same Ministry. The GHRC aims to undertake Government's vision for the Valletta Harbours, the restoration and regeneration of Valletta Grand Harbour and the surrounding areas. The entity is registered under Schedule 3 of the Public Procurement Regulations (PPR) and administers its own procurement in accordance with the provisions of the relative legislation.

The Financial Estimates for Capital Expenditure Vote VII under the MTI report a total of €4,200,000 for the year under review, with a further €730,000 budgeted as Contributions to the GHRC under Vote 16 – Recurrent Expenditure.

Audit Scope and Methodology

The main scope of the audit aimed to assess whether capital expenditure incurred by the GHRC during 2016 was free from material misstatements and in compliance with Financial Regulations and Policies, in particular PPR. This audit focused mainly on a number of capital projects with payments being effected during the year ended 2016.

Detailed substantive testing was carried out to confirm the existence and the correct application of procedures and controls. A sample of four projects, totalling €10,336,000 excluding Value Added Tax (VAT) all being fully funded by national funds, was selected randomly from the list provided featuring twelve ongoing projects. A further breakdown of the selected projects was requested by the National Audit Office (NAO) to analyse the transactions making up the payments effected during 2016. For the projects selected, the NAO tested approximately 99% of amounts paid and/or invoiced during the year under review, totalling €1,798,000.

Good Practice

The NAO is satisfied that procedures in relation to the tendering process of selected projects carried out by the GHRC were in place and adhered-to, except for the issues outlined in this Report. Furthermore, all relevant documentation was held in an organised manner and was made available for the audit immediately upon request.

Compliance Issues

Shortcomings with respect to Contract for Service Agreements

The GHRC confirmed that as from 2015, it recurred to the employment of personnel on a 'contract for service' basis to supplement its resources and implement the projects within the time, budget and scope parameters. As a result, the GHRC issued expressions of interest for different posts, followed by interviews, and each of the 12 successful applicants were offered a 'contract for service'.

Lack of Supporting Evidence of Selection Process

An expression of interest for the post of Administrative Clerk was issued in November 2015. However, the GHRC could not trace the relative documentation in this respect, except for the application submitted by the selected applicant. Thus, the NAO was not in a position to verify the selection process following the publication of an expression of interest.

Payment of Allowances

Upon expiration of the original six-month contract with the Administrative Clerk in August 2016, the GHRC shifted the former's duties to Project Assistant for the Triton Square and City Gate Ditch projects. To this effect, the annual pay increased by almost €2,000, excluding VAT. A new Contract Agreement was entered into in September 2016, valid for six months and providing for, besides the applicable hourly rate, reimbursements of expenses fixed at €1,800 annually, covering "... *fixed and mobile telephone expenses, internet subscription, fuel consumption and other work related expenses, incurred by him in the course of his duties*".

The NAO noted that the employee invoiced the GHRC with the monthly hours worked, but did not include the monthly reimbursement of €150. Upon further enquiry, the GHRC informed this Office that such allowances were paid separately. This could be an issue of concern as regards the proper declaration of this income with the Inland Revenue Department, considering the fact that the Project Assistant is listed as VAT exempt.

Inappropriate Selection of Service Provider

In view of the increasing demand for the preparation and compilation of various tenders and the resignation of the Quantity Surveyor, the GHRC engaged a service provider on a contract for service.

Audit testing revealed that the service provider had originally applied to render Architectural Services, following an expression of interest for Junior/Senior Architects issued by the GHRC in May 2016. Correspondence in file revealed that in August 2016, a meeting was held whereby the GHRC asked the applicant to offer tendering and other related services for the Triton Square Project and Valletta Ditch. The service provider presented a new proposal for the services as requested by the GHRC. An hourly rate of €22.50 was agreed upon by both parties and a Contract Agreement was signed in August 2016, valid for a period of six months. Board Minutes indicated that the GHRC had in hand another higher offer of €32 per hour before negotiating with the same service provider.

It transpired that during the period August to mid-December 2016, a total of €16,155 was paid to the service provider in question for the provision of such services. The NAO opines that the selection of the above-mentioned service provider could have been carried out in a more transparent manner, had the GHRC issued a new expression of interest specifically for the services in question.

Other shortcomings in relation to Contract for Service

In November 2014, the GHRC requested a Direct Order (DO) approval from Permanent Secretary MTI[1] to engage a particular Architect, on the basis that he had vast experience and was required to assist the entity to coordinate the Castille Square embellishment.

Given the urgency, there was insufficient time to issue an expression of interest. Thus, the GHRC requested MTI Ministerial approval to be able to proceed with the Contract Agreement, which was eventually given. The six-month contract was signed in December 2014, commencing as from January of the following year.

[1] As directed by Department of Contracts.

Review of the Board minutes and other correspondence revealed, that upon expiration of contract, the Architect in question requested vacation leave on a pro-rata basis. In line with this, a new six-month Contract Agreement was signed in July 2015, which included this leave entitlement. Moreover, during November 2015, the GHRC Board discussed a further extension of Contract Agreement, with new conditions requested by the Architect himself, including sick leave in addition to vacation leave, an increase in hourly pay and a reduced-hour week. The Board approved such conditions, valid for a further period of six months, up till June 2016.[2] However, the GHRC verbally informed the NAO that no formal Contract Agreement was signed between both parties. A total of €16,872 was paid to the service provider during the period January to June 2016.

The NAO opines that the granting of vacation and sick leave to persons engaged on a contract for service should not be allowed since these are not GHRC employees. In fact, testing confirmed that the service provider invoiced the GHRC for those hours when on both vacation and sick leave. To this effect, the latest Contract Agreement ending 1 January 2016 specifically stated that "*This contract shall not create any relationship of employer/employee*".

Retrospective Approvals

Retrospective Approval of Variations incurred in connection with Construction Works

In August 2016, Transport Malta, through the Department of Contracts, issued a Framework Contract Allocation with respect to the Triton Project. Following an evaluation process among three prospective bidders, a local supplier was recommended by the Evaluation Committee as having submitted the cheapest compliant offer.

In late January 2017, the GHRC, through the Permanent Secretary MTI, requested a retrospective approval of variations from the Director General Department of Contracts. This request was for an amount of €164,626, being 33.4% increase on the original contract value. According to the GHRC, this variation was due to unforeseeable works at tender preparation stage, works not requested at estimate stage and changes in design due to the GHRC's requirements, as well as those caused by site constraints. Correspondence revealed that approval by the Department of Contracts was awarded retrospectively in April 2017. The NAO deems that variations approved following the execution of works may lead to cost overruns and eventual lack of control over the project costs.

Direct Order Approval for Traffic Management Services

In view of the road works in connection with the Triton Square embellishment project that commenced in September 2016, the GHRC requested the services of a local traffic enforcement company to be able to control both pedestrian and vehicular traffic in the areas affected by such road works, for public safety purposes. To this effect, the GHRC entered into a Contract Agreement with a private local service provider in October 2016. The contract was valid for three months up to end of January 2017 at an hourly rate of €10.60 (VAT excl.). In the beginning of January 2017, the service provider informed the GHRC that the rate per hour was to be increased with effect from 1 January 2017 up to €10.66 (VAT excl.).

It transpired that up to the end of 2016, a total of €40,974[3] were paid for such services without having appropriate Ministerial approval. In fact, following a Board Minute decision dated 27 January 2017, on 31 January 2017 the GHRC Chairman requested MTI Ministerial approval to engage the above-mentioned company, after presenting the different rates charged by the three main entities that provided such services. The increased rate of €10.66 requested by the service provider was quoted in this correspondence. However, said correspondence did state that the rate is a flat rate, without stating that it excluded VAT.

A second agreement with the same service provider was eventually signed on 1 February 2017, valid for three months. This was signed prior to the date when the Minister's approval was granted, i.e. on 8 February 2017, thus constituting a retrospective DO approval.

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[2] The GHRC Board Minutes noted that the architect retired by end June 2016 and a replacement was to be sought.

[3] This total is made up of €31,599 paid to a private local service provider and €9,375 paid to the Malta Police Force.

Recommendations

Compliance Issues

Shortcomings with respect to Contract for Service Agreements

The GHRC must ensure that appropriate calls for Expression of Interest are to be issued to enable fair and competitive selection of service providers, whilst a valid and signed Contract Agreement covers all work periods. Moreover, the GHRC is to retain all relative documents for audit trail purposes.

Any allowances paid to the service provider over and above the hourly rate should be included with the monthly invoice presented to the GHRC for payment, with the latter issuing one payment accordingly. If such allowance is given in the form of reimbursement of expenses, proof of such expenditure has to be submitted by the service provider concerned. Additionally, contracts for service should not include entitlement for vacation leave or sick leave, given that the person engaged to provide such service(s) is not a direct employee of the GHRC.

Retrospective Approvals

Appropriate planning is to be conducted prior to the issue of a call for quotations and/or tenders, whilst ensuring that tender documents and work specifications incorporate all material and services necessary for the full execution of the project. In the event that variations to projects are unavoidable, prior approval is to be requested and duly obtained from the appropriate level(s), before works are executed.

The GHRC should also ensure that necessary approvals are sought and obtained in a timely manner, before entering into any commitments with service providers.

Management Comments

In its reply, management took note of the observations outlined by the NAO and provided the following comments:

Shortcomings with respect to Contract for Service Agreements

Lack of Supporting Evidence of Selection Process

The GHRC acknowledged the fact that "... *during the auditing period, GHRC were unable to present the relative documentation concerning the expression of interest published by GHRC for the post of an administrative clerk*". A copy of the relative expression of interest was provided to this Office when submitting their comments.

Payment of Allowances

The GHRC commented that as from mid-May 2017, the Project Assistant in question "... *has been asked to submit the relative receipts for the expenses incurred on telephone, mobile, internet, fuel consumption and other works related expenses. In the absence of these receipts, he will have to include the allowance in his monthly invoice*".

Inappropriate Selection of Service Provider

Management remarked that "... *GHRC was progressing with project preparations and implementation both with regard to the preparation of tenders and certification of measured works ... ... In view of the urgency of the pending works ... ... rather than issuing a new expression of interest* (*EOI*), *GHRC recurred to the list of applicants following the May issue of the EOI*".

The Contract for Service provided to the selected service provider "... *was the most cost effective one for GHRC at €22.50 per hour compared with the other offer of €32 per hour from the list of applicants that resulted from the call for expressions of interest dated May 2016*".

"*Moreover, GHRC took immediate action to obtain approval for the recruitment on a full time basis of a quantity surveyor* ...". To this effect, Jobsplus provided the GHRC with one potential applicant, however, he opted to work elsewhere.

"*Following this negative development, GHRC published an advert on the Times of Malta on 30 October 2016 and two applications were received. Interviews were held, however, one was not available on a full time basis and the other refused our salary package. The vacancy is still open but it clearly seems that there is a market shortage of qualified quantity surveyors ... ... The way forward will include a new process through Jobsplus and eventually through the open market, if these proof in the negative, GHRC will issue another EOI specifically for tendering and quantity surveying purposes*".

Other shortcomings in relation to Contract for Service

The GHRC stated that during the beginning of 2015, it had almost no internal resources "... *to manage such a large and challenging project pre-2015 ... ... In 2015, the management strategy was to gradually build-up an internal capacity of resources that will eventually enable GHRC to manage projects independently. Hence, it was necessary to recur to an experienced Senior Architect to support a team of young architects*".

Management also remarked that during his employment with Government, the Architect in question "... *had already carried out a number of designs on behalf of Government for Castille Square ... ... It was thus felt that he was a natural choice for GHRC to assist in the design, preparation of tenders, implementation and certification of this open public space*". Moreover, the GHRC stated that this option was more cost efficient compared to a private architectural firm.

The fact that the selected Architect in question "... *was approved 12 days vacation leave on a six month period confirms the unique service and dependency on him for this project. In addition, the GHRC management was aware that the Corporation was making a good saving in project architectural services*". The Architect "... *had unfortunately refused to extend and sign a new contract. In fact, his service was terminated by himself for health reasons during June 2016*".

"*The way forward on this case will be that GHRC will not allow further unsigned contract for services, and sick and vacation leave will not be allowed for contract for services*".

Retrospective Approvals

Retrospective Approval of Variations incurred in connection with Construction Works

"*GHRC understands and always aim to approve variations prior to works being carried out. However, in the case of this particular project at Great Siege Road, Valletta, due to the constant use of this road as one of the main entry/ exit points to Valletta and also in view of the imminent start of the EU17 Presidency, GHRC had to recur to onsite approvals for works to continue. It should however be noted that almost all of the approvals related to increases in contract quantities. Only 3.8% of the total variations were new rates*".

Direct Order Approval for Traffic Management Services

The GHRC remarked that “... *Though it was the intention by GHRC to use the services of the Police Force, however, due to other commitments these were not always available*. *Thus, contrary to our original planning, we had to recur to other service providers*”. The service provider in question “... *provided the best rate per hour and availability on a regular basis ... ... As a way forward, GHRC will aim to improve the planning process and when unforeseen circumstances crop up, prior approval for direct orders and/or quotations are obtained*”.

Ministry for Gozo

Ministry for Gozo

Creditors

Background

MF Circular No. 10/2001 titled 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors', requires every Ministry and its Departments to continuously maintain complete, accurate and timely information about their contractual obligations (amounts payable), besides their obligations for goods and services that have been received by them but not yet invoiced by the respective supplier (accrued liabilities). Such circular also stipulates that a quarterly analysis of creditors is to be submitted to the Accountant General. To this effect, in accordance with Treasury Circular No. 15/2016 – 'Closing of Accounts for Financial Year 2016', the analysis of creditors as at end of December 2016, was to be submitted by 13 January 2017.

Audit Scope and Objectives

The objective of this audit was to evaluate whether the Directorates within the Ministry for Gozo (MGOZ), namely Corporate Services, Customer Services, as well as Projects and Developments, were complying with the applicable provisions and have thus furnished the Accountant General with timely, precise and comprehensive creditors' information for the year ended 31 December 2016. Attention was also directed towards ensuring that creditors' records are maintained in line with the prescribed format presented in the circular.

Audit Methodology

The creditors' lists provided for audit purposes by the three MGOZ Directorates were scrutinised to ensure conformity with the requirements of the pertinent circular. Completeness of the said lists was also checked by verifying that all payments made during 2017 as per Departmental Accounting System (DAS)[1], in respect of invoices dated 2016 and before, were duly recorded as payable at year-end.

A sample of payables[2], representing 59% (Corporate Services), 75% (Customer Services) and 100% (Projects and Developments) of the total year-end balance was selected for the purpose of obtaining third party evidence of outstanding amounts by means of balance confirmation letters.

Meetings were also held[3] with the Directors and Assistant Directors of each Directorate under review, as well as with all the officers maintaining information on creditors, to identify the procedures in place for the management of creditors.

[1] Cut-off date: 22 May 2017.
[2] As included in the creditors' lists provided by MGOZ.
[3] On 13 June 2017.

Findings

Issues concerning Creditors' Lists provided for Audit Purposes

Pending Invoices not recorded as Creditors

Audit procedures carried out revealed various omissions from the creditors' return, to the tune of over half a million euro for all three Directorates. Table 1 refers.

Table 1: Unpaid Invoices not recorded as Creditors

	Corporate Services	Customer Services	Projects and Developments	Totals
	€	€	€	€
Total as at 31 December 2016 as per creditors' lists	5,523	42,899	53,809	**102,231**
Invoices dated 2016 and before (paid in 2017) as per DAS reports	69,357	184,781	375,517	**629,655**
Discrepancy (invoices not recorded in creditors' lists)	**63,834**	**141,882**	**321,708**	**527,424**[4]

Whilst acknowledging that an accrual was recorded for certain amounts that were not yet invoiced by date of submission of the creditors' return[5], other balances were completely omitted from the lists, either inadvertently or because the sections falling under the remit of the three Directorates did not provide a comprehensive list of the invoices which were still due by the said date.

Further to the above, in view that purchase invoices bore no indication as to when these were received, when dated close to year-end, one could not determine whether such invoices were received prior to the submission of the creditors' lists or otherwise, thus hindering the National Audit Office from ascertaining whether the respective amounts had to be recorded as creditors or accruals.

Erroneous Entries in the Creditors' Lists

The creditors' lists as at end December 2016 contained a number of errors, including:

a. invoices dated 2017 for goods and/or services purchased in the same year, which hence do not relate to financial year 2016;
b. invoices dated past the date of submission of the creditors' return and which thus, for proper cut-off purposes, should have been recorded as accrued expenses rather than creditors; and
c. over and/or understated creditors' balances.

[4] The amount may not be exhaustive as it only includes paid invoices that featured in DAS reports.
[5] The amounts of €10,144 and €26,965 were recorded as accrued expenditure by the Corporate Services and Customer Services Directorates respectively.

Results of Circularisation Letters

Responses received for the creditors' confirmation letters[6] revealed instances whereby payable balances as included in the Directorates' creditors' lists and those as per respective circularisation letter, were in disagreement. Such discrepancies comprised:

a. invoices recorded with incorrect amounts;
b. unrecorded invoices;
c. invoices which were entered more than once in the creditors' lists; and
d. invoices recorded under the incorrect Unit within the respective Directorate.

Departures from pertinent Circulars and Other Matters

a. Notwithstanding that the analysis of creditors as at end December 2016 had to be submitted to the Treasury by not later than 13 January 2017, the Projects and Developments Directorate did not meet the said deadline[7]. In this regard, it was claimed that such period is rather restricted and that more leeway is to be provided so that information is compiled as thoroughly as possible.

b. Although seven invoices[8] were being contested by the Corporate Services Directorate, these were not shown separately under the 'Amounts Contested' column in the analysis of creditors by age.

c. Meeting held also revealed that no specific training on accrual accounting was ever provided to individuals involved in the accounting function within MGOZ.

Recommendations

Issues concerning Creditors' Lists provided for Audit Purposes

In view of Government's imminent move towards accrual accounting, officers responsible of compiling creditors' returns are to ascertain that all unpaid invoices as at date of submission of the said returns are accurately recorded as payables therein.

Attention is also to be directed towards the correct application of cut-off procedures. Accordingly, adequate checks are to be carried out to ensure that appropriate distinction has been made between payables and accruals.

Furthermore, ways and means to determine when invoices were actually received are to be established, thus enabling external parties to confirm whether these were received prior to or following the submission of the creditors' lists.

Results of Circularisation Letters

Appropriate checks are to be carried out to verify that all unpaid invoices have been recorded with the correct amounts and that no invoices have been omitted or accounted for more than once in the return. To this effect, quarterly statements from all suppliers may be obtained to reconcile the respective balances prior to the submission of the creditors' lists.

[6] Out of the 12 suppliers selected for all three Directorates, five did not submit a response to the confirmation letters.
[7] Year-end analysis was submitted on 27 January 2017.
[8] Totalling €7,031 and issued from the same supplier.

Departures from pertinent Circulars and Other Matters

It is to be ensured that creditors' returns are submitted to the Accountant General within the stipulated timeframe and that these contain all required data with accurate figures.

Attendance to training sessions offered by Government in respect of accrual accounting cannot be overemphasised.

Management Comments

MGOZ concurred with the majority of the highlighted observations, as well as with the proposed recommendations. The following comments were submitted in reply to the findings raised:

Management commented that it will be involving the two recently appointed Managers (Accounting and Finance), "... *in the financial control of reporting exercises carried out by the various Directorates* ..." with the intention of enhancing the quality of reports submitted to both Senior Management within the Ministry, as well as external parties.

"*A circular to emphasise the need for timely and accurate reporting shall be circulated to all Directors and Assistant Directors ... ... in order to address any weaknesses within their respective Directorates*. *Instructions will also be issued to introduce a standard procedure for stamping of invoices with the date of receipt at the respective Directorate so that officers preparing the reports will be able to determine the proper classification of amounts as Creditors or Accruals*".

MGOZ agreed that quarterly statements are to be requested from all suppliers by the reporting Directorates and that necessary reconciliations are carried out to ensure completeness of data, thereby enhancing the quality and correctness of submissions. It was also expressed that, with the involvement of the aforementioned Managers, the Ministry will be adopting "... s*eparation of duties to have independent checks on the content of the reports to be submitted*. *The Managers will be thus performing an internal audit function* ...".

With regard to the lack of training on accrual accounting, Management expressed that it "... *shall be discussing with the Institute for Public Service regarding the possibility of organising basic accrual accounting training and specific training on accrual accounting reporting to the officers who are involved in compiling accrual accounting reports at the Ministry*".

Ministry for the Economy, Investment and Small Business

Malta Communications Authority

Revenue

Background

The Malta Communications Authority (MCA) was set up to regulate communications services, including fixed and mobile telephony, internet, as well as television distribution services. It also regulates the postal sector, eCommerce services and Malta's radio spectrum resources. In 2014, the Authority's mandate was further extended to include the responsibility for developing Malta's Information and Communications Technology potential through innovation. On the consumer front, the MCA implements programmes to ensure that consumers are well informed about their rights and the various offers available to them.

The MCA is administered by a Board, which is responsible for its overall direction and the delivery of its mandate, while the execution of its day-to-day functions lies with the Management Committee.

The estimated revenue from Fees for Rights of Use (Item 0340), as shown in the Financial Estimates for 2016, stood at €5,600,000.

Audit Scope and Methodology

The main scope of the audit was to evaluate the adequacy of the procedures in place for the collection of Fees for Rights of Use, as well as to ensure that such income received by the MCA was duly recorded and forwarded to Government in a timely manner.

Audit work performed covered fees paid by a number of licence holders/operators, to ensure that the amounts charged complied with pertinent legislations and regulations.

Most of the revenue collected by the MCA (Scarce Resources Fees[1]: €5,539,839), and forwarded to Government, was tested in full by the National Audit Office (NAO). On the other hand, in the case of Radiocommunications Licences, the audit sample was mainly based on materiality of amounts invoiced, although a number of payments by licence holders were also selected on a random basis. This represented a total of 13 invoices for the value of €465,917, equivalent to 56% of the amount invoiced in 2016. Testing was also carried out on credit notes. Furthermore, the NAO obtained all the licences relating to the sampled invoices and credit notes, to ensure that a valid licence was in place.

The audit was limited to ensuring that the fees charged were in accordance with pertinent laws and regulations. Reliance was placed on information identifying operators paying the respective fees, as provided by the MCA.

[1] These fees are referred to as 'Scarce Resources Fees' because they are levied to operators using the radio spectrum, which is considered to be a scarce finite resource.

Key Issues

Untimely Transfer of collected Fees to Government

During the year under review, the MCA issued invoices for postal fees and other fees of office, totalling €281,578 and €3,400 respectively. However, in spite of the fact that all these invoices were settled throughout the same year, the MCA only forwarded the fees collected to Government, net of deductions, in one tranche on 31 January 2017.

The NAO noted a number of instances whereby fees relating to Scarce Resources were transferred to Government with a delay of up to three months from when the respective operator paid the amounts due, with some of the individual amounts approaching half a million Euro.

The untimely transfer of fees collected from operators to the respective Ministry may have resulted in public funds lying idle in the MCA's bank accounts. Such a situation is to be avoided, especially in light of the Government's cash needs to cover its daily operations.

When the NAO requested the MCA to provide an explanation on such delays in transferring funds to Government, the Authority's reply stated that up till December 2016, the Authority's and Government's Funds "... *were kept in one basket*", while "... *a detailed reconciliation is prepared by MCA and this was also sent on a monthly basis to the Ministry when payment was effected*."

Reliance placed on Information provided by Operators

Audit testing revealed that, very often, invoicing for Fees for Rights of Use, was based on information submitted by the respective operators, without the MCA carrying out any independent verifications on the correctness of such information.

Particularly, in the case of licences issued for the operation of radiocommunications in the Private Mobile Radio (PMR), the annual charge was based on the type of apparatus held by the licensee, whether it is fixed on location, mobile or portable. The onus of informing the MCA of the equipment being utilised rested on the operators themselves, as confirmed to the NAO by the Authority. Therefore, in the event that the licensee changed the type or quantity of apparatus in use, the MCA would not be aware of such changes unless notified by the former. Hence, in such cases, the fees charged would not reflect the actual amounts due by the operators.

Furthermore, although the location of equipment comprising a fixed installation would be known to the MCA, as the respective details are included in the licence application, the same cannot be said for mobile and portable equipment. Therefore, the risk that such equipment is not duly registered with the MCA, possibly leading to incorrect charges, is still not adequately addressed through on-site verifications.

When queried by the NAO on whether inspections were carried out regularly on equipment in use by licensees, the MCA stated that the majority of inspections performed in 2016 related to radiocommunications equipment installed on vessels, while no specific verifications were carried out on other types of radio equipment. The Authority also confirmed that in 2017, inspections were being carried out on PMR installations to, amongst other things, verify the details of licensed equipment. At the end of the inspection activity, the MCA planned to audit these licence types to ensure continued compliance with the terms and conditions of the licences in force.

Control Issues

Authorisation for Deductions from Amounts due to Government not evidenced

In reviewing the MCA's monthly transfers to the respective Government Ministries during the year under review, the NAO noted that Fees for Rights of Use were not being forwarded in their entirety. In fact, expenses which were directly attributable to the collection of the revenue being transferred, referred to as 'deductions', were being withheld by the Authority. As reported in the MCA's Management Accounts for the year ended 31 December 2016, forwarded to the NAO during the audit, fees invoiced on behalf of Government totalled €6,342,701, while the total deductions in relation to this income amounted to €893,158.

During the audit, the NAO requested official documentation, evidencing a formal authorisation by Government for the MCA to effect these deductions. However, no such documentation was made available, with the Authority claiming that "*This has always been the practice as agreed with the Ministry of that time* …". The MCA further explained that "… *every year the Authority presents to the Minister with a Business Plan along with Financial Projects* (*including the estimate of the deductions*) *which are ultimately approved by the Minister*."

Weaknesses in Radiocommunications Licensing and Invoicing

Different computer programs are utilised by the MCA for issuing Radiocommunications Licences, as well as the corresponding invoices, to operators. The Authority first obtains the details to be included in the licence, through a manual application form that is compiled and submitted by the prospective licensee. The details are subsequently inputted in a computer program and, after the required checks are carried out, the MCA invoices the operator. Once payment is effected, the licence is then issued from a word-processing software.

Whilst all invoicing is carried out through one computer application, the method for calculating fees depends on the type of licence in question. The use of different computer programs, as well as the manual inputting of information at various stages, increases the possibility of errors occurring when the MCA issues Radiocommunications Licences documents and invoices to operators. In fact, during the audit, two such errors were encountered.

Fees transferred twice to Government

When establishing the amounts to be transferred to Government, the MCA claimed that a detailed reconciliation is prepared when effecting payments to the Ministry. However, audit testing revealed an instance whereby numbering fees of €775, paid by one of the operators, were transferred twice to Government. The Authority confirmed that it became aware of this error "*Around July*" 2016. Nonetheless, it was never corrected in subsequent transfers within the same year, thus defeating the scope of carrying out reconciliations.

Recommendations

Key Issues

Untimely Transfer of collected Fees to Government

The MCA is to ascertain that fees collected from operators on behalf of Government are remitted to the respective Ministry without undue delay, thus ensuring best practice and diligent handling of public funds. Moreover, it will enhance cash management at the central level of Government.

Reliance placed on Information provided by Operators

In order to minimise the risk of operators utilising apparatus not duly covered by a valid licence and consequently, the respective fees not being adequately charged, the MCA is to increase the number of inspections it carries out on different operators. The Authority is also to keep abreast with the latest technological developments, which could be beneficial for the detection and identification of unlicensed use of links and/or equipment.

Furthermore, given that at present, on-site verifications still rely substantially on the operators' declarations on the location and quantity of equipment held, the Authority is to consider proposing more effective methods of verification and levying of fees to operators. Hence, alternative fees directly linked to the equipment in use, in particular those applicable to mobile and portable radiocommunication devices, as well as the charge per utilised number in respect of numbering fees, are to be sought.

Control Issues

Authorisation for Deductions from Amounts due to Government not evidenced

The MCA is to ensure that it is in possession of official documentation, endorsed by the appropriate level of authority, confirming that it is entitled to withhold part of the amounts collected on behalf of Government. This document is to clearly stipulate the nature of the expenses which are allowable as deductions, as well as how these amounts are to be calculated.

Weaknesses in Radiocommunications Licensing and Invoicing

The MCA is to consider exploring feasible ways of integrating computer programs currently in use, thus reducing the likelihood of errors. Manual inputting and manual processing of data is also to be kept at a minimum.

Fees transferred twice to Government

The Authority is to continue ensuring that all transfers to Government are appropriately reconciled with the respective invoices. Any over/under payments are to be adjusted for within a reasonable timeframe.

Management Comments

Management concurred with most of the NAO's observations and forwarded the following comments:

In order to ascertain that fees collected by the MCA on behalf of Government are remitted without delay, Management stated that as from January 2017, "... *the Authority implemented better management processes for its cashflow by segregating revenues accrued from Authorisation fees and revenues generated from activities undertaking on behalf of Government in separate bank accounts*".

Whilst agreeing to the NAO's recommendation on the essentiality of on-site verifications in relation to mobile and portable equipment licensing as a means to control abuse, Management added that "... *as from January 2017 MCA intensified the number of physical inspections carried out, and actions were taken against those licensees that had such equipment installed without the appropriate radiocommunications equipment license*". Furthermore, although the MCA confirmed its agreement with the recommendations put forward by the NAO in this respect and pointed out that these were included in the Authority's business plan for 2017, it was clarified that "... *their implementation depends on the availability of funds which will be made available from the assignment of new spectrum for wireless broadband services*".

On the necessity of a revised fee regime for mobile and portable devices, Management stated that "... *the MCA considers that the licensing framework for the PMR service necessitates a revision due to, in particular, certain technological developments reflecting the efficient use of spectrum*". The MCA further indicated that "... *in accordance with its annual plan for 2017 a revision to this licensing regime is envisaged in line with measures for better regulation and simplification as promoted by government*. *In view of the on-site verifications that are currently taking place, MCA will be undertaking such a review following conclusion of this verification activity*".

As regards the lack of official documentation evidencing a formal authorisation for the MCA to effect deductions from Fees for Rights of Use transferred to Government, Management referred the NAO to Article 14(4) of the Malta Communications Authority Act (Cap. 418). This article, although only referring to the financial provisions of the Authority in general[2], allows the MCA to form a reserve fund out of any excess of revenue generated from fees levied under the mentioned Act, over expenditure. This is to be done following directives by the Minister responsible for the Authority, after consultation with the Minister for Finance. Management also reiterated that "*The Authority's financial projection, including revenues and deductions, forms part of the Business Plan, regulated and approved by the minister under the same Act*".

Management acknowledged the weaknesses pointed out by the NAO relating to radiocommunications licensing and invoicing. It noted that the system in use may be inferior to other alternatives available on the market. The MCA indicated that it will be carrying out "... *a cost benefit analysis in relation to the upgrading or replacing of the current system once the aforesaid PMR licensing framework is revised*". Furthermore, the Authority explained that "*In the interim, in addition to the on-site verification activities being undertaken* ... ... *MCA will revise current processes with the objective to minimise as much as practicable* ... *the manual processing of data*".

[2] Hence not regulating directly the treatment of Fees for Rights of Use.

Ministry for Competitiveness and Digital, Maritime and Services Economy

Creditors

Background

The Ministry for Competitiveness and Digital, Maritime and Services Economy (MCDMS) was set up on 29 April 2016, taking over the portfolio previously assigned to the then Parliamentary Secretariat within the Ministry for the Economy, Investment and Small Business.

In accordance with Treasury Circular No. 17/2016 – 'Treasury Financial Data Transmission Calendar for 2017', outstanding creditors have to be included in the Creditors Return and sent to the Treasury Department within the first 10 working days from the end of each quarter.

According to the Creditors Return for Quarter 4 (2016), the MCDMS had total outstanding dues of €358,265 as at 31 December 2016. Out of this amount, €129,359, i.e. 36.1% were outstanding for a period of less than 30 days, while 62.9% of the creditors' balances had been outstanding for between 31 and 60 days. None of the pending amounts were due for over 360 days.

Audit Scope and Methodology

The main scope of the audit was to assess the Ministry's compliance with the pertinent Treasury Circulars regulating the collation and reporting of creditor balances as at 31 December 2016, together with a financial audit of figures submitted to Treasury.

Following an introductory meeting with Ministry officials, the National Audit Office (NAO) obtained and reviewed the Creditors Return for Quarter 4 (2016) sent to the Treasury Department, and documentation supporting the balances reported by the MCDMS. Since only six creditors were reported in this Return, the NAO opted to test in full all the balances disclosed. Testing was also carried out on the Return for Quarter 1 (2017), as well as payments recorded in the Departmental Accounting System (DAS) between 1 January and 20 May 2017[1], to identify paid invoices pertaining to 2016.

Furthermore, a circularisation exercise was carried out by this Office, whereby creditors[2] were requested to confirm balances due to them by the MCDMS as at 31 December 2016. Confirmation was done by means of direct electronic communication with the NAO.

[1] This was the cut-off date for audit testing set by the NAO.

[2] These included both creditors reported in the Quarter 4 (2016) Return, as well as unreported creditors identified during audit testing.

Key Issues

Weaknesses in the Collection of Data for Compilation of Creditors Returns

During the audit, it was established that once purchase invoices were received at the Ministry, these were passed on to the officers/sections responsible for their processing. Subsequently, an officer within the Accounts Department, in charge of compiling the Creditors Return, requested the relevant sections to forward pertinent information of any pending invoices held at their end at the end of each quarter.

The MCDMS confirmed that the compilation of the Creditors Return was based solely on the information received at the Accounts Department, with no verification against the original invoices being carried out. Since full reliance was placed on the feedback given by the different sections within the Ministry, it was difficult for the MCDMS to ascertain that the data contained in the quarterly returns submitted to Treasury was complete and accurate. In fact, although the different sections reported nil balances in respect of Quarter 4 (2016), audit testing carried out revealed a substantial number of invoices which were still unpaid at the end of the quarter being reported upon, but were omitted from the Return.

Furthermore, in reviewing purchase invoices, the NAO noted that these were not rubber-stamped upon receipt. Therefore, neither the Ministry itself nor this Office could establish the exact date when the former became aware of pending invoices.

Control Issues

Creditors as at Year End not reported in Return

a. Audit testing revealed a substantial number of invoices dated prior to 1 January 2017 which were omitted from the Creditors Return for Quarter 4 (2016), even though these were still unpaid as at 31 December 2016. The total value of these unreported creditors amounted to €27,077. The NAO became cognizant of these purchase invoices:

   - in evaluating data reported in the Creditors Return for Quarter 1 (2017), which included invoices dated 2016, but were excluded from the Quarter 4 Return (2016);
   - through research carried out on DAS on purchase invoices settled between 1 January and 20 May 2017, and which pertained to 2016; and
   - in reviewing files for expenses incurred by the MCMDS, which held invoices dated 2016, still unpaid at time of audit, and which were not reported in either the Creditors Return for Quarter 4 (2016), or in that for Quarter 1 (2017).

   The MCDMS claimed that some of the above expenses had been reported to Treasury in the Accrued Expenditure Return for Quarter 4 (2016). However, the NAO could not establish whether the amounts reported duly covered the pending purchase invoices.

b. Out of the eighteen creditors to whom the confirmation letters were sent, eight failed to submit their response to the NAO. Five creditors confirmed pending balances which agreed to the amounts established through audit testing. In the remaining instances, except for one creditor, the amounts confirmed by the creditors exceeded those established by the NAO. From invoices tested, the net difference amounted to €332,840. None of the balances due confirmed by creditors tallied with those reported by the MCMDS in the Quarter 4 (2016) Creditors Return sent to the Treasury Department.

Repeated Payment effected by the Ministry

An invoice issued to the MCDMS by a creditor, was settled twice by the Ministry. In fact, a Payment Voucher was issued to settle this invoice on 3 April 2017, with another one for the same amount, and referring to the same invoice, issued on 24 May 2017.

Recommendations

Key Issues

Weaknesses in the Collection of Data for Compilation of Creditors Returns

Management is to consider adopting a more centralised system for receiving purchase invoices. This would facilitate the reporting of creditor balances in the respective quarterly returns, thus safeguarding the accuracy and reliability of the information recorded. It is also recommended that the date of receipt by the Ministry is clearly indicated on all invoices.

Control Issues

Creditors as at Year End not reported in Return

In order to minimise the risk of omitting outstanding purchase invoices from reports sent to Treasury, records of invoices received, or at least copies thereof, are to be kept centrally by the Accounts Department. The data maintained is to include the invoice date, supplier name, amount and payment date.

Repeated Payment effected by the Ministry

While the Ministry is expected to recoup the extra amounts paid to the supplier in question, it is to ensure that basic checks are carried out before raising Payment Vouchers, such as verifying whether the amount was already invoiced and/or paid for, thus eliminating the possibility of double or multiple payments relating to the same invoice.

Management Comments

Management concurred with most of the NAO's observations and forwarded the following comments:

The MCDMS stated that the system adopted was based on the collaboration between the various directorates, sections and units within the Ministry, with the aim of facilitating data reporting. It also highlighted that the Accrual Accounting exercise is "... *very exhaustive and time consuming*."

When commenting on the weaknesses identified by the NAO in relation to the collection of data for compilation of Creditors Returns, the MCDMS confirmed that it "... *took on board all recommendations and data collection systems were reengineered in order to set-up a more centralised system and as an effect the Finance Section took the sole responsibility of the exercise*."

The Ministry pointed out that 99.6% of the reported discrepancy between the balances confirmed by creditors and the balances as established through audit testing, "... *represents an amount of money due from one Government Entity to another*." Management also remarked that a number of invoices dated December 2016 "... *could not be included in the Creditors list, as probably the same invoices were not yet received by MCDMS when reporting*

Q4 2016." It reiterated that, as instructed by the Treasury Department "... *invoices were to be included in accrual accounting exercise according to the date of invoice receipt and not to the date of invoice*."

The Ministry confirmed that "*Recommendations emanating from NAO report were taken on-board by MCDMS. The management has instructed its staff to create an electronic system between the Procurement and the Finance Sections to record and maintain invoice history from the beginning to the end of the process cycle*."

With regards to the double payment mentioned by the NAO, the MCDMS acknowledged that the amount was settled twice due to a human mistake in the inputting of the relevant invoice number, where the same invoice number was copied in a different format, in a way that made it difficult to trace. Management confirmed that "*Action was taken to recoup the over-payment ... ... and matter is being still followed on an ongoing basis to ensure an effective and timely collection of dues*."

Ministry for Energy and Health

Medicine and Surgical Materials

Expenditure

Background

The Central Procurement and Supplies Unit (CPSU) was set up to manage the procurement and supply of materials, works and services across the Government Healthcare Services, with the objective of obtaining the best value for money from economic operators through the principles of fairness and transparency.

CPSU Head Office is situated in Gwardamanġa whilst other offices and the principal stores are housed in a site occupying an area of approximately 4,500m^2 at San Ġwann Industrial Estate. Operations from the latter premises started during the last quarter of the year 2014.

Medicines and supplies are mainly distributed to public hospitals and clinics across Malta and Gozo, apart from the Pharmacy Of Your Choice Unit.

The audit covered expenditure on Medicines and Surgical Materials incurred by the Ministry for Energy and Health in 2016, from Recurrent Vote 32, line item 5400 under Programmes and Initiatives. The approved budget for the year under review was €92 million. This was subsequently revised to €94,250,000 while the actual expenditure amounted to €94,246,103[1].

The value of stock recorded on the computer system as at 16 January 2017, which records were used for stocktaking purposes, amounted to €18,031,558.

Audit Scope and Methodology

The objectives of the audit were to verify that, during financial year 2016, expenditure incurred on medicines and surgical supplies was duly authorised and properly accounted for, and that procurement was in line with the regulations, as well as other relevant circulars. The procedures for the administration and management of CPSU stores and the adequacy of the stock control system were analysed whilst the level of internal control was also determined.

A walk-through of the system, from procurement up to stores, was carried out on a sample of 10 invoices, amounting to €527,017. Such selection included mostly invoices from the three major CPSU suppliers, who between them accounted for 31% of CPSU's disbursements. Stock movement for medicines and surgical items procured through the sampled invoices was verified with stock records, where available.

The observations and respective recommendations in this Report are based on the findings identified during audit testing and the outcome following audit enquiries. Shortcomings noted during the audit, but falling outside the selected sample, were also reported upon. However, the National Audit Office (NAO) was not in a position to verify the validity of particular explanations given by CPSU Management in view of the specific technical and medical factors.

[1] As per Departmental Accounting System data extracted on 24 January 2017.

Limitation of Scope

Physical Counting of Stock

A private audit firm was primarily responsible for carrying out the stocktake undertaken during January 2017. Management stated that a report showing discrepancies between physical counts and stock records, together with the relative explanations, was still in the process of being compiled by end May, when the audit was in its final stages. Although a report showing discrepancies was submitted in July 2017, the relative explanations remained pending by end September, when this Annual Audit Report was concluded.

Expired Stock not marked accordingly

Enquiries concerning expired stock that was not identified as such by Management remained pending by the end of the audit. The aggregate value at cost of these items was €861,860.

Key Issue

Management of the Allocated Funds

a. Although CPSU can take cost efficient measures in procurement and stock management, actual consumption depends entirely on generated requests. Moreover, the entities concerned are not allocated a budget to manage and for which they would be held accountable for any variations arising thereto.

b. CPSU started invoicing St Vincent de Paul Residence for supplies as from January 2015, since the latter was no longer under the responsibility of the same Ministry. However, no reimbursements were received for supplies issued since then. Pending reimbursements have since reached €2,432,429.

Control Issues

Security Controls

Strict access control only applies in the room assigned for the storage of dangerous drugs, but not throughout the remaining area of the main stores in San Ġwann, where no restrictions were in place to limit the right of entry to staff. Moreover, access to both the receiving and dispatch areas was available through front and back entries, even to outsiders. Additionally, closed circuit television cameras do not cover all areas. These weaknesses increase the risk of intrusion and theft.

Computer Stock Records

The following issues were noted from an analysis of the report[2] containing stock costing €18,031,558, which was issued by Management on 16 January 2017 for stocktake purposes:

Expired Items

a. NAO Auditors were informed that reports to analyse expired stock, as well as items which will expire in the forthcoming three months, are generated on a monthly basis. However, an analysis of the final stocktake

[2] Besides medicines and surgical materials, this report contained also stationery and cleaning materials held at the Gwardamanġa stores, as well as hardware items kept at the Electrical and Mechanical Stores within Mater Dei Hospital.

report still included a list of 29 entries marked as expired and valued at €325,846, some of which had been expired since January 2014.

b. A considerable number of expired stock items recorded at an aggregate cost of €861,860, some of which were expired for over five years, were not marked as such. According to Management, each item has to be analysed on a case by case basis. It was also stated that not all expired stock is disposed of following a board of survey as some items may be earmarked for return to supplier for replacement or credit.

Items without Expiry Date

Expiry date was not recorded for a number of items[3], such as nutritional formula, medicinals and sunblock cream, which become ineffective after the lapse of specific intervals.

Stock Items marked at a Zero Cost

The stock report made available to NAO contained no less than 67 entries with a zero value, hampering the accuracy of the information. As a result, the stock value of just one of the items in question was understated by €210,000.

Negative Balances

The stocktake report also contained six items with a negative balance.

Discrepancies between Records

Corroboration of details obtained from the invoices sampled revealed discrepancies in quantities recorded on the computer system and bin cards, besides other accounting errors.

Compliance Issues

Shortfall in Single Bond

Two separate contracts signed with a particular supplier in 2016 for the provision of medical supplies, required bank guarantees for a period of 12 months, unless a valid single bond had already been submitted.

The relative single bond held by CPSU, only amounted to €34,941. This was substantially less than the amount of €300,000 required to be submitted for cumulative contracts having a combined value ranging between €3,000,000 and €5,000,000 as per Department of Contracts Policy Note No. 22. Such shortfall could expose CPSU to undue risks if the supplier does not deliver up to the expected standard.

Statutory Stock Return not submitted to NAO

In accordance with General Financial Regulations Article 105, CPSU is required to furnish the Auditor General with a stocktaking report outlining the results obtained. Although Treasury Circular No. 6/2004 – 'Stock Control Procedures' also spells out this requirement, this return was not submitted to NAO.

[3] NAO did not deem it necessary to quantify such stock as it would have required an analysis of each of the numerous items listed to determine which should have an expiry date and which not.

Recommendations

Key Issue

Management of the Allocated Funds

Management's intention to ring-fence such budget on the entities, so that each is accountable for the respective allocation, is to be implemented as soon as possible.

Control Issues

Security Controls

Whilst acknowledging that plans are underway for the enhancement of security controls, remedial action is not to be unduly prolonged. CPSU officers are to be assigned physical accessibility only to designated areas, as required, to enhance accountability, while entry by outsiders is to be forbidden.

Computer Stock Records

Management should endeavour to limit the amount of expired stock as much as possible in order to avoid the waste of resources. When such expiry is inevitable, action to write off the respective stock, in line with the General Financial Regulations and Treasury Circular No. 6/2004, is to be taken within a reasonable time. Input of information is to be accurate and complete.

Discrepancies between Records

Enhanced accountability is expected, especially in view of the sensitivity and value of certain stock items. Although NAO acknowledges that discrepancies can never be eliminated in their entirety, more needs to be done to find a reasonable and practical operational solution in order to minimise such differences.

Compliance Issues

Shortfall in Single Bond

It is to be ensured that contractors submit the required single bond in accordance with values for cumulative contracts established by the Department of Contracts.

Statutory Stock Return not submitted to NAO

Management is to ensure that the necessary information is duly submitted to NAO in line with statutory requirements.

Management Comments

Management concurred with most of the observations put forward by NAO and remedial action has already been taken in certain instances. CPSU feedback is being reproduced hereunder:

The Central Procurement and Supplies Unit (CPSU) has been set-up with a strategic mission to efficiently manage the Procurement and Supply of materials, works and/or services across the Government Healthcare Services, while maintaining the highest level of professional ethics and integrity. This department caters for the provision of critical and life saving treatments such as medicines, medical materials and surgical devices together with provision of sophisticated hospital equipment and services which amount to over Euro 350 Million per annum. This responsibility compels the department to take extreme measures within law, to ascertain that all our patients receive the treatment / surgical procedure they require in order to safeguard their wellbeing.

This Organisation manages the Procurement and Supply process in order to acquire quality materials, works and/or services at the lowest price; give timely and effective support to ensure that the requirements of the Government Healthcare obligations of the community are met; provide potential suppliers with equal consideration of their products and services; instil public confidence that contracts are awarded in full transparency and in an equitable and economical manner. This department strives to be an integrated, motivated organization within a multi-disciplinary framework, working together with all clinical, technical and policy departments to achieve the seamless Procurement of value-added Supplies, Works and Services throughout the Government Healthcare System. The process is based on the principles of fairness, transparency and non-discrimination between economic operators and promotes best value for money.

The Strategy within CPSU considers the spend, consolidation and rationalisation opportunities associated with the Healthcare markets and strives in procuring fit for purpose goods, works and services that deliver quality standards and choice. In essence the strategic direction and performance of this Organization, as a business unit is being aligned to the national and local priorities of a Healthcare Strategy that delivers world class healthcare standards.

Regarding the point being raised on the Limitation of Scope, it is our opinion that the absence of a reconciliation report "*between physical counts and stock records*" *as noted in the management letter does not actually constitute a limitation of scope as CPSU provided 'alternative' sample data for the auditors to formulate their opinion while the physical annual stocks take was being pursued. It is also relevant to note that the inability to obtain sufficient appropriate audit evidence arising from a limitation on the scope of the audit, in this case the physical verification of stock, was never imposed by management and CPSU gave full access to NAO when the stocktaking process was on-going. CPSU management supported the requirements of the auditors in terms of observing the counting of the physical inventory and provided all relevant information that was requested*.

It is to be noted that during the time of the audit CPSU were under the process to change over their Stock Control and Management system to a new software that eventually should provide full traceability with bar-coding from the point of receipt of the materials in the warehouse to the point of having this distributed out of the warehouse. Such traceability will also shortly be extended up to 'patient dispensing level' to have a fully automated system and single dose dispensing. This will address wastage and reduce any errors, given that CPSU issues more than One Billion (1Bn) items per year to all Healthcare Entities. It is also pertinent to note that it is a mammoth task to count and reconcile all stocks the value of which runs into circa Twenty Million Euro (Euro 20M) at any one point in time, equivalent to circa two months supply for the whole nation. Through Business Process Re-Engineering CPSU has managed to increase the stock turns and reduce levels of stock as much as possible. Previously Central Stores used to maintain a six-month level of stocks now reduced to two months. On the question of reconciliations it is relevant to note that CPSU made available such reconciliations as soon as they were finalized and before the audit close-up meeting. The immaterial discrepancy arising from such reconciliations didn't exceed more than point zero one percent (0.01%) of the total value of the annual stock valuation.

CPSU management has already provided valid explanations as to why a substantial amount of "expired stock" was not identified and accounted for accordingly as at 31 December 2016. It is normal practice within the pharmaceutical industry that certain drugs can still be used beyond their expiry dates if such concession is provided by the manufacturer or if the appropriate testing is made through qualified institutions.

As indicated by the auditors, the cost of these items amounted to Euro 861,860, which in our opinion - even if not duly written off - does not constitute a material misstatement when compared to total CPSU purchases amounting to circa Euro 100 million in medical supplies within the CPSU warehouse per annum. More so when the large proportion of this amount was attributable to the national stockpile for pandemic preparation (circa Euro 672,000), which had been tested through a qualified professional laboratory with the test results confirming that the product is still effective as when it was originally produced, and still fit for use in the unfortunate event of a pandemic.

On the issue of internal controls, we welcome the recommendations in respect to internal controls as these will aid to strengthen our management, although we wish to note that this does not tantamount to "material misstatements".

Nonetheless, CPSU management has structured plans to strengthen such control environment. CPSU has recently kicked-off a business process re-engineering wherein the three store locations were centralised into one warehouse in San Ġwann together with a new Stock Control and Management system mentioned earlier.

As a first priority, management shall be strengthening the documented internal control procedures, covering all aspects of supervision over those controls which will be categorised under authorisation, custody and recording levels. This will reinforce our internal processes on stock transactions and recording. It is also anticipated that in the following months, Risk Management will be introduced throughout all operations within CPSU.

Despite the fact that management perfectly understands and takes on board the suggestions mentioned in the Management Letter, certain potential risks are making it difficult to keep abreast with maintaining an effective control environment. Such risks include skilled human resource shortages, which many times are beyond the control of management. Compliance issues, have been taken on board, and are currently being discussed in order to ascertain full adherence. CPSU management will also take the necessary steps to ensure that internal control procedures are in sync with relevant financial and procurement regulations.

Mater Dei Hospital

Expenditure – Contractual and Professional Services

Background

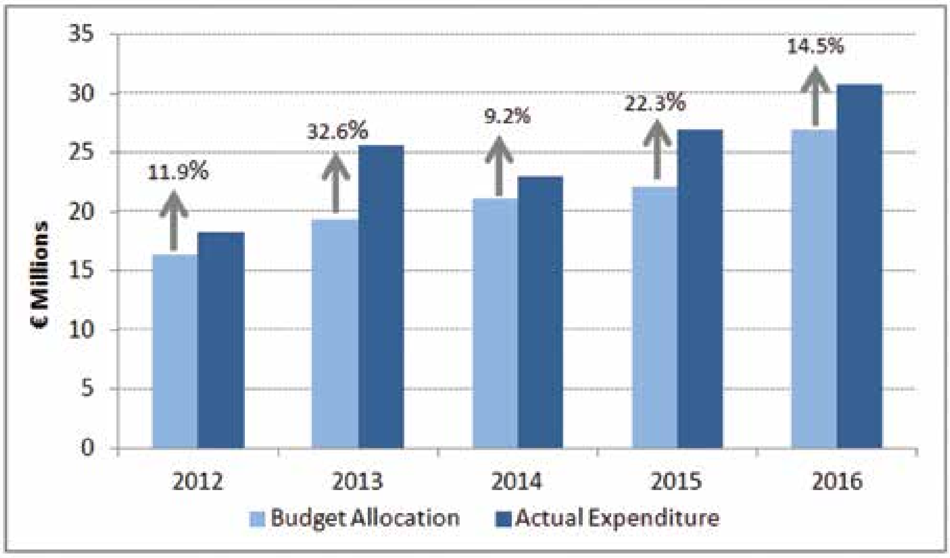
Mater Dei Hospital (MDH) is Malta's main public hospital offering a full range of hospital services, as well as an extensive range of specialist services. The Central Procurement and Supplies Unit (CPSU) handles the procurement of goods and services, whilst payments thereof are made through MDH's Finance Department, which operates within the Ministry for Health's Financial Management and Control Unit.

Financial Information

Diagram 1 depicts the variance between the budget allocation and actual expenditure for contractual and professional services[1] as from year 2012 up to the year under review. For 2016, such variance totalled €3,900,583 (Diagram 2). This was mainly due to the revised hourly rates in terms of the Department of Contracts (DC) circulars regarding the pegging of contractual employees with public service salary scales, which revision was not reflected in the Financial Estimates.

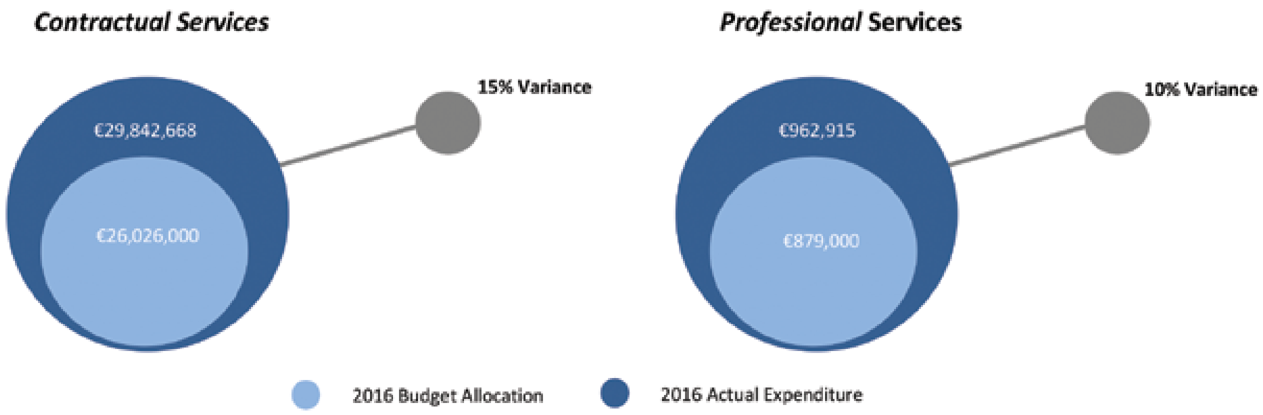
Furthermore, the creditors' list as at 31 December 2016 shows that the main service providers paid from the contractual and professional line items still had an outstanding net balance of around €9 million[2].

Diagram 1: Budget versus Actual Expenditure



[1] Line item 30 and 31 respectively.
[2] According to the Financial Controller, correctness of this amount cannot be ascertained due to the limited information that could be extracted from the Departmental Accounting System.

Diagram 2: Financial Information for Financial Year 2016



Audit Scope and Methodology

The main scope of the audit was to evaluate the control system in place relating to the procurement of contractual and professional services, such as leasing of equipment, cleaning and security services. The National Audit Office (NAO) also aimed to ascertain that funds were spent for their intended purposes, within the approved limits, and in line with the provisions of standing Public Procurement Regulations (PPR) (keeping in view the particular circumstances prevailing within the sole state Hospital).

Other objectives were to obtain reasonable assurance that payments effected were accurate, duly covered by supporting documentation enabling verification, and in line with applicable agreements.

A sample of 28 payment vouchers issued to 14 different service providers, collectively amounting to €1,873,680, i.e. 6% of the actual expenditure on contractual and professional services, was selected from the Departmental Accounting System for testing. At least one transaction from each account under the relevant line item was selected, mainly on the basis of materiality, but also taking into consideration the nature of the expense. Shortcomings noted during testing, but falling outside the audit sample, are also reported upon.

Key Issue

Provision of Car Park and Traffic Management Services

NAO published two Reports in 2009 and 2014 respectively, both highlighting observations in respect of the provision of car park and traffic management services at MDH.

By way of background, following a call for tenders, a service concession contract was awarded on 27 July 2007. However, parking fees agreed to in the said contract were eventually reduced and two new agreements were subsequently signed in 2008 between the Foundation for Medical Services and the contractor. This brought about significant changes to the tendering conditions leading to considerable loss of revenue to Government, including the waiving of the annual concession fee of €326,112 (excluding Value Added Tax). Moreover, as from 2008 up to time of audit, i.e. July 2017, MDH was invoiced €5.3 million for the provision of external security services[3] and

[3] Due to disputes, during July 2015, external security services were amalgamated with the internal ones, which service was being provided by a different company.

management of an additional car park, namely Area C to be utilised by MDH staff, as well as parking for disabled users. During the audit, NAO noted that the below shortcomings still prevail:

Situation of Loss of Revenue not rectified

In response to the Audit Report published in 2014, MDH had stated that major changes were to be made to the terms and conditions of the new contract for the management of the car park, so that significant revenue would be ensured for the Government. This notwithstanding, in April 2017, MDH Management confirmed that the company continued to provide an uninterrupted service, without addressing the main shortcomings emanating from the service concession contract split. Thus, Government continued to lose substantial amount of revenue.

Repeated Extensions to the Contract

The split agreement for the provision of car park and traffic management services was effective as from 1 August 2007 up to a period of five years. The foregoing contract did not contemplate the possibility for extensions; however, it was renewed repeatedly at least up to July 2017, i.e. when the audit was concluded, resulting in an aggregate invoiced amount of €590,962 beyond the five-year contract. It is pertinent to note that this concern, which also reflects unfair competition, was already reported upon by NAO in the 2014 Report.

Retrospective or No Approvals

The approval from the Direct Orders Office within the Ministry for Finance, covering the provision of car park and traffic management services for the period August 2014[4] to July 2015, was requested retrospectively and only obtained on 19 October 2014. On 9 March 2016 another retrospective request for direct order was made to cover the foregoing services, for a one-year period as from 1 August 2015. Notwithstanding that the service was still ongoing at time of this publication, it resulted to NAO that no further approvals were obtained.

Control Issues

Cleaning Services

Services rendered beyond the Contracted Period

A consortium has been providing cleaning services to MDH since 1 November 2008, through a five-year contract which was extendable by a further two years, up to 31 October 2015. However, MDH continued to use the cleaning services of this consortium, beyond the contract period, with the service provider invoicing MDH an aggregate amount of €11.7 million, covering services rendered between 1 November 2015 and 31 May 2017. This included €4.3 million, which related to services provided from 1 June 2016 to 31 December 2016, without the necessary approval/s from the Ministry for Finance and/or DC, as applicable. Furthermore, an approval from the latter was granted subject that a call for tender is published not later than February 2016. However, on 25 April 2017 MDH confirmed that a new tender had not yet been published.

Shortcomings in Attendance Records

On Wednesday 19 April 2017, NAO Officers carried out a physical on-the-spot inspection whereby the manual attendance records maintained by cleaners for two random wards were requested for the necessary audit

[4] Similar shortcomings for the period 1 August 2012 and 31 July 2014 were already outlined in the NAO Report published in 2014.

verifications. Given that the cleaners also record their daily attendance by biometric electronic means[5], a copy of the report for that day was also requested. Shortcomings that were noted indicated that no proper verification was being performed before endorsing the attendance sheets.

Leasing of External Fixators, Components and Instrumentation

Anomalies with respect to Approvals and Agreements

From the list of invoices submitted it transpired that a supplier of leased fixators[6] was paid, in aggregate, the amount of €389,963[7] covering March 2008 up to May 2016, this being the last period when such supplies were leased. Testing revealed certain shortcomings of non-compliance with PPR, such as retrospective DC approvals and/or agreements. Furthermore, a request to the Direct Orders Office made on 12 November 2016, to procure from the same supplier rather than leasing, was still pending due to some reservations highlighted on the same date by the former.

Unreturned Supplies

The leased devices were not always returned to MDH. This is mainly "... *due to two reasons, the patient would go to the private sector to have them removed or else, in the case of foreign patients, these go abroad and are removed in other countries*". In such cases, the respective supplier demanded full payment. However, a list of the full value of the items and a register of the respective patient's details were not available and therefore adequate control on such expenditure could not be maintained. Furthermore, records of the total payments made, as from commencement date up to 31 December 2016, with respect to unreturned fixators do not exist. Although MDH acknowledged that substantial financial losses are being made in this regard, an intended deposit against these devices never materialised, notwithstanding its approval by the then Minister of Health in February 2010.

Internal Security Services

Perpetual Extensions and Retrospective Agreements

As from 1 January 2008 up to at least March 2017 when the audit was in progress, a company provided internal security services at MDH, being paid in aggregate the amount of €17,399,639. The first agreement, covering a period of seven months, was signed retrospectively on 4 June 2008 while the second one, which was for a period of three years, was also entered into in retrospect on 10 September 2009. Moreover, it transpired that in actual fact, both agreements were unofficially extended beyond the established expiry date of the respective contracts.

Attendance Verification System not utilised to its full potential

MDH confirmed that the monthly security hours charged are only checked with the total projected security hours and not with the actual hours worked. Furthermore, although security guards record their daily attendance by electronic means, in May 2016 MDH Management decided that due to the backlog of unpaid invoices, for the period March 2015 to March 2016, only a sample of 10% was to be checked with the projected hours. Apart from the fact that MDH is not reaping the full benefits from the service provider's biometric electronic attendance system, this approach also weakens the necessary internal controls. In fact, it was noted that various time-outs were missing from a sample of biometric reports reviewed.

[5] The biometric equipment is placed within the offices of the contractor, which are situated in the basement of MDH.
[6] Fixators are components and instrumentation used by MDH on patients during surgical procedures.
[7] This amount may include payments related to unreturned supplies and repairs.

Provision of Terminal Disinfection of Hospital Isolation Rooms

Irregularities in the Procurement of Services

Following a request for quotes, a service provider was selected to provide terminal disinfection of isolation rooms, up to a value of €7,080 for a period of one year as from 17 November 2012. Since the subsequent departmental call for tender, awarded to the same service provider was only effective as from 8 January 2015, such service continued to be rendered by direct order. Furthermore, the tender in question was for a period of three years or up to the value of €60,000, whichever, is the earliest. However, since only after 10 months this threshold was already consumed, two variations[8] were approved by the respective Ministry, covering up till mid 2017.

Disinfection Services not substantiated by relative Authorisation

According to MDH, the disinfection process within MDH premises is only to be undertaken if a form with the patients' details is filled in and provided by the Infection Control nurses. However, the selected nine instances in a sampled invoice were not duly supported by such form, suggesting that prior authorisation for the fogging process was not obtained.

Neurophysiology Technologist Services

Over-dependency on Sole Service Provider

In 1992, approval from the Ministry for Finance for the services of a neurophysiology technologist was provided on a "... *temporary nature until suitably qualified staff are taken on*". However, during the time of audit, i.e. April 2017, MDH was still procuring such services from the same individual with the approval of Finance. This is resulting in over-dependency on one individual with a high risk of compromising the provision of these services and the Hospital having to face an increase in the patients' waiting list. This was also a concern to MDH.

Such concern was already highlighted in previous audits carried out by NAO for financial years 2010 and 2013. During 2016, payments in this regard to the foregoing individual providing part-time services amounted to €57,553.

Procurement of Consultancy Services

By-passing of Procurement Regulations

In 2008, MDH requested an individual to provide procurement consultancy services, which services were still ongoing till end 2016, costing an aggregate of €49,357. These services were mainly rendered through short-term contracts, for a maximum of €6,000 each. Furthermore, the first agreement was only signed on 16 November 2009, i.e. more than one year later, without indicating the effective date or the period covered.

Collection, Transportation and Disposal of Hazardous Clinical Waste

Lack of co-ordination within the Department of Health

Following a call for tenders, the contract for the collection, transportation and disposal of hazardous clinical waste, arising from various healthcare institutions, was awarded to a private company in July 2015, for a period of two years, up to a maximum amount of €120,000 excluding Value Added Tax. Notwithstanding that there are a number

[8] On 16 February 2016, the Ministry approved an increase up to €141,600 over the contract value (136%) and a further €60,000 (42%) over the updated amount on 24 January 2017.

of entities involved, evidence of co-ordination to keep track of such expenditure and ensure that the capping is not exceeded was not provided, clearly indicating that the necessary controls are lacking.

Travelling Expenses

Policies and Guidelines regulating Travel Benefits to Foreign Medical Professionals not formalised

Policies and guidelines to regularise travel benefits offered to foreign medical professionals were not in place. This observation was already highlighted in NAO's Annual Report published in 2014.

The two sampled foreign medical professionals received seven reimbursements each for flight expenses, to the tune of €13,565 and €24,576[9], as from 2011 and 2012 respectively. In the absence of formal policies and guidelines and since the respective employment agreements refer only to the relocation to Malta, it is questionable on what basis these individuals were entitled for additional flight expenses.

Recommendations

Key Issue

Provision of Car Park and Traffic Management Services

When entering into agreements, MDH is to ensure that Government's interest is duly safeguarded, in order to maximise potential revenue. Furthermore, extensions are to be granted only if such possibility is included in the respective call for tenders. The necessary approvals are also to be invariably obtained, in line with PPR, prior to commitment for the procurement of service.

Control Issues

Cleaning Services

Services rendered beyond the Contracted Period

MDH is to ensure that additional expenditure outside the scope of the contract is made in line with PPR, in order to promote fair competition and transparency. Furthermore, formal contract extensions are to be in place, as applicable.

Shortcomings in Attendance Records

NAO emphasises the importance of an effective internal control system on attendance records. MDH is to ensure that the attendance sheets are signed in a timely manner and endorsed by the appropriate officials.

Furthermore, biometric records are to be duly checked and explanations sought from the service provider, where divergences in attendance records are clearly evident.

In the meantime, considering that MDH is presently drafting tender specifications for the installation of attendance verification equipment across the Hospital, NAO recommends that such equipment is installed in various strategic points at MDH to be accessible by the contractual staff, and to fully utilise the benefit of authenticating and automating the attendance verification system.

[9] May include flight expenses for the relocation to Malta but the respective query was not confirmed by MDH.

Leasing of External Fixators, Components and Instrumentation

Anomalies with respect to Approvals and Agreements

In order to promote fair competition and transparency, a call for tender is encouraged in line with PPR. Formal agreements are also to be entered into prior to any commitment.

Unreturned Supplies

Whether on lease or not, MDH is to seek ways on how the cost of such items can be recovered. Furthermore, internal controls are to be in place so that there is full audit trail.

Internal Security Services

Perpetual Extensions and Retrospective Agreements

Ideally, a fresh call for tenders is to be issued whenever a contract expires in order to ensure that the best rates and conditions are obtained within the framework of a transparent and fair selection process. Extensions are to be resorted to only in exceptional cases rather than becoming the norm.

Attendance Verification System not utilised to its full potential

Management is encouraged to utilise the biometric electronic attendance verification system to its full potential in order to monitor the service provided by the contractor and settle payments in accordance with the total number of hours of services rendered.

Provision of Terminal Disinfection of Hospital Isolation Rooms

Irregularities in the Procurement of Services

MDH is to strive to ensure that procurement regulations are invariably complied with. In order to obtain the best rates and conditions, a fresh call for tenders, based on proper cost estimations, is strongly encouraged.

Disinfection Services not substantiated by relative Authorisation

Requests for payments are not to be honoured unless the service is substantiated by the forms with the patients' details provided by the Infection Control nurses.

Neurophysiology Technologist Services

Over-dependency on Sole Service Provider

MDH is to continue with its efforts to seek neurophysiology technologist/s in order to decrease the patients' waiting lists. In the meantime, the current technologist is expected to abide by the applicable agreement and provide the necessary training to any prospective candidate so that business continuity, in the best interest of the patients themselves, is ensured.

Procurement of Consultancy Services

By-passing of Procurement Regulations

MDH is to ascertain that services provided are invariably covered by an agreement. A continuous series of contracts by direct order with the same service provider is not encouraged.

Collection, Transportation and Disposal of Hazardous Clinical Waste

Lack of co-ordination within the Department of Health

Effective internal communication between the Financial Controllers of the respective entities needs to be thoroughly enhanced. The Department of Health is to take action to assign overall responsibility for keeping track of expenditure in connection with the collection, transportation and disposal of hazardous clinical waste arising from various entities.

Travelling Expenses

Policies and Guidelines regulating Travel Benefits to Foreign Medical Professionals not formalised

NAO reiterates the need of formal documented policies and guidelines to regularise travel benefits to foreign medical professionals. Furthermore, whilst acknowledging that as from October 2016, following legal advice, additional flight expenses were no longer to be processed, MDH is to ensure that any type of reimbursement is duly justified and officially approved.

Management Comments

Management concurred with most of the observations put forward by NAO and extracts of the relevant comments and reservations are being disclosed hereunder.

Provision of Car Park and Traffic Management Services

MDH confirms that there were delays in seeking approvals or no approvals, mainly related to the fact that decisions on whether to extend or otherwise were either not forthcoming or else were requested in emergency situations.

Further to the above, it is to be noted that CPSU had been directed to slow down the process for tender publication, since it had to ascertain clearance from Land Department, given that there was an issue on the ownership of the land, and the Land Department requested that the funds collected through this concession agreement would be forwarded to it. CPSU was ready for tender publication since July 2015. Moreover, in the year 2015, CPSU was informed that Projects Malta Limited would be taking up the responsibility of the whole tender process, and CPSU would only be involved in the publication of the concession.

A new tender for the provision of car park and traffic management services has been drafted and forwarded to DC for their review and approval for publication. The new tender provides for the contractor to pay the Hospital a flat concession fee and a percentage on earned revenue.

An extension, covering the period from January to December 2017, was approved by DC, until the tender for the provision for car park management is approved by DC and published.

Cleaning Services

To date, DC has not approved the issue of the new tender despite the fact that it had informed the Hospital that the tender would be issued by end September 2017.

As regards the shortcomings identified in attendance records of cleaning staff, it is to be pointed out that original attendance sheets and biometric reports on cleaning staff are thoroughly checked. This documentation is counter checked to verify any discrepancies.

Attendance sheets are checked to ensure that all cleaning staff deployed in the Hospital has signed duly the attendance sheets, and that these are endorsed by the Ward/Unit area hospital supervisors. Where the Ward/Unit supervisor's signature is missing on such attendance sheets, these are sent back for signature. In case of cleaning staff failing to sign the attendance sheets, such hours are deducted from payment.

The tender for the installation of attendance verification equipment has been awarded and the contractor is in the process of installing such equipment once MITA approval is received. The Hospital will have full ownership and control of such equipment and also biometric reports.

Leasing of External Fixators, Components and Instrumentation

In line with NAO recommendation, it is to be noted that a tender was issued last year and duly awarded as per PPR. The usage of the old contract has been stopped.

The Hospital will be putting in place a system to record such items against patients' details, in order to recoup any unreturned equipment. SOP to provide guidelines on payment deposit to safeguard the return of all external fixators after use will be put in place shortly.

Internal Security Services

CPSU is in continuous communication with DC in order to hasten the process since the first drafts of the tender dossiers go back to 2011, but due to several issues, mainly those related to the salary pegging criteria and the change in procurement legislation, the process was delayed. Following definite directions received, in a conjoint effort with the DC and MSDC[10]*, updated versions of dossiers were finalised in line with the new regulations and employment conditions for these services. Dossiers are currently at the DC for re-vetting and publication. Vetting by DC is in the final stages, and it is hoped that the tender will be issued by year end.*

It is confirmed that the Director Contracts MDH checks the invoice for security hours charged against the number of approved security hours. However, back office staff is responsible to verify that the total hours charged are as per attendance sheets and biometric reports. In fact from these documents, a report on the total security hours per Hospital area per week is compiled regularly to establish whether the total hours worked and charged are correct.

Furthermore, it is confirmed that the attendance verification system's reports are utilised fully to compile such report, since all the biometric report is checked by staff. As regards the sample of 10% being checked, it is confirmed that all attendance sheets are being checked, and any discrepancy with the biometric report is forwarded to the company to take action.

[10] Ministry for Social Dialogue, Consumer Affairs and Civil Liberties.

Provision of Terminal Disinfection of Hospital Isolation Rooms

MDH would like to inform that ... ... this service is intended to be included with the main cleaning service tender for MDH and SAMOC.

It is confirmed that the Infection Control Unit will be authorising any alternations to contract and the disinfection process is only to be undertaken if the necessary documentation is approved by the Infection Control Unit.

Neurophysiology Technologist Services

MDH has already taken action on this matter, and it is to be noted that the first two students should qualify from MCAST[11] *in June 2018. However, the technologist's services will still be required beyond that time, especially with regard to more specialised work such as intra-operative monitoring*.

Procurement of Consultancy Services

The issue is the continuous contracts, since this is being done on an annual basis due to lack of experts and HR within CPSU.

Collection, Transportation and Disposal of Hazardous Clinical Waste

Action has been taken by CPSU in order to include a clause within all new contracts, which places responsibility over the contractor to alert CPSU in time and prior to exceeding the contract value. This in order to enable CPSU to undertake all necessary actions to re-active such validity in line with the PPR. It is also being made clear to all economical operators that no payment will be undertaken by the Health Department, should such contract values be exceeded, without prior official written authorisation by the Contracting Authority.

It is pertinent to point out that a new tender for such services has recently been adjudicated and will be awarded shortly.

Travelling Expenses

MDH Finance Directorate is currently liaising with Legal Office to ensure that travel benefits to foreign medical professionals are only reimbursed as per respective contracts. A hospital policy on this will be circulated to all professionals that qualify for this benefit.

[11] Malta College of Arts Science and Technology.

Ministry for the Family and Social Solidarity

Ministry for the Family and Social Solidarity

Creditors

Background

The then Ministry for the Family and Social Solidarity (MFSS), now referred to as the Ministry for the Family, Children's Rights and Social Solidarity, operates within the established framework and structures of the local Maltese Government, thus making use of procurement procedures to acquire goods and services as required for the day-to-day operations of the said Ministry. Outstanding creditors are reported in the Creditors' Return and submitted to the Treasury Department, as requested annually by the latter through the Treasury Circular No. 17/2016 'Treasury Financial Data Transmission Calendar for 2017'. According to this Circular, outstanding creditors have to be included in the Creditors' Return and sent to the Treasury Department within the first 10 working days from the end of each quarter.

According to the Creditors Return for Quarter 4 (2016), the MFSS had total outstanding dues of €169,535 as at 31 December 2016. Out of this amount, €157,626, i.e. 93% were outstanding for a period of less than 30 days, whilst 4.3% of the creditors' balances had been outstanding for between 31 and 60 days. None of the pending amounts were due for over 360 days.

Audit Scope and Methodology

The main scope of the audit was to assess the Ministry's compliance with the pertinent Treasury Circulars regulating the collation and reporting of Creditors as at 31 December 2016. This also included a financial audit of the figures as submitted to Treasury.

Following an introductory meeting with officials of the MFSS, the National Audit Office (NAO) requested all documentation pertaining to creditors for the year ended 31 December 2016, conducted a systems overview and selected a sample of 10 creditor balances, representing 92% of the value of creditors at year end. Additional testing was conducted to assess whether the creditors' list reported as at 31 December 2016 was complete. Moreover, a circularisation exercise was carried out by the NAO, whereby selected creditors were requested to confirm balances due to them by the MFSS as at 31 December 2016, by means of a direct electronic communication to this Office.

Control Issues

Creditors' Year-End Balances not in Agreement with Third-Party Confirmations

It transpired that from the nine[1] confirmations received with respect to the selected suppliers, five of them tallied with the amount as reported by the MFSS as at year-end. The remaining confirmations resulted in discrepancies between the amount as reported by the Ministry and that quoted by the respective supplier. The net effect of these discrepancies amounted to €3,868.

[1] Out of the 10 requests for confirmations sent, a supplier failed to confirm the outstanding balance.

Upon further enquiry by the NAO, the MFSS stated that such differences may be the result of the following:

- Invoices not yet certified by the Accounts Section and frequent delays in approval of such invoices.
- Invoices not received at the Accounts Section by date of reporting to Treasury Department.
- Grouping of invoices by respective suppliers, resulting in processing delays.

Creditors as at Year-End not Reported in Return

Testing revealed that a total of €100,351 paid during the period January to April 2017, pertaining to 2016 invoices, did not feature in the Creditors' Return Quarter 4 (2016). When queried, the MFSS confirmed that €15,408, i.e. 15.4% were reported in the Accrued Expenditure Return. However, neither the Ministry nor the NAO could verify whether the amounts reported in the Return were in effect accrued expenses, since relevant suppliers' invoices examined were not rubber-stamped upon receipt. The remaining payments made in 2017, totalling €84,943 and representing 84.6% were not reported as at year-end under review.

The MFSS further stated that not enough time is allowed for submission of the Creditors' Return to the Treasury Department. This resulted in understatement of creditors, since unreported invoices were not yet certified correct and approved for payment, or presented within the timeframe permitted by the Treasury.

Recommendations

Control Issues

Creditors' Year-End Balances not in Agreement with Third-Party Confirmations

The MFSS should ensure that all invoices received are to be certified correct within a short stipulated timeframe, to avoid unnecessary delays which may cause distortion in the reported creditors' figure as at year-end. Meanwhile, the MFSS could communicate clearly its procedure to all suppliers and emphasize the need to receive all invoices in time in order to be able to report, as much as possible, accurate figures to Treasury.

Creditors as at Year-End not Reported in Return

The MFSS must ensure that it has in place effective policies and procedures governing the collection, processing and payment of suppliers' invoices. This will enhance efficiency, completeness, accountability, reliability and help sustain a more sound Government reporting system for the ultimate benefit of the public in general.

Moreover, the NAO is of the opinion that suppliers' invoices are to be rubber-stamped by the Registry Section immediately upon receipt of documents to ensure a proper audit trail.

Management Comments

In its reply, Management took note of the observations outlined by the NAO and provided the following comments:

Creditors' Year-End Balances not in Agreement with Third-Party Confirmations

The MFSS acknowledged the recommendation put forward by the NAO and agreed "... *to formulate a standard policy wherein the Ministry's staff ascertain that upon delivery of goods or service, the respective invoice is delivered and certified within a stipulated time frame*." Moreover, the Ministry stated that "... *suppliers will be informed that invoices should be submitted on time*."

Creditors as at Year-End not Reported in Return

Management commented that creditors will be reviewed prior to year end, to ensure that "... *creditors deliver their invoice on time*", whilst invoices "... *are now being rubber-stamped as per recommendation by the NAO."* The Ministry further suggested that "... *more time* ... *be allowed to submit the Accrual Accounting reports*."

Ministry for the Justice, Culture and Local Government

Office of the Attorney General

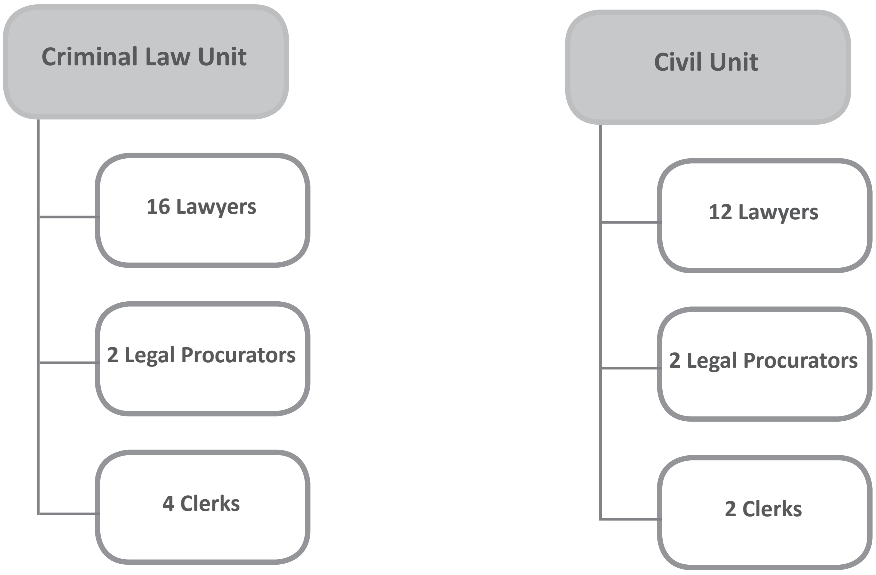
Revenue

Background

The Office of the Attorney General (AG) is established as an agency by means of the Attorney General Ordinance (Chapter 90 of the Laws of Malta) in terms of the Constitution, whereby the AG is appointed in terms of Article 91 of the Constitution of Malta.

The AG is the Chief Legal Advisor to the Government and has the judicial representation of the latter in judicial acts and actions unless the law provides that such representation shall vest in some other person or authority. The AG is also the Public Prosecutor in Malta and has the power to institute, undertake or discontinue criminal proceedings.

The Office consists mainly of two legal units, namely the Civil and the Criminal Law Units, as well as an administration section.



Judicial Fees

Any fines imposed in criminal cases are collected by the Registrar of Courts and therefore, there is no collection of revenue involving the Criminal Law Unit. However, when the civil courts award judicial costs in favour of Government, if the court registry fees were paid by the Office of the AG, the procedure for the collection of the judicial fees is initiated by the Office through its Civil Unit.

A file for every judicial case is maintained by the Civil Unit. Once a court judgment is given, this Unit requests the taxed bill of judicial costs from the Court Registrar and sends a letter to the third parties in question, informing them of the amounts due. Subsequent reminders are also sent when necessary. If payment is still not effected, judicial action is initiated by first issuing a judicial letter, followed by a warrant of seizure.

Once the individual settles the amount due, the Civil Unit passes on the case details together with the payment to the Accounts Section. If the debtor is not able to settle the bill in full, the individual is given the opportunity to pay by installments, by signing a repayment agreement at the AG's Office.

Financial Information

According to the Departmental Accounting System reports, during 2016, the Office of the AG collected the total amount of €125,955 in revenue, out of which the amount of €99,129 covered legal fees from private individuals or entities. The remaining balance was derived mostly from affidavits, proċessi verbali and from photocopies of legal documents.

Audit Scope and Methodology

The audit focused mainly on revenue generated from judicial fees during the year. An evaluation of the level of existing controls and procedures in place, with respect to the collection of revenue falling in arrears, was also undertaken.

Other objectives of the audit were to:

- obtain reasonable assurance that all monies were accurately recorded and are duly covered by supporting documentation enabling independent verification;
- identify any concerns with respect to the procedures in place for receiving, handling, safeguarding and depositing of monies, as well as providing recommendations thereto; and
- determine the degree of compliance with applicable rules and regulations.

Initial meetings held with the Management and the officers in charge of revenue collections revealed that adequate audit trail for the collection of money was lacking. Accounting records were also incomplete and no safeguards were in place to prevent or detect any material misstatement. As a result, a risk-based approach was adopted for audit purposes, whereby testing was largely focused on the source documentation system in place, so as to determine the level of internal controls and reliability of records.

Judicial Fees and Arrears of Revenue

Verifications were carried out to ensure that the debtors and respective amounts due, included in the Arrears of Revenue Return, as at end December 2016 were complete and accurate, and that they matched to the related databases prepared by the Civil Unit.

Bank Deposits

It was verified that a statement, accompanied by bank receipts, showing the total revenue collected during the period and proper classification of such revenue, was forwarded to the Accountant General every Friday and on the last working day of each month, as required by the General Financial Regulations.

Limitation on Scope of Audit

In its Annual Audit Report for 2002, the National Audit Office (NAO) had reported that no official register was being kept by the AG's Office to record amounts outstanding by third parties for judicial fees and, as a result, amounts due could not be ascertained. The same situation still prevails, since NAO was informed that no official debtors' register was in place. It was at the discretion of the officers in charge within the Civil Unit whether to hold such records or not. As explained further down under the first Key Issue, databases compiled for audit purposes were incomplete. Moreover, the amounts therein were not backed up by source documentation.

Disclaimer

Due to time constraints, details and amounts included in the abovementioned databases were taken as given for the purpose of this Report, without any further questioning or verification against cost of billings.

Key Issues

No Debtors Register in place

As already highlighted under 'Limitation on Scope of Audit', in the absence of a debtors' register, AG's Office did not have an adequate control mechanism towards timely debt recovery of public funds.

Only two out of the nine officers within the Civil Unit had a database readily available for audit purposes. Six others compiled the data following NAO's request; however the amounts therein were not substantiated.

Substantial Amount of Debtors omitted from Arrears of Revenue Return

When the Civil Unit notifies the third parties with the bill of costing, it does not pass on this information to the Accounts Section and hence the latter is not aware of what bills are outstanding.

Due to this lack of communication between the two sections, the gross closing balance of €40,996, reported in the Return of Arrears of Revenue as at end 2016, was underestimated by at least[1] €250,438. This amount relates to pending dues from 257 individuals.

Compliance Issues

Remittances to the Public Account not effected in a timely manner

AG's Office took long intervals to deposit its revenue at the Central Bank of Malta. From a total of 19 deposits effected during the year under review, in three instances cash and cheques, which accumulated to rather substantial amounts, were retained for more than 30 days when, in line with Article 35 of the General Financial Regulations, such deposits should have been effected daily.

Revenue deposited in an Expenditure Account

From the Departmental Accounting System records it was noted that the Accounts Section was allocating and depositing all the legal fees recouped from other Government Departments, into the Expenditure Account 3140-6553, namely 'Professional Services – Legal Fees' rather than into the Revenue Account 0304 – 'Legal Costs and Fees' as required in terms of standing regulations. As a result, for the year under review, the income account was understated by €48,916 while also offsetting the actual expenditure with the same amount.

Such misallocation also hinders the useful comparison of budgeted against actual amounts of revenue and expenditure.

[1] Refer to Limitation on Scope of Audit.

Recommendations

Key Issues

No Debtors Register in place

In preparation for the eventual introduction of accrual accounting, NAO strongly recommends that the AG's Office follows the circulars in force, whereby the early identification of overdue amounts or other outstanding payments, as well as having an up-to-date debtors' ledger, is required. This would enable sufficient audit trail to verify the completeness of revenue collected.

The AG's Office is also encouraged to consider the possibility of making use of a reliable, accurate and comprehensive computerised case management system, which can also provide accurate data on debtors and facilitates timely payment of recoverable dues. Discussions with the Chief Information Officer within the respective Ministry are highly recommended to obtain further advice and support in this regard.

Substantial Amount of Debtors omitted from Arrears of Revenue Return

Whilst acknowledging that AG's Office has already taken action on certain concerns which were brought to its attention during this audit, a comprehensive assessment is expected to be carried out to identify its debtors.

Communication and exchange of information between the Civil Unit and the Accounts Section is to be ongoing. AG's Office is also encouraged to revisit the current system, ensuring that once a bill of costing is issued, it is recorded immediately in the debtors' ledger.

Compliance Issues

Remittances to the Public Account not effected in a timely manner

Cash and cheques are to be deposited on a regular basis in line with standing regulations, to ensure that public funds are duly safeguarded.

Revenue deposited in an Expenditure Account

Income is to be appropriately posted in the respective account/s, in line with standing regulations. The necessary adjustment is to be effected for year 2017, by debiting the expenditure account to which the amount was wrongly posted and crediting revenue.

Management Comments

Management accepted most of the recommendations made by NAO, some of which have already been implemented. Extracts of the relevant feedback is being reproduced hereafter:

No Debtors Register in place

A shared folder was recently compiled listing all current debtors together with the officer or lawyer responsible for their collection. Such shared folder is now accessible and can also be monitored by the Attorney General, the Assistant Attorney General in charge of the Civil Unit and by the Head Corporate Service.

Given that now all government departments/authorities/agencies have opened a separate account with the Court Registry and pay their judicial expenses directly to the court registrar and also given that whenever judicial costs are awarded in favour of government, those same government departments/authorities/agencies collect their own judicial costs directly, investing in a software may not be viable anymore.

Substantial Amount of Debtors omitted from Arrears of Revenue Return

Lawyers are being constantly reminded through internal office circulars not to retain files of decided cases unnecessarily in their offices but to forward them for billing purposes. These will then be included in the shared folder which is also accessible by accounting officers so that they can be reported in the Return of Arrears of Revenue.

Remittances to the Public Account not effected in a timely manner

Cash and cheques are now being deposited on a weekly basis as can be confirmed.

Revenue deposited in an Expenditure Account

Income from government departments is now being deposited in Revenue Account 0304 Legal Costs and Fees.

Ministry for Tourism

Malta Film Commission

Revenue and Expenditure

Background

During 2016, Government granted three sources of funds to the Malta Film Commission (MFC). The Film Industry Incentives Fund (line item 7256) and the Malta Film Fund (line item 5641) are used by the Commission to provide cash rebates to qualifying producers, whilst amounts allocated under the MFC (line item 6783) are used to sustain the administrative and marketing costs of the Commission. The budget allocation for 2016 for Film Industry Incentives Fund (€15,659,002), MFC (€365,000) and the Malta Film Fund (€250,000) was fully utilised. Since 1 April 2015, MFC also took over the management of the Film Studios facilities which are run on a commercial basis.

Audit Scope and Methodology

The main scope of the audit was to assess the adequacy of internal controls prevailing in the implementation of the financial incentives, and to determine whether operations reflect efficient administration of public funds, in line with standing terms, conditions and regulations.

The audit covered the expenditure incurred by MFC from line items 6783 and 7256, as well as revenue and expenditure related to the operations of the Malta Film Studios. The relevant legislation, budget estimates, Board minutes, employment agreements, payroll and supplier invoices, amongst others, were reviewed. The National Audit Office (NAO) also interviewed key personnel at MFC.

MFC's guidelines covering the financial incentives for audiovisual productions, as well as the policies and procedures in place for administering the same incentives, were also reviewed. One qualifying production, for which the cash rebate was paid in 2016, was judgmentally selected and the respective documentation available at MFC was reviewed. The selection of such production was based on its medium-sized rebate[1], amounting to €423,108[2]. A total of 50 payments, covering €200,408[3] of the claimed expenditure and representing 11% of the costs incurred by the production team, totalling €1,807,351 was reviewed in detail.

Limitation on Scope of Audit

Despite the stipulated timeframe of six weeks from year-end for the submission of the audited financial statements of MFC, a draft copy was only presented to this Office at a very late stage of the audit, namely on 9 March 2017. As a result, no detailed checks could be carried out.

[1] Rebates paid up till mid-September 2016 ranged between €4,283 and €6,677,740.
[2] Equivalent to 2.7% of the expenditure incurred on financial incentives up till mid-September 2016 (€15,612,747).
[3] Excludes salary payments, but where an individual in the audit sample received more than one payment, these were also reviewed.

Further to the above, adequate substantiating documentation was not provided, hindering verifications on the following:

a. Attendance records of the employees at MFC, as well as a number of staff employed at the Film Studios.
b. Payroll workings, including overtime hours worked, covering the first half of 2016.
c. Details of work carried out by two studio custodians, in support of payments of overtime and allowances.
d. Transactions related to the sampled production, as well as amounts paid to extras.
e. Accountancy services procured by the Film Studios, as well as administration and bookkeeping services.
f. Amounts paid for accountancy, legal as well as project management and support services.

Key Issue

Potential Loss of Revenue to Government

While the Government is paying significant amounts of money to film production companies by way of cash rebates[4], admittedly with very good results in so far as film production in Malta is concerned, our audit findings show that no effective controls are in place to ensure that income attributable to Government in the form of tax payable is actually paid in full. The following relate:

a. Although the Commission does not issue the rebate before confirming that the taxes due in Malta have been duly paid, this is only limited to actors and directors. However, as explained under Control Issues - 'Film Incentives', verifications carried out in this respect revealed both understated tax payments and lack of documentation, hindering verification thereof.

b. Divergences were noted between the records of the production company claimed to be submitted to the Inland Revenue Department (IRD), in connection with the final withholding tax due by the extras, and those actually held by MFC.

c. The vast majority of invoices issued by the service providers were computer-generated documents or standard forms drawn up by the production company. Furthermore, several invoices were either numbered as 1 or no invoice number was indicated, thereby breaching the provisions of the Value Added Tax (VAT) Act. Consequently, these records do not provide the expected comfort that the related income tax and VAT due were duly paid to the Maltese Government.

Control Issues

No Formal Approvals and Divergences from the indicated Salary Packages

The issues reported hereunder show that despite the specific responsibility attributed to Director Corporate Services within the Ministry for Tourism, to ensure that "... *allowances are paid to officers who are justifiably entitled to such, at the right levels and that the correct amount is paid*", controls to this effect were completely lacking. Whilst acknowledging the particular nature of work which entails a certain degree of flexibility, it is undeniable that such controls need to be fully effective. The following relate:

a. The organisational structure indicating the respective salary packages, which according to the Film Commissioner was forwarded by the Public Administration Collective Bargaining Unit (PACBU), consisted of an undated spreadsheet and neither did it evidence any approvals nor details of officers authorising such packages. Moreover, as stated by the Commissioner, "... *some of the workers, especially those related to*

[4] €15,659,002 in 2016.

the Film Studios, do not fit in the positions listed in this structure". As a result, NAO could not validate the respective salaries.

b. Salaries paid to two employees engaged during the year under review exceeded the amounts stipulated in the organisational structure. Furthermore, while according to the latter they are not entitled to any allowances, during 2016 they received pro rata amounts of €2,788 and €2,774 respectively, comprising vehicle, communication and disturbance allowance[5]. Similarly, another officer engaged in 2016 also received pro rata mobile allowance, despite not being entitled to it as per the prevailing structure.

c. Senior employees who carry out duties entrusted to them by Management, which fall outside their job description, and are directly related to managing and administration of the Film Studios are, according to the structure, entitled to a one-time only all-inclusive allowance of up to €335 monthly, in lieu of overtime. However, it transpired that the officer carrying out such work received a fixed monthly allowances of €315, together with the reimbursement of mobile phone related expenses, as well as overtime payment at 1.5 the basic hourly rate for any hours beyond 40 worked during the week and for work performed on days other than the normal working days.

d. The employment contract of one of the senior employees mentioned above was effective from 1 August 2013. However, on 1 May 2014, the remuneration package was increased by at least €4,657 per annum[6] when this was not included in the said contract. Formal approvals by the Permanent Secretary, or PACBU for such increase were not available at MFC.

Other Payroll Concerns

Lack of Records substantiating Payroll

a. No attendance records were available for MFC staff and seven of the ten employees working at the Malta Film Studios. Furthermore, those made available with respect to the remaining staff employed by the latter covered only the second half of the year under review and were not certified correct. Discrepancies were also noted when comparing the attendance records to vacation and sick leave records.

b. Similarly, payroll records available at MFC, including the approved overtime sheets, related only to the period July to December 2016[7].

Lack of Information to support Payment of Emoluments

During the year under review, two employees, each entitled to a basic salary of €12,290, were actually paid a total of €21,412 and €21,122 respectively, including allowances and overtime. However, due to inadequate or lack of supporting documentation in respect of such payments, correctness of the said amounts could not be confirmed.

[5] According to their contracts, they are entitled to vehicle allowance (€2,400 per annum), communication allowance (€800 per annum) and disturbance allowance (10% of basic salary).
[6] This amount excludes the reimbursement of mobile phone expenses and overtime.
[7] Up to mid-June 2016, the payroll function was outsourced. However, MFC did not retain a copy of the respective records. This hindered the necessary verifications.

Film Incentives

Tax on Income not paid in its entirety

NAO verifications carried out on the related income tax payments revealed that whilst withholding tax paid in Malta by one actress was understated[8], the amount paid by a further two actors could not be verified due to lack of and/or incomplete documentation.

Moreover, testing performed on the list of extras, whose Payee Statement of Earnings forms (FS3s) were forwarded to IRD by the local production company, also revealed that details of 15 out of 274 extras in the sampled production were not included therein[9].

Expenses claimed not duly substantiated

No agreements were available to substantiate the amount of €157,300[10], representing 78% of the claimed expenditure on which the rebate was based. The only documentation provided consisted of invoices and Purchase Orders (POs). Consequently, correctness of the expenses claimed for the eventual rebate could not be ascertained. The following were also noted:

a. Review of one particular invoice revealed a variance of 216 meals, resulting in an increase of €9,086 (35%) when compared to the quantity indicated on the respective PO.

b. A number of hotel rooms, were charged at a rate of more than 50% over and above that indicated in the respective PO. This was manually adjusted to reflect the total invoiced cost, however, no supporting documentation was traced to justify the higher rate.

c. The hire of a chauffeur-driven 18-seater van for a particular day was invoiced twice, in two separate invoices. The rebate was granted on both cheques, implying that proper verification was not carried out.

Malta Film Studios

Lack of Documentation supporting Amounts Invoiced

The acquisition of accountancy services for the Film Studios was only backed up by a batch of email correspondence which did not provide any evidence that the procurement of the said service was carried out in line with the Public Procurement Regulations. The following also transpired:

a. Despite that an email indicated a monthly fee of €1,600 (VAT excl.), for an average of 15 hours per week, the respective agreement stipulated that fees "... *will be calculated on the basis of time spent by our professionals in carrying out the assignment valued at their standard fee rates* ...". However, the rates were not stipulated, thus correctness of the amount of €5,908 paid in 2016 could not be ascertained.

b. Correctness of the amounts paid in 2016 for auditing services provided to the Film Studios (€5,605) and MFC (€3,540)[11] could also not be ascertained as no supporting documentation was provided other than the invoices.

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[8] By €859.
[9] Such records were provided to NAO by IRD.
[10] From the sampled population of €200,408.
[11] Covering financial year 2015.

Lack of supporting documentation was also evident with respect to other professional services invoiced, as follows:

a. Hours invoiced with respect to project management and commercial support services[12] could not be validated as no timesheets were attached with the invoice, with a value amounting to €27,907.

b. The agreement covering legal services laid down standard rates for the different grades involved; however, the amount charged for the period July to September 2015 (€7,670) could not be verified due to the lack of information provided on the invoice in this regard.

Recommendations

Key Issue

Potential Loss of Revenue to Government

It is highly recommended that MFC extends the remit of its auditors to verify the eligibility of the cash rebates, to confirm their validity, and to ensure that revenue due to Government is duly paid and any irregularity reported accordingly in a timely manner.

Control Issues

No Formal Approvals and Divergences from the indicated Salary Packages

The organisational structure and respective salary packages are to be formally approved, clearly indicating the date of such approvals and when the related provisions come into force. Moreover, rather than maintained on a spreadsheet, such records are expected to be in a document which cannot be manipulated.

It is also recommended that, for transparency's sake, the composition of the entity and the respective salary packages are duly incorporated in the employee handbook. Furthermore, Management is to take the necessary actions to regularise its position and ensure compliance with the approved organisational structure.

Adequate control is also to be exercised over the payment of allowances, in line with the procedures laid down in the Manual of Allowances.

Other Payroll Concerns

Lack of Records substantiating Payroll

Duly certified records are expected to be in place in line with the provisions of the Public Service Management Code, making sure that all employees are duly accounted for at all times. Furthermore, all payroll records are to be available at the Commission, irrespective of whether the payroll function is in house or outsourced.

Lack of Information to support Payment of Emoluments

Contracts are to clearly stipulate all the terms relating to the respective employment, including but not limited to the working days, hours and the relevant duties. Moreover, attendance records are to clearly show when the said employees are working their normal roster, overtime, a change of duty or carrying duties related to a particular production. As far as possible and practicable, all relevant approvals are to be granted in writing and duly filed with the attendance.

[12] Concerning the reform of the Film Studios.

Moreover, each payment is expected to be supported by documentation, clearly indicating what the respective amounts relate to.

Film Incentives

Tax on Income not paid in its entirety

Final withholding tax paid by actors, directors and front camera crew is one of the main sources of income to Government from productions filmed locally. Thus, thorough checks are to be carried out to ascertain that income considered to be earned in Malta has been declared in full. Moreover, Management is to ensure that all documentation required to perform the necessary verification is available.

Confirmation that complete and accurate information has been filed with the IRD together with the respective payments is important prior to providing the cash rebates.

Expenses claimed not duly substantiated

Ideally, as far as possible, all services over an established threshold are to be backed up by an agreement, clearly setting out the terms and conditions, period covered and rates applicable. MFC is also to obtain any other records supporting the provision of the respective services during filming and related attendance, where applicable, enabling verification of invoiced amounts. Moreover, assertion that adequate resources are available to assist in the administration of film incentives, with a particular emphasis on the necessary comprehensive verifications, is important. The Commission is also encouraged to update its guidelines, incorporating the imposition of penalties on the production companies, where significant shortcomings are identified.

Malta Film Studios

Lack of Documentation supporting Amounts Invoiced

Public procurement is to be carried out in a fair and transparent manner, adjudicated on equitable and transparent criteria, thus giving all parties an equal chance. Moreover, it is vital that measures are put in place to ensure that invoiced rates can be tallied to agreed charges prior to payment, also allowing external bodies to carry out independent verifications.

Management Comments

Management stated that some of the recommendations made by NAO have already been implemented and that, as a Government entity, the Commission will endeavour to follow the applicable public regulations. However, it was also pointed out that it is a huge challenge to bridge the gap between the practices of a very dynamic film industry and the rigid procedures of the public sector. Management further commented that certain challenges faced by MFC were mostly due to an extraordinary situation created after the Government, having lost millions of euro, was successful in a court case against the former owners of the Film Studios, previously known as Mediterranean Film Studios.

Extracts from the reply submitted by MFC are being disclosed below.

Potential Loss of Revenue to Government

"*Scientific studies by the Economic Policy Unit show that the film industry has a huge multiplier effect and generates a lot of economic activity*". Moreover, it was also claimed that *"MFC always worked hand in hand with the IRD and VAT Department, however checks and balances on income tax and VAT are not within the Commission's remit*".

No Formal Approvals and Divergences from the indicated Salary Packages

"*PACBU communicated with MFC through an official email and an attached spreadsheet with the organisational structure*". Management further stated that "... *the situation has* ... ... *been rectified with all employees being in line with the approved PACBU structure*".

The contract of one of the senior employees "... *was drafted well before the official structure was drafted and approved in 2016. This structure does not feature salaries paid to employees employed prior to stipulated date. PACBU approved in writing that those employees who were employed prior to the approved structure should continue to benefit from the same conditions stipulated in their previous contract. The contract of the person in question was revised in 2014 due to an increase in responsibilities. Allowances were in line with other allowances given to other employees of the Film Commission at the time*" but it is "... *now in line with the approved structure"* and *"all employees employed after 2016 are now in line with the approved PACBU structure*".

Other Payroll Concerns

Lack of Records substantiating Payroll

"*Timesheets are now in place for all employees. These are now being monitored and certified by the Human Resources Manager/Facilities Manager as applicable. As from July 2016, payroll started being worked in house. Therefore, all records related to payroll, including approved overtime hours, are now available. Current Timesheets clearly show when an employee is absent, working normal hours or working overtime hours*".

Lack of Information to support Payment of Emoluments

"All new contracts specify working hours and official duties accordingly. The new system in place has a detailed justification with regards to hours being worked, duties performed and relative approvals. MFC had entrusted an auditor to process the Film Commission's payroll up to June 2016. He calculated their salary based on his interpretation of their letter of appointment. This professional interpretation was adopted in the new digital payroll system".

Film Incentives

Expenses claimed not duly substantiated

"*While, in the past, agreements and contracts were only requested after the production would have wrapped up, the Film Commission will now issue a MEMO to all service providers so that all agreements in place with service companies should be readily available when requested for inspection and contracts over the amount of €50,000 should automatically be provided to the Commission. The Film Commission is in the process of recruiting additional help. It will start imposing penalties when there are shortcomings and will possibly make a line item immediately ineligible if the paperwork is not up to standard*".

Malta Film Studios

Lack of Documentation supporting Amounts Invoiced

"*The management of the Film Studios required urgent accounting service*s ...". Thus, the selected firm was "... *contracted through a negotiated procedure. This service was meant to be for a short and medium term, however due to the overwhelming amount of work it had to be extended till December 2016*". With respect to the amounts invoiced for auditing services it was commented that, "*when the original agreement was made, both parties were under the impression that the audit will take a number of hours however when the actual audit started both parties realised that this will take much longer than had been anticipated. It is due to this fact that final invoices totalled more than the original agreement*". It was also stated that "*the contracts provided to NAO were for the period starting 6th June 2014 and valid for two years. Two different agreements were in place. These contracts were extended in June 2016 for another period of six months*".

Malta Air Traffic Services Ltd

Revenue

Background

The Malta Air Traffic Services Ltd (MATS) is the air navigation service provider for Malta. This company provides a variety of services, primarily aimed at ensuring that aircrafts flying in Malta's Flight Information Region are safely separated in accordance with international civil aviation regulations.

MATS falls under the responsibility of the Ministry for Tourism. The company was set up on 27 March 2001, and as from 1 January 2002 it assumed control of all air traffic and technical support services within Malta's region, in accordance with the Air Navigation Licence granted by the Department of Civil Aviation.

The total revenue recorded by MATS in the sales ledger for financial year 2016 amounted to €31,796,523. The main source of income of €28,029,740 was derived from aircraft operators for en-route air navigation facilities and services, as well as terminal navigational costs charged on every departure. The remaining balance of €3,766,783 mostly comprises services rendered to a public limited company, rents receivable from leasing part of its premises and Government income to make up for the exemption given to military traffic. MATS was last provided with a Government subvention in 2013, which amount of €50,000 is considered as relatively insignificant.

Audit Scope and Methodology

The main objectives of the audit were to assess the system of internal controls in place for the collection of revenue and their effectiveness over the various revenue streams, as well as determining whether the related information is complete and reliable, enabling reconciliations with source records. Recommendations to enhance governance, control practices, and to reduce risks associated with revenue management, were also provided.

A sample of 56 invoices to the tune of €3,591,375 was selected for testing from the sales ledger, based on materiality, but also including all types of sources of revenue. A total of 35 agreements were reviewed to identify whether all revenue due to MATS was duly collected and to confirm that rental fees, as well as other charges, were in line with the agreed terms. Shortcomings noted during the audit but falling outside the selected sample are also reported upon.

Audit Disclaimer

Although the main income generated by MATS is related to the provision of air navigation services, the invoicing to the respective airlines and collection of amounts due do not fall within the remit of MATS. Consequently, the National Audit Office (NAO) did not delve into the merits of how such revenue is calculated. Testing on this area was focused on the processes and controls in place, with respect to the reimbursements received by MATS from the responsible intergovernmental organisation, namely the Eurocontrol. However, no proper testing could be performed since payments were not adequately substantiated. MATS also confirmed that it is relying completely on the organisation with no further checks and reconciliations from its end.

Key Issues

Complete reliance on Information provided by an Intergovernmental Organisation

The amounts receivable from the intergovernmental organisation in relation to air navigation are not being collected in full. The respective differences, carried forward from one month to another, continued to accumulate over the years. The difference for the year under review, as per sales ledger, is shown in Table 1.

Table 1: Differences in Amounts Receivable

Details	Amount
	€
Opening balance as at 1 January 2016	2,375,542
Invoices issued during 2016	28,029,740
Amounts received during 2016	(26,816,816)
Closing balance as at 31 December 2016	**3,588,466**

MATS confirmed that, for the collection of such revenue, it is wholly dependent on the reliability of the abovementioned organisation's capability to charge and collect the amounts due on its behalf. The Chief Finance Officer also verbally acknowledged that no independent checks and reconciliations are performed and confirmed that the system in place permits extraction of the related reports; however, this is not being utilised to its full potential.

Lack of Contract Oversight

During the audit, various shortcomings were noted with regard to contract management and credit control. These deficiencies, which will be discussed separately further down in the Report, included:

- works' budget overrun;
- contracts not including provisions to mitigate related risks;
- leased premises not covered by agreements;
- long outstanding revenue, with no interest being charged; and
- income potentially overstated.

Control Issues

Budget Overrun for Works carried out at a Leased Office Space

Works carried out at a leased office space belonging to MATS were quoted at €45,971. However, no documentation was provided substantiating such quote.

Handwritten comments on the same e-mail correspondence between MATS and the lessee indicated that the former was to pay for the installation of water and electricity, air-condition units and paint, which costs were not indicated. This implies that MATS committed itself to pay without being aware of the costs involved which were eventually invoiced at €36,920.

The total amount invoiced was €94,649, resulting in a variance of €11,758 due to additional works requested, which were ultimately also paid by MATS.

Key Clauses protecting Government's Interest not included

The following key clauses protecting Government's interest were not included in a number of the sampled agreements:

a. A clause to protect MATS' confidential information, or material relating in any manner to the affairs of the proprietary and to the contents of agreements, was missing in 22 sampled agreements (63%). Such clause is imperative in situations where the respective information is sensitive in nature.

b. Fourteen sampled agreements (40%), relating to property rented out to third parties, did not include a clause prohibiting transfer of rights, specifying that the latter shall neither assign nor transfer, entirely or in part, the rights and obligations derived from the agreement without the prior authorisation and written consent of MATS.

c. Five lease agreements in the audit sample (14%) failed to include an insurance clause in favour of Government.

Retrospective or Expired Agreements

The contract period or part thereof of 20 agreements (57%), relating mainly to the leasing of MATS' premises, were not covered by an agreement. In certain instances, the agreement was entered into retrospectively; in one case after eight years. In such cases, the parties involved were not legally bound with the applicable terms and conditions. Moreover, the required checks with source documentation prior to issuing invoices were not possible.

No Official Authority to enter into Agreements

As per MATS' Memorandum of Association, deeds of whatever nature are to be signed by any two directors or by a person/s authorised by the Board from time to time. However, no official documentation, evidencing the delegation of authority to company signatories appearing in 27 of the agreements reviewed (77%), was provided to NAO. Another agreement entered into by the Chief Finance Officer on 1 October 2013, covering the lease of property and installation of equipment, was authorised by a Board resolution only on 14 November 2013.

Automatic Renewal of Agreements

A clause in two contracts indicated that the respective agreements were to be automatically renewed. This may negatively impact MATS by being locked up in an unsatisfactory arrangement and/or agreements extended perpetually. In such circumstances, there is also the risk that inflation is not even considered.

List of current Agreements not updated regularly

A detailed list of agreements in force, provided to NAO for audit purposes, was incomplete. In the circumstances, the respective agreements cannot be properly managed.

Invoices not raised in line with Source Documentation

Incorrect charges were encountered during audit fieldwork, such as the tax element not included in the negotiations for air navigation services, additional area incorrectly measured, rate charged not formalised beforehand and unclear contract's terms. Although the related amounts, if taken individually, are not always material, this still implies that the respective invoices were not duly verified before being approved for payment, with the result of loss of revenue in certain instances. Furthermore, such shortcomings may disrupt the good business relationship or result in unnecessary disputes.

Ineffective Credit Control System

Another area of concern was the slack attitude of the credit management system at MATS on revenue generated, apart from that related to air traffic services. Furthermore, late penalty charges were not being duly imposed. As a result, debtors prolonged the settlement of their outstanding balances, risking the possibility of bad debts. Moreover, in certain instances, MATS did not raise the invoices in a timely manner.

The majority of invoices reviewed were not settled within the stipulated payment terms. This attitude was also evident from an exercise carried out on the opening balance of €2,176,385 in the sales ledger, which is relatively high when compared to the total revenue of €3,766,783 recorded during 2016.

Incomplete Documentation in File

Not all supporting documentation was held in the respective file, thus certain testing was limited. Such shortcomings also increase the risk of incorrect income being received. The following observations relate:

a. Insurances and Indemnities

From the 22 agreements reviewed which made reference to the need of an insurance policy and/or indemnity against damages etc., in 20 cases (91%) such protection cover was not found in the respective files. An officer confirmed that no copies are kept, and consequently MATS is not aware whether it is safeguarded or otherwise in the eventuality of any loss or damages that may arise.

b. Site Plans

In seven instances, although the respective agreements stated that the area being leased is shown in the 'attached plan', said documentation was not traced in the relevant file.

c. Other Supporting Documentation

There were other instances where supporting documentation, such as invoices and registered letters, was not filed. Some copies were ultimately provided subsequent to further specific requests but others were not presented for audit purposes.

Accounting Issues

During audit fieldwork, NAO observed non-compliance with fundamental accounting concepts. The following refer:

a. Profits potentially overstated

Other than that related to the collection of the proceeds associated with air traffic services, no provision for bad debts was provided by MATS in its financial statements. This notwithstanding the shortcoming already reported with regard to long outstanding invoices, one of which was dated way back in 2002. Besides overstating profits, this also implies that MATS is not complying with the matching, as well as the prudence concept.

b. Income overstated

MATS has anticipated financing from the European Union even when there was no certainty that such funding was going to be approved. This was evident in seven invoices, mainly issued in 2014, totalling

€1,718,476[1], for which funds of €833,559 (49%) were still not received up to 31 December 2016. This implies that the prudence concept has been again overlooked.

c. Invoice Dates changed

From the 56 sampled invoices raised by MATS, it resulted that in 17 instances (30%) the date was manually changed. Thus, at face value such invoices were not in sequence. Reasons for such manual changes included instances when:

- request for a change of invoice date was made by client; or
- the invoice was issued a bit late and the date changed so as to correspond with the agreement; or
- the invoice was issued with a date, in order to fall within a specific Value Added Tax period.

Recommendations

Key Issues

Complete reliance on Information provided by an Intergovernmental Organisation

Considering the materiality of the transactions involved, NAO recommends that MATS adopts effective internal controls to reconcile the amounts received on a regular basis, by also utilising the computerised system to its full capacity. These controls will enable the company to establish the approximate amounts due.

Lack of Contract Oversight

MATS is expected to ensure that the preparation of agreements and oversight role of contract management are carried out more effectively and comprehensively. NAO also recommends that a policy addressing risk management issues is adopted, including an effective dispute resolution process, encouraging a proactive approach and continual discussion with its counterparties as necessary. Furthermore, the credit control system in place needs to be duly enhanced.

Control Issues

Budget Overrun for Works carried out at a Leased Office Space

Share of variances is to be agreed upon prior to commencement of the respective works. Furthermore, the responsible officers are expected to ensure that all supporting documentation is retained in file for full audit trail and to back up any quoted amounts.

Key Clauses protecting Government's Interest not included

Professional advice is to be sought when new agreements are being prepared to ensure that necessary clauses to protect Government's interest are included.

Retrospective or Expired Agreements

MATS is to ensure that negotiation of new agreements is made prior to their expiry to guarantee smooth and timely transition.

[1] This amount excludes those invoices related to air traffic services, since a provision was provided for in this regard.

No Official Authority to enter into Agreements

Board resolutions authorising an official to act on behalf of the company are to be in place in a clear and timely manner. In addition, designated authority levels are to be established in writing, and relevant copies retained for future reference.

Automatic Renewal of Agreements

Renewal of agreements is expected to be subject to mutual consent. Thus, clauses of automatic renewals are to be avoided.

List of current Agreements not updated regularly

The list of agreements is to be invariably updated to enable MATS to take the necessary actions in a timely manner.

Invoices not raised in line with Source Documentation

MATS is to ensure that invoices raised are in line with the respective agreements. Any proposed changes are to be agreed to by both parties and included within an addendum to the agreement with the lessee.

Ineffective Credit Control System

The analysis of aged debtors' list and scrutiny of those amounts outstanding beyond a reasonable time will help to identify doubtful debts. Invoices are to be raised and forwarded to the respective debtors in a timely manner and every effort is to be made in order to collect the amounts in question without undue delay. Each debt is to be assessed on a case-by-case basis and, unless reasonably justified, Management is to start charging interest on overdue balances to act as a deterrent.

Incomplete Documentation in File

For completeness sake, all documents are to be kept in the relevant file, in order to ensure that the requested information is available in a timely and comprehensive manner. Management is encouraged to compile minute sheets in files to enhance audit trail and easily retrieve information. Copies of insurances and indemnities are to be held at MATS to ascertain that the company is adequately covered.

Accounting Issues

The matching, as well as the prudence concept, is to be applied at all times, in order to give a true and fair view of MATS' amounts receivables. Furthermore, good business practice entails that invoices are to be raised sequentially and properly accounted for.

Management Comments

MATS concurred with all the recommendations put forward by NAO and certain action has already been taken to ensure compliance.

Some reservations were put forward, stating that the budget overrun for works was "... *authorised by the previous management of MATS*", a particular agreement "... *expired under the previous management and no action was taken to renew it*" and that the automatic renewal of agreements was "... *negotiated by the previous management*".

The comments hereunder were also submitted:

There is a general agreement among all member states that the intergovernmental organisation is extremely efficient in collecting revenue as it has an annual recovery rate of over 99.5% of the bills issued. Furthermore, out of the €3.588 million due to Malta, some €2 million is due by countries for the use of airspace by military aircraft. However, these long outstanding dues cannot be written-off, as some states are objecting to a write-off and so the intergovernmental organisation cannot proceed.

The new air traffic management system, which was to be commissioned by the end of July 2017, incorporates a Billing and Statistics module, enabling to generate the required reports to carry out the recommended reconciliations.

The present Management is already referring agreements to insurance brokers and legal advisor before renewing any agreement. However, MATS will make sure that all agreements will include an effective dispute resolution process. MATS also agrees to enhance the credit control system.

The process to establish designated authority levels will be discussed at senior management level in order to implement the recommendation within the shortest possible time.

The current Management is doing its utmost to harmonise the provisions of all rental agreements.

MATS will be drawing procedures to ensure that invoices are issued in time and dues collected within stipulated timeframes. The debtors' list will be scrutinised regularly to ensure that no debts remain outstanding beyond a reasonable timeframe.

Ministry for Home Affairs and National Security

Detention Service

Expenditure

Background

The Detention Service (DS), which falls under the responsibility of the Ministry for Home Affairs and National Security (MHAS), was set up to cater for the operation of all closed accommodation centres; to provide secure but humane accommodation for detained persons, as well as maintain a safe and secure environment[1].

The 2016 Financial Estimates show that the budgeted contribution for DS amounted to €7.7 million under Vote 42 - Control Account 5421. However, actual payments from this account totalled €5,162,642, following a downward revision of €1,405,232, virements withdrawn of €480,840 and unused funds of €651,286.

Total personal emoluments during 2016 stood at €3,375,500, covering salaries paid to an average of 144 employees. Operational and maintenance expenditure and capital expenditure incurred during the year under review totalled €1,787,142.

Audit Scope and Methodology

The main scope of the audit was to determine the level of internal controls over expenditure and to ensure efficient administration of public funds, in line with standing laws, regulations, policies and procedures. Recommendations were also made where warranted.

From the list of officers on DS payroll during 2016, a sample of four employees falling within different salary scales was selected for testing based on materiality. This comprised of an Officer in scale 7 who was chosen due to the amount of allowances received, as well as three Detention Service Officers (DSOs), two of whom availed themselves of long sick leave and were medically boarded out in June 2016. A review of the policies and procedures for the administration of vacation leave, overtime, sick leave and Time Off In Lieu (TOIL), was also performed.

In addition, a total of 26 payment vouchers, collectively amounting to €569,058 and representing 32% of the total expenditure incurred under Control Account 5421, was selected for further substantive testing. The selection of transactions was based on their nature and materiality. Testing focused mainly on the following areas:

- The supply of breakfast, lunch and dinner to third country nationals.
- The medical services provided in closed detention centres.
- The monthly tranches forwarded to the Agency for the Welfare of Asylum Seekers (AWAS).
- The fixed assets procured during the year under review.

The fixed asset register was also requested and a physical audit inspection on a sample of inventory items situated in buildings falling under DS's responsibility at Safi Barracks was held on 20 February 2017.

[1] Source: http://homeaffairs.gov.mt/en/mhas-departments/detention-services/Pages/DS.aspx

Limitation on Scope of Audit

In view that specific individual transactions could not be traced from source to completion, no audit procedures could be carried out to ascertain the accuracy and validity of TOIL balances as at year-end. This also hindered the reconciliation of vacation leave donated during the year under review.

As per agreement entered into between the Government and the General Workers Union on 11 May 2015, salaries of DSOs performing duties in Detention Centres, on a shift basis and working on average a 42-hour week, are assimilated to those paid to public officers on salary scale 14[2]. In view that the aforementioned agreement does not indicate how the plain hourly rate is to be calculated, it was not possible to ascertain that the remuneration, paid to officers who reported to work on Sunday and/or public holidays[3], as calculated by DS, is correct.

Key Issues

Lack of Control on Management of Human Resources

From verifications carried out on a sample of employees, it transpired that internal controls in the payroll process were lacking, indicating that minimal or no monitoring is in place to ensure effective management of human resources. Furthermore, the person responsible for this area, including the updating of vacation leave, sick leave and TOIL records, within DS is not familiar with the pertinent regulations. Below are examples of internal control failures identified during audit testing, some of which will be detailed separately under the pertinent observations.

- Personal record sheets not maintained.
- Incomplete and unreliable attendance records.
- Various incorrect castings on the vacation leave card resulting in the amount entitled being understated.
- Application forms for vacation leave availed of not always traced, thus it could not be ensured that the respective absence was duly approved.
- Absences due to sickness not duly recorded and/or not always covered by a medical certificate.
- Lack of audit trial with respect to TOIL and donated leave.
- Payment of shift allowance to DSOs who were not entitled for such benefit.

Incorrect Budgetary Allocation

Notwithstanding that Control Account 5421 titled ‘Detention Service’ was intended to finance the operational activity within closed detention centres, it transpired that, at times, substantial expenditure incurred in open centres and other entities within the Ministry was also being paid out from this account. By way of example, as outlined further down in the Report, payouts forwarded to AWAS from the foregoing line item during the year under review totalled nearly one million euro. Moreover, due to the fact that DS Management located at Safi Barracks did not have access to the Departmental Accounting System (DAS), it was unaware of such payouts, thus was not in a position to exercise control over the respective funds.

[2] Progression to scales 13 and 12 are effected upon completion of pre-established years of satisfactory service.
[3] In such cases, an extra payment equivalent to the number of hours worked multiplied by the plain hourly rate is being received.

Control Issues

Attendance Records

Shortcomings in the Attendance Sheets maintained at Outposts

A review of the attendance sheets maintained at the different outposts, whereby DS personnel perform duties as temporary security officers, revealed that:

- these records are kept by DSOs on duty rather than maintained securely by their superior. In addition, these are in the form of a log book and thus are not compliant with the format established in the Public Service Management Code (PSMC); and
- such records are not checked for correctness on a weekly basis as required by standing regulations. By way of example, the attendance registers covering duties performed during January and February were only certified in May 2016. Moreover, these were being verified by personnel in the grade of DSOs, i.e. officers in scales 12 to 14, rather than an officer in a senior position.

Leave

Incorrect Vacation Leave Deductions

When the vacation leave availed of by one of the sampled DSOs working on a shift basis, lasted for a week or more at a stretch, only the hours of duty of the individual attendances were deducted from the leave entitlement. This contradicts section 3.1.2(c) of the PSMC, stipulating that in such cases "... *the hours of the respective attendances and 'off duties' are to be deducted from the leave entitlement with the seventh day being considered as* '*off duty*' ...".

Lack of Audit Trail

a. Claims, requesting TOIL or payment of overtime for extra hours worked in excess of the normal working schedule, were not substantiated by certified attendance records. Thus, the aggregate total of 827[4] hours of TOIL accumulated by three officers could not be validated.

b. Personnel willing to donate vacation leave to their colleagues who experience medical emergencies are to fill in a form, whereby they are to disclose their personal details together with the number of donated hours. Yet no reference is made to the officer benefitting from such donation for reconciliation purposes.

Allowances

Payment of Night Shift Allowance when not entitled

Following a decision taken in 2006 by the then Head DS, 30 officers working on a roster without night shifts started to benefit from the night shift allowance.

Corrective action was only taken 10 years later, whereby on 19 August 2016, the Director Corporate Services (DCS) gave instructions to discontinue the payment of such allowance.

[4] The Officer in scale 7 had 190 hours of accumulated TOIL, whilst the two DSOs (who were not part of the audit sample) had in total 637 hours of TOIL.

Overtime

Permanent Secretary's Approval for the working of Overtime not traced

No formal approval for the working of overtime during the Valletta summit and the CHOGM period, in respect of which the aggregate amount of €43,860 was paid in February 2016, was obtained.

Meals

Bypassing Procurement Regulations by extending Contract Agreement repeatedly

As per supply contract dated 2 February 2010, a catering company was awarded a tender for 24 months, valued at €11,315,000, for the preparation, transportation and serving of breakfast, lunch and dinner to third country nationals accommodated in closed detention centres. Given that the value of the contract was not exhausted due to the decline in the number of irregular immigrants, the original agreement was extended for further periods by means of a number of addenda approved by the Director of Contracts. However, this continued to be extended even beyond the contract value and seven years later such agreement is still in force (Figure 1 relates). As at time of audit, the contract value increased by 25%, i.e. to a total of €14,143,750.

From date of commencement up to end of 2016, payments to the contractor totalled €12,134,193.

Figure 1: Contract Agreement Timeline

2 Feb 2010	A back dated contract was signed.
15 Sep 2010	Due to the decline in the number of irregular immigrants, the provision of meals was extended also to residents housed in selected open centres and the inmates at Corradino Correctional Facility. Furthermore, the duration of the agreement was no longer governed by the established two-year contracting limit, but until 75% (€8,486,250) of the original contracted value is exhausted.
20 Dec 2012	Procurement of meals was to be continued up to the full contracted value of €11,315,000.
9 Nov 2015	Contract value increased by 25%, i.e. to a total of €14,143,750. The period by when this amount is to be exhausted was not indicated.

Meals ordered in excess of the Number of Residents

A reconciliation exercise carried out for audit purposes, between the number of registered residents in the open centres against the number of meals ordered during the month of August 2016, which period was selected as an audit sample, revealed that the number of dinners delivered at the Marsa Open Centre exceeded the number of residents by an average of 11%.

Medical Services

Expired Bank Guarantee

No documentation was provided evidencing the renewal of the bank guarantee following its expiration, covering nursing services at the closed detention centre.

Funds from the European Union not availed of

Notwithstanding that 75% of the expenditure incurred on services provided by qualified nurses and a medical doctor in closed detention centres was eligible for co-financing through European Union (EU) funds, MHAS failed to apply for such financing and hence, amounts invoiced during 2016[5] in this respect were fully met out of the national public funds. The possibility of such financing was still being explored by Management.

Marsa Open Centre

Monthly Tranches covering Operational Costs not substantiated

By means of a three-year agreement entered into by the Ministry on 3 September 2010, the Foundation for Shelter and Support to Migrants was entrusted with the management and operation of the Marsa Open Centre. In line with the cited agreement, in compensation for the services provided, the Ministry bound itself to pay the Foundation the maximum sum of €550,420 per annum. Email correspondence traced in the respective departmental file revealed the following shortcomings:

a. Upon the expiration of the agreement on 15 September 2013, MHAS had the possibility of renewing the contract with the Foundation for a further three-year period, but no such renewal was traced. However, monthly tranches of €45,868 from the line item under review continued to be forwarded to the latter at least up to two years later, i.e. August 2015[6].

b. In response to the legal advice sought from the Attorney General's office, with effect from 1 October 2015, the responsibility for the operation of the Marsa Open Centre was delegated to AWAS. The latter started to receive the monthly tranches, intended to compensate for the operational costs incurred that were previously forwarded to the Foundation referred to above. However, no formal agreement stipulating the agreed terms and conditions between the two parties was entered into.

c. During a preliminary meeting with the National Audit Office (NAO), Management indicated that these monthly tranches were to be substantiated by a copy of the invoices received by AWAS in respect of the related costs, but no such documentation was traced during the course of the audit.

[5] During financial year 2016, the total amount of €14,865 was paid for medical services, whilst expenditure on nursing services totalled €61,700.

[6] As per details disclosed in ArchDAS, payments during 2015 were effected to the aforementioned Foundation. During 2016, monthly payments of €45,833 were issued to AWAS as from January up to July 2016. No further payments to this effect were traced in DAS.

Payments for Services on behalf of Third Parties

a. On the basis that the financial allocation provided by Central Government to AWAS was not considered to be sufficient to maintain its operations, DS funds were at times utilised to finance the aforementioned agency's obligations. Figure 2 refers.

b. Meals provided to inmates at the Corradino Correctional Facility, were also paid by DS. For the financial year under review, the aggregate amount of €75,288 was incurred in this respect.

Figure 2: Amounts paid on behalf of AWAS during 2016[7]

€500,423	Meals provided to residents accomodated in open centres run by AWAS.
€249,305	Expenditure incurred with respect to utilities provided at Hanger Open Centre between 2 October 2014 and 7 July 2016, of which the amount of €1,125 related to accrued interests on unpaid bills.
€122,314	Financial correction on EU funds due to procurement irregularity.
€66,425	Financial correction on EU funds due to the inclusion of ineligible expenditure and supplies gone missing.
€4,594	Payment of the Cost of Living Adjustment over and above the price quoted in the tender for security services for the periods April to December 2014, and May to June 2015.

Inventory

Lack of Control on Inventory

The DS does not maintain a fixed asset register, in line with the guidelines outlined in MF Circular No. 14/1999 – 'Government Accrual Accounting: Revised Inventory Control Regulations'. Only copies of room inventory lists were made available in respect of inventory records. However, these were neither accurate nor complete.

[7] Since the related expenditure fell outside the scope of the audit, no further testing was carried out on these payouts.

Other Matters

Anomalies in the Employment of Two Officers

An exercise, intended to tally the list of employees provided by DS with the number of personnel actually on the latter's payroll, revealed the following anomalies:

a. Records show that with effect from 11 May 2015, a tradesman at the Armed Forces of Malta was transferred to DS payroll and was paid accordingly by the latter up to 24 March 2016. However, this individual never reported to work at DS but performed maintenance duties at MHAS. The official transfer to the Ministry only came into effect on 25 March 2016. Moreover, the first attendance sheets traced show that the officer started recording his presence at MHAS as from 1 September 2015. An email dated 24 February 2016 exchanged between DCS and Head (Operations) DS, also revealed that the Ministry was not aware as to the site the respective officer was reporting to work between 11 May to 31 August 2015.

b. A DSO who was released to perform duties with a voluntary organisation as from November 2014 was still receiving a shift allowance per pay period besides his basic salary, at least up to December 2016. Moreover, an agreement outlining the employment terms and conditions upon release of this officer was not drawn up.

   Furthermore, a copy of the verified attendance records, together with a report on the progress achieved by the respective officer in relation to the project deliverables originally specified, was not traced at MHAS.

Compliance Issue

Overtime Payments not supported by Attendance Sheets

Overtime payments were not being accompanied by a certified extract of the attendance book as required in terms of the PSMC. Such payments were only based on the 'Request for Overtime' and the respective calculations.

Recommendations

Key Issues

Lack of Control on Management of Human Resources

Control activities are essential features of every risk management strategy, thus they are fundamental to the successful operation and day-to-day running of any entity. It is therefore recommended that DS develops its own internal control procedures, enabling it to respond to its specific needs. Ongoing monitoring thereof, to evaluate and improve the design, execution and effectiveness of internal controls, are also encouraged.

Regular reconciliation, between attendance sheets and vacation leave, is to be performed by the officer in charge of human resources, to ensure that the respective records are being updated accordingly.

Days of sick leave are not to be paid for unless supported by a valid medical certificate, covering the number of days taken and submitted to the Human Resources section. Disciplinary proceedings are also to be initiated against officers who fail to abide by these procedures.

Incorrect Budgetary Allocation

Funds allocated to DS should be based on proper budget allocations and relating solely to funds required to manage the closed detention centres.

Control Issues

Attendance Records

Shortcomings in the Attendance Sheets maintained at Outposts

It is important that attendance sheets maintained are in line with the template laid down in Appendix 2.1 of the PSMC. Furthermore, these are to be supervised on a daily basis to ensure completeness and accuracy of the time recorded therein. Adequate controls are to be put in place in order to identify and duly address the shortcomings in the attendance records.

Leave

Incorrect Vacation Leave Deductions

The entitlement to vacation leave comes at a cost and thus should be adequately controlled. To this effect, Management is to be guided by the related provisions of the PSMC.

Lack of Audit Trail

It is pertinent that Management invariably maintains proper audit trail of each transaction, from its inception.

Allowances

Payment of Night Shift Allowance when not entitled

No allowances are to be paid to individuals over and above those spelled out in pertinent regulations.

Overtime

Permanent Secretary's Approval for the working of Overtime not traced

In order to control the respective expenditure, disbursements for the payment of overtime are not to be effected unless the necessary approvals from the right level of authority are obtained prior to the commencement of the respective work.

Meals

Bypassing Procurement Regulations by extending Contract Agreement repeatedly

Management is expected to issue a new call for tenders without undue delay, based upon the current needs, to regulate its position in line with the Public Procurement Regulations. A contingent clause can be included to cover situations of potential future influx of third country nationals.

Meals ordered in excess of the Number of Residents

Food provision is to be based on realistic figures reflecting, as far as possible, the actual number of residents during the respective period. The administration of the system is to be adequately monitored in order to avoid unnecessary costs being incurred on extra meals from public funds.

Medical Services

Expired Bank Guarantee

A bank guarantee mitigates the risks associated with the award of tenders in cases where the selected bidder does not deliver to the expected standards. Thus, Management is to ensure that such guarantees are renewed in time.

Funds from the European Union not availed of

Financial resources are to be managed in the most efficient manner. To this effect, Management is to do its utmost not to miss the opportunity of financing from other sources, such as EU funding. Thus, without prolonging further, the necessary procedures to benefit from such possibility are to be initiated.

Marsa Open Centre

Monthly Tranches covering Operational Costs not substantiated

Transparency in the management of public funds is an integral part of good governance and accountability. Thus, payments are to be invariably substantiated by adequate documentation, enabling full audit trail and independent verifications by third parties.

Payments for Services on behalf of Third Parties

Expenditure is to be duly allocated and recorded by the entity incurring such costs, since the related amounts may distort the nature of reported expenditure.

Inventory

Lack of Control on Inventory

Proper control on Government-owned assets can only be exercised through a complete inventory database. All assets are to be identified and a fixed asset register compiled in line with MF Circular No. 14/1999. This is also required in preparation for the eventual introduction of the accrual accounting. The responsibility of ascertaining that Heads of Departments create, maintain and control an accurate and up-to-date fixed asset register rests with DCS.

Thus, DS is to compile detailed records of its inventory items and affixes an identification code to its fixed assets without further delay. Moreover, spot checks are to be carried out in order to ensure sound inventory management.

In addition, statutory information is to be forwarded (electronically) to NAO, in line with the established provisions.

Other Matters

Anomalies in the Employment of Two Officers

Senior officers are to instruct employees falling under their responsibility to duly register their presence in the attendance records.

Furthermore, with the aim of enhancing internal controls, it is to be ensured that transfers to voluntary organisations are supported by an agreement clearly indicating the extent of each party's rights, duties and obligations. MHAS is also to ascertain that it is provided with the related documentation as outlined in the agreement for public officers released to work with voluntary organisations.

Compliance Issue

Overtime Payments not supported by Attendance Sheets

Overtime pay is to be accompanied by a certified extract of the attendance book. Moreover, overtime returns are to be thoroughly checked against the supporting attendance sheets, by the officer in charge of salaries, before payments are processed.

Management Comments

Management concurred with most of the observations and declared that it has the intention to take the respective recommendations on board by not later than end of October 2017. With respect to NAO's remarks relating to contractual services, DS claimed that these were entirely handled by the Ministry. It was also stated that the Marsa Open Centre is not managed by DS. Further relevant feedback is being disclosed hereafter:

Lack of Control on Management of Human Resources

"*These problems are the result of under-staffing and lack of adequately trained clerical staff. DS Management is looking into the matter and has already implemented more stringent controls*".

Incorrect Budgetary Allocation

"*Detention Service has no control over Control Account 5421. This is administered directly by the Ministry. DS at Safi still has no access to DAS because fibre optic cables required have only just been installed*[8]. *DAS is expected to be installed in the coming weeks*".

Shortcomings in the Attendance Sheets maintained at Outposts

"*Sign-in sheets have now been changed to the format established by PSMC. These attendance sheets are also being endorsed by the AWAS Co-ordinator at each centre, which procedure was introduced in May 2016*[9]. *These sheets are now being verified by the OIC Detention Shifts and A/D HR & Admin (DS)*".

Lack of Audit Trail

The Officer in scale 7 has carried over a substantial number of TOIL when he was transferred to DS in May 2013. "*As regards the other two DSOs all TOIL after October 2013 is recorded and reason for granting TOIL is provided*".

[8] Management comments are dated 14 July 2017.
[9] NAO noted that this should read May 2017 since this procedure was introduced following the audit.

Payment of Night Shift Allowance when not entitled

"*In 2013, Ministry had been made aware that there were a number of DSOs being paid night shift allowance when they were working on day duties*. *Verbal reply was that that was the present policy*".

Permanent Secretary's Approval for the working of Overtime not traced

"*All overtime carries the Permanent Secretary's approval*. *This is usually given via email. Only the CHOGM overtime was given verbal approval*".

Funds from the European Union not availed of

"*Application for EU funding for these services was submitted in 2017 because in 2016, the Detention Service was advised that these services were not eligible for funding*".

Payments for Services on behalf of Third Parties

"*The Detention Service has no control over allocation of these funds*".

Lack of Control on Inventory

"*Verbal claims by DSOs should be taken at face value*. *The use of personal items at place of work is discouraged by DS Management*".

Anomalies in the Employment of Two Officers

The transfer of the tradesman "... *was handled directly by the Ministry* ..." and the former "... *has never set foot within Detention Service*". On the other hand, the matter relating to the release of DSO to perform duties with a voluntary organisation "... *was directly handled by COS MHAS in 2014*".

Civil Protection Department

Expenditure

Background

The Civil Protection Department (CPD) is entrusted with the responsibility of safeguarding human lives, property and the local environment and also that of maintaining a national system of prevention, preparedness and response to any disaster that could effect the Maltese community.

In addition to the allocation of €5,682,000, to be utilised for recurrent expenditure under Vote 47, for financial year 2016, CPD was assigned a revised budget of €2 million[1] under Capital Vote 16 line item 7004 – 'Construction Works and Equipment'. However, actual payments from this latter account totalled €1,628,844.

Audit Scope and Methodology

The main scope of the audit was to determine the level of internal controls over the procurement and use of items of a capital nature and to ensure efficient administration of public funds, in line with standing laws, regulations, policies and procedures, also making recommendations where warranted.

The selection of transactions included in the audit sample was based on their nature and materiality. A total of 19 transactions, collectively amounting to €1,416,101, were selected for further substantive testing. Table 1 provides details on the composition of the audit sample.

Table 1: Composition of Audit Sample

Account	Total Payments during 2016	Sample Tested	Percentage
	€	€	%
Capital Account 7004	1,628,844	1,389,886	85.33
Recurrent Expenditure			
Materials and Supplies	174,294	9,115	5.23
Transport	170,640	17,100	10.02
Totals	**1,973,778**	**1,416,101**	

[1] The original budget of €2,610,000 was revised downwards.

Other objectives were to assess the reliability and adequacy of information recorded in the Fleet Management System (FMS), that the relevant sections of the Public Service Management Code regulating travel and transport were complied with, and that inventory records were properly maintained.

Limitation on Scope of Audit

Following a meeting held at the Marine Section[2], it transpired that CPD has no vessel monitoring system which provides accurate and reliable fuel consumption data.

Both the Operations Manager and the Station Officer confirmed that the occasionally recorded fuel usage, in the logbook of the fire fighting vessel Garibaldi, is only an estimate since "*taking readings at different times of the day, will give different values, due to temperature variances effecting the expansion of fuel*".

On the other hand, in the logbook of the dinghy, namely Delta 5, only the number of litres of fuel intake from a portable can, prior to going out at sea, is recorded. It was stated that "... *at sea, mileage is not an accurate means of calculation due to prevailing sea conditions*".

Hence, given the lack of an adequate audit trail, the National Audit Office (NAO) could not carry out the intended testing.

Disclaimer

Issues related to inventory, highlighted in this Report cover general shortcomings observed on site whilst conducting audit testing.

Key Issue

Over One Million Euro paid for Fire Engines with Technical Faults

A tender, for the supply and delivery of six light fire engines and one large capacity foam carrier, was awarded for the amount of €1,163,958 to a foreign company. The contract specified that 60% of the payment should be made on delivery, with the remaining 40% to be settled following commissioning of equipment and the issuance of the Provisional Acceptance document. The fleet was eventually delivered to CPD on 19 December 2016. The following shortcomings refer:

a. Technical issues, which were initially noted by two CPD officials during an onsite inspection held at the supplier's premises in November 2016, were still not resolved by mid-September 2017 when the audit was concluded. Thus, the vehicles in question were still not fully operational.

b. Notwithstanding the above, except for €120,000 representing a late penalty fee, covering a delay of more than seven months[3] in the delivery, the invoiced amount was paid in full on 6 March 2017.

c. Following its expiration on 31 May 2016, the original bank guarantee, amounting to €116,396, was extended up till January 2017. However, evidence of subsequent extension, covering up till the date when the equivalent of the aforementioned guarantee was transferred to the Treasury in Malta, i.e. up to 28 March 2017, was not provided for audit purposes.

[2] Held on 5 April 2017 with Station Officer and the Operations Manager.

[3] As per clause 3 of the contract agreement, delivery of vehicles was to take place within seven months from the date of the last signature of the contract being 2 October 2015, i.e. up till 1 May 2016. Delivery was actually effected on 19 December 2016.

Control Issues

Procurement

Procurement of Foam

A review of the procedure adopted for the procurement of 26,000 litres of film forming fluoroprotein foam, as well as 10,000 litres of high expansion foam, for which a local entity was paid the aggregate amount of €106,884, revealed the following concerns:

a. Notwithstanding that in July 2016 CPD was still in time to issue a call for tender, it was decided that procurement was to be based on quotations, sought through emails, and a direct order was then to be obtained from the Ministry for Finance (MFIN). The first requests for quotes failed to indicate the deadline for the submission of bids; thus, a new quotation document with a specific deadline of 31 August 2016 was reissued.

b. The contract agreement was finally endorsed by both parties in early December 2016, implying that the procurement of this item was not urgent as suggested in the early stages of the procurement process.

c. No explanation was forthcoming from CPD to justify the cancellation of the bid bond clause of €3,623.

Procurement of a Maritime Night Vision Camera

a. During a visit at the Marine Section in the limits of Marsa on 5 April 2017, NAO noted that although payment of €50,529 for the 'Gyro Stabilised Thermal Night Vision and Low Light Camera System' was fully effected on 16 December 2016, the respective equipment was not yet installed on CPD's vessel Garibaldi. This notwithstanding that clause 4 of the contract stipulates that the payment was to be effected upon the completion of the job, i.e. when the contractor executes and completes the contract in full compliance. It was later established that this was still stored for safekeeping at the Head Office in Ta' Kandja since its installation was postponed to an unspecified date.

b. The equipment in question was procured following a call for quotations rather than issuing a departmental tender. A direct order approval was sought from MFIN after claiming urgency for this purchase.

c. The same supplier was also paid for in-house operational and application training sessions, which training was not delivered.

d. The camera in question was not included in the inventory database provided by CPD for audit purposes, notwithstanding that this condition was also spelled out upon the approval for direct order.

e. The copy of the contract between CPD and the contractor, provided for audit purposes, was only signed by the latter.

Data Fragmentation

Departmental procurement files reviewed for audit purposes revealed that at times, data disclosed therein was fragmented; hence a proper audit trail was lacking. Correspondence with service providers were retained on personal computers, rather than minuted and filed, physically or electronically, for future reference.

Approvals from the Right Level of Authority not traced

From the sample selected it was noted that, in a number of occasions, CPD refrained from obtaining approvals from the right level of authority, as required by standing regulations. Instances encountered were as follows:

a. Direct Order Approval

Out of a sample of 10 transactions, three instances, ranging between €5,961 and €28,000, were noted whereby procurement effected directly from the open market was not covered by approval from MFIN, as required by the procurement regulations.

b. Permanent Secretary's Approval not sought prior to the payment for Third Party Vehicle Damages

In breach of the requirements laid down in section 5.3 of the Manual on Transport and Travel Policies and Procedures, the Permanent Secretary's approval was not sought prior to the payment of €2,400, covering damages caused to a third party vehicle following a traffic accident.

c. Approval to engage in part-time work

The Permanent Secretary's approvals, ought to be sought by four station officers who outside their official duties were engaged in part-time work to carry out repairs and maintenance on the Department's fleet, were not provided for audit purposes.

Payment in excess of the Quoted Amount

Payment (€14,042) effected by CPD with respect to repairs carried out on two turntable ladders, exceeded the amount quoted (€11,900) by the respective service provider[4] by €2,142, difference being the Value Added Tax (VAT) element of 18%, which was to be paid to the VAT Department and not to the foreign service provider.

Transport

Insufficient Control over Fleet and Fuel Consumption

A review of the logbooks held in respect of three office cars, three trucks, a vessel, a dinghy, as well as that of a portable fuel tank revealed that these were not being maintained as required by pertinent regulations, thus leading to insufficient control.

Shortcomings varied from excessive mileage recorded when daily checks[5] on the vehicles are performed, mileage recorded only at the end of the day rather than after every journey, as well as lack of necessary details. Furthermore, no evidence was traced to confirm that these records were being inspected periodically by a responsible officer. Moreover, three instances were encountered whereby closing odometer readings were higher than the mileage readings taken after the subsequent journey.

Lack of Adequate Internal Controls to safeguard Stock of Fuel at the Marine Section

During the year under review, CPD procured 4,515 litres of fuel in portable cans, costing €5,718, mainly for marine transport, fork lifters, generators and rescue equipment found on fire-fighting vehicles, and training.

[4] Service provider was a company located in Italy.

[5] CPD has a system of routine daily checks, which includes a short trip to ensure that vehicles are in good working order, safe and fit for purpose.

During a visit at the Marine Section, NAO observed that, although these portable fuel tanks were stored behind a locked iron gate, the respective key was not placed in a secure location but could be easily accessed by all the employees. In addition, the storage place is also accessible to third parties who have any means of marine transport.

Repairs on Vehicles not recorded in the Fleet Management System

A disparity was noted between expenditure incurred for repairs and maintenance on the fleet maintained by CPD as recorded in the Departmental Accounting System, which during 2016 amounted to €170,423[6], and that disclosed in FMS totalling €128,354. This means that related costs are not fully allocated to specific vehicles or marine crafts and recorded accordingly in FMS.

Procurement of Spare Parts

A sampled payment of €5,407 issued in favour of a foreign company, covering four invoices raised for spare parts between 30 August and 2 September 2016, revealed the following shortcomings:

a. Director's approval for the procurement of the respective spare parts was not in place.

b. Audit trail, comprising the actual order placed and any related correspondence with the supplier, was not provided for audit purposes. Rather than filed for future reference, according to the Operation Manager, such documentation is deleted upon the receipt of goods.

Capital Expenditure

Proposals for Capital Projects

In view of the capital projects relating to construction works and equipment with a total cost of €2,731,000, CPD was expected to comply with MFIN Circular No. 6/2007 – 'Capital Projects Proposals'. Besides highlighting the new procedure to be followed, the cited circular also provided a template of the project proposal document, as well as the project definition report that is to be compiled and approved by both the relative Ministry or Department and MFIN, prior to the commencement of the project. However, requests raised by this Office with MFIN, to forward a copy of the template of the projects proposal document as well as the projects definition report submitted by CPD, was not acceded to. Only generic details on the respective projects were made available, implying that the Department did not fully abide by the cited circular.

Recurrent Expenditure financed out of the Capital Vote

As outlined in the projections submitted by CPD to MFIN, the revised allocation of €2 million provided under Capital Vote 16 line item 7004, was meant to finance the procurement of 12 vehicles as part of the regeneration of the Department's fleet, as well as to cover works undertaken at CPD Headquarters and the Academy, together with the upkeep of all fire stations. However, almost 10% of such funds was eventually utilised to cover recurrent expenditure.

Inventory

The Fixed Asset Register maintained was not in line with pertinent regulations, in view that certain details as outlined by the pertinent circular, such as site code, room number in which the asset is located, total cost or value of the asset and an indication of whether the item is a heritage, donated or purchased asset, were completely

[6] This amount might not be exhaustive due to lack of details inputted in the Departmental Accounting System.

omitted. In addition, verifications carried out on the inventory database produced for audit purposes revealed that a number of assets, procured and/or paid for during 2016, were not incorporated in the records provided. This undermines the completeness and reliability of the inventory records drawn up by the Department. Furthermore, it was noted that control over inventory items was lacking.

Recommendations

Key Issue

Over One Million Euro paid for Fire Engines with Technical Faults

Good governance implies that payments are not to be authorised prior to verification that delivered items are in full compliance with the agreed terms and function properly.

It is also imperative that the contractor submits the required bank guarantees, if so required in tender document, covering the entire period of the contract.

Control Issues

Procurement

Procurement of Foam

CPD is to acquire its goods and services in line with the applicable procurement regulations, thus ascertaining transparency and fairness, as well as ensuring that the most competitive prices are obtained.

Management is also to ensure that all conditions included in the tender document are abided with. Unless a valid bid bond is provided, Government will not be protected if the contractor fails to deliver as agreed. Thus, failure to provide such guarantee by supplier should nullify the respective agreement.

Procurement of a Maritime Night Vision Camera

Unless valid justification exists, in order to enhance transparency and avoid unfair competition, Management is encouraged to follow pertinent procurement regulations. CPD is expected to include the camera system in its inventory as this falls within the category of fixed assets.

Data Fragmentation

For the sake of transparency and efficiency, documentation relating to procurement is to be maintained in an organised and systematic manner so as to ensure adequate audit trail.

Approvals from the Right Level of Authority not traced

Controls are expected to be in place to ensure that the necessary approvals are obtained beforehand. Payments are not to be effected unless such evidence is provided.

Payment in excess of the Quoted Amount

When CPD encounters any abnormal VAT related concerns, it is recommended that guidance is sought from the VAT Department prior to the settling of any payments. In this case, since the service provider is not VAT registered in Malta, the related tax was to be paid directly by CPD to the VAT Department.

Transport

Insufficient Control over Fleet and Fuel Consumption

The Manual on Transport and Travel Policies and Procedures regulates the use of such vehicles to ascertain accountability of the expenditure incurred out of public funds. CPD is thus encouraged to use the specimen logbook for all vehicles, as found in the aforementioned manual.

Lack of Adequate Internal Controls to safeguard Stock of Fuel at the Marine Section

Strengthening the security around the fuel storage facilities by implementing measures that restrict physical access by unauthorised persons is of utmost importance. Stores are also to be locked at all times and access to such keys is to be entrusted to an accountable officer, such as the shift leader, who will be the person to be held responsible to open the stores when required. Keys are also expected to be locked up in a secured place when not in use.

Repairs on Vehicles not recorded in the Fleet Management System

Management is to ensure that FMS is updated with expenditure incurred on the fleet falling under its responsibility. Controls can be strengthened through the performing of regular reconciliations between payments for repairs and maintenance as recorded in the Departmental Accounting System and those disclosed in FMS.

Procurement of Spare Parts

Director's clearance is to be sought prior to the placing of such orders. For the sake of transparency and accountability, full audit trail of a transaction, from its inception up to completion, is imperative.

Capital Expenditure

Proposals for Capital Projects

Transparency in the management of public funds is an integral part of good governance and accountability. Thus, provisions laid down in pertinent circulars are to be complied with.

Recurrent Expenditure financed out of the Capital Vote

Public funds are to be utilised for their intended purpose; otherwise set goals and objectives cannot be attained. Furthermore, besides distorting management information, the financing of recurrent expenditure out of capital accounts might also have a negative effect on future budgets and thus is not recommended.

Inventory

The officer responsible for inventory is to ensure that records are thoroughly checked to identify any entries that are inconsistent with standing regulations. Moreover, the circular regulating inventory management is to be adhered to so as to ensure that more effective control is maintained. A complete database is also required in view of the eventual transition to accrual accounting.

Management Comments

Management accepted most of the recommendations made by NAO, some of which have already been implemented. CPD stated that it "... *lacks the human resources necessary to be able to abide to all Government regulations. This has already been recognised by MHAS and the human resources plan for the next three years reflects the recruitment to bolster up the administration section*". Extracts from the relevant feedback are being disclosed hereafter:

Over One Million Euro paid for Fire Engines with Technical Faults

"*The issues were resolved when the vehicles were delivered except for one technical issue. The issue can be bypassed at anytime manually, rendering the fire engine operational and able to respond to emergencies. This was taken into consideration by CPD given that the current fleet's average age is twenty years old and past its operational lifetime and therefore CPD had no other option but to accept the said vehicles since in the event of a major incident CPD could end up without having the necessary vehicles*".

Procurement of Foam

CPD pointed out that the "... *High Expansion Foam is a requirement to be able to tackle any LNG*[7] *fuelled fire and therefore the availability of such foam locally, or rather lack of it, was a concern for CPD. In order to reduce procurement timelines and have such foam before the start of operations of the LNG fuelled Power Station, and before the LNG tanker was filled up with an LNG load during a ship to ship transfer operation, it was decided to proceed with a request for quotations and obtain a direct order approval. It is also to be noted that an objection was filed and was reviewed by the Public Contracts review board with a decision dated 17 November 2016 and hence the reason why the contract agreement was signed in early December*".

No comments were provided by CPD with respect to the deletion of the bid bond clause from the contract.

Procurement of a Maritime Night Vision Camera

CPD stated that following the audit "... *the camera was affixed, installed and personnel trained in its use as per contract conditions. The Camera is nowadays fully operational on the MV Garibaldi. Note has been taken of the NAO's recommendations on the inventory and will be implemented accordingly*".

Payment in excess of the Quoted Amount

In line with NAO's recommendation, CPD is in the process of recovering the respective amount.

Insufficient Control over Fleet and Fuel Consumption

An internal circular has been issued in this respect.

Recurrent Expenditure financed out of the Capital Vote

In view that the recurrent votes were exhausted, and the respective items were needed for national events, these had to be paid out through the Capital Vote.

[7] LNG stands for Liquefied Natural Gas.

Malta Police General Fund

Income and Expenditure

Background

The Malta Police General Fund (MPGF) was set-up in November 1919 and has, to-date, been managed by the Commissioner of Police for the general benefit of the Force. All members of the Force are to make a mandatory financial contribution every three months; the amount varies according to the respective grade. Members of the Force are also given the option to continue paying a standard contribution of €13.98 per annum once they retire.

The Final Accounts submitted for audit were split in two separate Income and Expenditure Statements; one based on cash receipts and payments and one that included only income and expenditure amounts that were still outstanding at year-end. Actual aggregate income recorded as received in 2016 accounts amounted to €128,992 (2015: €166,089), while expenditure totalled €133,954 (2015: €107,508), resulting in a shortfall of €4,962. As at 31 December 2016, closing cash balance was €72,510. However, accrued income and expenditure amounted to €61,150 and €133,258 respectively, ending the year with a net outstanding expenditure figure of €72,108. Thus, a net surplus position of €402 resulted.

Audit Scope and Methodology

The main scope of the audit was to assess the level of internal controls prevailing in the management of the MPGF, and to determine whether day-to-day operations reflect efficient administration of the Fund, in line with the applicable circulars.

Meetings were held with both the Accounting Officer and the Officer in charge of the contributions' collections to identify any developments from the previous year. Audit fieldwork was then undertaken to confirm the current processes in place.

Limitation on Scope of Audit

a. Outstanding contribution collections showed only arrears pertaining to 2015 and 2016. Since no proper records were kept prior to the year under review, no reliable information was available for preceding periods. As a result, completeness of outstanding amounts could not be ascertained.

b. A spreadsheet is now being kept to record contributions received from pensioners; however, this was only prepared late 2016, with the first entry dated 23 November 2016. A cashbook or other similar records were not kept prior to this date; thus, there were no feasible means to confirm completeness of the income received during the year under review.

c. Starting from the collection pertaining to September 2016 contributions, serving members of the Force were given a sequentially numbered receipt upon payment of the respective amounts. However, once the monies are remitted to Head Office, only an unnumbered receipt was given to the officer handling the money. Moreover, a copy of such receipt was not retained at Head Office. Following National Audit Office's

(NAO) visit on 31 July 2017, a sequentially numbered receipt started being issued by Head Office, with a copy retained in the receipt book kept by the latter.

d. While the contribution due to the Malta Police Association (MPA) is stipulated in Internal Circular No. 91 of 1998, no other documentation was available with respect to the relationship between the two entities. As a result, completeness of entries could not be ascertained.

Key Issues

Financial Sustainability of the Malta Police General Fund

When taking into consideration the cash balances and the net outstanding expenditure, an improvement was registered when compared to the previous year, turning a deficit of €5,219 to a surplus position of €402 as at year end in 2016. However, although this is a good step in the right direction, this amount still does not give comfort to the sustainability of the Fund.

Lack of Internal Controls

The audit revealed that despite the recommendations made by NAO last year, controls over the receipt and handling of cash, related to the contributions paid by both serving and non-serving members, as well as the respective records, were still inadequate. This hinders effective checks on the collection of monies.

Control Issues

Unclear Purpose of Fund

As stipulated in Internal Circular No. 79 of 1980, the principal purpose of the MPGF is the welfare of officials who for some reason or other pass through hard times and would require assistance. It also indicated that other activities of benefit to members of the Force, though not connected to personal hardships, can also be financed through this Fund, highlighting, as a case in point, the learning of foreign languages.

a. In view of the vague details indicated on the cited circular vis-à-vis allowable expenses, it could not be ascertained that amounts charged to the Fund are actually for the general benefit of the members of the Force.

b. An analysis of the expenditure charged to the MPGF during 2016 revealed that hospitality related expenses increased from 51% in 2015 to nearly 66% of the expenditure paid during the year under review. The total amount of €88,012 expensed in 2016 comprised different social activities and parties organised by the Malta Police Force (MPF) (€73,592), and the contribution paid for parties to members of the Force that were held in the individual districts (€14,420). Moreover, a further amount of €74,783, also covering Christmas parties and social activities, was still pending as at 31 December 2016. These included accrued expenditure of €25,329 and €15,898, relating to 2012 and 2013 respectively.

   Furthermore, as at 31 December 2016, payments to the heirs of serving and non-serving members, amounting to €29,176 (2015: €29,913), were still outstanding. Since higher expenditure is being dedicated to hospitality related activities, MPF risks not being in a position to meet such obligatory commitments in the future.

Lack of or Inadequate Substantiating Documentation

a. Through an internal circular dated 21 February 2017, the amounts payable to heirs of serving and non-serving members were revised downwards to €3,000 and €1,250 respectively (2015: €3,145 and €1,561). However, although this circular came into force retrospectively, it merely stated that it is 'effective from last year', without specifying any particular date.

b. While the previous year's income included a deposit of €3,980 received from the MPA in respect of the Children's Christmas party (2014), no similar entries were noted in this year's records. Due to the lack of documentation regarding the agreement between MPA and MPF it could not be determined whether any amounts were due or otherwise. Consequently, the completeness of the financial records provided could not be ensured.

Revenue Collection Process

Lack of Segregation of Duties

The cash handling process was still being carried out solely by two officers, namely the Officer in charge of contributions and the Accounting Officer. Thus, segregation of duties is still lacking and this is of a major concern to NAO.

Lack of Adequate Records

a. No changes were noted in the records maintained by the Officer in charge of contributions, which still comprise inadequate manual documents of amounts received. Moreover, a copy of the receipt, issued by the Officer in charge of contributions at Head Office when the respective cash is handed in, was not being retained. Thus, completeness of the amounts recorded could not be ensured.

b. Up till November 2016, the only records related to the contributions paid by retired members once again consisted of unnumbered receipts. Moreover, date of payment was only recorded on the stub, but payment could possibly cover different periods.

c. Significant improvement was noted in the upkeep of the cashbook; however, records were generally maintained on spreadsheets, with no embedded controls to ensure adequate audit trail and consequently completeness of entries.

Contributions paid in Cash

The payment of contributions is still being effected by cash, rather than through more effective options available. As a result, the Officer in charge of contributions ends up with significant amounts of cash in hand, together with a considerable unnecessary workload.

Divergences between Different Records

a. The amount of €40,592, reported in the final accounts as payments to the heirs of non-serving members, does not tally with the total of €34,350 as per the entries in the records provided by the Officer in charge of contributions.

b. The outstanding balance of €20,000[1], payable to heirs of non-serving members as per the financial accounts, does not include three claims, totalling €3,750, which were still unpaid as at 31 December 2016.

[1] Based on information provided to the Accounting Officer by the Officer in charge of contributions.

c. A total of €3,910, being amounts received from retired members, were handed over to the Accounting Officer by the Officer in charge of contributions, but the respective entries were not included in the record provided by the latter for audit purposes.

Christmas and Police Day Social Activities

a. The amount of €73,592 representing 55% of the total expenditure charged to the MPGF during 2016 and which is also an increase over the previous year, covered Christmas and Police Day social activities. Foods and beverages for the various receptions and social activities are mainly provided by the Other Ranks Canteen (ORC), managed by members of the Force to cater for officers below the rank of Inspector. However, a review of two invoices revealed that the ORC procures the items from outside caterers, charging MPGF the full cost invoiced by the caterer (including Value Added Tax) as well as another VAT top-up on the total amount.

b. While invoices were endorsed by a representative of the ORC, no signatures by any member of the MPGF were noted, to confirm correctness of invoiced rates and amounts. Furthermore, the related files did not contain substantiating documentation, such as guest list for the respective events, enabling independent verification of invoiced quantities.

Recommendations

Key Issues

Financial Sustainability of the Malta Police General Fund

A thorough exercise, to establish the contribution to be paid so that sustainability is ascertained, as well as to rationalise expenditure, is recommended.

Lack of Internal Controls

Management is urgently expected to review and strengthen the internal control systems in order to ensure sound financial management.

Control Issues

Unclear Purpose of Fund

MPF is expected to prioritise expenditure, particularly within the limits of available resources, leaving aside sufficient funds to cover past commitments.

Lack of or Inadequate Substantiating Documentation

All transactions are to be backed up by adequate documentation enabling independent verification. Moreover, such records are to be clear, leaving no room for ambiguity or misinterpretation.

Revenue Collection Process

Lack of Segregation of Duties

It is recommended that key tasks, particularly those relating to the receipt, custody, record keeping and reconciliations, are assigned to different individuals. Moreover, as far as possible, more staff is to be involved in the revenue collection process. Key tasks are to be covered by Standard Operating Procedures, clearly highlighting the established course of action and roles of the respective officers.

Lack of Adequate Records

NAO reiterates the importance of keeping proper books of accounts at each point where money is received, thus providing sufficient audit trail and enabling independent verifications. Moreover, electronic records are to be cross referenced and have embedded controls to ensure that entries cannot be deleted without any trace.

Contributions paid in Cash

Management is encouraged to consider collecting the contribution by deducting the necessary amounts from the respective salaries. This would ensure that all the monies are collected as they fall due and reduces the workload of the Officer in charge of contributions. The risk of errors and abuse, that very often is associated with cash, would also be mitigated.

Divergences between Different Records

In order to have accurate and reliable information, enabling efficient and effective decision-making, information is to be double-checked and regular reconciliations carried out between different records.

Christmas and Police Day Social Activities

MPGF is to ascertain that all expenses are contained within the constraints imposed by available funds. Moreover, invoices raised by the ORC are to be thoroughly checked to ensure their correctness prior to the respective payment and endorsed to evidence such verifications.

Management Comments

Management accepted NAO's recommendations and provided the following comments:

Financial Sustainability of the Malta Police General Fund

Discussions relating to the amount of contribution to be paid is to ensue in the Ad Hoc Committee relating to the MPGF. Expenses which can be covered by this Fund will also have to be decided by this Committee. This Committee has also agreed that the income deposited in this Fund should be apportioned in the following way as from the year 2018: *Parties – 50%, Mutual Help – 35%, Welfare – 9% and Administration Expenses – 6%*.

The above apportionment was decided in agreement with the Police Unions. On the other hand, the Committee is still to discuss the maximum expenditure for each party organised. When this is decided, budgets will be drawn up as envisaged by the NAO. Expected timeframe for implementation of this recommendation is 30 June 2018.

Lack of Internal Controls

It is to be noted that a lot of improvement has been made by the MPF in keeping adequate records of accounts and documentation in this last year. Pre-printed serialised receipts are also being given by the Officer in charge of contribution collection, both for monies received from serving members and from non-serving members.

An electronic cashbook is to be introduced by the Officer in charge of contribution collection. A new computerised system is also to be designed to ensure an adequate audit trail and provide automatically the amount due by each officer, after taking into consideration the amount collected. This system is to enable management to extract reports on unpaid contributions, prepayments and payments in arrears.

Apart from that, it is also to be noted that currently discussions are underway to have the contribution from serving members either deducted directly from the salary or paid by a standing order. This will significantly reduce the collections in cash and the burden of work both from the Officer in charge of the contribution collection and also from the Accounting Officer. Expected timeframe for the implementation is 31 March 2018.

Unclear Purpose of Fund

Reply provided under 'Financial Sustainability of the Malta Police General Fund' applies.

Lack of Segregation of Duties

Staff will be allocated to ensure adequate segregation of duties. Monitoring and supervision of the entire process will also be tackled. Expected timeframe for implementation is 31 December 2018.

Lack of Adequate Records

Discussions on a computerised system (related to the cashbook), with embedded controls to ensure that entries cannot be deleted without any trace, are to commence to identify the way forward. Expected timeframe for implementation is 31 March 2018.

Contributions paid in Cash

Currently, discussions are underway to have the contribution from serving members either deducted directly from the salary or paid by a standing order. This will significantly reduce the collections in cash and the burden of work, both from the Officer in charge of the contribution collection and also from the Accounting Officer. Expected timeframe for implementation is 31 March 2018.

Christmas and Police Day Social Activities

Will be implemented when more staff is available. Expected timeframe for implementation is 31 December 2018.

Other Reports/NGOs

Arrears of Revenue 2016

Background

As indicated in the Treasury Circular No. 3/2017 – 'End of Year (2016) Statements of Account', in terms of Section 49(1) of the General Financial Regulations 1966, Heads of Departments were requested to submit the Statement of Arrears of Revenue. Government Departments or Public Entities that collect revenue on behalf of other Ministries and Departments were also to submit this Statement.

Heads of Departments were further requested to note the link between the Statement of Arrears of Revenue and the Debtors' Template, submitted at the end of the year, to the Treasury in line with the Accrual Accounting data submission programme.

All Returns, including Nil Returns, were to reach the Treasury, Government Accounts Directorate, by not later than 30 March 2017, for onward submission to the Auditor General. As per the foregoing Circular, copies of the Statement of Arrears of Revenue were to be sent to the Budget Affairs Division within the Ministry for Finance.

The Circular also stated that "... *every effort should be made to ensure the timely collection of amounts due and no amount claimed/due should, under any circumstances, be allowed to fall in arrears*. ...".

As in previous years, Departments were required to submit details of payments received during January 2017 relating to balances due as at 31 December 2016. This data allows for the calculation of amounts due as at year-end but still unpaid on 31 January 2017. Information submitted revealed that an amount of €40,044,002 was collected during January 2017, with a resulting unpaid balance of €516,189,727, an increase of 28.6% over the amount due as at 31 January 2016.

The provision of an additional analysis in relation to the Statement of Arrears requested by the Treasury Circular No. 12/2016 – 'PAC[1] Specific Request', was put forward in relation to the 2016 year-end balances through Treasury Circular No. 3/2017. From these submissions, it is estimated that out of total reported gross arrears of revenue of approximately €3 billion:

- €1,735,551,471 were statute-barred;
- €161,875,041 were under contestation and pending Court action;
- €15,591,632 were under contestation but not pending Court action;
- €353,735,512 were deemed recoverable by departmental action; and
- €693,960,441 were considered recoverable.

Table on page 224 refers.

[1] Public Accounts Committee.

Returns

Details of Arrears of Revenue included in the Table on page 220 have been compiled only from Returns forwarded to the National Audit Office (NAO) by Treasury. The following submitted Nil Returns:

- Office of the President
- House of Representatives
- Office of the Prime Minister
    - Public Service Commission
    - Electoral Office
    - Energy and Projects[2]
- Ministry for European Affairs and Implementation of the Electoral Manifesto
- Ministry for the Economy, Investment and Small Business
- Ministry for Finance
    - Treasury
- Ministry for the Family and Social Solidarity
    - Social Policy
    - Social Welfare Standards
- Ministry for Home Affairs and National Security
    - Probation and Parole
    - Correctional Services

Notes and Comments on Major Arrears of Revenue Balances[3]

Office of the Prime Minister

Government Property Division

The Government Property Division (GPD) had a gross/net closing balance as at 31 December 2016 of €32,100,837 in its Arrears of Revenue Return (ARR).

During 2016, the GPD progressed further on the data cleansing exercise on properties allocated to Government Departments, Parastatal Entities and Local Councils initiated in previous years. The GPD pointed out that the list of sorted accounts is increasing each month. It also stated that the final aim of the Division is to update the system with the verified data and collect rent due on all properties being used by different Departments and/or Entities.

[2] Featured under the Ministry for Energy and Health in 2015.
[3] Figures may not add up due to rounding-up.

Ageing Analysis

The net collectable arrears can be analysed as follows:

	€
Amounts outstanding for less than one year (2016)	7,912,536
Amounts outstanding for over one but less than five years (2012 – 2015)	17,216,801
Amounts outstanding for over five years (– 2011)	6,971,500
Net Closing Balance	**32,100,837**

Collection Efforts

In order to recoup its outstanding arrears, the Division consistently monitors arrears due and pursues the relative defaulters. In the case of probable prescription, the GPD still attempts to recover the amount.

A mailing system is used in the collection of arrears, whereby a statement is sent to tenants who fail to pay their rent within the stipulated period, followed by adequate reminders and phone calls, where applicable. Apart from pursuing tenants through phone calls, Enforcement Officers are also sent to deliver final notices for payments by hand. If tenants remain in default, legal proceedings will be initiated accordingly. During 2017, a legal letter was sent to all defaulters, which resulted in cases where all arrears were paid, as well as other cases where an agreement was reached to settle pending arrears. If all these measures still prove futile, then the GPD may exercise its legal right to institute a Court case to terminate lease and regain possession of property.

The GPD did not report any amounts as not collectable in its ARR, notwithstanding that a balance of €3,592,719 was declared as statute-barred in its analysis of the ARR. The Division claimed that although these arrears are classified as statute-barred, it still continues to chase these dues. In fact, an aggregate amount of €173,516 was recovered between January and September 2017, for invoices issued before December 2011. Moreover, the GPD has an aggregate of €5,463,032, which is being contested in the Courts by tenants.

Ministry for Education and Employment

Notwithstanding instructions given by the Treasury to the Ministry for Education and Employment, action to rectify inconsistencies between documents supporting the submitted ARR was not taken. Thus, the respective amounts could not be verified by the NAO.

In view that the shortcomings encountered in prior years upon the submission of these Returns still prevail, the NAO reiterates previous years' recommendation that an intensive exercise in this regard is to be conducted in order to address deficiencies.

Ministry for Finance

Treasury Department, Salaries and Pensions Section

The outstanding balance of arrears as at 31 December 2016, disclosed by the Treasury Department, Salaries and Pensions Section, consists of:

		€
a.	Cost sharing regarding Treasury Pension	37,955,232
b.	Refunds of Deceased Pensioners	26,308
c.	Special Cases	19,650
d.	Overpayments to Pensioners	15,648
	Gross Closing Balance	**38,016,838**

During the year, the sum of €318,276 was collected, representing 0.92% of the opening arrears balance as at 1 January 2016. This represents a decrease over the equivalent amount collected in 2015, which amounted to €1,028,626 and represented 3.53% of the opening balance.

Cost Sharing

This consists of amounts due from Public Entities in respect of arrears from all Entities that employed officers, who on the date of retirement had the right for a Treasury Pension. The Department confirmed that statements of amounts due are being sent annually.

Deceased Pensioners

These arrears consist of payments issued by the Department to individuals who pass away during the period to which the pension relates. As per correspondence in September 2017, the Department stated that the amount of €5,016 listed under past arrears collected was inputted as a balancing figure.

Ageing of Debtors

The ageing of the Department's debtors is categorised as follows:

	€
Amounts outstanding for less than one year (2016)	3,887,398
Amounts outstanding for over one but less than two years (2015)	3,510,349
Amounts outstanding for over two but less than five years (2012 – 2014)	8,688,016
Amounts outstanding for over five but less than ten years (2007 – 2011)	15,767,080
Amounts outstanding for over ten years (– 2006)	6,163,995
Net Closing Balance	**38,016,838**

Inland Revenue Department

The Inland Revenue Department (IRD) reported a gross arrears balance of €1,035,802,846 in its ARR for the year ended 31 December 2016.

The following is a sub-classification of the gross closing balance of arrears as reported by the Department:

		€
a.	Pre ’99 System (Up to Year of Assessment 1998)	155,662,183
b.	Self-Assessment System (Post Year of Assessment 1998)	520,162,757
c.	Final Settlement System (FSS) (Employers)	101,367,990
d.	Social Security Contributions (SSC) Class 1 (Employers)	173,515,968
e.	SSC Class 2 (Self-Employed/Occupied)	85,093,948
	Gross Closing Balance	**1,035,802,846**

Collectability of Arrears

Out of the gross balance, the amount of €796,680,156 was considered as not collectable, thus resulting in net collectable arrears of €239,122,690.

The highest instance of uncollectability related to the Self-Assessment System (Post Year of Assessment 1998). In fact, out of the gross arrears of €520,162,757, a total of €432,659,971 were deemed to be uncollectable. Workings provided by the Department showed that 70% of Assessed Tax and 90% of Estimations were provided for as doubtful debts.

Pre ’99 balances also had a high percentage of uncollectability amounting to 90%, which resulted in an estimated net collectable amount of €15,566,218.

With regards to the FSS and SSC (Class 1), the non-collectability rate stood at 70% and 47.1% respectively and resulted in provisions for bad debts of €70,957,593 and €81,703,297. The percentage for Class 1 SSC was slightly less than that of last year. Furthermore, all balances owed in relation to Class 2 Contributions that are older than five years, were considered as not collectable.

Ageing Analysis

The ageing of the net collectable arrears can be analysed as follows:

	€
Amounts outstanding for less than one year (2016)	44,211,765
Amounts outstanding for over one but less than two years (2015)	31,937,047
Amounts outstanding for over two but less than five years (2012 – 2014)	58,636,786
Amounts outstanding for over five but less than ten years (2007 – 2011)	43,254,552
Amounts outstanding for over ten but less than twenty years (1997 – 2006)	50,434,514
Amounts outstanding for over twenty years (– 1996)	10,865,428
Net Closing Balance	**239,340,092**

The total of the ageing analysis differs from the net collectable arrears in the ARR by €217,402. This amount relates to payments collected by the IRD in connection with the Pre '99 system collection schemes, which amount could not be set off against the balance due in any particular year, therefore it was omitted from the ageing analysis.

Efforts to Collect

As in previous years, the IRD provided this Office with information in relation to its actions and planned efforts to collect the overdue amounts during the first six months of 2017.

During this period, the Department issued a number of assessments (254), statements of pending Final Settlement balances (2,190), as well as notices in relation to the FSS and SSC (10,558). The Department has also issued a number of default notices in relation to existing self-assessment repayment agreements (400), as well as a number of notices in relation to agreements in default. Action also included Remission of Interest agreements, other Year by Year agreements and FSS agreements.

Capital Transfer Duty Department

The gross closing balance as reported by the Capital Transfer Duty Department in its ARR for the year ending 31 December 2016 consists of:

		€
a.	Duty on Documents	24,710,558
b.	Death and Donation	4,616,783
	Gross Closing Balance	**29,327,341**

Out of this gross closing balance, of which €13,906,504 were reported as being under contestation, the amount of €21,849,069 was considered as not collectable, thus resulting in net collectable arrears pertaining to Duty on Documents and Death and Donation of €6,601,083 and €877,189 respectively.

Ageing Analysis

The outstanding balances were analysed as follows:

	€
Amounts outstanding for less than one year (2016)	2,418,547
Amounts outstanding for over one but less than two years (2015)	70,789
Amounts outstanding for over two but less than five years (2012 – 2014)	148,454
Amounts outstanding for over five but less than ten years (2007 – 2011)	705,963
Amounts outstanding for over ten but less than fifteen years (2002 – 2006)	1,102,371
Amounts outstanding for over fifteen but less than twenty years (1997 – 2001)	2,154,187
Amounts outstanding for over twenty years (– 1996)	877,189
Net Closing Balance	**7,477,500**

A difference of €772 between the ageing analysis and the net closing balance mentioned above is due to timing differences between the two reports.

Amounts under Contestation

The amounts under contestation amounting to €13,906,504, were mainly made up of Duty on Documents, for a total of €12,137,356, the majority of which were statute-barred (€9,196,696). On the other hand, the likelihood of collection of the remaining balance of €2,940,660 is much higher since these cases are mostly dealt with at objection stage and at the Administrative Review Tribunal.

The remaining amount under contestation (€1,769,148) pertained to Death and Donation Duty, which was the same as in the previous year. According to the Department " *... the payment of amounts due is very remote*."

Amounts considered as Not Collectable

The dues estimated as not collectable amounted to €21,849,069 in 2016. This amount consists of a provision of 10% for newly accrued arrears, applied gradually, reaching a substantial 80% of amounts due over more than one year, including those statute-barred.

Collection Efforts

The Collection and Legal Sections within the Department are constantly monitoring the outstanding balances and taking necessary action. These collection procedures are Information Technology controlled, thus ensuring that timely action is taken and no legal steps are bypassed.

During 2016, numerous reminders (1,241), as well as 304 letters from the Legal Unit were sent to various debtors. Furthermore, the Department proceeded with 474 Demand Notes, 45 Garnishee Orders and 138 legal action warnings.

Value Added Tax Department

The gross closing balance as reported by the Value Added Tax (VAT) Department in its ARR for the year ended 31 December 2016 consisted of:

		€
a.	VAT (1998) – Pre 2014	755,859,808
b.	VAT (1998) – Post 2014	943,763,644
c.	VAT (1995)	14,407,395
d.	Customs and Excise Tax	6,481,309
e.	Eco-Contribution	11,572,933
f.	Refund to Government on stocks – 1997	620,381
	Gross Closing Balance	**1,732,705,470**

As from 2016, the VAT (1998) category, previously reported as one, was split in 'Pre 2014' and 'Post 2014', as shown above. The Department confirmed that this was a decision taken in agreement with the Commissioner for Revenue in order to be in line with the new appropriation rules introduced in 2014.

A difference of €7,312,329 was noted between the opening balance in 2016 when compared to the closing figures for 2015 for the same VAT category. The Department explained that there was an issue with the new system relating to transactions being inserted backdated. The system was fixed in May 2016, and the opening balances for 2016 were recalculated.

Whereas write-offs during the year amounted to merely €1,807, a total balance of €484,087,612 was reported as not due in the VAT Department's ARR, representing cancelled audit assessments, penalties, interest and estimations, following the submission of declarations by taxpayers.

As in previous years, an ageing analysis of net collectable arrears was not made available to the NAO.

Upon further enquiry as to what action is being taken to recoup these amounts, the Department stated that legal action is taken where deemed necessary. Other measures include ledger statements which are issued with the upcoming Return, processing of applications, as well as the issue of demand notices.

The Department analysed the gross closing balance, indicating that a large portion of this amount was statute-barred (€1,573,968,301). A further €68,880,901 is pending Court action, while €89,856,268 is recoverable following departmental action.

Customs Department

The net closing balance as reported by the Department of Customs (DOC) in its ARR for the year ending 31 December 2016 consists of:

		€
a.	Import and Excise Duties	16,015,728
b.	Licences, Taxes and Fines	317,342
c.	Fees of Office	2,407
d.	Reimbursements	557,462
	Net Closing Balance	**16,892,939**

Past Arrears Collected

Although the Return indicates that an aggregate of €3,480,164 was collected during financial year 2016, the Department confirmed that the actual amount was €3,474,164, as €6,000 were erroneously included under past arrears collected column instead of under the revisions column. However, this error did not influence the net collectable arrears figure. Past arrears collected of €2,936,327 pertained to excise duties on fuel.

Amounts under Contestation

The DOC reported an aggregate €7,099,133 relating to various cases undergoing Court proceedings. Similar to prior year, only €1,048 was recorded as estimated amount considered as not collectable.

When enquired by this Office, the Department explained that until 2014 the recorded amounts under contestation were considered as not collectable. However, from 2015, the DOC " ... *has changed its reasoning in the compilation of the Arrears of Revenue Statement, within the Audit Report, arguing and contending that the Department has full faith in having these Court cases being concluded in its favour. Therefore, the Department, from 2015, commenced reporting the respective amounts as 'under contestation', yet potentially collectabl*e."

The amount listed as under contestation is split between pending Court action, amounting to €6,378,001, and another €721,132, which cases do not have pending Court action or else whose file is at the Attorney General office. A total of €28,467 is considered as statute-barred.

Ageing Analysis

The ageing of the net collectable arrears can be analysed as follows:

	€
Amounts outstanding for less than one year (2016)	8,087,955
Amounts outstanding for over one but less than two years (2015)	464,056
Amounts outstanding for over two but less than five years (2012 – 2014)	1,479,601
Amounts outstanding for over five but less than ten years (2007 – 2011)	5,566,208
Amounts outstanding for over ten but less than fifteen years (2002 – 2006)	1,099,988
Amounts outstanding for over fifteen but less than twenty years (1997 – 2001)	16,819
Amounts outstanding for over twenty years (– 1996)	178,312
Net Closing Balance	**16,892,939**

Ministry for Health

The gross closing balance of €9,452,046, reported as arrears of revenue as at 31 December 2016, is made up of the following:

		€
a.	Primary Health Care	6,375
b.	Sir Anthony Mamo Oncology Centre[4]	79,359
c.	Hospital Fees: St. Luke's Hospital	237,029
d.	Hospital Fees: Mater Dei Hospital (MDH)	4,316,681
e.	Sundry Bills: MDH	750,111
f.	Resignations and Overpayments: MDH	286,361
g.	Licences	30,804
h.	Ship Sanitation	12,728
i.	Breach of Contract	2,278
j.	European Union Countries E125 Claims	1,215,631
k.	European Union Countries E127 Claims	82,260
l.	Central Procurement and Supplies Unit	2,432,429
	Gross Closing Balance	**9,452,046**

[4] Previously reported under Sir Paul Boffa Hospital.

From the gross amount of receivables at year-end, only €72,823 relating to the Sir Anthony Mamo Centre and which is statute-barred is being estimated as not collectable, leaving a net closing balance of €9,379,223, as analysed hereafter. Considering that certain dues have been long outstanding and despite clear indications that there are more unrecoverable amounts, one can conclude that the provision for bad debts is underestimated.

	€
Amounts outstanding for less than one year (2016)	3,375,556
Amounts outstanding for over one but less than two years (2015)	2,515,720
Amounts outstanding for over two but less than five years (2012 – 2014)	2,152,585
Amounts outstanding for over five but less than ten years (2007– 2011)	934,493
Amounts outstanding for over ten but less than fifteen years (2002 – 2006)	278,472
Amounts outstanding for over fifteen years (– 2001)	122,397
Net Closing Balance	**9,379,223**

From the net closing balance, the amount of €1,356,201 was considered as recoverable by departmental action.

Sir Anthony Mamo Oncology Centre

The NAO notes that out of €72,823 considered as not collectable, approval for write-off has been sought for the amount of €68,840, representing arrears ranging between the years 2004 to 2010.

Hospital Fees – St. Luke's Hospital

The reported outstanding balance of €237,029, comprising claims ranging from the years 1997 to 2005, has remained constant for the last two years. Notwithstanding that this included the amount of €111,893 which was earmarked for write-off, a provision was not made in this regard.

Hospital Fees – Mater Dei Hospital

Newly accrued arrears amounted to slightly over €1 million whilst a total of just €107,820 was collected from past arrears. Credit control measures are still not in place at the Revenue Section within the MDH and the fact that the pending amounts are increasing at an alarming rate is of a concern to the NAO.

Moreover, the relative information is fragmented as it is maintained on different clinical systems, which are not consolidated. In the circumstances, completeness of income recorded could not be ensured. According to the MDH, credit control management will eventually be assigned to a private partner.

Overpayments and Resignations

The amount of €286,361, reported as due in the ARR as at end December 2016, consisted of overpayments in salaries, €88,406 of which emanated following resignation of the respective employees. The amount featuring as collected as well as that for the newly accrued for 2016 were not adequately supported.

Moreover, although there was a repayment agreement with certain individuals, one of which was dated 2009, no receipts were forthcoming to date. The NAO feels that legal action should be initiated in such cases. On the other hand, amounts marked as settled were not removed from the Return.

Entitlement Unit

During testing it was noted that a number of invoices issued and settled during the year under review, i.e. 2016, were incorrectly included under the columns of newly accrued arrears and past arrears collected, resulting in overstated figures. Following the NAO's review, an amended Return and Debtor's Analysis was submitted.

Central Procurement and Supplies Unit

As from 2015, Central Procurement and Supplies Unit started billing St. Vincent de Paule Residence for the supply of medicines and surgical devices, due to the fact that the said entity is now falling under the remit of a different Ministry.

Ministry for the Family and Social Solidarity

Social Security Benefits

The Department of Social Security (DSS) reported a figure of €25,028,970 as gross arrears in the ARR in relation to Social Security Benefits for the year ending 2016.

An analysis of the amounts pertaining to each benefit/assistance can be summarised as follows:

		€
a.	Social Assistance	14,450,477
b.	Retirement Pension	2,504,359
c.	Widows Pension	1,886,646
d.	Children's Allowance	1,664,990
e.	Old Age Benefits	1,928,728
f.	Medical Assistance	1,328,265
g.	Invalidity Pension	715,250
h.	Disability Pension Benefit	303,579
i.	Short Term Benefits	246,411
j.	Contributory Bonus	265
	Gross Closing Balance	**25,028,970**

Newly Accrued Arrears

Every figure reported in the ARR could be tallied against breakdowns and information extracted from the system, except for the amount of €3,678,540 listed as newly accrued arrears. Upon verification with the DSS, the NAO learnt that this amount could not be tallied exactly as there was an unreconciled difference of €11,286 when data was being extracted from the system when compiling the ARR. The amount of €3,678,540 is made up as follows:

	€
Outstanding Amounts (New Overpayments)	5,732,488
Less Arrears Withheld	(498,998)
Less Cancelled Amounts	(1,566,236)
Balancing figure	11,286
Newly Accrued Arrears	**3,678,540**

Outstanding Amounts

The two most financially material amounts, totalling €162,125, were selected for testing. Upon assessment, it transpired that one of these overpayments, amounting to €84,203 was created in 2016, for the period 2004 to 2016, due to a difference in the client's pension rate. The NAO queried the International Relations Unit within the DSS regarding this overpayment. It transpired that such overpayment was erroneously created by the DSS and subsequently authorised by mistake. This Unit acknowledged the error and stated that remedial action will be taken to ensure the amount is duly refunded to the pensioner and consequently, adjustment in the departmental system is made accordingly. The other overpayment was correctly created.

Cancelled Amounts

Five cancelled transactions, totalling €208,331 were selected for testing purposes. The NAO noted that in two instances, even though the amounts were listed as cancelled, these were actually arrears of benefits due to clients. Upon verifying this anomaly with the DSS and Malta Information Technology Agency (MITA), it transpired that while the system was extracting data, it was erroneously including amounts pertaining to 'arrears'. MITA confirmed that the system has now been rectified, and provided an updated report for verification. The NAO ensured that the two aforementioned transactions, chosen in the sample, did not feature again in this updated report. It was also observed that apart from these two amounts, there were other omissions, which in total resulted in a difference of €229,315.

Ageing Analysis

A detailed analysis of net collectable arrears was provided by the DSS as follows:

	€
Amounts outstanding for less than one year (2016)	5,734,222
Amounts outstanding for over one but less than two years (2015)	4,517,829
Amounts outstanding for over two but less than five years (2012 – 2014)	7,559,842
Amounts outstanding for over five but less than ten years (2007 – 2011)	4,267,222
Amounts outstanding for over ten years (– 2006)	556,503
Net Closing Balance	**22,635,618**

Collection Efforts

In terms of the Social Security Act, the Department recoups the outstanding overpayments by withholding overpaid sums from the benefits or pensions payable to a beneficiary. The rate of recovery is restricted to be no less than the equivalent of 5% or 10% depending on the cause of the overpayment. In the case of fraud or misrepresentation by a beneficiary, the rate of recovery goes up to 30%.

Ministry for Culture, Justice and Local Government

Judicial

The gross closing balance as at 31 December 2016 reported in the ARR and which has been analysed hereunder, amounted to €10,013,344. The Department considers the amount of €9,246,720, i.e. 92.3% of the said gross closing balance, to be recouped through departmental action, whilst €466,624 (4.7%) was reported as statute-barred. Only €300,000 (3%) are recoverable without departmental action.

		€
a.	Fines: Criminal – Judges Superior Courts	3,729,680
b.	Fines: Criminal – Magistrates Inferior Courts	4,223,033
c.	Fines: Civil – Superior Registry	25,157
d.	Fines: Civil – Inferior Registry	33,608
e.	Fees	2,001,866
	Gross Closing Balance	**10,013,344**

An amount of €466,624 was considered uncollectable. The ageing of net debtors as at year-end can be analysed as follows:

	€
Amounts outstanding for less than one year (2016)	2,035,105
Amounts outstanding for over one but less than two years (2015)	1,070,993
Amounts outstanding for over two but less than five years (2012 – 2014)	1,284,968
Amounts outstanding for over five but less than ten years (2007 – 2011)	880,917
Amounts outstanding for over ten but less than fifteen years (2002 – 2006)	734,757
Amounts outstanding for over fifteen but less than twenty years (1997 – 2001)	3,352,974
Amounts outstanding for over twenty years (1971 – 1996)	187,006
Net Closing Balance	**9,546,720**

Court Fines

Criminal – Judges Superior Courts

The opening balance of €3,606,124 was revised downwards by €46,589. According to the Courts of Justice (CoJ), this revision was mainly due to the reasons depicted in Table 1.

Table 1: Revisions

Reasons	Amounts €
Twelve fines converted into imprisonment	(134,661)
Two cancelled fines and one revoked	(11,182)
Ten fines were reinstated after imprisonment sentences were revoked	85,821
Three fines relating to previous years but imposed in year 2016	13,433
Net Downward Revision	**(46,589)**

From the outstanding balance of criminal court fines, the amount of €2,819,220, i.e. 76%, is due from only three individuals, representing three fines imposed in 1998, each owing the sum of €939,740.

Criminal - Magistrates Inferior Courts

In its ARR for year 2016, CoJ indicated a downward revision of €79,219 to the opening balance of €4,074,122. CoJ submitted to this Office a detailed report illustrating the reasons for every variance, as depicted in Table 2.

Table 2: Revisions

Reasons	Amounts €
41 fines relating to previous years but imposed in year 2016, of which 26 fines amounting to €12,305 were collected in 2016	32,792
4 fines which were revised upwards due to revoked imprisonment	1,036
125 fines converted into imprisonment	(68,360)
108 revoked fines	(17,551)
Various other adjustments to the opening balance, mainly due to appealed sentences	(10,646)
18 cancelled fines, one of which amounting to €12,265	(16,490)
Net Downward Revision	**(79,219)**

Court Fees

As from mid-January 2016, the CoJ Department replaced the Cortex System with a new system, namely the E-Fees system to account for Court fees. This was introduced to improve the respective revenue reporting functions.

The downward revision of €21,394 to the opening balance was mainly due to warrants and reversal of write-offs that were authorised by mistake.

Arrears of Revenue 2016[a]

Ministry/Department		Gross Outstanding on 31/12/2015 [b]	Collected during 2016	Written off 2016	Revisions 2016	Arrears 2016
Office of the Prime Minister	€	18,358	4,031	-	-	-
Department of Information	€	49,249	43,559	7,594	1,934	13,358
Government Printing Press	€	466,823	246,636	-	-	124,768
Government Property Division	€	28,378,986	5,761,569	5,434	2,079	9,486,775
Ministry for Foreign Affairs	€	255,331	125,318	-	1,645	88,602
Ministry for Education and Employment [c]	€	730,466	254,951	-	-6,686	306,414
Ministry for Sustainable Development, the Environment and Climate Change [c]	€	1,611,591	994,169	2,023	-11,368	826,210
Ministry for Transport and Infrastructure	€	1,735,210	871,077	25,303	-8,823	730,983
Transport Malta [d, e]	€	d	d	d	d	d
Ministry for Gozo [f]	€	1,051,967	126,786	-	5,337	178,481
Gozo General Hospital [d]	€	d	d	d	d	d
Ministry for Social Dialogue, Consumer Affairs and Civil Liberties	€	26,807	2,623	-	-	4,554
Industrial and Employment Relations	€	303,508	4,575	-	-	-
Ministry for the Economy, Investment and Small Business						
Commerce	€	2,787,972	129,157	308	-355,858	326,238
Ministry for Finance	€	19,813	7,288	-	-	145,009
Treasury (Pensions Section)	€	34,452,692	318,276	-	-8,597	3,891,019
Inland Revenue:						
Income Tax	€	636,331,310	20,869,333	-	-158,037,894	218,400,857
Social Security Contributions: Class 1 and Class 2	€	239,097,049	74,916,704	-	-505,385	94,934,956
Final Settlement System	€	90,034,103	62,736,881	-	-382,820	74,453,588
Capital Transfer Duty:						
Duty on Documents	€	24,575,306	759,130	1,462	-1,738,926	2,634,770
Death and Donation Duty	€	4,623,441	6,384	-	-5,009	4,735
VAT [g]	€	1,482,477,787	8,527,218	1,807	-484,087,612	742,844,320
Customs	€	13,237,986	3,480,164	5,856	-849,260	7,991,281
Contracts	€	259,136	11,829	-	-17,802	-
Economic Policy	€	3,763	3,763	-	-	1,371
Ministry for Health	€	8,559,273	2,488,448	-	-38,859	4,308,036
Ministry for the Family and Social Solidarity						
Social Security Benefits	€	24,030,448	2,579,932	44,196	-55,890	3,678,540
Elderly and Community Care	€	4,281,045	49,642	-	-	101,358
Ministry for Justice, Culture and Local Government	€	50,310	45,542	-	-4,768	5,251
Judicial	€	9,860,011	1,482,253	252,116	-147,403	2,035,105
Local Government	€	2,398	2,398	-	-	415
Attorney General	€	52,416	25,476	1,267	7,520	7,802
Notary to Government	€	3,678	3,043	-	-635	1,266
Ministry for Tourism	€	1,573,782	385,093	-	-95,576	301,119
Institute of Tourism Studies [d]	€	d	d	d	d	d

Gross Outstanding on 31/12/2016	Gross Variation	Amounts Est. as not Collectable	Net collectable arrears as at 31/12/2016	Net collectable arrears as at 31/12/2015	Net Variation	Due from Govt. Depts. & Para. Bodies	Due from Individuals & Private Cos.	Amounts coll. during January 2017	Balance as at 31/01/2017
14,327	-4,031	-	14,327	18,358	-4,031	-	14,327	230	14,097
13,388	-35,861	-	13,388	49,249	-35,861	13,388	-	8,855	4,533
344,955	-121,868	-	344,955	466,823	-121,868	344,781	174	-	344,955
32,100,837	3,721,751	-	32,100,837	28,378,986	3,721,851	12,528,149	19,572,688	833,519	31,267,318
220,260	-35,071	7,472	212,788	252,684	-39,896	122,151	90,637	89,805	122,983
775,243	44,777	70,791	704,452	597,753	106,699	360	704,452	28,462	675,990
1,430,241	-181,350	29,762	1,400,479	1,581,829	-181,350	7,204	1,227,299	176,576	1,223,904
1,560,990	-174,220	24,731	1,536,259	1,698,017	-161,758	1,433,036	103,223	233	1,536,026
d	d	d	d	e	d	d	d	d	d
1,108,999	57,032	136,592	972,407	915,376	57,031	88,040	884,367	394	972,013
d	d	d	d	98,078	d	d	d	d	d
28,738	1,931	-	28,738	26,806	1,932	24,915	3,823	-	28,738
298,933	-4,575	206,194	92,739	107,822	-15,083	-	92,739	800	91,939
2,628,887	-159,085	1,606,095	1,022,792	1,623,679	-600,887	-	1,022,792	7,328	1,015,464
157,534	137,721	-	157,534	19,813	137,721	141,795	15,739	119,793	37,741
38,016,838	3,564,146	-	38,016,838	34,452,693	3,564,145	37,955,232	61,606	-	38,016,838
675,824,940	39,493,630	572,755,936	103,069,004	97,092,444	5,976,560	-	103,069,004	3,202,205	99,866,799
258,609,916	19,512,867	152,966,627	105,643,289	90,383,413	15,259,876	-	105,643,289	15,767,365	89,875,924
101,367,990	11,333,887	70,957,593	30,410,397	27,010,231	3,400,166	-	30,410,397	10,834,684	19,575,713
24,710,558	135,252	18,109,475	6,601,083	6,329,401	271,682	-	6,601,083	134,568	6,466,515
4,616,783	-6,658	3,739,594	877,189	878,454	-1,265	-	877,189	-	877,189
1,732,705,470	250,227,683	1,573,968,301	158,737,169	72,775,406	85,961,763	-	158,737,169	-	158,737,169
16,893,987	3,656,001	1,048	16,892,939	13,236,938	3,656,001	292,680	16,600,259	4,135,244	12,757,695
229,505	-29,631	20,510	208,995	238,625	-29,630	-	208,995	-	208,995
1,371	-2,392	-	1,371	3,763	-2,392	-	1,371	1,114	257
9,452,047	852,774	72,823	9,379,224	8,526,333	852,891	3,736,579	5,642,645	94,646	9,284,578
25,028,970	998,522	2,393,352	22,635,618	21,892,074	743,544	-	22,635,618	273,738	22,361,880
4,332,761	51,716	-	4,332,761	4,281,045	51,716	4,245,043	87,718	29,265	4,303,496
5,251	-45,059	-	5,251	47,711	-42,460	5,051	200	5,251	-
10,013,344	153,333	466,624	9,546,720	9,696,527	-149,807	-	9,546,720	143,425	9,403,295
415	-1,983	-	415	2,398	-1,983	415	-	-	415
40,995	-11,421	-	40,995	52,418	-11,423	-	40,995	1,849	39,146
1,266	-2,412	-	1,266	3,678	-2,412	1,250	16	28	1,238
1,394,232	-179,550	54,365	1,339,867	1,519,417	-179,550	-	1,339,867	-	1,339,867
d	d	d	d	63,281	d	d	d	d	d

Ministry/Department		Gross Outstanding on 31/12/2015 [b]	Collected during 2016	Written off 2016	Revisions 2016	Arrears 2016
Ministry for Home Affairs and National Security [h]	€	970,773	541,021	65,590	78	185,749
Ministry for Competitiveness and Digital, Maritime and Services Economy [i]	€	457,823	235,392	-	-	235,921
Malta Gaming Authority [j]	€	4,120,302	3,408,123	-	-	4,811,415
Malta Communications Authority [j]	€	879,120	867,376	-	-	245,359
Television Licensing Unit [j]	€	10,061,429	29,811	-	-	-
Totals [k]	**€**	**2,627,471,462**	**192,344,971**	**412,956**	**-646,340,578**	**1,172,377,670**

a. Figures may not add up due to rounding-up.
b. Opening Balances reported as featuring in last year's AAR, unless otherwise specified.
c. Figures for Due from Government Departments and Parastatal Bodies and Individuals and Private Companies are as shown in the ARR, however they do not tally to the Net Collectable balance.
d. Did not submit Return of Arrears 2016.
e. Did not submit Return of Arrears 2015.
f. Includes figures for the Gozo Judicial Courts.
g. Opening Balance 2016 does not tally with Closing Balance 2015 (vide comments).
h. Includes figures for the Armed Forces of Malta, Police and Civil Protection.
i. Figures featured under the Ministry for the Economy, Investment and Small Business in 2015. The Ministry for Competitiveness and Digital, Maritime and Services Economy was no longer in existence in 2017.
j. Figures featured under the Ministry for the Economy, Investment and Small Business in 2015.
k. Totals are incomplete in view of c, d and e above.

Gross Outstanding on 31/12/2016	Gross Variation	Amounts Est. as not Collectable	Net collectable arrears as at 31/12/2016	Net collectable arrears as at 31/12/2015	Net Variation	Due from Govt. Depts. & Para. Bodies	Due from Individuals & Private Cos.	Amounts coll. during January 2017	Balance as at 31/01/2017
549,989	-420,784	50,068	499,921	901,283	-401,362	201,526	298,395	15,565	484,356
458,352	529	207,201	251,151	250,622	529	235,921	15,230	235,921	15,230
5.523,594	1,403,292	652,775	4,870,819	3,978,136	892,683	-	4,870,819	3,901,971	968,848
257,103	-622,017	-	257,103	879,120	-622,017	9,546	247,557	-	257,103
10,031,618	-29,811	6,018,970	4,012,648	4,024,572	-11,924	139,000	3,873,648	1,168	4,011,480
2,960,750,627	**333,279,165**	**2,404,516,899**	**556,233,728**	**434,355,256**	**122,039,831**	**61,526,062**	**494,542,050**	**40,044,002**	**516,189,727**

Arrears of Revenue Analysis of the Outstanding Balance as at 31 December 2016 [a]

Ministry/Department		Net Collectable Arrears as at 31/12/2016	Amounts Est. as not Collectable	Gross Outstanding on 31/12/2016	Analysed as follows: Statute-barred	Under Contestation: Pending Court action	Under Contestation: Not Pending Court action	Recoverable by Dept. action	No Dept. action required
Office of the Prime Minister	€	14,327	-	14,327	-	-	-	14,327	-
Department of Information	€	13,388	-	13,388	-	-	-	13,388	-
Government Printing Press	€	344,955	-	344,955	-	-	-	344,955	-
Government Property Division	€	32,100,837	-	32,100,837	3,592,719	5,463,032	-	21,766,757	1,278,329
Ministry for Foreign Affairs	€	212,788	7,472	220,260	7,472	-	-	212,788	-
Ministry for Education and Employment [b]	€	668,850	70,791	739,641	66,020	-	4,120	223,529	444,423
Ministry for Sustainable Development, the Environment and Climate Change	€	1,400,479	29,762	1,430,241	29,762	556,482	137,784	149,295	556,918
Ministry for Transport and Infrastructure	€	1,536,259	24,731	1,560,990	78,242	2,880	169,189	643,553	667,126
Transport Malta [c]	€	c	c	c	c	c	c	c	c
Ministry for Gozo [d]	€	972,407	136,592	1,108,999	142,366	11,155	106,062	279,708	569,708
Gozo General Hospital [c]	€	c	c	c	c	c	c	c	c
Ministry for Social Dialogue, Consumer Affairs and Civil Liberties	€	28,738	-	28,738	-	-	20,886	7,852	-
Industrial and Employment Relations	€	92,739	206,194	298,933	-	4,135	202,058	80,788	11,952
Ministry for the Economy, Investment and Small Business									
Commerce	€	1,022,792	1,606,095	2,628,887	81,849	-	-	2,547,038	-
Ministry for Finance	€	157,534	-	157,534	-	-	-	157,534	-
Treasury (Pensions Section)	€	38,016,838	-	38,016,838	-	-	-	38,016,838	-
Inland Revenue (including Capital Transfer Duty)	€	246,600,962	818,529,225	1,065,130,187	148,195,043	79,865,797	13,364,656	171,084,032	652,620,659
VAT	€	158,737,169	1,573,968,301	1,732,705,470	1,573,968,301	68,880,901	-	89,856,268	-
Customs	€	16,892,939	1,048	16,893,987	28,467	6,378,001	721,132	274,189	9,492,198
Contracts	€	208,995	20,510	229,505	42,262	-	20,510	138,950	27,783
Economic Policy	€	1,371	-	1,371	-	-	-	-	1,371
Ministry for Health	€	9,379,224	72,823	9,452,047	72,823	-	-	1,356,201	8,023,023
Ministry for the Family and Social Solidarity	€	22,635,618	2,393,352	25,028,970	2,393,352	-	844,616	4,961,370	16,829,632
Elderly and Community Care	€	4,332,761	-	4,332,761	-	-	-	4,332,761	-
Ministry for Justice, Culture and Local Government	€	5,251	-	5,251	-	-	-	5,251	-
Judicial	€	9,546,720	466,624	10,013,344	466,624	-	-	9,246,720	300,000
Local Government	€	415	-	415	-	-	-	-	415
Attorney General	€	40,995	-	40,995	-	-	-	40,995	-
Notary to Government	€	1,266	-	1,266	-	-	-	1,266	-
Ministry for Tourism	€	1,339,867	54,365	1,394,232	54,365	-	-	1,339,867	-
Institute of Tourism Studies [c]	€	c	c	c	c	c	c	c	c
Ministry for Home Affairs and National Security [b, e]	€	499,921	50,068	549,989	105,633	15,444	619	358,949	69,965
Ministry for Competitiveness and Digital, Maritime and Services Economy [f]	€	9,391,721	6,878,946	16,270,667	6,226,171	697,214	-	6,280,343	3,066,939
Totals [g]	€	**556,198,126**	**2,404,516,899**	**2,960,715,025**	**1,735,551,471**	**161,875,041**	**15,591,632**	**353,735,512**	**693,960,441**

a. Figures may not add up due to rounding-up.
b. Amount submitted as per the analysis of arrears as requested by Treasury Circular No. 3/2017 does not tally to Return of Arrears 2016 (vide comments where applicable).
c. Did not submit Return of Arrears 2016 and submissions required by Treasury Circular No. 3/2017.
d. Includes figures for the Gozo Judicial Courts.
e. Includes figures for the Armed Forces of Malta, Police and Civil Protection.
f. Includes figures for the Malta Gaming Authority, the Malta Communications Authority and the Television Licensing Unit which were featured in 2015 under the Ministry for the Economy, Investment and Small Business.
g. Totals are incomplete in view of b and c above.

Co-operatives Board

Audit for Financial Year 2016

Background

The Co-operatives Board was established by virtue of Article 3 of the Co-operative Societies Act, 2001 (Cap. 442) of the Laws of Malta, as a statutory body having distinct legal personality. This Board consists of a Chairman and a number of members, appointed by the Minister for the Economy, Investment and Small Business, who is responsible for Co-operative Societies. The functions of the Board are to:

a. register, monitor and exercise supervision over Co-operative Societies and to ensure compliance with the provisions of the Co-operative Societies Act;
b. support and assist the establishment of Co-operative Societies in all sections of the economy and society; and
c. furnish information regarding co-operative principles, practices and management.

Article 9(2) of the aforementioned Act requires the Co-operatives Board to submit to the Minister responsible for Co-operatives Societies and the Minister responsible for Finance, a statement of accounts duly audited by the Auditor General, and a report of its activities, by not later than three months after the end of each financial year.

The allocated budget of the Co-operatives Board for the financial year 2016 totalled €130,000, i.e. an increase of €30,000 or 30% over the previous year's allocation.

Audit Scope

The scope of the audit was to ensure that the Financial Statements for the year ended 31 December 2016 show a true and fair view of the financial position of the Co-operatives Board as at that date, and of its financial performance and cash flows for the year then ended. Compliance with the Co-operative Societies Act, 2001, as well as the existence of adequate internal controls, was also ascertained.

Control Issues

Shortcomings related to Honoraria Payments

a. During the audit for the year ended 2015, a letter dated 28 March 1996, issued by the Parliamentary Secretary within the then Ministry of Education and Human Resources, was made available to the National Audit Office (NAO), as official documentation supporting the honoraria paid to the Co-operatives Board members. This letter stated that the Board was authorised to pay a total of Lm5,000 (equivalent to €11,647) as honoraria to its members. However, the total honoraria paid to Board members during 2016 amounted to €12,029, which is €382 in excess of this threshold.

b. Correspondence exchanged with the former Ministry for Social Policy on 25 March 2003, confirmed that the Chairperson received an annual remuneration of Lm2,000 (€4,659) and the remaining six Board Members were paid Lm500 (€1,165) each, whilst no honorarium was paid to the Secretary of the Board. On the other hand, in its reply to the 2015 audit, the Board submitted an email dated 18 January 2011, in which the then Ministry of Finance, the Economy and Investment was informed that the Secretary's honorarium amounted to €1,631 per annum.

Therefore, in the absence of additional documentation, it is still unclear whether the amount of €1,631 paid to the Secretary during the year under review was accurate and justifiable, and covered with appropriate approvals.

Inadequate Authorisation of Petrol Allowance

Through a meeting held on 28 January 2016, the Board resolved to pay the Chairman of the Co-operatives Board a monthly petrol allowance of up to €50 upon presentation of fiscal receipts, starting from the year under review. Following NAO's enquiry on the matter, the Board confirmed that no Ministerial approval was sought for the payment of this allowance. Consequently, it could not be ascertained that the total amount of €600 reimbursed to the Chairman during 2016 was adequately authorised.

Inventory Items purchased due to Unutilised Funds

On 5 December 2016, i.e. close to the end of the financial year, the Board approved the purchase of some inventory items. According to extracts of the Board minutes noted on this date, these purchases were sought solely because funds were still available from the annual subvention received from Government.

Untimely Endorsement of Financial Consultancy Services Agreement

The Co-operatives Board's Financial Consultancy Services provider was selected following an Expression of Interest issued in February 2016. However, the respective agreement, covering the period from 1 April 2016 to 31 March 2017, was dated and endorsed on 26 April 2016, i.e. subsequent to its effective date.

Recommendations

Control Issues

Shortcomings related to Honoraria Payments

The Co-operatives Board is to ascertain that it is in possession of official documentation confirming the honorarium payable to each Board Member, including the Secretary to the Board. Moreover, it is to ensure that the threshold establishing the maximum annual honoraria payable is not exceeded.

Inadequate Authorisation of Petrol Allowance

Appropriate Ministerial approval is to be sought for the payment of any allowances to Board Members, additional to their honoraria. Such authorisation is to be clearly documented and filed for ease of reference.

Inventory Items purchased due to Unutilised Funds

Procurement of inventory items is to be resorted to only when necessary and not merely to use up any excess funds, in particular approaching year-end.

Untimely Endorsement of Financial Consultancy Services Agreement

The Board is to ensure that any contracts with service providers are endorsed before the engagement actually commences. This ensures that all the applicable terms and conditions have been mutually agreed beforehand.

Management Comments

Management forwarded the following comments:

The amount paid in excess of the established maximum honoraria was due to the fact that during 2016, the Board consisted of six members, rather than five. Management also confirmed that it had reverted to five members when one of the Board Members resigned in December 2016.

To support the honorarium paid to the Board's Secretary, Management provided the NAO with correspondence, dated 3 April 1997, between the Co-operatives Board and the former Ministry of Education. In the mentioned correspondence, the Board communicated the honoraria amounts of the then Chairperson, Secretary and Members of the Co-operatives Board for 1995 and 1996, with that pertaining to the Secretary amounting to Lm700 (equivalent to €1,631) during 1996.

With regards to the monthly payment of a petrol allowance to the Chairman, Management commented that "*This was a unanimous Board decision taken with the abstention of the Chairman*".

The Board explained that the contract with the Financial Consultant was signed after its commencement date "... *due to the unavailability of the service provider since she was abroad*".

2016-2017 (to date) Reports issued by NAO

NAO Work and Activities Report

March 2017	Work and Activities of the National Audit Office 2016

NAO Audit Reports

November 2016	Performance Audit: Managing and Monitoring the State Schools' Transport Services
December 2016	Annual Audit Report of the Auditor General - Public Accounts 2015
December 2016	Annual Audit Report of the Auditor General - Local Government 2015
December 2016	An Investigation of Property Transfers between 2006 and 2013: The Transfer of Land at Ta' L-Istabal, Qormi
December 2016	An Investigation of Property Transfers between 2006 and 2013: The Acquisition of 233, 236, and 237 Republic Street, Valletta
January 2017	Contribution of the Structural Funds to the Europe 2020 Strategy in the Areas of Employment and Education
February 2017	Information Technology Audit: Cyber Security across Government Entities
May 2017	Performance Audit: Protecting Consumers through the Market Surveillance Directorate's Monitoring Role
June 2017	Performance Audit: Procuring the State Schools' Transport Service
July 2017	An Investigation of Property Transfers between 2006 and 2013: The Transfer of the Property at 83 Spinola Road, St Julian's
July 2017	An Investigation of Property Transfers between 2006 and 2013: The Expropriation of the Property at Fekruna Bay, St Paul's Bay
September 2017	Performance Audit: Landscaping Maintenance through a Public-Private Partnership
October 2017	Performance Audit: Maintaining and Repairing the Arterial and Distributor Road Network in Gozo
November 2017	Follow-up Reports by the National Audit Office 2017
November 2017	Performance Audit: Outpatient waiting at Mater Dei Hospital