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National Audit Office
MALTA

Follow-up Reports by the National Audit Office 2017

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Follow-up Reports 2017

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Foreword

No one can dispute the fact that an audit process without proper follow up analysis risks being rendered as an incomplete and ineffective assignment. Hence, why various national audit institutions have decided to start focusing more on a proper follow-up mechanism which effectively monitors the level of implementation of the various recommendations put forward by the audit team. This helps in ensuring that any shortcomings and issues identified during a particular assignment are duly addressed by management according to the established timeframes. Such implementation provides added value to the work of any audit institution, essentially ensuring that taxpayers' money is used in the most effective and efficient manner possible and within the prevailing financial rules and regulations.

Our National Audit Office (NAO) is no exception. In this regard, this Office has decided to launch an Annual Follow-up Report whereby an analysis on the level of implementation of various audit reports falling under the Performance (Value for Money), Financial and Compliance and Special Audit and Investigations Sections is undertaken. It also provides the necessary thrust for the public service to extend its work on the *Governance Action on the NAO'S Annual Report* issued by the Office of the Principal Permanent Secretary for the first time in 2016, an initiative that this Office commends, to other type of audits covered by the NAO.

We strongly believe that this publication constitutes another important step in the NAO's efforts to fulfill its declared vision "to be an agent of change conducive to achieving excellence in the public sector".

Charles Deguara
Auditor General

November 2017

List of Abbreviations

AACCD	Department of Active Ageing and Community Care
AAR	Annual Audit Report
AFM	Armed Forces of Malta
BOQ	Bill Of Quantities
CBM	Central Bank of Malta
CCU	Customer Care Unit
CIO	Chief Information Officer
CMeLD	Curriculum Management and eLearning Department
CTMS	Centralised Theatre Management System
DAS	Departmental Accounting System
DC	Department of Contracts
DfE	Department for the Elderly
DO	Direct Order
DQSE	Directorate for Quality and Standards in Education
ECCD	Elderly and Community Care Department
ENT	Ear Nose and Throat
EO	Executive Officer
FA	Framework Agreement
FTS	Foundation for Tomorrow's Schools
HA	Housing Authority
HoD	Heads of Department
ICT	Information and Communications Technology
IHIS2	Integrated Health Information System 2
IT	Information Technology
KMS	Malta Sports Council
LA	Letter of Acceptance
LPG	Liquefied Petroleum Gas
LPOs	Local Purchase Orders
LTC	Long-Term Care
LTMC	Long-Term Medical Care
MDH	Mater Dei Hospital
MEDE	Ministry for Education and Employment

MFCS	Ministry for the Family, Children's Rights and Social Solidarity
MFEI	Ministry of Finance, the Economy and Investment
MFIN	Ministry for Finance
MHAS	Ministry for Home Affairs
MIA	Malta International Airport
MITA	Malta Information Technology Agency
MMDNA	Malta Memorial District Nursing Association
MPF	Malta Police Force
MSDEC	Ministry for Sustainable Development, the Environment and Climate Change
NAO	National Audit Office
NCB	National Central Bank
NCF	National Curriculum Framework
NLGCF	National Lotteries Good Causes Fund
NMC	National Minimum Curriculum
OPM	Office of the Prime Minister
PE	Physical Education
PO	Purchase Order
PPP	Public Private Partnership
PPR	Public Procurement Regulations
PSMC	Public Service Management Code
RHKG	Rehabilitation Hospital Karin Grech
RMU	Repairs and Maintenance Unit
SMT	Senior Management Teams
SOP	Standard Operating Procedures
SPU	Sports Promotion Unit
SVPR	St. Vincent de Paul Residence
TOIL	Time Off In Lieu
VAT	Value Added Tax
VMS	Vessel Monitoring System

Follow-up Reports by the

Financial and Compliance Audit Section

Gozo Channel (Operations) Ltd

Background

An income and expenditure audit carried out on Gozo Channel Co Ltd (GCCL) for financial year 2013 revealed significant internal control weaknesses relating especially to the following:

- Lack of control on overtime and no documentation to substantiate related payments.
- Inefficient utilisation of human resources.
- Lack of synergy between the Management team as well as lack of coordination between the various units.
- No segregation of duties.
- Unreliable, as well as untraced records.
- Weak budgetary control.

Other issues of concern related to the financial situation of the Company, in addition to passenger and vehicle count discrepancies.

Audit Scope and Methodology

The scope of this follow-up was to assess whether recommendations provided in the Audit Report have been implemented by Management.

Substantive testing, Management queries and site visits were undertaken as part of the methodology to identify any developments.

Changes in the Company's Structure

The Company underwent substantial changes in 2016. GCCL was amalgamated with Gozo Ferries Co Ltd (GF), where all the assets, rights and obligations of the former company became those of the acquiring Company, i.e. GF.

Upon acquisition, the latter was renamed as Gozo Channel (Holding) Co Ltd, retaining the vessels but transferring the majority[1] of assets and liabilities to Gozo Channel (Operations) Ltd, a subsidiary set up on 2 August 2016[2]. The foregoing new entity is responsible for the operations previously managed by GCCL.

The following is an update on the main observations included in the 2013 Report.

Key Issues

Financial Sustainability and Going Concern

In 2013, the Company registered a net loss of €1,035,252. The serious financial problems were also accentuated, with the cash balances at year-end amounting to €446,224, whilst the amount of creditors totalled €12,961,241. The main factors leading to this situation was an outstanding balance of €8 million due by GF to GCCL in relation to the installation of hoistable decks and overhauls, as well as the substantial reduction of the Government subsidy in view of the public service obligation reduced from €4 million in 2011 to €695,564 in 2013.

While expenditure is to be controlled through strict budgetary measures, a thorough cost-cutting exercise at all levels of the Company is recommended. Discussions with GF are to be formally documented.

Developments: The Company managed to make a profit of €1,827,143 in 2016, with the main contributors to this shift, when compared to 2013, being:

- substantial increase in revenue from €12,238,658 to €14,916,764 (22%); and
- reduction of fuel costs from €3,372,204 to €2,185,805 (35%), mainly due to decrease in prices and elimination of trips to Sa Maison.

Bank balances have gone up to €2,085,739. Debtors decreased by €13,318,913, closing 2016 with a balance of €2,260,345. This was mainly due to the fact that upon the merger of GCCL and GF, the outstanding balance of €8 million was set off as an intercompany transaction, hence reducing significantly outstanding debtors' balances. As at 31 December 2016, creditors stood at €5,105,186.

It was noted that ferry overhaul expenses, which in 2016 amounted to €434,067, were borne by GF, resulting in significant cash savings for Gozo Channel (Operations) Ltd. However, despite the recommendation provided in 2013, there is still no clear agreement as to which company should be bearing such expenses. According to the correspondence provided, this issue is still being tackled on a case by case basis.

Weak Control Environment

Weak control environment was evident in various areas, including budgeting and overtime, inefficient utilisation of personnel and lack of synergy between the Management team.

Controls are to be embedded in the operations and form part of the overall culture. Moreover, staff and operations shall be duly supervised by competent officers, taking timely action to address shortcomings.

Developments: On 20 February 2014, the Ministry for Gozo appointed a three-member Internal Audit Unit to assess and report upon the situation at GCCL to both the Ministry and the Executive Chairman, to enable the latter to take the required corrective action. However, it transpired that the recommendations of the internal auditors were somehow not taken on board and documents seen by the auditors still reveal repeated

[1] With the exception of investments, intercompany balances, a portion of bank balances and equity.
[2] For comparability purposes, the income from both companies, namely GCCL and Gozo Channel (Operations) Ltd were combined to represent a whole financial year.

shortcomings referred to in the original Report, which were further confirmed by independent verifications carried out by the National Audit Office (NAO).

In April 2016, GCCL engaged its own Inspector/Internal Control Officer to assume the following responsibilities:

- review existing accounting and financial controls and other legal compliance processes in place and make any necessary recommendations;
- follow and carry out the internal control functions according to the audit manual and plan prepared by the Financial Controller or Finance Unit;
- report risk management issues and internal control deficiencies identified and provide recommendations for improvements;
- evaluate compliance with existing internal control policies and procedures, identifying and proposing modifications as needed; and
- review the responses to internal and external audit management letter queries and ensure that recommendations are implemented and all action items are resolved.

However, the Curriculum Vitae of the said officer does not evidence that he has the necessary knowledge and experience to be able to carry out the respective role effectively. Moreover, his actual duties, as claimed by the officer himself, were limited mainly to surprise spot inspections at ticket booths and on board cafeteria, monitoring of closed circuit television cameras and ticket inspections, and ensuring compliance with policies relating to vehicle length and residence of individuals.

In fact, independent testing carried out by NAO revealed that the previous concerns still prevail, indicating that no action was taken by the Company to address the shortcomings. Once again, the following were noted:

- misleading and unreliable records;
- increasing discrepancies in records relating to ticketing;
- non-observance of set procedures;
- inadequate documentation related to overtime approvals and payments; and
- inefficient deployment of human resources.

Control Issues

Lack of Budgetary Control

The Company's overall budget for 2013 was only approved on 6 March 2013. No reference to budgets was made in the monthly Management Accounts and comparisons were only undertaken at the end of the year. Specific targets were not set for Heads of Departments (HoDs) aimed at respecting and/or achieving the budgeted figures.

Functional and capital budgets are to be drawn up by the individual HoDs in a timely manner enabling the Finance Unit to consolidate the budget and have it approved by the Board prior to the beginning of the financial year. Regular reconciliations between forecasted and actual results are to be carried out.

Developments: The budgeted accounts for 2015 and 2016 were approved in November and December respectively, of the previous year. However, although monthly results are now being presented alongside budgets, no variance analysis is undertaken except for fuel consumption and cost. It was also observed that a note to the budgeted accounts for 2017 stated that the subcontracting of employees will enable the Company to operate with a lower overtime cost. However, Wages & Salaries were reported as one total figure in the budget, giving no indication of the overtime costs.

Increase in Salaries

Despite the financial difficulties faced by the Company, new salary increases came into force for both seaborne and other employees. It was also noted that there were significant variances between the remuneration policies stipulated in the collective agreements for GCCL staff and those in the Public Service Management Code (PSMC) applicable for other public officers, particularly in the case of overtime performed on a public holiday and night shift allowance.

Directors are to ensure that all actions taken are in the best interest of the Company. Measures are to be put in place to ascertain goal congruency and the achievement of Company objectives.

Developments: The respective collective agreements have expired and negotiations were still underway for the renewal thereof.

No Performance Measures

While the Management team is entitled to a performance bonus, performance measures were completely lacking. Thus, the manner in which the said bonus was being awarded was in no way related to the performance of the individual managers.

GCCL is to implement an effective performance measurement process comprising clear targets, regular appraisals and evaluations of the individual managers' accomplishments, providing a solid basis for payment of the performance bonus.

Development: As verbally claimed by the Executive Chairman, no performance measures were yet set up. Meanwhile the Board, together with the Ministry for Gozo agreed that the performance bonus for 2016 payable to the six eligible officers shall be of 9%[3]; however, justification of this rate was not provided. It was also decided that all Company employees, including sub-contracted ones, shall be granted a one-time bonus of €100. Audit queries about the number of staff receiving this bonus and the respective cost were not adequately addressed.

Discrepancies in Leave Records

Study Leave

Neither requests nor respective approvals were in place up to 2013 to authorise paid study leave availed of by GCCL employees, which leave could not be quantified.

Temporary Absence

A reconciliation exercise of the palming records for 2013 revealed that all four HoDs had several hours short, which were not accounted for in Vacation Leave (VL) and Sick Leave (SL) records.

[3] Established maximum is 10% of their annual salary.

Inconsistent Records

Several instances were noted where HoDs availed of VL, which absence was not always deducted from their entitlement.

For control purposes, absences other than VL and SL are to be documented, enabling both internal and external verification. Furthermore, regular reconciliations between the different records are to be carried out, clearly indicating the officer carrying out such checks.

Developments: Records showing the amount of paid study leave availed of were still not readily available for audit purposes. As verbally claimed by the Human Resources Executive, such absences are only recorded in the roster[4]. Clarifications about the procedures currently in place to apply for study leave were not properly addressed.

Although the Company introduced the 'Non-Palming Form' intended to be used solely when, for some reason, officers fail to palm, a review of the December records[5], pertaining to 18 officers, still revealed a couple of instances which were not accounted for. Discrepancies were also noted in the recording of VL. This shows that records are still not accurate and reliable.

Further to the above, it also transpired that the Company did not scrutinise the said non-palming forms but was relying on one of the Internal Auditors appointed by the Ministry for Gozo for such analysis. Moreover, an independent review carried out by NAO Auditors, of the 17 forms used in December 2016, revealed that seven instances, i.e. 41%, related to the same individual, while another three concerned his colleague. In all cases, the reason given was that the officer forgot to palm. Of the aforementioned seven forms, six covered overtime hours.

It also transpired that similar issues were identified by the Internal Audit member, following analysis made by the latter, covering January and February 2016. This implies that very little action, if any, was taken by the Company to rectify the identified shortcomings. Amongst the concerns in the non-palming forms used, noted during the follow-up audit, were forms lacking details of authorising officer or approved retrospectively; and forms approved by self.

As at time of the follow-up audit, the Company was in the process of replacing the palm readers with facial recognition devices.

Communication Costs

As at 31 December 2013, 22 employees, apart from the Chairman, were making use of a mobile phone at the expense of the Company, with the related costs for the year under review totalling €18,214. Five of the said employees were not included in the organisation structure from which such benefit emanates. Furthermore, while in the case of one of them, this entitlement was stipulated in the respective employment contract, no such documentation was traced in the case of the other four officers.

Apart from the Chairman and the four HoDs who are not subject to mobile phone capping, another four out of the aforementioned 22 employees were also not subject to any limit. It also transpired that the capping set by the Company, applicable to nine officers, exceeded the annual threshold of €815 established by the PSMC, with one of the said employees having a capping of €1,620.

[4] Due to time constraints NAO Auditors could not go through the weekly rosters to identify the study leave and determine whether absences identified relate to such circumstances.
[5] Palming records, non-palming forms, VL and SL records.

The Company is encouraged to draw up a policy on the lines of the PSMC, stipulating the capping applicable for all officers entitled to the use of a mobile phone.

Developments: Total expenditure incurred on mobile phones during 2016 amounted to €17,004, resulting in a decrease of 7% when compared to the amount paid in 2013. With the exception of one officer, all the other officers[6] indicated in 2013 were still making use of the mobile phone, with a new officer added to the list. Although capping limits were revised downwards and imposed on all officers other than the Chairman and HoDs, the Company's established threshold still exceeded the limit indicated in the PSMC by €265 in the case of 8 out of the 18 officers subject to capping.

It was also noted that one officer was still making use of the mobile at the Company's expense despite being on unpaid leave for over four months.

Company-owned Vehicles

Total motor vehicle costs amounted to €63,048. Despite the written policies in place with respect to the upkeep of logbooks for company-owned and/or hired vans, it was confirmed that no such records were kept. It was also noted that while according to the Managerial and Administrative Grades Wage Structure, full capping is applicable for certain officers entitled to a fully expensed car, the threshold is not specified.

Management is to ensure that policy measures are implemented and regularly monitored so as to control the use of vehicles, as well as fuel consumption, where applicable.

Developments: During 2016, motor vehicle costs decreased by 47% to a total of €33,287 when compared to 2013, mainly due to the removal of the daily Sa Maison to Ċirkewwa trips. Logbooks for the company-owned vehicles were this time provided for audit purposes; however, mileage details were not always filled in by one of the two drivers.

Human Resources Management

General Overtime

Overtime paid by the Company in 2013 amounted to €757,632. Although this amount was 10% less than that paid in 2012, certain categories still registered significant increases. This is mainly due to certain provisions of standing collective agreements, resulting in exorbitant payments when compared to similar dues payable as per PSMC.

Overtime is to be taken only as a last resort and kept at the barest minimum.

Developments: Overtime expenditure in 2016 shot up to €1,273,749, an increase of 68% over the amount paid in 2013.

Control over overtime is still largely lacking and was evident in all stages, namely approval, recording thereof, as well as payment.

Weekly overtime approved by the Chairman based on the Weekly Operational Plan only covers the number of overtime hours for one person rather than the whole crew on the respective shift of the original plan. Moreover, this excludes other overtime arising with respect to substitutions, top-up crew, extension of shifts and maintenance amongst others.

[6] One of these is the storekeeper, who leaves the mobile at the stores after he finishes work.

The 15 overtime forms reviewed during the follow-up audit revealed that there is no standardised approach for the recording and approval of overtime, which approval was at times sought retrospectively during the computation of payroll.

Salary Adjustment Notes did not have the respective documentation attached, enabling independent verification of overtime payments from one source. As a result, every adjustment has to be queried with the Human Resources Executive. Moreover, the Crew Movement Report does not always indicate who is entitled to overtime payment. Errors in payments were noted by both NAO Auditors and the Internal Audit member, indicating that little or no verifications were undertaken by the Company.

Engineering Staff

Exchange of Roles

Three Second Engineers were performing duties of acting Chief Engineers as and when required, receiving a substitution allowance for such task. Testing revealed that Chief Engineer duties were assigned to the three Second Engineers, while the Chief Engineer on duty was assigned the role of Second Engineer. As a result, Chief Engineers were paid to perform duties of Second Engineers, while the latter were paid an allowance to carry out the duties of the former. Furthermore, the Company was ending up with a shortage of Second Engineers, and falling back on the Chief Engineers to perform the duties of both the Chief and the Second Engineers, while paid at overtime rates.

Change of Duty Applications not traced

Change of duty applications covering the period January to December 2013 could not be traced and were not provided for audit purposes. It also transpired that changes were resulting in adverse financial impact for the Company.

Unreliable Records

Significant variances were noted between Engineers' shift hours as indicated in the Deployment Records and actual hours worked as per punch clock records during the sampled period. Similar occurrences in other grades cannot be excluded.

Management is to be held accountable for any adverse financial impact or any other unnecessary costs incurred as a result of their actions. Overtime and change of duty are to be supported by documentation evidencing approval thereof. Moreover, all records are to be updated enabling regular reconciliation between the different sources.

Developments: The three Second Engineers were promoted to Chief Engineers, while the Company has also recruited additional Second Engineers. As a result, during the sampled period, namely December 2016, only one instance was noted where a Permanent Chief Engineer was rostered as Second Engineer. Notwithstanding this, overtime related to 'Engine Operations' still increased by 53% to €279,806 in 2016.

Furthermore, exchange of roles was still noted in the case of Masters, who were being regularly rostered to carry out the duties of Chief Officers and other manning roles in addition to their scheduled Master rosters. This is not only resulting in extra overtime payments, where 'Bridge Operations' overtime (€175,497) has more than tripled when compared to 2013 (€52,970), but also in a situation where these officers are working very long hours, at times exceeding 15 hours at a stretch.

Change of duty applications were this time provided for audit purposes by the Liaison Manager. However, a review of a one week sample, covering the period 1 to 8 December 2016, once again revealed significant discrepancies between the various records in place. Among the issues noted are the following:

- Divergences between shift hours as per Deployment, and actual palming hours, without any explanation on the Crew Movement Report. Explanations for each case had to be sought from the Human Resources Executive in order to determine whether variance relates to overtime or other.
- No palming hours traced and no indication as to who eventually worked the respective roster.
- Palming hours traced but still employee was neither shown in Deployment nor in Crew Movement Reports.

Terminal Staff

Despite that both the Terminal Duty Officers and Co-ordinators are required "to cover for Terminal Duty Managers for out of rota hours ...", and that the main duties and responsibilities of the Terminal Duty Managers, Officers and Co-ordinators are very similar, the rosters of Terminal Duty Managers still catered for 24-hour attendance, seven days a week, resulting in significant overtime.

Shift changes are to be implemented with the aim of ensuring cost-cutting targets.

Developments: Although Terminal Managers are no longer working on a 24/7 basis and overtime was reduced from €22,133 in 2013 to €16,302[7] in 2016, a review of the Deployment Records for 2016 showed that there is still room for improvement. By way of example, while on certain days a Terminal Manager was present at all times between 04:30 and 20:30, on others there was no Terminal Manager at all, thus effectively questioning such need.

Drivers

The two drivers were paid a total of €18,432 in overtime and a further aggregate amount of €4,755 in night, Sunday and public holiday allowances related mainly to their chauffeuring duties of six Maltese crew members from Sa Maison to Ċirkewwa and vice versa since the Company maintained that they had a legal obligation to provide this service.

The financial viability of this service is to be assessed and more cost-effective solutions are to be adopted should the Company decide to continue to provide the service.

Developments: All the six Maltese crew performing duties from Sa Maison have since retired and the drivers were allocated other duties. However, it transpired that amounts paid in overtime and allowances to these two drivers as per the 'Employee Analysis Report' did not tally with those in the 'Annual Employee Report', which the Company obtained from the software provider following NAO's request. This report was again incomplete, with one of the drivers featuring only in the part covering the period 3 October to 31 December 2016, despite being employed for the whole year.[8]

[7] Another amount totalling €18,621 was paid, covering night, Sunday and public holiday allowance.
[8] In 2013, this issue was reported as a Limitation of Scope.

Safety Manning Policy

On several occasions, the total crew on the vessels exceeded the minimum crew of 11 but was less than the required 15 to be in a position to take the increased capacity on board. Moreover, instances were noted where total crew amounted to 17 resulting in over-manning.

The Company is encouraged to consider and evaluate alternative solutions with one option being the introduction of an on-call allowance applied on a rotational basis.

Developments: NAO's recommendation was not taken up by the Company thus, the same situation still prevailed. The concern was also highlighted by Internal Audit.

Cafeteria Pilferage

Way back in 2012, the Board of Directors was aware that a number of cafeteria employees were colluding and committing pilferage. Although the matter was already referred to the Police, in May 2013 the employees in question were still in employment. Significant stock discrepancies were being registered, with the action limited to their write-off.

Stocktakes are to be carried out when the ferry is not in motion and procedures put into place enabling perpetrators to be identified.

Developments: While GCCL retained the management of the cafeteria, including its stocking function, the manning thereof is now mainly being carried out by sub-contracted staff following a call for tender. Although discrepancies during stocktakes by GCCL employees were still detected, the extent of such discrepancies was considerably less than before.

Store Items

Although records of store items were being maintained by the storekeeper, there was no link between the respective issues, receipts and balance, with issues recorded exceeding the actual balance.

The upkeep of stock records is outlined in Treasury Circular No. 6/2004 – 'Stock Control Procedures'. Regular physical inspections on store items are also recommended to detect variances as they arise.

Developments: There are now two employees dealing with the recording of receipts and issues respectively, while an electronic Inventory Management System has also been implemented. However, some minor discrepancies were still encountered.

Moreover, during a physical inspection at the said stores, Auditors came across a room which contained a significant amount of manual tickets, apart from other blank tickets used by the Automated Ticketing System. Staff from the Finance Unit accompanied the Auditors into the room; however, the key was located at the Terminal with easy access to employees. Stocktake records provided, dated back to 2013 with no further updates since then. Furthermore, several packs were found open. However, up to the time this Report went for publication, these tickets were properly stored in boxes.

Ferries' Overhauls: Budget Overrun and Lack of Segregation of Duties

No public call for quotations was made with GCCL specifically requesting two local service providers to submit their proposals. Moreover, the final amount paid[9], after deducting a discount of 6% as discussed and agreed by a Senior Manager, exceeded the budgeted amount by €51,335 (132%). It also transpired that despite the significant amount involved, the invoice was only approved by the aforementioned Senior Officer. Independent verifications of man-hours and quantities were hindered and no supporting documentation was provided.

Constant monitoring should be in place with significant variances reported in writing to the Board for the necessary action. Moreover, where possible, invoices are to be certified by more than one officer.

Developments: A call for quotations was issued for the 2016 overhaul of MV Gaudos. A difference of €36,318 (excluding Value Added Tax) was again noted between the quoted and invoiced amount, however the expense was borne by the then GF. Although the invoice was endorsed by the latter's Chairman in addition to GCCL's Senior Manager, the latter was still the only person responsible for the oversight of all the works and supporting documentation.

Passenger and Vehicle Count Discrepancies

Discrepancies of 17,985 and 2,988 in passengers and vehicles, respectively were noted between the data extracted from the ticketing system, showing the numbers crossing from Gozo to Malta, and those departing from Mġarr as per the 'Veslog' records. Other significant variances of 88,193 passengers and 15,544 vehicles were noted between the departures from Ċirkewwa and those from Mġarr, reflecting the higher numbers departing from Ċirkewwa[10]. An independent audit exercise commissioned by the Board had revealed the possibility of scanner resetting issues which could lead to serious abuses in ticket recording.

The Company should investigate the discrepancies and ensure that data produced from the scanners is reliable. This shall also be regularly reconciled with manual counts' records, with discrepancies reported in writing to the Board of Directors for the required corrective action.

Developments: Despite that the previous reply by Management stated that they will be working hard to reduce the discrepancies, these were still evident during the current year, as described hereunder, in some instances even with a higher negative variances:

[9] €90,087 excluding Value Added Tax.

[10] Passengers and vehicles departing Ċirkewwa: 2,242,387 and 601,044.
Passengers and vehicles departing Mġarr: 2,154,194 and 585,500.

Table 1: Passenger and Vehicle Records

Description	Ticketing System	Operations Unit Records		Comments
		Mġarr Departures	Ċirkewwa Departures	
Passengers	2,533,555	2,546,908	2,586,092	This implies that 13,353 passengers and 648 vehicles were not recorded in the ticketing system during 2016.
Vehicles	720,626	721,274	737,840	It also shows substantial variances between departures from Ċirkewwa and those leaving from Mġarr of 39,184 in the case of passengers and 16,566 vehicles. In the latter case, the variance has increased by 1,022 (7%) over that reported in 2013 (15,544).

A physical count carried out by NAO on 15 May 2017 also revealed significant discrepancies between the number of vehicles actually on board which amounted to 93, and the figure of 62 vehicles recorded in the Deck Logbooks by the Captain/Chief Officer, which amount is based on the information provided by Terminal Staff.

Further discrepancies were also noted between the Deck Logbooks and Daily Operation Sheets, which information is gathered by the Terminal Staff.

Additionally, a manually written figure in another report (which was first extracted by the Company in 2015), showed that between January and December 2016, a total of 2,334 vehicle tickets were not mapped to any ferry. This means that the tickets were purchased and vehicles proceeded to marshalling area but never made it on the ferry. An exercise undertaken by the Internal Audit Unit upheld this concern and revealed that the actual variance is 2,524.

Internal correspondence dated 26 January 2016 seen by NAO stated that it "... *is pretty obvious that Terminal Duty Officers are tampering with the scanners, and this does not involve only headcounts but ticket sales i.e. revenue*". Correspondence also revealed a rather fragmented approach adopted by Management, confirming once again "*inappropriate synergies between departments*".

Medical Visits

A reconciliation exercise of two reports revealed that data was not reliable. Discrepancies were noted between the number of visits identified by NAO and those invoiced and paid for. It also transpired that extra visit requests were placed through the phone without any supporting documentation. Except for medical certificates, no other feedback was received from the doctor with respect to the visits performed.

One complete record is to be kept indicating all visits requested, which orders shall be placed in writing.

Developments: Regular reconciliations on medical visits are now being carried out by the Finance Unit. However, a check by NAO revealed that, at times, visits were being undertaken by a doctor different to the one appearing on the contract with GCCL. In such instances, no feedback was submitted by the respective doctor.

Rehabilitation Hospital Karin Grech - Personal Emoluments

Background

The outcome of the audit of personal emoluments carried out at the Rehabilitation Hospital Karin Grech (RHKG) was published in the Annual Audit Report of 2013. The main scope of this audit was to verify that, during financial year 2013, salaries paid to various employees, as well as overtime and allowances, were correct. The upkeep of attendance records was also assessed. Other objectives were to determine the level of internal controls and to verify that applicable regulations and agreements were followed.

Audit Scope and Methodology

The objective of the follow-up audit was to determine whether Management had actually implemented the appropriate corrective measures to the issues raised, in line with the recommendations made by the Auditor General in the highlighted Report.

The procedures performed included an introductory meeting with Management in order to obtain an update on the actions taken to address the highlighted shortcomings. The exercise also included the reviewing and analysis of the supporting documentation provided, verifying the extent of the implementation progress as well as the effectiveness of the said actions. For reference purposes, the followed up findings and respective recommendations, which featured in the 2013 Report, are shown in grey text below.

Key Issues

Weak or Lack of Internal Controls

Throughout the audit testing, a number of internal control measures were habitually not being observed, showing clearly that effective monitoring by Management, to ensure that personal emoluments paid are correct, is lacking. Consequently, ineligible or incorrect amounts were paid to the respective officials.

Effective internal control measures are expected to be strengthened, to address risk management. These are fundamental to the successful operation and day-to-day running of the Hospital. It is also recommended that ongoing monitoring activities, to evaluate and improve on the effectiveness of internal controls, are carried out. Spot-checking transactions or basic sampling techniques can provide a reasonable level of confidence that the controls are functioning as intended.

Developments: In order to strengthen the level of internal controls, a qualified Financial Controller was appointed to head the Accounts Section. Furthermore, clerks were directly employed by the Hospital rather than outsourced, resulting in more committed employees due to enhanced job security, which drastically minimised employee turnover and related inefficiencies. In addition, spot checks were carried out during 2016, as recommended.

Statutory Bonuses not paid pro rata

During testing, it was noted that 12 employees working on a reduced timetable were still receiving the full statutory bonuses. It also transpired that, as from their employment dates, ranging between year 1991 and 2013, such bonuses were never paid pro rata, resulting in a total overpayment of €17,041. Following audit enquiries, RHKG alleged that, upon recruitment, six of these employees were promised the full bonuses even though working on reduced hours. Supporting documentation to substantiate this statement was not available.

RHKG is to ensure that it pays bonuses pro rata to employees on reduced hours, in line with Cap. 452, Employment and Industrial Relations Act, Article 24(d).

Developments: The National Audit Office (NAO) verified that during 2016, employees working on reduced hours were no longer receiving the full Government bonuses but correctly paid on a pro rata basis according to the number of hours worked, except for a Nursing Aide to whom the overpayment was immaterial.

Lack of Segregation of Duties

During the audit, it was observed that the Payroll Officer is responsible for most of the payroll functions and is considered as a key person. Due to the lack of segregation of duties, effective internal controls are very limited.

RHKG is expected to step up internal controls and address the issue of lack of segregation of duties. Continuation of the key process is thus to be ensured at all times.

Developments: In December 2015, the present Payroll Officer was requested by the Financial Controller to devise a plan of how to achieve job rotation within the Payroll Department; however this did not materialise. On a couple of occasions during the follow-up audit, Management verbally conveyed its concern that the situation of lack of segregation of duties still prevails.

Control Issues

Prior Requests to perform Overtime not made

Following verification of overtime payments, it resulted that in general, it is not the practice to perform overtime following written requests. RHKG confirmed that, apart from nurses and care workers, Heads of Department verbally ask employees to perform overtime. Moreover, Management requests for approval of overtime to the Permanent Secretary, as required by the Public Service Management Code (PSMC), were not even considered.

Whilst acknowledging that the requirements of a Hospital are different from those of other departments, the need for overtime is to be well defined. Requests for overtime are to be raised in a timely manner to ensure that proper authorisation is granted prior to the commencement of the respective work. Disbursements for the payment of overtime are not to be effected unless the necessary authorisations are obtained.

Developments: In March 2016, the Director General (Finance and Administration), Ministry for Health, instructed all entities to submit summarised quarterly forms to the Permanent Secretary' Office, in order for the latter to approve overtime beforehand as required by PSMC. NAO acknowledges that subsequently RHKG submitted a form for the second quarter of 2016; however, no further returns were submitted for the remaining quarters. According to RHKG, given that after June 2016 the Public Private Partnership project commenced; the Hospital was no longer bound to send such return. However, NAO is of the opinion that for those employees still remaining on the Government's payroll, the relevant public service regulations are still to be adhered to.

Furthermore, during testing it transpired that authorisation by the Head of Section and/or Department was not always sought prior to the commencement of the respective extra hours worked.

Irregular Payments paid to Principal Pharmacist for Ineligible Overtime approved by himself

Although PSMC states that officers above salary scale 7 are not entitled to overtime pay, a Principal Pharmacist above such scale, promoted to Senior Principal Pharmacist with effect from 30 May 2013, received €754 in overtime payments during 2013, covering pay periods 1 to 9. Furthermore, instances were noted whereby the same Officer requested and subsequently got paid for overtime ranging from 12 to 30 minutes, notwithstanding that PSMC stipulates that, "overtime attendances not exceeding half an hour are on no account to be paid for". It also transpired that the overtime and leave were approved by his good self, since the signature approval and that of the applicant were identical.

An exercise is to be carried out by RHKG, in order to identify all employees above salary scale 7, who are receiving ineligible overtime payments. Furthermore, in line with PSMC, employees are not to be paid for overtime of less than 30 minutes. In addition, it is to be ensured that request for payment of extra hours are invariably endorsed by their respective superiors.

Developments: NAO confirmed that both the applications for extra sessions and leave were no longer being endorsed for approval by himself but by the Head of Hospital.

In response to the Management Letter in May 2014, RHKG had committed itself to recoup the undue overtime payments over the next few months. It was only in April 2016, that action was taken to recover the related amount. Moreover, although the applicable refund was effected, the incumbent was still compensated for the respective number of hours by the Head of Hospital by being given the equivalent as Time Off In Lieu (TOIL), which is still an expense to the Hospital.

Furthermore, according to the pay reports provided, the said employee above salary scale 7 still received payments for overtime during the years 2015 and 2016. However, the Financial Controller stated that the foregoing narration is incorrect and misleading, since the payments in question cover remuneration for extra working sessions in line with the sectoral agreement pertaining to Pharmacists and letters of undertaking for each year.

Clause in Agreement with respect to Meal Allowance is open to subjective interpretation

Clause 5 of a side agreement entered into on 10 December 2012 states that "all employees deployed at RHKG shall receive a daily meal allowance of €2.10". However, since this clause does not include specific details for varied instances, such as when an employee is on a day's leave or part thereof, or when working overtime on an off-duty, the entitlement of this allowance resulted in subjective interpretation with the consequence of inconsistencies in the payment thereof.

Discussions are to be held with the respective union and other related parties in order to establish whether deductions to the entitlement as per clause 5 should be formally clarified. Eligibility to the meal allowance is to be clearly defined by means of a side-letter, as well as in future agreements between the Government of Malta and the union/s.

Developments: Since the contents of the clause with respect to meal allowance were deemed to be too sweeping, RHKG had agreed with NAO's recommendation that written clarification was to be obtained from the respective union/s to avoid any misinterpretations. However, up to date of writing this Report, in August 2017, no further documentation was provided in this regard.

Payment of Weekend Allowance

During 2013, a Radiographer received a weekend allowance amounting to €3,536, covering only 76.75 hours at work on a Saturday and/or Sunday. However, it was not clear whether such allowance was to be paid for every weekend, even if the officer's services are not requested by the Hospital, and if he is to attend, what are the expected minimum hours, if any, of attendance.

Furthermore, the payment of a weekend allowance is neither covered by PSMC nor by the sectoral agreements.

Management is to ensure that the applicable rate and conditions of payment of the weekend allowance are formally clarified and endorsed by both the employer and the employee. Furthermore, relevant approvals from the Public Administration Human Resources Office and the Ministry of Finance are to be obtained.

Developments: Notwithstanding Management's commitment to review the issue following NAO's observation, it transpired that the concern highlighted above has not yet been resolved. In fact, between 2014 and 2016, the Radiographer continued to receive a fixed sum per weekend, irrespective of the number of hours of services rendered.

Justification of Allowances not provided

a. Supervision Allowance

An Occupational Therapist received a supervision allowance of €1,541 during the year 2013. However, no documentation substantiating this amount was forwarded to NAO. Furthermore, correspondence provided by RHKG indicates that this allowance was granted by the then Hospital Manager way back in 1993. Since the payment of this allowance neither emanates from PSMC nor from any sectoral agreements, it cannot be ascertained whether the incumbent is still entitled to such payment.

b. On-Call Allowance

On 25 November 1992, a Senior Nursing Manager requested the then Hospital Manager for payment of an on-call allowance for that particular year. However, evidence of such request was not provided. Calculations of this allowance, which have been paid for over 20 years, were also not provided.

If payment of the allowances in question is deemed justifiable, RHKG is encouraged to liaise with the pertinent authorities to obtain the necessary approvals. The Hospital is also to exercise adequate controls and ensure that the guidelines on payment of allowances are strictly adhered to. All authorised allowances are to be reviewed periodically, in order to ascertain whether the conditions under which they were granted are still relevant or not.

Developments: In response to NAO's Report with regard to the supervision allowance paid during 2013, it was stated that "*the Occupational Therapy manager agreed that the allowance should not have been paid and therefore the money will be recouped*". Notwithstanding, effort to recoup such allowance was only made following NAO's audit queries during May 2017, to which the Occupational Therapist incongruously replied that it is unjustified to ask for reimbursement for duties provided in the past.

On the other hand, supervision and on-call allowances are no longer being paid, so no further action was required.

Application Forms not endorsed

As stated by RHKG, "all forms, prior to being accepted and processed by payroll office, have to be signed by the applicant, his/her direct supervisor, by the departmental manager, and head of department. Once said forms are processed by payroll office, said forms are countered signed …". This was applicable for application forms covering overtime, paid leave, change of duty and TOIL. However, this procedure was not always being enforced.

RHKG is to ensure that application forms are duly endorsed as applicable.

Developments: A review of some application forms indicated that the latter are now being endorsed either by the Head of Department and/or Section.

Lack of Control over Time Off In Lieu

Whilst application forms for accumulation of TOIL hours and/or hours to be availed of were provided, these forms were not properly designed to record the opening and closing balances. Thus, correct balances at any point in time could not be determined. Therefore, authorising officers are approving requests without having an indication whether the officers concerned have sufficient outstanding balance, if any. Furthermore, no policies for the accumulation of TOIL are in force.

Controls over recording of TOIL are expected to be strengthened. Officers in charge are also to ensure that records are appropriately updated. A policy is to be drawn up, clearly stipulating the maximum total hours which may be accumulated and the period during which these hours can be availed of.

Developments: Although according to feedback previously given by Management, a policy was to be drafted with regard to TOIL, such copy, at least stipulating the maximum total hours which may be accumulated and the period during which these hours can be availed of, was not provided for audit purposes. Furthermore, the shortcoming previously highlighted by NAO prevailed, since application forms are not properly designed to record the opening and closing balances, with the risk of TOIL being approved without having enough accumulated hours.

In addition, subsequent to audit queries, it was stated that TOIL has to be authorised beforehand. Notwithstanding, a number of application forms revealed that TOIL was approved late, whilst cases were noted whereby even the application form was submitted subsequent to availing of TOIL hours.

Compliance Issue

Return of Allowances not compiled

A bi-annual return of allowances, in line with PSMC and MFEA Circular No. 4/2003, providing updated information regarding allowances paid by RHKG, is not being prepared.

Management is to ensure that an officer within RHKG is entrusted with the responsibility of compiling such return in an accurate and timely manner.

Developments: A bi-annual return of allowances, in line with pertinent regulations, is still not being prepared by RHKG despite Management comments to comply accordingly. As a result, monitoring on allowances, envisaged to be undertaken through the submission of the aforementioned documentation is still being hindered.

RHKG claimed that such return was not compiled since the Public Private Partnership project commenced after June 2016. However, given that workers were to retain their status as Government employees, best practice entails that such return is still compiled and sent to the Ministry for Finance.

Conclusion

NAO opines that the recommendations previously made which are still pending are to be taken on board without further delay. Evidence of any action taken is to be documented and filed for future reference.

Ministry for Sustainable Development, the Environment and Climate Change

Background

The Ministry for Sustainable Development, the Environment and Climate Change (MSDEC) was set up to assume a number of functions previously exercised by the then Ministry for Resources and Rural Affairs. The portfolio of the Ministry varies from Waste Management Strategy to Climate Change and Environmental Policies, Fisheries, Agriculture, as well as Animal Welfare. In 2013, the MSDEC became the Competent Authority responsible to ensure that all structures established in the Sustainable Development Act were set up, along with the necessary administrative support.

The National Audit Office (NAO) published a report entitled 'Ministry for Sustainable Development, the Environment and Climate Change – Expenditure Audit' in the Report by the Auditor General – Public Accounts[1] 2013. The main objective of the audit was to determine the level of existing internal controls over the procurement and payment of expenditure incurred by the MSDEC during the year under review. The audit also aimed to ascertain the efficient administration of public funds in line with existing regulations, policies and procedures, including the prudent use of public resources.

Audit Scope and Methodology

The scope of this follow-up was to enquire on the developments following the MSDEC expenditure audit and to follow-up the extent to which the Ministry has acted upon the recommendations raised by the NAO. Management comments submitted by the MSDEC in respect of the aforementioned audit were also analysed during this follow-up exercise.

Following a thorough analysis of the issues and respective recommendations, as well as management comments published in the 2013 AAR, this follow-up commenced with the preparation of a set of questions. Management replies were further analysed, by requesting supporting evidence to forwarded replies when possible, and asking for additional information on assertions made.

Findings and recommendations proposed by this Office (reproduced in grey text), as featured in the 2013 AAR, as well as developments pertaining to each issue follow.

[1] Thereafter referred to as Annual Audit Report (AAR).

Key Issues

Lack of Sufficient Audit Trail and Documentation

The NAO could not ascertain the financial viability of the selected tender for a Vessel Monitoring System (VMS), since the relative tender document, evaluation report and contract agreement could not be traced. Moreover, the tender submissions and respective evaluation report pertaining to a tender for consultancy services in relation to an Outline Development Application for a wind farm at Wied Rini, limits of Rabat Malta, were not traced by the NAO.

All Government officials are to ensure that adequate and sufficient audit trail is kept without any exception or fail, not only to enhance accountability, but also to substantiate the transparency of the procurement process followed.

Developments: Notwithstanding the effort in trying to trace the missing documentation by going through files at the Department of Fisheries and Aquaculture, the MSDEC confirmed that it was unable to trace the missing documentation pertaining to the tender for a VMS covering years 2010 and 2011. Since the publication of the 2013 AAR, the VMS has been implemented through a separate tender. The Ministry has provided this Office with the respective evaluation report, tender document and contract agreement with the selected supplier, covering the period of 12 months as from 31 December 2013. Ministry officials claimed that due to initial difficulties mostly related to unfavourable weather conditions, the actual project implementation started towards the end of April 2014, instead of January 2014. Thus, the General Contracts Committee approved an extension of 18 weeks to the execution period of the contract, with no additional costs, up till April 2015.

Following the expiration of this contract, the MSDEC requested a negotiated procedure approval to cover immediate requirements of the above-mentioned service for a duration of one calendar year from May 2015 to April 2016. This was granted retrospectively in September 2015, when the Department of Contracts issued the relative approval for 12 months at a cost of €122,790, exclusive of Value Added Tax (VAT). Eventually, a second negotiated procedure with the same supplier was approved by the Contracts Department in October 2016, at an estimated cost of €234,290 (VAT excl.). However, even though the MSDEC entered into such negotiated procedures up to April 2017, no copies of respective contract agreements and any applicable guarantees were provided to this Office in this regard. Evidence of correspondence between Ministry officials, dated October 2016, indicated that the MSDEC had progressed on the specifications required to draft a new call for tenders for the procurement of transmission services for the VMS.

Moreover, this Office was informed that during 2016 there were three existing contracts with the same provider of consultancy services, whose procurement documentation could not be traced in the 2013 audit. Two of these contracts were awarded through tender and one after obtaining quotations. Total payments to this supplier during 2016, totalled €171,665. Out of these, the NAO verified the procurement documentation of the tender for the provision of services in relation to the Appropriate Assessment and Environmental Impact Statement for the proposed Coastal Sea Defences at Marsaxlokk, aggregating to €93,574. Mainly, these included the original tender document, evaluation report, and performance guarantee. The contract agreement between the MSDEC and the service provider was signed in October 2014.

Retrospective Approval for Variation Order

The total contract value for consultancy services for the drafting of tender documents and works supervision for the new fish market facility, was revised upwards from €14,053 to €42,258. Therefore, this not only indicates that the total amount invoiced was substantially in excess of the original tender amount, but that the variation was approved almost 15 months after the issue of the relative invoices, which were settled in the second half of 2013.

Prior to awarding tenders, proper planning, necessary on-site inspections, and designs of projects, are to be carried out by the Ministry, in order to minimise any substantial changes that may arise. It is imperative that variations for additional works, if required, are approved before tasks are actually executed and that such approvals are duly documented.

Developments: The NAO was informed that the contract for consultancy services lapsed in 2015, with the latest invoice dated October of the said year. The MSDEC stated that no other consultancy services for the installation of equipment for the new fish market facility were required.

Management explained that all Contracting Authorities within the Ministry are informed of the necessity to get prior approval in case a variation in any contract agreement is needed. Appropriate forms are available, which templates must be duly endorsed and justified. Subsequently, such documentation is reviewed by the Procurement Section to ascertain arithmetical accuracy and reasons provided, and if accepted, the variation request is passed on for formal approval. All documentation is kept in the appropriate file to ensure visibility and accountability. The respective files are eventually forwarded to the respective authority for necessary action, whilst payments are issued following verification of necessary approvals.

Control Issues

Payments for Veterinary Services not substantiated

This Office could not justify the selection of the successful bidder, as the respective evaluation report was not traced. Only the signed agreement could be traced in file. Since no actual rates were quoted and the veterinary was to conform with current market prices, the rates charged by the clinic in the relative invoices could not be verified. In addition, there was no mechanism in place to verify whether all medicines and consumables listed on individual invoices had actually been utilised during the medication process.

- *The Ministry is expected to improve the manner in which information on the procurement process is held, in order to ensure transparency. All signed agreements are to contain the necessary detail, especially applicable rates to be charged by service providers.*

- *A mechanism is to be in place to control the use of medicines and other consumables paid by the Ministry, based on the number of treated animals admitted to the Clinic. This will enable efficient monitoring and supervision on the service rendered and related costs disbursed from public funds.*

Developments: It transpired that the agreement with the supplier was not renewed. Thus, in August 2015, the MSDEC issued a Government Gazette notice for the tender of a temporary emphyteusis of a site in Ta' Qali, for a period of 25 years, to be used exclusively as a veterinary hospital, providing other auxiliary services, such as a veterinary pharmacy and animal welfare services. As noted in the minutes of the Tender Committee meeting, the only offer submitted for this tender, amounting to €19,450 per annum, was selected. The Ministry provided this Office with the terms and conditions as specified in the contract agreement, as well as the required bank guarantee. During 2016, an aggregate of €40,025 was paid to this supplier.

When this Office enquired on how the MSDEC is ensuring that medicines and consumables listed on the invoices have actually been used, the latter stated that Animal Welfare are monitoring the situation. When a patient is registered, it is given a number and all medicines utilised are entered on the relative record sheet by the Veterinary on duty. A copy of this sheet is eventually sent to Animal Welfare with the relevant invoices, which are checked before proceeding with payment. As confirmed by the MSDEC, the price list covering financial year 2016 was not available, however the NAO was provided with the 2017 pricelist.

Non-adherence to Procurement Regulations

Services in relation to Project Inaugurations procured directly from the Open Market and Consultancy Services by Direct Order

No call for tenders or quotations were requested for a number of services from different suppliers in relation to the inauguration of the Sant'Antnin Family Park and a Christmas Village, both held in 2012. In addition, two consultants were directly engaged by the Ministry, to provide studies for two separate projects, bypassing standing regulations without sufficient justification, one of which even without Finance approval.

Procurement regulations are to be invariably followed in order to ensure accountability and provide equal opportunity to all interested parties. This is also the only way to obtain the most competitive prices for goods and services.

Developments: Upon enquiry by the NAO on two suppliers who provided services on the Sant'Antnin Family Park, the MSDEC confirmed that there was no evidence of any commitments or payments done in favour of the two companies during 2016. No advertising costs had been incurred for a planned similar event in December 2016, since the Ministry officials advertised the event by attending various television programmes and through information uploaded on Nisġet Artna web page. Regarding lighting costs for the event, Management stated that quotations were obtained from possible service providers. Subsequently, it emerged that the event had to be cancelled due to bad weather. Thus, no lighting expenditure was actually incurred.

In view of the fact that the consultants highlighted in the 2013 AAR were no longer being engaged by the MSDEC, the NAO requested a list of consultants who provided their services during 2016. It transpired that the majority of these service providers were engaged directly from the open market, at an aggregate cost of €369,484. Additional information on the procurement of one of these consultants, whose services were approved approximately every six months, was requested from the Ministry. The agreement between the MSDEC and this consultant, who provided his services in respect of camping sites, was effective for a period of six months, starting from July 2013, for a monthly retainer fee of €1,000 (VAT excl.). The relative contract provided for the extension of such services, which extension in effect did materialise, since the consultant received an aggregate of €18,000 (VAT excl.) in relation to services provided as from July 2015.

The NAO requested the Ministry to provide explanations as to why this service provider was engaged directly from the open market on a continuous basis, instead of through the issuance of a departmental tender or a public call for quotations, but no explanation was provided.

Non-compliance with Contract Agreement

With respect to a contract for the supply and delivery of laboratory equipment and consumable accessories to the National Veterinary Laboratory, the report highlighted discrepancies in the amounts charged leading to overpayments, apart from the fact that the bank guarantee was not renewed and the delivery time limits as per Contract were not respected.

- *The Ministry is to ensure that it has adequate controls in order to safeguard its interests, by verifying all invoices against the respective documentation before these are approved for payment. Any overpayments effected by the Ministry are to be recouped as expeditiously as possible.*
- *Bank guarantees should be renewed up till the instance when the contracted suppliers fulfil their obligations.*

Developments: When enquired upon the implementation of any controls to diminish the risk of overpayments, the Ministry explained that as an effort to minimise similar errors, payments are channelled through the Accounts Section at Head Office. Officers are constantly reminded of the need to verify the whole payment procedure in the particular file before this is actually settled through the Departmental Accounting System. Authorisation is subsequently sought from the Head of Section who ensures the accuracy of Payment Vouchers, leading to the final approval for onward transmission to Treasury. Moreover, regular meetings are being held with staff to nurture and enhance ownership of procedures and to serve as a discussion forum on how to improve the system. However, following the NAO query on whether reported overpayments effected by the MSDEC have been actually recouped, the Ministry did not submit a reply in this respect.

The NAO examined the bank guarantees related to five similar contracts in force during 2016 and such review confirmed that they were compliant with the respective agreements.

Invoice dated before concluding Contract Agreement

Whilst reviewing a tender, it was clear that the supplier in question was engaged before the procurement process was concluded.

The NAO strongly recommends that proper procurement procedures are followed. Thus, the service provider is only to be notified to deliver the service in question after the selection process has been successfully concluded and approved by the appropriate authority.

Developments: A new tender for the purchase of ear tags for bovine and small ruminants, was published during October 2016, whilst the respective contract came into effect as from January 2017. The respective evaluation report and contract agreement were submitted for audit verification, with no irregularities noted. According to the MSDEC, up to the time of audit, no purchases and payments had been effected.

Insufficient Details on Invoices and Payment Vouchers

It is important that all invoices issued contain appropriate information that enables the Ministry to carry out the necessary verifications before processed for payment. Such payments are to be accompanied with proper authorisation.

Developments: The NAO enquired with the MSDEC on whether the responsible officers are verifying the details on the respective invoices and Payment Vouchers, as well as proper approval being sought prior to the payment of incineration fees. In this regard, Management stated that such fees are settled as per Legal Notice 203 of 2011 – Environment and Development Planning Act (Cap. 504) – Deposit of Waste and Rubble (Fees) (Amendment) Regulations, 2011. Slaughter Houses fees are charged at the rate of €50 per tonne. Their waste is transferred to WasteServ Malta Ltd by the Public Abattoir's personnel, where weight is taken on arrival. This is recorded on the consignment document, which is checked against the invoice received from WasteServ Malta Ltd and marked accordingly. Once verified as correct, the invoices are signed by the Chief Officer Public Abattoir and sent to the personnel in charge of accounts for payment.

Bank Guarantee not available

The respective bank guarantee of 10%, as specified in the contract agreement, relating to awarded tenders whose value in aggregate totalled €351,564, was not traced in file.

The MSDEC is to ensure that suppliers honour the terms and conditions specified in the relative agreement, in particular by issuing the required bank guarantee on signing the contract.

Developments: With respect to the two suppliers reported upon in the 2013 AAR, the agreement with one of the suppliers was not renewed. On the other hand, the second supplier continued to provide services to the MSDEC up till December 2016. Such services were procured through three tenders, one quotation and one direct order, totalling €150,860 (VAT excl.). The tender documentation of the highest tender for €93,574 was examined by the NAO. A guarantee was issued by the service provider, amounting to €9,357, in line with the requirement as per tender document.

Compliance Issues

Lack of Compliance with Standing Travel Regulations

Officers entrusted with the responsibility of official visits are expected to adhere to the pertinent regulations to enhance accountability in relation to the expenditure incurred.

Developments: Management stated that Air Malta p.l.c. is being requested to quote for each and every travel occurrence. In fact, following a review of selected 2016 visits from the list provided by the MSDEC, no negative issues were noted in respect of flight quotations and these were requested in accordance with the Public Service Management Code.

Non-submission of Fiscal Receipts or Tax Invoices

Lack of compliance with existing fiscal directives, indirectly contribute to a loss of revenue to the Government and the possible undeclared income by the service provider. Hence, in cases where VAT is applicable, the MSDEC is to ensure that it is invariably issued with a valid fiscal receipt or a tax invoice by all suppliers, depending on the VAT status of the Ministry.

Management is also to ascertain that applicable regulations are adhered to, and complete returns are submitted to the VAT Department on a regular basis to report defaulters.

Developments: The MSDEC officials maintained that they are periodically verifying that paid suppliers are providing the Ministry with a fiscal receipt. In the absence of such receipt, a reminder is sent to the respective supplier accordingly.

Moreover, upon the NAO's enquiry on whether the MSDEC is submitting the VAT Quarterly Returns, the latter reported that a revision exercise was initiated in 2015, but the officer responsible to perform such task was transferred with no replacement. Due to capacity shortage, the MSDEC suspended this exercise. Nevertheless, as an effort to remedy the situation and adhere to pertinent regulations, the Ministry is liaising with officials from the VAT Department to get the necessary guidance on the matter.

Conclusion

The majority of the shortcomings as reported in the 2013 AAR have been addressed by the MSDEC. However, this follow-up also confirmed that a number of recommendations have not yet been fully implemented, as portrayed below:

- Contract agreements and applicable bank guarantees not forwarded to this Office.
- Repetitive engagement of consultant directly from the open market for consultancy services, with no justification being forwarded on the selection method.
- No information as to whether the overpayment identified by the NAO has actually been recouped.
- Non-submission of fiscal receipt defaulters to the VAT Department.

Police Department - Personal Emoluments

Background

The Malta Police Force (MPF) as at 31 December 2013 comprised 1,942 officials, a number of them related directly to community policing, based in their respective districts. The remaining members were posted in several sections of MPF.

Another 120 civilians (on average) were employed with the Police Department, with approximately 50% being Immigration Officers posted at the Malta International Airport p.l.c. and the rest allocated within the Finance and Administration Directorate, the Police Garage, Ta' Kandja Academy, Forensic Office and Gozo.

The original audit focused on salaries, as well as overtime and allowances paid to a sample of 13 employees with different designations, comprising an Assistant Commissioner, a Superintendent, two Inspectors, a Sergeant Major II, a Police Sergeant, five Police Constables, a Woman Police Constable and a civilian in the grade of Senior Clerk.

It also sought to determine the level of internal controls and to verify that the Conditions of Service for MPF and other applicable regulations were duly followed.

Audit Scope and Methodology

This follow-up audit assessed the extent to which Management had made satisfactory progress by the end of April 2017, in implementing the recommendations proposed in the previous Report.

Following a thorough analysis of the issues and respective recommendations, as well as Management comments published in the 2013 Annual Audit Report (AAR), the follow-up audit commenced with an introductory meeting with officials from the Police Department and the preparation of a questionnaire that was sent to the auditee. Management replies were eventually analysed in line with supporting documentation provided, to determine the degree of progress made by the Department in implementing the recommendations. The National Audit Office (NAO) also assessed to what extent the proposed actions were implemented by requesting further supporting evidence and additional information on assertions made.

The findings and recommendations proposed by this Office (reproduced in grey text), as featured in the 2013 AAR, as well as developments pertaining to each issue, follow hereafter.

Key Issues

Lack of Internal Controls

From verifications carried out on the payroll process of a sample of employees, it transpired that internal controls in various areas were lacking, indicating that little or no monitoring was in place to reduce the possibility of errors.

Despite that the Police Department engages over 2,000 public officers, there is no internal audit mechanism to ensure efficient use of resources. During the year under review, only an average of five officers were directly responsible for the payroll process of salaries of all employees.

Strong internal controls are essential in assisting the Department to mitigate financial risks and achieve its objectives to manage public funds entrusted to it more efficiently.

Developments: In its reply, to the Audit Report for the year 2013, Management had stated that authorisation was in the process of being requested from the Ministry for Home Affairs (MHAS) for the recruitment of an internal audit officer earmarked to carry out a review of the salaries paid.

Although at the time of this follow-up audit an internal auditor was not yet appointed, on 28 April 2017 a new Police Act was enacted. One of the major changes that the new legislation will bring about is the setting up of an Internal Audit and Investigations Unit. This Unit will be entrusted with the internal supervision of the workings of the Force, to ensure its accountability.

Management confirmed that the only present control mechanism is the vetting carried out by the Head of the Salaries Section. At the time of this follow-up, there were only four full-timers and one part-timer performing tasks related directly to salaries. The Department was not in a position to request additional staff for this particular Section, since discussions about the transfer of back office work to Gozo were underway. This process was delayed since no more Gozitan employees within the Civil Service were willing to be posted in Gozo. This impasse was solved with new intakes and it is anticipated that the shift will start taking place shortly.

In the meantime, effort was being made to facilitate the work involved and to engage in more rigorous checking by amalgamating returns for allowances and overtime into one sheet in order to enhance controls and facilitate the identification of overlaps in claims submitted.

Computation of Sunday Allowance not substantiated

Payments for shifts falling on a Sunday, both for the Police officers and civilians, were still being computed in accordance with an internal circular issued in 1993, which was in actual fact superseded in 2012 with the Conditions of Service for MPF, which state that Sunday attendances are to be regulated by the Public Service Management Code (PSMC).

NAO re-calculated the Sunday allowances paid in 2013, as specified in the PSMC section 3.2.6.2(b). This resulted in an overpayment of €144,203[1], with respect to an aggregate difference of 20,523 hours.

[1] This does not include any overpayments made in cases when the Sunday duties were less than eight hours, since it was not possible to calculate the respective amounts.

Officers in charge are to ensure that the most recent official instructions are followed. In the case of Sunday allowances, PSMC provisions are to be complied with. Reference is to be made to the competent authorities for further guidance, if further clarification is deemed necessary.

Developments: Since the publication of the AAR 2013, the Police Department addressed this matter as the provisions stipulated in the PSMC are now being followed.

Weak Budgetary Control on Overtime

No formal approval was sought from the relevant Permanent Secretary for the performance of overtime work not exceeding three months. Management within the Finance and Administration even confirmed that it was not aware of such approach.

Requests for overtime are to be raised in a timely manner to ensure that proper authorisation from the Permanent Secretary is granted prior to the commencement of the respective work. The requests are expected to include the total number of hours of overtime required, as well as justification and specific targets to be attained during overtime hours.

Developments: Two copies of 'Request for Overtime Works' raised in 2016, provided by the auditee, indicate that Management had tried to implement the above recommendations. However, in one of these two cases, overtime relating to the period from 7 March to 11 May 2016 was endorsed by Director of Finance and Administration on 22 March 2016. The approval by the Permanent Secretary was undated; thus it could not be ascertained that such authority was obtained before the work was actually performed. Moreover, the other approval, covering overtime from 22 to 25 April 2016, given by the relevant Assistant Commissioner and Permanent Secretary, were both undated.

A Letter Minute titled 'Overtime Returns', dated 20 December 2016, was issued by the Assistant Commissioner (Human Resources) instructing that such forms are to be duly authorised and rubber stamped by the respective Assistant Commissioner prior to the approval by Permanent Secretary.

Control Issues

Divergences from the Conditions of Service not formally approved

Signed addenda were not in place with respect to divergences from the Conditions of Service for MPF which was signed on 7 August 2012, with respect to Special Duty, Disturbance and Shift allowances paid.

Prior to implementing any instructions, officers are to ensure that addenda are in place and formally endorsed as applicable.

Developments: A new Sectoral Police Agreement was being discussed between the two Police Unions, the Industrial Relations Unit, MHAS and the Police Department. The addenda in question form part of these discussions.

Shortcomings in the Returns of Overtime and Allowances

From the review of a number of returns, covering overtime and allowances for the 13 officers falling in the audit sample, the following were noted:

- *several inaccuracies in the computation of hours;*
- *time in and out not indicated;*
- *returns not endorsed from higher authority prior to payment;*
- *incorrect rates of overtime;*
- *claims for payments submitted late for endorsement, at times even 10 months later; and*
- *a case of double payment.*

These errors remained undetected, notwithstanding that officers in charge for payments were endorsing the requests to be processed for compensation. Thus, it is evident that no verification on the correctness of details therein was being carried out.

The Department is to ensure that internal controls are immediately strengthened. Returns for both overtime and allowances are to be duly endorsed as applicable, following proper verification and before any payments are issued.

Management is also encouraged to inform employees that unless relevant returns are compiled and submitted within a specified timeframe, these will not be processed for the respective payments.

Developments: The majority of these shortcomings were addressed by the introduction of a consolidated application form to simplify the process of verification. The amount that was incorrectly paid twice to an officer within the sample, was also recouped as recommended by NAO.

Overpayments made to a Retired Police Sergeant

A net overpayment of €707 was noted in the allowances and overtime paid to a Police Sergeant, who commenced pre-retirement leave in October 2013. The discrepancy was the result of the following:

- *an incorrect computation of Sunday allowance;*
- *a police force allowance paid during pre-retirement leave, in breach of the standing provisions of PSMC;*
- *an overtime return presented for payment twice for the same dates and time; and*
- *two overtime requests on a particular day overlapped by an hour and were still paid accordingly.*

Independent verification is to be carried out in order to strengthen internal controls. The Police Department is also expected to make an effort to recoup these overpaid amounts.

Developments: A letter of request was sent by the Salaries Section to the officer in question to refund the amount. However, the amount was waived following a meeting the officer held with the then Director of Finance and Administration. The latter had informed Salaries Section that the issue was settled and no additional letters were to be sent.

Payments made in excess of Entitlements

a. Paid at Overtime Rates although not exceeding the Weekly Hours

A Woman Police Constable, selected in the audit sample, worked on a reduced timetable of 35 hours per week. However, in two pay periods, she was remunerated at overtime rates rather than at the normal hourly rate, for 34 extra hours claimed, even though the respective total number of weekly hours worked did not exceed the full-time schedule of 46 hours required by PSMC section 5.4.1.7(d).

It is to be ensured that officers working on reduced hours are only remunerated at overtime rates for those hours exceeding the 46 hours per week. Furthermore, officers in charge are to thoroughly review overtime paid to employees on a reduced timetable, in order to recover any ineligible payments.

b. Double Payment of a Special Duty Allowance

A Police Constable eligible to receive a special duty allowance, has been incorrectly receiving this allowance of €96.76, twice every pay period, since 10 September 2012. The Police Department upheld this observation, also stating that this error was brought to the attention of the Salaries Section in May 2014. Together with the Gozo Central Salaries Section, they commenced working on the amounts needed to be recouped, which totalled €2,136. Deductions to recover the overpayment from the Officer's salary were due to commence with effect from September 2014.

The Department is to exercise the necessary controls in order to ascertain that officers are paid what they are actually entitled to.

c. Topping-up Allowance

A Senior Clerk engaged as an Immigration Officer was receiving an overstated amount of topping-up allowance.

An exhaustive exercise is to be carried out in order to re-calculate the amounts paid as topping-up allowance and carry out the respective adjustments accordingly.

Developments: In its reply, to the Audit Report for the year 2013, Management stated that the exhaustive exercise will be carried out following the recruitment of an internal audit officer. However, since up to the time of audit this position was not yet designated, only the amounts incorrectly paid to the officers in question have been recouped.

Lack of Training to Staff

The officers currently responsible for salaries verbally stated that they were neither given any training, nor an appropriate hand-over when they took over their new tasks of computing the salaries. It was also claimed that in the circumstances, documents and workings of previous salary payments, many of which were not backed up by any explanations, were the main reference.

Appropriate training from knowledgeable and experienced sources is expected to be given to the officers in charge of salaries.

Developments: According to Management, since courses related to payroll management are limited, all efforts have been made to ensure that relative staff is made aware of changes in the PSMC and other related manuals.

Good Honours Allowance

During the year under review, eight officers received an aggregate amount of €4,484 with respect to good honours allowance, which payment relates to a qualification allowance amounting to €582 annually, as per section 3.4.1 of GHQ Circular No. 63/1993. However, the good honours allowance was not included in the new Conditions of Service for MPF, dated 7 August 2012.

Since an Honours qualification is equivalent to Level 6 - Bachelor's Degree (Honours), payment to these eight officers should have been revised downwards to read €465.87 annually, to cover the qualification allowance. Furthermore, the terminology also requires to be amended accordingly.

It is to be ensured that the rate paid complies with that stipulated. Any overpayments are to be recouped.

Developments: All good honours allowances were traced and adjusted to read accordingly in the payroll system. However, no overpayments were collected.

Compliance Issue

Return of Allowances not compiled

A bi-annual return of allowances in line with PSMC section 2.4.1.2 was not prepared by the Police Department since June 2012.

Management is to make sure that bi-annual returns, to report all allowances being paid out to employees, are compiled as required by PSMC, in an accurate and timely manner.

Developments: These returns are now being compiled by the Civilian and Police Human Resources Sections.

Conclusion

The Police Department has taken various measures to address the shortcomings reported in the 2013 AAR. One would expect that the eventual set up of the Internal Audit and Investigations Unit will enable the Department to further improve its internal controls.

St. Vincent de Paul Residence

Background

St. Vincent de Paul Residence (SVPR) falls under the portfolio of the Ministry for the Family and Social Solidarity. The residence is Malta's largest state-funded residence for older adults, catering for more than 1,100 residents, with the residents contributing 80% of their retirement pension and 60% of their other income. As at the time of writing of this Report, the multidisciplinary healthcare professional and non-caring staff manning the Residence accounts to a population of 1,090 employees.

The National Audit Office (NAO) published a report entitled 'St. Vincent de Paul Residence – Expenditure' in the Report by the Auditor General – Public Accounts[1] 2013. The main objective of the audit was to determine the level of existing internal controls over the procurement and payment of expenditure of selected line items incurred by the SVPR during the year under review. The audit also aimed to ascertain the efficient administration of public funds in line with existing regulations, policies and procedures, including the prudent use of public resources.

Audit Scope and Methodology

The scope of this follow-up was to enquire on the developments following the SVPR expenditure audit and to follow-up the extent to which the SVPR has acted upon the recommendations raised by the NAO. Management comments submitted by the SVPR in respect of the aforementioned audit were also referred to during this follow-up exercise.

Following a thorough analysis of the issues and respective recommendations, as well as management comments published in the 2013 AAR, this follow-up commenced with the preparation of a set of questions. Management replies were further analysed, by requesting supporting evidence to forwarded replies when possible, and asking for additional information on assertions made.

Findings and recommendations proposed by this Office (reproduced in grey text), as featured in the 2013 AAR, as well as developments pertaining to each issue follow.

[1] Thereafter referred to as Annual Audit Report (AAR).

Limitation on Scope of Audit

During the course of the audit, the kitchen facility at the SVPR was closed down. To this effect, the NAO did not carry out an audit of the Provisions Store, which provided food supplies to the kitchen on a daily basis.

Developments: The NAO was informed that a strategic decision was taken for catering services to be outsourced. To this effect, a tender for 10 years was issued, however, an objection and appeal were filed at the Law Courts by one of the bidders in relation to this tender. As a temporary measure, a Negotiated Procedure Direct Order (DO) was awarded and a contract, effective as from 21 July 2014, was entered into with a supplier with the possibility of extension every six months at the 'sole discretion' of the SVPR.

In the beginning of the year under review, approval was granted by the Department of Contracts for the SVPR to enter into a negotiated contract with the same supplier, covering the period January to July 2016, for an estimated cost of €2,040,640. A further extension was awarded in July 2016 for the period up till January 2017, for the same amount exclusive of Value Added Tax (VAT).

The SVPR's Management stated that in February 2017, the Court case was decided in their favour. Consequently, the financial package stage of the tender was opened, and the evaluation process initiated.

Key Issues

Repetitive Quotations requested instead of Public Calls

The NAO found evidence of this practice during the procurement of various food items and thin fuel oil.

- *Procurement is to be made, as much as possible, either through departmental calls for tenders, or by means of public calls for quotations that are published in the Government Gazette, as regulated by the Public Procurement Regulations (PPR). Besides ensuring better control, adherence to these requirements is intended to provide more transparency, value for money for the items purchased, as well as promote fair competition.*

- *In view of the lengthy departmental tender procedures, better planning is to be made well in advance so as to publish public calls in time.*

Developments: Management stated that as from 2014, the SVPR started issuing calls for tenders and quotes in respect of requisitions exceeding €2,500. The SVPR confirmed that all calls that exceeded the threshold were issued through e-tenders and published in the Government Gazette as regulated in the PPR.

Furthermore, a new accounting setup in charge of procurement processes was implemented, where five additional officers were engaged within the Procurement Section, namely a Financial Accounting Officer and five other Accounting and Procurement Officers. Furthermore, two additional officers were engaged within the Capital Account Section.

According to the SVPR, over 95% of food provisions are being obtained through the temporary contract measure. Other minor purchases will be covered in the issued tender which is still under evaluation as stated earlier.

Following the NAO's request as to whether a tender has been issued in respect of the supply for thin fuel oil, the SVPR stated that it has converted its boiler system to Liquefied Petroleum Gas (LPG). This conversion was regularised by a tender, followed by a contract signed in October 2016, covering a period of 15 months, for an amount of €109,430 (VAT excl.). With regards to the period January to October 2016, the SVPR acquired LPG from two different suppliers through a Call for Quotes, for an aggregate amount of €49,500 (VAT excl.).

Moreover, a separate tender for potable water was awarded in mid-August 2014 for a period of five years, amounting to €100,000 (VAT excl.), whilst another tender for body wash lotion valued at €117,998 was awarded in late February 2015 for a period of two years. Payments to date on both tenders as per Departmental Accounting System (DAS) were checked and found to be within established thresholds.

On the other hand, a Letter of Acceptance (LA) for the provision of lift maintenance and upkeep services was issued in October 2014, for a period of three years, totalling €48,630. Upon reconciling the total as per contract (€48,630) with amounts paid as extracted from DAS, for the period covering 2014 – 2016 (€64,765), it was noted that the threshold was exceeded by €16,135.

Purchases from Suppliers with Expired Contracts

Management is to ensure that proper mechanisms are in place to monitor the expiry of contracts, in order to avoid similar occurrences in the future. SVPR is to issue a new departmental call for tenders for the procurement of materials and supplies in a timely manner.

Developments: The SVPR stated that a list of all relevant tenders had been compiled and is being updated accordingly. To this end, a soft copy of this list was presented to this Office, in which pending contracts were provided, featuring amongst others, the duration, commencement and termination dates.

Procurement from the Open Market instead of utilising prevailing Period Contract

It is important that all purchases are made from those suppliers with whom period contracts are entered into and at the pre-agreed prices. Any deviation from contracts in place, which should be the exception and not the rule, have to be clearly justifiable and appropriately approved.

Developments: Management stated that the "*SVPR always tries to utilise the period contract. It is only in those exceptional circumstances, where necessary items are urgently needed and in those circumstances where the contractor cannot honour the period contract, are items procured directly from the open market"*. Furthermore, the SVPR replied that during the year under review, there were no instances where purchases were made directly from the open market instead of from the newly introduced period contracts.

Procurement from the Open Market without Appropriate Approval

Testing revealed that repetitive procurement of a number of supplies and repairs were not carried out in accordance with procurement regulations. Total payments in this regard, made to three different suppliers, amounted to €330,725.

- *The SVPR is to invariably adhere to the requirements of the PPR, to ensure fairness and provide equal opportunity to all interested parties in the provision of goods and supplies paid from public funds. Approvals from the Ministry for Finance (MFIN) for DO should only be requested in exceptional cases as* *spelled out in MFIN Circular No. 3/2013, in order to ensure accountability and a competitive procurement process.*

- *Moreover, the SVPR is expected to regularise the position of those suppliers and service providers not engaged according to standing procurement regulations.*

Developments: Purchases of various dairy products was no longer procured by DO, but was assimilated in the DO contract for the provision of meals. As already discussed above, this temporary contract measure is being adopted by the SVPR until the tender adjudication for catering of services is finalised.

The procurement of LPG and lift services has already been reported upon in this follow-up Report.

Considerable Accrued Expenses defrayed out of 2013 Vote

The 2013 AAR reported that substantial claims are repeatedly spilled over from one year to the next, since most of the allocated budgets are utilised by mid-year.

Invoices are not to be left to accumulate, but settled within the least possible time to avoid any negative implications.

Developments: Approvals by MFIN were provided to the SVPR for additional funding or virements. It was indicated that although the majority of these funds were used to settle the SVPR expenditure, some were also used for payments related to expenditure made by the Government in respect of Homes for the Elderly. These additional funds were utilised as follows:

- Extra Hours of Care at SVPR – €680,000
- Catering Services – €1,000,000
- Further augmentation of Revised Budgets
  - Item 16 Allowances – €964,000
  - Item 17 Overtime – €317,000

An analysis of data extracted from DAS indicated that the majority of unpaid 2015 invoices (€2,622,511) which were settled in 2016, related to the period June to December 2015 (€2,470,781).

Lack of Communication between the two Finance Sections

During the 2013 expenditure audit, the NAO noted that the accounting function of the SVPR was performed by two different Finance Sections, one located at the Residence and another located at the then Elderly and Community Care Department (ECCD) in St. Venera. Local Purchase Orders (LPOs) and Payment Vouchers were raised by the latter, whilst purchase requisitions and procurement procedures, including checking of prices quoted in the invoices received against the applicable documentation, were carried out by the SVPR.

The audit revealed that there was a lack of communication between the two Finance Sections. This resulted in responsibilities for both Finance personnel not being formalised. Consequently, there was a time-lag between the purchase request raised by the SVPR and the respective LPO issued by the then ECCD.

To mitigate the abovementioned shortcomings, the entire process of procurement, and its accounting, is to be performed as one central unit.

Developments: This Office requested an update about the current state of affairs with regards to the amalgamation process between the two Finance Sections. Management stated that the recruitment of officers to date, led to a strong setup covering the management of procurement and capital transactions. A mirror setup was being proposed to create the necessary structure to take over the recurrent expenditure. The procurement structure at the SVPR managed to organise all its procurement, thus providing an efficient process for the management of expenditure. Consequently, the SVPR stated that such efficiency on their part is positively affecting the administrative function capability in St. Venera.

Control Issues

Local Purchase Orders/Letters of Acceptance dated after Suppliers' Invoices

The SVPR is to ensure that officers observe the standard purchasing procedure, which is to issue an LPO or LA as applicable before placing an order for goods or services. This will ensure that proper authorisation for the purchase is obtained and adequate funds are committed to cover the expense.

Developments: Management maintained that emphasis was made not to purchase any items before the respective LPO is issued. However, although the practice of issuing the LPOs before purchases was adopted for most of the year, there were circumstances where this procedure was not adhered to, according to the SVPR. Management stated that this lack of conformity was brought about due to budget constraints and commitment of funds not being always possible in the last quarter of the year. Any pending commitments were then honoured immediately in the following year.

No Contract signed for Awarded Tenders

The SVPR failed to provide a signed copy of a formal contract entered with two suppliers, who were awarded a tender for oxygen cylinders and gas oil for 2012 and 2013 respectively. In aggregate, the awarded tenders amounted to €314,015. Only LAs issued to these suppliers were presented, the terms of which were not agreed up by same.

The successful bidder's engagement is to be duly backed up by an agreement, signed by the parties involved, indicating the applicable terms and conditions. Alternatively, the service provider has to officially accept the conditions specified by tender, following receipt of the LA.

Developments: For the year under review, a tender for the Supply of Medicinal Oxygen was issued through the Central Procurement and Supplies Unit. Such tender covered the provision of this supply to Mater Dei Hospital, the SVPR and all other hospitals and/or clinics. Management submitted a summary of purchases made from the supplier for the amount of €142,366, which amount covered supplies to the SVPR only.

With regards to the provision of gas oil, the SVPR's decision to convert its boiler system to run on LPG instead of gas oil, has already been covered in this Report.

No Clear Evidence of Certification of Delivered Goods

Invoices are to be properly endorsed by the Store Officer concerned, certifying that goods and services were adequately received before payments are effected.

Developments: The SVPR indicated that the system adopted in the certification of delivered goods was strengthened with the re-organisation of the SVPR's stores and the allocation of Stores and Distribution Officers. Furthermore, a new Information Technology system was implemented, while at the same time, goods received by the Store Officer are physically being checked. The invoice and/or delivery note is being verified against the Purchase Order and Requisition Form. This is subsequently sent to the Accounts Section. The invoice is then verified to eliminate the possibility of any mistakes, compared to the Purchase Order, and if certified correct, clearance is given for payment.

Compliance Issues

Non-Submission of VAT Quarterly Returns

Quarterly Returns, highlighting those suppliers not complying with VAT regulations, are to be duly filled in and submitted to VAT Department in a timely manner for necessary follow-up.

Developments: Management confirmed that VAT Quarterly Returns are being submitted in compliance with existing directives. This Office was forwarded copies of Returns.

Awarded Contracts not Published in the Government Gazette

Officers entrusted with the responsibility of issuing Departmental tenders are to be fully aware of all relevant circulars and to ensure compliance accordingly.

Developments: Management confirmed that such lists are being published in the Government Gazette, copies of which were forwarded to this Office.

Conclusion

The NAO satisfactorily noted that the majority of shortcomings were addressed by the SVPR. This Office however notes that the concerns relating to accrued expenses defrayed out of the current year's vote and the LPO/LAs dated after suppliers' invoices, still need to be appropriately addressed.

Welfare Committee

Background

The Welfare Committee was established as per the Social Security Act (Cap. 318) and is made up of a Board appointed by the Minister, consisting of a Chairman and not less than eight other members. The functions of this Committee, as outlined by this Act, are mainly to administer funds for the benefit of elderly residents of state-financed institutions for medical care, and those in state-owned homes for the care and welfare for the elderly.

The National Audit Office (NAO) published a report entitled 'Welfare Committee – Recurrent Expenditure' in the Report by the Auditor General – Public Accounts[1] 2012. The principal objective of the recurrent expenditure audit was to verify the validity of expenses incurred and ascertain the adequacy of procedures adopted for the procurement of goods and services.

Audit Scope and Methodology

The scope of this follow-up audit was to enquire on the developments following the above-mentioned audit to document the extent to which the Committee has acted upon the recommendations put forward by the NAO. Management comments submitted by the Ministry in respect of the aforementioned audit were also referred to.

The audit commenced with the preparation of a set of questions relating to findings and management comments that featured in the 2012 AAR. Certain questions were tackled by the Welfare Committee, while others were dealt with by the Department of Active Ageing and Community Care (AACCD). Submission of management replies were further analysed, by requesting supporting evidence to forwarded replies when possible, and asking for additional information on assertions made. Meetings were also held with the respective officials of both the Committee and the AACCD, in order to further discuss and conclude issues.

Findings and recommendations proposed by the NAO as featured in the 2012 AAR are reproduced (in grey text). Developments pertaining to each issue follow.

[1] Thereafter referred to as Annual Audit Report (AAR).

Key Issues

The Welfare Committee

The NAO expressed concern to the fact that the Welfare Committee had been operating without a Chairman and Board members for five years, with the consequence that the Financial Statements of the Committee from 2007 to 2011, although prepared, were not yet approved.

Moreover, a report on the activities of the previous year as required by the pertinent Act, was not prepared and submitted to the Minister. Another concern was that the functions of the Committee were 'integrated' within the then Elderly and Community Care Department (ECCD) and the Committee's funds were also being utilised by the Department.

- *It was recommended that a Board and the respective Chairman, are to be appointed without further delay.*
- *Any use of the Committee's financial allocation for settlement of third party expenditure, including the then ECCD expenditure, is to be officially authorised by the Ministry for Finance.*

Developments: It resulted that the Committee's first Board, consisting of a Chairman and eight members, was appointed by the Minister as from 15 December 2014 for a period of one year. The respective letters of appointment for the said period were the only ones made available. Even though the NAO was verbally informed that the same Board was reappointed, no other appointment letters were forwarded in this respect.

The audited Financial Statements for the year 2015, were not made available for audit purposes. However, the report on the activities of 2015, dated March 2017, was duly forwarded.

Moreover, from correspondence made available, it transpired that during the course of 2016, the Welfare Committee and the AACCD agreed that the former would cover expenditure of projects required for residential homes to be initiated and/or completed in the coming years. In fact, agreement was reached on a number of projects exceeding €800,000 excluding Value Added Tax. Moreover, in November 2016, the Ministry for Finance approved the suppression of the Committee's Line Item by €600,000, whilst the Line Item for Contractual Services of the Department was augmented by €1.4 million.

According to the Committee, no payments were effected during 2016. The AACCD and the Welfare Committee are in agreement that the latter is to settle payments for funded projects upon receipt and scrutiny of relevant invoices from the Department. These invoices have to be certified that works had been carried out to the satisfaction of the Department. All these projects were still underway up to the time of audit.

Provision of Care Workers

The provisions of a contract for the provision of care workers for services at Saint Vincent de Paul Residence (SVPR) and other Homes were contradictory, besides noting that certain contract conditions were not adhered to. A lack of control over attendance records was also identified.

- *Provisions within a contract are to be clearly defined and consistent, and that all conditions are adhered to, without exception or fail.*
- *The introduction of an automated verification system was recommended, within sites managed by the then ECCD, to improve control and facilitate eventual checking.*

Developments: The NAO was informed that the provision of care workers at the Mellieħa Home are administered by the AACCD and payments are issued through the Department's Line Item 30. In fact, the Department provided a copy of the contract agreements entered into during 2016, between the then ECCD and a service provider.

This Office was verbally informed that the contract agreements in relation to the other residential homes are administered by the SVPR. Copies of the respective Department of Contracts (DC) negotiated procedure approvals, as well as Letters of Acceptance (LA) and agreements for 2016, were also made available.

The AACCD also stated that the contractual obligations are regularly monitored by the Quality Care Team. Considering the dimensions of service provided and associated risks, requests have been made to establish a Quality and Compliance Unit, as part of the Department's structure. According to the AACCD, this should partly address resources' limitations within the Quality Care Team. The Department also liaises with other entities/departments in order to safeguard compliance to contractual obligations.

The Department also indicated that whilst the installation of automated systems would aid in better verifying the attendance of subcontracted employees, this may be difficult to introduce on each site where subcontracted employees work. In view of this, the Department is continuously maintaining attendance sheets of subcontracted employees, as well as carrying out onsite checks, to ensure that service is provided according to agreed terms.

Provision of Free Domiciliary Nursing, Carer and Midwifery Services in Malta and Gozo

The statute of the then Malta Memorial District Nursing Association (MMDNA), stated that upon its liquidation and the eventual dissolution, and after the satisfaction of all its debts and liabilities, any assets whatsoever shall be given or transferred to similar organisations or to governmental health care.

The NAO recommended that Government-owned assets should be identified and the list regularly updated, to ensure Government's interests are duly safeguarded.

Developments: The contract between Government and the then MMDNA, which previously provided these services, was terminated in October 2015. The AACCD forwarded a copy of the Termination and Mutual Release Agreement entered into with the then MMDNA, a list of assets owned by the latter, as well as correspondence, whereby the then ECCD agreed to pay the then MMDNA the net amount of €339,512 in fulfilment of its contractual obligations. The NAO was provided with two Payment Vouchers substantiating the payment of the said amount.

Limitations within the CommCare Assessment Unit

The CommCare Assessment Unit was set up in 2005 to provide a reference point for patients requiring the service provided by the then MMDNA. The NAO remarked that the computer system in use by CommCare was rather limited in its relevance and could not be used to confirm the information provided by the contractor. Moreover, it was observed that the services rendered by the Association to the Armed Forces of Malta (AFM), were being charged to the Department, without having the means to confirm the veracity of the number of visits invoiced.

- *The computer system is to be enhanced to enable the Unit to provide the necessary reports, as well as to verify information supplied by the contractor.*

- *It is also recommended that visits and the relative invoices are to be substantiated before the respective payment is made.*

Developments: In the absence of the then MMDNA, another service provider took over, and thus the role of CommCare has not changed. The AACCD also stated that databases have not been implemented as yet. However, detailed studies were performed during 2015-2016, in collaboration with the Information Management Unit within the Ministry for the Family and Social Solidarity and the Malta Information Technology Agency, with the aim of having a robust Information Technology (IT) system. Management indicated that a tender in this respect is expected to be published in 2017.

The Department explained that when an invoice is received from the service provider, there is no distinction between interventions performed in normal households and at the AFM barracks, with the latter having minimal number of visits. Management pointed out that routine verifications are made by CommCare Assessment Unit, prior to issuing of payments. In fact, an example of such verifications was forwarded to the NAO.

Control Issues

Incontinence Supplies for various Government Institutions and Residential Homes for the Elderly

The NAO had observed that procurement was made following an expired contract, as well as, after obtaining requests for quotations directly from the open market.

It was recommended that Public Procurement Regulations (PPR) are to be invariably followed. Thus, procurement, depending on the value planned to be disbursed, is to be made through the appropriate channels. Similarly, when obtaining quotations, these should at least be obtained through a public call.

Developments: A tender for the supply of incontinence diapers and bed under pads, was published by the DC on behalf of the Welfare Committee. However, following a long series of clarifications, questioning amongst others the validity of the technical specifications, this tender was cancelled. The Committee decided that prior to issuing a new tender, it was advisable to test the market. Following the cancellation of the tender, new specifications had to be formulated and a call for quotations with extended thresholds was issued, instead of the actual tender. Tests were carried out in one of the blocks at the SVPR as a pilot project, since the latter is a heavy user of these supplies. In the meantime, the Welfare Committee had no other option but to continue using the existing tender, the same one reported upon in the 2012 AAR.

To this effect, procurements in respect of these incontinence supplies were covered by an extension to the existing contract, up to February 2016. Purchases effected after this date were not covered by a valid contract. Following a review of the Departmental Accounting System transactions, it was confirmed that the Committee effected payments during 2016, amounting to €558,578, in respect of invoices dated after the aforementioned date.

Moreover, the NAO was informed that the Committee continued purchasing diapers for obese residents from the supplier of the test project, being the only supplier who could provide such diapers. These purchases were covered by an LA, which was valid for three months as from December 2015. Therefore, any payments effected after March 2016, were not covered by a valid approval, resulting in a total cost of €26,687, by the end of 2016. The Committee later stated that a tender in this respect is being issued shortly.

Soft Drinks and Table Water for Residents of Homes and Institutions for the Elderly

The purchasing of soft drinks and table water, was not covered by a formal extension to the expired contract, resulting from delays in the issue and adjudication of a new tender.

- *It is recommended that the PPR are to be invariably adhered to, and proper authorisation is to be sought if circumstances warrant that procurement is made direct from the open market.*

- *Moreover, preparation of tender documents should be made at a reasonable time, prior to the expiry of a contract, to avoid potential bottlenecks.*

Developments: A tender for the supply of soft drinks and table water was awarded to the same supplier as reported upon in the 2012 AAR, for a period of three years. Upon enquiry, the Welfare Committee confirmed that following the expiry of the relative contract, in October 2016, subsequent purchases were not duly covered by an official extension to this contract. Moreover, during this follow-up audit, it was also indicated that the Committee was in the process of issuing a new tender.

The Committee pointed out that, due to technical problems in the contractor's IT system, all invoices for 2016 were submitted by the latter during 2017. Whilst this Office takes note of this information, it nevertheless takes exception to the fact that the Committee accumulated an outstanding amount of €68,400, which was eventually settled in 2017.

Supplies in relation to Incontinence Service in the Community

This service consists of the provision of adult diapers and incontinence pads, to individuals with a disability, referred to as Scheme A, and to senior citizens aged over 60, referred to as Scheme B. There were delays in the finalisation of the respective tenders, leading to procurement of supplies made through repeated extensions of an expired contract, directly from the open market.

Management is to prioritise and plan its procurement requirements. Timely action is to be taken to ensure that delays in the tendering process are avoided, such that, if possible, a new tender would be finalised by the time the previous one expires.

Developments: The AACCD maintained that the Contract Agreement of Scheme A was extended for a further six months up to March 2016, however the DC did not approve a further extension of this contract. In fact, the Department published a call for quotations during May 2016. This was awarded to the same supplier, and a new Contract Agreement was entered into in November 2016. In view of this, purchases of supplies from this supplier effected during the period April to November 2016, were not acquired through the correct procurement channels. This was verified upon analysing the Departmental Accounting System transactions for the year 2016, whereby a total of €367,770 was effected in respect of this Scheme.

Furthermore, it was ascertained that purchases of supplies under Scheme B during 2016, were covered by a valid Contract Agreement, as well as an Addendum thereto. Moreover, the Department indicated that since the current Scheme B contract will expire during 2017, it is currently preparing all the paper work including related technical specifications for the issue of one whole tender incorporating both Scheme A and Scheme B systems and beneficiaries. Furthermore, the AACCD later stated that the drafting of this tender document is complete, and the Department is awaiting feedback from the DC prior to publication.

The Department confirmed that the operational systems of both Schemes are still the same, whereby beneficiaries under Scheme A are entitled to monthly vouchers and those under Scheme B use the system of green cards on which deliveries are noted. The AACCD also indicated that an exercise to study the possibility of introducing a new and different system was undertaken, but this was aborted since it was not possible to implement. However, following this Report, the Department indicated that a simplification exercise was performed to completely eliminate the voucher system for Schemes A and B beneficiaries. It was also stated that full implementation was completed by June 2017.

Hospital Beds in use within Residences for the Elderly – Full Bank Guarantee not in place

Management is to ensure that an adequate bank guarantee, in line with tender conditions, is invariably provided by the contractor for the whole duration of the contract.

Developments: During 2016, six beds were purchased from the same supplier, after quotations at a total cost of €9,912 had been sought. The NAO was also informed that the Welfare Committee issued a new tender in respect of 50 electric hospital beds and accessories. Upon analysing this tender document, it was ascertained that one of the provisions outlined in the tender document was in respect of the Performance Guarantee to be provided by the contractor in the form of a bank guarantee. The NAO was later informed that the respective tender was issued and awarded. The Committee also stated that the successful bidder has provided a performance guarantee.

Service and Repairs of 'Variable Height Beds'

With regards to a departmental tender issued in 2008, a formal contract for the maintenance of the said beds was not entered into, as the Welfare Committee considered the LA issued to the contractor as sufficient. In addition, an expired bank guarantee was in place and works were carried out after the expiry of the contract, without the appropriate Permanent Secretary's approval.

- *Contracts for services are to be invariably covered by a formal agreement, between the contractor and Government, clearly demonstrating their consent and acceptance of the conditions and obligations therein, and including the total contract value.*
- *Provisions are also to be made for adequate performance guarantees to be provided by contractors for the whole duration of the agreement.*
- *When a contract expires, a formal agreement for an extension is to be entered into, duly approved from the right level of authority.*

Developments: Since the issue of the 2012 AAR, the Committee maintained that no beds were serviced by the contractor. Management maintained that when such repairs are required, these are taken care of by the Maintenance Section personnel of the respective homes.

Engagement of Auditors not formalised

The Board is to ensure that the appointment of the auditors is formalised. Thus, the engagement letter is to be endorsed by both parties and properly filed with other relevant documentation for ease of future reference.

Developments: The Committee forwarded a copy of the agreement together with an Engagement Letter entered into with the auditing company. Both documents were duly signed by the parties in question. The respective agreement indicated that it was effective for a period of one year and that it will be automatically renewed for further periods of one year.

Compliance Issues

Shortcomings in Payroll Procedures

No official documentation was available to substantiate the appointment or progression of a particular officer in his grade and salary scale. In addition, requests (application forms) for overtime work to be approved by the respective Permanent Secretary, were never prepared as per the Public Service Management Code (PSMC). Such overtime was endorsed by a higher authority of the then ECCD, only after the work was carried out, but before payment was effected.

- *Management is to ascertain compliance with relevant sections of the PSMC, as well as all applicable policies, rules and regulations.*

- *Overtime requests are to be approved by the relevant Permanent Secretary before it is actually performed.*

Developments: Documents pertaining to the same officer were reviewed and it was ascertained that the respective progression and appointment in the new grade and salary scale was duly documented and filed in the respective personal file.

However, with respect to the overtime performed, it was noted that the same shortcomings prevail. This Office enquired whether the formal requests for overtime work by the officer concerned, were submitted to the Permanent Secretary for approval, as per the PSMC. The AACCD claimed that being employed by the Welfare Committee, it is the latter's responsibility to provide the NAO with the requested information. Eventually, the Committee provided the number of overtime hours worked during February to November 2015, as endorsed by the AACCD, for eventual payment. It was later stated that a procedure is being established, whereby its administrator will submit quarterly overtime requests to the Permanent Secretary for approval or otherwise, before the overtime is actually performed.

Conclusion

Although a number of shortcomings were addressed by the Welfare Committee or the AACCD, a number of recommendations have not yet been fully implemented, as portrayed below:

- The computer system in use at the CommCare Assessment Unit has not been enhanced, however a tender is expected to be published.

- Procurement procedures are still not being followed entirely, in that during the year under review, purchases of incontinence supplies was still carried out following expired contract and without the necessary approval.

- With regards to the purchase of soft drinks and table water, the situation prevails in that procurement was effected following the expiry of the contract.

- The Welfare Committee has yet to improve upon the time management of tender preparation. To this respect, the Committee informed the NAO that measures are being taken so that tenders are issued and awarded before the expiry of any existing contract.

- Overtime not approved in accordance with the PSMC.

Follow-up Reports by the Performance Audit Section

Housing Authority's Procurement of Repair Works on Residential Units

Introduction

This follow-up audit is intended to report on the progress registered by the audited entity since the publication of the performance audit report: *Housing Authority's Procurement of Repair Works on Residential Units*, published in November 2014. Issues and conclusions presented in this follow-up audit reflect information available as at end July 2017.

Background

Works carried out by the Housing Authority (HA) are generally outsourced to the private sector through different methods of procurement. For the purpose of this study, and in following-up on the original audit, works commissioned through HA's Framework Agreement (FA), Calls for Quotations and Direct Orders were reviewed in this exercise.

Procuring works to address damages in tenement blocks under HA's responsibility requires an extensive support structure, which among others, is geared towards: identifying where such interventions are required; prioritising works accordingly; and monitoring and controlling the ensuing processes. During its meeting with HA, NAO was informed that since the publication of the original audit in 2014, most of HA's repair works are being carried out through a FA covering the period 2016-2018. Through the FA, the HA appointed several Contractors to undertake projects (Job Orders), related to the execution of repair works in Government tenements in different localities in Malta and Gozo.

Focus of the Follow-up Audit

HA's implementation or otherwise of the recommendations made by this Office in its original report will be the primary focus of this follow-up audit. For the purpose of this study, the NAO retained the objectives from its 2014 report that sought to determine the degree to which HA:

a. complies with Public Procurement Regulations and overall good practices in issuing its outsourcing agreements;
b. carries out its internal and external operations in an efficient, effective and economical manner.

Recommendations by NAO and progress registered by the HA

In order to complete this follow-up exercise, the National Audit Office (NAO) listed the most salient recommendations made in the original audit and forwarded these to HA. The Authority, in turn, went through this compiled list and forwarded written feedback to the audit team on progress, if any, registered on each. Clarifications on the forwarded information and further information were transmitted during an in-depth, semi-structured interview between HA and NAO. Findings extracted from this information were corroborated by a review carried out by NAO on files corresponding to an indicative sample of works carried out by the Authority between January to June 2017.

An Analysis of the HA's Repair Operations (Recommendations 1 to 8)

Recommendation 1

Action is to be taken by the HA to have a comprehensive electronic database (listing the residential units under its responsibility) at the earliest to clearly delineate all the residential units under its remit.

As part of the its long-term action plan, the HA issued a Call for Tenders in December 2015 for a Housing Management Information Technology (IT) Solution. This initiative is intended to encompass a comprehensive compilation detailing all residential units under HA's responsibility and document all considerations related to each unit (such as complaint history, works carried out etc). NAO was however informed that there were three unsuccessful attempts to procure this tool through a tendering process during the past 18 months, since none of the bids submitted were compliant to the tender specifications. Meanwhile, HA stated, the Estate Management Section has compiled a basic spreadsheet containing data on all units owned by Government. This spreadsheet is regularly updated to include all property transferred from the Lands Authority, while data on units yet to be transferred is intended to be included once the necessary information is made available to HA. This Office was however informed that information on properties which fall under the remit of the Joint Office is sometimes unclear, and the assistance of the Lands Authority is sought in cases of complaints on such properties to determine whether these still belong to Government or otherwise.

Recommendations 2 to 4

Reference is made to the situation of having two unlinked separate tenants' complaints databases, and to the fact that users of these databases have different and limited access rights. With respect to the latter it was recommended that certain basic tasks (such as assigning read/write access to particular individuals) can be carried out with minimal work and cost, but would prove to be immeasurably useful to the HA officials operating this management tool. Additionally this Office also recommended that the Authority should either carry out a complete data transfer exercise from the old database to the new counterpart at one go, or (if the former is considered too labour intensive) gradually phase out the use of the older version of the database in question. Finally, the outsourcing or engagement of third parties was recommended in the eventuality that HA would not be in a position to divert its resources from the day-to-day operational requirements to address these issues.

The HA noted that the 'old' database has been phased out meaning that no new entries have been posted in it since 2015. HA further noted that it is currently transferring the data from the old system onto a new database, a lengthy process which the Authority plans to have completed by September 2017. Despite this transition, HA asserted that until the data in the old system is fully transferred to the new database, it will remain available since it is required to process old cases that are still pending after the transition date.
During their meeting with NAO, HA Officials stated that with the implementation of the new database, the read/write access concern as identified in the original audit situation has been rectified, with the Officials from the Repairs and Maintenance Unit (RMU) now having readwrite rights which enable them to log complaints and extract reports from this database. Notwithstanding this however, NAO observed that the HA is still heavily dependent on an outsourced IT professional when operating this database. More specifically, NAO observed that the Authority's Officials are only able to input and read the data in this tool, and consequently other operations (such as corrections to the data itself, granting of read and write access rights and report generation) are still dependant on the input of the externally engaged IT professional.

While acknowledging the evident bottleneck created by this situation, the Authority opines that the new database is still more efficient in handling the increased amount of information being inputted. In addition, HA conceded that the resources invested in the current complaints database were naturally being limited given its imminent replacement through the aforementioned intended IT Solution.

Recommendations 5 and 6

Reference is made to the Authority's concern of not having sufficient human resources to carry out the assigned responsibilities, particularly in the Customer Care Unit (CCU) and in the Inspection Teams assigned to carry out on-site visits following the lodging of complaints by tenants. NAO recommended that the Authority engages in an internal exercise to determine the optimal level of human resources it requires to carry out its assigned responsibilities. Once this is established, HA should endeavour to deploy the optimum number of Officers to each respective task from its current complement. Should the Authority not have sufficient Officers to address all the areas of responsibility, HA should seek the necessary approvals to recruit additional Officials.

NAO was informed that, following the 2014 audit, the Authority recruited four employees in the CCU together with one Architect who was assigned with the Inspection Teams of the RMU. The latter recruit was especially needed as, according to the HA, preliminary inspections were not being carried out. More specifically, following a complaint teams used to go directly on site and conduct a fully fledged inspection which included the full measurement of the required works, even if deemed not urgent. It is in view of the backlog created by this time-consuming process that HA recruited this additional architect, whose responsibility is now to carry out preliminary inspections only on complaints related to structural works. NAO was further informed that inspections following the receipt of complaints of a non-structural nature[1], are now being carried out by a non-structural repairs team. In these cases, and given the less technical nature of these works, a dedicated team performs one site visit during which both a preliminary inspection as well as the drafting of the Bill Of Quantities (BOQ) is performed.

In view of the above mentioned backlog the Authority informed NAO that it is currently aiming for a 3-4 week response time from the receipt of a complaint to the first inspection (except in the case of a complaint on dangerous structures which HA inspects immediately). While noting that, in total, more than 1,100 jobs were carried out last year compared to the 600 in the previous one, the Authority informed NAO that it is struggling to achieve the targeted response time due to the newly recruited architect's focus on other assignments, such as embellishment projects and tender evaluations. In view of this, NAO was informed that the HA is in the process of recruiting yet another architect in order to handle these duties, so that the already recruited Official can focus more on the originally intended task of preliminary inspections. This further recruitment, HA opines, should be sufficient for the Authority to achieve the targeted response time.

In addition however, HA observed that while these recruitments should address NAO's original recommendations, the Authority is facing a major challenge in the form of very limited physical office space at its disposal, making it very difficult for the Authority to assign adequate working space to new recruits.

Recommendation 7

This Office urges HA to rigidly enforce the clause in its Repairs Policy stipulating that works required to address damages occurring to the residential structure due to negligence by the residing tenants should be funded by the latter. Furthermore, NAO also suggests that HA should rigidly adhere to the allocation of responsibilities as detailed in the same policy, thereby refraining from carrying out any works (even if considered to be very minor) which fall under the tenants' responsibility.

The Authority informed NAO that its investment in added human resources was, in part, intended to ensure that this aspect of the repairs policy is adhered to. In fact, responsibilities assigned to the newly appointed architect include preliminary inspections, assessing reported damages and subsequently reporting back to the respective tenants on the Authority's decision on how it will handle the request, particularly if the repairs fall under HA's responsibility or that of the tenant.

[1] Such as finishing the common area of a block, electricity in the common area of the block, drainage, railings and tiling among others.

Despite the above, results from the file review exercise carried out by this Office, show two cases (out of the reviewed 19), in which the Authority acted against its repairs policy and performed works which should have been carried out by the tenants. Information from the relative files shows how the Authority decided to perform and shoulder the required repairs since the damages were affecting the blocks' common areas and other tenants, both of which fall under the responsibility of HA. This Office however notes that, while this reasoning by the Authority is not without its merits, the reviewed documentation in forwarded files shows that the HA did not seek to be reimbursed by the defaulting tenants for the works it carried out.

Recommendation 8

Reference is made to NAO's perceived risks in the Authority not being able to act proactively rather than reactively in its operations. Such a situation could see relatively minor defects developing in considerable damages, which would require significantly higher costs to be addressed. For this reason, the Authority should endeavor to put itself in a position from which it could adopt a proactive rather than a reactive approach to the maintenance of the tenement blocks under its responsibility.

The HA asserted that a number of embellishment projects have been undertaken since 2014, where all repairs and general maintenance required in the roofs and facades of each block are carried out even if no complaint was received by tenants. HA however further explained that its limited resources (both human and financial) make it practically impossible for it to carry out pro-active inspections on all of the residential units under its responsibility. Consequently, with the exception of the above mentioned scenarios, NAO was informed that HA does not carry out inspections if no complaints are received from residing tenants. Here NAO perceives the risk of damages (including significant and potentially dangerous ones) remaining undetected for a prolonged period of time as it could be the case that these would not be evident to tenants, especially those who are not technically capable of detecting such, possibly hidden, defects.

Procuring Works by Call for Quotations and Direct Orders (Recommendations 9 to 19)

Recommendation 9

NAO had strongly recommended to HA that it amends the documented procedure regulating the manner by which it procures works through a call for quotations, so that all contractors listed in the pool of approved suppliers were contacted rather than a random few, thereby maximising the competitive element.

The HA informed this Office that the number of contractors contacted during calls for quotations has indeed been increased when compared with previous years, however the Authority observed that it does not consider the contact of all listed contractors as a practical option. Such a direction, the Authority noted, would require some 30 contractors to visit the site in order to submit a quotation for the works required, rendering the process cumbersome and highly inconvenient to the residing tenants. Notwithstanding this however, NAO was informed that the nature and urgency of the works involved, together with the budget allocated to the respective quotation, are all considered by the Authority when selecting which contractors are forwarded with a request for quotation.

Recommendation 10

NAO recommended to HA for it to ensure that prepared BOQs are adequately and consistently signed and dated by the designated Officials.

NAO was informed that, for every job or lot assigned, the Authority produces two BOQs with one being used for estimation purposes and one for the measurment and certification of completed works. The sampling exercise conducted by NAO however showed that in 12 out of the 19 reviewed cases, only the BOQs used for certification reasons were endorsed. It was also observed that in three other cases, none of the two BOQs were endorsed by any HA Official, with the remaining four cases having both BOQs adequately endorsed.

Recommendations 11 and 12

HA was urged to ascertain that adequate approvals for call for quotations are consistently documented. Moreover, with respect to the issue of having entered into agreements with third parties prior to obtaining the required approval from the Permanent Secretary, NAO urged HA to observe conventional good practices in every aspect of its operation.

NAO was informed that HA has drawn up guidelines for the commitment of funds, which document was communicated with the relevant staff. Moreover, the Authority asserted that all requests received from the Technical Services and Operations Department, are only being processed when all necessary approvals are obtained in writing. These assertions were confirmed by NAO's sampling exercise which showed that, in cases where work was procured through a call for quotations, all the necessary approvals were in place.

Recommendation 13

HA was also urged to expeditiously include a clause in the terms and conditions governing its procurement procedures, which clearly defines the process by which variances are agreed upon works are accepted or otherwise.

NAO was informed that, in the event that variances from the agreed BOQ of a particular project are identified mid-progress, the Authority is to be informed and an official visit is carried out to confirm or otherwise the situation and way forward. In the event that the variance does not exceed 30 per cent of the total contract value (as quoted in Article 35.1 of the 2016 FA), the updated BOQ is revised and re-forwarded to the contractor. While NAO commends that a threshold has been set, it however notes that its recommendation for the Authority to comprehensively outline (in its procurement terms and conditions) a process to be followed in the case of variances, has not yet been implemented by the latter.

Recommendation 14

This Office had recommended to the Authority to standardise its bidding duration period across all calls for quotations, with the possible exception in the case of very urgent works.

The Authority asserted that, as recommended, a standard bidding duration period across all call for quotations has been officially set and that the schedule of quotations received is inserted in each file immediately following the opening sessions. Both of these assertions were followed through by NAO and confirmed with the Quotation Procedures Manual provided by the HA.

Recommendation 15

HA did not have a set threshold which determines whether a bid received was too high when compared to the HA's original estimates. In view of the risks presented by not having a documented threshold, NAO recommended that the Authority rectifies this position at the earliest so that it reduces the possibility of contestation from supplying contractors who may feel aggrieved by such a practice.

The Authority observed that though no such documented threshold has been set, bids that exceed the estimate budget by 20 per cent or over, are generally not regarded favourably. Despite this, HA stated that, when deciding if a bid is acceptable or not, factors other than the price are taken into consideration. Such factors include the urgency of the works, the difficulty in obtaining bids for these works, the possibility that certain rates could have been underestimated and the risk of receiving even higher bids should the tender be re-issued.

Recommendation 16

Reference is made to the two reviewed direct orders which were not commissioned through the FA, in which it was noted that incomplete documentation was being kept in so far as works' management and monitoring was concerned. NAO had strongly suggested to the Authority to ascertain that such information is adequately filed for audit trail purposes.

Despite the fact that HA informed this Office that the required documentation is being adequately inserted in the respective file, apart from the photographs stored in soft copy format, none of the 19 forwarded files corresponding to NAO's selected sample of works (which featured different types of procurement processes) contained any comprehensive monitoring related documentation.

Recommendation 17

In order for the Authority to determine what can be considered as fair and reasonable rates for work items it procures, NAO had recommended that a costing exercise could be carried out in which costs to be incurred by the contractor in providing particular work items (such as raw materials, man-hours, fuel, etc.) are calculated. A reasonable profit margin can then be added and this would result in a fair and reasonable price for the work item in question.

NAO was informed that, in 2016, the Authority carried out an exercise to compile and update ongoing rates for several items of works used in BOQs. The rates established in this exercise, HA further explained, are based on a study considering three main factors namely; a) the lowest rates quoted by contractors in submissions through competitive quotes/ tenders issued during past years; b) costing newly enlisted items (including the cost of material and labour together with a profit margin); and c) other market research. Despite not having any documentation detailing the methodology adopted to conduct this exercise, the Authority informed NAO that the resultant rates were also vetted by a Technical Advisor within the Department of Contracts (DC).

Recommendation 18

HA was urged to make sure that all agreements entered into are adequately endorsed by all parties involved.

While HA Officials asserted that all agreements entered into by the Authority are duly signed by all parties involved, NAO's review showed that four of the 19 forwarded files did not contain a contract of service.

Recommendation 19

Reference is made to HA's intention to address its accumulated backlog. NAO had acknowledged that a competitive bidding process may be somewhat more time consuming than processing a direct order, yet NAO had opined that the former is preferable due to potential savings it might generate to the Authority's benefit. To this effect, in the case of the complaints in backlog as well as in the case of future urgent required works which the Authority will opt to commission through the FA, HA was advised to group these requests (in a manner in which it sees fit but which could, for example, base on geographical vicinity), and then proceed to *issue competitive FA call-offs for each grouping. In addition, the estimate rates calculated internally by HA could be considered as maximum prices for each respective work item rather than a set price, and bidders could be invited to submit their bids at an equal or lower value than these set rates, thereby introducing a competitive element.*

The HA stated that works procured via the FA are still assigned by rotation, with the first lot of work awarded by ballot to kick-start the process. Following this ballot draw, the contractors are selected on rotation basis with the pricing being set by the rates agreed in the FA.

With regard to the current backlog situation, HA informed this Office that currently, a total of around 2,200 requests are pending with an average waiting time of six months. The Authority highlighted that the number of requests addressed has recently increased significantly (1,131 jobs in 2016 with a cost of €1.7 million when compared to 338 jobs in 2013 with a total cost €466,000).

Conclusion

The findings presented in this follow-up audit indicate that HA has invested considerable effort in order to implement a good number of the recommendations presented in the 2014 original study. This Office also takes particular note of the increase in the annual number of jobs carried out with only a marginal increase in human resources, indicating an increase in efficiency.

Despite the above, NAO however believes that the Authority is still in a position to improve, particularly with regard to the rigidity with which the repairs policy is applied. This Office takes note of the Authority's approach towards the two identified urgent cases whose repair was not covered by HA's repairs policy and which, if left unattended would have damaged the Authority's property or even become dangerous. While commending the Authority's swift response in neutralising such situations, this Office cannot agree with HA's decision to not attempt to reclaim the costs of the mentioned repairs from the defaulting tenants.

In addition, this Office also commends the effort allocated by HA towards the procurement of a new Estate Management IT system. While once again commending such effort especially in view of the complex nature of the process in question, NAO still notes that, in the operation of the new Tenement Repairs Database (currently in use), the Authority is still heavily dependent on an externally engaged IT professional for some of its functions. While acknowledging that this database will be replaced in the future with the introduction of the aforementioned new IT system, NAO observes that this current bottleneck is making it increasingly difficult for HA to maximise the efficiency by which this tool is operated, thereby exerting further strain on its already limited human resources.

Throughout its conducted review, this Office observed that issues still persist on the manner by which the Authority keeps its documentation. While understanding that documentation not forwarded to NAO does not necessarily mean that it does not exist, this Office still perceives this scenario as heavily impinging on the integrity of HA's operations audit trail.

In conclusion, this Office acknowledges and commends HA's effort in responding to the recommendations presented in the 2014 report. NAO however observes that the Authority is still struggling to overcome issues in key operational areas, such as IT and its documentation system. In view of this, NAO generally recommends that HA boosts its efforts in these areas in order to be in a better position to carry out its mandate at the highest level of quality.

Physical Education and Sports in State Primary and Secondary Schools

Introduction

This follow-up audit is intended to report on the progress registered by the audited entity since the publication of the performance audit report: *Physical Education and Sport in State Primary and Secondary Schools*, published in May 2010. Issues and conclusions presented in this follow-up audit reflect information available as at end July 2017.

Background

Physical Education (PE) and Sport is defined by the National Minimum Curriculum (NMC) as a basic subject to be taught in all schools at compulsory educational levels. The high rates of obesity amongst children and adolescents together with the link between childhood and adult obesity stresses on the importance of Physical Activity as a crucial means for individual good health.

The National Audit Office's (NAO's) original report examined the organisation and implementation of PE, sport and physical activities in State Primary and Secondary Schools. The key findings, conclusions and recommendations set out in this Office's report covered a wide spectrum of critical issues affecting the quality and frequency of PE, sport and physical activity in State Schools. The main challenge faced by the then Ministry of Education, Employment and the Family (now Ministry for Education and Employment) was how to address these concerns through clear strategies, effective leadership in Colleges and Schools, a strong commitment from all key stakeholders, as well as the allocation of adequate resources.

Focus of the Follow-up Audit

MEDE's implementation or otherwise of the recommendations made by this Office in its original report will be the primary focus of this follow-up audit. For the purpose of this study, the NAO retained the objectives from its 2010 report that examined:

a. the organisation and implementation of PE, sport and physical activities in State Primary and Secondary Schools;
b. the type of lessons and activities held together with their levels of frequency and regularity;
c. the issues and factors affecting delivery and quality, as well as the overall importance being given to PE, sport and structured physical activities in State Schools.

Recommendations by NAO and progress registered by the HA

In order to complete this follow-up exercise, NAO listed the most salient recommendations made in the original audit and forwarded these to the Ministry for Education and Employment (MEDE). The Ministry, in turn, went through this compiled list and forwarded written feedback to the audit team on progress, if any, registered on each. Clarifications on the forwarded information and further information were transmitted during an in-depth, semi-structured interview between MEDE and NAO. The audit team further evaluated a number of relevant documents forwarded by MEDE to assess the extent of the progress made as presented below.

PE and Class Teachers (Recommendations 1 to 7)

Recommendation 1

NAO recommended that the Ministry considers including, in the revised NMC, a requirement that two hours of PE are held weekly in all Primary and Secondary School classes. This Office also acknowledged that such a commitment would require an increased number of PE teaching staff.

The national learners' entitlement per learning area (including that for physical education) is established by the National Curriculum Framework (NCF), which was finalised in 2012 and is strictly followed by Colleges and Schools. MEDE informed this Office that the number of PE lessons in Secondary Schools is gradually being increased from two to three 45-minute lessons per week. This initiative was introduced in 2014 and is being implemented for one grade every scholastic year (currently up to Years Six, Seven and Eight). The initiative also brings the total number of weekly hours dedicated to PE lessons for the mentioned years of Secondary School, up to 2.25 hours with the remaining years still at 1.5 hours (two lessons) per week. This Office was further informed that PE lessons in Primary Schools have also been doubled to two lessons per week, with some schools being allocated a full time PE teacher (i.e. not peripatetic). Other schools still depend on peripatetic teachers who are normally shared by two and sometimes, although rarely, even three schools. The Ministry also stated that, in addition to the lessons delivered by peripatetic staff, schools are also focusing on having primary school teachers include physical activity in their daily curriculum. The Ministry further informed NAO that structured and non-structured activities during break times are also quite common in most schools, with the organisation of such activities varying depending on the staff's predisposition towards sports and availability due to constraints caused by other subject syllabi and other variables. These latter two considerations further contribute to the attainment of the total time dedicated to physical activity as stipulated in the NCF.

Recommendation 2

An area where there was scope for significant improvement was the utilisation of Primary School Teachers to supplement lessons by PE Peripatetic Teachers. A stronger mechanism was required across Colleges and schools to ensure that all Primary School Teachers fulfil their role and deliver regular PE lessons (at least twice or three times a week). NAO had observed that this would need to be monitored, with timely action being taken if it was found that classes were not benefitting from this initiative. Furthermore, the Senior Management Teams (SMT) in schools should continually exercise their leadership and authority to ensure that PE is given the appropriate importance.

MEDE contended that, with the collaboration of College Principals, this issue has been given priority. This, the Ministry further highlighted, could be seen primarily in a timetable (set at the start of the scholastic year) which includes PE lessons to be delivered by the primary class teacher. Secondly, this initiative is also supported by a cross-curricular publication which sets out a number of guidelines for class teachers on how to incorporate physical activity in the delivery of lessons on other academic subjects, such as Math, English, etc. Although the mentioned supplementary lessons experienced a definite improvement when compared to 2015, MEDE could still not confirm that all of these lessons are actually being delivered.

Recommendation 3

NAO had also recommended that attention is given to the content and quality of the lessons delivered by the Primary School Teachers. To this end, NAO suggested that opportunities for Primary School Teachers to shadow PE Peripatetic Teachers are not missed and that in-service courses on PE are offered to the same Primary class teachers.

MEDE informed NAO that the recommended shadowing could not be enforced due to industrial issues with teaching staff. The Ministry noted that the time during which the PE Peripatetic teachers deliver a lesson is normally utilised by the class teacher to satisfy a particular curricular time allocation requirement in the teachers' Sectoral Agreement. This Office was further informed that since the issue is heavily dependent on the eagerness of each individual teacher to promote physical activity, challenges are encountered due to the teachers' disposition towards the teaching of the subject.

With regard to NAO's recommendation on the lesson content and quality, the Ministry asserted that this was being covered through regular professional development meetings held with primary school teachers. These meetings, MEDE further noted, are key and also contribute to the development of the school development plan.

Recommendation 4

The Ministry's attention was also drawn to the lack of promotion in Primary and Secondary Schools of daily physical activity. While commending the Department for Health Promotion and Disease Prevention's collaboration with individual schools, to carry out a number of activities (including talks and physical exercises), NAO however recommended that Education Authorities strengthen these links with this Department and implement a full-scale programme of similar or enhanced initiatives in all schools.

During its meeting with MEDE, NAO was informed that in 2014 the Ministry launched the "Whole School Approach to Healthy Lifestyle: Healthy Eating and Physical Activity Policy" which also incorporated a strategy for implementation which has since been reviewed and updated. It was further noted that during 2016, the Ministry launched the "Health Factor Project" addressing physical education in the early years with a focus on Kindergarten Classes. During the scholastic year ending June 2017, the Ministry launched a further initiative called the "Active School Flag Award" with the aim of encouraging schools to engage in various efforts that are related to physical activity, while acknowledging already existing activities. The schools submitting an application would need to meet a minimum of ten (physical activity and education related) criteria out of 16 in order to be awarded the flag. MEDE asserted that this Award is open for all State and non-State schools and is aimed at nurturing a competitive spirit between applicants on a yearly basis. The Ministry further noted that it considers the award to 15 State Schools (from 28 total submissions) in this scheme's first and (to date) only year, as a success since experience shows that the first year of such initiatives is always difficult.

Recommendation 5

Results from questionnaires administered to parents showed that some respondents still needed persuasion not to discourage their children from participating in PE, sport and other physical activities. To this end, NAO recommended that the Ministry launches a number of campaigns aimed towards educating parents on the benefits and importance of the mentioned activities.

The Ministry remarked that despite the campaigns launched by SportMalta, parents' outlook on the physical activities organised by schools is still more or less the same, that is, being worried that practicing certain sports may be dangerous. Despite this however, the Ministry observed that exposing children to various sports has still led to an improvement in this regard, translating in an increase in the attendance of extra-curricular activities organised by SkolaSport.

Recommendations 6 and 7

NAO noted that the ex-Malta Sports Councils' (KMS) programme of activities and events (aimed at increasing awareness and participation in sport) was only launched in some schools. Although not intended to replace the scheduled PE lessons, the activities organised by the Sports Promotion Unit (SPU) of KMS during school hours should be further enhanced and extended to all Colleges. NAO also recommended that the resources and organisational support being provided by KMS to Colleges are eventually extended to cover all Colleges and all students. The optional programmes offered after school by KMS should also continue to be further strengthened. For example, take-up and retention could have been further facilitated through the provision of transport after the events.

This Office observed that the number of initiatives organised by SportMalta (ex-KMS) has indeed increased when compared to that at the time of writing of the original report, with all State and non-State Colleges being invited to participate (which participation is solely on a voluntary basis). Following the review of the programmes carried out during the scholastic year ending June 2017, NAO however observed that none of the initiatives catered for students at year 5 Primary level. This assertion was however contested by MEDE, as it stated that Year 5 students are offered optional swimming lessons by SportMalta. The Ministry further stated that participation rates in the mentioned programmes are on the increase, with the Ministry further stressing that this is particularly noteworthy given that participation in these programmes requires schools to stop academic lessons for one whole day and requires logistical organisation.

Facilities and Equipment (Recommendations 8 to 14)

Recommendation 8

NAO had encouraged the Ministry to continue with its programme to build new schools and to upgrade existing facilities. It was however acknowledged that with budget allocations at the time, the Ministry was limited as to what it could do to address major structural constraints of existing premises, in particular those of Primary Schools.

Despite noting that the PE Department had been consulted on the facilities of the new Secondary School in Dingli, the EO PE regretted that when it comes to the planning of new schools in general, the PE Department had not been sufficiently consulted, resulting in limitations. The Ministry however noted that it is now embarking on more robust consultation processes with all interested stakeholders making use of educational facilities and also other stakeholders such as professional associations, so that limitations in the functionality of the available resources is minimised when planning new schools or redesigning schools.

Recommendations 9 and 10

With regard to the allocation of available funds for the development or upgrading of school facilities, NAO recommended that the Education Authorities give priority to indoor facilities, as well as ensure that all outdoor areas have a suitable surface. Moreover, this Office recommended that priority should be given by the SMTs in schools to ensure that PE lessons are not missed because indoor areas, particularly school halls, are unavailable. Suitable alternative arrangements should be in place when such areas are used for other activities.

Feedback from MEDE shows that the indoor facility problem still remains and is mainly due to lack of space particularly in primary schools. NAO was however also informed that, in some schools, the flooring used for the main hall is designed to be multi-purpose, thereby enabling the space to be adequately used for PE lessons and other activities. MEDE further argued that some schools (particularly Primary) were very limited as to what can be done on this issue as they were located in old buildings and cannot simply be relocated only for the sake of gaining indoor space. As for the surface of outdoor facilities, NAO was informed that a number of improvements (primarily re-surfacing works) have been carried out in Primary, Middle and Secondary Schools.

Recommendation 11

It was recommended that the SMT in each school should also ensure that sufficient allocations are made from the school budgets to replenish or replace the equipment required for PE lessons and sport activities.

The Ministry contended that an EU funded investment of €63,000 in 2015 helped to better equip most State schools with PE related equipment. This Office was presented with a list of items that had been financed by this investment, which items were allocated in various Primary and Secondary State schools. In the past three years MEDE stated that it has increased the budget allocation to State Primary, Middle and Secondary Schools and Colleges. NAO was further informed that in 2016 the Ministry has also introduced a Centralised Fund in Colleges to be used as required by the Schools within the College. NAO was also informed that an annual audit is commissioned by the Foundation of Tomorrow's Schools (FTS) to ensure that the supplied equipment is in good state and that any damaged items are replaced. Despite requesting the most recent copy of the mentioned audit from the Ministry however, NAO was not, as at time of writing of this report, furnished this documentation.

Recommendation 12

In view that SportMalta, sports associations and clubs as well as a few Local Councils have permanently upgraded certain facilities in schools, NAO also encouraged Colleges to further exploit opportunities for sharing facilities and equipment, as well as to continue to make arrangements to use nearby facilities in the community.

The Ministry asserted that, in certain schools, this is already being done with schools using public facilities (normally pitches) to deliver PE lessons during school hours. Furthermore, from information provided by the Ministry, NAO noted that certain schools were also sharing their facilities with other entities and organisations outside school hours.

Recommendations 13 and 14

NAO had recommended that the Ministry determines what facilities and equipment are required in each school for the achievement of PE, sport and physical activity targets and for the attainment of the expected levels of quality and frequency. This assessment should also include a detailed review of the existing facilities in each school and the preparation of a medium to long-term plan outlining how identified gaps will be narrowed. Active participation of the responsible Executive Officer (EO) and PE teaching staff was also recommended in order to ensure that finished PE and sport facilities together with any procured equipment, are suitable and appropriate for the lessons or activities they are expected to deliver. This office also proposed that specifications, such as those used for the building of new Primary and Secondary Schools, could provide a sound basis for determining minimum requirements. These specifications outline, for example:

a. *The shape, size, height, positioning, flooring and markings, ventilation, natural lighting, storage as well as finishing of walls, ceiling, windows and doors of indoor areas.*

b. *The minimum outdoor areas for PE, sport and recreation, including minimum accommodation specifications for play pitches, courts and running tracks, as well as criteria for the type and quality of playing surface required in each area.*

c. *The minimum required size and level of finishing of changing rooms, showers and other ancillary facilities.*

d. *Key cross-sectional considerations such as requirements concerning security, safety, accessibility and environmental performance.*

NAO noted that the medium to long-term plan on the required facilities and equipment was not prepared as, to date, the national standards dictating what is considered as adequate PE facilities and equipment have not been established. In view of this, the Ministry was not in a position to determine the gap between the present scenario and the facilities and equipment necessary to achieve any specific levels of PE. Despite this situation, MEDE asserted that the FTS will be issuing a tender for the procurement of equipment related to physical activity. The Ministry has consequently conducted an exercise to determine what equipment (such as basketball boards, footballs and other equipment related to physical activity such as ropes, hoops, etc) is lacking in each school so that it would be procured in bulk through this initiative.

With regard to the specifications of the minimum requirements for building new schools, MEDE observed that these are governed by subsidiary legislation dating back to 1991, which legislation only specifies very basic requirements for each learning subject. The Ministry further asserted that, through the Directorate for Quality and Standards in Education (DQSE), it is working towards improving the level of the said requirements.

Content and Quality of Delivery (Recommendations 15 to 19)

Recommendation 15

In the original report, NAO recommended that initiatives launched by the EO for PE are continued and given the resources required in order to succeed. Work on improving the existing syllabi and developing teaching aids should be sustained. Furthermore, given that PE Peripatetic Teachers in Primary Schools and PE Teachers in Secondary Schools are guided by syllabi and guidelines developed or recommended by the Curriculum Management and eLearning Department (CMeLD), NAO recommended that more attention is given to training and teaching aids for Primary School Teachers (such as guidelines and tips in the form of handbooks). The fact that Primary School Teachers have less time to shadow the PE Peripatetic Teachers has further underlined the *urgency of this issue. Moreover, the problem could be stemmed even earlier by offering students pursuing academic studies to become Primary School Teachers more hours of obligatory training on the pedagogical aspects of PE and on the techniques to teach different activities.*

From information provided by the Ministry, NAO noted that regular weekly meetings are held with primary school teachers in which an array of topics are tackled, including the pedagogy and methodology adopted when teaching different subject areas (not least PE). As for Secondary School PE teachers, the Ministry observed that professional learning courses are delivered regularly by MEDE's Education Officer.

Recommendation 16

Given that the EO acts as a focal point with key stakeholders on PE issues, this Office had recommended the channels of communication that have been established between the EO and the PE Teachers, as well as between the EO and the College Principals/Heads of School should be further strengthened and exploited. These interactions and partnerships are essential for the continuous improvement and collaboration of the parties involved.

The Ministry asserted that the PE EO and the Heads of Department (HoDs) enjoy a good relationship with most Colleges. This relationship is maintained through regular meetings between the EO, HoDs and PE teachers and Primary School Class Teachers, as well as through ad-hoc meetings with College Principals who, from time to time would also request assistance in tackling particular situations. Moreover, the Ministry observed that with the expected recruitment of an additional EO (who is intended to focus primarily on relations with Primary Schools' PE), the relationship with Colleges is projected to improve even further.

Recommendation 17

The regular assessments by the EO (PE) of PE lessons, are important for the continuous monitoring of quality and adherence to professional standards. NAO recommended that a more structured form of assessment is carried out with documented and communicated definitions of the criteria to be applied. Moreover, these assessments should be used to record and track improvement and identify any training needs.

MEDE informed NAO that lesson observations are carried out regularly by the EO and HoDs. The Ministry further noted that during these observations, apart from monitoring the quality of preparation and delivery, the role of the EO and HoDs is to support the teachers in any challenges that he/she may be facing.

Recommendations 18 and 19

NAO also recommended that College Principals and Heads of Primary and Secondary Schools place greater emphasis on the quality of PE and structured activities being held in their schools. This, NAO suggested, can be achieved by working closely with the EO to identify shortcomings in the delivery and implementation of tailored action plans. Measures to improve quality of PE, sport and physical activity need to incorporate actions to improve facilities and equipment available to teachers, and to ensure that the recommended time for PE in Primary Schools is fully utilised by class teachers and Peripatetic staff. NAO opines that Heads of School are key to sustaining performance and improvement in their schools.

MEDE highlighted that the College Principals' and Heads of Schools' drive towards achieving the Colleges' objectives related to PE has indeed increased. This support, NAO was informed, could be seen in the positive reaction of the mentioned officials when the Ministry proposes initiatives related to the subject matter. The Ministry further noted that such a reaction was particularly noteworthy given that priorities need to be shared with other academic subjects.

Conclusion

The findings presented in this follow-up audit indicate that MEDE has devoted considerable effort to implement a good number of the recommendations presented in the 2010 original study. In fact, NAO observes that the national agenda on the physical education and activity of students, has experienced a positive shift when compared to that adopted during the original study. In addition, this Office observes that the Ministry is striving to improve students' awareness on the importance of daily physical exercise through the implementation of a Cross-Curricular Publication aimed at integrating physical activity in other academic subjects. NAO opines that this initiative has helped improve students' prospect on physical activity as an essential part of a healthy lifestyle.

Despite the above, certain concerns remain, particularly with regard to the identification of the standards that are meant to be achieved by State Schools vis-à-vis physical education and activity. This Office observes that this shortage of standards together with the lack of preset specifications on facilities that new schools should be equipped with, creates a vacuum in the Ministry's drive towards raising the level of physical education in Maltese State Schools. NAO here also notes that consultation with the PE Department during the planning of new schools is not sufficient, which results in limitations in PE facilities. Moreover, while noting an evident effort to increase the weekly hours dedicated to PE lessons in certain grades, this Office urges the Ministry to expedite this process throughout all grades, seeing that some are still trailing behind.

In addition, this Office also takes note of the positive relationship achieved between the EO PE and College Principals. Despite the effort displayed by the Ministry to communicate the national agenda effectively with the Colleges' and Schools' senior level of management, NAO still observes that the relationship with teachers, particularly those at Primary School levels who resist change in PE's favour, can be strengthened. Such a situation, this Office opines, works against the effort invested by MEDE, especially given that teachers are significantly influential on students.

In conclusion, NAO commends the Ministry's effort and time invested in the improvement of physical education and activity in state schools. Notwithstanding, however, this Office encourages the Ministry to endeavour in improving its situation with regard to the establishment of the physical education standards that are expected to be attained by State Schools, together with the communication of the national physical education agenda, down to every level of its teaching workforce. It also encourages the Ministry to continue addressing other pending issues on which it informed this Office that action is to be taken.

The Management of Elective Surgery Waiting Lists

Introduction

This follow-up audit aims to report on the progress registered since the publication of the performance audit report: *The Management of Elective Surgery Waiting Lists*, which was published in June 2013. Issues and conclusions presented in this follow-up audit reflect information available as at end June 2017.

Background

The performance audit report published in 2013 discussed the extent to which the management of waiting lists for elective surgery at Mater Dei Hospital (MDH) was effective. This report was undertaken in view that excessive waiting times for elective surgery carries a cost for both the patient and the Hospital. The findings and conclusions presented in the 2013 Report were based on elective surgery pertaining to the Cardiology, Ophthalmic, Orthopaedics and Surgical Departments.

The 2013 Report acknowledged the high levels of patient satisfaction with the services provided by MDH with respect to elective surgery. However, it also noted that despite the increase in the number of elective operations carried out at the time, around one fifth of patients had been waiting for their intervention for over one year. Increasingly healthcare requirements of an ageing population influenced the demand for such services. On the other hand, MDH encountered difficulties to encourage further its pool of consultants and other professionals to extend their working hours at the Hospital.

The 2013 Report also highlighted that MDH was still in the process of computersing its waiting lists in a centralised system while having a number of stand-alone information systems. The Operating Theatres Department lacked a central authority to assume full responsibility of this function. This situation weakened the management control over this critical and most valued asset at MDH. This audit also reported that strengthening strategic, operational and Public Private Partnerships (PPPs) policies, as well as the availability of comprehensive information systems was critical to improve the efficiency of operating theatres. Moreover, it will have a direct impact on reducing waiting times for elective surgery.

Focus of the Follow-up Audit

In view of its findings and conclusions, the National Audit Office (NAO) Report discussed in the preceding section proposed a number of recommendations, whose implementation will be the primary focus of this follow-up audit. For the purpose of this follow-up study, the NAO retained the objectives from its 2013 Report that sought to determine the degree to which:

a. the waiting list management structure is supported by the appropriate policies and strategies;
b. MDH Management has access to comprehensive, reliable and timely waiting lists related information; and
c. operating theatres at MDH are being optimally utilised.

Recommendations by NAO and progress registered by MDH:

The undertaking of this performance audit mainly entailed conducting semi-structured interviews with key officials at MDH and the review of relative documentation. In order to illustrate the progress attained by the competent authorities in implementing the NAO's proposals, this follow-up report is reproducing the key recommendations in italic text. These recommendations addressed the waiting list management structure, the management access to waiting lists related information and the utilisation of the operating theatres. The degree of progress registered in connection with these recommendations is presented directly below each proposal.

Recommendation 1

Action is to be expedited to enable the recently drafted policies determining maximum intervention waiting times to be formally adopted and communicated to all the players involved in the conduct of elective surgery. Moreover, mechanisms are to be devised to ensure their consistent application across all MDH's Departments.

In accordance with the above recommendation, the following developments materialised:

a. Government has published a Patient Charter in November 2016, which stipulates a maximum waiting time for elective surgical interventions across the majority disciplines of 18 months. Due to clinical requirements, and as outlined in the Patient Charter, the maximum waiting time for life-threatening surgical interventions is significantly less. This commitment will come into force in November 2017. MDH management contends that this maximum waiting time considers demand trends and hospital resources. Thus, its implementation will not impinge on the number of patients seeking treatment abroad.

b. MDH has developed internal monitoring systems to flag patients and address cases, which have exceeded the 18-month threshold. Furthermore, the Hospital is also monitoring cases exceeding one year to ensure that it can achieve compliance with the deadline stipulated in the Patient Charter.

Recommendation 2

Efforts to increase the number of day-surgery are to be sustained in order to optimise bed turnover and the operating theatres' infrastructure.

MDH's initiatives regarding the aforementioned proposal yielded the following:

a. From a clinical perspective, MDH has pursued the policy of increasing day cases. For example, in the shift towards Laparoscopic Cholesystectomies, and other laparoscopic surgery, the introduction of Endovenous Laser Ablation, as well as the shift towards day cases in the specialty of Ear Nose and Throat (ENT).

b. The number of admissions registered as day cases (excluding renal unit & nursery admissions) for the period 2015 to 2017 (as at end June) resulted in 30,026, 32,462, and 15,578 respectively. The increase in day cases over this period indicates the efforts undertaken by MDH, particularly as the number of day case admission in 2013 – the time of the NAO review on elective surgery, amounted to 26,853.

Recommendation 3

Options to address the historical re-occurrence of beds being occupied by patients requiring long-term care are to be evaluated. In the short term, efforts to transfer these patients to other institutions or residences, such as through PPPs initiatives, are to be broadened.

The following progress has been registered:

a. MDH embarked on wide ranging initiatives to address the issue of long-term medical care (LTMC) patients. Agreements are in place with a number of institutions, whilst day-to-day mechanisms are in place to ensure the earliest possible transfer of these patients to the proper institutional care system. In addition, MDH is utilising Boffa Hospital to house such patients. Long-term medical care patients at MDH imply that the Hospital would forfeit the opportunity to perform an average of an additional 9,733 interventions annually. The ensuing outcome of such circumstances relates to the prolonging of intervention waiting times.

b. MDH contends that during the period March 2014 to December 2016, the Hospital entered into agreement with four long-term medical care for the elderly residences. During 2016, the Hospital had 158 PPP beds. The cost per bed night procured through PPPs to accommodate LTMC patients' amounts to €56. This is significantly less than costs incurred by MDH, which range between €175 for surgical and €250 for medical wards. The procurement of these beds raises two critical issues:

    - Firstly, the main objective for procuring these beds was to temporarily accommodate LTMC patients prior to being permanently accommodated by the Department of Active Ageing and Community Care (AACCD). In practice, however, many of these patients remain accommodated at MDH's PPP facilities for a considerable period.

    - Secondly, up to 2016, MDH management contends that it did not have specific funds available for the PPP Agreements highlighted in the preceding paragraphs. Eventually, in 2017 around €2.5 million were allocated. MDH envisages that this allocation will partly cover expenses incurred by the Hospital with respect to the previous year.

c. Additionally, during 2016, MDH procured around 1,000 rehabilitation bed-nights from a private sector contractor. In 2016, the expenditure associated with these services amounted to €140 per person per bed night.

d. Despite the availability of the Residential LTMC and Rehabilitation services, the number of beds at MDH being occupied by long-term care / social cases has generally remained at the same levels, that is around 80 beds daily. MDH statistics show that during 2013 to 2017, new elderly LTC patients whose average age was 80 years totalled 484, 502, 561, 465 and 380 (mid-July) respectively. On average, MDH accommodated and cared for these patient for an average of 45, 56, 50, 60 and 41 days respectively. MDH remarked that apart from alleviating bed turnover associated with LTMC for the Elderly, the procurement of LTMC services also contributed to the avoidance of situations where MDH would be constrained to accommodate patients in non-ward areas.

Recommendation 4

MDH is to conduct studies to determine the required resources to enable the optimal utilisation of the Hospital infrastructure available. Such study is to consider the financial and economic implications against the benefits gained through the increase in resource availability.

In view of the above proposal MDH's initiatives included:

a. A study entitled 'High Level Operations Review: Theatres Unit' (2015) was commissioned by MDH and is gradually being implemented. Within this context, efforts to maximise the utilisation of the operating theatres infrastructure include: ongoing efforts to align shift structures of human resources. The ongoing recruitment of support staff, the increase in the number of afternoon lists and the 'Sunday Initiative', which has seen the number of interventions performed on Sundays increase from 639 in 2015 (1.4 per cent of elective planned episodes) to 1,683 (3.5 per cent of elective planned episodes) in 2016.

b. The above initiatives contributed to an increase in elective operations undertaken at MDH from 39,593 in 2013 to 48,252 in 2016. The significant increase in day surgery is considered an important factor with respect to increasing the elective surgery throughput and reducing waiting times for operations. Despite these positive outcomes, MDH is also striving to increase operating theatres throughput in the afternoons. Currently, MDH is working to address employee issues arising from increasingly extending elective surgery during afternoons.

c. Nevertheless, MDH is still in the process of implementing the 'High Level Operations Review: Theatres Unit' (2015) Report's recommendations. One critical recommendation that has remained outstanding relates to the procurement and installation of a Resource Management Module. This software assists MDH management in the allocation of resources and identifies areas of inefficiencies within the Hospital's operating theatres.[1]

[1] Further information why this Software is not yet installed will be discussed in Recommendation 9.

Recommendation 5

Options to expedite the recruitment of key staff, particularly those considered as essential for the Hospital's operations are to be explored. Such considerations should extend to fast tracking MDH staff engagement applications within the current centralised public sector recruitment process. Another option, which may be considered, involves increasing MDH's autonomy over the recruitment function. This entails that the Hospital's administrative capacity and internal control mechanisms are strengthened to cater for such responsibilities.

The situation highlighted in 2013, generally, prevailed as:

a. Timely recruitment at MDH remains a challenge. MDH is still heavily dependent on other Government entities involved in Public Recruitment. Although the Hospital employs around 4,000 personnel, it does not have the legislative powers to embark on its own recruitment drives.

b. A number of calls for consultants were issued between January 2016 and March 2017. Up to June 2017, 85 per cent of the calls issued were filled, with the remaining 15 per cent still in the recruitment stage.

Recommendation 6

The feasibility of extending the provision of operating theatre services through PPPs is to consider the financial implications by evaluating such options against the possibility of increasing throughput in-house.

In accordance with the above recommendation, the following developments materialised:

a. MDH introduced the contracting out of operating theatre services through PPPs in July 2015, where the Hospital outsourced 161 interventions. The Hospital continued with these practices in 2016 and 2017 through two procurement models, namely the leasing of fully equipped operating theatres for use by MDH surgeons during routine working time, and full outsourcing of interventions. During 2016, these initiatives led to 448 interventions being performed in Private Hospitals.

b. MDH have two PPP contracts in place concerning the full outsourcing of interventions. The contracts relate to the provision of 400 Major Operations at €4,000 per surgery.

c. During 2017, the Hospital has one contract in place relating to the leasing of fully equipped operating theatres from private hospitals. A fee of €1,750 is due with respect to the leasing of an operating theatre for eight hours, where during this time four to six operations, depending on complexity, are carried out.

d. The Ministry for Health resorted to the PPP arrangements as in the short-term, the Hospital could not increase the intervention throughput to significantly influence waiting times. Consequently, the Ministry for Health received quotations through an Expression of Interest from three private hospitals. MDH eventually procured services from two suppliers through direct negotiated procedures.

e. Intervention throughput was also increased through the utilisation of operating theatres available at Gozo General Hospital and Mosta Health Centre. In 2016, around 1,519 interventions, were carried out at Mosta Health Centre while 3,996 interventions were performed at Gozo General Hospital.

Recommendation 7

The process to implement fully the Centralised Waiting List System with respect to operating theatres is to be expedited. Efforts are to be stepped-up for the posting of waiting list data relating to all elective surgery across MDH Departments. Moreover, consideration is to be given to ensure that this System has in-built data validation and integrity mechanisms.

In accordance with the above recommendation, the following developments materialised:

a. By the end of 2016, all of MDH Departments were utilising the Centralised Waiting List System (officially known as Centralised Theatre Management System – CTMS) for elective surgery. This is a significant improvement over the situation reported upon in 2013, where only the Orthopeadics and Ophthalmology Departments were utilising the system.

b. Currently, four consultants are not using the CTMS. This situation goes against the principles outlined in the Standard Operating Procedures (SOP) issued in August 2015 where surgeons / physicians are obliged to register patients on the CTMS as soon as possible following the scheduling of elective procedures. Moreover, surgeons / physicians are to remove patients from the list once the intervention is performed or in the event that the patient should no longer be on the waiting list for any other reason.

c. The Centralised Waiting List System still requires a considerable amount of manual validation and input. In this regard, every month, the Centralised Theatre System Office manually reviews and updates the CTMS. Such updates relate to deceased persons, operations undertaken and 'no-show' cases. Such a situation materialises due to the non-integration of the Surgical Operation and the Deaths Registers and due to instances where the SOP is not fully complied with. Within this context, the opportunity to fully integrate the CTMS with the processes undertaken within operating theatres has not been exploited. Consequently, MDH's operating theatres are not supported with an electronic system which facilitates infrastructural, resourcing, scheduling and patient waiting-times.

Recommendation 8

Measures should be taken to ascertain that Departments, which are already utilising the Centralised Waiting List System complete all the information required. In particular, users of this System are to complete supporting information such as that relating to clinical priority and reasons for changing such designations. These measures are seen to further promote the principles of transparency and accountability with respect to waiting lists.

In accordance with the above recommendation, the following developments materialised:

a. Information relating to the logging of interventions, as outlined in Hospital's SOPs are generally being complied with, however further work is required to ensure full and consistent compliance with waiting list management principles.

b. As outlined previously, MDH estimates that the rate of non-compliance to the SOP on CTMS is around five to six per cent (four consultants). MDH Management is following-up these cases.

c. Another SOP issued in 2015, outlines that surgeons/physicians or their representative are to ensure that all required information within the CTMS is completed in a timely manner. Despite this administrative requirement, a number of Departments are not fully complying with these provisions. Consequently, the Centralised Theatre System Office has to intervene by completing the outstanding inputting. In view of the workload, operations are being marked as closed one month after the event rather than a week as advocated by the SOP. These circumstances encroach on the principles of efficiency, as MDH management is not kept abreast in real-time of operating theatres throughput and slot availability. This situation discussed in this paragraph also raises issues of surgeon/physician accountability.

Recommendation 9

Consideration is to be given to computerise data related to operating theatre activities. The operating theatres infrastructure is the Hospital's most valuable asset and is of critical importance in terms of intervention throughput. In this light, Hospital Management is to evaluate the financial and operational benefits of procuring and utilising an off-the-shelf soft ware package until such time that the Integrated Health Information System 2 (IHIS2) has been developed and commissioned. As a minimum, any electronic system considered for the operating theatres should cater for session allocation, the daily list of interventions, the resources level required to man the theatres and a log of all activities relating to actual theatre utilization.

In accordance with the above recommendation, the following materialised:

a. A tender for the procurement of an IHIS2 was issued but proceedings were halted by the Malta Information Technology Agency (MITA). The Hospital contends that it is not aware of the reasons behind the former's decision.

b. In view of the circumstances portrayed in the preceding paragraph, MDH's management acknowledges the need to computerise at least the operating theatre activity data. To this end, the Hospital sought to procure a standard software package costing an estimated €0.5 million. However, the procurement process was not authorised to proceed and the Chief Information Officer (CIO), within the Ministry for Health recommended that a competitive call for tenders be issue.

Recommendation 10

Efforts to implement the IHIS2 or to identify alternative systems, which integrate datasets considered as critical to the Hospital's processes, are to be stepped up. Prolonging decisions and implementation in this regard prohibits MDH Management from exercising the appropriate levels of direction and control.

The following issues materialised:

a. As outlined in the previous section, the Chief Information Officer within the Ministry for Health outlined that MITA halted the IHIS2 tender process in 2013.

b. The CIO within the Ministry for Health contends that the formal adoption of the draft National Digital Health Strategy is to precede the procurement of integrated IT systems for the Hospital's operating theatres. As at June 2017, this Strategy was awaiting Cabinet approval.

Recommendation 11

MDH is to develop and communicate with the multi disciplinary teams its policies relating to operating theatre processes. These mainly related to operation morning and afternoon session start times, turnaround times between operations and procedures to be followed for changes to existence sessions and requests for extra sessions. Moreover, procedures are to be established and documented with respect to session over-runs.

In accordance with the above recommendation, the following developments materialised:

MDH has developed a number of SOPs relating to operating theatre logistics. The Hospital contends that the addition of more structure and discipline in enforcing operating theatre logistics is to be undertaken through a phased approach. Additionally, enforcing theatre logistics needs to take cognisance of clinician discretion.

Recommendation 12

MDH management is to ascertain that job plans pertaining to senior resident specialists and consultants clearly define how clinical hours are allocated between outpatients, ward-rounds, operating theatres and other functions. Moreover, job plans are to include key performance indicators such as those related to the number of operations to be performed in a defined period.

During the past four years, the following progress was registered:

a. MDH Management is making concerted efforts to introduce a more robust job plan system in a structured and sustainable manner. At this stage, the Hospital is still in the process of testing the benchmark whereby one Hernia operation is considered to be equivalent of 45 minutes of theatre time allocation. In this regard, MDH is still in the process of piloting gauging surgeon/physician performance against this benchmark prior to its inclusion in respective job plans.

b. MDH management is aware that more refinements are necessary prior to introducing a robust performance measurement mechanism, such as the benchmark outline in the above paragraph, to avoid perverse incentives. In this regard, MDH is still evaluating the possibilities of introducing other supporting benchmarks. For instance, these relate to the use of consumables during operations and the number of hospital bed nights required following the intervention.

Recommendation 13

The audit trail relating to the compilation of the daily intervention lists of patients to undergo elective surgery is to be strengthened. Toward this end, current mechanisms are to be reviewed to ensure that the number of patients included in the daily intervention lists is appropriate in relation to the duration of specific operating theatre sessions. Moreover, changes in these lists are to be endorsed by an MDH designated authority.

In accordance with the above recommendation, the following developments materialised:

a. The Theatre Manager and the Clinical Director review the daily intervention lists with a view to ensuring their appropriateness in terms of the allocated duration of the related theatre session.

b. However, a number of elective interventions still take place without the full adherence to MDH's protocols. Interventions that are carried out as walk-ins influence the daily management of the operating theatres and bed management. This situation not only influences the management of operating theatres but also deviates from the principles of transparency and accountability.

Recommendation 14

The assignment of all management positions is considered as a pre-requisite to ensure the appropriate level of management control. In this regard, and as a matter of urgency, the current vacant headship position relating to the management responsibilities of operating theatres needs to be addressed.

In accordance with the above recommendation, the following developments materialised:

a. A Theatre Manager was appointed in 2015. The Theatre Manager introduced a number of practices, namely the introduction of smart cabinets, whereby an electronic stock inventory records the use of consumables. The use of such cabinets is expected to yield a saving of €1.5 million over a four-year period. The introduction of this system is still in its initial phases and extends to trauma interventions.

b. Due to deviations from established procedures relating to the composition and referral of scheduled intervention list, the planning function within operating theatres encounters some constraints. The Theatre Manager contends that around 40 per cent of the theatre lists are not received in a timely manner. This impacts staffing and other logistical arrangements negatively.

Conclusion

This follow-up audit has shown that MDH has generally addressed or has undertaken studies with respect to the implementation of recommendations proposed by NAO in 2013. Such action has translated itself in an increased utilisation of the operating theatres at MDH whereby throughput has increased by nine per cent by 2016. The increase in the number of interventions performed is to varying degrees attributable to addressing operational inefficiencies increasing the number of sessions within the operating theaters and increasing the number of day surgery. Moreover, the 48,252 elective operations performed at MDH in 2016 have been supplemented with another 448 interventions, which were performed through PPP initiatives. The sum total of these initiatives is reflected in a general decrease in patient waiting times for interventions.

Nonetheless, this follow-up audit has elicited issues where progress with respect to implementing NAO proposals relating to increase the utilisation rate of operating theatres is still on-going. Generally, such instances relate to logistical arrangements, which require better synchronization of resources. However, such issues are subject to a number of complexities such as staffing availability, coordination between the different management levels, funding, and negotiations with staff representatives.

Issues concerning transparency and accountability relating to the daily intervention lists prevail. Despite the introduction of procedures relating to authorizations and reviews by senior MDH Management, daily intervention lists pertaining are still subject to a high degree of changes. Some of these changes are clearly attributable to no-shows and clinical priorities. However, not all changes are supported by documented justifications and the necessary authorisations.

This follow-up audit re-emphasises the complex environment and the logistical constraints, which influence operating theatres. Mitigating these management issues while striving to increase throughput, reduce patient waiting time and above all else, assuring patient safety necessitates consorted efforts by all stakeholders. This Office augurs that MDH is able to expediently implement outstanding issues within its 2013 proposals. To this end, NAO stresses the importance of stakeholder involvement and effective change management.

The Provision of Residential Long-Term Care for the Elderly through Contractual Arrangements with the Private Sector

Introduction

This follow-up audit aims to report on the progress registered since the publication of the performance audit report: *The provision of residential Long-Term Care (LTC) for the elderly through contractual arrangements with the private sector*, which was published in April 2015. Issues and conclusions presented in this follow-up audit reflect information available as at end May 2017.

Background

The performance audit report published in 2015 discussed the extent to which services related to residential Long-Term Care (LTC) for the elderly provided through agreements with the private sector and the Archdiocese of Malta constitutes favourable terms for the contracting authority. The findings and conclusions presented in the 2015 Report were based on a comprehensive review of agreements and their implementation regarding the Mellieħa, Żejtun, Roseville and Casa Leone Homes.

At the time, the former Department for the Elderly (DfE) was responsible for ensuring that services provided through these contracts complied to the specifications outlined in the respective agreements. These duties now pertain to the Department of Active Ageing and Community Care (AACCD) within the Ministry for the Family, Children's Rights and Social Solidarity (MFCS).

The 2015 Report concluded that through varying levels of collaboration with the private sector, the DfE was successful in significantly increasing the supply of government-financed residential LTC beds. These collaborative initiatives mainly entailed two main approaches. Public Private Partnerships (PPPs) entrusted third parties with the management and operations of government-owned LTC homes whereas the '*Buying of Beds*' scheme related to the procurement of accommodation and the related caring and nursing services in privately-owned homes.

Focus of the Follow-up Audit

In view of its findings and conclusions, the National Audit Office (NAO) proposed a number of recommendations, whose implementation will be the primary focus of this follow-up audit. For the purpose of this follow-up study, the NAO retained the objectives from its 2015 Report that sought to determine the degree to which:

a. the appropriate policies and strategies are in place to address the prevailing demand pressures for LTC beds;

b. the appropriate mechanisms were in place to ascertain the effectiveness of the procurement process; and

c. the projects resulted in good value for money and the desired outcomes, with respect to both the construction and daily operational elements.

Recommendations by NAO and progress registered by the AACCD:-

The undertaking of this performance audit mainly entailed conducting semi structured interviews with key officials at the AACCD and the review of relative documentation. In order to illustrate the progress attained by the competent authorities in implementing the NAO's proposals, this follow-up report is reproducing the key recommendations in italic text. These recommendations addressed the National Policy and Strategic Framework, the Department's organizational set-up, the procurement of residential LTC service as well as service delivery. The degree of progress registered in connection with these recommendations is presented directly below each proposal.

National Policy and Strategic Framework (recommendations 1 to 7)

Recommendation 1

The 'National Strategic Policy for Active Ageing' published in 2013 is to be complemented with the development of long-term comprehensive national policies and strategies on residential LTC beds for the elderly. This will entail updating the AACCD's objectives and admission criteria for residential LTC to reflect more accurately the future needs of an ageing population. To this end, the policy and strategic framework is to clearly distinguish between the roles of residential and nursing homes.

In accordance with the above recommendation, the following developments materialised:

a. Since the publishing of the National Strategic Policy for Active Ageing, the AACCD assessed the projected national long-term care for the elderly. The report entitled Projections and the Demand for Institutional Long-Term Care in Malta (June 2015) concluded that to maintain the status quo, the number of beds would need to rise to 7,000 by 2025. However, improvements in the health of elderly individuals should reduce this demand to closer to 6,000. This implies an increase of around 150 long-term beds per year for the next decade. Within this context, apart from the admissions in St Vincent de Paul Residence (SVPR), during 2015, 2016 and 2017 AACCD accommodated an additional 153, 184 and 168 residents within 12 homes.

b. In line with the National Strategic Policy for Active Ageing, AACCD is basing admission into long-term care facilities on professional assessment, which enables classification by urgency and level of dependency. Additionally, social and clinical reasons are taken into consideration. To this end, priority is given to urgent and high dependency cases. Moreover, SVPR holds an internal review system whereby only applicants presenting with very high levels of dependency are admitted. The foregoing implies, that as a matter of policy, admission of independent or low dependent applicants is avoided in favour of community based or domiciliary services. Recommendation iv discusses in detail community based and domiciliary services further.

c. Policy developments and the expansion of community and domiciliary services imply that admissions to residential LTC will increasingly relate to people aged 75 years and older as well as persons with higher levels of dependency. This state of affairs is, to varying degrees, already pushing up demand for nursing homes in lieu of residential homes. To date the Department addressed this situation through high dependency units and through the designating more caring and nursing hours to residents assessed as highly dependent.

d. National standards relating to caring and nursing in homes for the elderly was undergoing the second reading of the respective Bill in Parliament prior to their enactment as legislation. The draft Bill, however, broadly defines the nursing and care rather than stipulating the minimum requirement for different levels of residents' dependency.

Recommendation 2

Policy development should also consider the various approaches available, including PPPs and 'Buying of Beds' procurement models to augment the supply of government-funded LTC beds. These models offer various benefits and limitations in specific circumstances, which can be realistically considered in the policy making process. Critical to this is the propagation and nurturing of a competitive environment that encourages more investment, innovation as well as a wider participation of existing and new players within the industry.

AACCD initiatives regarding the above proposal yielded the following:

a. AACCD is aware and acknowledges the benefits emanating from propagating and nurturing a competitive environment within the LTC for the care for older persons sector. To this effect, the Department has encouraged sectoral development proposals as generated by the private sector and consequently, new and established operators increased their bed availability to AACCD. Similarly, during the past three years the Department has procured services from another three operators. The foregoing implies that Government is now procuring LTC services from seven operators.

b. While NAO acknowledges the positive elements of attracting new suppliers, AACCD still faces risks associated with dominance from one major supplier.

c. Due to shortage of supply, AACCD, was constrained procuring residential LTC services by negotiating directly with potential suppliers. The Department of Contracts approved this approach. AACCD also maintains that it seeks to directly negotiate with potential suppliers as, generally, private sector operators files their interest directly with the Department or the MFCS in providing LTC residential services to Government. AACCD also maintains that it mitigates the pricing risks associated with the direct negotiated procedure through the engagement of an experienced and multi-disciplinary negotiating team as well as the Department's accrued knowledge of the industry.

Recommendation 3

Studies are to be undertaken to review the long-term effect of PPP and 'Buying of Beds' initiatives. These studies will serve as major policy development inputs whereby the appropriate levels, in terms of sustainability, of market share to be absorbed between government-funded and personally financed LTC beds are determined.

AACCD engaged in the following initiatives with respect to this recommendation:

a. The principal study undertaken by the Department was 'Projections and the Demand for Institutional Long-Term Care in Malta (June 2015)'. The main conclusions of this study related to the projection of the annual number of residential long-term beds required under different scenarios. This study provided the foundations for the development of future national strategies and policies.

b. The Department also engaged in two further studies during 2016. The first related to the determination of nursing home operational costs when adhering to requirements stipulated in service level agreements. The second study entailed a verification exercise to determine whether nursing and caring standards requested in service level agreements meet present and future needs. The two exercises enhanced government visibility and stand during negotiations. Moreover, the outcome of these studies referred to in this paragraph indicates that increasing the LTC for the elderly bed stock through the '*Buying of Beds*' scheme is more advantageous than engaging into PPPs. These favourable circumstances primarily arise since the '*Buying of Beds*' scheme does not entail the need for direct capital investment by Government.

c. The scope of these studies, however, did not include an evaluation on the extent to which the '*Buying of Beds*' scheme is affecting the respective level of market share to be absorbed by government-funded and personally financed LTC beds. This point is raised since current trends show that private financing of care for the elderly is declining. This state of affairs mainly results as, increasingly, people are opting for LTC beds under the government-financed '*Buying of Beds*' scheme rather than self-financing their care. These circumstances tend to be exacerbated since a number of residential homes within the '*Buying of Beds*' scheme cater for both government and privately financed accommodation. This Office maintains that the issues raised within this paragraph need to be reassessed by the relevant authorities in terms of their implications on the sustainable provision of this service.

Recommendation 4

In tandem with the development of the residential national policies and strategies, consideration is to be given to further extending the provision of LTC for the elderly at community level. The extension of services at community level would enable the development of new approaches to deliver LTC care for the elderly and ease the demand pressures on residential care by enabling homes to focus more intensively on higher dependency cases. More importantly, the extension of services within the community would permit elderly persons to remain an integral part of their respective communities for as long a period as possible.

During the past three years the following developments materialised:

a. Since the publication of the NAO report in 2015, AACCD initiatives included the enhancement of the provision of existing community-based services such as Meals on Wheels and Telecare Services.

b. The Department also introduced new services within the community including the Carer at Home Service and Domiciliary Occupational Therapy, Physiotherapy and Podiatry. Furthermore, in March 2017 and May 2017, the Department introduced the Domiciliary Geriatrics and the Domiciliary Respite services respectively. To this effect, AACCD increased the operational capacity for all domiciliary community services to meet demand.

Recommendation 5

As a matter of priority, the competent authorities are to establish national minimum standards for care homes for older people. These standards are a critical requirement of a robust regulatory framework and effective enforcement. Moreover, these standards constitute an important tool that facilitates and renders more effective the licensing function for residential LTC homes for the elderly.

The following progress has been registered:

a. The Bill covering the launch of National Minimum Standards for Care Homes was presented in Parliament in November 2016, and is currently in the committee stage.

b. The draft outlines the National Minimum Standards, which are to be applicable to all care homes for older people, that is, government and privately owned. The draft Bill specifies enforcement procedures and regulatory structures as well as specific standards to be applicable to care homes catering for different levels of dependency. Moreover the draft Bill also relates to units specialising in dementia care.

c. The Standards within the draft Bill also acknowledge the unique and complex needs of each individual residing in a care home. To this effect, these standards stipulate the minimum requirements for the facility to operate a care home as well as the required knowledge, skills and competencies needed by management and staff to ensure care homes deliver individually tailored, comprehensive and quality services. Each Standard has an achievable outcome for the residents. Although the Standards are qualitative, they are also measurable. Consequently, they provide a useable instrument for the independent regulator to assess the degree to which the Standards are being met through:

- regular communication with residents, family and close friends, staff, managers and others;
- observation of daily life and management of the home;
- audit of written policies, procedures and records; and
- scheduled and ad-hoc inspections.

d. As outlined in Schedule 1 paragraph 27.1, the draft Bill stipulates that the proposed document that all residents' needs are met at all times by the number and skills mix of staff. The document, however, does not specifically stipulate the minimum nursing and care hours requirements to address the needs of residents in accordance with their dependency levels. AACCD mitigates this situation by stipulating the relevant clauses within each contractual agreement with suppliers.

e. To date, national standards relating to the provision of community care are yet to be devised. This state of affairs implies that Government policy outlined in the National Strategic Policy for Active Ageing are not supported by a legal regulatory framework.

AACCD's Organizational set-up (recommendations 6 and 7)

Recommendation 6

The AACCD's organizational set-up is to be reengineered to cater for the complexities of delivering LTC services, including through various level of partnerships with third parties. Such an organizational set-up is to be capable of identifying and addressing demand pressures in a timely and cost-effective manner. This will entail selecting the most favourable approaches to deal with prevailing and long-term demand pressures, implementing ensuing projects as well as actively monitoring and engaging with operators to ascertain that service delivery is in accordance with contractual provisions.

In view of the above proposal AACCD initiatives included:

a. As a starting point towards the reengineering of AACCD's organisation structure, the Department has been included in the Second Schedule of the Public Administration Act. Apart from facilitating the departmental reengineering process formally acknowledges the role of this Department in implementing the National Active Ageing, the National Dementia Strategy as well as all services for older persons both at community and residential basis on a national level.

b. AACCD organisation structure has been streamlined to enable the department to deal with the complexities and demands imposed by the sector. The new organisation structure comprises nine main units and includes distinct managerial roles to assume respective responsibility for residential and community services.

c. Six of the nine units within the Department's organisation chart provide financial, administrative, technical and Information and Communications Technolocy (ICT) support together with a Quality and Compliance section. The latter's responsibility mainly relates to ensuring that service delivery relating to the range of services for the elderly provided by AACCD complies to national, departmental and contractual specifications. The other main units within the Department's organisation chart relates to the provision of services in conjunction with Residential Care, Gozo Services and Community Services.

d. The reengineered organisation chart identifies a number of key posts where vacancies have been filled in accordance with the respective Human Resources plans. Among the new posts are the roles of an Assistant Director responsible for Quality and Compliance, a Manager responsible for Customer Care, a Junior Legal Officer and a Bed Manager.

e. Currently, 11 managerial positions within AACCD's organisation chart remain vacant, but the Department contends that these vacancies will be filled by end 2017.

Recommendation 7

Monitoring initiatives of residential LTC homes for the elderly are to be increased. While acknowledging the work of the Audit and Management Team within the AACCD, it is unlikely that the scope and depth of monitoring activities will increase unless the resources available to this Unit are substantially augmented. Investment in the monitoring function is seen as sustaining the contracting authority and home operators' relationship as well as ascertaining that the level of services provided are in accordance with contractual provisions.

During the past three years, AACCD undertook the following initiatives:

a. As discussed earlier, AACCD remodelled its quality and compliance section. Within this context, the inspection procedures have also been streamlined to optimise the utilisation of the resources available while still maintaining the multi-disciplinary characteristics of inspections carried out at residential homes falling under the responsibility of this Department.

b. Since 2015, AACCD has also increased the number of inspections performed. These inspections can be either be scheduled or ad-hoc unannounced visits in residential homes. These inspections vary in scope and may relate to checks on ambient temperatures, follow-ups, medicines management audit and complaints. Additionally, these inspections also comprise full comprehensive audits of the service delivery in residential homes.

c. On the basis of the inspections undertaken full audit reports are compiled and referred to Director AACCD. The reports are then discussed with the respective home management, where specific action is advised if required. Nonetheless, AACCD reserves the right to take any action, including legal, based on the level of non-compliance detected during inspections.

d. AACCD, on occasions, also involved specialised governmental entities to support the Department's inspection regime.

e. Since residential homes for the elderly are also subject to regulatory inspections by other governmental authorities, AACCD is participating in the Business Inspection Reform initiative, which is spearheaded by the Office of the Prime Minister. The main aim of this initiative is to address issues concerning over bureaucratisation, a silo mentality among inspectorates, high actual and opportunity costs for businesses, limited data sharing among inspectorates, inconsistencies in policy and practices, overlaps, weak reporting and report sharing, and enforcement and penalty regimes that lack effectiveness. Addressing these issues should bring about more effective coordination of the regulatory function concerning residential homes for the elderly.

Procurement of residential LTC services (recommendations 8 and 9)

Recommendation 8

The importance of compiling formal and comprehensive business cases prior to procurement and investment initiatives cannot be overemphasized since this constitutes an integral part of the decision making process as well as enhances audit trails and consequently transparency and accountability. The drawing up of business cases enables the evaluation of alternative investment options, confirms the extent to which the proposed initiatives adhere with agreed strategies and fulfills business and service requirements.

In view of the above recommendations, AACCD registered the following progress:

a. AACCD performed a costing exercise to establish a baseline for service provision for low, medium and high dependency residents, in view of the proposal by CareMalta for the renewal of Agreements relating to the provision of residential LTC care for the elderly. The Department supported this costing exercise with other assessments relating to two government homes, namely Mtarfa and Mellieħa to determine levels of service delivery. The latter exercise was utilised to compare costs in AACCD homes and other residences based on the established levels of care.

b. AACCD carried out ad-hoc costings prior to engaging in new contracts or renewal of existing agreements. To this effect, during the period 2015 to 2017 AACCD carried out four such costings exercises with respect to four new contracts pertaining to the '*Buying of Beds*'.

c. To supplement its evaluations, there was an instance where AACCD consulted NAO for the latter's direction and guidance prior to engagement in negotiations with a prospective investor.

Recommendation 9

When evaluating investment options particularly with respect to PPP initiatives, for business case purposes, particular consideration is to be given to the extent to which the overall chargeable rate is to be influenced by the potential of rent due to Government since business activities are being undertaken by third parties on government-owned property.

AACCD did not engage in any new PPP contracts for the provision of residential LTC care since the publication of the NAO's performance audit report in 2015.

Recommendation 10

The procurement management process of residential LTC homes for the elderly is to be strengthened. To this end, due consideration is to be given to demand forecasts and lead times associated with major procurement initiatives, as well as securing the relative funding commitments. The enhancement of procurement business processes will minimize the need for resorting to direct negotiated procedures with contractors under the premise that residential LTC beds are urgently required. The better management of the procurement process should also provide the competent authorities the opportunity to evaluate business options available and exploit competitiveness arising through tendering when embarking on major projects.

AACCD strengthened the procurement management process as follows:

a. At the outset, AACCD appointed a procurement manager to oversee the relative procurement processes. The principal role of this position is to ensure that lead times are respected and funding commitment are in order.

b. AACCD sought advice from the Department of Contracts to establish a best practice setup to strengthen government negotiating stand in major procurement initiatives. Within this context, the Department of Contracts noted that direct negotiations with potential suppliers of services are to be undertaken through a multi disciplinary and experienced team, hailing from different professional backgrounds.

c. AACCD implemented this advice when negotiating with a major supplier. Besides on-going consultations with the Department of Contracts, the negotiating team comprised:

- a permanent secretary;
- an advisory team well versed in issues pertaining to persons needing elderly care;
- a financial consultant; and
- legal advisor.

d. AACCD contends that negotiated procedures with various service providers are being considered for short and medium term procurement of long-term care beds. This approach is being adopted in view that supply of long-term care beds which meet required standards is still in short supply. Nonetheless, the opportunity exists for AACCD to revisit current procurement practices so that the full benefits of a competitive environment may be better exploited.

Recommendation 11

The strengthening of the management of the procurement process also necessitates that all mandatory approvals are sought and granted prior to agreements between governmental entities and contractors are reached. Moreover, mandatory procurement related approvals, as referred to in the Public Procurement Regulations (2010), should not follow the commencement of works or the admission of residents in the respective Homes.

AACCD implemented the above proposal as follows:

a. AACCD sought all relevant approvals prior to the signing of agreements between government and suppliers of services.

b. All admissions into residential homes followed the signing of respective agreements.

Recommendation 12

Contractual agreements are to be signed before the start date of their validity. This approach constitutes good business practice since it precludes exposing the contracting authority to avoidable risks associated with post-dated contracts.

AACCD fully implemented the above recommendation.

Recommendation 13

A clear distinction is to be made between the capital-financing and operational components included in the daily chargeable rate per unit in cases of PPP initiatives. This approach enhances the availability of clear information on the various components making up the overall chargeable rate. In the more complex cases, it may be necessary to draw up separate contracts to deal with capital-financing and operational matters. The clear distinction between these cost components enhances transparency as well as the monitoring and evaluation of contract implementation.

Since the publication of the NAO report in 2015, AACCD did not engage in new PPP activity. Consequently, the situation whereby PPP agreements do not fully distinguish between capital-financing and operational cost component prevails.

Service delivery (recommendations 14 and 15)

Recommendation 14

In cases where contract breaches result, the contracting authority is to deal expediently with the matter and, if deemed appropriate, invoke the penalty clauses in accordance with contract provisions.

The following issues materialised:

a. AACCD expediently investigated and addressed all cases of detected or reported potential contract breaches. In the vast majority of cases AACCD and Contractors arrived at amicable solutions without the need for the Department to invoke penalty clauses.

b. The Department imposed remedial action when substantial contract breaches resulted. This varied from the suspension of admissions, to the cancellation of agreement with a service provider in March 2015. In the latter case all payments for service provision were not effected.

Recommendation 15

Contractual clauses are to be strengthened to enable governmental entities to categorically monitor and determine that Home operators deliver services, particularly caring and nursing services, in accordance with agreed quality, quantity and frequency specifications. Such opportunities may present themselves in cases where contracts are being renewed or Addendums are being drawn up for the purpose of introducing new services or establishing new chargeable rates.

AACCD action with respect the above recommendation included the following:

a. At the outset, the Department contends that the strengthening of contractual clauses is an ongoing process due to evolution in services, requirements and quality improvements.

b. Furthermore, AACCD sought legal advice during 2016 to review the contract template for the '*Buying of Beds*' agreements. Consequently, the Department revised these templates accordingly.

c. AACCD engaged in negotiation with existing and potential suppliers during the compilation of agreements to strengthen contractual obligations and positions. This necessitated that, in all cases, the Department felt the need to update and upgrade service provision as opposed to customary automatic renewals.

Recommendation 16

The strengthening of contractual provisions is required in agreements relating to homes where the mix between private and government-funded LTC services precludes conclusive assessment of service provision – a situation that has specific implications with regards to caring and nursing services. To this end, governmental entities, including Homes' Licensing Authority, are to be afforded full information on the deployment of carers and nurses between Government and privately financed LTC beds as well as a declaration of the number of residents and their respective dependency levels.

AACCD took the following initiatives with respect to the above recommendation:

a. Government is seeking exclusivity when signing new agreements. Since 2015, AACCD have signed four such agreements. This implies that, as a maximum, Government is procuring all available capacity within the residence. This approach is seen as strengthening Government's position with satisfying the demand for LTC services. Furthermore, such circumstances suggest that the difficulties in monitoring and evaluating service delivery when homes cater for a mix of private and government financed LTC services would be drastically minimised. This state of affairs materialise since there cannot be any distinction in the level of services offered to private and government-financed LTC services.

b. Service providers are now contractually bound by non-discriminatory clauses in cases where exclusivity is unobtainable.

c. Service providers are now contractually obliged to provide all relevant information which enables AACCD to monitor nursing/carer allocation between private and state funded residents on request. This obligation together with the non-discriminatory provision of service as outlined in the preceding point, assures that the Department is in a stronger position than that reported upon in 2015 by the NAO to evaluate the extent to which service providers are fulfilling contractual obligation pertaining to nursing and carer allocations.

Conclusion

This follow-up audit generally yielded positive results as AACCD has actively implemented a number of measures in line with NAO recommendations proposed in 2015. The progress attained in implementing these 16 recommendations, to varying degrees, addresses the critical points highlighted by the NAO in its conclusion of the 2015 performance audit report.

To this end, this follow-up audit revealed on-going efforts, which will culminate through the Parliamentary adoption of the draft Bill that seeks to establish the minimum standards for care and nursing homes. During the past three years, AACCD's strengthened its administrative capacity and reengineered its organization structure to enable it to implement and monitor service delivery contracts with third parties more effectively. Nonetheless, this organization structure currently features 11 key vacancies, which are in the process of being filled.

AACCD's efforts to seek equilibrium between the demand and supply for residential LTC services for the elderly are evident. From a cost-effectiveness and social benefit point of view, this Office acknowledges AACCD's initiatives to increasingly make available and optimize the utilization of resources deployed to provide community services for the elderly. If the quality and demand for such services are appropriately sustained and continuously reviewed, the long-term benefits would likely lead to a decline in the demand for residential LTC services.

Follow-up Report by the

Special Audits and Investigations Section

An Analysis of the National Lotteries Good Causes Fund

1. Background

1.1 The National Lotteries Good Causes Fund (NLGCF) was set up under article 50(7) of the Lotteries and Other Games Act (2014, Cap 438). The Fund is intended to support projects and initiatives of a religious, philanthropic, cultural, sports, educational, social or civic nature, or other deserving causes. The amounts, manner and time of the disbursement of funds may be determined by the Minister for Finance in consultation with an Advisory Board appointed to administer and operate the Fund. The Advisory Board, in its present set-up, is composed of the Principal Permanent Secretary as Chair and two secretariat officials from the Office of the Prime Minister (OPM) as members. A consultant and a secretary assist the Board. An official from the secretariat to the Minister for Finance represents the Ministry. In allocating funds, the Advisory Board refers to guidelines that establish the parameters and procedures of the NLGCF.

1.2 In addition to the funding of projects and initiatives, commissions and grants are paid out of the NLGCF to band clubs and other associations. In line with agreements entered into with these organisations, the amount of commission paid out of the Fund is based on a percentage of lotto and Super 5 sales registered by the lotto booth affiliated with the particular band club or organisation. Although some of the agreements originated a substantial number of years ago, these are still in force and payments are still being made out of the Fund on the basis of these contracts.

1.3 The Fund generates its income through a percentage contributed from tax payable on gaming activity and unclaimed prizes, namely:

a. a percentage of the gross sums, fees, duties and, or taxes paid by the National Lottery licensee to the Lotteries and Gaming Authority in terms of article 31(4) of the Lotteries and Other Games Act, presently calculated at eight per cent on duty collected by the Authority;
b. unclaimed lottery prizes which, following Ministerial approval, are transferred to the respective Central Bank of Malta (CBM) account biannually; and
c. any other amounts which the Authority is required to credit and pay into the Gaming Authority National Lottery Reserve Fund under any other provision of the Lotteries and Other Games Act or of any other law or of regulations made thereunder.

1.4 The National Audit Office (NAO) had, in 2013, carried out an investigation on the NLGCF. This investigation was requested in May 2013 by the Minister for Finance. Specifically, the Minister requested the NAO to investigate the activities of the NLGCF to establish whether these funds were appropriately collected and distributed to entities and individuals. The investigation focused on the period 2011 to March 2013.

1.5 In addressing the terms of reference, the NAO noted the following shortcomings:

a. Commitments were made out of NLGCF that bound funds well into the future, to the possible detriment of other potentially deserving causes. Considerable commitments were made particularly in Q4 2011, as well as from Q2 2012 onwards, which had resultantly restricted the Fund up to end 2014.

b. Although the NAO was fully aware of the fact that the Guidelines for the Approval of Projects and Initiatives were not legally binding, and that these included a clause that allowed the Minister for Finance to make exceptions and waive part or all conditions of the said Guidelines, this Office is of the opinion that good governance would dictate further efforts at adhering to the provisions.

c. The funding parameters were not always respected, with instances where the thresholds for grants out of NLGCF were surpassed. In a few cases, the actual allocation was more than that recommended by the Advisory Board or, in cases of greater concern to the NAO, more than that actually requested by the respective beneficiaries. Reasons for approval of funding outside of the parameters established by the Fund's Guidelines were not always clearly indicated in the Advisory Board's report.

d. Once the letter of commitment was issued, the grant remained valid for an indefinite period, with no restrictions on completion dates or eligibility to grant.

e. Data relating to the NLGCF, although maintained, was fragmented, with no comprehensive source that included all the relevant information for each application.

f. Since the NLGCF is accounted for on a cash basis, the task of keeping track of all commitments that had previously been made when approving new applications was rendered even more onerous.

g. For some months during the period under review, the Advisory Board was composed solely of an Acting Chair, one member and the secretary. This, in NAO's view, seriously undermined the relevance of the Board, and hindered its performance.

2. Objective, Scope and Methodology of the Follow-up Audit

2.1 This follow-up audit reviewed the activity of the NLGCF during 2016 and sought to determine whether the shortcomings noted in the original investigation had been addressed. The audit was conducted in terms of article 8(a) of the First Schedule of the Auditor General and National Audit Office Act, 1997 (1999, Cap 396) and in accordance with generally accepted practices and guidelines applicable to the NAO.

2.2 During the course of this investigation, the NAO consulted with officials from the OPM and the Ministry for Finance (MFIN), as well as a representative from the Secretariat of the Minister for Finance. The relevant documentation and information requested was, for the most part, made available to this Office.

2.3 The number of applications reviewed by the Advisory Board during 2016 totalled 92. Of these 92 applications, 16 were approved for full funding of the amount requested, whereas 28 were approved for partial funding. Another 20 applications were to be re-evaluated on receipt of further information, and one application for the funding of an animal welfare project was redirected to the Animal Welfare Fund administered by the Ministry for Sustainable Development, the Environment and Climate Change. The remaining 27 applications were refused funding.

2.4 In order to determine the eligibility of applications and compliance with statutory requirements of disbursements made out of the Fund, the NAO reviewed the 44 applications approved during 2016. All relevant documentation relating to the particular project/beneficiary was reviewed to determine correctness and completeness of allocations in terms of adherence to established procedures. Rejected, pending and redirected applications were not considered for the purpose of this exercise. The NAO obtained copies of all the letters of commitment issued to beneficiaries.

2.5 In addition to the funding allocated in respect of applications received, the NAO reviewed the agreements entered into with band clubs and associations. This Office sought to determine whether commissions were paid in accordance with the agreements.

2.6 NAO findings and conclusions are based on the evaluation of the documentation and information indicated above.

3. Commissions paid to Band Clubs and Other Organisations

3.1 According to the agreements signed with eligible band clubs and organisations, commissions paid out of the NLGCF were to be based on a percentage of lotto and Super 5 sales registered by the lotto booth affiliated with the particular band club or organisation[1], as follows:

a. Lotto – a commission based on 30 per cent of total sales, to which the following additional calculations apply:

- a 20 per cent commission on the first €1,397.62 (Lm600) of apportioned sales;
- a 6.667 per cent commission on the remaining balance, which in this case corresponds to the 30 per cent of apportioned sales less the initial €1,397.62 (Lm600);

b. Super 5 – a five per cent commission based on 20 per cent of sales.

Payments in this respect were to be made bi-annually, after the second and fourth quarters of the year.

3.2 Band clubs and organisations benefitting from the Fund received a collective amount of €306,083 in 2016. This amount was distributed among 75 band clubs and eight organisations. Commissions to band clubs ranged between €802 and €8,873, paid to the Lourdes Band Club and St Michael's Club, respectively. Of the €306,083, €26,409 was granted to other organisations, with commissions ranging from €1,180 to the Malta Football Association to €5,882 paid to the National Council of Women.

3.3 The NAO noted that the agreements with band clubs and organisations entered into in 2004 had terminated in 2012, on the expiration of the licence granted by Government to Maltco Lotteries Ltd. This Office requested copies of the more recent agreements; however, according to MFIN, no new contracts were entered into, with the 2004 agreements deemed still valid.

3.4 From the investigation carried out in 2013, it transpired that agreements in respect of four lotto booths housed in band clubs or affiliated to organisations were missing and that two other agreements were unsigned (on behalf of Government). Although the NAO is aware of the fact that these agreements have expired, this Office enquired on the missing or unsigned documents since commissions are to date paid according to these agreements. In its follow-up analysis of commissions granted to band clubs, this Office noted that one of the lotto booths whose agreement was missing was not operational. Despite requests, copies of the missing and unsigned agreements were not forwarded to this Office.

[1] Prior to this agreement, a similar commission was paid to these clubs and organisations by the Public Lotto Department. This ceased with the privatisation of gaming and lotto in 2004.

3.5 In its follow-up audit, this Office noted that all of the commissions paid were in line with the established, albeit expired, provisions. However, the NAO noted that the commission due to the St Leonard Band Club was not paid. According to MFIN, this was attributable to the fact that Maltco Lotteries did not provide the sales figure as it did not have the required consent form that was to be signed by the agent of the lotto booth associated with this band club. Hence, MFIN was unable to pay the commission due.

4. Agreement with the Malta International Airport plc

4.1 An agreement for the lease of an area at the Malta International Airport (MIA) between MIA plc, the Ministry of Finance, the Economy and Investment (MFEI) (as grantor) and a lotto receiver (as lessee) was entered into in November 2012, backdated to 31 July 2011. The agreement granted by title of lease an area for use as a lotto booth and was valid for a period of 11 years, expiring on 30 July 2022. On signing the agreement, the MFEI bound itself to act as grantor for the lotto booth rental fee of €6,500 per annum, excluding VAT and other taxes and subject to a five per cent annual cumulative increase, payable out of the NLGCF. The payments were to be made directly to the Company quarterly in advance.

4.2 The NAO analysed the transaction history against the contractual obligations due by Government. It was noted that payments corresponding to the periods July to September 2014 and April to June 2015, amounting to €4,334, were not made. However, the NAO established that the relevant charges to Government had not been raised by MIA plc. Notwithstanding this, all other invoices raised by the Company were settled.

4.3 In its original report, this Office questioned whether these payments were to be sourced from the NLGCF or from a more appropriate account. In view of this recommendation, MFIN sought to establish an alternative source of funding; however, in 2016, the Ministry concluded that the existing agreement with MIA plc was legal and binding and, until an alternative source of funding was identified, MFIN was to adhere to this agreement. Once this was determined, in July 2016, MFIN settled all outstanding dues charged by the MIA plc, amounting to €29,011. The remaining two payments, corresponding to Q4 2016 and Q1 2017, were effected in a timely manner.

5. Annual Funding to the Malta Aviation Society

5.1 A Memorandum of Understanding, signed by the Minister MFEI and the President of the Malta Aviation Society, served as the basis for the funding of the annual Malta International Air Show. This Memorandum regulated funding for the event held in 2013, 2014 and 2015, towards which the Ministry was to contribute €30,000 each year from the NLGCF. On expiration, this Memorandum of Understanding was not renewed, with the Malta Aviation Society now required to apply yearly for funding for the organisation of this event. Funding is subject to the approval of the NLGCF Advisory Board and the endorsement of the Minister for Finance.

5.2 According to the minutes of the NLGCF Advisory Board meeting held on 22 June 2016, the Secretariat of the Minister for Transport had recommended that a new contract be entered into with the Malta Aviation Society. An increase of the grant amount was also proposed. Following discussions on the matter, the NLGCF Advisory Board decided that funding for the 2016 Malta International Air Show was to remain unchanged. However, the Board also noted that, should there be a change in venue, an additional €20,000 would be granted. This increase was contingent on discussions to be held with the competent authorities. This Office noted that although the decision to grant funding was taken on 22 June 2016, the application was dated 23 June 2016. Moreover, without going into the merit of whether this is a deserving cause or otherwise, the NAO noted that according to the Guidelines, and in order to ensure that the available funding is shared by as many beneficiaries as possible, proposed projects would only be considered for financing if funding is one-off in nature. The NAO is of the understanding that, if it is Government's intention to support this and similar recurring events, then the provision stipulating one-off funding may not be sustainable and therefore may warrant a revision of the Guidelines.

6. Annual Funding to the Malta Community Chest Fund

6.1 During the Advisory Board meeting held on 22 June 2016, approval was granted for the funding of three events organised by the Malta Community Chest Fund. These important fund-raising events were Rockestra, The President's Fun Run and L-Istrina, with the first two granted an amount of €15,000 each and the other funded the sum of €60,000. The Advisory Board noted that these were organised on an annual basis during the third and fourth quarters of the year and that, as in previous years, the Board approved the partial sponsorship of the events. However, the NAO noted that in its report to the Minister for Finance, for some unknown reason the Advisory Board made no mention of the funding of these events.

6.2 Although the NAO acknowledges that these events are organised for a most deserving cause and warrant Government support, this Office noted that the approval of this funding was not entirely in line with the conditions set out in the NLGCF Guidelines. It is in this context that the NAO considers that a revision of the Guidelines is warranted, in this particular case in connection with the maximum amount of €50,000 total contribution that can be awarded to a particular project.

6.3 The concerns identified by the NAO were referred to the Advisory Board. In its reply, the Board indicated that, in this case, it had continued a practice that had been long in existence, even when the composition of the Board was different. Referring to the €50,000 threshold and the one-off financing stipulated in the Guidelines, the Advisory Board noted that this provision was intended "to ensure that the available funding is shared by as many beneficiaries as possible". In this case, the Advisory Board considered that in providing grants to the Malta Community Chest Fund, the benefits are shared by many beneficiaries. Therefore, the reason that instigated these precautionary conditions was not an issue of concern in this situation.

6.4 In justifying disbursements that were not conformant with the stipulated Guidelines, the Advisory Board made reference to the pertinent legislation, namely Section 50(7) of the Lotteries and Other Games Act of 2001. In this respect, the Minister, on consultation with the Advisory Board, had the discretion to determine and provide the grants "in such amounts, and in such manner" as deemed appropriate. Although the Advisory Board endeavoured to adhere to the Guidelines in most situations, exceptional cases, such as that of the Malta Community Chest Fund, were considered as warranting special address, for as long as legislative provisions are met then certain conditions of the Guidelines may be overlooked.

6.5 The NAO agreed with the justifications put forward by the Advisory Board; however, this Office contends that when exceptional circumstances recur on a regular basis, albeit for valid reasons, then one must recognise the exceptionality and amend the Guidelines to reflect compliance therewith.

7. Annual Funding to the Dar tal-Providenza

7.1 According to the minutes of the Advisory Board meeting held on 13 October 2016, a fundraising event, Festa ta' Ġenerosità, was to be held on 1 January 2017. However, since no further details were provided, the NAO sought more information regarding the event. According to the Ministry for Finance, annual funding was allocated for the organisation of this fundraising activity held during the first quarter of each year by the Dar tal-Providenza. The NAO established that the grant towards this event amounted to €25,000.

7.2 Again, although the NAO does not question the cause to which this funding contributes, this Office notes that this practice should be reflected in the Guidelines. The Advisory Board justified this grant citing similar reasons as those presented with respect to allocations referred to in the previous section of the report.

8. NAO Review of the Processing of Applications, the Commitments entered into and Payments made out of the NLGCF in 2016

8.1 In the investigation of the NLGCF undertaken in 2013, the processing of applications and their adherence with the pertinent guidelines, as well as commitments entered into and payments made during the audit period were reviewed. This follow-up audit verified whether the shortcomings identified in 2013 with respect to these aspects had been addressed by 2016.

8.2 This Office analysed the appropriateness of the processing of applications in terms of the NLGCF Guidelines and established whether the relative commitments and disbursements in respect of approved applications were made in accordance with statutory requirements. Instances of non-adherence with the established Guidelines were highlighted.

8.3 Information relating to applications approved and commitments made during 2016 was made available by MFIN. Copies of commitment letters issued in 2016, including those relating to applications made prior to January 2016 yet approved thereafter, were also submitted. During 2016, 44 applications were approved for funding, which were all reviewed as part of this follow-up audit. From the population of approved projects it was noted that funding in one case, amounting to €5,143, was granted on humanitarian grounds. Consequently, no further analysis of the processing of this application was carried out.

8.4 A comprehensive analysis of the processing of applications up to the approval of funds was carried out in respect of the remaining 43 applications. These consisted of applications recommended by the Advisory Board and approved by the Minister for Finance, followed by commitment letters issued to the applicants. A thorough analysis of the disbursement of funds was also carried out in respect of 22 approved applications, where payments (or part payments) were effected on completion (or part completion) of the project in settlement of the expenses incurred. No payments in respect of the other 21 approved applications had, as at March 2017, been effected, mostly due to the fact that the projects and initiatives were still underway or expenses had not yet been claimed.

8.5 In its analysis, the NAO noted that:

a. Three band clubs, which benefitted from the NLGCF from lotto booth commissions, had applied and were awarded additional funding for initiatives that were to be held by the clubs. The La Stella Philharmonic Society was granted €5,000 for the production of a musical when, in 2016, this club was granted €1,716 in commissions. The Prince of Wales Own Philharmonic Society was granted €8,000 for the restoration of old compositions by Maltese composers and the digitisation and recording of part of the band's repertoire. In 2016, this band club received €2,209 in commissions. Finally, the Soċjetà Filarmonika l-Unjoni was granted €2,142 for the restoration of a nineteenth century flag when, in 2016, the club received €4,783 in commissions. According to the Advisory Board, the Fund does not preclude any applicants, including band clubs, from receiving more than one grant, so long as it is for a different reason. The NAO considered the explanation provided as reasonable.

b. The application submitted by the Malta Aviation Society, dated 23 June 2016, was approved by the Advisory Board on 22 June 2016. Although this Office deemed this anomalous, it must be noted that discussions in respect of this funding were held prior to the Board's meeting of 22 June 2016. The funding approved was that of €50,000. Furthermore, this funding followed a three-year agreement with the beneficiary for an annual funding amount of €30,000 that had expired in 2015.

c. All applicants were granted funds within the financial parameters of 67 per cent of the project cost.

d. The NLGCF Guidelines state that "any proposed projects and initiatives can only be considered for financing if their financing needs are 'one-off' in nature and would not make any further claims on the fund to finance any recurrent commitments of whatever nature." Out of the 43 approved projects, five were not considered as one-offs, with events held either for at least two consecutive years or alternate years over an eight-year period. Funding for these events, which amounted to €91,500 in 2016, consisted of a fundraising event, journalism awards, Christmas street decorations, a dance sport competition, and an air show.

e. In applying for funds, applicants were to "state whether the organisation has ever benefitted from the National Lotteries Good Causes Fund (if yes specify year/s / amount) or whether it is acquiring/ has acquired funds from another source for this project". From the 43 approved applications, one applicant did not make this declaration. This application was for the restoration of an historic bell, for which funding of €13,500 was approved by the Advisory Board on 27 February 2016. Another 26 applicants declared that they had received NLGCF funding in previous years, while the remaining 16 declared that they had not received any previous funding.

f. Funding of €10,000 was allocated to the Ċentru Animazzjoni Missjunarja following the approval of the Advisory Board in a meeting held on 27 February 2016. This was increased by €2,500 during the subsequent Board meeting held on 22 June 2016. The NAO established that the original request was for funding of between €10,000 and €15,000. After the initial grant and following representations made by the organisation, the total funding was increased to €12,500. Funding was to cover part of the expenses incurred in the organisation of a fundraising event. Furthermore, this Office noted that no receipt with respect to the allocated grant was submitted by the organisation.

g. In four cases, receipts forwarded in claims for payment were issued more than five months prior to the commitment letter date. Specific reference is made to receipts that predated the grant of €15,000 made to the Sisters of Charity of St Jeanne Antide Thouret in July 2016. Similarly, receipts for €9,499 issued to Kirkop United FC were dated prior to funding of €45,000 granted in July 2016. Likewise, receipts for the amounts of €1,890 and €4,814 were issued prior to the letter of commitment to the Sta Luċija Boċċi Club and the Athleta Basketball Club. Each of these organisations was granted €5,000 in July 2016 and December 2016, respectively. Other minor shortcomings, similar in nature, were noted by the NAO.

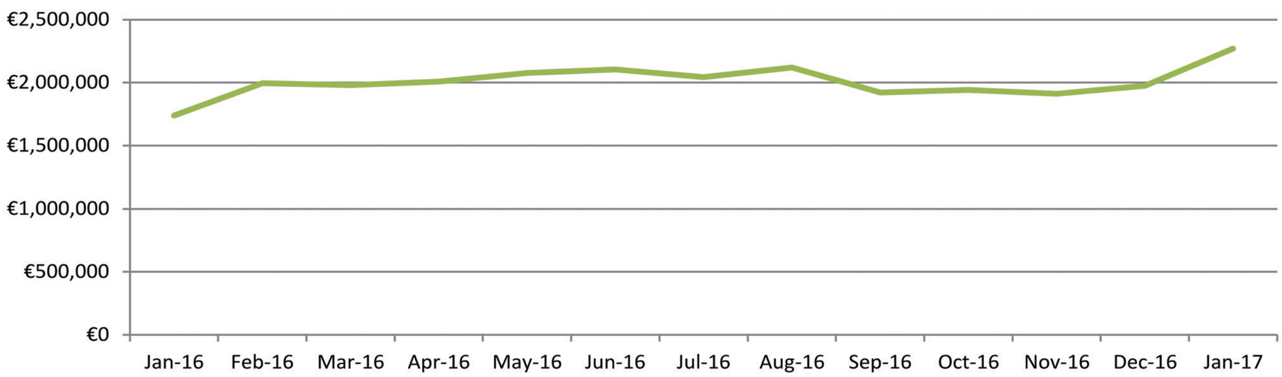
h. According to the NLGCF Guidelines, "when a payment is presented to a beneficiary, a declaration confirming its receipt by the appropriate and authorised beneficiary is to be signed." Of the 22 beneficiaries, the NAO noted that 19 had signed for the receipt of the cheque, were handed the cheque by the Minister for Finance during a formal presentation, or received the cheque through registered post. No declaration was found on file in respect of the remaining three beneficiaries.

9. The Management of the NLGCF Account

9.1 Further to a review of the financial report prepared by the Advisory Board for the year ending 31 December 2016, income generated during the year amounted to approximately €1.6 million. Of this income, €976,463 was obtained from gaming tax and €617,674 from unclaimed lotto prizes. The opening balance as at 1 January 2016 was €1,739,545, whereas the closing balance as at 31 December 2016 was €2,270,682. Therefore, disbursements made during 2016 amounted to €1,063,000.

9.2 In 2016, no major fluctuations in the account were noted throughout the year, with €1,739,544 being the lowest balance registered in January 2016 and €2,332,020 the highest in December 2016. The relatively uniform trend is rendered evident in Figure 1.

Figure 1: 20166 NLGCF account monthly opening balances



9.3 Reference was made to reports submitted by the Advisory Board for the Minster's endorsement, following Board meetings held in February, June and October 2016. This Office noted that commitments entered into by the Advisory Board in the meetings held amounted to €181,700, €278,081 and €104,472, respectively.

9.4 Further to the above, the NAO carried out an analysis of the commitments made in respect of the Fund that were still outstanding as at 1 January 2017. The following is a list of pending commitments:

a. from the applications submitted and committed prior to 2016, the amount of €668,222 was still to be claimed as at 1 January 2017; and
b. from the applications submitted and committed in 2016, the amount of €425,052 was still to be claimed as at 1 January 2017.

9.5 Hence, the total amount of commitments entered into either prior or during 2016, which were deemed still pending as at January 2017, was €1,093,274. The NAO sought to project the position of the NLGCF account as at December 2017, taking into consideration actual and projected income, as well as payments made up to March 2017 and pending commitments (Table 1 refers).

Figure 2: Projected Cash Flow for 2017

Projected Income: January – December 2017		
Balance brought forward from 2016	€2,270,682	
Income: January – March 2017	€189,547	
Projected Income April – December 2017[a]	€1,320,932	
Total Income		€3,781,161
Payments and Commitments: January – December 2017		
Payments effected between January – March 2017	€321,308	
Projected Expenses: April – December 2017		
-Commitments pending prior to 2016	€632,697	
-2016 pending commitments[b]	€351,760	
-Projected pending commissions to band clubs[c]	€132,207	
-MIA Lotto Booth Rent	€7,342	
Total payments and commitments		€1,445,314
NLGCF Projected Net Position as at Year End 2017[d]		**€2,335,847**

Notes:

a. Projected income for the period April to December 2017 was arrived at after calculating the average income for 2015 and 2016 and deducting the actual income for the period January to March 2017.

b. 2016 pending commitments refers to 2016 commitments still pending as at 1 April 2017.

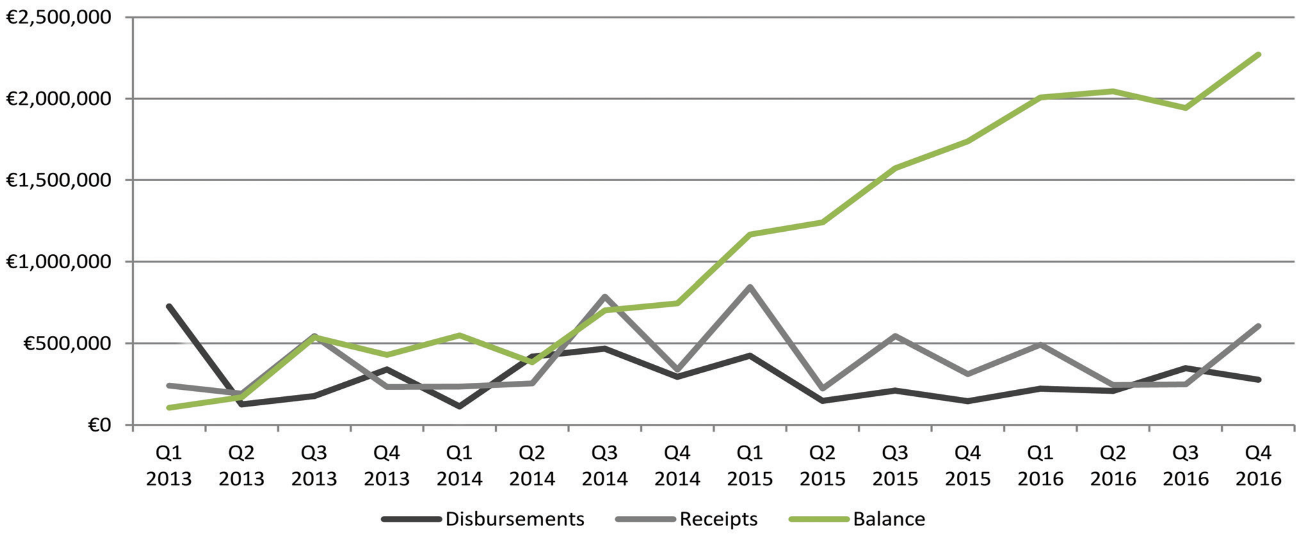
c. Projected commission to band clubs is based on the actual commission paid for Q3 and Q4 2016, subsequently extrapolated over 2017.

d. This amount does not take into account any new commitments entered into by the NLGCF in 2017.

9.6 As rendered evident in Figure 2, the NLGCF's projected income for 2017 is expected to exceed its projected commitments, resulting in a bank balance of €2,335,847 as at end 2017. It must be noted that this balance does not take into account new commitments entered into after March 2017. Furthermore, this amount does not account for commitments entered into in Q1 2017 that were outstanding as at end March 2017. Considered from another perspective, this balance notionally represents the amount that is available to fund projects and initiatives in 2017, other than commissions due to band clubs and other committed funding.

9.7 In the investigation carried out in 2013, the NAO noted that, "it is reasonable to surmise that, honouring all commitments entered into by the Fund between January 2011 and March 2013 that are plausibly or actually due by 2013 and 2014, will entail utilisation of approximately all of the NLGCF's available funds up to end 2014." In fact, the projected NLGCF account balances as at 31 December 2013 and 2014 were negative balances of €887,755 and €129,463, respectively. This negative trend has been reversed, with the NLGCF ending with a balance of €2,270,682 in 2016. The scope of this follow-up audit did not entail a review of the Fund's disbursements and receipts during the period 2013 to 2015. Therefore, it was not possible for the NAO to reconcile its original projections of the Fund against that actually registered. This Office is of the understanding that this discrepancy between that projected and that realised is due to multiple factors, one of which is the delay by beneficiaries in claiming funds allocated prior to 2013. As at June 2017, the balance of these outstanding claims was €483,200. Notwithstanding this, it is evident that the amount of disbursements have been reduced, particularly after Q1 2015. Moreover, disbursements were consistently lower than receipts, with the Fund registering a gradually increasing balance over the four-year period (Figure 3 refers).

Figure 3: Quarterly balance of the NLGCF account, 2013-2016



10. Conclusion

10.1 The NAO noted that significant progress has been registered following the investigation undertaken in 2013. Although the manner in which the NLGCF is administered remained largely unchanged, this Office noted that the prudence exercised in the allocation of funds resulted in a positive balance and effectively rectified the over-commitment originally commented on by the NAO. Furthermore, contrary to that reported in 2013, the NAO noted that the Advisory Board was in full complement during the period reviewed and meetings held were regularly attended, bar minor exceptions.

10.2 Nonetheless, this Office has identified areas for improvement in the management of the NLGCF, as presented hereunder:

a. Disbursements to band clubs and organisations, amounting to approximately €300,000 annually are paid in terms of agreements that expired in 2012. The NAO recommends that new agreements are entered into in order to regularise commissions paid.

b. Although the guidelines specify that only one-off funding was to be granted, the NAO noted a number of instances where funding was awarded for events that were held on an annual basis. As a point of emphasis, this Office fully acknowledges the deserving nature of these events through which persons in need are supported by society. However, the NAO is of the opinion that the Guidelines should be revised accordingly to ensure that such grants are fully in line thereto.

c. Although information was made available to the NAO, the Office considered its retention as fragmented. The fragmentation of information reflected the functions carried out, with the secretariat of the Minister for Finance responsible for interface with applicants and beneficiaries, the Advisory Board responsible for the consideration of applications and the granting of funds, and MFIN responsible for the financial administration of the NLGCF. While the NAO supports the segregation of functions in its present set-up, there exists scope for greater coordination of information maintained. Of specific interest to this Office is the information available to MFIN, which should have access to all documentation relating to approved applications as this would allow for better oversight of the NLGCF. This conclusion reflects a similar concern identified in the 2013 investigation.

d. A shortcoming highlighted in the 2013 report that remained a concern to the NAO was that no deadline for beneficiaries to claim funds was stipulated in commitment letters issued. Given that the NLGCF is administered on a cash basis, delays in claims presents an added complication in the financial management of the Fund. A case in point is the fact that a balance of €483,200, committed prior to 2013, was still pending as at June 2017. The NAO is of the opinion that a deadline should be specified in the commitment letters issued to applicants whose project or initiative was approved for funding. This would allow for the Advisory Board to better anticipate and plan disbursements.

e. The NAO noted considerable progress in adherence to the parameters limiting funding, capped at €50,000 per project or initiative. However, in 2016, there was one instance when the maximum parameter for funding, as stipulated in the guidelines, was exceeded.

f. In its original investigation, the NAO recommended that the MIA lotto booth subvention be sourced from a more appropriate account and not through the NLGCF. The Office takes note of that stated by MFIN in that the existing agreement with MIA plc was binding. In this context, the NAO recommends that this matter be rectified once the current contract expires.

10.3 MFIN acknowledged the recommendations made by the NAO and indicated that action was being taken. Among others, steps were being taken to renew the agreements with band clubs, the guidelines were to be revised to allow for the funding of events that were not one-off in nature, and measures intended to streamline processes and standardise procedures were to be implemented. However, MFIN expressed reservations regarding the imposition of a deadline for beneficiaries to claim grants, citing the limited resources of beneficiaries to implement projects, which would therefore create the added risk that funds granted would not be fully utilised. The NAO deemed the justification put forward by MFIN as valid.

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