

Report by the Auditor General

Public Accounts

2017



Payments
and tax





Annual Audit Report

Public Accounts 2017

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List of Abbreviations

| | |
|-------|---|
| A&E | Accident and Emergency |
| AAR | Annual Audit Report |
| ACM | Arts Council Malta |
| AFM | Armed Forces of Malta |
| ARR | Arrears of Revenue Return |
| BO | Budget Office |
| CBM | Central Bank of Malta |
| CDB | Common Database |
| CFMS | Corporate Financial Management System |
| CfR | Commissioner for Revenue |
| CIO | Chief Information Officer |
| CoJ | Courts of Justice |
| CoP | Commissioner of Police |
| CPAS | Central Patients Administrative System |
| CPSU | Central Procurement and Supplies Unit |
| CSD | Customer Services Directorate |
| CTD | Capital Transfer Duty Department |
| DAS | Departmental Accounting System |
| DC | Department of Contracts |
| DMD | Debt Management Directorate |
| DSS | Department of Social Security |
| EAMS | Euro Area Member States |
| EBU | Extra Budgetary Units |
| EC | Environmental Contribution |
| EDF | European Development Fund |
| EFSF | European Financial Stability Facility |
| EU | European Union |
| FR | Financial Report |
| FRA | Fiscal Responsibility Act |
| FS | Financial Statements |
| FSWS | Foundation for Social Welfare Services |
| GDP | Gross Domestic Product |
| GPD | Government Property Division |
| GPG | Government Payment Gateway |
| ICT | Information and Communication Technology |
| IPSAS | International Public Sector Accounting Standards |
| ISSAI | International Standards of Supreme Audit Institutions |
| IRD | Inland Revenue Department |
| IT | Information Technology |
| ITS | Institute of Tourism Studies |

| | |
|-------|---|
| LPO | Local Purchase Order |
| MCH | Mount Carmel Hospital |
| MDH | Mater Dei Hospital |
| MEAIM | Ministry for European Affairs and Implementation of the Electoral Manifesto |
| MEDE | Ministry for Education and Employment |
| MFIN | Ministry for Finance |
| MFTP | Ministry for Foreign Affairs and Trade Promotion |
| MGI | Malta Government Investments Ltd |
| MGOZ | Ministry for Gozo |
| MGS | Malta Government Stocks |
| MHAS | Ministry for Home Affairs and National Security |
| MIP | Malta Industrial Parks Ltd |
| MITA | Malta Information Technology Agency |
| MJCL | Ministry for Justice, Culture and Local Government |
| MMMU | Management Medical Material Unit |
| MOT | Ministry for Tourism |
| MPA | Malta Police Association |
| MPF | Malta Police Force |
| MPGF | Malta Police General Fund |
| MPO | Malta Philharmonic Orchestra |
| MTA | Malta Tourism Authority |
| NAO | National Audit Office |
| NSO | National Statistics Office |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| PLD | Public Lotto Department |
| PPR | Public Procurement Regulations |
| PSMC | Public Service Management Code |
| PV | Payment Voucher |
| ROFP | Return of Foreign Patient |
| RP | Retirement Pension |
| SAMOC | Sir Anthony Mamo Oncology Centre |
| SAP | Safi Aviation Park |
| SMG | Students' Maintenance Grants |
| SMGB | Students' Maintenance Grants' Board |
| SOP | Standing Operating Procedures |
| SSA | Social Security Act |
| SSC | Social Security Contributions |
| UOM | University of Malta |
| VAT | Value Added Tax |
| VL | Vacation Leave |
| WAM | Weighted Average Maturity |

Guide to using this Report

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

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

This Report is presented by ministerial portfolios as featuring in the Government of Malta Financial Estimates 2017, each containing either the Ministry itself, or one or more Departments or Entities which were the subject of our review. Most audit reports under the ministerial portfolios have the following structure:

Background

Includes a brief description of the relevant activities, roles and operations of the respective Ministry, Department or Entity under review.

Good Practice

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

Key Issues

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

Control Issues

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

Compliance Issues

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

Recommendations

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

Management Comments

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

Executive Summary

The **Financial Report** (page 15), incorporating Financial Statements and Accounts for the year 2017, was submitted by the Accountant General in terms of the Financial Administration and Audit Act, 1962.

Following examination, in terms of the Auditor General and National Audit Office Act, 1997, it is noted that Letters of Comfort and Bank Guarantees, considered as contingent liabilities, reached almost €1.2 billion. Furthermore, pending advances at year-end totalled €55 million, of which €29.4 million will continue to be repaid from public funds out of an annual budgetary provision.

Following the enactment of the Government Borrowing and Management of Public Debt Act in July 2017, a number of measures were implemented by the Treasury, including the preparation of a Medium-Term Debt Management Strategy.

The Government is committed to the implementation of an accrual accounting system based on the International Public Sector Accounting Standards (IPSAS) within Central Government. This necessitated the introduction of a Core Financial Management System, with a planned initial roll out of ten pilot sites.

Shortcomings were noted by the NAO in relation to the collation and reporting of **Creditors** as at 31 December 2017 in the four different Ministries reviewed. Consequently, the information compiled was insufficient to provide meaningful information for financial decision making which is the ultimate aim of accrual accounting. (pages 104, 122, 154, 160)

Completeness of information submitted in respect of the **EU Presidency 2017** could not be ascertained by NAO. Concerns included the absence of a complete audit trail and an inadequate level of verification of transactions before processing by the Ministry. (page 66)

Prior approvals for the disbursement of funds by the **Ministry for Foreign Affairs and Trade Promotion** for **Overseas Development Aid and European Development Fund** were adequately obtained and procedures in relation to the evaluation of applications for projects were also in place and complied with. (page 82)

Weak internal controls, mainly due to fragmented documentation, was the major concern relating to **Foreign Students undertaking a course of study at the University of Malta**. Apart from the lack of sufficient verification, approval for exemptions from the payment of such tuition fees was, at times, issued retrospectively. In addition, entitlement to the applicable students maintenance grants was not always duly verified. (page 86)

An analysis of the expenditure incurred by the **Ministry for Gozo** for the **Services rendered to the Elderly and Persons with Disability in Gozo** revealed weak internal controls, lack of audit trail and insufficient monitoring. (page 94)

Enforcement action with respect to the collection of the **Environmental Contribution** was found to be lacking. A number of discrepancies were traced between the Departmental Accounting System and supporting documentation. System limitations, including a low threshold for payments made through the Government Payment Gateway, and the lack of system-generated reminders, were also noted. Separate issues were identified with regards to the establishment of the Trust Fund that is mandated by law. (page 108)

Amongst the number of concerns in relation to the **Fiscal Receipts Lottery** held monthly by the Public Lotto Department was insufficient audit trail and an element of judgement in validation of drawn receipts. (page 114)

Documentation supporting **Compensation Payments** issued directly by the Ministry for Finance, as well as the respective reimbursements to other Ministries/Departments, was often insufficient. (page 118)

The NAO satisfactorily noted that procedures and controls in relation to the initial **Retirement Pension** calculation were in place. However, due to the Department's limited resources, contributory pensions were not being re-assessed on an annual basis as required by the pertinent legislation. (page 130)

For the past two years, the **Arts Council Malta** did not prepare its Financial Statements. Credit control was also found to be weak whilst considerable procurement was being undertaken through direct orders. There was a backlog in bank reconciliations, besides other shortcomings impinging on accountability. (page 134)

The major concern emanating from an audit on the **Personal Emoluments and the use of the Credit Card Facility at the Malta Philharmonic Orchestra** related to lack of evidence to substantiate expenditure incurred through an unapproved credit card. The weak control environment also contributed to shortcomings in areas relating to the management of human resources. (page 142)

An audit on **Capital Expenditure** incurred on **ICT** at the **Ministry for Home Affairs and National Security** identified control weaknesses in the management of fixed assets. Other shortcomings in procurement related matters were also noted. (page 165)

The **Malta Police Fund** was considered unsustainable in view of its substantial financial obligations, especially those arising from the winding down of the Mutual Fund. (page 169)

A number of control weaknesses were encountered regarding the **Stock of Medicines and Surgical Materials kept by Mount Carmel Hospital (MCH)**, particularly in wards. This also included the lack of traceability of medicines up to Patient Dispensing Level. (page 174)

An audit on the **Revenue generated at Mater Dei Hospital** showed that information on medical services given to foreign patients was not interfaced with the billing systems; thus it did not provide the comfort that the invoices raised were exhaustive. Additionally, a number of weaknesses were identified in the revenue collection process and effort to collect public dues was minimal. (page 181)

Out of the gross balance of approximately €3.4 billion **Arrears of Revenue** reported by Ministries/Departments as at end 2017, 64% (€2,164,423,049) were deemed to be statute-barred, a 5% increase over the previous year's figures. An increase of €21 million over 2016 balances was also reported in relation to amounts under contestation. (page 192)

Financial Audit Opinion

Opinion on the Financial Audit to the House of Representatives

Audit Mandate

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

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

Respective Responsibilities of the Accountant General and Accounting Officers

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

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

Auditor's Responsibilities

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

Basis for Opinion

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

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

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

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

Opinion

Clean Opinion

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

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

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



Charles Deguara
Auditor General
5th December 2018

Financial Report

Analysis of the Financial Report 2017

Introduction

Statements of the Consolidated Fund Account, showing the comparative positions in 2016 and 2017, and the receipts and payments of funds created by law, were laid on the Table of the House of Representatives during Sitting No. 97 on 9 April 2018, after being reconciled with Treasury Books by the Auditor General in accordance with Sub-para. 1(c) of the First Schedule of the Auditor General and National Audit Office (NAO) Act, 1997.

The Financial Report (FR) statements and accounts for year 2017 were submitted by the Accountant General in terms of Article 67 of the Financial Administration and Audit Act, 1962, and were examined in terms of Sub-para. 1(e) of the First Schedule of the Auditor General and NAO Act, 1997. The Report was laid on the Table of the House of Representatives during Sitting No. 137 on 4 July 2018 of the Thirteenth Legislature.

Further details of Government financial operations can be found by making reference to both the Annual Financial Statements (FS) and the FR for 2017.

Consolidated Fund Statement – 2017

As detailed in Article 102(1) of the Constitution of Malta, the Consolidated Fund incorporates all moneys raised or received by the Government of Malta¹. All disbursements out of the Consolidated Fund are authorised by means of Appropriation Acts of Parliament, which include the Supplementary Estimates.

The House of Representatives approved the year 2017 Budget (Estimates) for an expenditure of €4,480,853,000, as authorised by Warrant No. 1 of 2017 issued on 19 December 2016, and a further €288,000,000 approved by Supplementary Estimates Warrant No. 2 of 2017 dated 21 December 2017. Following the closure of the 2017 Accounts, actual expenditure amounted to €4,607,790,000, which resulted into an excess of revenue of nearly €42 million, as detailed in Table 1, leading to an end-of-year consolidated negative balance of €66,496,000.

¹ These are not revenues or other moneys payable into some other fund, being established by or under any law, currently in force in Malta for a specific purpose.

Table 1: Consolidated Fund 2017

| | Estimated (Original & Supplementary) | | Actual | |
|--|--------------------------------------|-------------|-------------|-----------------|
| | €'000's | €'000's | €'000's | €'000's |
| Opening Consolidated Balance as on 1 January 2017 | | | | (108,168) |
| <i>Revenue</i> | | | | |
| Ordinary (incl. Grants) | 3,887,603 | | 4,291,165 | |
| Capital | 600,891 | 4,488,494 | 358,298 | 4,649,463 |
| <i>Expenditure</i> | | | | |
| Recurrent | (3,618,908) | | (3,543,266) | |
| Public Debt Servicing | (646,958) | | (642,908) | |
| Capital | (502,987) | (4,768,853) | (421,616) | (4,607,790) |
| Net Cash Flow | | (280,359) | | 41,673 |
| Closing Consolidated Balance as on 31 December 2017 | | | | (66,496) |

Figures in Statement may not add up due to rounding.
(Source: FR 2017, page xv)

Table 2 hereafter shows the same end-of-year consolidated balance, highlighting figures relating to the Surplus for 2017, amounting to €182,672,000, as well as the financing of present Foreign and Local Loans, totalling €498,408,000. This led to a total Public Sector Borrowing Requirement of €315,736,000. The issue of new Local Loans amounted to €357,409,000.

Table 2: Consolidated Fund 2017

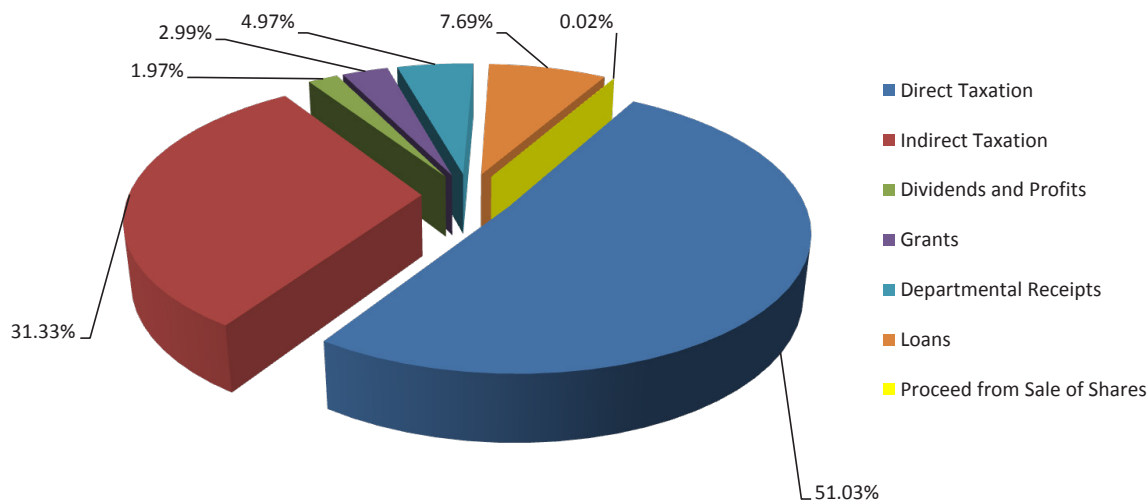
| | 2017 | |
|--|-------------|-----------------|
| | €'000's | €'000's |
| Total Recurrent Revenue | | 4,291,165 |
| Total Recurrent Expenditure | (3,758,317) | |
| Capital Expenditure | (350,175) | |
| Overall Expenditure | | (4,108,493) |
| Surplus | | 182,672 |
| Financing (excluding New Loans) | | |
| Foreign | (1,663) | |
| Local | (496,745) | |
| Total Financing | | (498,408) |
| Public Sector Borrowing Requirement | | (315,736) |
| Opening Consolidated Balance as on 1 January 2017 | | (108,168) |
| Local Loans Issuance | | 357,409 |
| | | 249,241 |
| Closing Consolidated Balance as on 31 December 2017 | | (66,496) |

Figures in Statement may not add up due to rounding.
(Source: FR 2017, page xvii)

Revenue

Actual Total Revenue collected during 2017 amounted to €4,649,463,000, representing a 5.2% increase over the previous year. Chart 1 hereafter shows the different categories of Revenue as a percentage of Total Consolidated Revenue.

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



(Source: FR 2017, page xx)

Details of Revenue collected during 2017, classified by heads and subheads, as compared with the Estimates, including reasons justifying variation, are shown in FR pages xxi to xxiv.

For the financial year 2017, the Grand Total Variation in Revenue amounted to a favourable variance of €160,969,000, as compared to €192,060,000 in 2016. Some of the major recognised variances are listed in Table 3. Explanations for these variances were provided by the Ministry for Finance (MFIN).

Table 3: Major Variances in Revenue for Financial Year 2017

| Revenue | Budget Estimates €'000's | Actual €'000's | Variation €'000's |
|--------------------------------|-----------------------------|-------------------|----------------------|
| <i>Tax Revenue</i> | | | |
| Direct: | | | |
| Income Tax | 1,316,350 | 1,497,489 | 181,139 |
| Indirect: | | | |
| <i>Excise Duties of which</i> | | | |
| Machine-made Cigarettes | 97,040 | 87,803 | (9,237) |
| Value Added Tax | 774,830 | 821,160 | 46,330 |
| <i>Non Tax Revenue</i> | | | |
| <i>Fees of Office of which</i> | | | |
| Individual Investor Programme | 30,000 | 85,583 | 55,583 |
| Grants | 91,933 | 139,246 | 47,313 |
| Local Loans | 600,000 | 357,409 | (242,591) |

(Source: FR 2017, pages xxi-xxiv)

Reasons for Variations



Direct Tax Revenue – Income Tax

The favourable variance arose mainly due to enhanced enforcement and an increase in employment, in line with economic growth. The actual increase exceeded the element factored in the related budget estimation. Upon enquiry, the Budget Office (BO) stated that the total amount of arrears collected in year 2017, for 2016 and preceding years, amounted to €87.4 million.



Indirect Tax Revenue – Excise Duties (Machine-made Cigarettes)

Less excise duty than estimated was registered on machine-made cigarettes, resulting in an adverse variance amounting to €9.2 million. MFIN confirmed that since the Estimates are based on a number of assumptions and variables emerging from econometric modelling techniques, this could result in some level of variance when compared to the actual results. Nevertheless, despite this negative variance, this revenue category registered over €4 million increase when compared to income collected in prior year.



Local Loans

In view of the substantial improvement in Government finances, where actual revenue was higher than the original projection, the revised estimated deficit of €29 million resulted in a surplus of nearly €183 million. This outcome had a positive impact on Government funding requirements, with the aggregate amount of long-term debt issued during the year under review reduced from €600 million to €357 million.



Tax Revenue – VAT

The upsurge of €46.3 million in revenue, arising from Value Added Tax (VAT), resulted from economic growth and continuous enforcement measures.



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

Higher revenue under Fees of Office was generated from the Individual Investor Programme. As the year progressed, it transpired that the number of successful applications registered for the Programme during the year under review, was higher than originally anticipated. In fact, during 2017, 349 applications were successfully processed, generating an additional amount of €55.6 million in revenue in the Consolidated Fund.



Tax Revenue – Grants

The aggregate favourable variance of €47.3 million was mainly influenced from the positive variations registered on grants for various Funds, which were partly offset by the negative variances that resulted in other Funds, as shown in Table 4.

The noted variations emerge from the timing differences until the European Commission processes claims for reimbursement of European Union (EU) Funds. Thus, cash revenue received in any particular year will include receipts pertaining to previous years. On the other hand, receipts relating to pre-financed expenditure incurred in the same year is reimbursed by the Commission and credited to revenue in the following years. Except for possible financial corrections, on an accruals basis, such timing differences have no effect on the targeted fiscal balance for the year.

Table 4: Main Contributors for the Aggregate Variance registered in revenue collected from Grants

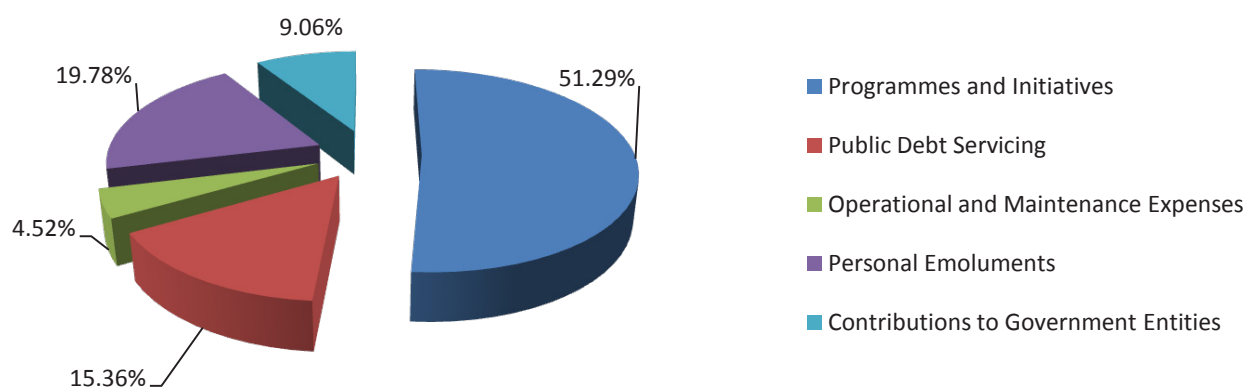
| Favourable Variances | | Negative Variances | |
|---|-------------|---|-------------|
| Fund | Amount € | Fund | Amount € |
| EU - External Borders Fund | 9,092,230 | EU - Internal Security Fund - Borders and Visa | (8,976,681) |
| EU - Structural Funds (2007-2013) | 61,842,786 | EU - European Maritime and Fisheries Fund (2014-2020) | (5,857,984) |
| EU - Agriculture Fund for Rural Development | 3,199,897 | EU - Connecting Europe Facility (2014-2020) | (3,826,036) |
| EU - Cohesion Fund (2007-2013) | 8,839,520 | EU - Structural Funds (2014-2020) | (7,387,742) |
| EU - Cohesion Fund (2014-2020) | 3,758,649 | EU - Agriculture Fund for Rural Development (2014-2020) | (9,372,701) |

(Source: FR 2017, pages 11-12)

Expenditure

The Total Recurrent Expenditure during 2017 amounted to €4,186,173,628, representing a 4% increase over the previous year. The amount includes €642,907,518 in relation to Public Debt Servicing. Chart 2 hereafter shows the different categories of Expenditure as a percentage of Total Recurrent Expenditure.

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



(Source: FR 2017, pages xxv-xxvii)

During 2017, Total Capital Expenditure amounted to €421,616,000, as opposed to €323,293,000 in 2016. Hence, such expenditure increased by 30%.

The appropriations for expenditure during 2017, authorised by the issue of MFIN Warrant Nos. 1 and 2, were made under the following Statutes:

| | |
|---------------------------------|---------------|
| | € |
| a. Appropriation Act | 3,060,560,187 |
| b. In terms of Special Laws | 1,704,759,000 |
| c. In terms of the Constitution | 3,533,813 |

Analysis of Appropriations

a. Appropriation Act

| | € |
|--|----------------------|
| Appropriated by Act LVII of 2016 (Original Budget) | 2,799,560,187 |
| Appropriated by Act XXX of 2017 (Supplementary) | 261,000,000 |
| Total | 3,060,560,187 |

b. Special Laws

The following amounts (including Supplementary Estimates as detailed in Warrant No. 2 of 2017) were appropriated in terms of the various laws as indicated:

Table 5: Amounts Permanently Appropriated in terms of the various Laws

| Description | 2017 € | 2016 € |
|---|----------------------|----------------------|
| Expenses of the Electoral Commission – General Elections Act (Cap. 354) | 320,000 | 350,000 |
| Expenses of the Broadcasting Authority – Broadcasting Act, 1992 (Act XII of 1991 – Cap. 350) | 583,000 | 583,000 |
| Expenses under Re-letting of Urban Property Ordinance (Cap. 69) and Agriculture Leases (Re-letting) (Cap. 199) | 50,000 | 77,000 |
| Land Acquisition (Public Purposes) Ordinance (Cap. 88) | 115,000 | 115,000 |
| Social Security Act, 1987 (Act X of 1987 – Cap. 318) | 937,730,000 | 900,700,000 |
| Pensions Ordinance (Cap. 93) | 103,700,000 | 93,000,000 |
| Expenses of the Office of the Ombudsman (Cap. 385) | 1,200,000 | 1,025,000 |
| Expenses of the Permanent Commission Against Corruption (Act XXII of 1988 – Cap. 326) | 200,000 | 40,000 |
| Interest plus contribution to the Sinking Funds in respect of Local Government Stock – Registered Stock and Security Ordinance 1959 (Cap. 161) | 644,784,594 | 759,770,194 |
| Interest plus contribution to the Sinking Funds in respect of Foreign Loans (Cap. 213) | 2,509,325 | 7,794,351 |
| Malta Arbitration Centre (Act II of 1996 – Cap. 387) | 75,000 | 75,000 |
| Expenses of the NAO (Act XVII of 1997 – Cap. 396) | 3,150,000 | 3,000,000 |
| Refunds under Value Added Tax/Customs & Excise Tax Acts | 3,200,000 | 2,200,000 |
| Widows' and Orphans' Pensions Act (Cap. 58) | 530,000 | 520,000 |
| Personal Injuries (Emergency Provisions) Ordinance (Cap. 111) | 46,000 | 46,000 |
| Members of Parliament (Retiring Allowances) (Act XVII of 1966), Members of Parliament Pensions Act (Act XXVI of 1979) as amended by Act XIII of 1981 and Act VII of 1989 (Cap. 280) | 1,960,000 | 1,900,000 |
| Short Term Borrowing – Treasury Bills Act (Cap. 133) | 176,081 | 563,075 |
| €56,378,732 Interest payable on ex-Malta Drydocks/Malta Shipbuilding Co. Ltd Loans (Act XV of 2003) | - | 1,089,380 |
| Lease of Parliament Building – Budget Measures Implementation (Act V of 2012) | 4,430,000 | 3,680,000 |
| Totals | 1,704,759,000 | 1,776,528,000 |

Following queries forwarded to the BO, the following was provided to explain the major increases of actual expenditure over the previous year:

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

The increase of €37,030,000 in 2017 over the previous year’s budget was due to rises in the number of beneficiaries, as well as the cost of living element to which social security benefits are indexed, along with new budgetary measures announced for the year. The main increases were estimated for and thus the total vote provisions were only exceeded by 1%, when comparing the 2017 approved estimate to the outturn of the same year.

 **Pensions Ordinance (Cap. 93)**

A higher budgetary allocation over the previous year, totalling €10,700,000, was made available due to higher sums payable to cover retiring officers by way of pensions and gratuities. This was due to a higher number of beneficiaries than was originally anticipated at budget time.

 **Refunds under VAT/Customs & Excise Tax Acts**

An additional allocation of €1,000,000 over prior year was required to cover refunds due to non-EU tourists, as well as diplomats, in response to the applications actually received.

c. In terms of the Constitution

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

| | € |
|-------------------------------|-------------------------|
| The President of Malta | 89,055 |
| The Attorney General | 79,061 |
| Judges and Magistrates | 3,274,452 |
| The Public Service Commission | 91,245 |
| Total | <u>3,533,813</u> |

Budgetary Procedure for 2017

Following NAO query, the BO provided a detailed description of the 2017 budgetary process’ main elements, as outlined below.

The top-down² approach for budgetary allocations has been in use for the past years and was also adopted in 2017, which process commenced through MFIN Circular No. 2/2016 – ‘2017 - 2019 Business and Financial Plans’. By means of this Circular, all Ministries, Departments and Entities, were requested to submit their respective expected revenue, as well as recurrent and capital expenditure projections for the three-year period. Ministries were asked to look specifically into the published projections for 2017 (apart from 2018), ensuring that in the Business and Financial Plans to be submitted, revenue does not fall below, and expenditure does not exceed, the published projections on a Ministry basis.

² This means that MFIN sets the overall expenditure ceiling and sub-ceilings, and delegates detailed resource allocation decisions to line Ministries.

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

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

In line with the Fiscal Responsibility Act (FRA), the plans to be compiled were to be based on the most recently announced medium-term fiscal strategy. Dedicated statements showing the three-year revenue and expenditure projections from 2017 to 2019, at Ministry level, had been integrated in the 2016 Financial Estimates publication. These projections were to serve as the parameters within which the Government business and financial planning exercise for 2017 and the years that follow, was to be undertaken.

Following assessment of the financial plans received from all line Ministries, MFIN went on to assess the requests submitted and compare against its internal projections for the years 2017 to 2019, which included considerations on revenue and expenditure trends, known commitments and performance for the current year³.

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

A second round of bilateral meetings was then held between the Minister for Finance and the Minister responsible for the line Ministries, together with key officials as necessary. The main purpose of these meetings was to address any issues which required further consideration, as well as to discuss new initiatives which Government was planning to undertake. Together with any budget measures being contemplated, the revenue and expenditure projections were adjusted to incorporate due changes as deemed appropriate, keeping in view, however, the fiscal framework targeting a surplus of 0.5% in the Government's surplus over Gross Domestic Product (GDP) for 2017. Eventually, the projections comprised the 2017 Financial Estimates, which were presented to Parliament.

Excess of Expenditure over Estimates

The Supplementary Estimates contributed in part to the overall fiscal outturn for 2017, with the other contributing element being revenue performance. Table 6 portrays those votes whose expenditure exceeded budgeted figures, by well over €1 million. In particular, four Ministries reported this excess in both their Capital and Recurrent Votes.

³ The year being 2016.

Table 6: Excess of Expenditure over Original Budget by Vote

| Vote | Original Budget 2017 € | Actual 2017 € | Variation € |
|---|------------------------------|----------------------|--------------------|
| Recurrent Expenditure | | | |
| Vote 1: Office of the President | 4,345,000 | 6,402,492 | 2,057,492 |
| Vote 5: Office of the Prime Minister | 34,357,000 | 36,237,893 | 1,880,893 |
| Vote 9: Electoral Office | 2,267,000 | 7,914,525 | 5,647,525 |
| Vote 10: Energy and Projects | 70,463,000 | 79,610,499 | 9,147,499 |
| Vote 13: Ministry for Education and Employment | 268,222,000 | 273,143,442 | 4,921,442 |
| Vote 14: Education | 225,241,000 | 232,976,466 | 7,735,466 |
| Vote 16: Ministry for Gozo | 30,903,000 | 32,141,305 | 1,238,305 |
| Vote 25: VAT | 6,225,000 | 8,624,940 | 2,399,940 |
| Vote 30: Social Policy | 288,009,000 | 295,553,565 | 7,544,565 |
| Vote 31: Social Security Benefits | 927,730,000 | 936,882,132 | 9,152,132 |
| Vote 32: Pensions | 93,193,000 | 107,707,312 | 14,514,312 |
| Vote 34: Elderly and Community Care | 97,839,000 | 112,066,000 | 14,227,000 |
| Vote 35: Ministry for Justice, Culture and Local Government | 41,685,000 | 42,788,272 | 1,103,272 |
| Vote 36: Judicial | 14,089,000 | 15,637,521 | 1,548,521 |
| Vote 38: Ministry for Tourism | 65,919,000 | 76,278,242 | 10,359,242 |
| Vote 41: Police | 58,951,000 | 60,344,842 | 1,393,842 |
| Vote 45: Ministry for Sustainable Development, the Environment and Climate Change | 62,011,000 | 67,557,089 | 5,546,089 |
| Vote 47: Ministry for Health | 516,898,000 | 547,805,469 | 30,907,469 |
| Capital Expenditure | | | |
| Vote III: Office of the Prime Minister | 21,394,000 | 26,508,387 | 5,114,387 |
| Vote VI: Ministry for Education and Employment | 42,297,000 | 48,324,515 | 6,027,515 |
| Vote X: Ministry for the Economy, Investment and Small Business | 25,384,000 | 46,947,448 | 21,563,448 |
| Vote XII: Ministry for the Family and Social Solidarity | 6,575,000 | 7,859,277 | 1,284,277 |
| Vote XIII: Ministry for Justice, Culture and Local Government | 20,920,000 | 22,969,662 | 2,049,662 |
| Vote XIV: Ministry for Tourism | 6,705,000 | 8,157,677 | 1,452,677 |
| Capital Expenditure and Investment | | | |
| Vote XI: Ministry for Finance Investment-Equity Acquisition | 32,600,000 | 71,441,073 | 38,841,073 |
| Totals | 2,964,222,000 | 3,171,880,046 | 207,658,046 |

(Source: FR 2017 pages xi - xiii, 48 - 174)

Excess expenditure over original budgeted figures exceeding €1 million occurred in the Line Items shown in Table 7. It is interesting to note that same Line Items experienced a similar excess of expenditure during 2016, as portrayed in the same Table. In some of the cases noted, the 2017 excess was higher than the one reported in the previous financial year.

Table 7: Excess of Expenditure over Original Budget/Revised Estimates by Item

| Vote, Item | Original Budget 2017 | Revised Estimates 2017 ⁴ | Actual 2017 | Variation Actual 2017/ Revised Estimates 2017 | Variation Actual 2017/ Original Budget 2017 | Variation Actual 2016/ Original Budget 2016 |
|---|----------------------|-------------------------------------|-------------|---|---|---|
| | € | € | € | € | € | € |
| Vote 5: Office of the Prime Minister | | | | | | |
| Item 5672: Dues to Malita Investments p.l.c. ⁵ | - | 3,950,000 | 2,730,000 | (1,220,000) | 2,730,000 | 3,660,000 |
| Vote 10: Energy and Projects | | | | | | |
| Item 5649: Feed in Tariff ⁶ | 6,000,000 | 11,380,000 | 11,813,020 | 433,020 | 5,813,020 | 3,461,336 |
| Vote 21: Ministry for Finance | | | | | | |
| Item 5737: Compensation Payments | 8,000,000 | 8,000,000 | 12,851,791 | 4,851,791 | 4,851,791 | 4,749,723 |
| Vote 30: Social Policy | | | | | | |
| Item 5137: State Contribution in terms of the Social Security Act, 1987 | 279,500,000 | 286,900,000 | 287,080,000 | 180,000 | 7,580,000 | 5,441,762 |
| Vote 31: Social Security Benefits | | | | | | |
| Item 5141: Retirement Pensions | 494,800,000 | 503,800,000 | 508,938,015 | 5,138,015 | 14,138,015 | 13,228,190 |
| Item 5145: Widows' Pensions | 127,000,000 | 128,000,000 | 133,922,865 | 5,922,865 | 6,922,865 | 5,031,922 |
| Item 5148: Disability Pensions/Allowance | 18,200,000 | 18,200,000 | 19,337,199 | 1,137,199 | 1,137,199 | 2,631,737 |
| Vote 32: Pensions | | | | | | |
| Item 5119: Pensions, Allowances and Gratuities under Pensions Ordinance (Cap. 93) and rules previously in force | 89,000,000 | 103,700,000 | 103,509,317 | (190,683) | 14,509,317 | 5,773,070 |
| Vote 34: Elderly and Community Care | | | | | | |
| Item 30: Contractual Services | 18,000,000 | 25,800,000 | 25,541,306 | (258,694) | 7,541,306 | 5,102,958 |
| Vote 38: Ministry for Tourism | | | | | | |
| Item 6794: Malta Tourism Authority | 50,500,000 | 58,500,000 | 58,500,000 | - | 8,000,000 | 15,250,000 |
| Vote 42: Correctional Services | | | | | | |
| Item 17: Overtime | 1,000,000 | 2,000,000 | 2,011,396 | 11,396 | 1,011,396 | 1,111,162 |
| Vote 45: Ministry for Sustainable Development, the Environment and Climate Change | | | | | | |
| Item 5426: Solid Waste Management Strategy | 16,500,000 | 21,200,000 | 20,995,632 | (204,368) | 4,495,632 | 1,900,000 |

⁴ Revised estimates are made up of the Original Budget 2017 and the Supplementary Estimates for the same Item.

⁵ This Item was under the Government Property Division during Financial Year 2016.

⁶ This Item was under the Ministry for Energy and Health during Financial Year 2016.

Table 7: Excess of Expenditure over Original Budget/Revised Estimates by Item *cont./*

| Vote, Item | Original Budget 2017 | Revised Estimates 2017 ⁴ | Actual 2017 | Variation Actual 2017/ Revised Estimates 2017 | Variation Actual 2017/ Original Budget 2017 | Actual 2016/ Original Budget 2016 |
|--|----------------------|-------------------------------------|-------------|---|---|-----------------------------------|
| | € | € | € | € | € | € |
| Vote 47: Ministry for Health | | | | | | |
| Item 30: | | | | | | |
| Contractual Services | 37,500,000 | 39,080,000 | 40,648,000 | 1,568,000 | 3,148,000 | 7,062,628 |
| Item 5400: Medicines and Surgical Materials | | | | | | |
| | 96,000,000 | 102,900,000 | 103,003,252 | 103,252 | 7,003,252 | 2,164,594 |
| Item 5862: | | | | | | |
| Health Concession Agreement – Gozo General Hospital | | | | | | |
| | 12,500,000 | 23,640,000 | 23,437,444 | (202,556) | 10,937,444 | 12,141,411 |
| Item 5863: | | | | | | |
| Health Concession Agreement – Karen Grech Rehabilitation Hospital | | | | | | |
| | 4,000,000 | 10,700,000 | 10,118,116 | (581,884) | 6,118,116 | 3,881,000 |
| Capital Vote VI: Ministry for Education and Employment | | | | | | |
| Item 7836: | | | | | | |
| EU Structural Funds 2014-2020 – EU Funds | | | | | | |
| | 7,895,000 | 14,395,000 | 9,402,071 | (4,992,929) | 1,507,071 | 1,051,263 |
| Capital Vote VII: Ministry for Transport and Infrastructure | | | | | | |
| Item 7902: | | | | | | |
| EU Cohesion Fund 2007-2013 (Ministry) | | | | | | |
| | - | 1 | 8,655,000 | 8,654,999 | 8,655,000 | 6,052,799 |
| Capital Vote X: Ministry for the Economy, Investment and Small Business | | | | | | |
| Item 7096: | | | | | | |
| Investment Incentives (Subvention) (Malta Enterprise) | | | | | | |
| | 12,000,000 | 32,000,000 | 31,968,063 | (31,937) | 19,968,063 | 8,600,003 |

The following reasons as published in the Supplementary Estimates of Expenditure 2017 and/or further submissions from the BO following the NAO queries, were forwarded in respect of the repeated excess expenditure over original budgeted figures of the above-quoted Line Items.

 *Vote 5: Office of the Prime Minister – Item 5672: Dues to Malita Investments p.l.c.*

Although an original budget was not allocated, a supplementary amount of €3.95 million was provided to cover the estimated requirements until year-end, subject to receipt of claims, due to the rescheduling of the handover of Parliament building. These funds were partially offset by savings within the same vote. An equivalent sum was to remain unspent under the House of Representatives recurrent vote, where the allocation for rent was originally appropriated.

 *Vote 10: Energy and Projects – Item 5649: Feed In Tariff*

A supplementary amount of €5.38 million was required due to the increased consumption during the year, in order to settle the estimated amounts that were expected to fall due for payment.

 *Vote 21: Ministry for Finance – Item 5737: Compensation Payments*

Despite the negative variation, the MFIN did not deem it necessary to resort to supplementary estimates, as the shortfall was offset by savings under other items within the same vote. As reported in the FR 2017 (page 87), the total approved recurrent expenditure under the pertinent vote was not exceeded.

The shortfall registered related to payments arising from various decisions taken during the year under review, including the compensation paid in respect of grievances of former public officers.

 *Vote 30: Social Policy – Item 5137: State Contribution in terms of the Social Security Act, 1987*

An additional €7.4 million were necessary to cover Government's contribution in reflection of social security contributions collected during the year, in terms of the relative Act.

 *Vote 31: Social Security Benefits – Item 5141: Retirement Pensions; and Item 5145: Widows' Pensions*


Supplementary amounts of €9 million and €1 million, for the Retirement Pensions and Widows' Pensions respectively, were required as a provision for the number of beneficiaries, which was higher than what was originally forecasted. Moreover, savings in other items within the same vote were utilised to offset additional funds requirement.

 *Vote 32: Pensions – Item 5119: Pensions, Allowances and Gratuities under Pensions Ordinance (Cap. 93) and rules previously in force*

A further €14.7 million were provided to cover the actual requirements under the Pensions Ordinance up to year-end to service the payment of pensions and gratuities to retired officials.

 *Vote 34: Elderly and Community Care – Item 30: Contractual Services*

The need for an additional €7.8 million was necessary to meet the increase in service demands that arose in caring, cleaning and catering services. Moreover, funds were also needed to settle accrued bills, whose certification was carried out in 2017.

 *Vote 38: Ministry for Tourism – Item 6794: Malta Tourism Authority*

As a result of an expansion of the marketing support programme undertaken by the Authority, a supplementary funding of €8 million was deemed necessary.



Vote 45: Ministry for Sustainable Development, the Environment and Climate Change – Item 5426: Solid Waste Management Strategy

Due to further commitments that Wasteserv Malta Ltd needed to enter into, an additional €4.7 million were required to sustain its services. Increased expenditure included the export of hazardous waste material and green/grey bags, as well as other operational requirements.



Vote 47: Ministry for Health – Item 30: Contractual Services; as well as Items 5862 and 5863: Health Concession Agreements – Gozo General Hospital and Karen Grech Rehabilitation Hospital respectively

Although a supplementary amount of €1.58 million was granted to Line Item 30 – Contractual Services, only an aggregate of €500,000 was allocated by way of additional funds, as savings registered under other line items within the same vote offset the shortfall. The funds provided were required to cover the cost of various services. These mainly included invoices in connection with the running of Mater Dei Hospital, which bills became due after the budget was announced.

Totals of €11.14 million and €6.7 million were provided as additional funds for the Concession Agreements of the Gozo General Hospital and Karen Grech Rehabilitation Hospital, respectively. The variations included inflation increase, as well as other contractual obligations, such as the payroll capping arising from the contract and the VAT element payable thereon.



Capital Vote X: Ministry for the Economy, Investment and Small Business – Item 7096: Investment Incentives (Subvention) (Malta Enterprise)

An additional €20 million were provided to cover the increased demand by various companies in terms of the Business Promotions Act, for incentives and cash conversions offered by the Malta Enterprise, in the form of loans, investment aid, research and development, as well as support.

Assets and Liabilities

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

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

Assets

Table 8 represents the Statement of Assets.

Table 8: Statement of Assets

| | 2017 €'000's | 2016 €'000's |
|--|------------------|------------------|
| Public Credit | | |
| Shareholding | 924,598 | 858,684 |
| Other Investments | 194,740 | 113,571 |
| Loans | 55,145 | 55,545 |
| | <u>1,174,483</u> | <u>1,027,800</u> |
| Investments held on behalf of | | |
| Sinking Funds (Local) | 247,869 | 195,668 |
| Sinking Funds (Foreign) | 8,509 | 17,314 |
| Trust Funds | 1,169 | 1,207 |
| | <u>257,547</u> | <u>214,188</u> |
| Advances | | |
| Advances | 55,077 | 75,931 |
| Bank and Cash | | |
| Banks ⁷ | 8,112 | 7,025 |
| Central Bank of Malta – Public Account | 179,501 | 211,369 |
| | <u>187,613</u> | <u>218,394</u> |
| Total Assets | 1,674,720 | 1,536,313 |

Figures in Statement may not add up due to rounding.
(Source: FR 2017, page 200)

Public Credit – Shareholding

As at 31 December 2017, the value of direct investments stood at €924,597,974 (€858,684,210 in 2016). This was made up of €558,991,418 unlisted shares, valued at purchase cost, and €365,606,556 listed shares, valued at market price as at year-end.

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

New Investment

Malta Development Bank

The Malta Development Bank was established on 24 November 2017 with the enactment of the Malta Development Bank Act, 2017, to contribute towards sustainable economic development that benefits the Maltese people in line with public policy objectives. The main activities of the Malta Development Bank focus on complementing and supplementing the operations of market players in the provision of financing facilities, particularly small and

⁷ This consists of bank accounts held by Foreign Embassies/Commissions and the National Lottery Good Causes Fund bank account.

medium enterprises, infrastructure projects that contribute to national and regional development, and projects which are socially oriented, energy efficient and environment friendly.

The Malta Development Bank is fully owned by the Government of Malta, with an initial paid-up capital subscription of two million ordinary shares of €100 each, amounting to €30,000,000 (being 15% paid-up).

Increases in Investments

Bank of Valletta p.l.c.

By means of a board resolution dated 16 December 2016, Bank of Valletta p.l.c. capitalised the amount of €30 million from the company's reserves for the purpose of a bonus issue of an equal amount of fully paid Ordinary Shares with a nominal value of €1 per share. Based on the allocation ratio of one bonus share for every 13 shares held, a total amount of 7,568,191 Ordinary Shares were allotted to Government. The actual bonus issue was effected on 18 January 2017. To this effect, the nominal value of Government's investment increased to €105,965,647.

Moreover, as per Agreement dated 27 October 2017 between the Government of Malta and Bank of Valletta p.l.c., the latter issued a Rights Issue allocated on the basis of one share for every four shares held at the price of €1.43 per new share. This resulted in 26,491,622 Rights allocated to the Government of Malta, amounting to €37,883,019. To this effect, the nominal value of Government's investment as at 31 December 2017 amounted to €132,458,113.

On the other hand, shares in Bank of Valletta p.l.c. experienced an overall drop in market value during the year under review as in previous year.

International Bank for Reconstruction and Development

In March 2017, the Government of Malta subscribed for 287 additional shares with a value of US\$34,622,245 of the International Bank for Reconstruction and Development. The proposed reform by the foregoing bank enjoys broad international consensus, including that of the EU. The paid-in proportion by the Government of Malta, amounting to US\$2,077,335, is equivalent to 6% of the total subscription value. As at year-end 2017, total shares held amounted to 1,361; these were 4.5821% paid up, with a value of US\$164,184,235.

Mediterranean Offshore Bunkering Company Limited

Following an extraordinary company resolution dated 9 February 2018, it was resolved that the authorised share capital of the Mediterranean Offshore Bunkering Company Limited be increased to US\$5,700,000, by the issue of 1,055,600 ordinary shares of a nominal value of US\$1 each, fully paid. To this effect, the Government of Malta made a payment of US\$1,055,600 (€910,549) representing a further capital injection in the said company.

Movements in Values of Existing Investments

During 2017, the cost of investments in:

- a. Council of Europe Development Bank;
- b. Malta Freeport Corporation Ltd;
- c. International Energy Group Malta Ltd; and
- d. Multilateral Investment Guarantee Agency,

collectively decreased by €386,756 solely due to changes in the exchange rate of the US\$.

Public Credit – Other Investments

Investment in Industry

A Schedule of Investments submitted by Malta Government Investments Ltd (MGI) to the Accountant General showed that the total cost of investment in 54 companies as at 31 December 2017 amounted to €19,816,309. The MGI estimated that the net book value of these investments amounted to €17,303,681, thus an accumulated unrealised loss of €2,046,756. Further details are provided in Table 9.

Table 9: Investments through Malta Government Investments Ltd

| Investment Type | No. of Companies | Cost € | Provisional Loss € | Net Book Value € |
|--|------------------|-------------------------|-----------------------|---------------------|
| Subsidiary Companies | 27 | 18,357,468 ⁸ | 938,342 | 16,953,254 |
| Associated Companies and Other Investments | 27 | 1,458,841 | 1,108,414 | 350,427 |

The Schedule includes seven companies⁹ that were undergoing liquidation procedures, and another six companies that were struck off as per Malta Financial Services Authority Registrar of Companies.

At the end of 2017, the total of investment in industry as reported by Treasury amounted to €19,319,710 as against €16,351,879 held on 31 December 2016, representing an increase of €2,967,831 over the previous year. Such movement was due to new investments in a number of companies, which amounted to €8,809,678. Meanwhile, an amount of €5,841,846 was written-off during the year, being amounts pertaining to companies that were struck off, as well as the merger of a number of companies into Gozo Channel (Holding) Co. Ltd and Gozo Channel (Operations) Ltd.

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

Movements in 'Other Investments'

Euro Coins

During 2017, the Central Bank of Malta (CBM) made Euro Coin issues on behalf of Treasury, totalling €5,370,000, bringing the total amount of Euro Coins in circulation as at 31 December 2017 to €78,202,000.

Dividend/Profit Received

Central Bank of Malta

As reported by Treasury in FR 2017, originally, the CBM was to distribute a total dividend of €50 million for the year. However, the CBM Annual Audited Financial Statements for the same year revealed that total dividend to be paid to Government amounted to €35 million and in fact, up to 28 June 2018, an aggregate of €28 million were received in four tranches, with the last tranche of €7 million expected to be received in November 2018.

⁸ As stated by MGI, this amount included an investment in Malta National Laboratory Co. Ltd for €465,872, which during 2018 was taken over by Malta Competition and Consumer Affairs Authority, thus its investment was vested in it and no provisional loss was required as at end-of-year under review.

⁹ This included the investment in Malta National Laboratory Co. Ltd, which as at December 2017 was still in liquidation.

Malta Financial Services Authority – Capital Fund

Total surplus funds amounting to €11 million were received in two tranches from the Malta Financial Services Authority during 2017, in terms of Section 26(3) of the Malta Financial Services Act (Cap. 330).

Malta Government Investment – Investment in Industry

A dividend of €1 million was received during 2017; €500,000 relating to Malta Air Traffic Services Ltd and €500,000 from MGI’s own reserves; the latter amount to partially compensate for the dividend normally paid by Petromal Co. Ltd.

Inspection of Securities/Investments - Government Securities Board

The purpose of the Government Securities Board is to verify and certify the List of Securities held by the Government at year-end, with the relative Stock Certificates held by Treasury. The Board is made up of three members, namely the Chairperson, this being MFIN Permanent Secretary, a Malta Investments Management Company Ltd representative, and the Accountant General.

Up to the date this Report went for publication, NAO had not yet received the official List of Securities verified by the respective Board.

Public Credit – Loans made by Government and Repayments thereof

Balances and other details of all loans issued by Government as at 31 December 2017 as reported in Appendix E of FR 2017, are summarised as follows:

| | |
|-------------------------------|------------|
| | € |
| a. Loans under Act II of 1956 | 23,099 |
| b. Other Loans | 55,122,146 |

Other Loans at (b) consist of the following:

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

(Source: FR 2017, page 183)

Existing Loan Agreements

Water Services Corporation

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

No further loan repayments were made during the year 2017. As a result, the closing balance as at 31 December 2017 amounted to €4,367,885, as in prior year.

Loan Facility Agreement with the Hellenic Republic

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

The share of the Maltese loan facility agreement with the Hellenic Republic as at 31 December 2017 amounted to €50,683,923. The principal repayments are scheduled between 15 June 2020 and 15 September 2026.

Waived Loan

Loan – Mariam Al Batool

During 2011 and 2012, as per agreements dated 28 April 2011 and 14 December 2011, Government lent a total of €399,854 interest free to the Mariam Al Batool School, following a suspension of the financial subsidy which the School used to receive from Libya. The repayment dates were scheduled at a rate of €25,000 at the end of each quarter, for the period March 2014 to December 2017.

On 21 December 2017, following Cabinet approval in August of the same year, the Government and Mariam Al Batool School entered into an agreement whereby the amount due was to be waived. The said cancellation of debt was factored as part of the budget estimates for Vote 21 – Item 7189: Contribution towards the Treasury Clearance Fund.

Investments held on behalf of Sinking Funds

Article 59 of the Government Borrowing and Management of Public Debt Act (Cap. 575), which replaced the Local Loans (Registered Stocks & Securities) Ordinance (Cap. 161) as from 1 September 2017, requires the Treasury to invest any contributions made in the Sinking Fund as well as any return generated from the investment in other financial assets. To this effect, contributions and investment income are invested or reinvested again in Government Securities. Any investment of this type is excluded from total Government debt on consolidation.

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

Table 10: Sinking Funds Investments

| Investment | Sinking Funds - Local | Sinking Funds - Foreign |
|--|-----------------------|-------------------------|
| | € | € |
| Central Bank of Malta Deposit Accounts | 162,352,352 | 8,508,019 |
| Malta Government Stocks | 85,516,299 | - |
| Totals | 247,868,651 | 8,508,019 |

(Source: FR 2017, pages 205 - 206)

During the year under review, the Council of Europe Social Development Fund Loan borrowed in 2002 was fully repaid, thus it does not feature in the Statement of Investments as at 31 December 2017.

Advances

Accounting for Advances

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

Appendix L of the FR incorporates a detailed statement of balances remaining outstanding as on 31 December 2017, in respect of advances made to various Ministries on behalf of Government Departments, Agencies and Organisations.

Pending advances were reported as amounting to €55,076,694 as on 31 December 2017, as against €75,931,237 outstanding by the end of the previous year.

Outstanding Advances

Outstanding advances as at 31 December 2017, apart from advances forwarded to the former Malta Shipbuilding Co. Ltd, were the following:

Table 11: Outstanding Advances

| Description | Amount € |
|--|-------------------|
| Malta Development Corporation on 24 July, 1984 for the purchase of Verdala Hotel | 1,724,785 |
| Ministry of Finance to the Bank of Valletta Employees Foundation, for the purchase by the Foundation of 1,385,406 ordinary shares in Bank of Valletta Ltd in 1995 | 1,656,903 |
| Commissioner of Inland Revenue, to meet loans in terms of Article 4 of the Monte Di Pieta' Act (No. XXXIX) of 1976 | 287,899 |
| Ministry of Finance, for the purchase of shares held by Enemalta Corporation in Mediterranean Offshore Bunkering Co. Ltd | 9,317,494 |
| Treasury, for the purchase of shares held by Sea Malta Co. Ltd in Mediterranean Offshore Bunkering Co. Ltd | 1,109,173 |
| Ministry of Finance and Commerce, to be utilised as a loan facility by the Maltacom Employees Foundation, to purchase ordinary shares in Maltacom p.l.c. in 1998 | 4,544,142 |
| Ministry for Economic Services, to meet expenditure in connection with the privatisation process of the Malta Freeport operations | 2,118,836 |
| Ministry for Economic Services, for the purpose of settling Malta Freeport equipment claims | 10,482,180 |
| Ministry of Finance, advanced to Mid-Med Employees Foundation, for the purpose of investment, pursuant to the agreement dated 3 December 2002 and entered into between Malta Government and the Foundation in the interest of the members of the said Foundation | 6,988,120 |
| Total | 38,229,532 |

Remarks

Purchase of Verdala Hotel – €1,724,785

This advance was made to Malta Development Corporation on 24 July 1984 for the purchase of Verdala Hotel, and is still showing in the books of Malta Enterprise as due to Government from the respective company that entered into the deed of sale in 1997. Legal proceedings covered outstanding dues to Malta Enterprise and the unfulfilled obligations for the development and operation of a new hotel complex. MFIN confirmed that during 2017, no movements occurred in this account, however the NAO was informed that such proceedings were concluded during the following year (2018). To this effect, the account was repaid and closed accordingly.

Bank of Valletta Employees Foundation – €1,656,903

According to Treasury, Bank of Valletta Foundation benefitted twice from the tax at source withheld on its holding of shares in Bank of Valletta p.l.c. In the first case, on MFIN request, the amount of tax deducted at source was credited against the loan account balance in terms of the 1995 Loan Agreement between the Government of Malta and the Foundation. The latter claimed the tax at source as credit in its income tax return through the self assessment system, which claim eventually resulted in a tax refund. It is the intention of MFIN to continue to pursue the repayment of the loan through annual amounts in accordance with the repayment schedule. To this effect, during 2017, a further repayment of €85,896 was made.

Loans in terms of Article 4 of the Monte Di Pieta' Act (1976) – €287,899

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

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

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

Loan to Maltacom Employees Foundation – €4,544,142

The MFIN is pursuing the repayment of the loan through annual amounts. To this effect, during 2017, a further repayment of €363,362 into the advance account was effected.

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

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

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

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

Other Outstanding Advances

A pending advance to the former Malta Shipbuilding Co. Ltd, amounting to €16,847,161, is to be repaid out of the 'Contribution towards Treasury Clearance Fund' of Capital Vote pertaining to MFIN, as is in the case of other past advances issued to the shipyards. In fact, as indicated in the 2017 FR, an amount of €4,846,729 of public funds was utilised in part-settlement of the above-mentioned advance.

Full Settlement of Advances

During the year under review, three advances were repaid in full settlement of the outstanding amount.

As reported under the title 'Existing Loan Agreements', the advances to Miriam Al Batool School were repaid from the Consolidated Fund and closed off following a Government decision to write-off the loans that had been issued in favour of the former. With respect to the advances made to Malta Drydocks Corporation 2001 and Malta Freeport Loan Servicing, the Government effected the final repayment out of the annual budgetary provision under Line Item 7189 (Contribution towards the Treasury Clearance Fund) of MFIN Capital Vote.

In 2017, the Treasury also reversed the over repayment of €2,569 with respect to the Purchase of Medigrain shares from Mid-Med Bank p.l.c., thus closing off this advance account¹⁰.

Central Bank of Malta Public Account

Treasury submitted to the NAO outstanding monthly reconciliation statements for the Public Account covering the year 2017.

As reported in last year's Annual Audit Report (AAR), the NAO noted that discrepancies classified as 'Other Adjustments' between the reconciled balance as per CBM Statement and the balance reported in the Cash Book, fluctuated by circa €4.3 million between January and December 2017. Treasury confirmed that *"This discrepancy may arise from a number of adjustments performed during the year"*.

With regard to the Reconciliation for the period June 1992 to December 2001, Treasury once again confirmed that there was no development in this respect, and its position remained the same as detailed in the 2016 AAR¹¹.

Boards of Survey

Boards of Survey at Treasury and at the Ministry for Gozo were appointed in terms of Section 98 of the General Financial Regulations, 1966, in order to take account of moneys, deposits and other values as at 31 December 2017.

The Board of Survey at Treasury certified the correctness of the relevant statements for the year ended 2016, since the Government Securities Board approved the respective List of Securities held at Treasury late in the year, on 23 November 2017. The NAO received the Report prepared by the Board on 14 December 2017, with no adverse remarks.

The Report from the Board of Survey at the Ministry for Gozo reached this Office in May 2018, mainly pointing out that cash in hand held at the Abattoir did not agree to the balance as reported in the respective cash book. The Board suggested appropriate recommendations to the way forward.

However, at the date of writing of this Report, the NAO had not yet received the Board of Survey formal Report certifying, amongst others, the correctness of the List of Securities held at Treasury for the year ended 2017.

¹⁰ This explains the discrepancy between the reported closing balance of advances as at year-end 2016 of €75,931,237 vis-à-vis the opening balance on 1 January 2017 reported at €75,933,806.

¹¹ Treasury still maintains that the start-off date of the new reconciliation exercise should be January 2002. It was also stated that during the indicated 10-year period, there were various changes both in the Government's accounting system and in that of the CBM, making it impossible to embark on any kind of reconciliation for the years in question. This decision is based on cost considerations and human resources requirements.

Ministerial/Departmental Bank Accounts

Treasury Circular No. 6/2018 - 'End-of-Year (2017) Statements of Account Cash in Hand and Bank Balances held at Local Commercial Banks and Central Bank of Malta', issued on 25 January 2018, requested Heads of Departments and other Accounting Officers to submit the Return, indicating the cash and bank balances as at 31 December 2017, including the position of each bank account held both at local commercial banks and the CBM. In addition, officers were to submit a copy of these statements to the Treasury, clearly indicating those bank accounts against which a liability exists, as well as identifying bank accounts in respect of Trust Funds.

The respective balances were published accordingly in FR 2017 (pages i to vii refer). Whilst the credit balance as per Bank Statement consists of the 'Liability', 'Trust' and 'Resulting Balances', the 'Debit Balance' on the other hand, should portray only credit card accounts. Treasury Department queried other overdrawn balances with the respective Departments, and corrective action was taken as necessary during January 2018.

Liabilities

Table 12 features the Statement of Liabilities.

Table 12: Statement of Liabilities

| | 2017 | 2016 |
|--|--------------------|--------------------|
| | €'000's | €'000's |
| Public Debt | 5,212,410 | 5,225,824 |
| Euro Coins issued on behalf of Treasury | 78,202 | 72,832 |
| Treasury Bills | 177,000 | 254,000 |
| Deposits | | |
| Court and Other Deposits | 130,057 | 146,419 |
| Other | 23 | 23 |
| | 130,080 | 146,442 |
| Funds | | |
| Sinking Funds | 256,377 | 212,981 |
| Contingencies Fund | 1,165 | 1,165 |
| Trust Funds | 2,109 | 2,093 |
| | 259,651 | 216,240 |
| Total Liabilities | 5,857,343 | 5,915,337 |
| Excess of Total Liabilities over Total Assets | (4,182,624) | (4,379,024) |
| Accumulated Fund | | |
| Consolidated Fund at year end | (66,496) | (108,168) |
| Net Public Debt/Public Credit | (4,116,129) | (4,270,856) |
| | (4,182,624) | (4,379,024) |

Figures in Statement may not add up due to rounding.
(Source: FR 2017, page 201)

Public Debt

Debt Composition

The composition of the Government Sector Debt as at end-of-year stood as follows (Tables 13 and 14 refer).

Table 13: Debt Composition – Domestic and External

| 2017 | | 2016 | |
|---------------|--------------------|---------------|--------------------|
| Domestic Debt | External Debt | Domestic Debt | External Debt |
| % | % | % | % |
| 96.82 | 3.18 ¹² | 96.68 | 3.32 ¹² |

(Source: Refer to Table 14 for percentage calculations)

Table 14: Government Sector Debt

| Type of Debt | 2017 | | 2016 | |
|---|------------------|--------------------------|-------------------------------|--------------------------|
| | Amount | Percentage of Total Debt | Amount | Percentage of Total Debt |
| | €'000's | % | €'000's | % |
| Malta Government Stocks (Consolidated) | 4,976,961 | 87.76 | 5,084,012 | 88.64 |
| Treasury Bills | 177,000 | 3.12 | 254,000 | 4.43 |
| European Financial Stability Facility (Rerouted Debt) ¹³ | 171,189 | 3.02 | 171,189 | 2.99 |
| Extra Budgetary Units and Local Councils | 158,683 | 2.80 | 133,509 | 2.33 |
| Malta Government Retail Savings Bond | 99,624 | 1.76 | - | - |
| Euro Coins | 78,202 | 1.39 | 72,832 | 1.27 |
| Foreign Loans | 8,952 | 0.16 | 19,370 | 0.34 |
| Total Debt | 5,670,611 | 100 | 5,734,912¹⁴ | 100 |

(Source: Government Finance Data: January-December 2017 – National Statistics Office News Release No. 51/2018; Quarterly Accounts for General Government: Q4/2017 – National Statistics Office News Release No. 62/2018; Debt Management Directorate (DMD)).

Public Debt Percentages

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

¹² Excludes the MGS held by non-residents which in 2017 amounted to circa 10% (2016: circa 7%) and includes the European Financial Stability Facility (EFSF) (Debt Rerouting).

¹³ The EFSF was established on 7 June 2010 to provide stability support to Euro Area Member States (EAMS). The EFSF financed such support by issuing or entering into bonds, notes, commercial paper or other financing arrangements. The operations were backed by guarantees of the EAMS on the basis of an agreed 'Adjusted Contribution Key'. On 27 January 2011, Eurostat decided that the debt issued by the EFSF for each support operation had to be rerouted to the Public Accounts of the EAMS providing guarantees, proportionately to their contribution key. Therefore the recording of such flows will impact the Gross Government Debt (as defined in the Maastricht Treaty), but not the Net debt (i.e. Total debt minus cash and cash equivalents).

¹⁴ Public Debt balance as at 31 December 2016 has been updated from the balance reported in the previous year's AAR to provide a more accurate analysis as per most recent publications.

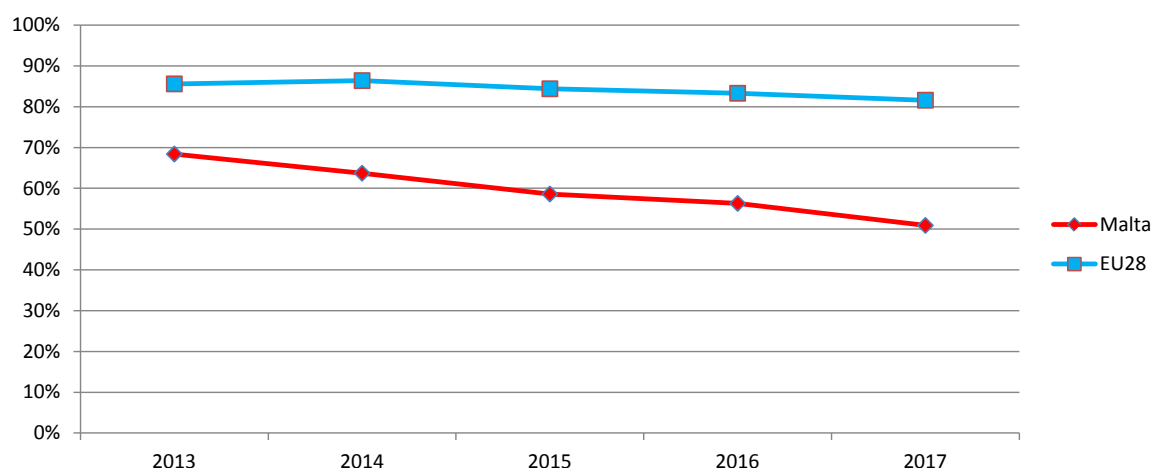
Table 15: Debt as a Percentage of Gross Domestic Product

| 2017 | | | 2016 | | |
|-------------------------|--------------------------|---|-------------------------|--------------------------|---|
| Public Debt | Gross Domestic Product | Ratio Public Debt to Gross Domestic Product | Public Debt | Gross Domestic Product | Ratio Public Debt to Gross Domestic Product |
| €'000's | €'000's | % | €'000's | €'000's | % |
| 5,670,611 ¹⁵ | 11,139,698 ¹⁶ | 50.90 | 5,734,912 ¹⁵ | 10,180,058 ¹⁷ | 56.33 |

As at end-of-year 2017, the percentage of Government's debt to the country's GDP amounted to 50.9%, resulting in a decrease of 5.43% over the previous year. Thus, Government Debt-to-GDP ratio has successfully continued to decline below the 60% Maastricht Treaty requirements, indicating that the economy is growing faster than the respective debt.

Moreover, it was noted that since year 2013, Malta had a considerably lower Government Debt-to-GDP ratio when compared to the average of the EU28¹⁸, which as at end 2017 was recorded as 50.9% and 81.6% respectively. Chart 3 below refers.

Chart 3: Government Debt-to-Gross Domestic Product Ratio (2013 to 2017)



(Source: Year 2013: Provision of deficit and debt data for 2016 - second notification – Eurostat News Release No. 160/2017; Years 2014 to 2017: Provision of deficit and debt data for 2017 - second notification – Eurostat News Release No. 163/2018)

Local Loans

On 31 December 2017, the local Public Debt amounted to €5,490,470,000, representing a decrease of €53,883,000 over the corresponding reported figure for 2016. In addition to the Malta Government Stocks (MGS) totalling €4,976,961,000, the closing local Public Debt balance is inclusive of Treasury Bills outstanding at year-end, debts of Extra Budgetary Units (EBU) and Local Councils, Malta Government Retail Savings Bond, as well as Euro Coins, amounting to €177,000,000, €158,683,000, €99,624,000 and €78,202,000 respectively (Details in Table 14).

¹⁵ Source: Table 14 above refers.

¹⁶ Source: Gross Domestic Product: Q2/2018 – National Statistics Office News Release No. 139/2018.

¹⁷ The GDP balance as at 31 December 2016 has been updated from the figure reported in the previous year's AAR to provide a more accurate analysis as per most recent publications. Source: Gross Domestic Product: Q2/2018 – National Statistics Office News Release No. 139/2018.

¹⁸ EU28 refers to the total 28 Member States, which form the European Union.

Foreign Loans

Bilateral loans with foreign official creditors were specifically undertaken by Government to finance large capital projects. In 2017, an aggregate amount of €10,410,938 was repaid in accordance with pre-established repayment schedules, resulting in an end-of-year balance of €8,951,652. Table 16 refers.

Table 16: Foreign Loans Analysis

| Foreign Loan | Financing Purpose | Year of Issue | Amount Disbursed | Interest Rate | Date of Maturity | Balance due as at 31 December 2017 |
|---|-----------------------------------|---------------|------------------|---------------|------------------|------------------------------------|
| | | | | % | | €000's |
| Council of Europe Fund for Development 2003 | Mater Dei Hospital | 2003 | €75.5 million | 4.65 | 07/05/2018 | 7,550 |
| European Union Loan C | Solid Waste Composting Project | 1987 | €3 million | 1.00 | 15/09/2027 | 1,102 |
| European Union Loan B | Improvements in the Grand Harbour | 1979 | €5 million | 1.00 | 15/11/2018 | 192 |
| Government of Canada | Telephone cables and equipment | 1974 | CAD 1 million | - | 31/05/2024 | 108 |
| Total | | | | | | 8,952 |

(Source: FR 2017, page 187; AAR 2016, page 42)

In addition to the aforementioned foreign loans, the closing external Public Debt balance of €180,141,000 is inclusive of the EFSF Rerouted Debt, amounting to €171,189,000 (Details in Table 14).

Debt Management

Legal Framework

The year 2017 marked an important legislative development with respect to Government borrowing and the administration of the Republic of Malta's Central Government Debt as the three laws that governed the issuance of Central Government Debt were replaced by a new Act, namely, the Government Borrowing and Management of Public Debt Act on 1 September 2017.

The new legislation was drafted on international best practices of Public Debt Management, meeting the principles of transparency, accountability and predictability. The scope of this Act is to provide for the governance aspects, high-level policy objectives and institutional arrangement for prudent management of the Government's debt, cash position, as well as liquidity and reserve funds, as detailed in Article 3 of the same Act. Moreover, the DMD and the Public Debt Management Advisory Committee were given a legal status in terms of Articles 64 and 68 respective of the foregoing Act.

General Economic Factors

The year 2017 was characterised by repeated short periods of political risks, owing to the various elections, which were to be held in key Eurozone Member States amid the rise in popularity of Eurosceptic parties across the continent. Another concern was the evolution of Brexit negotiations after Article 50 was triggered in March 2017.

Other risks involved uncertainty around Italy's constitutional referendum result and persistent weakness in its banking sector. Notwithstanding these downside risks, the Eurozone economy was growing at a respectable pace, whilst the European Central Bank continued its quantitative easing programme to attain its inflation target.

Main Aspects of Debt Management

The five main aspects of Debt Management that need to be audited every year, as part of International Best Practices, include Policy, Operations, Risk Control Procedures, Information Technology Systems, and Financial.

Methodology for the Analysis of Public Debt

As part of this year's analysis of Public Debt, the NAO forwarded a number of queries to DMD. These related to each of the five main aspects of Debt Management and were based on the existing local Legal Framework and the latest Revised Guidelines for Public Debt Management dated 1 April 2014, as prepared by the World Bank and the International Monetary Fund. Moreover, in preparation for the adoption and implementation of the International Public Sector Accounting Standards (IPSAS)¹⁹ by the Maltese Government²⁰, this Office featured a number of additional questions, based on a number of related International Standards of Supreme Audit Institutions (ISSAIs)²¹, as well as a Handbook by the International Organisation of Supreme Audit Institutions, all relating to the auditing of Public Debt.

The applied standards are outlined as follows:

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

In this regard, the Directorate provided a detailed description of the main elements comprising the 2017 Debt Management, as further outlined hereafter.

Characteristics of Public Debt Management Activities

The following two tables²², as listed in ISSAI 5440, provide checklists of issues drawn from the aforementioned Guidelines for Public Debt Management, which auditors should consider when developing their understanding of public debt management.

¹⁹ IPSAS are a set of accounting standards issued by IPSAS Board for use by public sector entities around the world in the preparation of accrual-based financial statements.

²⁰ The adoption and implementation of IPSAS by the Maltese Government will revolutionise the current accounting system from cash to an accrual-based one.

²¹ The ISSAIs were issued by the International Organisation of Supreme Audit Institutions.

²² The two tables were originally compiled by the International Organisation of Supreme Audit Institutions on the basis of a questionnaire sent to public debt managers in many countries in order to identify the key features of public debt management operations. The tables are not meant to be a comprehensive list of factors that should be present in all public debt management arrangements.

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

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

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

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

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

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

²³ In the case of Malta, the public debt ceilings arise from four different legislations or Parliamentary resolutions.

²⁴ A first draft of the Code of Conduct has been finalised and the plan is that it will be discussed shortly with the DMD staff prior to coming into force.

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

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

Further details on these characteristics will follow in this Report.

Implementation of the Central Government Funding Programme

In line with the announced issuance strategy, more than two thirds (72.1%) of the short, medium to long-term borrowing programme for 2017 was financed through the conventional fixed-rate MGS. The fixed-rate securities issued consisted of maturities in the six, ten and eighteen years area. Pursuing a strategy designed to ensure stability and continuity, as in previous years, the MGS were offered to the members of the public, banks, life insurances, investment funds and other financial institutions.

The remaining 27.9% of the borrowing programme was financed by a non-marketable debt instrument, the 62+ Malta Government Retail Savings Bond, a new debt instrument of its kind ever issued by the Treasury.

Malta Government Stocks

During 2017, the Treasury launched two MGS issuance, a combined issuance from retail and institutional investors and an auction targeting institutional investors. In 2017, the Treasury issued three new fixed rate euro-denominated stocks with maturity horizons spreading over the short, medium and long-term, the latter offering investors a relatively attractive coupon in an extremely low interest rate environment.

The number of MGS issuance during the year 2017 was somewhat lower when compared to previous years, mainly on the back of lower funding requirements and the launching of a new type on non-negotiable financial product targeting a segment of retail investors. The level of demand from institutional investors was very strong with highly competitive bids exceeding €439 million over the two issuances.

Table 19 summarises the issuance performance of the MGS for the year 2017, including the level of overall participation in the MGS issuances.

Table 19: 2017 Malta Government Stocks Issuance Performance

| Issuance month | On offer (plus over-allotment) €'million | Total participation €'million | Bid-to-Cover |
|------------------------|---|----------------------------------|--------------|
| February ²⁷ | 130 + 90 | 282.1 | 2.17 |
| August ²⁸ | 40 + 35 | 176.2 | 4.41 |
| Totals | 170 + 125 | 458.3 | |

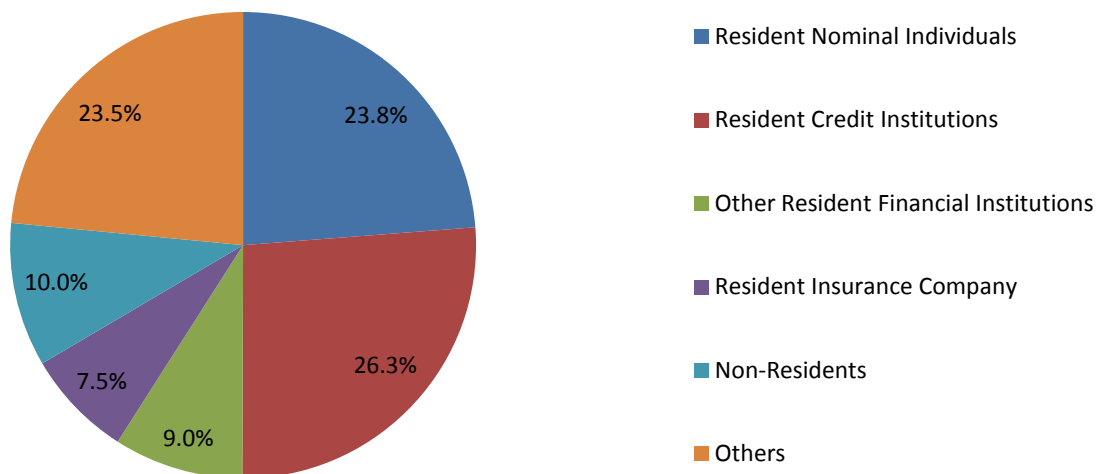
(Source: DMD 2017 Annual Report, page 12)

The distribution of the MGS among the different types of investor categories as at 31 December 2017 is depicted in Chart 4. Following the trend of past years, resident nominal individuals and resident credit institutions held the largest share of ownership of MGS in the market, with 23.8% and 26.3% respectively. Resident insurance companies held 7.5%, whilst other resident financial institutions held 9%. The level of non-resident holdings was 10%; an increase of 2.7% over the previous period. Holdings by other investors, principally resident entities not falling under the main categories, mainly including non-profit entities, Local Councils and public non-market units, collectively amounted to 23.5%.

²⁷ Combined issuance for both institutional and retail investors.

²⁸ Issuance (by auction) targeted for institutional investors only.

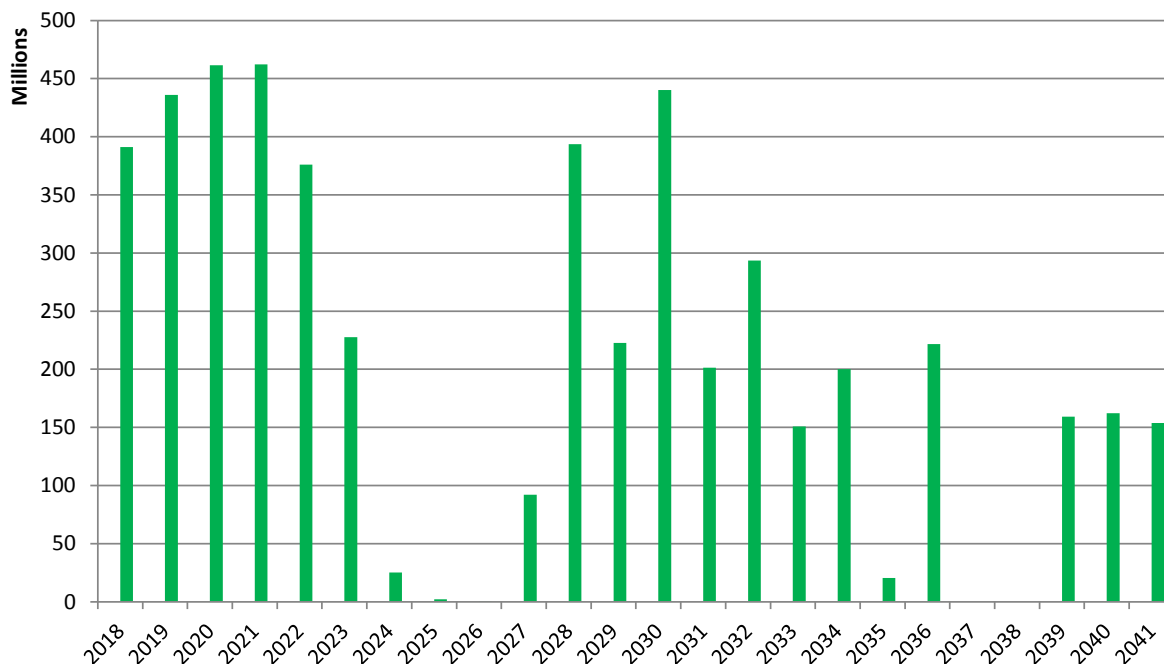
Chart 4: Malta Government Stocks Holder Distribution as at 31 December 2017



Figures in Chart may not add up due to rounding.
 (Source: DMD 2017 Annual Report, page 14)

The gross outstanding nominal value of the MGS as at 31 December 2017 reached €5,093.5 million, representing a 2.2% decrease over the end-2016 balance. This was the first decrease registered in several years. Chart 5 illustrates the distribution of outstanding MGS by year of maturity.

Chart 5: Maturity Profile of Malta Government Stocks as at 31 December 2017



(Source: FR 2017, pages 184-186)

The refinancing volume within the next five years is more or less equally distributed, thus making the refinancing of maturing debt more manageable. This is the result of a prudent risk management policy which the DMD has in place. As it had done in the past, the DMD may also make use of Bond switches to mitigate further the rollover risk, if it is deemed appropriate.

With the demand for MGS during 2017 mostly coming from Financial Institutions, the DMD leaned towards issuance of stocks of short-term maturities, which tend to meet the appetite of these type of investors. This resulted in a slight decrease in the Weighted Average Maturity (WAM) of the MGS from 9.8 to 9.5 years.

The WAM compares very well with that of Organisation for Economic Co-operation and Development (OECD)²⁹ countries. In fact, a publication of the OECD, on the Sovereign Borrowing Outlook for the year 2018, estimated that the average term to maturity of outstanding marketable central Government Debt in a number of selected OECD countries reached almost eight years in 2017.

62+ Malta Government Savings Bond

As part of its implementation of the medium to long-term borrowing programme, for the first time in 2017, the Treasury issued a non-marketable financial product, specifically targeting a segment of retail investors. The bond was offered for individuals born in 1955 or before. The aim of this initiative was to offer a non-marketable product that pays an interest rate above that determined by the market to a specific sector of the society who had been hit hard by the low interest rate environment. Most of the individuals in this segment rely on interest receivable from their past savings to supplement their pension.

Eligible investors favourably responded to this initiative. In fact, the Treasury raised €99.6 million in the 62+ Malta Government Savings Bond over two issuances held in September and October of the same year, which issues were both well over-subscribed. Table 20 illustrates the amount offered, participation and bid-to-cover in the two issuances.

Table 20: 2017 62+ Malta Government Savings Bond Issuance Performance

| Issuance month | On offer (plus over-allotment) | Total participation | Bid-to-Cover |
|----------------|--------------------------------|---------------------|--------------|
| | €'million | €'million | |
| September | 50 + 20 | 107.1 | 2.14 |
| October | 30 | 64.3 | 2.14 |
| Totals | 80 + 20 | 171.4 | |

(Source: DMD 2017 Annual Report, page 12)

Treasury Bills – Strategy and Implementation

The Directorate also issued weekly Treasury Bills to support its daily cash management activity, given that Treasury Bills is the only cash management instrument used to finance its operations. As in previous years, in 2017 the Directorate made extensive use of such instrument in order to manage the cash balance at the CBM and smoothen out the fluctuations in the balance arising from the mismatch between the timing of receipts and payments. As at the end-of-year 2017, the Treasury Bills balance was decreased by €77 million over the previous year's closing balance, to reach €177 million.

Similar to the previous year, 2017 was fully characterised by negative yields across the entire money market spectrum. In fact, the negative interest earned on Treasury Bills issued in 2017 amounted to €609,828, compared to €779,047 earned in the previous year. The decrease in negative interest received from Treasury Bills during 2017 was mainly due to lower issuance levels of Treasury Bills. In fact, the gross issuance of Treasury Bills was almost 40% lower than in 2016 (€588.6 million against €971.0 million).

²⁹ The OECD is a forum of 34 industrialised countries that develops and promotes economic and social policies.

Funding Programme

In 2017, funds were raised to finance:

- a. the redemption of five MGS, amounting to €371.8 million;
- b. an estimated budget deficit of central Government of €128.3 million; and
- c. to effect changes in central Government’s debt portfolio, in line with Government’s debt management policies.

During the year 2017, following the downward revision of the estimated consolidated fund deficit figure by MFIN from €128.3 million to €29 million, the funding programme was subsequently reduced from €600 million to €500 million, as highlighted in the Financial Estimates for 2018 published on 9 October 2017. Moreover, by the end of the year, the total amount of long-term debt, composed of MGS and Malta Government Retail Savings Bonds issued in 2017 was further reduced to €357.4 million.

Risk Control Plan and Procedures

In the context of the debt management objectives, a determinant element in the DMD’s decision on debt issuance by maturity and type of instruments is its assessment of risk. To the extent possible, the DMD has taken steps to mitigate and limit the risks that arise in the course of its funding operation. The following are the major risks that have been taken into account during year 2017:

Table 21: Major risks faced by Debt Management Directorate

| Risk | Details | Management |
|---------------|--|---|
| Market | Mainly related to the interest rate, given that all marketable debt is issued in the domestic currency. | <ul style="list-style-type: none"> • Weekly cash management operations. • Daily monitoring of the interest rate in the MGS secondary market. |
| Interest Rate | As at end-of-year 2017, rate of interest for debt maturing in respect of Floating-Rate Notes within one and five years, stood below the Euro Area average. | <ul style="list-style-type: none"> • The DMD keeps the level of Floating-Rate Debt out of all MGS issues around the 5% threshold and in any case not exceeding 10% (as at 31 December 2017, such ratio stood at 4.4%). |
| Refinancing | Rollover risk is traditionally and conceptually assessed by the debt metric known as the WAM. | <ul style="list-style-type: none"> • The DMD has pursued a strategy of lengthening the WAM of the MGS portfolio, being the debt component that makes around 95% of the total central government debt portfolio (as at end December 2017). The funding environment has been relatively favourable enabling the DMD to achieve this objective at low cost. |

Risk Management Framework

In 2013’s AAR, the NAO recommended that an implicit risk management framework was to be created and regularly updated by the DMD as necessary. To this effect, the NAO satisfactorily noted that a Medium-Term Debt Management Strategy was actually prepared for a four-year period starting 2018, and which included DMD’s risk management framework accordingly.

Operations and related Controls

Responsibilities

In line with the Best International Practices, the operational responsibility for debt management activities is separated into Front, Middle and Back Offices:

- Front Office executes Government's debt policy regarding the issuance of securities.
- Middle Office undertakes market research and analysis.
- Back Office deals with the registration, administration and settlements of central Government debt.

All the issuances of the MGS are subject to the scrutiny and approved by all the members of the Public Debt Management Advisory Committee.

Communication

- Aims at using a transparent debt management framework supported by strong internal and external communication policy, as an enabler of credibility, accountability and predictability.
- Adopts consistent standard measures and indicators, as well as publishes the central Government debt statistics in a timely manner.
- Announces and publishes all the data/information in connection with the MGS, 62+ Malta Government Savings Bond and Treasury Bills on its website, and disseminates information to the Malta Stock Exchange and Investment Services Providers.

Business Recovery Procedures

- A backup of all data and information is kept by Malta Information Technology Agency in accordance with Government's policy.
- The DMD holds a hard copy of all the applications received in respect of all MGS, 62+ Malta Government Savings Bond and Treasury Bills tender forms as prescribed by law.

Accounting

- All transactions in connection with the MGS, 62+ Malta Government Savings Bond and Treasury Bills are recorded on the Departmental Accounting System (DAS).

- As a means of control, only a small number of officers within the DMD have access to DAS, whilst there is one Senior Officer within the Directorate responsible for inputting all debt transactions in system.

Information Technology Systems

- Keeps all data in respect of the MGS issuance, 62+ Malta Government Savings Bond Treasury Bills, and interest payable, on spreadsheets.
- Has in place business continuity arrangements to ensure it is able to continue its market operations in the event of an internal or external incident that undermines the operations.
- Has online access (viewing facility) to the MGS Register maintained by the Malta Stock Exchange, and to the Public Account held at the CBM.
- As already recommended in the previous years' AAR, the debt management activities should be supported by a reliable, accurate and comprehensive Information Technology management system with proper safeguards, which produces accurate debt data and ensures timely payment of debt service.
- The DMD confirmed that this issue will be addressed once the Corporate Financial Management System (CFMS)³⁰ is implemented. Any new debt reporting system to be procured by Treasury must be compatible with the CFMS and thus a new system can only be procured once the CFMS is fully implemented.

Internal Audit Function

- The DMD does not have an Internal Auditor.
- There are a number of functions inbound in all processes as a means of control, including authorisations from senior officials prior to processing with a particular process and random checks are performed.
- From time to time Senior Management reviews and monitors the internal controls and updates them as necessary.
- The DMD is subject to any internal audits that the Internal Audit and Investigations Department may wish to undertake.

³⁰ The CFMS shall be a full-accrual accounting package that Government will be implementing as part of its move towards accrual accounting.

Financial Aspect

Table 22 portrays the servicing cost of the central Government Debt.

Table 22: Central Government Debt Interest Expense

| Description | 2017 | 2016 | Variance |
|---|--------------------|--------------------|--------------------|
| | € | € | € |
| Local Loans: | | | |
| Treasury Bills ³¹ | 322 | 379 | (57) |
| Malta Government Stock | 214,204,758 | 221,035,014 | (6,830,256) |
| Ex-Malta Drydocks/Malta Shipbuilding Co. Ltd Loan | - | 1,089,378 | (1,089,378) |
| Sub-Totals (Local) | 214,205,080 | 222,124,771 | (7,919,691) |
| Foreign Loans | 846,323 | 1,329,351 | (483,028) |
| Totals | 215,051,403 | 223,454,122 | (8,402,719) |

(Source: FR 2017, pages 148-149)

During year 2017, the overall servicing cost of Government's debt totalled €215.1 million, resulting in a decrease of €8.4 million over the previous year.

The interest payable on the MGS amounted to €214.2 million, i.e. 3.1% less than the interest paid in 2016. The decline in this expenditure mainly resulted from lower coupons assigned to newly issued MGS during the current low interest rate environment, whereby Treasury continued to refinance maturing high coupons MGS with longer-dated bonds paying lower coupon. In fact, the MGS portfolio Weighted Average Coupon³² as at 31 December 2017 continued to decrease to 4.11% from 4.25% as registered a year earlier.

Furthermore, no servicing cost for ex-Malta Drydocks/Malta Shipbuilding Co. was incurred during 2017, whilst charges on foreign loans decreased by €0.5 million as a result of lower outstanding amounts in foreign loans.

Credit Rating of the Republic of Malta in 2017

During 2017, the main credit-rating agencies conducted their annual reviews of the Maltese economy, including the developments and trends in public debt management. Table 23 depicts the movement in credit rating of the Republic of Malta between 2016 and 2017.

Table 23: Credit Rating of the Republic of Malta between 2016 and 2017

| Rating Agency | 2017 | 2016 |
|----------------------------------|-------------|------------|
| Moody's | A3/Stable | A3/Stable |
| Fitch | A+/Stable | A/Positive |
| DBRS | A/Positive | A/Stable |
| Standard & Poor's Global Ratings | A-/Positive | A-/Stable |

(Source: DMD 2017 Annual Report, page 28; Trading Economics website)

³¹ Figures of €322 and €379 do not represent the interest payable on Treasury Bills but charges incurred by the Treasury in connection with Swift and Target payments. In 2016 and 2017, all Treasury Bills were allotted at negative interest rates. In fact, in 2016 the Treasury received €779,047 as negative interest on Treasury Bills issued in 2016 and maturing in 2016 and 2017, whilst in 2017, the DMD received €609,716 as negative interest on Treasury Bills issued in 2017 and maturing in the same year and 2018.

³² The Weighted Average Coupon of the MGS portfolio is the weighted average gross interest rate of the outstanding MGS portfolio at a particular point in time, in this case, 31 December 2017.

On 9 May 2017, Moody's confirmed Malta's long-term local and foreign currency issuer rating at 'A3'. The outlook was kept at 'Stable'. On the other hand, in August 2017, Fitch upgraded Malta's long-term local and foreign currency sovereign credit rating from 'A Positive' to 'A+' with a 'Stable' outlook, and DBRS confirmed Malta's long-term local and foreign currency issuer rating at 'A', whilst the trend was revised upwards from 'Stable' to 'Positive'. Furthermore, Standard & Poor's Global Ratings upgraded the outlook on Malta's rating from 'Stable' to 'Positive' on 29 September 2017.

Contingent Liabilities

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

The NAO also recommended that Government monitors the risk exposures that it is entering into through its explicit contingent liabilities, and ensure that it is well informed of the associated risks of such liabilities. In such cases, the DMD is not only expected to be informed of the explicit contingent liabilities that the Government intends to undertake, but also be conscious of the conditions that could trigger such liabilities.

During this year's analysis, the DMD confirmed that up to the date of writing of this Report, there were still no updates in this regard. Section 4 of the Government Borrowing and Management of Public Debt Act has not yet come into force and therefore the Treasury Department is not aware of any requests made to MFIN for new Guarantees. Thus, neither the assessment of new request for Guarantees, nor the reassessment of the financing risk of outstanding guarantees, was conducted by the Treasury Department. Section 4 of the Act will eventually come into force once an officer with a strong accounting and risk management background is assigned to the DMD and the regulations are published via a Legal Notice.

Cash Management

Strategy and Implementation

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

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

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

Liquidity Buffer

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

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

Letters of Comfort and Bank Guarantees

The position of Contingent Liabilities as at 31 December 2017, otherwise referred to as Government Potential Debt, as reported upon in Part I of the FR 2017 and comparative figures for 2016 are reproduced in Table 24.

Table 24: Contingent Liabilities

| | 2017 | 2016 |
|------------------------|---------------------------|----------------------|
| | € | € |
| Government Guarantees: | | |
| Local | 690,076,763 ³³ | 809,541,065 |
| Foreign | 464,499,482 | 655,428,566 |
| | 1,154,576,245 | 1,464,969,631 |
| Letters of Comfort | 28,495,042 | 31,268,828 |
| Totals | 1,183,071,287 | 1,496,238,459 |

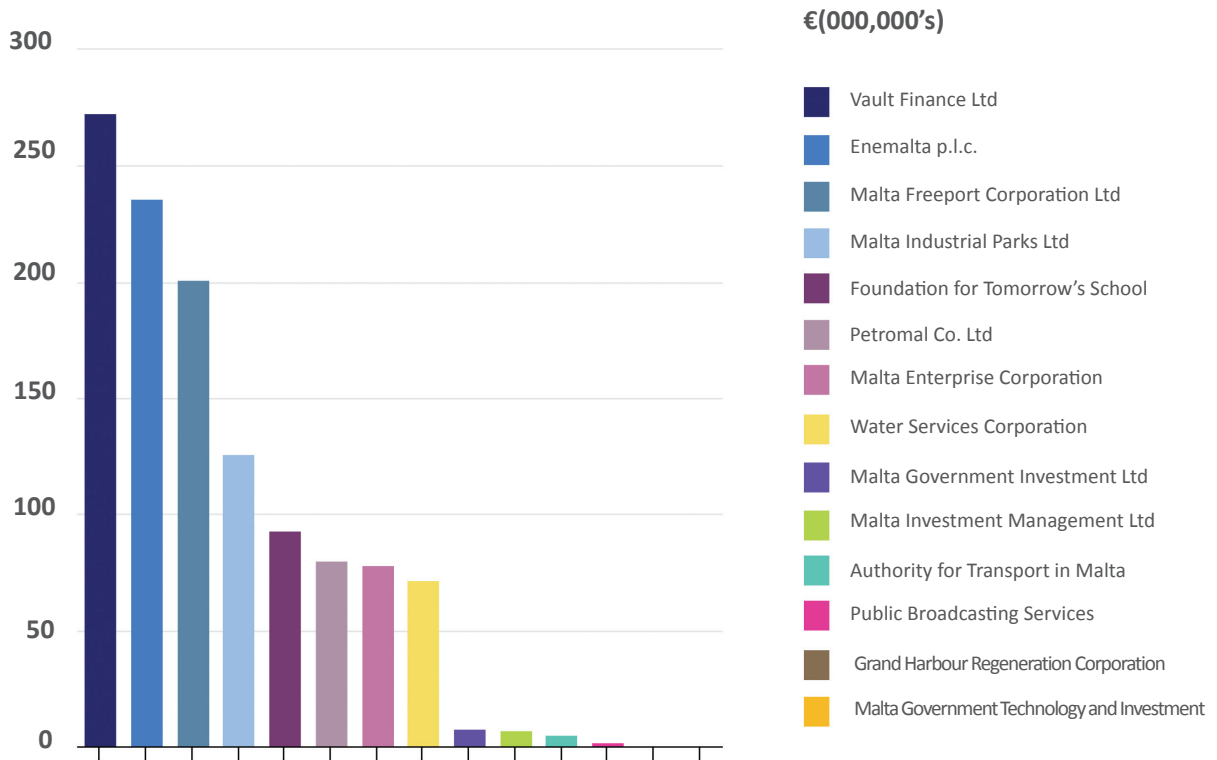
Premiums received by Government during 2017, with respect to Letters of Comfort and Bank Guarantees, amounted to €4,435,048, which revenue was appropriately accounted for under 'Guarantee Fees' in MFIN vote.

In contrast to the shortfall in guarantee premiums as reported in the FR 2016, revenue from guarantee fees increased during the year under review. This increase was brought about due to premiums received in respect of Electrogas Ltd and Enemalta p.l.c.

A breakdown by entity is shown in Chart 6, representing a spread of 38 Letters of Comfort and Bank Guarantees issued in favour of 14 entities.

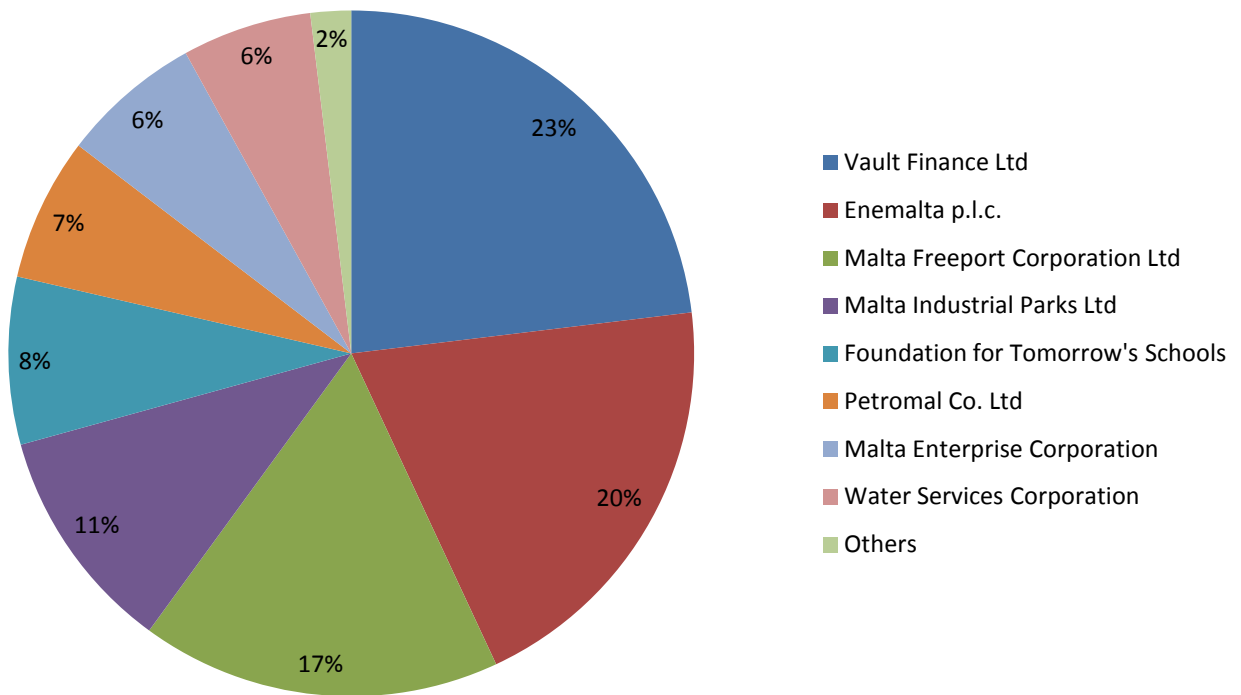
³³ The figure for Local Government Guarantees was erroneously reported as €718,571,805 in Part I of the FR 2017 due to double counting of Letters of Comfort.

Chart 6: Letters of Comfort and Bank Guarantees for the year ended 31 December 2017



Indeed, the majority of these guarantees were given to eight entities, accounting for 98% of the aggregate outstanding amount as at end 2017. The energy sector absorbed 50% of such guarantees, whilst other sizeable guarantees related to water services, the industrial sector and education. Chart 7 refers.

Chart 7: Outstanding Guarantees



Further details of each Letter of Comfort and Bank Guarantee is explained in Table 25.

Table 25: Actual Guarantees made by Government

| Beneficiary | 31 Dec 2017 € | 31 Dec 2016 € | Remarks |
|--------------------|--------------------|------------------|---|
| Enemalta p.l.c. | - | 11,637,234 | A Letter of Guarantee was issued for €50,000,000 on 9 December 2010, to secure loan facility in connection with the construction of interconnector between Malta and Sicily. This letter of Guarantee was cancelled during the year. |
| | 4,650,000 | - | On 27 November 2008, a Letter of Guarantee with a local bank was issued for €20,000,000 to secure a temporary short term overdraft facility. |
| | 132,256,455 | 140,154,672 | This Guarantee secures loan taken on 22 September 2008 to part-finance the Corporation's investments in the national electricity supply system and distribution network. |
| | 99,298,930 | 100,000,000 | This Guarantee secures loan for €100,000,000, taken on 20 December 2010, to part-finance the construction of the interconnector between Malta and Italy. |
| 236,205,385 | 251,791,906 | | |
| Malta Enterprise | 433,866 | 698,816 | The Letters of Comfort issued to cover the Loan Guarantee Scheme taken over from the Institute for the Promotion of Small Enterprise Ltd, and the New Enterprise Loan Guarantee Scheme, were replaced by Letters of Guarantee for €2,911,717, dated 19 May 2009 and 3 March 2010. |
| | 2,500,000 | 2,500,000 | Letter of Guarantee issued on 6 July 2001 to secure loan/credit facilities made available to the Corporation. |
| | 23,294 | - | On 26 February 2015, a Letter of Guarantee was issued with a local bank to secure overdraft facility of €500,000. |
| | 2,500,000 | 1,380,649 | On 12 August 2015, a Letter of Guarantee for €2,500,000 was issued to secure increased overdraft facility to finance soft loan schemes. |
| | 2,464,017 | 2,378,630 | On 3 November 2015, a Letter of Guarantee for €2,500,000 was issued with a local bank to secure increased overdraft facility to finance soft loan schemes. |
| | 66,400,000 | - | On 17 February 2017, two Letters of Guarantee for the amount of €27,000,000 and €54,000,000 were issued to secure loan facilities with a local bank related to the Crane Currency Project. |

Table 25: Actual Guarantees made by Government *cont./*

| Beneficiary | 31 Dec 2017 € | 31 Dec 2016 € | Remarks |
|--------------------------------|--------------------|--------------------|--|
| Malta Enterprise <i>cont./</i> | 3,935,687 | - | On 6 January 2017, two Letters of Guarantee for the amount of €3,800,000 and €4,700,000 were issued to secure loan facilities with a local bank. |
| | 78,256,864 | 6,958,095 | |
| Water Services Corporation | 40,066,447 | 39,830,621 | Two Letters of Guarantee were issued on 30 April 2007 in connection with Loan 1 facility for €22,594,922 and to secure general banking facility for €4,658,747. Another Letter of Guarantee was issued on 1 October 2008 for €37,269,974, to cover general banking facility. |
| | 32,189,259 | 34,519,056 | On 30 November 2007, the Water Services Corporation entered into a Guarantee agreement with a foreign bank for €40,000,000 to undertake a project concerning investments in the sector of water supply and wastewater collection and treatment. |
| | 72,255,706 | 74,349,677 | |
| Malta Freeport Corporation Ltd | 76,017 | - | Letter of Guarantee was issued to a local bank on 19 September 1996 and reduced to €1,164,687. |
| | 200,754,838 | 200,754,838 | On 20 January 2004, Malta Freeport Corporation Ltd entered into a Currency SWAP agreement with a private company over the 2028 bonds (original denomination US\$250,000,000). This SWAP agreement is guaranteed by the Government of Malta, but does not increase its overall exposure. As a result, the currency denomination has been changed to Euro. |
| | 200,830,855 | 200,754,838 | |
| Malta Industrial Parks Ltd | 11,305,040 | 14,150,667 | Letter of Comfort was issued on 31 January 2007 in connection with the development of a specialised facility at Luqa Airport leased land. This Letter of Comfort was replaced by a new one dated 10 March 2011 for €27,000,000, and again superseded on 10 July 2012. |
| | 2,305,283 | 2,431,790 | Letter of Comfort dated 10 March 2011 for €6,000,000 replaced a former Letter of Comfort issued on 4 February 2008 to secure loan facility in connection with capital projects. This Letter of Comfort, dated 10 July 2012, was amended to €4,500,000. |

Table 25: Actual Guarantees made by Government *cont./*

| Beneficiary | 31 Dec 2017 € | 31 Dec 2016 € | Remarks |
|--|--------------------|--------------------|--|
| | 12,536,600 | 9,012,925 | A Letter of Comfort was issued with a local bank on 25 July 2014 to secure loan facility for the construction of an aircraft hanger and taxi way within the Malta International Airport. |
| | 9,250,906 | 9,636,293 | A Letter of Guarantee, originally amounting to €13,000,000, was issued to secure loan facility. This was superseded by Letter of Guarantee dated 10 July 2012 for €11,650,000. |
| Malta Industrial Parks Ltd <i>cont./</i> | 4,010,079 | 498,912 | A Letter of Guarantee, originally amounting to €7,500,000, was issued with a commercial bank in connection with the Medavia Project, to replace a Guarantee dated 4 March 2010 in favour of Malta Enterprise. This was superseded by a Letter of Guarantee dated 10 July 2012. |
| | 9,912,798 | 8,534,777 | On 9 August 2012, Letter of Guarantee was issued to secure loan facility of €12,000,000. |
| | 1,213,050 | 1,298,455 | Letter of Guarantee issued on 3 January 2013 with a local bank to secure loan facility of €3,000,000. |
| | 26,302,815 | 27,425,012 | On 5 December 2014, a Letter of Guarantee was issued for €29,600,000 to secure loan facility. During 2017, limit of Guarantee was reduced to €27,333,031. |
| | 43,655,510 | 43,673,353 | On 24 September 2014, a Letter of Guarantee was issued to secure a loan facility of €50,000,000. |
| | 5,859,952 | - | On 30 May 2017, a Letter of Guarantee was issued to secure a loan facility of €11,000,000 granted by a local bank. |
| | 126,352,033 | 116,662,184 | |
| Malta Government Technology and Investment | 26,958 | 164,404 | A Letter of Comfort was issued for €1,000,000 on 12 February 2009 to secure loan facility. This was replaced by a Letter of Guarantee dated 12 March 2009 for the same amount. |
| Malta Government Investments Ltd | 8,000,000 | 8,000,000 | On 23 April 2014, a Letter of Guarantee was issued to secure loan facility of €15,000,000. |
| Foundation for Tomorrow's Schools | 93,386,062 | 91,746,451 | A Letter of Guarantee issued on 29 August 2013 to secure loan facilities for €123,200,000 in replacement of Letter of Guarantee dated 19 September 2011. |

Table 25: Actual Guarantees made by Government *cont./*

| Beneficiary | 31 Dec 2017 € | 31 Dec 2016 € | Remarks |
|--|----------------------|----------------------|--|
| Authority for Transport in Malta | 5,000,000 | 5,000,000 | On 31 January 2014, a Letter of Guarantee was issued to secure loan facility of €5,000,000 to replace Letter of Comfort of €56,000,000 dated 9 February 2011. |
| Grand Harbour Regeneration Corporation | 293,667 | 2,378,224 | A Letter of Comfort issued on 31 October 2012, to secure overdraft facility and finance services/works associated with the City Gate project. This Letter of Comfort was replaced by a new one dated 27 January 2015 for €2,500,000. Subsequently, this Letter of Comfort was replaced by one for €3,300,000 dated 3 March 2015. |
| | - | 750,000 | A Letter of Comfort was issued with a local bank on 4 July 2013 to secure general banking facility to finance the working capital requirement of the Corporation. |
| | 293,667 | 3,128,224 | |
| Public Broadcasting Services | 2,054,452 | 2,545,222 | Letter of Comfort issued on 26 September 2012 to secure loan facility up to €6,800,000 to finance investment in equipment upgrade and the development of the company's properties. |
| | 55,000 | 330,000 | A Letter of Guarantee was issued on 20 April 2015 to secure guarantee facility of €330,000. |
| | 2,109,452 | 2,875,222 | |
| Vault Finance Ltd | 273,166,750 | 282,026,435 | Letter of Guarantee issued on 31 December 2012 to secure loan facility for €318,500,000 and replace Enemalta Guarantees. |
| Electrogas Ltd | - | 180,000,000 | A Letter of Guarantee was issued on 31 July 2015 to secure loan facilities with two local banks for €90,000,000 each. These were cancelled during the year. |
| | - | 180,000,000 | A Letter of Guarantee was issued on 31 July 2015 to secure loan facilities with two foreign banks for €90,000,000 each. These were cancelled during the year. |
| | - | 360,000,000 | |
| Malta Investment Management Co. Ltd | 7,187,555 | 7,781,023 | On 30 April 2014, a Letter of Guarantee was issued to secure loan facility of €10,000,000. |
| Petromal Co. Ltd | 80,000,000 | 85,000,000 | On 27 August 2014, a Letter of Guarantee was issued to secure a loan facility of €85,000,000 to finance the takeover of Enemalta's Petroleum Division. |
| Totals | 1,183,071,287 | 1,496,238,459 | |

These Letters of Comfort and Bank Guarantees offered to Government entities and the EBU may translate into dues up to almost €1.2 billion by Government, should the companies call upon the latter to make good for their debts. This shows a decrease of €313,167,172 (20.9%) over the amount reported in the previous year, which movement also represented 2.81% of the GDP for 2017, bringing total guarantees at 10.62% of the GDP.

Government's aggregate exposure of €1,183,071,287 differs from that as reported by the National Statistics Office (NSO); the latter reported the amount of €1,069,291,997 as Guarantees to Eurostat in line with the European System of Accounts (ESA2010). Upon further enquiry, the NSO reconfirmed that "...the sector coverage is the General Government Sector; made up of the Budgetary Central Government, the Extra Budgetary Units and the Local Government". The NSO eliminated "Guarantees granted between units of General Government ... as their debt is already accounted for in the government debt ...", i.e. NSO data includes guarantees granted by the EBUs but excludes guarantees provided to the latter.

Creditors' Analysis

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

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

Fifty-four Ministries and Departments submitted to Treasury the required 'Analysis of Creditors' as at 31 December 2017 where the total creditors reported amounted to €138,801,990. The VAT Department failed to submit this information. The opening balance as at 1 January 2017 was made up of balances submitted by 53 Ministries and Departments, with an aggregate amount of €114,312,575. At the end of the year under review, nine Ministries and Departments reported a 'Nil' creditors balance in their Return. A total of €406,695 from the total creditors relate to contested amounts. Table 26 shows an ageing analysis of the remaining creditors' balances as at year-end:

Table 26: Ageing of Remaining Creditors

| Days Overdue | 2017 | | 2016 | |
|---------------|--------------------|------------|--------------------|------------|
| | Amount Due | Percentage | Amount Due | Percentage |
| | € | % | € | % |
| 01 - 30 | 18,241,452 | 13.18 | 12,322,689 | 10.81 |
| 31 - 60 | 20,386,562 | 14.73 | 16,231,334 | 14.23 |
| 61 - 90 | 16,760,673 | 12.11 | 13,019,808 | 11.42 |
| 91 - 180 | 14,450,458 | 10.44 | 9,491,372 | 8.32 |
| 181 - 360 | 13,642,882 | 9.86 | 11,448,565 | 10.04 |
| Over 360 | 54,913,268 | 39.68 | 51,519,005 | 45.18 |
| Totals | 138,395,295 | 100 | 114,032,773 | 100 |

Credit balances overdue by over 360 days related mainly to the Government Property Division, Mater Dei Hospital and the Ministry for Education and Employment, with aggregate amounts of €44,664,393, €5,873,634 and €3,048,866 respectively.

Moreover, this Office conducted a number of audits on the reported creditor balances of a number of entities, being:

- a. Commerce Department within the Ministry for Economy, Investment and Small Business
- b. Ministry for Finance
- c. Ministry for Tourism
- d. Ministry for Home Affairs and National Security

The main scope of these audits was to assess the Ministries'/Departments' compliance with the pertinent Treasury Circulars regulating the collation and reporting of creditor balances as at 31 December 2017, together with a financial audit of figures submitted to Treasury.

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

Moving towards Accruals-based Accounting

(Source: Treasury)

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

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

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

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

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

Following the signing of the contract, the Consortium and the Treasury, together with the assistance of MFIN and the Malta Information Technology Agency, commenced with the implementation of the project with ten pilot sites. A series of workshops were held by the Consortium, with the latter as part of the design phase, to establish the current processes across Government, and discuss new processes to be built within the new system. Business Process Reengineering records were prepared, documenting the output derived from such workshops.

Moreover, in view of the change from cash-based to accruals-based accounting, Government employees are attending a 45-hour course in Basic Accounting to equip them with the skills required to face this change-over in accounting methodology.

With regards to IPSAS, the Treasury, in collaboration with a Training Academy, will be holding a training programme specifically on IPSAS. This project is being supported by the Structural Reform Support Services, this being an EU programme that provides support to all EU countries for their institutional, administrative and growth-enhancing reforms.

Good Practice

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

Compliance Audit Opinion

Opinion on the Compliance Audits to the House of Representatives

Audit Mandate

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

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

Respective Responsibilities of the Accountant General and Accounting Officers

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

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

Auditor's Responsibilities

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

Basis for Opinion

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

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

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

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

Opinion

Adverse Opinion

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

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

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



Charles Deguara
Auditor General
5th December 2018

Ministry for European Affairs and
Implementation of the Electoral Manifesto

EU Presidency 2017

Completeness of information submitted in respect of the **EU Presidency 2017** could not be ascertained by NAO. Main concerns encountered included the absence of a complete audit trail and a general lack of verification of transactions before processing by the Ministry.

Background

The Presidency of the Council of the European Union (EU) is responsible for the functioning of the Council of the EU, which is considered as the upper house of the EU legislature. It rotates among the EU member states every six months.

Malta took up this role for the first time between 1 January 2017 and 30 June 2017. The then Ministry for European Affairs and Implementation of the Electoral Manifesto (MEAIM) was responsible for the overall co-ordination and management of Malta's Presidency.

The approved budget allocation for 2017 under Vote No. 11, Line Item 5681 – EU Presidency 2017 amounted to €28,500,000, with a total of €26,974,851 being expensed up to time of audit¹.

Audit Scope and Methodology

The main scope of the audit was to verify whether adopted procurement procedures were adequate and in compliance with the pertinent Financial Regulations and Policies.

The audit also sought to determine the level of existing internal controls, as well as to establish whether Government resources were used prudently and in a judicious manner.

Audit testing covered a selection of payments effected directly through the Central Bank of Malta (CBM), as well as payments to suppliers processed through the purchases ledger. These two categories of expenditure, in aggregate, accounted for 68% of the total expenditure charged to the EU Presidency Line Item. Transactions were mainly selected on a random basis, although materiality and the nature of the expense incurred were also taken into consideration.

The method of appointment of six officers, who performed duties in relation to the EU Presidency, together with the respective overtime payments and allowances, as well as the termination of employment, where applicable, were also reviewed.

Limitation on Scope of Audit

As evidenced throughout this Report, the National Audit Office (NAO) encountered problems in obtaining full and comprehensive information during the audit fieldwork stage resulting in the absence of a complete audit trail.

¹ The final net amount expensed was of €25,458,381.

Key Issues

No Assurance on Completeness of Information

The NAO requested the Departmental files relating to the expenditure selected in the audit sample. Although the request was partially acceded to, this was at times done in a staggered manner. On a number of occasions, the respective Departmental files, in particular those relating to payments effected through the CBM, were not made available.

Auditee expected NAO auditors to be specific on the particular documents they needed for audit purposes. This prolonged the audit process unnecessarily.

In addition, all transactions relating to the EU Presidency were recorded in a single account on the Departmental Accounting System (DAS), with no distinction made between the different types of expenditure. This further limited the NAO from obtaining a full and clear picture of the expenditure sampled for testing, thus impeding the auditors from reaching their audit objectives.

Recommendations

All documentation relating to payments expensed from public funds is to be adequately filed for complete audit trail and ease of reference.

Moreover, in terms of state audit legislation, the NAO auditors should be granted free access to all documentation and information that may be required for carrying out their duties in an effective manner.

Management Comments

All requested files, were duly forwarded to the attention of the NAO officers. Given that the documents were filed in different buildings used during the Presidency 2017, some files were provided with a time lag from the date requested.

Furthermore, at the time it was not deemed necessary to create linked accounts for the purposes of this line item given the limited scope of transactions involved.

Lack of Verification and Untimely Corrective Action

The NAO noted a general lack of verification in the processing of transactions relating to the EU Presidency. At times, the Ministry identified shortcomings and errors, and took corrective measures by obtaining missing documentation and authorisations following the occurrence of the events. These included:

- Various discrepancies between amounts paid to service providers and the respective supporting documentation;
- Instances of double payment and overpayment effected by the Ministry;
- Lack of evidence of verifications carried out on expenditure paid through the EU Presidency debit card;
- Approvals obtained retrospectively; and
- Agreements entered into following the procurement of services.

Recommendation

Specific detailed recommendations are given under the respective observations.

Management Comments

It should be highlighted and appreciated that although many activities could have been and were planned in advance, there were inevitably various events and circumstances where unplanned decisions had to be taken to ensure smooth operations and the onerous timelines and commitments relating to EU Presidency 2017 could be fulfilled successfully.

No Audit Trail in Central Bank of Malta Payments effected to Suppliers and Service Providers

Out of the total payments expensed from the EU Presidency 2017 Line Item, €11,745,469 (i.e. approximately 44%) were effected directly through the CBM. According to the Ministry, such method of payment was resorted to primarily for amounts exceeding €250,000, as well as payments to hotels and foreign entities. The NAO however encountered numerous CBM transactions to locally Value Added Tax (VAT) registered suppliers whose payments amounted to less than the indicated threshold of €250,000.

This method of payment does not post entries into the individual supplier's purchase ledger on DAS. In view of this, the exact amount paid to each supplier could not be reliably established.

Recommendation

For completeness sake, whenever CBM payments are made, proper records are to be retained to identify payments to the respective suppliers.

Management Comments

The Ministry would like to re-iterate what it has submitted earlier that payments effected directly through the CBM were resorted to primarily for the three types of payment categories identified during the audit process. Apart from these primary cases, there were other circumstances, also identified by NAO during the course of the audit where it was deemed more expedient to cluster payments to the same supplier or make specific payments to unique transactions directly through CBM.

The Ministry appreciates that such a system bypasses the purchase ledger on DAS. It must however be underlined that all payments (including those effected through CBM) were done by means of the Government system through DAS. Hence the DAS provides a complete and comprehensive picture of all the transactions and payments made in relation to EU 2017.

Moreover, the Funds Transfer Form (attached with these types of payments) which is raised in connection with CBM payments contains all pertinent information of the beneficiary concerned. The Ministry also relies on the "Commitment Details Report" generated by the DAS system which also provides details about the payments made to each supplier at any given time during the year.

The Ministry will continue as far as possible, to make payments to local suppliers through the purchases ledger in DAS.

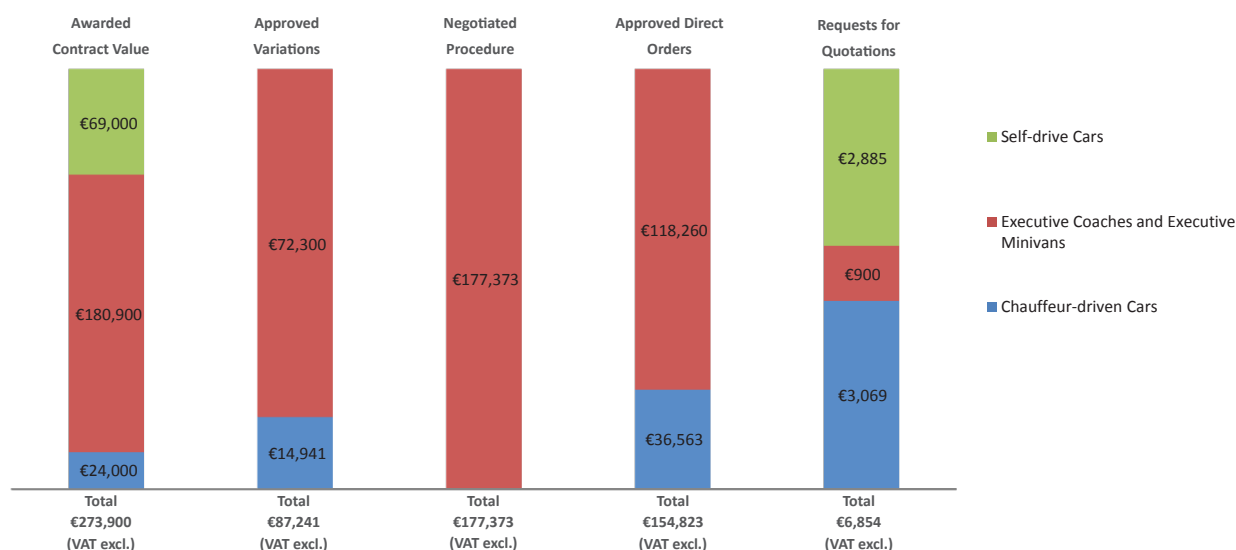
Control Issues

Transport

Background

On 1 April 2016, the MEAIM issued a tender for the provision of transportation services during the EU Presidency. This tender comprised three separate lots, namely for the provision of chauffeur-driven cars, executive minivans and coaches, and self-drive cars, for an aggregate value of €273,900 (VAT excl.) (Chart 1 refers). During the year under review, additional transportation services were also procured following a negotiated procedure, various requests for quotations, as well as through direct orders.

Chart 1: Awarded/Approved Amounts for the Provision of Transportation Services

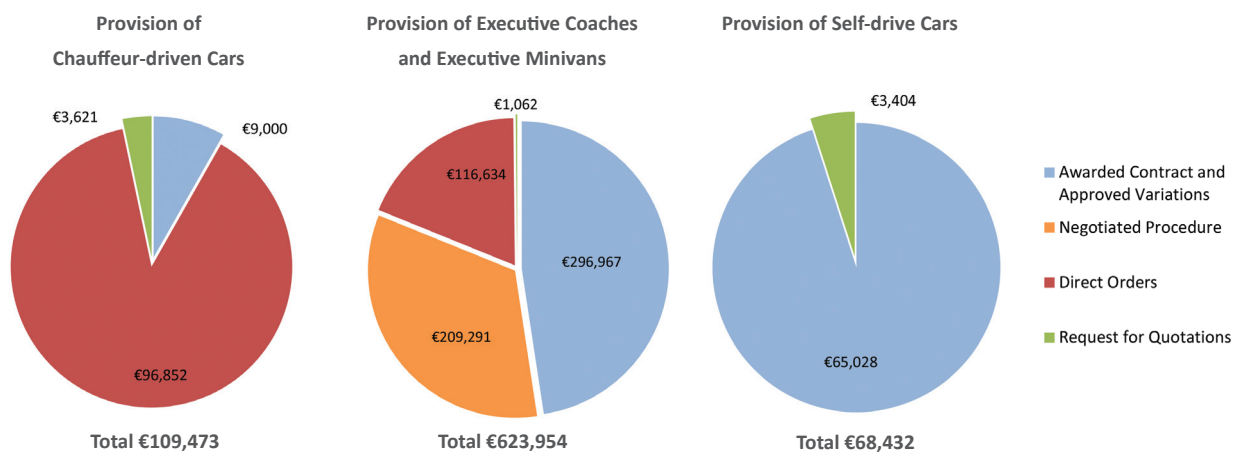


As illustrated in Chart 2, according to documentation made available during the audit, a total of €801,859 was paid for services rendered² during the EU Presidency³.

² By two service providers.

³ Additional payments to other service providers for transportation services were also made. However, the procurement process for the award of these services was outside the audit scope.

Chart 2: Amounts paid for Transportation Services



Provision of Chauffeur-driven Cars

Background

Prospective bidders for the lot pertaining to chauffeur-driven cars were required to list the vehicles to be used for the provision of this service. If the provision of 40 chauffeur-driven cars could not be met at any one time, the bidder was required to indicate what vehicles were planned to be purchased, and by when these were to be available. The Tender Document also stated that “... if the information requested is missing, the tender shall be considered as incomplete”.

Request for Missing Information

The sole bidder listed the details for only 11 vehicles out of the 40 required, and also failed to indicate whether he was planning to purchase additional vehicles, as required by the tender document. This rendered the bid in question as incomplete and not compliant, and therefore it was to be rejected. However, the Evaluation Committee requested the bidder to indicate where this requirement was addressed in his original submission, with the latter confirming his ability to provide the required vehicles.

Conflicting Information submitted by the Bidder

The NAO came across an undated declaration, in which it was confirmed that the bidder was “... not in a position to commit itself to provide not less than 40 vehicles at one time ...”. This is in conflict with the information submitted by the same bidder, following the Evaluation Committee’s query referred to above.

Recommendations

In order to ensure equal treatment, divergence from the original requirements set out in the tender document should not be allowed. Moreover, any incomplete offers are to be rejected at the outset. If need be, the tender is to be reissued with different requirements, thus giving the same opportunity to all potential service providers.

Management Comments

The Ministry takes note, as may be relevant, of this recommendation.

It should be highlighted that throughout the evaluation process of this tender the Ministry and the Evaluation Committee worked under the supervision of the Department of Contracts and the tender was approved by the General Contracts Committee.

As explained within the evaluation report, owing to an oversight in the evaluation process, an initial round of clarification/rectification requests were communicated to the bidders before approval by General Contracts Committee had been formally granted. The tenderers were subsequently informed that the original requests for information were being withdrawn with immediate effect and that any replies submitted at that stage were considered void and ignored by the EC. The undated declaration being referred to in this instance by the NAO was part of the tenderer's submission in reply to this particular query (and was included in the evaluation report only for the sake of transparency). However, the Evaluation Committee could only rely on submissions received post-General Contracts Committee approval. Moreover, the Ministry would like to point out that the contents of the Evaluation report were approved by the Department of Contracts through the General Contracts Committee.

Additional Transportation Services

Background

In April 2017, the Presidency Unit within the MEAIM invited service providers to submit offers for the provision of additional chauffeur-driven vehicles, required for two meetings held during the same month.

Additional Vehicles procured at Higher Rates

To meet this additional demand, the MEAIM requested five service providers to quote the hourly rate for the hiring of 15 chauffeur-driven vehicles. Following the receipt of quotations, the Ministry sent two requests for direct order approval to the Ministry for Finance (MFIN) for the provision of a total of 30 vehicles.

The first request for direct order approval covered the provision of 15 vehicles by the cheapest bidder, at €25 (VAT excl.) per hour per car, for a total cost of €11,250 (VAT excl.). The second request was for another 15 vehicles, to be provided by the second cheapest bidder, at €31.25 (VAT excl.) per hour per car, for a total cost of €14,063 (VAT excl.).

No documentation could be traced for the reason why the Ministry procured 30 vehicles instead of the 15 originally requested.

Lack of Information on the Number of Quotations received

Only the request for quotations submitted to the respective service providers in one particular instance was made available. A formal list showing the responses received was not compiled, and thus, the NAO was not in a position to confirm the actual quotes received by the MEAIM.

Services provided prior to the Deadline for the Submission of the Quotations

The log of trips effected in respect of one of the meetings indicated that all trips had already commenced by the deadline for submission of quotations to an extent rendering the procurement process superfluous.

Recommendations

If a service is urgently required, it is recommended that the Ministry, seeks approval 'in principle' for direct order before the commitment with the supplier is made. The estimated cost in the request can be calculated on the rates already being paid for similar services.

To this effect, as far as possible, the Ministry is to refrain from purchasing services before the procurement process is concluded and the necessary approvals obtained.

Management Comments

Although bound by challenging circumstances and timeframes, the Ministry opted from the outset to seek quotations from the open market. At the time of seeking these quotes there were indications that 15 vehicles would be sufficient to meet the requirements. However, further logistical arrangements and security issues necessitated a higher fleet of executive cars to meet the various foreign Ministerial delegations. It was important to ascertain that all Ministers and their respective delegates would be provided with adequate and sufficient transport facilities during their stay in Malta.

The Ministry would like to point out that Ministers were provided with transport facilities throughout their stay in Malta, even if this extended beyond the specific date of the respective meeting. This was done in line with established protocol and for security reasons.

It should be underlined that quotations for transportation services were received in a dedicated email account. A schedule with submissions received by the indicated date was compiled from submissions received in the said email account. The formal list indicating the responses received was also included in the file MEAIM 114/2017. The file was provided to NAO during the audit process. Services were procured from the cheapest compliant offer.

According to the Ministry records, it seems that the log of trips indicated relate to services procured on the basis of a request for quotation issued on 13 April with a closing date of 18 April 2017. This information is also contained in the file provided to the NAO during the audit process⁴.

Contract Addendum entered into during Audit Fieldwork

On 12 September 2017, the Department of Contracts (DC) granted its approval for the MEAIM to enter into a negotiated procedure for the provision of transportation services for one of the lots, for the estimated price of €176,750 (VAT excl.). Following the DC endorsement of the final price of €177,373 (VAT excl.), an addendum to the original contract was only entered into by the contracting parties on 8 March 2018, that is, when the actual service had already been received.

Recommendation

The Ministry is to ensure that goods and services of a considerable cost are only procured once the necessary contractual agreements are in place.

Management Comments

The Ministry takes note of this recommendation as may be applicable. It should be highlighted that throughout these transactions the Ministry worked under the guidance of the DOC. Moreover, all the necessary approvals were obtained from the Department of Contracts through the General Contracts Committee in line with prevailing regulations.

⁴ The actual observation was not referring to this request for quotations, but to a subsequent one issued on 21 April 2017 for additional transportation services.

No Approval for Transportation Services already rendered

In May 2017, the MEAIM requested a covering direct order approval for the provision of chauffeur-driven vehicles during two meetings held in January 2017, for a total cost of €48,766 (VAT excl.). MFIN did not accede to this request, stating that “... this office is not in a position to grant retrospective direct order approval”, while suggesting that the MEAIM “... may wish to proceed with payment of the outstanding dues ...”.

Recommendations

The Ministry’s attention is drawn to the fact that commitments with the service provider are only to be entered into once all the necessary authorisations are in place.

Management Comments

The Ministry agrees and takes note of this recommendation as applicable. One needs to appreciate that during the term of the Maltese Presidency, the Ministry was faced with urgent and extraordinary circumstances. The Ministry sought respective approval from MFIN at the earliest opportunity and proceeded with the payment related to this transaction following specific authorisation to do so.

Retrospective Approvals

- a. Four occasions were encountered whereby the MEAIM requested direct order approval for additional transportation services, at an aggregate value of €140,760 (VAT excl.). The respective requests were sent to MFIN after these transportation services had already commenced.

Similarly, a request for approval for DC additional services amounting to €4,941 was made almost 11 months after the transportation services were actually provided.

- b. The MEAIM requested DC approval for additional services chargeable at rates not covered by the original contract entered into with the service provider. However, at the time this request was made, the Ministry had already paid a total of €6,350 (VAT excl.) at these new rates.

Recommendation

Any unavoidable or unforeseen variations are to be approved by the correct level of authority before the services are actually procured and received.

Management Comments

The Ministry agrees and takes note of this recommendation as applicable. Ministers and their delegations were provided with transport facilities throughout their stay in Malta, even if this extended beyond the specific date of the respective meeting. This was done in line with established protocol and for security reasons.

The Ministry obtained direct order approvals from MFIN as well as from the Department of Contracts as necessary in line with prevailing regulations.

Approved Variation exceeded

DC approval was sought and obtained by the MEAIM in respect of additional transportation services, other than those listed in the original contract awarded under one of the lots, for a total variation of €72,300 (VAT excl.).

However, the actual total value of invoices paid for these additional services amounted to €104,971 (VAT excl.). The additional variation of €32,671 (VAT excl.) was not formally approved by the DC⁵.

Recommendation

Variations are to be duly authorised in line with the Procurement Regulations.

Management Comments

The amount of €104,971 was made up of rates for new services approved by the Department of Contracts as part of a negotiated procedure and transactions related to the original contract for which a variation of €72,300 was requested and obtained from the DOC⁶.

No Approval of Rate for New Trips charged by a Service Provider

Testing on invoices issued revealed that a number of trips, for a total value of €50,897, were charged by the service provider at rates which were not catered for in the original contract. This is considered as a direct order; however, no Finance approval to this effect was traced to the information made available to the NAO.

Recommendation

The Ministry is to ensure that for the proper execution of the respective contract, as far as possible, the specifications laid down in tender documents would cater for all services required. This would minimise the possibility of having to resort to direct orders for services other than those originally contracted for.

Management Comments

It should be underlined that these payments were separate and distinct from each other and approved through different processes⁷ i.e. DOC and Ministry level respectively.

Insufficient Documentation supporting Transportation Invoices

A number of car logs forwarded to the NAO in support of two invoices reviewed for the aggregate value of €12,566, did not specify the date when the vehicles were returned to the service provider. In the absence of this information, the Ministry could not have been in a position to carry out effective verifications prior to processing the related invoices for payment.

Recommendations

Amounts charged by service providers are to be duly supported to enable the Ministry to carry out the necessary verifications prior to settling amounts due. Any discrepancies identified through these checks are to be rectified before authorising the respective invoices for payment. Furthermore, all documentation is to be duly filed for future reference.

⁵ The aggregate prices of the contract agreement and the addendum were not exceeded.

⁶ The variation referred to in the observation relates to the original contract and not to the negotiated procedure mentioned by Management.

⁷ The NAO did not trace such approvals.

Management Comments

The Ministry relied on verifications from the Police with respect to the utilisation of these transport services given that such vehicles were used by the police in connection with logistical and security matter related to the Presidency. Although the original detailed car log relating to one payment was misplaced following payment, the Ministry obtained a certified copy of the original log from the police during the audit⁸. Similarly, a certified copy was also obtained with respect to the other invoice⁹.

Audiovisual Services

Background

Following an unsuccessful call for tenders, the MEAIM issued requests for quotations for the provision of audiovisual and simultaneous interpretation services. Interested suppliers were to submit their feedback within three days.

Following the evaluation of the submitted quotations, the MEAIM requested and obtained DC approval to enter into a negotiated procedure with the bidder who had submitted the cheapest quotes in relation to eight separate lots, for an aggregate amount of €162,718 (VAT excl.).

No Contract Agreement traced to File

No contract agreement was traced in the Departmental file maintained by the MEAIM. According to invoices forwarded to the NAO during the audit, payments effected to the service provider in this respect totalled €191,697.

The absence of an agreement places significant risks on the MEIAM.

Recommendation

Services procured, especially those of a substantial value, are to be backed by an agreement endorsed by the contracting parties. This document is to clearly lay down the terms and conditions of the services to be provided. The original copy of this agreement is also to be filed for future reference, including audit exigencies.

Management Comments

The Ministry takes note of this recommendation. It should be pointed out that suppliers were bound by the respective terms and clauses contained in the request for quotations. Moreover, a competent person in the specialized field was appointed on behalf of the Contracting Authority to supervise the audio-visual process.

Double Payments effected by the Ministry

A review of the Payment Vouchers forwarded to the NAO revealed that there was minimal or no control before invoices were processed for payment. In fact, from the sample checked, two invoices, totalling €14,890 and €3,174 respectively, were settled twice by the Ministry.

⁸ The original car log, although incomplete, was actually traced by NAO during the audit and was not misplaced as indicated in the reply. Furthermore, the log obtained for audit purposes was not a certified copy of the original, but it was a new log compiled with the same details.

⁹ This was not forwarded to the NAO.

Recommendation

The Ministry is expected to recoup the extra amounts paid to the service provider in question. To minimise the risk of settling invoices which had already been paid the Ministry is to ensure that adequate verification procedures are in place before invoices are processed for payment.

Management Comments

The Ministry took immediate steps to recoup any funds once alerted by its internal checks¹⁰.

Salaries

Overpayment of Salary

An officer engaged for the EU Presidency, resigned on 13 February 2017, stating that his last working day was to be 16 February. This latter date corresponded to the official termination date as indicated on the Jobsplus termination form.

However, according to communication sent by the MEAIM to the Central Salaries Section within the Ministry for Gozo, the officer's last working day was recorded as 25 February 2017. Consequently, the officer was paid a full basic salary of €1,700, covering the period up to this latter date. This resulted in an overpayment of nine days' salary, amounting to €558. Although not material, Government Bonus and Income Supplement paid to the officer were also overstated.

Recommendations

This Office reiterates the need of adequate verification before actual payments are made. In case of resignations, the exact date of termination of employment is to be communicated to the Central Salaries Section, to reduce the incidence of overpayments, which might then be very difficult to recoup. The Ministry is also to recalculate the last salary which was due to the abovementioned officer and request a refund of the extra amounts paid.

Management Comments

The Ministry well ahead of the audit, identified the error and took the necessary action to re-coup the funds related to the officer in question¹¹.

Debit Card

Shortcomings in the Use of Debit Card

Background

Following a request made by the MEAIM, on 24 August 2016, MFIN granted its approval for the issue of a debit card, subject to a number of conditions. These included that the bank account was not to exceed at any time the balance of €2,500, and that it was to be utilised for online advertising on two specific social media platforms. The bank account was closed on 13 March 2018.

¹⁰ No evidence of these internal checks was traced by the NAO.

¹¹ NAO noted that the reimbursement effected by the officer was not related to the abovementioned error, but was a refund in line with the contract agreement, which allowed the officer to terminate the engagement by paying the Government the equivalent of two weeks' salary.

Debit Card's approved Running Balance exceeded

Subsequent to its original approval, on 30 November 2016 MFIN temporarily authorised the "... balance to increase to €10,000" up to 30 June 2017. However, it transpired that the MEAIM had already deposited €10,000 on 21 November. Moreover, before this date, the respective bank balance had also exceeded the original approved limit by €1,158.

Furthermore, all other subsequent deposits in this bank account were of €10,000. This resulted in the running balance regularly exceeding the revised approved limit up to the end of the EU Presidency.

No Evidence of Verifications carried out on Expenditure incurred

According to MFIN's approval, all original receipts were to be retained and presented to a designated Ministry official, who was also to verify each expense. However, a review of the invoices selected in the audit sample revealed that only the actual user of the debit card was endorsing these invoices. No evidence of independent verifications was traced.

Payments for a Subscription not substantiated

According to bank statements, 16 payments, in aggregate totalling €944, were made to cover a subscription from 31 October 2016 up to 31 January 2018. However, such payments were not backed up by any invoices or agreement.

Subscriptions purchased through the Debit Card prior to obtaining Approval

Originally, the debit card was to be utilised strictly for online advertising on two specific social media platforms. Following a request by the MEAIM, approval was granted by MFIN to extend the use of the card to the purchase of software licences and subscriptions. Two such transactions pre-dated MFIN approval.

Recommendations

All conditions laid down in approvals granted by MFIN are to be strictly adhered to. In cases where divergences from these conditions are required, these are to be duly communicated to the respective authorities. Payments are only to be made after obtaining the necessary authorisation.

Furthermore, for internal control purposes, verification and authorisation of expenses are to be carried out by an independent officer. This would ensure that any misuse or lack of compliance with the respective approvals are identified and acted upon by the Ministry in the shortest time possible.

Management Comments

The increase of the threshold to €10,000 was necessary and reflecting compelling urgent needs. The Ministry for Finance recognised these requirements and approved the requested threshold. Transactions to replenish the account were primarily based on the accruals notion given that the bank account did not have an overdraft facility, hence there could have been instances where a supplier would charge the card several days after the transaction resulting in a running balance exceeding the €10,000 during such periods.

The Ministry ensures that expenditures made by the debit card were duly endorsed and cross-checked against the approved plan for which the debit card was originally envisaged.

The subscription in question was done electronically on the basis of a monthly standing order. A print out of the original order was inadvertently misplaced, with the software in question utilised throughout the relevant subscription period.

The transactions involving subscriptions, purchased prior to obtaining approval, reflected compelling urgent needs related to similar software for which MFIN approval was in place. The Ministry for Finance recognized these requirements and approved similar transactions.

Outside Catering Services

Background

The MEAIM issued a tender, divided into eight separate lots, for the provision of outside catering and ancillary services during the EU Presidency 2017. The successful bidder of one of the lots selected for audit testing was awarded a contract for the provision of services covering 10 formal dinners, for a value of €84,725 (VAT excl.). Each dinner was to cater for a capacity of between 200 and 300 guests, for a total of 2,500 guests, at premises provided by the caterer. The charge was thus estimated at €33.89 (VAT excl.) per dinner per guest and eventually charged accordingly for the respective 26 events.

No Proper Reconciliation of the Number of Guests charged for by the Service Provider

It could not be ascertained that a proper reconciliation between the number of billed guests and persons who registered to attend was performed by the Ministry. A number of invoices issued by the service provider were not substantiated, while in other cases discrepancies were noted.

Recommendation

The Ministry is expected to carry out appropriate verifications before effecting payments to service providers through a reconciliation exercise. Any discrepancies identified are to be duly rectified before payment is made.

Management Comments

The Ministry effected the necessary verifications on this matter by seeking supporting documentation on the numbers quoted in the respective invoice. It is to be pointed out that we were charged during these events for a 'tech table', e.g. Presidency Unit officers and liaison officers.

Moreover, there were many instances where the invoice charged was lower than the number of registered guests. This reflects a due process carried out by the Ministry in order to ensure that the appropriate level of cost is incurred for the respective event.

Other Matters

Contract Price not stipulated in Addendum to Contract Agreement

The MEAIM signed an addendum to the marketing and communication services agreement, to specify the ancillary services required by the applicable contract. This included make-up artists, speechwriting, modelling services and voiceovers.

The NAO confirmed that the invoices paid for these additional services were within the overall approved budget of €100,000 (VAT excl.). However, the addendum signed between the contracting parties did not stipulate the cost of the aforementioned ancillary services.

Recommendation

Addenda to contract agreements are expected to specify all the terms and conditions agreed between the contracting parties, including the chargeable rate of the services to be rendered.

Management Comments

The addendum reflected a number of services envisaged to be required from the supplier. It was based on an estimated per unit cost and a global amount of €100,000. It should be pointed out that a lower amount was eventually used for these services in the course of the Presidency.

Missing Inventory Records

The MEAIM purchased six encryption devices for a total value of €151,064. However, the respective devices could not be traced in the Ministry's Inventory Database as this was not made available for audit purposes.

Recommendations

The MEAIM is expected to keep record of all inventory items purchased and to ensure that these are accurately recorded in the Ministry's Inventory Database. Such items are to be easily identifiable and traceable to the respective location.

The Inventory Database is to be kept up-to-date and any transfer of assets, both permanent and temporary, is also to be duly recorded. Furthermore, physical verification of records from time to time is encouraged.

Management Comments

The Ministry confirms that six devices were purchased and are on the Ministry's inventory. Two of these devices are within the Corporate Services Directorate. The other four devices are at MITA given the type of services being provided by MITA to the Ministry.

Compliance Issues

Direct Order not published in the Government Gazette

Two direct orders for transportation services, for the sum of €77,760 (VAT excl.) and €22,500 (VAT excl.) respectively, did not feature in the Government Gazette issue which covered all direct orders awarded by the Ministry during the first half of 2017.

MF Circular No. 11/2011 – 'Departmental Tenders issued under Part II of LN 296/2010 (Public Procurement Regulations 2010)' requires all Heads of Departments to publish a full list of Departmental contracts, including those awarded through direct orders procedure, in the Government Gazette every six months.

Recommendation

For the sake of transparency, the Ministry is to ensure that it publishes the list of direct orders awarded as per standing regulations.

Management Comments

Due to an oversight, these two transactions were not published in the Government Gazette. Notwithstanding this matter, the Ministry sought and obtained MFIN direct order approval in line with prevailing Government regulations.

Fiscal Receipt issued following the NAO's Request

No fiscal receipt was attached to the documentation supporting a sampled Payment Voucher of €24,559, dated 28 April 2017, in relation to the provision of conference facilities during the EU Presidency. The Ministry forwarded a fiscal receipt (dated 9 May 2018), following NAO's request.

Recommendation

The Ministry is to ascertain that proper fiscal documentation is obtained upon making payments for the purchase of goods or services from VAT-registered suppliers, as per VAT legislation.

Management Comments

The Ministry continuously endeavours to collect the respective VAT receipts even if this extends beyond the relevant accounting period and will ensure that fiscal receipts are collected quarterly in line with the financial regulations.

Ministry for Foreign Affairs

Overseas Development Aid and European Development Funds

Expenditure

Prior approvals for the disbursement of funds for **Overseas Development Aid and European Development Fund** were adequately obtained and procedures in relation to the evaluation of applications for projects were also in place and complied with. However, the respective markings, rankings and amounts funded were not being published thereby lacking transparency.

Background

One of the strategic objectives of the Ministry for Foreign Affairs and Trade Promotion (MFTP) is to “*elaborate and action a policy and work programme of humanitarian and development assistance based on the value of solidarity*”. This objective falls under the responsibility of the Directorate General Global Issues, International Development and Economic Affairs.

The Financial Estimates for the two line items selected for audit purposes, namely 5366 – ‘Overseas Development Aid’ and 5582 – ‘European Development Fund’, show that the approved budget for 2017 under Recurrent Vote 12 was €900,000 and €1,444,000, whereas actual expenditure, as per the Departmental Accounting System for the same year, amounted to €895,111 and €1,442,565 respectively.

The following information on the two line items reviewed refers:

5366 – ‘Overseas Development Aid’

Line item 5366 includes payments with respect to the Official Development Assistance (ODA), referred to as Official Development Aid in the Financial Estimates. In the year under review, €300,000 was earmarked for the co-financing of ODA projects in development cooperation; whilst the remaining budget was distributed for humanitarian reasons, other development assistance and scholarships.

5582 – ‘European Development Fund’

The European Development Fund (EDF) is the European Union’s (EU) main instrument for providing development aid to African, Caribbean and Pacific countries, as well as to other overseas countries and territories. This Fund is financed by direct contributions from EU member states according to a contribution key, for which, Malta’s share for the 11th EDF¹ was set at 0.03801% of the total amount of €30.5 billion contributed by member states². This line item comprises three annual pre-established instalments by Malta to the European Commission and to the European Investment Bank.

¹ The 11th EDF is established within the framework of an international agreement between the EU and its partner countries.

² This covers the period from 2014 to 2020. One can only confirm if the percentage was reached when all related payments are effected.

Audit Scope and Methodology

The purpose of this audit was to ensure that funds granted from ODA for development and humanitarian assistance, as well as for scholarships, were managed in a transparent and accountable manner. Another objective was to ensure that funds from EDF were being disbursed in accordance with the respective terms and conditions.

Following an introductory meeting with MFTP officials, a random sample of eight ODA projects and all the 14 payments that were effected up to 30 October 2017 in respect of scholarships, humanitarian aid and other development, were selected for testing. In aggregate these amounted to €662,108 and represented 74% of the amount spent under line item 5366. Four payments were also chosen from line item 5582, to the tune of €1,043,385, representing 72% of the actual expenditure incurred in the year under review.

Good Practice

This Office satisfactorily noted that prior approvals were obtained as necessary from the right level of authority before disbursement of amounts from the Funds in question. Procedures in relation to the evaluation of applications for ODA projects were also in place and complied with, except for the minor issues outlined further down under the pertinent observations. Furthermore, all documentation relative to the audit was held in an organised manner and was readily available for audit upon request.

Control Issues

Inadequate List published

The list of ODA projects for 2017 was available online. However, this did not include the respective markings, rankings and amounts funded. Furthermore, ineligible or unsuccessful applicants were also excluded. Whilst acknowledging that organisations can request specific details concerning their individual project/s through email, such relevant information is expected to be published online for transparency reasons.

Recommendation

The names of all organisations applying for ODA are to be duly published, together with the respective markings, rankings and amounts funded. This encourages unsuccessful applicants to ameliorate their position in subsequent applications.

Management Comment

The Ministry for Foreign Affairs and Trade Promotion acknowledges the recommendation suggested and will fully consider it for future applications.

Funding awarded in excess of the established threshold

The ODA application form template for 2017 stated that the maximum allowed funding was 75% of the eligible project costs. However, in one of the application forms reviewed, the amount requested for co-financing and accordingly accepted surpassed this maximum threshold. As a result this Foundation was awarded and ultimately paid €1,269 in excess of the entitled amount of €7,996.

Recommendation

Although the additional amount involved is not substantial, the established award criteria are to be adhered to in order to ensure fairness and equality among applicants.

Management Comment

We have taken full and careful note of NAO's recommendation of the co-financing that was indeed calculated mistakenly.

Application Form not properly filled in

A Foundation receiving financial assistance did not provide information in accordance with the application form template. Some sections, which were required to be specifically evaluated to give the respective markings, were left blank. MFTP acknowledged this shortcoming, but maintained that the required information was included in other parts of the application form.

Recommendation

In order to ensure a fair and equitable decision, the application forms submitted are to be properly filled in. Such requisite is to be clearly communicated to applicants on the form itself.

Management Comment

Although as mentioned in the report all the required information was included in the application, careful note has been taken of this recommendation.

Ministry for Education and Employment

Foreign Students at the University of Malta

Compliance

Weak internal controls, mainly due to fragmented documentation relating to foreign students undertaking a course of study at the **University of Malta**, was the major concern. Concrete action against students failing to honour payment for tuition fees was also not being taken in time. Furthermore, apart from the lack of adequate verification, approval for exemptions from the payment of such tuition fees was at times issued retrospectively. In addition, entitlement to the applicable students maintenance grants was not always duly verified.

Background

Being the highest teaching institution in the country, the University of Malta (UoM), provides tertiary education at diploma, undergraduate and postgraduate level to all those who have the requisite qualifications. It currently hosts approximately 11,500 students, with around 1,000 being foreign students from 92 different countries who are following full-time or part-time degree and diploma courses.

Full-time undergraduate courses are free-of-charge to citizens of Malta and the European Union (EU); however, fees are charged to students from non-EU states¹, as well as in the case of higher and part-time courses in general. Such fees range from €150 per semester to €26,000 per academic year, depending on the programme of studies being followed. During academic year 2016-2017, foreign tuition fee income earned by UoM totalled €5.2 million.

Individuals accepted as regular students for a day course of studies at the University and who satisfy certain criteria are eligible to financial assistance as granted to Maltese nationals. This comprises a stipend payable every four weeks, a yearly grant intended to partly cover expenses related to educational material and equipment, as well as a one-time grant at the beginning of the course. Furthermore, students who are in a proven form of hardship may also qualify for a supplementary maintenance grant.

Throughout academic year 2016-2017, maintenance grants paid to foreign students pursuing tertiary education aggregated to €96,143.

Audit Scope and Methodology

The objective of this audit was to ascertain that foreign students undertaking a programme of study at UoM during academic year 2016-2017:

- have paid the respective tuition fees, in accordance with the applicable legislation²; and
- where applicable, waiving of tuition fees was carried out in line with established conditions.

¹ With the exception of third country nationals who have been granted residency permits in Malta, as well as family members of such third country nationals as per Article 3(d) of the University Fees Regulations.

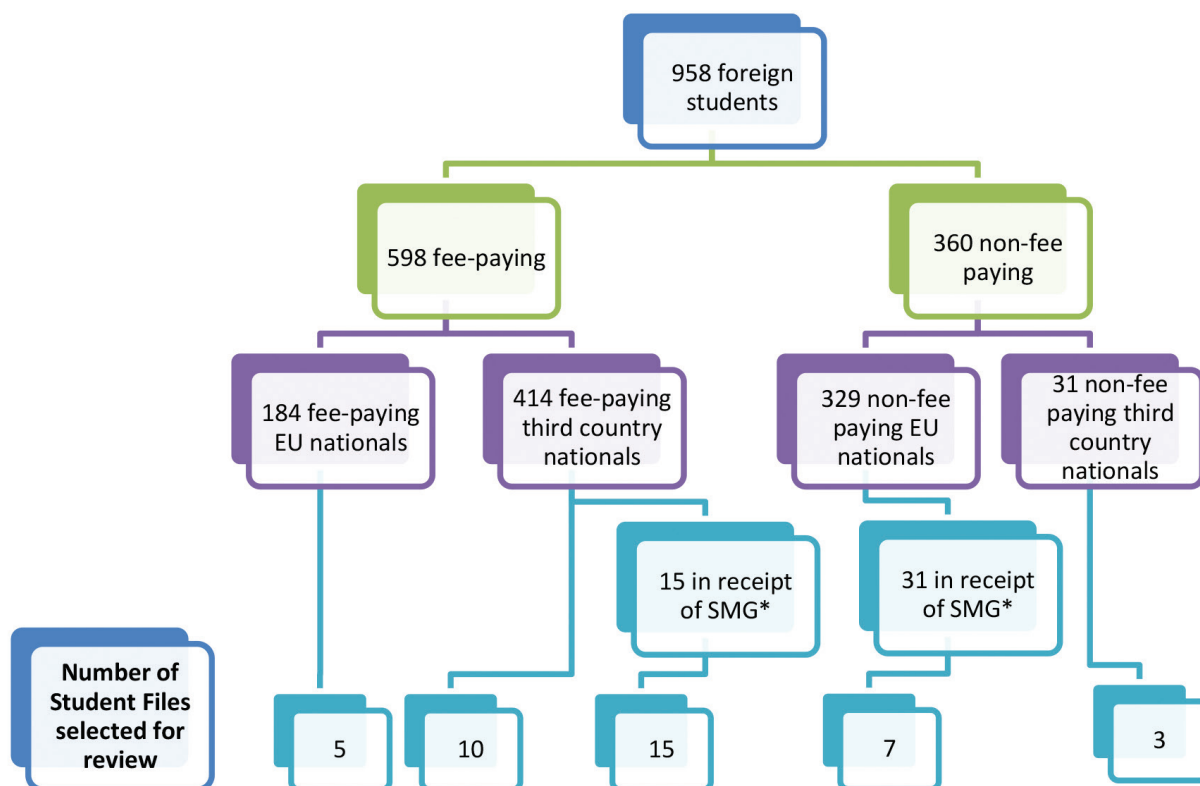
² Legal Notice 141 of 2016

Foreign students benefitting from Students' Maintenance Grants (SMG) were also verified to ascertain that:

- they have satisfied the eligibility criteria³;
- duly provided the required documentation to the Students Maintenance Grants Board (SMGB); and
- that the latter certified such records prior to processing payments. Verification of accuracy of amounts paid was thus outside the scope of the audit.

Chart 1 depicts the number of foreign students undertaking a course of studies at UoM during academic year 2016/2017 and the number of files reviewed for audit purposes.

Chart 1: Foreign Students as per UoM records



* Two students, an EU national and a third country national who were receiving SMG were not disclosed in the list provided by UoM as they withdrew from their studies prior to the end of academic year under review.

The sample selected was qualitative, thus it was not designed to gather data on the frequency of errors in the population as a whole, but to ensure regular compliance with standing regulations and to identify ways and means through which current practices could be improved. Consequently, any conclusions reached in this management letter only relate to those areas that have been examined.

³ Set out in Legal Notice 308 of 2016

Limitation on Scope of Audit

Personal files are not maintained in respect of students pursuing areas of studies that are either organised by a third party institution or offered in collaboration with a number of foreign universities, whereby the respective students only come to UoM for part of the course programme. As a result, no audit testing could be carried out on two students falling within the audit sample, who during academic year 2016-2017 were engaged in such programmes.

In addition to the above, the file of another student in the audit sample was not provided by the respective faculty by the time this audit was concluded; i.e. end of February 2018.

Key Findings

Weak Controls

Fragmented documentation, resulting in a lack of audit trail, was a common concern amongst the three stakeholders forming the basis of this audit, namely UoM, SMGB, as well as the Exemptions Board. Below are also examples of instances of control failure identified during audit testing, each of which will be discussed separately further down in the report, under the pertinent observations.

- a. Approval of exemptions from the payment of tuition fees issued retrospectively.
- b. Lack of adequate verifications.
- c. Delays in concrete action taken against students who failed to honour payment for tuition fees in due time.

Recommendation

Management is expected to ensure that adequate internal controls are in place, particularly that valid supporting documentation can be independently verified by third parties. Furthermore, stricter operating procedures are to be adopted for the prompt collection of fees due.

Management Comment

UOM is to draw up Standard Operating Procedures for the prompt collection of fees due.

Control Issues

Lack of Verification to confirm Eligibility to Stipends

Residency Criterion not substantiated

Nine out of a sample of twenty-four foreign students receiving SMG did not submit the necessary documentation⁴ to prove that they *“have resided in Malta for a period of not less than five consecutive years immediately prior to the commencement of the relative course of studies...”* so that they qualify for such financial assistance. Notwithstanding this, all applications for SMG were still confirmed by the Board and respective payouts effected accordingly.

No reassessment of Eligibility

Jobsplus employment history of four students in the audit sample indicated that these were working on a part-time basis. However, no further documentation was traced, thus NAO could not confirm that they are not in *“... employment working more than twenty hours weekly...”*⁵ as stipulated by law.

In another four instances, the respective students submitted documentation to corroborate the five-year residency criterion⁶; however, it did not evidence that such individuals, who are third country nationals, are in possession of a valid residency permit. Further verifications carried out in this regard revealed that such document was only submitted by the students in question upon applying for an exemption from tuition fees.

It was verbally confirmed that no further vetting was being carried out in instances where students had previously been paid maintenance grants whilst attending a post-secondary institute. Such cases are disclosed in a database which is maintained in spreadsheet format, on a common folder, in a read only format accessible by all post-graduate and tertiary institutions.

Recommendations

The Board is to implement adequate internal controls, particularly ensuring that all applications for maintenance grants are supported by reliable, accurate and comprehensive documentation substantiating the requirements emanating from the law, before any payments are effected.

Foreign students whose maintenance grants were approved are to be regularly monitored to ascertain that such entitlement still holds. To this effect, periodic vetting of monthly payslips and contracts of employment is to be carried out, to certify that students working on a part-time basis are not exceeding the stipulated threshold. For full audit trail, students are also expected to provide a valid residency permit.

⁴ Employment history showing past employments in Malta or a school leaving/secondary level education certificate, or matriculation certificate, confirming that the respective students were previously studying in Malta.

⁵ This requisite also applies for Maltese students.

⁶ Employment history and/or school leaving/secondary level education certificates.

Management Comments

To-date, applications are received through the online system. The Students' Maintenance Grants Office *is to ensure better control and thus will start tagging applications of students who are in part-time employment and continue checking periodically on the number of hours being worked by requesting payslips to a number of randomly selected students on a monthly basis.*

With regards to foreign students, discussions will be held with the supplier of the system to enhance it in a way that students with residence permit are tagged, enabling automatic alerts prior to the expiration of such permits.

Irregularities with respect to the Supplementary Scheme

Six out of the twenty-four students benefitting from SMG that were reviewed were also in receipt of supplementary maintenance grants which, in accordance with the applicable legislation, are payable to those students with proven hardship and humanitarian situations. Reviews carried out in this regard revealed the following:

- a. Notwithstanding that a set of criteria is to be taken into account before the granting of supplementary maintenance grants, in two instances, payments were still effected despite that the yearly household income⁷ exceeded the established threshold.
- b. According to the Director such thresholds were relinquished in the case of one of the aforementioned students, in view that she is a member of a family composed of nine children. However, nothing to this effect was formally documented. Moreover, no explanations were provided with respect to the other student.

Recommendation

For the sake of transparency and control, the established criteria are to be abided by. In exceptional circumstances denoted by law that merit a special treatment, final Board decisions are to be appropriately documented in the Board minutes.

Management Comment

The Board Secretary will be taking more detailed minutes, including the reason for granting the Supplementary Maintenance Grant, especially in cases which merit special consideration.

Approval for Exemptions from Tuition Fees issued retrospectively

Approvals for the waiving of tuition fees, were at times either not obtained or given retrospectively. The reasons behind such time lags could be twofold as outlined hereunder:

- a. Deadlines to apply for exemption from fees are not in place. In the majority of cases, students only filed the respective application upon receiving the invoice for tuition fees.
- b. The Exemptions Office within the Ministry for Education and Employment (MEDE) is manned solely by the Secretary of the Board who happens to be a retired individual working three half days per week. Moreover, the Board only holds one meeting per month, hence explaining the backlog of work that accumulates from one meeting to the other.

⁷ Household income is the total amount earned by the parents/guardian/partner together with the student's income.

Recommendation

UoM is to take the onus of informing foreign students for their possible eligibility for exemption from tuition fees while MEDE is to set clear deadlines for such application. The latter is also to consider the strengthening of the Exemptions Office to be in a position to hold more frequent Board meetings in order to eliminate backlogs.

Management Comments

Upon applying for Students' Maintenance Grants, foreign students will be notified of the possibility of applying for exemption from tuition fee.

The Exemptions Office is to set a timeframe for the submission of such applications, which deadline is then to be communicated to UoM.

MEDE has already assigned another officer to the Exemptions Board, allocating 10 hours weekly.

Lack of Synergy

There were instances when invoices were raised on the same day or following the payment date cited in the admission letter. Moreover, credit terms granted to students to settle the amounts due were not uniform across the board, thus leading to inconsistencies.

Recommendation

Uniformity in documentation addressed to the students, achieved primarily through effective communication and collaboration between Sections, is highly recommended, to avoid unnecessary misconceptions and ensure that monies are duly collected in a timely manner.

Management Comment

We acknowledge this anomaly and we are working to address this as per the recommendation of the National Audit Office.

Ministry for Gozo

Services rendered to the Elderly and Persons with Disability in Gozo

Expenditure

An analysis of the expenditure incurred by the **Ministry for Gozo** for the **Services rendered to the Elderly and Persons with Disability in Gozo** revealed weak internal controls, lack of audit trail and insufficient monitoring to ensure that the Home Help Service was up to the expected standard. Another concern was the fixed nominal fee for such service, irrespective of the hours allocated and the individual’s income. From its inception up to the year under review, the procurement of the Meals on Wheels Service was not compliant with standing regulations whilst oversight by the Management Committee was inexistent.

Background

According to its mission statement, one of the strategic objectives of the Ministry for Gozo (MGOZ) is to “*create the right and adequate infrastructural support to cater for Gozo’s ageing population*”. The Care for the Elderly Section within the Customer Services Directorate (CSD) is responsible to provide community care services for the elderly and disabled persons in Gozo.

Table 1 below shows the variance between the budget allocation and actual expenditure as from year 2015 up to the year under review for line item 5771, as well as the different services rendered.

Table 1: Budget versus Actual Expenditure and Services rendered

| | 2015 | 2016 | 2017 | % change over 2 years |
|---------------------------------------|------------|------------|------------|-----------------------|
| Budget allocated | €960,000 | €1,100,000 | €1,200,000 | 25 |
| Actual amount spent | €1,027,409 | €1,095,892 | €1,346,784 | 31 |
| Number of individuals assisted | | | | |
| Home Help Service ¹ | 843 | 919 | 981 | 16 |
| Incontinence Service | 355 | 412 | 420 | 18 |
| Meals on Wheels ² | 45 | 61 | 60 | 33 |
| Handyman Service | 23 | 28 | 38 | 65 |
| Physiotherapy ³ | - | - | 58 | - |

Other services given to the elderly paid from the line item in question included hairdressing, religious services, keep fit, craft and gilding lessons. Other payments, such as reimbursement of travelling expenses, rental of hall for the elderly and purchases for food containers, were also expensed from this budget.

¹ As at 31 December.

² In 2017, meals were provided to 60 different persons. However, daily meals provided ranged between 19 and 32.

³ The Physiotherapy service commenced in January 2017.

The aggregate shortfall of €146,784 in 2017 was financed through virements from other line items. This adverse variance related to salaries of Social Assistants employed by Government and the respective social security contributions, for which total payments during 2017 amounted to €718,312⁴.

Audit Scope and Methodology

The main scope of the audit was to determine the level of internal controls over the procurement and payment thereof by MGOZ, for Services rendered to the Elderly and Persons with Disability in Gozo (Recurrent Vote 16, Programmes and Initiatives Line Item 5771). Over €1.3 million was spent by MGOZ in this regard, out of which €0.7 million were paid out in salaries to social assistants employed by Government. The National Audit Office (NAO) also aimed to ascertain that funds were spent for the intended purposes, within the approved limits and in line with the provisions of the Public Procurement Regulations (PPR).

Other objectives were to obtain reasonable assurance that payments effected were accurate, duly covered by supporting documentation enabling verification and in line with the applicable agreements.

A sample of 19 out of a total of 128 Payment Vouchers (PVs), collectively amounting to €102,663, i.e. 16% of the actual expenditure on services rendered to the elderly and persons with disability, was randomly selected from Departmental Accounting System (DAS) for testing. Furthermore, a sample of 10 public officers from the 66 social assistants (15%) employed by the Government during 2017 was also randomly sampled for testing of salaries, for which two payrolls were reviewed.

Key Issues

Home Help Service

Fixed Nominal Fee for Home Help Service

As at December 2017, 981 beneficiaries were benefiting from the Home Help Service scheme. These were being charged €2.33 and €3.49 per week for single and a married couple respectively. This nominal fee is charged irrespective of the hours⁵ allocated to those receiving assistance and irrespective of the individual's income and/or wealth.

Recommendation

As already highlighted in the 2008 Annual Report and in order to ensure that the limited resources are allocated according to one's income and/or wealth, a means test in the adjudication process is recommended.

Management Comment

The Customer Services Directorate is applying the same rates adopted by Active Ageing and Community Care Directorate.

⁴ During 2017, 66 social assistants were on payroll.

⁵ Hours allocated ranged from two to twelve hours weekly.

Lack of Audit Trail related to the Service provided

Proper audit trail of the service provided by each Social Assistant to the beneficiaries is lacking. The only record made available consisted of a spreadsheet showing clients classified by locality, featuring name, ID Card No., address, telephone number and type of pension, but it does not indicate the name of the respective Social Assistant. Moreover, this list is continually amended, i.e. cancelling clients whose service was discontinued and adding new ones.

Recommendation

A database, containing all the relevant information and which can also keep track of any adjustments made, would enable the Department to operate more efficiently. It will also provide more transparency and effective control on the service provided by each Social Assistant.

Management Comments

Present records do indicate the name of the Social Assistant⁶. However, recommendation is being taken and a copy of the previous week's database is to be kept for record purposes.

Control Issues

Home Help Service

Limited Home Supervision to ensure adequacy of Home Help Service

NAO reviewed six randomly selected files of elderly persons who were provided with Home Help Service. It was observed that supervision was not being performed at regular intervals. This renders monitoring and control of Home Help Service less effective. In a particular case in the audit sample, no supervision was carried out over a period of four years.

Recommendation

A formal plan is to be drawn up to ascertain that inspections are carried out in every household on a more regular basis. Moreover, a Standard Operating Procedure is recommended, clearly indicating the checks to be performed during such an inspection, thus ensuring consistency. The outcome of these inspections is to be recorded in a standard report duly endorsed by the Supervisor performing such checks.

Management Comment

Recommendation is taken.

⁶ Only the spreadsheet without the related name of the Social Assistant was provided for audit purposes.

Social Assistants

Lack of Verification before Salaries are processed for Payment

The attendance sheets for public officers working as social assistants which were examined during the audit lacked endorsement by senior management to ensure that they were complete and that all employees were accounted for. In fact, shortcomings encountered during the audit confirm that no checking was being performed over the attendance sheets before processing salaries of the Social Assistants for payment.

Moreover, by default, the payroll system usually processes salary payments in line with the hours approved by the Director. However, during the audit it transpired that any extra hours worked by the Social Assistants who were on reduced timetable were still being paid on the basis of the hours claimed by the latter without officially being certified correct and authorised.

Recommendations

As required by section 2.1.2 of the Public Service Management Code (PSMC), an authorised senior officer is to ensure correctness and completeness of the attendance sheets. Internal controls on attendance records are also to be improved to ensure completeness and accuracy of payment of salaries. This could be done through the use of automated systems. Furthermore, claims for extra hours are not to be entertained unless duly approved.

Management Comments

All recommendations relating to the errors in payment of salaries and attendance records are being taken. Attendance sheets are endorsed by clients and will also be endorsed by senior management. Requests claiming extra hours will be endorsed by Director.

Vacation Leave availed of not adequately recorded

Vacation leave (VL) taken by social assistants is not recorded on individual personal leave cards (GP44) as required by standing regulations but only on loose VL application forms. Moreover, these forms were not being updated accordingly, resulting in lack of control over such absence. A number of instances were also encountered where the leave taken was not recorded on the VL application form.

Recommendation

CSD is encouraged to consider introducing a system whereby leave is applied for and approved electronically. This would reduce administrative paper work, as well as ensure that records are automatically updated. Otherwise, as stated in PSMC, a personal leave card is to be created for each officer, on which card, VL is applied for, approved and subsequently stored in alphabetical order.

Management Comments

A personal leave card (GP44) is kept for each Social Assistant⁷.

⁷ In April 2018 during audit fieldwork, the 2017 VL application forms and record cards of the 10 sampled social assistants were specifically requested, however only the loose vacation leave forms were provided.

Meals on Wheels

Limited control over the Management of the Meals on Wheels Service

As per agreement of 1 March 2016 with the organisation providing the meals on wheels service, a Management Committee was to be in place to verify the quality and quantity of the meals provided. The Committee also had to approve any increase in expenditure during the delivery of the service. However, CSD confirmed that during 2016 and 2017 no Management Committee meetings were held. Consequently, the Committee did not discuss the actual increase in the delivery of daily meals from 20 to 35 meals as from January 2017 onwards, which was due to a rise in the demand.

Furthermore, no evidence was provided to substantiate the control procedure adopted by the Directorate to confirm the number of meals provided. CSD relied on the information obtained from the respective organisation at the end of the month as regards the number of meals provided.

Recommendations

The number of meals provided is expected to be verified against the respective delivery note which is to be endorsed accordingly by the receiver after ensuring accuracy thereof. The quality of the meals is also to be checked. Such delivery notes should then be corroborated with the invoice before processed for payment.

Management Comments

Through the new tender in place, the service users endorse the delivery notes. These will be verified with the invoice issued. Quality of meals is checked through survey done by the Care for the Elderly Section from time to time.

Compliance Issues

Meals on Wheels

Shortcomings in the Procurement for the Provision of Meals on Wheels Service in Gozo

The provision of the meals on wheels service started in 1999 and was extended automatically with two organisations until December 2015 and March 2018 respectively. The service procured was not in line with PPR and the relevant justifications behind the direct order, which remained unapproved by the Ministry for Finance (MFIN), were not provided. Furthermore, although service was provided as from 1999, only payments of €104,107, covering the period from 2008 to-date, could be identified for one of the organisations. Moreover, no documentation was available to substantiate any payments effected to the other organisation.

The procurement of this service in Gozo was regularised in 2018 following a call for tenders issued on 5 January 2018. On 2 March 2018, the service was awarded to the only bidder. This tender was divided in two Lots; one for Eligible Persons' Home and the other for Santa Marta Day Centre, amounting to €205,860 and €99,405 respectively.

However, although service started being delivered as from 1 April 2018, the four-year contract, was signed retrospectively on 9 May 2018. Furthermore, the performance bond was only made available on 7 May 2018 and effective for one year as from 2 May 2018.

Recommendations

To ascertain transparency and fairness, PPR are to be fully adhered to. Direct orders are only to be used as a last resort, provided that adequate justification exists, and supported by the necessary approval from MFIN.

CSD is also to ensure that a performance bond is in place for the duration of the contract.

Management Comment

A DC tender for the provision of Meals on Wheels was issued on 5 January 2018 and awarded in May 2018. Performance Bond is in place.

Incontinence Service

Variations in Tender exceeding the Established Limits

In respect of the tender for the provision of incontinence supplies, variations of €40,570 were made through two Addenda dated 7 October 2016 and 27 March 2017. The total of these variations amounted to 19% of the original contract value of €215,990, notwithstanding that the tender stated that variations may not be more than 5% of the value of the contract.

Recommendation

CSD are expected to ensure that procurement regulations are duly followed in the acquisition of goods and services.

Management Comment

Approval for variations were sought as per Public Procurement Regulations.

Ministry for the Economy, Investment and
Small Businesses

Taxi Way at Safi Aviation Park

Capital Expenditure

The National Audit Office (NAO) satisfactorily noted that procedures in relation to the tendering process and certification of works of the **Safi Taxi Way** project carried out by the **Malta Industrial Parks Ltd** were in place and adhered to.

Background

The Malta Industrial Parks Ltd (MIP) falls under the Ministry for the Economy, Investment and Small Businesses and is responsible for the administration of the government-owned industrial parks and related facilities, as well as supporting and promoting their further development.

The Financial Estimates for the line item under review, namely 7346 – ‘Taxi Way at Safi Aviation Park’ indicated an approved budget for financial year 2017 of €3,800,000 under Capital Vote V, while actual expenditure as per the Departmental Accounting System for the same year amounted to €3,940,000.

Taxi Way at Safi Aviation Park

One of the main industrial areas that fall under the remit of the MIP is the Safi Aviation Park (SAP), which provides secure, airside facilities for the aviation and related industries. It is located in close proximity to the principal runway within the Malta International Airport.

Infrastructural works were needed to upgrade the Taxi Way Bravo¹. To this effect, the MIP entered into a negotiated procedure with two architectural firms for the procurement of related professional services. Selected work contractors were furnished with two tendering documents, one for the upgrading of Maintenance Access Route Bravo, and the other for Taxi Way Link, Car Park and ancillary items at the SAP. Two successful bidders were selected to conduct the requested works. Relative contracts were signed accordingly following appropriate approvals by the General Contracts Committee.

Audit Scope and Methodology

The scope of this audit was to assess whether the capital expenditure in relation to the Taxi Way at the SAP effected during financial year 2017 was free from material misstatements, and that the adopted procurement procedures were adequate and in compliance with standing financial regulations and policies.

The NAO obtained a breakdown of payments from the MIP in relation to the project, covering the period 2016 – 2017. Following an analysis of such payments, the NAO assessed all related documentation pertaining to the four selected service providers and work contractors. Audit testing for the year under review was divided into three main components; adherence to the general procurement procedures, selection of the preferred service provider and the respective payment process.

¹ The Taxi Way Bravo, designed to take up to Code C aircraft (having a wingspan measuring between 24 meters and 36 meters), links the SAP to the runway. A hangar was constructed within the SAP for the repainting of commercial aircrafts up to Code F (having a wingspan measuring between 65 meters and 80 meters).

Disclaimer

Works on the project were not yet fully certified by the end of the year and hence payments were still pending. Audit testing focused on payments made till end of year 2017.

Good Practice

During the year under review, the NAO noted that all documentation relative to the audit was held in an organised manner at the MIP and was readily available for audit purposes upon request. The NAO satisfactorily noted that prior approvals were obtained as necessary from both the respective Permanent Secretary as well as the Department of Contracts. Moreover, procedures in relation to the tender submissions and evaluation process for the works at the SAP project were also in place and complied with.

The procedure in connection with the certification of works prior to effecting payment was well documented. Payments made to both service providers and work contractors were also adequately substantiated.

Management Comments

Management had no further comments to add.

Commerce Department

Creditors and Accruals

Proper internal processes for the collation of information were lacking. Due to the number of omissions encountered during the audit, the closing balance of Creditors and Accruals reported by the **Commerce Department** within the Ministry for the Economy, Investment and Small Businesses was deemed as unreliable by the NAO.

Background

Outstanding creditors and accruals of each Ministry and Department are to be reported in the relevant Returns and submitted to the Treasury Department. In line with Treasury Circular No. 10/2017 – ‘Treasury Financial Data Transmission Calendar for 2018’, these balances were to be submitted within the first 10 working days from the end of each calendar quarter.

According to the Creditors’ Return for Quarter 4 of 2017, the Commerce Department had total outstanding dues of €166,689. Of this amount, 81% were bills contested during the last quarter (€134,367), while the majority of the remaining amounts were outstanding for a period of between 31 and 60 days.

The amount of €18,289 was reported as accrued expenditure as at 31 December 2017.

Audit Scope and Methodology

The main scope of the audit was to assess the Ministry’s compliance with the pertinent Treasury Circulars regulating the collation and reporting of creditors’ balances as well as accruals as at year-end.

Creditor balances as at year-end were tested in their entirety and confirmations of uncontested balances were requested. The completeness of the Creditors’ Return was checked against payments pertaining to 2017 invoices made in the first two months of 2018, as well as against the creditors list as submitted by the Department for the first quarter of 2018.

A sample of accruals, amounting to €6,354 (35%), was also selected to assess whether balances were correctly included under Accrued Expenditure.

Furthermore, a number of commitments, pertaining to 2017 but paid in the following year, amounting in total to €37,309 (64%) out of a total population of €58,423, was selected in order to assess whether the expenses were accrued for and feature in the respective return.

Control Issues

Balances erroneously included in the Creditors' Return

Four invoices, relating to rent, vehicle repairs and adverts, and amounting to €9,574 were erroneously included in the Creditors' Return as at 31 December 2017.

Recommendations

The invoice date determines whether an outstanding balance should be shown as a creditor or accrued for. Moreover, amounts no longer due are to be reversed.

Management Comments

Note has been taken of this recommendation. Action is to be taken by the Corporate Services Directorate so that amounts relating to rent on the two properties in question are not to feature in the Creditors' Return.

With reference to recommendations regarding Vehicle Repairs and Adverts, note is taken of this recommendation and it is intended that closer vetting will be effected to minimise such occurrences.

Invoices erroneously omitted from Returns

Six outstanding amounts relating to advertising services rendered during 2017, valued at €12,660, were not accrued for, while another invoice for personnel on loan, dated December 2017, was excluded from the respective Return.

Recommendation

In view of Government's plan to adopt the accrual accounting, of which creditor and accrual balances are an integral part, the Department is expected to establish procedures, such as rubber stamps indicating date of receipt of invoice, to ascertain that all amounts due can be correctly identified as either creditors or accruals. This would also ensure that the Returns requested by the Treasury Department, as well as the financial statements prepared therefrom, are complete and accurate.

Management Comments

Note is taken of all the recommendations which are being taken on board.

The other recommendation was accepted and it is intended that all invoices be rubber stamped with date upon receipt.

Commitments excluded from Returns

Testing revealed that all 2018 commitments chosen for testing (€37,309), mainly covering expenditure relating to consultancy services, utility bills and adverts, were not accounted for as creditors or accrued expenses, as applicable, at year-end.

Recommendations

As far as possible, officers are to observe the standard purchasing procedure and raise the commitment before goods or services are acquired. Besides ensuring that adequate funds are available, this would also facilitate an estimation of the amount of expenditure to be accrued for at the end of a given period. On the other hand, invoices received before this date should be included in the Creditors' Return.

Management Comments

The Corporate Services Directorate would like to point out that in certain instances, it is not always possible to raise a Local Purchase Order (LPO) before the receipt of invoices, e.g. utilities bills, telephone bills, and standing contracts for services based on hourly rates or consumption and amount disbursed varies on a monthly basis. It is only when we need to raise an LPO in order to secure a booking for supplies, services and works for which we would have requested a quotation and for which we would have issued an LPO prior to order.

In connection with the instances mentioned, Corporate Services Directorate has agreed that the most appropriate way for reporting accrued expenses is to eliminate commitment number, and instead, the supplier's name is to be used as reference and amount calculated on the last payment made.

In the case of invoices that are received until month-end and after end of quarter, it is agreed that they are also to feature in the accrued expense report of goods received.

Ministry for Finance

Commissioner for Revenue

Environmental Contribution

Enforcement action with respect to the collection of the **Environmental Contribution** was found to be lacking. A number of discrepancies were traced between the Departmental Accounting System and supporting documentation. System limitations, including a low threshold for payments made through the Government Payment Gateway, and the lack of system-generated reminders, were also noted. Separate issues were identified with regards to the establishment of the Trust Fund that is mandated by law.

Background

As announced in the 2016 Budget Speech, with effect from 1 June 2016 an Environmental Contribution (EC) on stays in licensable accommodation was introduced. All revenue generated from this initiative will be directed into a Tourism Environmental Trust by virtue of the Trust and Trustees (Tourism Environmental Trust) Regulations S.L. 331.09. The amounts deposited therein, which were collected via the Government Payment Gateway (GPG), through internet banking or transfers directly into the Central Bank of Malta (CBM), were to be utilised for projects aimed at improving Malta's tourism industry.

According to the second schedule to the Eco-Contribution Act (Cap. 473), the EC charge is of €0.50 per night per person who is 18 years of age or older, on accommodation provided for a consideration or otherwise. This contribution is capped at a maximum of €5 per person per visit and is payable, amongst others, on accommodation in hotels, guesthouses, hostels, resorts, apartments, farmhouses, timeshare and host families.

A revenue estimate of €3.5 million was included in the 2017 budgetary estimates in relation to this Contribution, while the actual amount of €3,395,097 was credited to the pertinent line item¹.

Audit Scope and Methodology

The scope of the audit was to evaluate the level of controls in place at the Office of the Commissioner for Revenue (CfR), as the Competent Authority, during 2017. The systems and processes surrounding the collection of this contribution were also evaluated from an Information Technology (IT) perspective.

Walkthrough tests were carried out in fulfilment of the objectives of this audit and queries were also put forward with regard to the underlying legislation, as well as to how funds are eventually transferred and used by the Ministry for Tourism (MOT). Additionally, in view of their roles in issuing accommodation licences, and within the Foundation for Tourism Zones Development, discussions were also held with officials from the Malta Tourism Authority (MTA).

¹ Line item 0354.

An evaluation was carried out on the IT systems through meetings with the CfR's systems administrator and team officials from the Malta Information Technology Agency (MITA), which is the entity that initially developed the EC system and provides its continuous hosting and support. Key documentation, namely, the system's database schema, user manuals/guides, a sample of audit trail reports and data extracts from typical reports from the available BusinessObjects reporting utility, were also requested for review.

Detailed testing was also conducted in relation to amounts inputted into the Departmental Accounting System (DAS), which were reconciled by the National Audit Office (NAO) against underlying bank statements and figures extracted from the EC system.

Good Practice

Following a high-level review of the IT component within the EC process and supporting IT system, the NAO satisfactorily noted that there was adequate segregated user access controls between MITA, the CfR users and operators.

A reporting tool is also being utilised to build and run parameter-based reports, some of which are being scheduled for automatic re-run and distribution within the CfR, on a regular basis.

The NAO was also informed that the EC system will soon be adapted to link with the CfR's new Cash Office application, as well as with the accounting system recently acquired by Government, namely the Corporate Financial Management System.

Key Issues

Limitations in relation to Enforcement Action

Audit testing revealed a number of limitations in relation to the enforcement action taken in the process of collecting the EC. Difficulties mainly arose because of the absence of sufficient data and tools for enforcement.

Recommendation

A number of enforcement tools may include automated reminders for the submission of quarterly Returns, followed by written warnings, as well as penalties in case of non-adherence.

Inspections should be coordinated, where possible, with those carried out by the Value Added Tax (VAT) Department in order to ensure better use of public resources and minimise the burden on regulated operators.

Discrepancies between the Departmental Accounting System and Supporting Documentation

a. Payments made directly into the Central Bank of Malta

Payments totalling €1,017,584 made by various operators by means of direct transfers into the CBM, in settlement of their EC for the years 2016 to 2018, were not shown as paid on the EC system even though they were correctly credited into the relevant DAS account. As a result, the amount of €119,117 that was actually still owed by operators was substantially overstated.

To this effect, since the EC system is not giving a true picture of all the payments made by the respective operator, any collection or enforcement action vis-à-vis operators with substantial balances due would very often be a waste of resources.

Recommendation

Corrective action is to be taken to ensure that the EC system reflects all the payments made, irrespective of mode of settlement by the respective operators; hence a realistic figure of outstanding amounts will be shown.

Management Comments

CfR comments:

These payments can now be captured through the new Cash Office application and payments are being reflected automatically into the EC system.

b. Payments not updated in the Departmental Accounting System

Transactions effected using the GPG were deposited into a local commercial bank account separate from the Public Account, but not accounted for in DAS. The amount of €3,605, recorded in DAS as received, was thus understated by €114,328. Moreover, funds are remaining idle in this bank account since, according to the CfR, withdrawals from the account cannot be made due to the applicable thresholds.

Another amount of €257,093, collected through internet banking payments and duly recorded as received in the EC system for December 2016, could also not be traced to the related DAS figure.

Recommendation

If there is an issue with the local bank, this is to be resolved without undue delay so that any funds relating to the EC are withdrawn and included in the relevant DAS account. These are to be used as intended, i.e., for the benefit of tourism projects.

Management Comments

No management comments were forthcoming in this respect.

Limitation on Payment Threshold in Government Payment Gateway

The audit also revealed that a €4,000 threshold exists in the EC system for payments processed via the GPG. This is creating a bureaucratic process for deposits above this threshold since the amounts have to be split into multiple payments against a specific declaration from an operator.

Recommendation

The CfR is to consider the possibility of increasing the threshold in question. This may facilitate the process for operators who would otherwise have no option but to make multiple payments through a lengthy process.

Management Comments

No management comments were forthcoming in this respect.

Control Issues

Limited System Functionality

The EC system is limited in its functionality in issuing a statement to show the total balance due by an operator at any point in time. In its absence, the CfR may not be in a position to enforce the payment of its dues in Court, if and when necessary.

This Office was also informed that the penalties imposed by the underlying legislation in relation to the EC are deemed to be disproportional to its levied value. The CfR is however committed to follow cases before the Eco-Contribution Tribunal in order for decisions in relation to the proportionality of penalties to be taken, and changes to the legislation to be proposed.

Recommendations

Discussions should be held to assess the possibility of enhancing the EC system to allow for an automatic calculation of these penalties. This would ensure that the CfR holds appropriate records in relation to the full amounts due by the operators.

Whilst the NAO acknowledges the initiatives already being taken and commends the efforts that have already been made by the CfR, it is highly recommended that cases before the Eco-Contribution Tribunal are followed closely so that relevant decisions can be consulted in the interest of a more efficient administration of the EC and collection of the amounts due.

Ongoing discussions between the parties involved are to be held on a regular basis to ensure clarification about their respective roles vis-à-vis collection and enforcement of the EC. This would also go a long way in ascertaining that any potential changes to the Legislation are effectively brought forward by the responsible party.

Management Comments

CfR comments:

As things stand, the EC system does not issue tax statements, because it remains to be decided whether such statements should include any applicable penalties in terms of Subsidiary Legislation 473.02.

The administrative penalties for non-compliance provided for by the said legislation have been the question of considerable concern regarding their magnitude and cumulative nature, which is perceived to exert a negative effect on the collectability of outstanding dues from enforcement.

With a penalty structure firmly in place, the EC system would allow the automatic calculation of penalties and generate tax statements accordingly for the purposes of taxpayer information and enforcement.

Trust Fund not yet established

According to S.L. 331.09, a Board of Trustees was to administer these funds, which were to be held into a Tourism Environmental Trust. However, the Board was not yet set up by the time the audit was concluded. Furthermore, as stated by the MOT, the set up of the Trust itself had encountered a number of teething problems, and as at end of September 2018, it had not been established.

The MOT also stated that following legal advice and various consultations, action to repeal the Trust Legal Notice was initiated following Cabinet direction. The Trust was to be replaced by a Foundation with similar functions.

It further transpired that whilst funds in relation to the EC are being collected by the CfR, they are eventually held in a DAS account pertaining to the MOT to finance related projects. However, by procedure, during 2017, out of the total EC collected of €3,395,097, the amount of €395,093 that was not utilised by the end of the year was transferred into the Consolidated Fund as revenue.

Recommendation

The MOT is to ensure that the correct setup is in place without undue delay so that the funds are used effectively and for their intended legal purpose.

Management Comments

MOT Comments:

The MOT has been working on the necessary steps to repeal the originally intended Trust. In parallel the MOT is setting up a dedicated internal committee namely the Tourism Projects Advisory Committee, whereby members will be officially appointed and will have their modus operandi regulated by specific Terms of Reference.

A cabinet memo for the repeal of the Trust was raised and processed through the appropriate channels ... but the Ministry is still pending the official endorsement note to proceed accordingly prior to the relevant legal publication.

Any unutilised funds transferred to Revenue is a prerogative of MFIN, however MOT will discuss with MFIN if these can be carried forward to the following year.

For 2018, projects have been planned and are being implemented. Payment for works and services provided will be issued later on this year through the appropriate line item.

Registration and De-registration Processes

With the introduction of the EC in 2016, a number of operators registered with the CfR for a VAT number, as well as with the MTA in order to obtain a licence number in accordance with the Malta Travel and Tourism Act. However, the audit revealed that certain operators were still registered on only one system, i.e. either the CfR or MTA database.

Both the CfR and the MTA agreed that as of 1 March 2018, new MTA registrations are not being permitted if a VAT number is not available, or at least, before an application for a VAT number is filled in. The NAO recognises this one-stop shop procedure as a step in the right direction.

Recommendations

Since accommodation operators pay 7% VAT on the income earned from short-term rental operations, the NAO recommends that the VAT officials involved in the Enforcement section make use of periodical reports from the VAT system to identify all the relevant operators. As a result, enforcement action could be directed towards those who neither have a VAT nor an MTA number duly registered. Those operators, who are either not registered or are not paying the EC, will also be easily identified and necessary action can be taken accordingly.

The MTA and the CfR are both encouraged to continue to cooperate in order to maximise the Government's potential revenue in terms of the EC, and thus ensure proper collection and utilisation thereof.

Management Comments

MOT Comments:

A data cleansing exercise has been carried out in order to reconcile the databases. Any new or updated information is continually being shared by MTA with CfR on a periodic basis. CfR is to ensure that any registrations and de-registrations for VAT and Eco Contribution on accommodation take place accordingly to stay in line with the MTA licence database.

In terms of tax collection, any returns and enforcement action can only be taken by CfR as MTA does not have any legal remit on this aspect. Having said that, there are initial discussions to explore other ways of collecting the contribution, including shifting the remit from CfR to MTA.

Lack of System Notification

It was observed that after the end of every quarter, the operator has to declare and pay any contributions due through the EC system. However, the operators are not being notified through a formal reminder of their obligations, both in terms of tax and penalties. A generic notification is only shown on the homepage upon successfully logging on to the EC system.

Recommendation

The CfR is to take remedial action so that the EC system automatically generates a notification every quarter, through an e-mail, SMS, or both, whereby the operator is reminded to submit the declaration and settle any amount outstanding. In the absence of other tools for enforcement, such notifications would assist in the process of collection of the EC due by the respective operator.

Management Comments

CfR comments:

A basic notification to taxpayers of their periodical obligation to submit and pay their eco-contribution shall be analysed along with MITA, considering the possibility to use taxpayers' email addresses as with logging with e-ID. Alternatively, notification messages can be sent over taxpayers' email addresses and mobile phone numbers, which will eventually be stored in the taxpayers' profile system that is envisaged for Quarter 4 of 2018.

Public Lotto Department

Fiscal Receipts Lottery

A number of shortcomings in relation to the **Fiscal Receipts Lottery** held monthly by the **Public Lotto Department** were noted by the NAO amongst which were particular concerns as to the suitability of the urn itself, insufficient audit trail, element of judgement in validation of drawn receipts and the inadequate location from where the lottery is held.

Background

As per Notice published in the Government Gazette No. 19,902 dated 17 November 2017, the Fiscal Receipts Lottery is drawn once a month.¹ It includes fiscal receipts issued by means of fiscal cash registers or by means of other devices connected to a computer system approved by the Commissioner for Revenue, and fiscal receipts issued manually.

The draw takes place under the supervision of a Board, appointed in terms of the regulations published in the Government Gazette dated 22 September 2000, to supervise the public lottery organised by the Public Lotto Department (PLD). The Board is made up of representatives of the Notary to Government, the Commissioner for Revenue, the PLD and a representative of the general public appointed for this purpose by the Minister responsible for Finance. A representative from the National Audit Office (NAO) also attends each draw as an observer.

The monthly-allocated prize fund for the lottery is equivalent to €58,234, or any other amount, which the Minister responsible for Finance may establish from time to time. Original fiscal receipts continue to be drawn until the total prize fund of €58,234 is reached. The last valid receipt drawn before the maximum total allocated to the prize fund is reached is honored, even if by the draw of this last receipt, the allocated sum is exceeded.

The Financial Estimates for Recurrent Expenditure Vote 25 – Programmes and Initiatives under the Value Added Tax (VAT) Department showed a total estimate of €750,000 for the year 2017.²

Audit Scope and Methodology

The scope of this audit aimed to observe the Fiscal Receipts Lottery as managed by the PLD, falling under the Ministry for Finance (MFIN), and to assess whether winnings for the period January to November 2017 were in compliance with pertinent regulations. Media reports and a number of public concerns have triggered the NAO to conduct such an audit.

The NAO audit team vouched the monthly PLD files from January to November 2017 and traced all relative documentation pertaining to the respective Fiscal Receipts Lottery, as well as related expenditure. Detailed substantive testing was carried out to confirm the existence and the correct application of procedures and controls.

¹ The Lottery is drawn on the 15th day of each month. If it falls on a weekend or a public holiday, the draw shall be on the following first working day between Monday and Friday.

² Total funds issued by Ministry for Finance in relation to the Fiscal Receipts Lottery for the period January to December 2017 amounted to €733,100.

Meanwhile, the NAO team followed the process of Fiscal Receipts deposit by the general public during the last few days before closing date of the month of November at the PLD. The NAO auditors also attended the fiscal receipts collection process, transfer of receipts to the warehouse where the lottery is drawn and the November Lottery draw itself.

Control Issues

Inadequate Equipment (Urn)

The NAO noted that the equipment (urn) used for the Fiscal Receipts Lottery is unsuited for the considerable number of fiscal receipts deposited into it. This may justify concerns as to whether there is, in effect, an equal level of probability of selection amongst fiscal receipts in the urn.

Recommendation

The NAO opines that the urn is to be replaced with a more adequate one, to allow a better shuffling of fiscal receipts to take place thus ensuring fairness and transparency.

Management Comments

The MFIN has been in contact with the Works Division whereby a specific request has been made to design another urn. A report has been submitted but it has not yet been implemented as it is desirable that the urn be installed at a premises where the public can deposit the fiscal receipts and near the Department of Public Lotto. Most probably the Department may be transferred to another premises from the present one and therefore it is important that the design of the new urn will have to factor the new surroundings. Besides, the Ministry would like to have in place an urn which can be filled in easily and emptied in an efficient and safe manner. One has to keep in mind that about 3 million fiscal receipts participate in this lottery every month. Therefore, the design will have to cater for this exceptional volume and weight while at the same time offer the same level of probability of selection to all participating fiscal receipts.

Lack of Audit Trail during Fiscal Receipts Transfer Process

On the day of collection and transfer of fiscal receipts to the lottery warehouse, the service provider was accompanied by a PLD messenger. However, since the latter's role was limited to providing access to the premises, no record was kept in relation to the quantity (full bags) of fiscal receipts transferred from the PLD premises to the warehouse.

Recommendation

It is recommended that the PLD Officials take note of the number of bags of fiscal receipts transferred from the PLD premises to the warehouse in order to keep an audit trail of the whole process. Moreover, another PLD Official is to certify that all fiscal receipts are subsequently deposited in the urn.

Management Comments

The process of transferring the fiscal receipts from the PLD premises to the Qormi Warehouse would be modified as proposed by NAO with a view to have a more transparent audit trail.

Inadequate Location for Fiscal Receipts Lottery

During the visit by the NAO Officials, it was evident that the current location from where the Fiscal Receipts Lottery takes place is not adequate, both in terms of location and facilities.

Recommendation

The NAO highly recommends that an adequate location where the Fiscal Receipts Lottery can take place, saving the Ministry unnecessary expenses, which currently approximate €600 a month.

Management Comments

The installation of the urn at the Qormi Warehouse was always a short term measure ... the Ministry would like to install a new urn at the premises of the PLD where it will be in constant supervision of the staff.

Compliance Issues

Initials on Fiscal Receipts not in agreement with Official Records

During the Fiscal Receipts Lottery attended by the NAO, the auditors noted instances where the initials written on three fiscal receipts drawn did not correspond exactly to the official name registered in the Common Database System (CDB). Whilst the Board decided to validate one of the cases, it rejected the other two. The NAO is therefore concerned about the level of judgment exercised by the Board in such a situation.³

Recommendation

It is recommended that such details would need to correspond to the first letter or the full name as registered in the CDB, to avoid any misinterpretation and reduce the level of judgement.

Management Comments

The Board is obliged to ensure that the published Regulations for the Fiscal Receipts Lottery are followed correctly when the lottery is drawn. As long as a participant writes his or her name or initial, surname and full identity Card Number (including letter) in a clear and legible manner that is considered as a valid fiscal receipt for participation in this lottery in terms of the regulations. They make no reference to the Common Database System. As long as the quoted identity card number tallies with the surname in the Common Database System, the Board feels that it should validate the participating fiscal receipt. It is a known fact that the first names are not always correct or updated in the CDB.

³ The Notice published in Government Gazette No. 19,902 of 17 November 2017, clearly states that "On the reverse side of each receipt such participant should write his or her name or initial, surname and full identity Card Number (including letter) in a clear and legible manner ...".

Fiscal Receipts accepted following the Closing Date

Upon closure of the depository period of fiscal receipts, the NAO noted that the general public was still permitted to deposit fiscal receipts beyond the stipulated time as quoted in the regulations. Moreover, the PLD Officials verbally stated that any receipts collected from the PLD manual depository box on the day following the closing date were still deemed eligible to participate in the Fiscal Receipts Lottery and therefore accepted.⁴

Recommendation

The PLD must ensure that no fiscal receipts, deposited in the PLD depository box, are accepted beyond the deadline stipulated in the Legal Notice.

Management Comments

The PLD will take the necessary measures in order to ensure that no fiscal receipts will be accepted after noon of the 10th day of every month. Arrangements will be made so that the Ministry for Gozo will also implement this measure. Discussions will be initiated with Maltapost with a view to ensure that postage received after noon, will be packed separately. Fiscal receipts received after noon of the 10th day of each month will be kept for the forthcoming fiscal lottery.

⁴ This goes against what is clearly quoted in the relative Notice, that “All the envelopes containing receipts which are received by the Director of Lotteries up to 12 noon of the tenth (10) of each month ...”.

Ministry for Finance

Compensation Payments

Documentation supporting **Compensation Payments** issued directly by the Ministry for Finance, as well as the respective reimbursements to other Ministries/Departments, was often insufficient.

Background

During 2014, the Ministry for Finance (MFIN) created a Line Item to facilitate the payment of compensations awarded for cases of injustice or grievance suffered by officers in the public service. Ministries across Government were notified that a request to recoup the grievance amounts paid was to be made to MFIN after the claims by the complainants were duly settled. The compensation paid would then be reimbursed by MFIN from the aforementioned Line Item.

The approved budget allocation for 2017 in this respect amounted to €8,000,000. Following additional funding of €4,851,946 obtained during the financial year under review, a total of €12,851,791 was expensed out of this Line Item.

Audit Scope and Methodology

The main scope of the audit was to ensure that Compensation Payments for 2017 made directly by MFIN, as well as reimbursements to other entities, were free from material misstatements. Furthermore, the National Audit Office (NAO) sought to determine the level of existing internal controls over such expenditure.

A general understanding of the nature of payments effected and the relevant procedures adopted by MFIN in coordinating the issue of compensation payments was obtained. After reviewing the data posted in the corresponding account, the NAO performed substantive testing on all the transactions.

Key Issue

Insufficient Documentation maintained

Documentation maintained by MFIN, in support of payments made, was lacking in the following instances:

- No record of the officers receiving the compensation and the amount to which they were entitled, was traced for six payments made to four Government entities, for a total of €12,153,941 (i.e. 94.6% of the amount expensed from this Line Item).

- Proof that the respective Ministry/Department had actually paid the compensation to the aggrieved officer(s) was also not traced, for a total of €12,419,943 (i.e. more than 96% of the total amount expended). In these cases, MFIN relied on the compensation payments figure as declared by the respective entity.
- Although, according to MFIN, copies of the Grievance Board Decisions were always obtained prior to effecting reimbursements, these were not available in respect of three payments for an aggregate amount of €17,000.

Given this lack of supporting documentation, the NAO was not in a position to validate the respective amounts¹.

Recommendations

All reimbursements issued by MFIN are to be duly supported by documentation proving that the compensation payment has been authorised and settled by the respective entity, thus ensuring that the funds allocated are utilised for their intended scope. To this effect, a copy of the official decisions is to be retained in file, especially when the payment to the aggrieved officer is made directly by MFIN.

Management Comments

It is necessary to point out that the transactions referred to under this key issue are reimbursements made by our Ministry to the various Line Ministries/Departments who paid compensation to a large number of beneficiaries. Payments to beneficiaries are made directly by the Line Ministries/Departments within the budget approved by the Budget Office of the Ministry for Finance and on the basis of supporting documentation, which they are required to keep at their end. Such documentation should be made available to us as and when required. We are prepared to request the respective Line Ministries/Departments to provide such documentation as and when necessary.

However, your concerns have been noted and we will be doing our utmost to ensure that future requests for compensation payments are accompanied by copies of all required documentation obtained from the respective Ministry and Government Department, including also in those cases involving a large number of beneficiaries.

Control Issues

Board Decision not detailed to confirm eligibility for Compensation

A reimbursement of €21,891, effected by MFIN to the Civil Protection Department, was supported by a Board Decision which however failed to indicate the names of the officers being compensated. Consequently, the NAO could not validate the amount in question, since it could not establish whether the officers actually receiving the payment were eligible for compensation.

Recommendation

In cases where the information contained in the Board Decision is insufficient, MFIN is to liaise with the respective Ministry/Department and obtain assurance, as well as supporting documentation, to confirm that reimbursements are only issued in respect of officers who were eligible to receive compensation.

¹ Following its reply, MFIN requested the missing documentation, from the respective entities, some of which was forwarded to the NAO at time of writing of this Report.

Management Comments

We ensure that in future we will do our utmost to request respective ministries and departments to present all necessary details in order to obtain assurance (even in cases where a large number of beneficiaries are concerned), i.e. including a one by one breakdown/list of payments of each individual recipient's name and amount.

Discrepancies in Compensation Payments

During 2017, MFIN reimbursed €265,000 to the Ministry for Tourism, covering compensation payments effected to various officers. In reviewing the list detailing the amount paid to each officer, and the individual Board Decisions, the following were noted:

- The Board Decision for an officer confirmed a compensation of €3,000, out of which a payment of €1,500 had already been made. However, this amount was not deducted but compensation to the individual was paid in full and reimbursed accordingly.
- Although the Board Decision indicated that an officer was entitled to a one-time compensation of €4,500, the compensation payment issued and eventually reimbursed by MFIN was €3,000. From the information provided, the NAO could not confirm whether the difference was eventually paid or not.

Recommendation

MFIN is to perform the necessary checks to ensure that compensation reimbursed to other Ministries/Departments truly reflect the amounts actually paid to aggrieved officers. Any differences or inconsistencies are to be duly queried upon and a justification obtained.

Management Comments

It is felt pertinent to point out that our duty as an Accounts Section is primarily to reimburse the respective ministries and departments with the exact correct amounts being requested, given that these amounts tally with the amounts approved by the grievance board and with their respective payment vouchers (presented as a proof that grievance payments were actually issued to the entitled beneficiaries). However, your recommendation to us to perform necessary checks against any possible differences or inconsistencies is being noted and action will be taken to improve our verification process in respect of the forthcoming requests for reimbursements.

Unrelated Payment of Compensation

In 2014, the Attorney General recommended the payment of the maximum amount of €23,300 to an individual, as prescribed in S.L. 9.12 – ‘Criminal Injuries Compensation Scheme Regulations’. Although the respective Scheme is administered by the Ministry for Justice, Culture and Local Government, and each year a budget allocation is included in its Recurrent Vote, the beneficiary was paid directly by MFIN through the Compensation Payments Line Item.

Furthermore, the Attorney General suggested that the payment was to be subject to a number of conditions, and that a public deed was to be drawn up by the Notary to Government. However, no evidence of this deed was traced to the file reviewed by the NAO.

Recommendation

Compensation amounts are to be invariably issued from the correct Line Item pertaining to the respective Ministry, depending on the nature of the payment being made. Any conditions attached to the sanctioning of the compensation payment are also to be strictly adhered to and any supporting documentation filed accordingly.

Management Comments

It appears that there was a misunderstanding. At the time our Accounts Section was not aware that the Victims of Crime Fund is being administered by the Ministry for Justice, Culture and Local Government. It was therefore our understanding that Line Item 5737 – Compensation Payments was the most appropriate line item. This was a one off case and in future, we will ensure that payments are issued from the correct Line Item.

Ministry for Finance

Creditors and Accruals

Discrepancies were noted in the collation and reporting of **Creditors and Accruals** as at year-end. A number of Creditor balances did not tally with third-party confirmations. Certain amounts were also not included in the return submitted to the Treasury Department .

Background

In line with MF Circular No. 10/2001 – ‘Government Accrual Accounting: Procedures for the Control of Debtors and Creditors’, Ministries and Departments are required to submit a quarterly analysis of creditors to the Accountant General. To this effect, in accordance with Treasury Circular No. 10/2017 – ‘Treasury Financial Data Transmission Calendar for 2018’, both the outstanding creditors and accruals have to be accurately reported in the respective Return and submitted to the Treasury Department within the first 10 working days from the end of each quarter.

According to the Creditors’ Return for Quarter 4 of 2017, the Ministry for Finance (MFIN) had total outstanding dues of €289,928. Out of this amount, 77% had been outstanding for a period of less than 30 days, whilst 9% of the creditors’ balances had been pending between 91 and 180 days. The remaining 14% were reported as being under contestation. Furthermore, the Ministry accounted for accrued expenditure of nearly €1.9 million.

Audit Scope and Methodology

The main scope of the audit was to assess the Ministry’s compliance with the pertinent Circulars regulating the collation and reporting of creditors’ balances, as well as accruals, as at 31 December 2017.

All documentation pertaining to creditors and accruals for the year under review was requested, from where a total of 20 creditors’ balances, representing 73% of the value of the balance of creditors at year-end, was randomly selected and checked for accuracy.

Payments made by MFIN during the first two months of 2018 but pertaining to the year under review were extracted from the Departmental Accounting System (DAS) to confirm whether the respective suppliers were reported in the Creditors’ Return at year-end. Such payments were also checked against the Return for Quarter 1 of the subsequent year.

The aforementioned 20 sampled creditors were requested to confirm balances due to them by MFIN as at end 2017. Another 10 accrued balances, representing 97% of the total as at year-end were verified to ensure that the respective amounts were settled during 2018, and thus had to be accordingly recorded as accrued expenditure.

Control Issues

Creditors' Year-End Balances not in agreement with Third-Party Confirmations

From 16¹ confirmations received from the selected creditors, only five of them tallied with the amount as reported by MFIN as at year-end. The net total discrepancy amounted to an understatement of €16,569. According to MFIN, the main reasons for these differences were as follows:

- Balances confirmed by a number of creditors were incorrect.
- Invoices not received at the Accounts Section by date of reporting to Treasury Department (being 15 January 2018).
- Invoices pertaining to other Departments.

Recommendations

Appropriate checks are to be carried out to verify that all unpaid invoices were accurately recorded and that no invoices were omitted or accounted for more than once in the Return. To this effect, quarterly statements from all suppliers may be obtained to reconcile the respective balances prior to the submission of the Creditors' Return, especially at year-end.

Moreover, MFIN is to emphasise the need to receive all invoices in time, in order to be able to report, as much as possible, accurate figures to Treasury, especially at end of year.

Management Comments

Our Accounts Section intends to proceed as follows with immediate effect. As soon as the Accounts Section receives a statement of account from a supplier/service provider, it checks with the DAS whether the pending invoices were settled or otherwise. If invoices were not settled, our Accounts Section requests supplier/service provider to send their invoices and supporting documentation via email. Once these are certified, the invoices will be settled at the earliest. If such invoices were not received by the time the Accruals report is sent to Treasury, these will be included in the Accruals templates.

Incomplete and Incorrect Information on Accruals

a. Accrued Expenses not recorded

Testing revealed an aggregate omission in the Accruals Return of €34,880, in relation to nine invoices for services procured in 2017.

b. Erroneous Entries in Accruals' Returns

Audit procedures carried out in respect of accruals as at year-end revealed two balances, totalling €5,036, which were inadvertently included in the Return.

¹ Out of the 20 requests for confirmations sent, four suppliers failed to confirm the outstanding balance.

Recommendations

A review is to be conducted by the Accounts Section of all pending commitments dated prior to the year-end. Where the Ministry has knowledge and certainty that an expenditure was incurred in the financial year being reported upon and it will be settled in the following year, a best estimate of the amount due is to be included in the Accruals' Return submitted to the Treasury Department.

Management Comments

Our Accounts Section intends to compile a checklist with all known expenditure on the basis of which it would then calculate the amounts accrued after it has verified that the related invoices have not yet been received. Our Accounts Section will be making use of such checklist during the compilation of the forthcoming Quarter 3 Accruals report in order to reduce to a minimum omissions or erroneous inclusion of accrued expenditure.

Amounts not reported in Creditors' Return

a. Balance Payable as at year-end not recorded in Creditors' Return

An invoice for the provision of legal services by a lawyer, dated 14 December 2017 for €4,054, was omitted from the Return.

b. Creditor Balance included in the Accruals' Return

A balance due in respect of transportation of goods, showing as an accrued expense, should have instead featured in the Creditors' Return, since the respective invoice was dated 24 November 2017.

Recommendations

In view of Government's imminent move towards accrual accounting, the Accounts Section is to coordinate with all other units within MFIN in order to ensure that it is provided with all invoices without undue delay. The date of receipt of invoice is to be clearly indicated to facilitate the compilation of accurate and timely information submitted to Treasury Department.

Management Comments

Our Accounts Section will be improving coordination with the other units within the Ministry by sending an email to such units at the end of March, June, September and December of each year, requesting them to refer any pending invoices at their end to the Accounts Section during first week of April, July, October and January respectively, that is, a week before the submission of the Accrual Accounting returns to the Treasury Department.

Finally, our Accounts Section has already started to make use of a Date Rubber Stamp to indicate date of receipt of invoice.

Ministry for the Family, Children's
Rights and Social Solidarity

Foundation for Social Welfare Services - LEAP Community Resources Centres

Expenditure

The main concern at the **LEAP Community Resources Centres** was the absence of control over government-owned assets.

Background

LEAP Community Resource Centres, falling within the remit of the Foundation for Social Welfare Services (FSWS), have the aim of promoting equal opportunities, to persons within society who are disadvantaged or at risk of poverty, to overcome their obstacles and better their lives. With 11 centres spread around the Maltese Islands and through cooperation with other social partners, LEAP seeks to empower vulnerable persons through employment, capacity building, social integration and social mobility.

In 2017, the Resource Centres were allocated an aggregate budget of €1,950,000 under Vote 29 Line Item 6833. However, as per LEAP accounting records¹, recurrent expenditure for the same year totalled €3,047,537².

Audit Scope and Methodology

The main objective of the audit was to ascertain that adequate internal controls was exercised over recurrent expenditure, which included personal emoluments and various expenses classified under Operational and Maintenance.

Expenditure

Figures provided by FSWS were analysed by the National Audit Office (NAO) and a total of 20 accounting entries³ were identified for audit testing. Collectively, these amounted to €70,210, representing 16% of operational and maintenance expenses⁴. The selection of transactions was based on their nature and materiality; these covered several areas, namely Computer and Other Equipment additions, Cleaning, Security and Telecommunication Services, as well as sub-contracted Training and Support Staff.

Inventory

The latest fixed asset register and related inventory room lists were requested from LEAP in order to assess conformity with MF Circular No. 14/99 – ‘Government Accrual Accounting: Revised Inventory Control Regulations’ to ensure adequate inventory management.

¹ The extended Trial Balance as at 31 December 2017 (extracted from the accounting software) provided by LEAP officers.

² Expenditure exceeding budgeted figure was funded from the FSWS's surplus funds, deriving from the subvention provided by the Ministry for Finance.

³ Since as at sample selection stage the latest accounts available were those for the first nine months of the year, the sample was taken from such period.

⁴ Operational and Maintenance Expenses totalled €433,639.

Personal Emoluments

Out of a total of 124 employees, salaries paid to a total of 15 officers were reviewed. Factors considered for selection included different grades, employees on a reduced work schedule and/or telework arrangements, as well as officers receiving overtime payment or whose employment was initiated or terminated during the financial period under review.

The sufficiency of internal controls was tested to ensure accuracy and validity of salary payments, including officers' entitlement to allowances and correctness of overtime paid. Attendance sheets were verified against the Vacation Leave (VL) and Sick Leave documentation, telework timesheets, as well as the Time off in Lieu/Flexi Time form.

Limitation on Scope of Audit

NAO could not carry out testing of inventory items, including a physical inspection thereof, in order to ascertain that proper inventory management was being exercised on items located at the Resource Centres, since neither a fixed asset register nor room inventory lists were available.

Key Issue

Inadequate Inventory Management

Control over inventory items is limited to details of a number of laptops in use by LEAP. Neither a fixed assets register nor room inventory lists were prepared.

Recommendations

All assets are to be recorded accurately in a fixed assets register. These are to be adequately identifiable and traceable to the respective location. Room inventory lists are also to be kept and regularly updated.

Furthermore, periodic physical verification of inventory items is also recommended, to ensure adequate control over government-owned assets.

Management Comment

The FSWS has engaged an external competent person to draw up the fixed asset register across all our properties. This assignment is currently under way.

Control Issues

Lack of Verification against Contract Agreement

In February 2016, the FSWS entered into a one-year Contract Agreement with a telecommunications company for the provision of 3G data service for 32 mobile users for a total cost of €5,760. This Agreement was followed by an extension of the same contract conditions for another year ending 14 February 2018. Both the agreement and relative extension granted a discount of €221 per month.

Audit testing focused on the service received by LEAP during April and May 2017. It was noted that whilst the discount was deducted correctly during the first year of service, this was not applied during the tested period. Following NAO enquiry, LEAP officers contacted the supplier, who confirmed the mistake. As a result, a credit

refund representing the overcharge from February 2017 to January 2018, totalling €2,652, was given to LEAP as part of the January 2018 invoice.

Recommendation

All invoices are to be invariably verified and certified as factually and mathematically correct by the officers in charge, in order to confirm their accuracy before they are processed for payment.

Management Comment

As acknowledged by NAO, the credit note due to LEAP has been recovered. Due attention is being allotted to ensure that all invoices are checked thoroughly and supported by respective contracts or agreements.

Insufficient Control over Vacation Leave

Although VL hours were authorised, very often, there was no evidence of any end of year certification to ensure the accuracy of the accumulated VL hours.

Recommendation

For control purposes, the Human Resources Section is to verify the VL entitlement for the year against the hours availed of by each employee to ascertain accuracy of the unutilised VL to be carried forward from one year to another. Such verification is to be endorsed and dated accordingly.

Management Comments

All unutilised leave carried forward for subsequent year is now being duly certified by the Management.

Absence of Documented Procedures regarding Flexi Time

Clause 12 of the FSWS Collective Agreement stipulates that officers may submit a written request to their superiors to work on a flexi time basis, which request shall be approved and agreed upon in writing, according to the exigencies of work. However, there is no written policy regulating how the flexi-time system operates.

Recommendation

A formal policy is to be introduced to regulate the way the flexitime system shall operate. Such policy usually indicates the core hours as well as an agreed number of hours during a settlement period.

Management Comment

The Human Resources Department within FSWS has been duly informed and a procedure is being drafted to regulate the flexi time system within FSWS.

Compliance Issue

VAT Defaulters not reported to the Authorities

Returns listing those suppliers who defaulted from sending a fiscal receipt to LEAP were not being submitted to the Value Added Tax (VAT) Department on a quarterly basis, as required by MF Circular No. 5/2002 – ‘Submission of Fiscal Receipts to Government Departments’ and subsequent update MFEI Circular No. 2/2012. During the audit, this shortcoming was brought to the attention of LEAP officers and immediate action was taken.

Recommendations

LEAP is to ascertain that all suppliers or service providers, who have received payments in part or in full for goods or services provided, adhere to the VAT regulations by furnishing the former with a fiscal receipt. Quarterly Returns listing defaulters are to be compiled on a timely basis and submitted to the relevant authority within the stipulated timeframes. ‘Nil’ Returns are also to be forwarded accordingly, where applicable.

Management Comments

The VAT defaulters exercise is now updated and the VAT Department has been duly informed of the defaulters. During the period under review the accounts department was still updating the VAT defaulters as the official in charge of such assignment went on maternity leave and there was no one to replace her.

Ministry for the Family, Children's Rights and Social Solidarity

Retirement Pensions

The NAO satisfactorily noted that procedures and controls in relation to the initial **Retirement Pension** calculation are in place. However, due to the Department's limited resources, contributory pensions are not being re-assessed on an annual basis as is required by the pertinent legislation.

Background

A Contributory Retirement Pension (RP) is payable to all individuals upon reaching retirement age, in line with the provisions of the Social Security Act (SSA) (Cap. 318). To be eligible, individuals should have been either employed, self-occupied or self-employed prior to the date of their retirement and should have paid the necessary Social Security Contributions (SSC) during their years in employment.

The estimated recurrent expenditure on RP, as shown in the Financial Estimates for 2017, stood at €494,800,000. Actual expenditure as per details extracted from the respective system, namely Sistema għall-Amministrazzjoni tal-Benefiċċji Soċjali, amounted to €491,162,280.

Audit Scope and Methodology

The main scope of the audit was to assess the Department's procedures and controls in relation to the disbursement of the RP during the year 2017.

An analytical exercise was undertaken on the amounts disbursed under the largest three RP categories¹ amounting to €471,112,380 and represented 96% of the total payments in 2017.

From this exercise, comfort was obtained in relation to:

- 27% of the Two-Thirds Pensions paid during 2017, i.e. payments of €109,738,575 out of a total of €407,768,022;
- 80% of the total of the RP disbursements, which amounted to €26,046,939; and
- 59% of the total of the National Minimum Pension payments, which aggregated to €18,090,633.

An overview of the re-assessments process in place within the Department of Social Security (DSS) was also obtained.

¹ The three largest pension categories were the Two-Thirds Pensions, the RP (which despite bearing the same name, is a sub-category of the Contributory Retirement Pensions) and the National Minimum Pension.

Good Practice

The National Audit Office (NAO) was satisfied that the procedures and controls in relation to the initial pension calculation, as well as subsequent rate re-calculations were in place and in sound operation.

It was noted that it is the Department who contacts the individual upon approaching retirement age, and initial calculations are carried out on the basis of information, comprising SSC paid by the individual and gross salary or declared profits as applicable, obtained from the Office of the Commissioner for Revenue. The only details requested from the pensioner relate to the year immediately prior that of retirement.

Due to the reliance placed on the system for pensions to be triggered and for obtaining the necessary figures for initial calculation, manual intervention is limited, as is the possibility of manual error. This approach also avoids reliance on the pensioner's part at the application stage, thus making the system more efficient.

It was also satisfactorily noted that employees within the DSS are segregated into two sections – the assessors and the checkers. Thus, any pension calculation, be it for the first time or following re-assessment, is reviewed independently.

Control Issues

Lack of Re-Assessment Policy

Notwithstanding the fact that as per the SSA, re-assessments are to be held every year, the Department confirmed that it does not have the necessary resources to enable it to conduct such re-assessments at this frequency.

From information provided by the DSS, it transpired that only an aggregate of 26,679 individuals eligible for a RP, were subject to re-assessment between 2015 and 2017. This average of 8,893 per year is just around 18% of the total eligible RP pensioners².

In view of the large number of pending pensions to be reviewed and considering that these arrears would still be due to the pensioner's heir/s should the individual pass away, the amounts owed by the DSS may be substantial. So far, these have not been quantified and not accounted for as accrued expenses.

Recommendation

The NAO acknowledges that given the current resources and work flows, it is extremely difficult for the DSS to re-assess every pension on a yearly basis. In the short term, a re-assessment policy with applicable procedures could be issued to ensure that the Department's resources are deployed in a manner that ensures that such re-assessments would cover all pensions over a specified period of time, say every five years.

Management Comments

It is pertinent to point out that the annual re-assessments are provided for in the SSA, and indeed all pensions are re-assessed annually and increased by the annual cost of living awarded in each budget. The problem is for the re-assessments of pensions pertaining to the collective agreements which due to lack of resources are not up to date. It is not correct to state that resources should be deployed in a manner to ensure that such re-assessments cover all pensions. For our limited resources it is not advisable to be deployed as suggested, as this would mean to

² This percentage is based on the total of 48,905 pensioners, being total pensioners in receipt of a RP during 2017, less those individuals who were self-employed prior to their retirement and are hence not entitled to a re-assessment.

shift priority from assessing new claims to re-assessments. Having said this, it may be stated that with the current handling of re-assessments, it may be confirmed that all cases would be re-assessed within the suggested five year time frame as suggested in the recommendation.

Limited Resources not adequately used

Given the limited resources to meet the demand for re-assessment, there is still no policy in place to ensure that re-assessments at least cover all the pensions over a period of time. It was noted that 14,571 pensioners, out of the 36,449³ re-assessed in the last three years had their pensions reviewed more than once during the three-year period in question. Moreover, while some of them were re-assessed even up to five times, others never had their pension reviewed. In the absence of such policy, persons whose pension was never subject to re-assessment are likely to be overlooked.

Recommendation

The DSS is encouraged to re-align its staff's priorities to ensure that pensions are re-assessed in a more equitable manner, thereby ensuring the maximisation of the number of pensions reviewed. Sound planning would then ensure that resources are adequately deployed in line with the new policy's aims and objectives. This would also ascertain that pensioners are given what they are owed in line with increases in the respective pay. It will also help the Department steer clear from the eventual large disbursements representing adjustments in arrears.

Management Comments

Previous management comments apply.

Individuals omitted from the List

Information obtained from the DSS showed that pensioners are split into a number of categories for the purpose of re-assessments. However, from a total of 62,272 pensioners who were assigned a re-assessment category, it was noted that there were another 2,552 individuals who were not included under any of the categories, hence they could not have been selected for a re-assessment.

Recommendation

Reconciliations should be carried out to identify any pensioners who were not included in the re-assessment categories.

Management Comments

The majority of the 2,552 mentioned cases consist of pensioners whose salaries' circulars remained unanswered by employer and therefore this was in no way due to an error of omission by the DSS.

³ These re-assessments relate to all types of non-contributory pensions.

Ministry for Justice, Culture and
Local Government

Arts Council Malta

Expenditure

For the past two years, the **Arts Council Malta** did not prepare its Financial Statements. Credit control was found to be weak whilst considerable procurement was being undertaken through direct orders. There was a backlog in bank reconciliations, besides a number of other shortcomings impinging on accountability. Governance issues relating to the Council's Board were also raised by the NAO.

Background

Previously known as the Malta Council for Culture and the Arts, the Council is regulated by the Arts Council Malta (ACM) Act Chapter 542, effective from 29 May 2015 (Act XV of 2015) and falls under the jurisdiction of the Ministry for Justice, Culture and Local Government (MJCL). ACM is the national agency for development and investment in the cultural and creative sectors and its central task is to effectively fund, support and promote these sectors in Malta. Various functions were assigned to ACM through the prevailing legislation, in addition to work arising from time to time related to one-off important national events.

The Council manages a funding portfolio through its national funding programmes, for which it receives funds from the State budget. Table 1 lists the total allocation by category administered by the ACM during the year 2017.

Table 1: Allocation of Funds to the Council¹

| | € |
|--|------------------|
| Contribution - Arts Council Malta | 2,200,000 |
| Programmes and Initiatives | 3,582,000 |
| Public Cultural Organisations managed by ACM | 3,010,000 |
| Capital | 390,000 |
| Total | 9,182,000 |

Audit Scope and Methodology

The audit objective was to obtain reasonable assurance on the adequacy and effectiveness of governance and control procedures. In this regard, the audit was meant to confirm that, during financial year 2017², expenditure incurred was duly authorised, properly accounted for and in line with the procurement regulations, as well as other relevant circulars. The adequacy of procedures for the collection and accounting of revenue was also to be determined.

The Council issued 224 direct orders with a total value of €2,158,038 during the year. In this regard, a sample of 20 cases, amounting to €882,593 in aggregate, was selected for testing, based on materiality and risk related criteria.

¹ A total of €8,792,000 consists of 19 line items under Recurrent Vote 35 and €390,000 refers to four line items under Capital Vote XIII.

² The audited Financial Statements and the Management Accounts for the year under review were not available. Thus, as the planned detailed substantive testing could not be performed, NAO identified areas of particular importance on a judgemental basis.

Limitation of Scope

The objectives of the audit were hindered, since neither the audited Financial Statements nor the Management Accounts for the year ended 31 December 2017, were available. The Financial Statements and Management Accounts for the preceding year were also not finalised.

Management Comments

Though in no circumstance the Council is seeking to justify any reporting non-compliance, it is being humbly pointed out that as from 2013 onwards, ACM has experienced a period of accelerated growth and a major restructuring. Funding, projects, business units and events have increased materially. However, such increases were not reflected in the finance human resource complement. Throughout the years, the staff within the finance section remained static from 2013 onwards. To compound matters further, ACM finance section had less staff in 2013 than it had during 2003. Moreover, along the years, ACM has been used as the vehicle through which projects of National Importance such as the National Celebrations Foundation, EU Presidency Cultural Programme, Pjazza Teatru Rjal, The Malta Dance Company, International Conferences such as the IFACCA 7th World Summit and the CLGC, have materialised. The Council has also been entrusted with the EU Help Desk, ESF & ERDF Projects and the E-ticketing System. This material increase in the Council's remit has strained the already limited resources even further with the inevitable result that reporting backlogs accumulated. The Council is undertaking an HR Capacity Building exercise so that the necessary recruitment is carried out.

Key Issues

Internal Control Weaknesses

This audit revealed a number of shortcomings impinging on accountability. Below is a list of identified internal control weaknesses, which will be discussed separately further down in the Report, under the pertinent observations:

- financial statements for the last two consecutive years not prepared;
- considerable procurement habitually effected through the use of direct orders;
- necessary approvals with respect to bank signatories and credit card facility not evidenced;
- weak credit control procedures;
- terms and conditions relating to the collection of income from sale of tickets by third parties not formalised;
- board meetings not regularly held;
- bank reconciliations not prepared on a monthly basis; and
- lack of audit trail in connection with the running of the bar.

Recommendations

Management is to strive towards establishing a strategy for the implementation of the necessary internal controls, particularly in view of the material amount that the Council is responsible to administer.

Management Comments

The Council will plan procurement well in advance so that direct orders are limited as much as practically possible to those related to Artistic Nature.

ACM's policy with regards to bank signatories will be presented for approval by the ACM Board during the next board meeting. ACM is also seeking Perm Sec and Ministry for Finance (MFIN) approval for its credit card facility.

ACM Officers in charge of the respective cost-centre are expected to follow up any sponsorship agreement, marketing arrangement and any other collectable. With the envisaged increase in staff within the finance section, an officer will be in charge of following up the collection of such revenues.

Recruitment is underway to augment the staff complement and so bank reconciliations will be prepared on a weekly basis. As a short-term solution, the Council is drafting a contract for service so that qualified accounting staff is subcontracted to assist the Finance section. This would expedite the backlog in the bank reconciliations.

Urgent adequate staffing within its Corporate Affairs Directorate and Finance Section will ensure real time compliance, monitoring and enforcement of internal control structures.

Habitual Procurement by Direct Order

As already indicated, in 2017 the Council resorted to direct orders in 224 instances at a total value of €2,158,038. Although in 24% of the cases, making up 76% of the total value of direct orders, approval from the MFIN was obtained, this is not considered to be promoting good governance since such Direct Order procedure should be used in exceptional circumstances only.

From the sampled cases it was also noted that a service provider was requested to organise six events pertaining to the Malta Rock Festival 2017. The cost of the management fee amounted to €135,000 (VAT excl.) with the service provider retaining any generated revenue. Since this may be construed as a hybrid between a direct order and a concession, NAO opines that any estimated revenue generated by the service provider from such events had also to be taken into consideration in the request for MFIN direct order approval. Additionally, the artistic merit criterion on which this direct order was approved is questionable.

Recommendations

Officers in charge of procurement are to keep abreast with and adhere to prevailing procurement legislation. Furthermore, management is to ensure that, as far as possible, services and/or supplies are procured following a competitive procurement procedure, to ascertain a fair and transparent selection process.

Additionally, it is advisable to seek guidance from the Department of Contracts for any procurement with a 'concession' element, prior to commencing the process.

Management Comments

The Council will make it a priority to plan procurement well in advance so that direct orders are limited as much as practically possible to those related to Artistic Nature.

The Council is aware of the amount of Direct Orders issued in favour of suppliers by ACM and its Public Cultural Organisations. ACM is doing its utmost to reduce the number of Direct Orders together with MJCL Ministerial Procurement Unit. In view of this, Festivals Malta and ACM are analyzing the current main services required to consolidate procurement by issuing a Call using the framework agreement methods. Discussions with the Department of Contracts and MJCL Ministerial Procurement Unit are ongoing on this matter.

Control Issues

Insufficient Collection Effort

As at 31 December 2017, ACM had total outstanding debts of €653,838³ some of which were pending since 2003. As at June 2018, the total amount due decreased to €325,586 since several claims issued during 2017 were settled. Management confirmed that debt collection efforts consisted merely of occasional statements sent to debtors.

Recommendation

The drawing up of clear credit control policies, as well as the assignment of adequate competent staff for this specific task, is a dire need. Additionally, as also highlighted by the Council's auditors, a provision for doubtful debts should be set, based on an established management policy, to be in line with international accounting requirements. This provision is to be reviewed periodically in order to assess its adequacy and amended accordingly.

Management Comments

This ties again to the reply and concerns presented above. Collection efforts are also hindered when the paperwork by the related unit is raised late to the finance section. As recommended, an official will be responsible to actively monitor debt collection in liaison with the respective cost centre on an ongoing basis.

The Council will liaise with the external auditors to set-up a doubtful debts policy. This policy will be discussed internally with the units concerned and eventually presented to the ACM Board for approval.

Income derived from Fondazzjoni Kreattività'

An amount of €130,857 net of 5% value added tax was accounted for as income received from Fondazzjoni Kreattività'⁴. This related to the sale of tickets in respect of a number of performances for one of the Council's events, namely Malta Arts Fest.

Admission tickets are sold on the Council's behalf through the Foundation's in-house ticketing system whilst the respective reports generated list the various performances and support this source of income. The auditors noted that it is common practice to issue complimentary tickets, which peaked at 49% of total admissions for a particular performance. However, in this regard, no agreement was in place to establish the practical arrangements between ACM and Fondazzjoni Kreattività'. Consequently, this Office could not confirm completeness of such income.

Recommendation

Although both are Government bodies, Management is still encouraged to establish the terms and conditions of the relationship between the two entities and formalise the administrative and financial arrangements in writing to avoid potential misunderstanding. This will also enable audit trail and ensure that all income is recorded.

Management Comments

As recommended, the Council will ensure that any future relationships are covered by a formal arrangement between the two entities.

³ €542,702 (83%) of this amount was due by Government departments/entities.

⁴ Fondazzjoni Kreattività' is a government entity.

Credit Card

Although the use of a credit card with a limit of €3,500 was approved by the Board on 29 January 2014, no evidence was provided that this was endorsed by MFIN. The latter's current policy, set in motion in December 2013, is only to grant entities the approval for the use of a debit card with a running balance of €2,500. Moreover, the transactions effected through the credit card are not being monitored independently.

Recommendation

Management is to ensure that the use of such card is regularised. In this respect, the Council needs to make a formal request to MFIN in order to obtain the necessary approval. Furthermore, an officer within the Finance Section is to be identified and held responsible for the monthly monitoring of the related expenditure.

Management Comments

ACM is requesting Perm Sec and MFIN approval for its credit card with a limit of Eur 3,500. Such credit card will be held by the Office of the Executive Chair.

In view of the material requirements of the various diverse ACM cost centres, one credit card is proving impossible to keep up with the justified request for credit card usage. A proposal is being explored and put forward for discussion, whereby Żfin Malta (which is a separate entity) and Festivals Malta (when it achieves the status of an entity) will have their own credit card. Credit card expenditure will be permissible for the below circumstances and where other methods of payment are not feasibly possible, namely:

- *Online marketing;*
- *Online registrations, subscriptions, renewals;*
- *Hospitality;*
- *Online expenditure related to Overseas travelling as permissible by the Government travel Regulations.*

Furthermore, and as recommended, an official within the Finance Department will be monitoring the expenditure on an ongoing basis.

Bar Sales

The nominal ledger showed bar turnover amounting to €12,500 in respect of sale of drinks during activities. However, there are no standard operating procedures in connection with the management of the bar.

Cash register sales reports are certified correct by the Manager, as well as the Director of the Unit responsible for the event, and a corresponding amount is forwarded to the Finance Section for the eventual deposit. However, a statement of income and expenditure showing surplus/deficit from the bar was not prepared.

Recommendation

Documented procedures in order to regulate the setting up of a bar are recommended. Each activity would require a statement of income and expenditure to be prepared, showing the respective surplus or deficit. Management may also consider the possibility of granting the bar concession to third parties.

Management Comments

Festivals Directorate will sub-contract any bar set-ups during any of its events with immediate effect. This will ensure maximum transparency.

Authorisation of Bank Signatories not evidenced

NAO was provided with the list of bank signatories and was informed that the authorisation is tied to the position and not the individual. The list consisted of eight positions, of which three were vacant. However, there were no board minutes or any other official document to substantiate this decision.

Recommendation

It is recommended that the adopted bank signatory policy is formalised through a Board resolution and the relative minutes filed for future reference.

Management Comments

As outlined before, ACM's policy with regards to bank signatories will be presented for approval by the ACM Board during the next board meeting.

Compliance Issues

Financial Statements not finalised

As per Article (29) of the Act, audited financial statements of the previous year, as well as the auditors' report together with the annual activities report, are to be submitted to the Minister not later than six weeks after the end of the financial year. However, audited accounts for the years 2016 and 2017 were still not prepared by the end of July 2018.

The Management Accounts for the years in question were also not ready. Management claimed that delays were due to a work backlog, exacerbated by the cultural programme preparations in connection with the 2017 six-month European Union Council presidency, as well as the absence of a Director Corporate Affairs, since the post remained vacant for over a year⁵.

Recommendation

Financial statements are to be finalised in time for the annual statutory audit to be conducted by external auditors, in order to ensure that submissions of the audited accounts are made by the established deadline. Moreover, management accounts are to be prepared quarterly as required by article 27 of the Act.

Management Comments

Short-term solution: The Council is drafting a contract for service so that qualified accounting staff is subcontracted to assist the Finance section. This would expedite the audit process as recommended.

Long-term solution: Recruitment is underway for the adequate human resources to ensure that deadlines can be effectively maintained.

The Council has instructed the private auditors to finalise the audit for financial year 2016 at the earliest possible. The auditors confirmed their earliest availability and will commence the audit during October 2018.

⁵ Vacant from sometime during 2016.

Board Meetings not regularly held

By virtue of the Act, Article 5(1), the Council's Board is composed of a Chairperson and not less than four and not more than eight other members, one of whom nominated by the Minister responsible for Gozo.

Article 6(1) of the Act stipulates that Board meetings are to be held as often as necessary, but at least once every two months. However, NAO was informed that it is not always possible to have a quorum⁶; consequently only three meetings were held during 2017, which were on 10 January, 18 October and 4 December, revealing a nine-month gap between the first two.

In view of the sporadic manner in which meetings were held during 2017, NAO questions the effectiveness of the Board in carrying out its functions.

Recommendations

Members appointed on the Board are expected to provide constructive contribution towards the attainment of the Board's objectives through regular meetings, as required in terms of the Act.

Management Comments

The Council accepts the NAO recommendations and has set-up the board meeting calendar for the rest of 2018. During 2019 the Council will ensure that the Board meets on a regular basis.

Concerns raised by the Private Auditors

During the audit process, auditors typically encounter internal control weaknesses, operating inefficiencies and other accounting issues which are communicated to the entity at the end of the audit through a management letter. These issues are brought to the management's attention in a formal way in order to ensure that the necessary remedial action is taken. The following issues were noted:

- a. Although a statutory audit was performed by the Council's private auditors for financial year 2015, ACM stated that an official management letter, indicating the weaknesses encountered, was not received from the private audit firm. However, since an annual audit is mandatory and a letter of weaknesses is required by auditing standards, NAO questions this claim given that most concerns mentioned previously were still not rectified by the first quarter of 2018 when this audit was underway.
- b. Formal feedback to the comments in the 2014 management letter was not drawn up. It was claimed that the audit concerns were discussed with the respective auditors during a meeting. However, evidence of the said meeting was also not provided.

Recommendation

The Council is expected to submit a formal reply to the management letter so as to provide its feedback to the issues highlighted. In order to obtain added value from each audit, Management is to establish an action plan with deadlines by when each remedial action is to be taken by designated officer/s, to ensure that shortcomings do not recur.

Management Comments

The Council will ensure that that any remedial actions outlined by its private auditors are implemented.

⁶ Half the number of board members but in no case less than three members.

Bank Reconciliation

Bank reconciliations were not performed on a monthly basis. Moreover, despite claims that these are performed annually, the one in respect of 2017 was still not available for audit purposes in March 2018. The reconciliation statement made available related to the year 2016 and also included a substantial number of unrepresented cheques at year-end.

Recommendation

A bank reconciliation should serve to identify any errors or unusual transactions. In this regard, the Council is advised to perform bank reconciliations within a few days after the end of every month so as to ensure that all transactions are legitimate and the cash book is duly updated. Failing this, management will be forced to take decisions on the basis of inaccurate information due to incorrect balances shown in the Council's records. Moreover, the difficulty faced when reconciling accounts with a voluminous number of transactions pertaining to a whole year cannot be overlooked.

Management Comments

The solution above proposed by Management to finalise the Financial Statements will expedite the finalisation of the pending bank reconciliations.

Absence of a Fixed Assets Register

The Council does not have a Fixed Assets Register or inventory records that meet the expected standards, which should include amongst others, details of the respective assets' location. The absence of this important mechanism diminishes control over the Council's assets. Furthermore, the fixed assets accounts generated from the system include values that are deemed immaterial and therefore should not be capitalised.

Recommendations

A Fixed Assets Register is to be compiled in accordance with the established guidelines without undue delay. This will assist ACM to exert better control over the custody of the assets, thus ensuring they are safeguarded.

Management Comments

Part of the remit of the sub-contracted staff will be to compile the Council's fixed assets register.

Malta Philharmonic Orchestra

Personal Emoluments and the use of the Credit Card Facility

The major concern identified from an audit at the **Malta Philharmonic Orchestra** related to lack of evidence to substantiate expenditure incurred through an unapproved credit card. The weak control environment also resulted in shortcomings in various areas relating to personal emoluments. Sick and vacation leave records kept were not reliable. Number of days of vacation taken by musicians was in excess of that established by standing regulations.

Background

Being the leading exponent of Maltese composers, the Malta Philharmonic Orchestra (MPO) performs over 70 concerts every year, including symphonic concerts, opera productions in Malta and Gozo as well as overseas tours in various leading venues. It is also responsible for the orchestral training and professional development of the next generation of Maltese musicians, through the MPO Academy and the Malta Youth Orchestra.

A Board of not less than five but not more than nine members, including the Executive Chairman, all appointed by the respective Minister, is the governing body of MPO. During financial year 2017, a total of 117 individuals, including Board Members, were in receipt of personal emoluments, which amount stood at €1,636,314.

Audit Scope

The main scope of the audit was to determine the level of internal controls in the payroll process, as well as to verify whether the applicable regulations and agreements were being followed. To achieve this objective, a number of meetings were held with MPO's Management in order to obtain an understanding of the relevant policies in place and procedures adopted. Furthermore, walk-through tests and detailed substantive testing were carried out to confirm the existence and the correct application of controls.

Audit Methodology

The audit was conducted in accordance with generally accepted auditing standards. Audit procedures were planned and performed in order to obtain reasonable assurance as to whether the internal control structure at MPO is adequate. To this effect, the sample selected was qualitative, implying that it was not designed to gather data on the frequency of error in the population as a whole, but to ensure regular compliance with standing regulations and to identify ways through which current practices could be improved. Thus, any conclusions reached only relate to those areas that have been examined.

Emoluments paid to four high ranked officials were chosen specifically for testing due to the materiality of the salary that they received. Moreover, the sample also incorporated another 14 officers¹ selected on a random basis.

¹ Two from the administrative team, eight full-time musicians, two chorists, and two casual musicians.

Due to certain shortcomings noted in the course of the audit, verifications were extended further to incorporate travel abroad undertaken by the administrative staff, as well as payments effected through MPO's credit card.

Disclaimer

Full-time orchestra musicians are expected to work an average of 40 hours per week, spread on six days, at least one day of which is to be held off-site for individual practice. In this regard, it was not possible to ascertain that the official total working hours were actually being performed.

Key Findings

Weak Control Environment

While the Philharmonic Orchestra is focused on bringing together the best of Maltese talent and musicians from Europe and beyond, with very positive results, the administrative aspect is sometimes not being given the attention it deserves. This leads to a weak control environment. The points highlighted below give an indication of the main concerns identified during the audit:

- a. Use of a credit card for which no approval was sought and various cases of expenditure from the respective account not supported by documentary evidence;
- b. Total vacation leave of musicians in excess of the number of days set in standing regulations and the applicable collective agreement;
- c. Timesheets for the administrative staff were not being maintained;
- d. Sick and vacation leave records not updated;
- e. Excessive mobile phone expenditure;
- f. Non-compliance with standing regulations concerning travel on official duties outside Malta; and
- g. Remuneration paid to Board Members not in line with the applicable manual regulating such payments.

Recommendation

Management is to carry out an in-depth operational review so that an effective administrative set-up is eventually put in place. Operating policies and procedures, based on good practices highlighted in the Public Service Management Code (PSMC), are to be drawn up and invariably adhered to.

Management Comments

The MPO accepts the recommendations of the NAO report. The Internal Audit and Investigations Department (IAID) has been engaged in order to assist in addressing the recommendations and ensure their implementation.

The current Finance and Administration structure consists of a Financial Controller and Administrative Assistant. In order to address the weak control environment, the MPO will be seeking to add the following positions:

1. *Finance Executive ... responsible to ensure that all purchases are supported by adequate fiscal receipts and seek explanations on the nature of each expense.*

2. *HR Manager responsible for the HR Function of the MPO.*
3. *Administrative Assistant – Procurement ... responsible for procurement and ensuring that public procurement policies and regulations are adhered to.*

Control Issues

Credit Card

No Ministerial Approval to issue Credit Card

No approval was sought from the Ministry for Finance (MFIN) for the use of a credit card with a credit limit of €7,000. Enquiries raised by NAO with the same Ministry also revealed that the current policy with respect to government entities is to grant approval for the use of a debit card with a running balance of €2,500 and that only in rare and justifiable circumstances is the use of a credit card and a higher limit endorsed.

Recommendation

In order to regularise matters, approval for the use of debit or credit card, as deemed necessary, is to be sought from MFIN without delay. A valid justification to cover a credit limit of €7,000 would also be required.

Management Comments

The Board approved the cancellation of the card in question. This has been stopped with immediate effect.

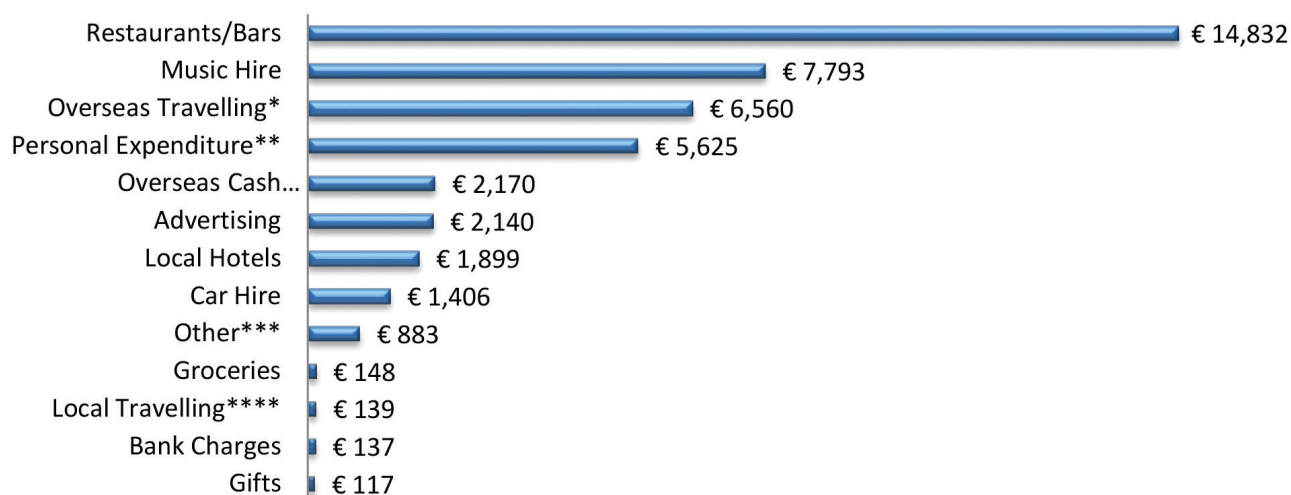
Once the recommendations made by NAO are implemented, approval will then be sought from Permanent Secretary MJCL and MFIN to apply for another card with a credit limit of €2,500. If approval is granted, then the following procedures will be put in place:

- a. *Purchases effected by the credit card will be limited to those circumstances where no other payment methods are acceptable.*
- b. *No personal expenditure or cash withdrawals will be allowed.*
- c. *All purchases will be substantiated with bank and fiscal receipts.*

Expenditure incurred by Credit Card not substantiated

During 2017, 294 transactions, having an aggregate value of €43,049, were effected by means of the above-mentioned credit card. **Chart 1** shows the manner in which such amount was spent, which details were obtained from the bank statements and nominal ledger.

Chart 1: Credit Card Expenditure



* Overseas Travelling entails accommodation and restaurants whilst overseas.

** €3,000 of such personal expenditure pertains to local cash withdrawals, €800 of which were refunded directly in the credit card account.

*** Mainly composed of purchases from the duty-free walk-through shop at the airport.

**** Local Travelling includes taxis and use of ferry to cross between Malta and Gozo.

Thirty-five of the aforementioned transactions, representing 13% (€5,625) of the global amount spent, were deducted from the salary payment of the respective official² utilising such credit card and thus treated as personal expenditure. However, review of the remaining entries revealed the following instances:

- As shown in **Chart 2**, a relatively large number of transactions (183 of the remaining 259) were either not supported by any documentation, or else these were merely substantiated by the chit supporting the bank transaction or by a cash register receipt, thus containing no details of the purchase made.
- According to MPO "... most of the hospitality expenses paid ... are incurred in relation to meetings to attract new business to the Orchestra, meeting potential sponsors as well as entertaining soloists, conductors and other foreign artists who offer the service to the MPO." Whilst this Office acknowledges the particular nature of the industry, nevertheless, the lack of supporting documentation does not provide the comfort of regularity of such transactions.
- Notwithstanding the lack of supporting receipts, all transactions were recorded in the books of account without question by the respective accounting officer. This suggests that internal control in this area was totally lacking.

Recommendations

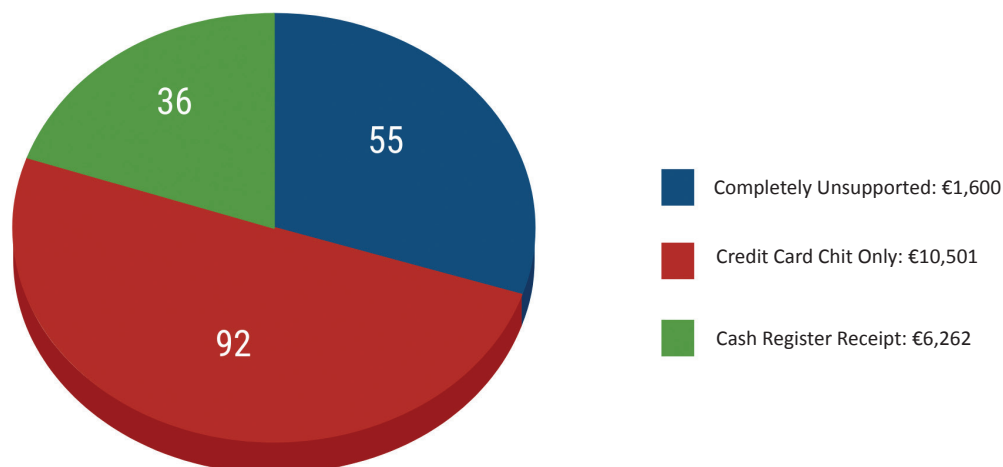
To mitigate abuse and for the sake of transparency and audit trail, all amounts paid out of MPO's funds are to be invariably backed up by official documentation, such as an invoice and/or receipt as applicable. Moreover, instances involving hospitality and entertainment are to be supported by proper written justifications. Furthermore, Management should ensure that public funds are utilised in an efficient and economical manner, in line with the applicable Code of Ethics³.

Effective monitoring is also to be carried out by the Finance team, with any extraordinary transactions being flagged and brought to the attention of the Board for further discussions.

² €2,015 of which were deducted during 2018.

³ First Schedule of the Public Administration Act.

Chart 2: Manner in which Certain Transactions were supported



Management Comments

All unsupported transactions involving the use of public funds will be refunded by the respective official.

Human Resources Matters

Vacation Leave Entitlement exceeded

According to the collective agreement as well as the respective employment contracts, Orchestra musicians are entitled to 25 days of recess together with a further 5 days of optional leave. However, review of the Orchestra Schedule for 2017 as well as the timesheets compiled during orchestral sessions revealed that the total number of recess days during 2017 amounted to 35, implying that the respective employees actually benefitted from a total of 40 days of vacation leave instead of 30 in the year under review.

Recommendation

Vacation leave comes at a cost. To this effect, Management is to ensure that the aggregate days of vacation leave granted to its employees does not exceed the amount stipulated in the collective agreement.

Management Comment

Recommendation made by the NAO is being accepted.

No Attendance Sheets maintained for Administrative Staff

No attendance records were maintained for the administrative staff⁴ employed with MPO, notwithstanding that in line with the established practice across Government, only officers in Scale 5 or above are not expected to record their attendance.

⁴ With the exception of a Service Officer working with MPO who fills in weekly timesheets.

Recommendation

Management is encouraged to review the current policy with respect to the attendance record system and ensure that all employees duly log in their attendance.

Management Comments

From 1 June 2018, ... we introduced weekly attendance sheets which are being signed by junior staff as well as service providers.

Employees without a Signed Contract in line with their Present Conditions of Work

Deployed Officer

With effect from 1 September 2017, an officer from the Department of Information was deployed with MPO on grounds of public policy and pegged to Salary Scale 9 of the Public Service Salary Scales. However, the latter's post was not properly supported by a contract of employment, clearly indicating the new working terms and conditions. Moreover, NAO auditors were informed that this officer carries out his duties entirely from home. However, up to the time of audit, such arrangement was not yet covered by a telework agreement as required by pertinent regulations.

Part-Timers

In addition to their full-time employment as musicians with MPO, four individuals were also engaged with the Orchestra as part-time workers to carry out administrative work. Testing carried out in this regard revealed that the part-time engagement of one of these individuals was only supported by an expired contract, which was entered into on 22 November 2010 for a period of one year. Moreover, notwithstanding that the employment agreement did not provide for the entitlement of any communications allowance, during 2017, three out of the four aforementioned officers benefitted from a fully expensed mobile phone paid by MPO.

Recommendations

For each of its employees, every employer is expected to have a signed contract of service in place, clearly setting out the applicable conditions of employment that are legally binding. Furthermore, Management is encouraged to draw up formal telework procedures, thereby ensuring uniformity and better control over its employees.

Management Comments

A new contract of employment shall be prepared for the deployed officer *which is to include the terms and conditions of employment.*

The mobile phone is necessary in order for these officers to fulfill their duties. MPO shall be seeking the relative approvals and amend their contract of employment accordingly.

Anomalies in the Employment of the Service Officer

According to an addendum to the contract of employment of the Service Officer, the latter was to work an average of 40 hours per week, over a 17-week period, with any excess hours being paid as overtime at the rate of one and a half hours⁵. The following shortcomings relate:

- a. Verifications of overtime performed on a Sunday revealed that this was being paid at twice the basic hourly rate.
- b. According to the respective timesheets, the maximum working period of 48 hours per week stipulated by the addendum to the contract was exceeded in various instances.
- c. No formal authorisation was traced for the respective officer to use his privately-owned vehicle on official business and be reimbursed accordingly. The logbook maintained in this respect also revealed insufficient control as this was not drawn up as prescribed by pertinent regulations; besides not being endorsed by a reviewing officer, it lacked specific details, including time of departure and reason for the trips performed.

Recommendations

Management is to ensure that contractual terms are followed to avoid discrimination and promote transparency. MPO is thus to recoup any amounts paid beyond the overtime rates established in the addendum to the contract of employment.

The use of privately-owned vehicles for work-related purposes is also to be formally approved with reimbursement rates reflecting those stipulated in the PSMC. In addition, log entries as required by the applicable regulations are to be certified by the officer in charge of transport at the end of each month, in order to ensure that the trips recorded therein were made on official duty and that fuel consumption is reasonable.

Management Comments

We accept the recommendation of the NAO and will ensure that contractual terms are followed. Due to work exigencies, the MPO had no other option than to ask for the Service officer consent to work in excess of 48 hours per week. MPO also took note of the rate stipulated in the PSMC and with immediate effect will set the reimbursement rate at €0.32 per km.

Acquisition of Services of a Marketing and Development Executive

- a. Four consecutive agreements, each covering a period of three months, were entered into with the same individual to provide the services of a Marketing and Development Executive. Each agreement stipulated a maximum amount payable of €5,400⁶. The aggregate amount spent exceeded the €10,000 threshold established by the Public Procurement Regulations. Thus, this acquisition warranted a public call for tenders or prior written approval for direct order from MFIN.
- b. In view that the respective individual did not sign daily timesheets, the number of hours claimed for payment, as approved by MPO's Marketing Manager, could not be verified.

Recommendation

MPO is to strive to acquire its goods and services in line with the applicable regulations, thus ascertaining transparency. Moreover, adequate substantiating records, enabling verification of hours contributed by the service

⁵ Only in instances where the employee is scheduled to work on a public holiday are hours to be paid at the rate of two times the basic pay.

⁶ The agreement signed in Orchestra in December 2017 was caooed at €6,750.

provider, are to be maintained and the necessary independent reconciliations evidently carried out before settling billed amounts.

Management Comments

We accept the recommendation in the NAO report and this procurement would be regularised by requesting a direct order approval to comply with Public Procurement Regulations. As from 1st June 2018, all service providers are required to sign an attendance sheet.

Expired Employment Contracts

Review of the personal files pertaining to the ten orchestra musicians selected for testing revealed three instances whereby, despite that the employment contracts specified that these shall be renewed for a further definite period of three years⁷, such agreements were not officially renewed following their expiration in 2004.

In addition to the above, in two out of the aforementioned three cases, no formal document was traced informing the respective employees that their employment status has been converted from a definite to an indefinite period.

Recommendation

Valid contracts of employment are to be invariably drawn up for all employees in order to establish commitment and formalise employment relationships. This will ensure agreement between the parties concerned when it comes to the job description, remuneration and terms and conditions related to the particular post.

Management Comments

Recommendation made by the NAO is being accepted.

Vacation and Sick Leave

Utilisation of Vacation Leave from the Subsequent Year's Entitlement

Instances were encountered whereby musicians falling within the audit sample were granted approval for the utilisation of vacation leave from the following year's entitlement. This is in breach of standing regulations.

Recommendation

Management is to ensure that pertinent regulations are adhered to.

Management Comments

Recommendation made by the NAO is being accepted.

Vacation and Sick Leave Records not updated

Upon comparing the manual attendance sheets and the leave records extracted from the payroll system, instances were noted whereby absences were not always being reflected in the system, which data is inputted manually. In addition, when a musician applies for vacation leave on a day of rehearsal, only a half day leave is deducted.

⁷ Provided that the orchestra member has performed satisfactorily during the period of the first contract.

Recommendation

Regular reconciliations between attendance reports and vacation leave are to be performed by the officer in charge of Human Resources, to ensure that the respective records are updated accordingly. Furthermore, leave deductions applied should reflect the actual number of hours during which musicians are not carrying out their duties.

Management Comments

Recommendation made by the NAO is being accepted.

Sick Leave not covered by a Medical Certificate

Sick leave taken was not always covered by a medical certificate.

Recommendation

As required by both the PSMC as well as the Collective Agreement, all sickness is to be attested by a medical certificate, which is to be submitted in a timely manner. Failing this, sickness is not to be paid for and any corrective action deemed necessary is to be taken accordingly.

Management Comments

Recommendation made by the NAO is being accepted. We shall ensure that all sick leave is backed with a medical certificate and we shall issue an internal communication to all staff to clarify any misconceptions on the presentation of medical certificates.

Mobile Phones

Excessive Expenditure on Mobile Phone Bills

In lieu of the €1,600 communications allowance emanating from his contract of employment, a senior official was benefitting from a fully-expensed mobile phone. However, such arrangement was not substantiated by approval from higher authority despite that mobile expenditure incurred during 2017 by the foregoing official exceeded actual entitlement.

Recommendation

Diversions from the entitlement as per contract of employment are to be endorsed by the respective Permanent Secretary and the Collective Bargaining Unit.

Management Comments

A portion of the mobile expenditure incurred is in relation to data roaming whilst travelling on official duties in non EU countries.

Board of Directors

No Official Re-appointment of the Board of Directors

Following the expiration of its term of office in May 2017⁸, the Board of Directors were only officially reappointed on 31 January 2018. Thus, the amount of €4,893, paid between June and December 2017 to the respective Board Members was not covered by a formal appointment.

Recommendation

For the sake of legitimacy, the Board is to be appointed annually by the respective Minister.

Management Comments

Recommendation is being accepted.

Board of Directors Remuneration not in Line with established Rates

As from 1 January 2017, members sitting on Government Boards were to be paid in line with the new structures and remuneration levels outlined in the Manual for setting the Categorisation, Classification and Remuneration of Government-appointed Boards and Committees. However, it transpired that during 2017, the six members of the MPO Board were still being remunerated at the rates established in 2013, resulting in an underpayment.

Recommendation

MPO is to ensure that Board members are paid at the correct rate in line with the new guidelines.

Management Comments

Recommendation is being accepted. Arrears of Board honoraria will be issued to the Directors in line with the guidelines issued in 2017.

Travel

Lack of Control on Travel

Review of the overseas travel undertaken by MPO staff during 2017 revealed instances of non-compliance with the provisions of the PSMC. The following relate:

- a. None of the eight visits abroad made by a senior official were supported by an invitation or official agenda. Moreover, the visits in question were not approved by a higher authority.
- b. Rather than advancing a subsistence allowance, MPO was paying in full for any expenses incurred by the foregoing senior official whilst on official overseas duties.

⁸ Minutes of Board meeting held on 30 June 2017 indicated that “The Chairman was informed by Chief of Staff at MJCL that the Board was to continue operating as before, until formal communication is given by the Ministry”.

- c. The lack of documentation⁹ covering visits abroad also hindered the auditors from ascertaining that the portion of subsistence allowance advanced to administrative staff was correct.
- d. Reports containing the purpose and benefits achieved from visits abroad on official business, as required by MEI Circular No. 5/2012 – ‘Travel on Official Duty’, were not being prepared and forwarded to the respective Ministry.

Recommendations

MPO is to adhere to the provisions of the PSMC with respect to travelling abroad without exception or fail. This entails that when performing official duties overseas, officers are given a subsistence allowance in accordance with the per diem rates set by MFIN. Moreover, substantiating documentation enabling verification of the relative components paid is to be maintained at all times.

Reports are also to be compiled by the travelling officers and submitted to the Ministry within one month after the visit, thereby enhancing accountability. An official programme of duty visits abroad, covering all MPO staff, is also to be prepared at the beginning of each year, clearly identifying the purpose of the official travels to be undertaken.

Management Comments

We will ensure that the Minister/Permanent Secretary will be notified of any official travel ... and a brief report will be prepared. We can also confirm that the MPO follows the travel abroad guidelines in accordance with the PSMC.

Travel abroad will not be approved unless an invitation and/or agenda is in place. Such documents are to be kept together with the other relative correspondence for the related travel and filed accordingly.

All travel ... will follow the policies laid down in the manual on transport and travel procedures.

⁹ Such as, official agenda and hotel bills, indicating whether accommodation included breakfast and any meals.

Ministry for Tourism

Ministry for Tourism

Creditors and Accruals

Deficiencies in the creditors' control procedures, both within the **Ministry for Tourism** and the **Institute for Tourism Studies**, led to creditors' balances as well as accruals not being reported in full at year-end. The National Audit Office (NAO) is also concerned about the lack of awareness by the Institute for Tourism Studies of the pertinent Circulars relating to creditors and accrued expenditure.

Background

As an introduction to the eventual transition of Government Departments to accrual accounting, the then Ministry of Finance (MF) had issued MF Circular No. 10/2001 entitled 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors'. The circular covers the procedures necessary for the proper management of debtors and creditors within every Ministry and their respective departments. The Treasury (TR) also issued TR Circular No. 3/2003 – 'Government Accrual Accounting: Procedures for the Management of Prepayments, Accruals and Capital Commitments', which circular establishes the procedures necessary for the management of prepayments, accruals and capital commitments within ministries and departments.

Amongst other things, both circulars stipulate that a suitable Officer within the Department concerned is to be responsible for the maintenance and updating of information relating to creditors and accruals. These records are to be updated to reflect accurate and precise details of the amounts payable by the Department and a quarterly analysis shall be submitted to the Accountant General.

To this effect, in accordance with TR Circular No. 9/2017 – 'Closing of Accounts for Financial Year 2017', the analysis of creditors and accrued expenditure as at 31 December 2017 was to be submitted by 15 January 2018.

Audit Scope and Methodology

The scope of this audit was to analyse whether the Ministry for Tourism (MOT) and the Institute of Tourism Studies (ITS) were abiding with the respective circulars, in presenting accurate and timely reports. It also aimed to provide reasonable assurance on the effective controls employed by the auditee with respect to creditors and accrued expenditure.

The documentation provided by the Ministry and ITS in support of the amounts of creditors and accrued expenditure reported as at end 2017 was scrutinised to ensure adherence to the requirements of the pertinent circulars.

Completeness was checked through a verification exercise, ensuring that all payments made during 2018¹ as per Departmental Accounting System (DAS), in respect of invoices raised before year-end 2017, were duly recorded as payable. Randomly selected creditors (refer to Table 1) were requested to confirm the balances due to them by the MOT and the ITS respectively, by means of direct communication to this Office. Several names from the list of creditors were also vouched against the related transactions reported in DAS in 2017 and respective supporting documentation, including invoices, payment vouchers and receipts.

¹ Report from DAS was extracted on 22 June 2018.

Table 1: Circularisation Exercise Sample

| | Ministry for Tourism | Institute of Tourism Studies |
|---|----------------------|------------------------------|
| Total Creditors | 38 | 37 |
| Value of Total Creditors (€) | 535,192 | 167,637 |
| Number of Selected Creditors ² | 20 | 20 |
| Value of Selected Creditors (€) | 229,717 | 160,138 |
| % of Number of Selected Creditors | 53% | 54% |

Meetings were also held with personnel within the two entities concerned, to identify the procedures in place for the management of creditors and accrued expenditure.

Limitation on Scope of Audit

From the sample of a total of 40 creditors³, the NAO could not confirm the existence of balances of 12 and 9 suppliers selected for the MOT and ITS respectively, since the suppliers in question did not submit a response confirming their outstanding balance.

Findings

Implementation of Accrual Accounting

The overarching concern revealed from this assignment was that both the MOT and ITS were not adequately prepared for the transition to accrual accounting.

Recommendation

Attention is to be given by Central Government to ensure that prior to the implementation of new systems within Ministries and Entities, a capacity building programme is undertaken thereby ensuring that an adequate number of qualified personnel is available to be able to lead this transition.

Management Comments

In the case of the MOT, we have a huge problem with the lack of HR in place especially in the accounts and procurement departments. This problem has been persisting over the last years. Obtaining approvals to proceed with the publishing of calls for vacant positions is deteriorating our capacity building process within the Corporate Services Directorate even further. Moreover, calls for the above-mentioned departments are being centrally managed. This means that the issue of extreme urgency the Ministry is faced with when it comes to recruitment, and the issuing of calls, is not being given the significant importance it requires. The situation is becoming rather critical as we are unfortunately unable to fulfil quality assurance and internal control processes correctly and efficiently. Furthermore, the lack of HR is resulting into a situation with one Officer has to carry out the duties that are normally carried out by two or three different Officers and this is not healthy, neither for the Officer nor for the Office working environment.

² These 20 creditors were randomly selected from the list of Creditors provided by MOT and ITS.

³ 20 creditors each were randomly selected for MOT and ITS respectively.

Lack of Awareness of Relevant Circulars

From a meeting held with senior staff at the ITS, it transpired that they were not aware of the pertinent Circulars relating to creditors and accrued expenditure. They also verbally claimed that no specific training on accrual accounting or handover was provided to them; thus, their knowledge was limited to their experience on the job.

Recommendation

Officers in the Accounts Department are to familiarise themselves with the relevant Circulars, particularly in view of the transition to accrual accounting. Furthermore, staff working in this field should be encouraged to attend training sessions provided by Government in this regard.

Management Comments

No handover was ever provided as ITS did not have a Finance Manager from the time the new management was appointed. A Finance Manager was appointed mid-January 2018. The relevant Circulars were handed over by the NAO auditors and have been reviewed accordingly. The Finance Manager will ensure reporting of accruals as per circulars. Training sessions provided by Government will be identified and staff will attend the respective courses.

Creditors as at Year End not reported in the respective Return

A review of the Purchases Ledgers of the MOT and ITS revealed various omissions from the respective creditors' list, thus understating the Payables balance accordingly. Table 2 below refers.

Table 2: Omissions from Creditors' Lists

| | Ministry for Tourism € | Institute of Tourism Studies € |
|---|---------------------------|-----------------------------------|
| Total reported as at 31 December 2017 | 535,192 | 167,637 |
| Value of invoices not recorded | 155,009 | 48,848 |
| Discrepancy (Amounts not recorded in Creditors' List) (%) | 29% | 29% |

Given the limitation of the DAS⁴, as well as the inadequate records on creditors maintained by both entities, NAO confirms that the quoted understatement is not exhaustive. According to the former, although dated in 2017, certain invoices were not yet available at the time the report was generated. However, NAO noted that some of the related expenses were also not accrued for.

Recommendation

In view of Government's move towards accrual accounting, the responsible officers are to ascertain that all unpaid invoices as at the date of submission of the returns are duly included. In addition, a proper mechanism should be in place to ensure that amounts not yet invoiced are accurately accrued for at each financial reporting period.

Management Comments

MOT stated that a table (excel format) is being updated with the details of the invoices that are in hand and still not paid. This list is being updated on a daily basis. We have set a target to pay all invoices within the 30 days credit limit when possible. Otherwise, action to follow pending invoices is to be taken from the Accounts Section to verify why payment is not yet processed. This is being carried out on an ongoing basis.

⁴ DAS operates on a cash-basis, implying that only paid purchases are included in reports generated from the said system.

ITS replied that *since the deadline for submission of returns is in the first 15 days after end of quarter, some invoices may not have reached the Finance Department. Our Finance Manager will make all the efforts to include all the invoices in the respective end of quarter creditors report.*

Amounts erroneously accounted for as creditors

A request for payment for €150,000 made on 5 December 2017, but covering service from January to March of the following year was erroneously included as a creditor in the Creditors' Return of the MOT for 2017.

On the other hand, a review of the Creditors' List provided by the ITS revealed that invoices from two separate service providers, in aggregate amounting to €29,977, were erroneously included in the Creditors' Return when such invoices were settled during 2017.

Recommendation

The exercise on creditors and accruals at year-end should be thorough, in order to publish accurate figures under the respective categories.

Management Comments

Recommendation was accepted.

Results of Circularisation Letters

From the 19 responses received⁵ from suppliers, following the circularisation letters, seven balances disagreed with the balance recorded by the respective entities. In five of these cases, this was either due to unrecorded invoices and/or unrecorded payments by the Government entities. In the other two cases, the suppliers erroneously stated that the entities had no pending balances at year-end; however, it transpired the amount due was in fact settled in 2018.

Recommendation

A regular reconciliation is to be carried out through a Payables Control Account to ensure completeness and accuracy of the related figures. To this effect, regular statements from all suppliers are to be obtained to reconcile the respective balances.

Management Comments

As recommended, MOT is to perform regular reconciliation through a Payables Control Account to ensure completeness and accuracy. Furthermore, as at January 2019, the new financial system CFMS⁶ is going to be operated thus minimising this risk since the system caters for electronic processing and updates of payments, etc.

Currently, the reconciliation between the DAS Payables Control Account and the supplier statements is being done every three months by ITS. Since the Finance Department now has the full staff complement, reconciliations will be made on a monthly basis.

⁵ NAO received 8 responses relating to MOT and 11 responses relating to ITS.

⁶ Being the accrual accounting package, namely Corporate Financial Management Solution, which will eventually replace DAS.

Deficiencies in the Creditors' Control Procedure

During meetings held with officials, from both the MOT and ITS, a number of deficiencies were noted with respect to the control procedures in place. Amongst others, this included invoices not formally authorised by the relevant personnel⁷ before processed for payment. A complete list of all the invoices received during 2017 and their status was also not available.

Recommendation

Full audit trail on the upkeep of creditors is to be maintained to ensure that a complete history of creditors is maintained. Moreover, invoices are to be duly authorised and endorsed by the appropriate level of authority before processed for payment.

Management Comments

Recommendation was taken on board by MOT and ITS.

⁷ From a sample of 14 invoices relating to the ITS, reviewed by the NAO, 11 invoices were not formally authorised by the relevant personnel. In addition, none of the invoices reviewed was certified correct.

Ministry for Home Affairs and
National Security

Ministry for Home Affairs and National Security

Creditors and Accruals

Considerable omissions from the creditors' lists and accrued expenditure, as well as computational errors in the calculation of accrued expenditure at year-end, were encountered. Consequently, the information being compiled is insufficient to provide meaningful information for financial decision making, which is the ultimate aim of accrual accounting.

Background

Government departments are obliged to follow the guidelines outlined in MF Circular No. 10/2001 titled 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors'. These require Ministries and Departments to adopt a proper set of procedures for the adequate management of debtors and creditors and to effect timely submissions of returns to the Accountant General, amongst others.

In accordance with Treasury Circular No. 17/2016 – 'Treasury Financial Data Transmission Calendar for 2017', the analysis of creditors and accrued expenditure as at end of December 2017 was to be submitted by 15 January 2018.

Audit Scope and Methodology

The scope of the audit covers the Ministry for Home Affairs and National Security (MHAS) including the relative departments and entities falling under its responsibility, namely:

- Armed Forces of Malta
- Civil Protection Department
- Correctional Services
- Malta Police Force
- Probation and Parole Services

The objective of this audit was to evaluate compliance with the applicable provisions regulating the preparation and submission of information relating to creditors and accruals for the year 2017. Furthermore, the effectiveness of procedures and existing controls was to be determined.

Besides holding a meeting with responsible officials, the Creditors' Lists were scrutinised to ensure conformity with the requirements of MF Circular No. 10/2001. Completeness of the said lists was also checked by verifying that payments made during 2018 as per Departmental Accounting System (DAS)¹, in respect of expenditure pertaining to 2017 and before, were duly recorded as creditors or accrued expenditure at year-end.

A sample of 99% of total creditors reported at year-end by the Ministry, AFM, Correctional Services and Police Force was selected on the basis of materiality for the purpose of obtaining third-party evidence by means of balance confirmation letters. Table 1 refers.

¹ Cut-off date: 25 June 2018.

Table 1: Creditors Sampled for Circularisation Letters

| MHAS | Total Creditors € | Sample € | % Sampled |
|-----------------------|----------------------|------------------|-----------|
| Ministry | 790,624 ² | 789,083 | 99 |
| AFM | 474,490 | 474,299 | 99 |
| Correctional Services | 42,589 | 40,336 | 95 |
| Police Force | 131,898 ² | 118,726 | 90 |
| Total | 1,439,601 | 1,422,444 | 99 |

Similar testing could not be performed on the Civil Protection Department as, in this case, the only creditor reported, amounting to €113,592, related to a company that changed ownership during 2010 and has since been placed into liquidation. Probation and Parole Services did not report any creditors at year-end.

Control Issues

Divergences between Confirmation Letters received and balances in Creditors' Lists

No response was received in 28% of the cases where the creditors' confirmation letter was requested. On the other hand, 85% of the balances received were in disagreement with the payable balances as included in the relative Creditors' Lists.

Concerns related to Information provided

Ministry

- a. Various bills from different suppliers, amounting to €36,828, were completely unaccounted for.
- b. Three invoices received by the Ministry, collectively amounting to €5,166, for services rendered during December 2017 but dated 2 January 2018, were incorrectly accounted for as creditors instead of accrued expenditure.
- c. The creditors' list also contained various expenses, totalling €41,545, which, according to the Ministry, were included following instructions by MFIN officials, instead of being accounted for as accruals.
- d. The creditors' list included refunds due to nine officers, in aggregate amounting to €1,147. Following a review of the related workings by the Salaries Section, it transpired that these were overstated amounts requested as refunds from the employees in question. Justification why these amounts were still pending from March 2017 was not given; however, NAO was informed that these would be settled imminently.

² Excluding unpaid subsistence allowances and reimbursements, as applicable.

Management Comments

- a. *Note has been duly taken so that all expenses are accounted for under accruals or creditors according to the actual commitment or invoice. You may wish to note that an Internal Memo namely DCS Memo 1.2018 was also issued to try and minimize these instances. However, this Office shall issue a further memo to instruct all Accounting Officers to ensure correct reporting.*
- b. *The invoices amounting to €5,166 were inadvertently not listed as accrued expenses, then our Accounts Section was requested by Treasury Accrual Accounting Section to amend the list of Creditors for the year 2017 and list these invoices under Creditors for 2017, even though the date of these invoices was 2nd January 2018.*
- c. *These creditors were so listed following instructions by Treasury Accrual Accounting Section. In such instances, our Accounts Section cannot list these amounts as due at the end of the year, since we receive the relevant paperwork following the return of officers from abroad and after verification of receipts is carried out and eventually approved. Hence, such amounts cannot be listed as either accrued or creditors at the time of reporting since documentation is not yet in hand, and it is not always the same amounts and not in each case are such amounts due. In fact, in certain instances, following verification of receipts of expenses incurred (and may I say in most of the instances) an amount is refunded to the Ministry by the respective Officer.*

Armed Forces of Malta

- a. *A list of invoices to support creditors amounting to €474,490, recorded as balance at end 2017 by AFM, was not made available upon request. The creditors list provided only showed a number of outstanding invoices pertaining to the year 2015.*
- b. *Invoices for fuel and food, dated 2017 but settled in the following year, were neither taken into consideration by AFM when compiling the Creditors return, nor accrued for. From a rough calculation it was estimated that these amounted to €171,184 and €24,273 respectively. However, this quantification is not exhaustive.*

Management Comments

The list provided, listing the 2015 creditors, was inadvertently submitted instead of that for year 2017. The list of invoices to support the creditors' amount as at end 2017 is now provided.

Expenses accumulated at end 2017 and paid for in 2018 were noted. It is remarked that the AFM procures emergency rations mainly for Maritime Squadron crew who are deployed on board offshore vessels for a number of days. Usually these rations, which will also include fresh items, are procured very close to the date of the patrol. Furthermore, part of the patrols are not scheduled beforehand and the crew is recalled from their home as per operational requirements. Having said that, discussions are ongoing with the AFM in order to improve the dissemination of information from the Logistics/Procurement Section to the Accounts Section so as to ensure that all controls are in place and correct reporting is carried out especially in emergency cases where rations need to be procured.

Civil Protection Department

Payments effected during 2018 in respect of invoices dated up to 31 December 2017, amounting to €8,722, were neither considered as creditors nor accrued for at year-end. It was claimed that none of these invoices were received by the end of 2017.

Management Comments

With reference to the issue of the amount of €8,722 in invoices dated 2017 but paid in 2018, which were not reported as accruals or creditors, in most cases the problem was created due to not issuing an LPO on an estimated cost. This office is informed that most of the invoices pertain to mechanical and/or electrical works conducted on vehicles, whereby the exact amounts are not known before initiating repairs on the particular vehicle. However, CPD shall be issuing an internal circular so that all Officers are duly informed that they do not only require the approval of the Director CPD to carry out the necessary repairs, but they will need to request Accounts to issue an LPO which may then be amended should more faults be discovered and the cost is higher than the original estimate. This will eliminate the problem of shortfall of reporting because Accounts can at least report these expenses as accrued, although in certain instances this may still not be the whole amount due if the repairs are still ongoing and the final amount is not yet known. The lack of reporting the accrued expenses as creditors is due to the fact that the invoice is not presented in time, which sometimes is from the suppliers' end.

Furthermore, the afore-mentioned circular shall also be specifying that all invoices are to be submitted to the Accounts Section by the end of each month, so as to eliminate as much as possible erroneous reporting as accruals, when these should be reported as creditors.

Correctional Services

Expenditure, amounting in total to €54,666, was neither traced to creditors nor accruals. It was confirmed that no accrual was made in the case of food, fuel (Liquefied Petroleum Gas) and photocopier/printer expenditure, in respect of which, payments of €18,302 were still due at year-end. No explanation was given with regard to the remaining balance, falling under different categories, amounting to €36,364.

Management Comments

With reference to the comments regarding the lack of reporting as creditors or accruals the amount of €54,666, the Correctional Services Division shall be following the new memo to be issued by the Ministry and this shall also include the instructions, as in the case of the Civil Protection, to request suppliers to provide the invoices by the end of the month, which issue is not completely in the control of the respective Division/Department.

This Office is also informed that in certain instances the invoices submitted pertained to items procured in the past and no information could be traced until the respective contractor/s requested payment and the invoice verified following investigation and obtaining of evidence that such items were in fact procured. This was already addressed in the respective memo and the issue of correct reporting will be addressed in the new memo to be issued by the Ministry.

Malta Police Force

- a. An amount of €325,352 related to invoices dated up to 31 December 2017 but paid during 2018; however, these were neither recorded as creditors nor as accrued expenditure. From the foregoing, an amount of €5,714 related to invoices dated between 2013 and 2016. The Officer in Charge provided the following limitations for the omissions:
 - invoices in transit;
 - invoices in respect of which goods and services were not confirmed as received/delivered; and
 - invoices for which no commitment was ever made and therefore no records exists within the Accounts section.
- b. Subsistence allowances amounting to €4,397, payable to officers for overseas visits arranged at short notice, were included with creditors instead of accrued expenditure.
- c. An accrued expenditure relating to utility costs payable to Malta International Airport was understated by €6,748.

Management Comments

- a. *Although the department endeavours to include all known invoices on the list, this is not always possible due to the reasons already outlined in the report. Police Department shall also be receiving the new internal memo explaining correct reporting and also to ensure that invoices are collected from suppliers on a monthly basis.*
- b. *The amounts related to subsistence allowance were included as Creditors following instructions from the Treasury Accrual Accounting Section. After each exercise, the Treasury goes through all relieved commitments and instructs the Department to include such commitments in the Creditors list.*
- c. *Since the usage of the period being reported on would not be yet known, the accrued amount reported is an estimate based on the last amounts paid for the particular utility and area. Consequently, if bills result to be higher there will be an understatement in the Accruals template.*

Recommendations

Particular attention is to be given to the correct application of cut-off procedures, to ensure that expenditure pertaining to a particular period is recorded accordingly. A clear distinction is to be made between payables and accruals, so that invoices dated before year-end and still unpaid are accounted for as creditors whilst amounts due, which are not invoiced by the end of the period, are accrued for.

The following recommendations may also be considered in order to enhance the accuracy of amounts recorded in the return and facilitate the transition from cash to accruals based accounting:

- Adequate training is to be given to accounting staff.
- Local Purchase Orders are to be raised prior to every procurement. Besides ensuring that funds are committed, this facilitates the accounting procedures at year-end.
- Any computations are to be checked for accuracy prior to effecting payment and pending amounts settled without undue delay.
- Quarterly statements are to be requested from suppliers and the respective balances reconciled.
- Procedures are to be in place so that invoices reach the Accounts Section within a reasonable time to be properly accounted for at the end of the financial year.
- Invoices are to be rubber stamped with the date of receipt, thus enabling external parties to confirm whether these were received prior to or following the submission of the respective returns to Treasury.

Information and Communication Technology

Expenditure Audit

NAO identified control weaknesses in the management of fixed assets. Other shortcomings in procurement related matters were also noted.

Background

The audit covered expenditure incurred by the Ministry for Home Affairs and National Security (MHAS) in 2017, from Capital Vote XV, Line Item 7001 - Information and Communication Technology (ICT). The initial approved estimate for the year under review was €3,880,000 while the actual expenditure amounted to €4,351,997.

The Chief Information Officer (CIO) prepares the total ICT budget requirements for the following year and submits it to the Budget Office within the Ministry for Finance (MFIN) through Malta Information Technology Agency. This would cover the requirements of MHAS, as well as the five entities falling under its portfolio, namely Armed Forces of Malta, Civil Protection Department, Correctional Services, Malta Police Force and Probation and Parole Services.

Audit Scope and Methodology

The objectives of the audit were to verify that during financial year 2017, expenditure incurred on ICT was duly authorised and properly accounted for, and that procurement was in line with the regulations, as well as other relevant circulars. The procedures for the administration and management of ICT inventory items were to be analysed. In this regard, a sample of payments, amounting to €1,628,542, was selected on the basis of materiality, from suppliers¹ who in aggregate were paid in excess of €10,000 each during the year.

Limitation of Scope

Files concerning ICT expenditure amounting to €348,692, pertaining to the Malta Police Force, were not made available to NAO. This limited the audit scope since the planned testing could not be performed.

Management Comments

Files and/or payment vouchers concerning ICT expenditure amounting to €348,000 (or any other expenditure for that matter) can certainly be made available for perusal if the NAO still wishes to do so.

¹ With the exception of one service provider who was subject to an NAO investigation.

Key Issues

Inadequate Inventory Management

Fifty desktop computers were procured by MHAS on behalf of the Malta Police Force in December 2017 for a total cost of €49,954. The following concerns relate:

- a. The computers in question were not recorded on a Fixed Assets Register or inventory database that meet the expected standards for good asset management. Records held at the Malta Police Force are kept on a bespoke computer program which excludes basic information, such as date of purchase and cost price. On the other hand, records of the same computers held by MHAS on the Asset Management System do not include cost, exact location and officer to whom the individual items were assigned.
- b. Room inventory lists were last updated in December 2013. Furthermore, NAO was informed that IT equipment was not recorded on such lists, while basic information with respect to the other recorded assets was also lacking.
- c. Enquiries performed during an onsite inspection revealed that Malta Police officers in charge of inventory were not aware of the pertinent regulations.

Recommendation

A proper fixed assets register is to be compiled in accordance with the respective guidelines without undue delay. Besides exerting better management and control over the custody of Government-owned assets, this will assist the Police Force in preparation for the forthcoming implementation of the accrual accounting across government.

Management Comments

Records of purchased computers are recorded on the Asset Management System. This system is managed by MITA but does not cater for cost, location and details of the officials to whom computers are assigned. All this information is, however, kept separately and updated regularly by the Office of the CIO on an inventory database kept by the CIO. Unfortunately, given that computers were being delivered directly at the Malta Police Force (MPF) by the supplier, the inventory database of the CIO was not updated with such information. Conversely, MPF were under the impression that inventory of computers delivered to their end was being recorded and kept updated by the Office of the CIO.

As from now on, computers assigned to MPF will also be integrated in the inventory database maintained by the Office of the CIO, including cost and username of the official to whom the computer is being assigned. In the meantime, MPF will start compiling a fixed assets register in anticipation of the introduction of the accrual accounting system as recommended by the NAO.

Stock of Unutilised Computers

The first computer was only assigned to a user more than four months after purchase. Moreover, according to Malta Police Force records, by the last week of September 2018, nearly half (23) of these computers were still unutilised in the stores. In the meantime, their three-year warranty was running and expires by the end of the year 2020. The respective licences were also paid accordingly.

Recommendation

In view that the supplier (through Malta Information Technology Agency) was bound by contract to deliver the computer orders within a reasonable timeframe in line with Schedule A, Article 1.9, one is encouraged to keep stock to a minimum and request quantities from the supplier as necessary.

Management Comments

It is important to underline that a stock of computers needs to be kept at MPF at all times to meet requirements such as:

- *replacement of faulty computers so as not to hinder investigations or operations at various specialised Units and Police Stations while new computers are being purchased;*
- *readily available computers to open urgent investigations that have to be urgently initiated without any prior notification;*
- *computers available for the setting up of operations' rooms for emergencies and large scale situations or events;*
- *computers purchased in anticipation of new recruitment which does not always materialise for one reason or another, such as applicants failing interviews or withdrawing interest after having previously applied for a vacant position advertised by MPF.*

In view of the above, this Ministry feels that a stock of computers must be retained at all times by MPF.

However, note has been taken of the NAO's recommendation of keeping such stock levels at a minimum and it has now been agreed that not more than 10 computers will be kept as back up at any given time. No fresh computers will be delivered to MPF without first taking into account the level of stock of computers at MPF.

Control Issues

Approval not obtained for Maintenance Expenditure of Handheld Devices

During 2014, the Police Force was granted approval to purchase 30 handheld biometric devices for use by border control officers through negotiated procedure. These were co-financed from the European Borders Fund (2013). The procurement of these devices included a five-year maintenance plan, of which the first year was incorporated in the contract value and the remaining four years until 31 May 2020, were to be eventually disbursed from local funds. Although, the maintenance cost for the four-year period in question amounted to €347,408, the required MFIN approval, to acquire maintenance service from the same service provider, was not sought.

Although officials verbally confirmed that no additional devices had actually been purchased, NAO noted the approval of the General Contracts Committee on 1 June 2018, for a negotiated procedure for the procurement of handheld biometric devices at the estimated cost of €173,703. This corresponded to the maintenance costs for two years.

Recommendation

Procurement is to be invariably made in accordance with the prevailing regulations and the necessary approvals obtained before commitments are entered into.

Management Comments

This Ministry can confirm that the amount of €173,703 covered maintenance costs for the period June 2018 to May 2020. Inadvertently, approval to cover maintenance costs for the whole 4 years was not sought after the first year of the maintenance plan expired. Once this misjudgement was identified, approval was sought for the remaining two years of the maintenance plan.

It is important to note that this was not specifically a direct order for the provision of maintenance costs since it is clear that such services were to be provided by the same supplier who had been awarded the contract following the initial negotiated procedure.

Estimated Amount approved for Negotiated Procedure exceeded

The Department of Contracts granted approval to enter into a negotiated procedure with one of the local service providers to upgrade the infrastructural set up for Emergency Services and the Single European Emergency call number for the estimated value of €3,422,000 (€2.9m excluding VAT). However, the total value of the agreement signed between MHAS and the services provider on 26 April 2017 amounted to €3,475,100, exceeding the approved amount by €53,100.

Recommendation

The Ministry is to ensure that approvals obtained are sufficient to cover planned expenditure. Any shortfalls are to be addressed prior to entering into additional commitments.

Management Comments

The difference (€53,000) between the DOC approval (€3,422,000) and the value of the agreement (€3,475,000) was brought about by the decision (taken after approval was sought) to purchase 50 rugged devices (tablets) which were to be used by patrolling officers while answering to distress calls on the 112 system. The rugged devices enable faster location of distress callers since information is available in real time on the tablets themselves instead of waiting for the information to be relayed over the phone/radio from the 112 operations centre. DOC approval to cover this additional cost, not included in the original estimate of costs, has now been sought.

Malta Police General Fund

Expenditure

The NAO questions the sustainability of the **Malta Police Fund** in view of its substantial financial obligations, especially those arising from the winding down of the Mutual Fund. Some control issues reported on in previous years still prevail.

Background

The Malta Police General Fund (MPGF) was set-up in November 1919 and has, to-date, been managed by the Commissioner of Police for the general benefit of the Force. All members of the Force are to make a mandatory financial contribution every three months; the amount varies according to the respective grade. As from 1 January 2018, the applicable contribution started being deducted directly from each officer's salary unless one opted to continue paying in cash. As at September 2018, a total of 1,978 officers, representing 99% of the Force, were paying their contribution by direct debit.

Members of the Force were also given the option to continue paying a standard contribution of €13.98 per annum to the Mutual Fund¹ once they retire. However, the Committee responsible to manage this Fund decided that this was to be terminated as from January 2018 and no further contributions by retired members were to be made from that date onwards.

The Final Accounts submitted for audit were split in two separate Income and Expenditure Statements; one based on cash receipts and payments and one that included only amounts of income and expenditure that were still outstanding at year-end. Actual aggregate income recorded as received in 2017 amounted to €118,825 (2016: €128,992), while expenditure totalled €98,230 (2016: €133,954), resulting in a surplus of €20,595. As at 31 December 2016, closing cash balance was €93,104. However, accrued income and expenditure amounted to €67,781 and €147,676 respectively, ending the year with a net outstanding expenditure figure of €79,895. Thus, a net surplus position of €13,209 resulted.

Audit Scope and Methodology

The main scope of the audit was to assess the level of internal controls prevailing in the management of the MPGF, and to determine whether day-to-day operations reflect efficient administration of the Fund, in line with the applicable circulars.

Meetings were held with both the Accounting Officer and the Officer in charge of the contributions' collections to identify any developments from the previous year. Audit fieldwork was then undertaken to confirm the current processes in place.

¹ This formed part of the Malta Police General Fund.

Limitation on Scope of Audit

The contribution due to the Malta Police Association (MPA) is stipulated in Circular No. 91/98; however, no other documentation was available with respect to the relationship between the latter and the Malta Police Force (MPF), setting out the respective obligations. Moreover, the outstanding amount of €19,174, due to MPA since 2014, was not substantiated.

Key Issue

Financial Sustainability of the Malta Police General Fund

In 2017, the MPGF made a surplus of €13,209 (2016: €402). However, following the termination of the Mutual Fund, as indicated in the Introduction, compensation was planned to be given to its 1,116 retired members who were to benefit from the Fund in question.

It was initially estimated that the amount due was approximately €671,385, excluding interest. The payments from the MPGF will be staggered over a number of years, with preference given to the oldest members. However, this scenario does not give any comfort for the sustainability of the Fund in the near future.

Recommendation

NAO is of the understanding that the Committee will be revising the amount of contribution to be paid by the Members of the Force and to establish the maximum expenditure for each party organized. However, a concrete action plan will be required to accumulate enough funds to sustain the purpose of the MPGF whilst also settling the amounts promised to Mutual Fund Members.

Management Comments

The recommendation will be taken into consideration by the ad hoc committee.

Control Issues

Unclear Purpose of the Fund

As reported in the previous two years, Circular No. 79 of 1980 stipulated that the principal purpose of the MPGF is the welfare of officials who, for some reason or other, pass through hard times and would require assistance. It also indicated that other activities of benefit to members of the Force, though not connected to personal hardships, can also be financed through this Fund, highlighting, as a case in point, the learning of foreign languages. This was somehow addressed by the Committee in March 2018 when the apportionment of the amounts in the MPGF was established as follows:

| Department | Apportionment |
|-------------------------|---------------|
| Parties | 50% |
| Mutual Help | 35% |
| Welfare | 10% |
| Administrative Expenses | 5% |
| Total | 100% |

However, it is doubtful whether MPF's current financial obligations will be met.

Recommendation

When preparing its budget, MPF is to ensure that it gives priority to meet its financial commitments with the members of the Force before establishing budgets for other activities.

Management Comments

The recommendation will be taken into consideration by the ad hoc committee.

Fragmented Accounting Information

The financial statements provided were once again a combination of cash and accrual accounting. Apart from providing a misleading picture, this is also considered an unreliable basis for strategic decisions that may be taken thereof.

Recommendation

NAO reiterates the need that financial records are drawn up on an accruals basis. Ideally, a Statement of Financial Position, wherein all assets and liabilities, including prepayments, accruals, receivables and payables amongst others, shall accompany such records.

Management Comments

The recommendation will be taken into consideration by the ad hoc committee.

Christmas and Police Day Social Activities

Eleven invoices pertaining to the Christmas and Police Day 2017 Social Activities, amounting to €30,930, remained pending by end of year and were paid in 2018. The majority of the invoices were neither detailed nor supported by a signed delivery note.

Recommendation

MPF is to ascertain that all expenses are thoroughly checked to ensure their correctness prior to the respective payment. They are also expected to be endorsed, evidencing such verifications.

Management Comments

Recommendation being adhered to and the procedure as per current financial regulations is being adopted also in regards to the MPGF.

Ministry for Health

Mount Carmel Hospital

Stock of Medicines and Surgical Materials

A number of control weaknesses were encountered regarding the **Stock of Medicines and Surgical Materials** kept by **Mount Carmel Hospital (MCH)**, particularly in wards. This also included the lack of traceability of medicines up to Patient Dispensing Level. Other major concerns were the inadequate security measures for stores and the absence of continuous back-up provision in case of power failure in Pharmacy Stores.

Background

According to its mission statement, MCH aims to promote mental health within the Maltese society by providing, through specialist multi-disciplinary teams, a comprehensive and integrated range of community and hospital services. Whilst MCH requests and receives medicines and surgical materials solely from the Central Procurement and Supplies Unit (CPSU) within the Ministry for Health, no payments are effected by the former for such stock.

Most of the medicine stock is held in two separate locations at MCH, referred to as the Pharmacy and the Main Store, whilst minimal stock levels, as required, are held in the treatment rooms of the respective wards. Similarly, surgical materials are held in another store, with the wards keeping a minimal amount.

The value of medicines and surgical materials¹ ordered and dispensed by MCH during the last five years was as shown in Table 1:

Table 1: Value of Stock

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|-----------|---------|---------|---------|---------|
| Pharmaceuticals and medical devices purchased (€) | 1,046,536 | 697,118 | 790,694 | 782,485 | 789,441 |
| Pharmaceuticals dispensed (€) | 911,638 | 797,670 | 646,169 | 683,952 | 623,998 |
| Medical Devices dispensed (€) | 107,986 | 82,029 | 94,183 | 100,712 | 125,666 |

Audit Scope and Methodology

The audit was carried out to verify the adequacy and effectiveness of the stock control system in place at MCH with regard to medicines and surgical materials.

Meetings were held with the Advanced Pharmacist Practitioner, who is the Officer in charge of MCH Pharmacy and with the two Officers in charge of the Management Medical Material Unit (MMMU) Stores, in order to obtain an overview about planning, receiving and distribution of stock, storage, as well as related procedures and controls.

National Audit Office (NAO) officials obtained the lists of stock records and analysed the completeness of information held, as well as other documentation related to expired items in order to verify that the respective write-off approvals were in line with pertinent regulations.

¹ Value of opening and closing balance of stock was requested but not provided.

In addition, five wards across MCH were randomly selected to:

- interview staff;
- observe how medicines and surgical materials, particularly those associated with addiction and abuse, were stored and secured;
- review how access to such stock was controlled; and
- compare the stock quantities' in wards' registers to the physical stock in hand.

Key Issue

Inadequate Security Measures for Stores

All three stores at MCH relevant for the audit, namely the two locations holding medicines and the other for surgical materials, were not equipped with security alarms and/or cameras to mitigate the risk of theft and/or abuse.

Access to the Pharmacy and the stores holding surgical materials was still rudimentary by the traditional lock and key. This results in security risks, in view that keys can be copied, stolen or lost. Furthermore, such system does not track entry and exit, thus maintaining access log in the event of a security breach or emergency.

MMMU Officers confirmed that when neither of the two Officers in charge of the stores of surgical materials is present at the Hospital, such as during weekends, and a staff member requires item/s for the respective ward, the latter obtains the key from the Security Officer on duty. Although in such case, the individual should sign for the key accordingly, audit testing on a sampled period still revealed instances where no signature was found on the respective Key Register. It transpired that one of the MMMU Officers also had a copy of the Store's key.

Recommendations

Security control at the stores is to be enhanced, ideally through the installation of alarms and/or cameras, as well as with the introduction of a biometric reader to record entrance thereto, thus providing a safer and more secure environment. In the meantime, the Stores' keys are to be retained securely in the Security's Office and the register endorsed accordingly when access is requested, to ensure that adequate controls are in place.

Management Comment

The Hospital Management will be exploring other options (through the installation of cameras in the short-medium term, and possibly a biometric reader in the long-term) aimed at consolidating the security aspects.

The key to the Pharmacy is issued and deposited at the Security office, wherein a logbook is kept to register all movements.

Control Issues

No Inspections of Wards' Stock

Officers in charge of stores confirmed that stock control exercises carried out by the Pharmacy and MMMU exclude the storage areas within the wards, on the basis that such items are no longer under their responsibility. As a result, there is the risk that ward stock is not monitored to ensure that items are properly secured and dispensed, no medicine is left to expire, and that such stock is kept in the proper environment.

Recommendation

Periodic inspections of storage areas in the hospital wards are to be undertaken to ensure that adequate levels are maintained and stored, as well as to monitor expiration dates. NAO also recommends the inspection of items stored by the wards by retaining checklist records, indicating the inspection date, the respective ward and any relevant remarks.

Management Comment

Pharmaceutical ward audits are already being conducted in wards. The mainstay of these audits is qualitative in nature, although quantitative issues are also pointed out.

It is the duty of the charge nurse in each ward to conduct periodic inspections (at least monthly) in wards to ascertain that expired medicines are segregated from in-use stock. An internal memo has since been issued to re-enforce this. It should be noted that some medicines supplied by CPSU is being supplied with short expiry dates.

The system currently being rolled out in wards should help assure that adequate levels of medications in wards are maintained.

Ineffective Stock Control in Wards

NAO officials, accompanied by the Officers in charge of MCH Pharmacy and MMMU Stores respectively, visited five wards at random, to review the adequacy of inventory control of medicines and surgical materials at ward level.

In all the cases, whilst a stock register for dangerous drugs is maintained, no records are kept for the other medicine and for surgical materials. Thus, a physical spot check of these items could not be carried out.

Checks were also performed on three randomly selected dangerous drugs stored in each of the five selected wards, by comparing the balance as per stock register with the physical quantity. Some tablets were found missing in two of these wards.

Recommendation

Stock control in wards is to be improved to ascertain adequate supply and usage as well as prevention of expiration of products.

Management Comment

Currently, the stock management in wards is being consolidated. A system is being rolled out in wards with chronic patients whereby demands from wards are being made on a named patient basis.

Moreover, a ward top-up service is in place for a number of wards. This service will be rolled out when further technical manpower is made available.

Traceability of Medicines not extended up to Patient Dispensing Level

Nurses order medicine by ward through the respective forms. However, the distribution of such medicine to the in-patients was not being recorded for stock control purposes.

Recommendation

NAO acknowledges that, as from 2018, a new procedure has been adopted wherein wards are being requested to make their monthly order by patient name on a prescribed spreadsheet. However, in order to have a complete audit trail, the patient's medication profile is to be recorded in the System, so that items ordered from the Pharmacy for the respective ward are directly assigned to the respective patient.

Management Comment

Distribution of medicine to in-patients is being recorded on treatment charts. Although the running balance of the respective medicines is not maintained, the hospital management will also look whether this can be implemented at ward level.

Discrepancies found during Physical Stocktaking

On 20 February 2018, NAO compared the balance as per stock records provided as at said date, of 10 items falling within the category of surgical materials, to the amount actually in stock at the store and noted a number of discrepancies.

The officers in charge verbally stated that the positive variances represent surgical materials returned from the wards, which are not usually taken into account, thus the balances recorded in the system are not updated accordingly. No explanation was forthcoming with respect to the negative variances.

The same exercise was performed on 5 March 2018 on 15 randomly selected types of medicines.

According to the Officer in charge of MCH Pharmacy, the positive discrepancy in Methadone syrup was mainly due to measurement errors resulting from numerous successive withdrawals when dispensing the doses prescribed while the other variances were potentially due to data inputting errors, as well as errors in the actual quantity dispensed.

Recommendations

Returns from the wards are expected to be accounted for. Random spot checks are to be carried out in a more frequent manner. Furthermore, the stocktaking process is only complete if discrepancies are investigated and explanations are provided and documented.

Management Comment

Returns from wards are already being entered in the system. Discrepancies between physical stock and stock as per stock records can occur due to data entry errors.

Inadequate Back-up Provision in case of Power Failure

Certain medicines are stored in refrigerators due to their required storage conditions. For a period of approximately nine months, the two generators supplying the Pharmacy and Store respectively were not functional. These were only serviced on 12 March 2018, following related audit queries. Such stock, which amounted approximately to €38,000, would not have been fit for consumption, had there been a prolonged power failure.

Recommendation

In view of the relatively high cost of refrigerated medicines, generators are to be serviced on a regular basis so as to ensure a constant supply of electricity, thus avoiding interruption of treatment to patients.

Management Comment

The generators were recently serviced.

Management Medical Material Unit - Specific Control Issues

Control Weaknesses

The Officer in charge of MMMU is responsible for the ordering, receiving and dispensing of stock. Thus, there is no segregation of duties. This implies that internal controls in the procurement process are lacking.

In addition, MMMU confirmed that Standard Operating Procedures (SOP) are not documented and that the principal Officer in charge was not given a hand-over when he was assigned on the job, approximately three years before.

Another issue of concern is the fact that a database at MCH was not being used to its full potential by MMMU, when planning the wards' surgical materials orders. The Officer in charge was not aware of a Consumption (re-order) Report, which could be extracted from the system to determine the average monthly consumption calculated over the previous quarter. Requirements were being identified by queries from the database of each individual stock item. As a result, the ordering procedure is time-consuming and rather inefficient.

Recommendations

MCH is to enhance internal controls and address the issue of lack of segregation of duties, by, as far as possible, separating the duties involved in the procurement process.

SOPs are to be compiled and revised periodically to ensure uniformity of processes and business continuity. These, will also be adequate tools to transfer knowledge, especially in cases where new officials are assigned to the job.

Training is also to be provided to all officials using MCH's databases and systems so as to be able to capture the required information and generate the necessary reports.

Management Comment

The officer in charge of MMMU is to see that segregation of duties will be implemented whenever possible. One limitation is that the number of employees in the section is a limited one, thus a degree of overlap cannot be avoided. The process of compiling the Standard Operating Procedures is also to be initiated by the MMMU Official. On the other hand, the hospital management will be working to see to it that training on MCH databases and/or systems are made available to new recruits.

Inadequate Storage Location

During a visit to the store holding surgical materials, it was noted that the storage space is small and certain stock is not easily accessible, with the risk of injury to staff and/or damage to stored goods when these are being handled. The Officer in charge of MMMU also expressed concerns in this respect.

Recommendation

An adequate storage location is to be sought to prevent any potential hazards or accidents. This will also help to achieve an efficient flow of materials into and out of the store, as well as to be able to accommodate more stock as necessary.

Management Comment

The management is doing its utmost to maximise the existing floor area.

Pharmacy - Specific Control Issues

Expired Medicine in Wards

Expired and deteriorated medicine for 2017 totalled €2,166². However, during the year such medicine was being kept in the Treatment Room of the respective ward until notice of disposal is received from the Pharmacy.

Recommendation

Ideally, non-usable and expired medication is stored in a separate secure designated location, under the control of the Pharmacy, until its disposal. A record of all stock in this area is to be maintained by the respective personnel.

Management Comment

The expired and deteriorated medicine for 2017 had been collected from the Pharmacy. Records are always kept.

Inappropriate Labelling of Medicines in Ward Treatment Rooms

During the inspection, NAO noted that dangerous drugs kept in a particular ward were stored under lock and key as is required for good practice. However, containers holding loose tablets classified as dangerous drugs were not labelled with the batch number and the expiry date; thus, one cannot identify such tablets when their date expires.

Recommendation

Nurses in charge of wards are to ascertain that adequate labelling of tablets is in place to ensure safe dispensing of medicine, minimise adverse affects, as well as maximise the benefits of the treatment.

² Of which €2,025 consisted of non-dangerous drugs and €141 related to dangerous drugs.

Management Comment

Medicines supplied by the Pharmacy to wards are always issued with the expiry date and batch number. An internal memo will be issued to wards to retain the medicines in their original packaging.

Compliance Issues

Statutory Stocktake Reports not submitted

Whilst acknowledging that the yearly stocktake of medicines and surgical material was carried out in January 2018, a report showing the balances, values, discrepancies and amount of write-offs was not submitted to the respective Permanent Secretary and to the Auditor General, as required in terms of General Financial Regulations Article 103 and Treasury Circular No. 6/2004. At least for the last 10 years, the reports in question were not forwarded to NAO.

Recommendation

MCH is to ensure compliance with the established provisions in preparing and submitting these statutory stock reports on an annual basis.

Management Comment

The office of the Financial Controller is undertaking to start submitting the annual Stock take report to the Permanent Secretary (Health) and to NAO.

Mater Dei Hospital

Revenue from Foreign Patients

Information on medical services given to foreign patients at **Mater Dei Hospital** is not interfaced with the billing systems; thus it does not provide the comfort that the invoices raised are exhaustive. The anomalies encountered in the respective financial records that are inputted manually also cast doubt on the reliability of the related information. Additionally, a number of weaknesses were identified in the revenue collection process and efforts to collect public dues were found to be minimal.

Background

Mater Dei Hospital (MDH) is the primary state hospital serving mainly as an acute general hospital and offering a full range of services. The budgeted Government contribution towards the recurrent costs of the Hospital for 2017 amounted to approximately €225 million, representing 44% of the Vote for the Ministry for Health. Patients are admitted to MDH either through the Accident and Emergency (A&E) Department or through a referral by their doctor.

The audit covered fees charged by MDH to foreign nationals who do not qualify for free healthcare in terms of Subsidiary Legislation 35.28 Healthcare (Fees) Regulations. Financial Estimates indicated that estimated revenue for 2017 from Hospital Fees (Item 0434) was €150,000¹ whilst actual revenue recorded on the Departmental Accounting System (DAS) in this respect amounted to €581,858. Furthermore, it was noted that the amount recorded as still due to Government in this regard has been increasing at an alarming rate over the years. In fact, MDH started the year under review with over €4 million accrued revenue; €1,001,596 of which pertained to 2016.

Audit Scope and Methodology

In view of the substantial increase in the arrears of revenue, the scope of this audit was to analyse whether during financial year 2017, bills charged to foreign patients were exhaustive and properly raised, while revenue was duly received and satisfactorily accounted for. The administrative and management procedures covering the billing process, as well as the adequacy of internal controls, were also assessed.

In order to perform a walkthrough test, a random sample of 10 invoices, was selected from invoices generated by the Billing Section for the month of October 2017. As from the inception of the audit, it was evident that the audit trail was incomplete. As a result, detailed substantive testing was deemed futile as it would not have yielded meaningful conclusions.

¹ This excludes the reimbursement of healthcare costs for services provided in Malta on behalf of other countries.

Limitation of Scope

The scope of the audit was hindered due to the following concerns, which are explained in further detail later on in this report:

- the two systems used to generate invoices do not interface with the clinical software systems;
- electronic information regarding medical services provided to a patient from the various departments within MDH is not integrated;
- bills charging foreign patients who are ineligible for free healthcare are generated on the basis of handwritten details listed on pre-printed forms. Thus, the completeness of the information is not guaranteed;
- differing interpretations are being given to the subsidiary legislation stipulating fees charged to foreign patients;
- various fees charged for different medical procedures are not covered by legislation and therefore are not legally sanctioned; and
- there is no control to ensure that all foreign patients who are not entitled to free treatment are billed accordingly upon discharge from MDH.

In view of the above, NAO could not confirm whether bills raised were comprehensive, income was adequately accounted for by MDH, and the respective deposits effected in the public account.

Key Issues

Unreliable Billing Process

Various departments within MDH operate on different clinical software systems, resulting in unconsolidated information regarding medical services provided to a patient. Furthermore, the foregoing are not connected to any of the two billing systems, thus it cannot be ensured that all services administered are charged accordingly.

Billing Officers generate invoices from the accounting system after the inputting of information is recorded manually on the Return of Foreign Patient (ROFP) forms. It was verbally claimed that, at times, they have to consult the ward clerk orally, in order to establish the medical procedures performed on a foreign patient. Walkthrough testing confirmed NAO's concerns, as three of the ten bills checked were not comprehensive of all services given².

Recommendation

Considering the increasing demand by foreigners for the Hospital's services, the establishment of a comprehensive patient billing system is to be given priority. This is expected to be automated and fully interfaced with other hospital information systems, such as medical records and clinical systems.

NAO is aware that, in January 2016, a call for tender was issued by the Department of Contracts for the Provision of a MDH Billing Service, but a contract in this respect was still not signed by the time the audit was concluded. This Office requested information on the current status of the tender, since at one point it was put on hold, but no reply was forthcoming.

² MDH confirmed that it is customary to charge for medical procedures which are not specified in the prevailing legislation.

To this effect, the Ministry is encouraged to take a decision on the best way forward without undue delay. The proposal should be cost-effective whilst also enabling the simplification of the revenue collection process, to enhance manageability.

Management Comments

Comments on the accuracy and completeness of billing details have been noted.

To date, Clinical Reports containing information on all the interventions performed on the patient were not always prepared and finalised at the time of discharge. In such instances, the responsible ward clerk raised and populated the ROFP, pursuant to which the bill was raised. In this regard, MDH will instruct all departments to ensure that patient details and all interventions performed should be correctly and comprehensively noted on the ROFP and that, as far as possible, Clinical Reports are prepared prior to discharge.

Given the number of IT systems at MDH, integration and readability between the systems pose a financial burden. The feasibility of integration or otherwise may best be approached through the undertaking of a cost benefit analysis. Meanwhile, the availability of other systems and procedures to ensure completeness and accuracy of transactions is being actively pursued, including the introduction of standard charges for a particular operation or intervention.

As regards the Tender for Billing Services, NAO had already been notified on the Department of Contracts' recommendation that the said Tender should not be awarded to the second bidder but cancelled and re-issued. Nevertheless, MDH is still in favour of procuring the service and is actively considering which procurement process to adopt in order to obtain such a service in the shortest time possible. The contractor concerned will not only ensure a tighter control on paying patients but will also act as a credit controller, which routine MDH does not have.

No Reconciliation to ensure Completeness of Bank Deposits

The Billing Section issues invoices to foreign patients through the Hospital's accounting system. On the other hand, A&E issues invoices from the Central Patients Administrative System (CPAS). Information from these systems is not extracted for reporting purposes and no reconciliation is performed to corroborate the related invoices to the deposits made, to ensure completeness of revenue.

Instead, A&E Department and Billing Section maintain separate lists of foreign patients on monthly spreadsheets and enter the respective information about bills, income and debtor balances accordingly. Such spreadsheets are the source of information used for revenue reporting purposes.

NAO has reservations with respect to this information, due to the following reasons:

- Spreadsheets do not provide sufficient comfort of internal control for the accounting of revenue as they lack audit trail. They are also more vulnerable to human error.
- An analysis of A&E spreadsheet for 2017 indicated a number of anomalies which led NAO to question the reliability of information recorded.

Recommendation

Management is to ensure that sound internal controls and a complete audit trail are implemented within the revenue recording process. In this respect, the use of spreadsheets is to be, as far as possible, avoided.

Management Comments

The spreadsheets currently in use may potentially lead to errors and inaccurate reconciliations. The system will be reviewed to automate input, as far as possible, with a view to generate the relative data for reconciliation in DAS and bank accounts concurrently.

Untraced Documents leading to Loss of Revenue

A&E Revenue Section generates bills from CPAS after staff analyses the medical notes, referred to as 'Casualty Notes', in order to establish the chargeable treatment. Such details are written on ROFP forms and subsequently entered in CPAS. In some cases, the prices are not pre-set on the system and the cost has to be obtained from manual records, in particular the price list dated 30 January 2007.

Following an analysis of the list of bills issued by A&E Revenue Section during 2017, NAO noted that a total of 112 patients, who were listed as not eligible to free treatment, were considered exempt from paying for the sole reason that the medical notes were not received by the Revenue Section. Consequently, as also confirmed by the spreadsheets provided, the respective bills were not raised.

Recommendation

Although NAO acknowledges the difficulty involved in charging patients attending A&E department, more effort is expected to minimise the loss of revenue to Government in this regard.

Management Comments

The A&E is a high traffic department with frequent patient turnover - thus making the situation very different in comparison to electives where more control is in place. In recurrent instances where the patient discharges oneself before being officially released, the finalisation of the relative paperwork becomes problematic to the extent that an invoice cannot be raised. In such instances, it would be futile to raise an invoice if the patient to whom it should be delivered has left the hospital and no related address is available. In this regard, the process will be further investigated to identify gaps and determine areas of improvement.

Control Issues

Minimal Effort to Collect Public Dues

The review revealed the following concerns with respect to credit control:

- a. Although NAO was informed that upon discharge from MDH wards, patients who are ineligible for free healthcare are escorted by the ward clerk to the Billing Section in order to be presented with an invoice and settle their dues, following audit testing this Office does not have the comfort that this procedure is adhered to in practice. On the other hand, at A&E Department, there is no established procedure to ensure that patients are accompanied to the Revenue Section, upon discharge.

Furthermore, the invoices reviewed during the walkthrough testing were not issued upon the respective patient's discharge but between one and fifteen days later.

- b. Credit control procedures, to collect outstanding dues in respect of pending invoices, are lacking. All the invoices reviewed did not include payment terms and had not been paid by the end of the year. Additionally, the collection of revenue was hindered as specific patient details, namely overseas permanent address, passport number and next of kin particulars, were consistently omitted on the ROFPs.

Recommendation

Immediate action needs to be taken in order to curtail abuse of the system and thus maximise revenue collection. The drawing up of clear credit control policies and procedures, as well as the assignment of adequate competent staff for this specific task, is a dire need. Invoices are to be issued promptly upon discharge and patients are to be requested to settle bills prior to leaving the hospital, whilst payment terms need to be clearly indicated on the invoices as 'Immediate'.

Management Comments

MDH aims to set up its own Internal Credit Control Office, including the introduction of clear credit policies. Two new employees have been assigned for this purpose and credit strategies and procedures are being established, with a view to align, as far as possible, with the pre-payment system for elective interventions (which is already in place since October 2017).

Payment terms will immediately be quoted on invoices. As pointed out above, new instructions will be issued to emphasise the importance of having patient details, including local and foreign address, properly recorded.

Unrecoverable Long Outstanding Fees

The possibility of recouping the respective debt is minimal once foreign patients do not settle their bills immediately upon discharge. As a result, the amounts recorded as due for hospital fees are increasing at an alarming rate.

As at 31 December 2016, amounts recorded as due to Government under Hospital Fees (accumulated since 2006) had reached a total of €4,316,681. NAO questioned the collectability of such amounts, but MDH was not in a position to confirm the maximum period established by law, following the expiry of which, pending amounts become statute-barred. According to Director General (Health), the prescription period varies between two and five years. This means that the figure reported as collectable is not realistic.

Recommendation

Long outstanding debts should be analysed and an adequate provision estimated in order to obtain a more realistic recoverable figure, until the amounts in question are eventually written off.

Management Comments

A way forward on long outstanding debts will be discussed with Head Office.

Technical Concerns hindering the Completeness of Revenue

In line with S.L. 35.28 Article (1)(c), healthcare fees do not apply "to persons paying the prescribed contribution under the Social Security Act". According to the Billing Office, foreign patients are requested to provide the previous month's payslip, as evidence of such exemption. However, the following concerns were noted:

- This legal provision is subject to interpretation, as it does not stipulate the minimum number of National Insurance contributions required for a person to qualify for free healthcare.
- No checks are performed to confirm that the claimed employment is regular in terms of the Social Security Act.

- A meeting held with the responsible officer at A&E Department revealed that a foreigner who presents a payslip of up to two months before the episode, as compared to one month at the Billing Office, would also be entitled to free treatment.

It was also noted that Standard Operating Procedures (SOP) and guidelines for raising invoices and revenue collection are not exhaustive. Moreover, during verbal audit queries made by NAO, it was evident that Billing Officers were not aware of the applicable SOPs. Such instructions are only shared between employees by word of mouth. By way of example, it was not clear to the Billing Officers, which medical procedures are included in the bed night fee and which are to be considered as additional, and are thus to be charged accordingly.

Recommendation

Management is to obtain legal advice in order to address deficiencies and/or anomalies emanating from the legislation and, where necessary, draw up clear policies and procedures or amend legislation, as deemed necessary. Moreover, in order to avert fraud, the introduction of a proper employment verification system will ensure authenticity of the respective documentation produced by a foreign patient to support one's entitlement to free medical services in Malta.

Management Comments

Currently, declarations attesting to regular employment cannot be verified. The faster identification of paying patients is being actively pursued through an MFH project which is aimed at consolidating employment and other entitlement records. Citizens' entitlement to health care will be checked in real time via a comprehensive database supported through the integration of different databases. This is essential since the current SABS system does not provide updated employment records. The MFH project is currently at the tender drafting phase and is planned to be implemented in Q4 2019.

Comments with respect to SOPs have been noted. MDH has already embarked on the process of issuing a new SOP.

Existing SOPs will be revised and published at the earliest.

Medical Fees not revised to cover Costs

S.L. 35.28 Healthcare (Fees) Regulations was amended last in 2007. Since a considerable time span exceeding 10 years has elapsed, the applicable fees currently charged to patients are not up-to-date considering the actual operational and overhead costs. For example, the basic charge for transportation of a patient by ambulance still stands at €23. This charge is expected to, at least, cover the pro-rata salary of staff accompanying the patient, the driver, fuel costs and an element of wear and tear of the ambulance.

NAO was informed that a draft legal notice has been drawn up to reflect revised fees based on a costing exercise commissioned to be performed on behalf of MDH. However, a copy of the respective working papers, to compare the actual cost versus the applicable fees, could not be traced by MDH.

Recommendation

NAO acknowledges that the issue of increasing fees is potentially controversial. However, a revision of such charges by MDH and the pertinent authorities is encouraged so that amounts claimed would reflect more realistically the costs incurred.

Management Comments

Medical fees are being revised and new ones, as compared to private sector charges, have been proposed. A Cabinet paper is being prepared for the approval of the proposed changes, including the updating of the respective Legal Notice in so far as amendments to current tariffs are concerned.

Commissioned Billing System Report not traced

During an introductory meeting, NAO was informed that in 2015, a walkthrough test on the Hospital billing system was performed by MDH. Such exercise established that the bed night component (accommodation) was being billed, whilst surgery fees were not. However, although NAO requested a copy of the relative report during said meeting and also through subsequent reminders, it was still not made available.

In view of the above, remedial action in line with any recommendations put forward through such report could not be ascertained by NAO.

Recommendation

Reports are commissioned to enable management to take decisions and necessary action. Unless the relative documents are made available to those concerned, the commissioning of reports would merely constitute waste of taxpayer's money.

Management Comments

The work carried out on the billing process was approached through a "walk through test" rather than a report. It transpired that two separate files, also kept in two separate locations, were being opened: one related to surgery and another related to other services provided. Changes to the process were immediately implemented. Working papers on the "walk through test", referred to above, and which was carried out a number of years ago could not be traced.

Other Billing Concerns

- S.L. 35.28 Article 3(1) establishes the daily bed fees for inpatient treatment. It also states that such fee is not inclusive of the cost of any surgical operation or of any extraordinary medical investigation which may be carried out. Articles 2 and 3 specifically list five categories of surgical operations and nine different investigations/procedures. It was also indicated that any other extraordinary medical investigation or procedure shall be charged at cost. However, the term 'extraordinary' is not defined and is subject to interpretation.
- MDH offers an extensive range of hospital services that are not catered for in the foregoing legislation. Thus, the accounting system used at the Billing Section was programmed with the applicable charges, reproduced in a 58-page report covering different medical supplies, treatments and services. However, in view that not all the prices within such report were legally sanctioned, NAO questions whether the generation of hospital bills in line with these prices is legitimate.
- Discrepancies were noted between the above-mentioned 58-page report and another price list dated 30 January 2007, which was still being used for billing purposes.

Recommendations

Management is to take remedial action with respect to the enactment of the necessary legislative amendments. The pre-set costs recorded in the accounting package are to be the only source of applicable prices when generating invoices. Therefore, such records are to be reviewed and updated, as necessary.

Management Comments

As per MDH's policies, any intervention that is not listed in the respective legislation is charged additionally at cost rates.

A review of the instances where items are found in the printed list but not in the accounting system is being undertaken and the system will be updated accordingly.

Accounting for Revenue not in line with the Financial Budget Estimates

As already mentioned in the introductory part of this report, revenue from Hospital Fees (Item 0434) was estimated at €150,000 for the year 2017. However, the generation of a transaction listing of this account through DAS revealed no postings in this line item. On the other hand, the "Income by Category" report generated through DAS showed actual revenue of €581,858 in this regard.

It later transpired that hospital fees were deposited in a Below the Line Account risking that this income could be used to supplement MDH allocated budget without the necessary approval.

Recommendation

All revenue generated from hospital fees is to be posted to the appropriate account in order to ensure completeness and transparency.

Management Comments

Whilst the actual revenue stood at €581,858, the amount in the Financial Estimates was quoted as €150,000. MDH clarified that the resultant difference had been absorbed under the 'Miscellaneous' component, the global amount of which stood at €935,000 in the said Estimates.

Compliance Issues

Remittances to Bank not effected in a Timely Manner

The Billing Section deposited its revenue at the Central Bank of Malta approximately once weekly. This led to considerable amounts of cash and cheques kept on the premises awaiting eventual deposit. The value of the highest single deposit amounted to €55,989⁴. On the other hand, the Revenue Section within the A&E Department submitted aggregate receipts to the Billing Office and deposited monthly. The average value of these deposits⁴ exceeded the €16,000 mark.

The above-mentioned procedures do not conform with the General Financial Regulations, which require the daily deposit of any cheques and also any sum of or exceeding €100, unless authorised by the Permanent Secretary, which approval in this case was not sought.

⁴ These deposits also consist of income from the sale of medicines and from the loan of medical aids, amongst others.

Recommendation

Unless otherwise authorised by the Permanent Secretary, bank deposits are to be made in accordance with prevailing regulations, to ensure that public funds are duly safeguarded.

Management Comments

Security escort for deposits amounts to €24.50 + VAT per trip. Daily deposits would increase such costs by 5 times. MDH will seek higher authorisation for such deposits to be made twice weekly.

General Management Comments

As from May 2018, MDH has adopted and published a SOP, to outline the procedures that need to be followed when a patient is identified as a paying patient. The SOP is specific to elective interventions and not emergencies, since the former accounts to 85% of all interventions performed by MDH. Apart from identifying paying patients and ensuring that all patient details are available, under the new procedures, payments are requested upfront, prior to the scheduling of an appointment.

MDH is actively engaged in ensuring that the weakness highlighted in the related report are addressed as efficiently and effectively as possible, with a view to ensuring more reliable, accurate and timely processes – all of which contribute to better governance in terms of accountability, transparency, value for money and responsibility for the proper management of public funds.

Other Reports

Arrears of Revenue 2017

Background

As indicated in the Treasury Circular No. 5/2018 – ‘End of Year (2017) Statements of Account’ and in terms of Section 48(1) of the General Financial Regulations, Heads of Departments were requested to submit the Statement of Arrears of Revenue. Government Departments or Public Entities that collect revenue on behalf of other Ministries and Departments were also to submit this Statement.

All Returns, including Nil Returns, were to reach the Treasury, Government Accounts Directorate, by not later than 2 April 2018, for onward submission to the Auditor General. Copies of the Statement of Arrears of Revenue were also to be sent to the Budget Affairs Division within the Ministry for Finance (MFIN).

The Circular also emphasises that “... every effort should be made to ensure the timely collection of amounts due and no amount claimed/due should, under any circumstances, be allowed to fall in arrears ...”.

As in previous years, Departments were required to take into account, payments received during January 2018 relating to balances due as at 31 December 2017. Information submitted show that the amount of €36,106,752 was collected during January 2018, with a resulting unpaid balance of €490,149,337; a decrease of 5.04% over the amount due as at 31 January 2017.

An additional analysis of the Statement of Arrears of Revenue was also required in relation to the 2017 year-end balances. From these submissions, it is estimated that, out of total reported gross arrears of revenue of approximately €3.4 billion:

- €2,164,423,049 were statute-barred;
- €193,066,892 were under contestation and pending Court action;
- €5,432,279 were under contestation but not pending Court action;
- €221,269,949 were deemed recoverable by departmental action; and
- €774,278,246 were considered recoverable.

Table on page 212 refers.

Returns

Details of Arrears of Revenue included in the Table on page 208 have been compiled from the Returns forwarded to the National Audit Office (NAO) by Treasury. The following submitted Nil Returns:

- Office of the President
- House of Representatives
- Office of the Prime Minister
 - Electoral Office
 - Public Service Commission
- Ministry for the Economy, Investment and Small Businesses
- Ministry for Finance
 - Treasury
- Ministry for Home Affairs and National Security
 - Probation and Parole
- Ministry for the Family, Children’s Rights and Social Solidarity
 - Corporate Services
 - Social Policy

According to the Treasury Department, the then Ministry for Competitiveness and Digital, Maritime and Services Economy did not comply with the requirements of Circular No. 5/2018.

Notes and Comments on Major Arrears of Revenue Balances¹

Office of the Prime Minister

Government Property Division

The Government Property Division (GPD) reported a gross/net closing balance of €33,145,601 in the Arrears of Revenue Return (ARR) for the year ended 31 December 2017.

During 2017, the Department progressed further on the data cleansing exercise, on properties allocated to Government Departments, Parastatal Entities and Local Councils, initiated in the previous years. The aim of this exercise is to update the system with the verified data and collect rent due on all properties being used by different Departments and Entities.

¹ Figures may not add up due to rounding-up.

Ageing Analysis

The net collectable arrears can be analysed as follows:

| | € |
|---|-------------------|
| Amounts outstanding for less than one year (2017) | 11,103,837 |
| Amounts outstanding for over one but less than five years (2013 – 2016) | 13,740,783 |
| Amounts outstanding for over five years (– 2012) | 8,300,981 |
| Net Closing Balance | 33,145,601 |

Collection Efforts

In order to recoup its outstanding arrears, the Department consistently monitors amounts due and pursues the relative defaulters, to avoid any chance of prescription. In case of balances becoming statute-barred, the GPD still attempts to recover the amounts in question.

Statements are sent by mail to tenants who fail to pay their rent within the stipulated period. This is followed by a number of reminders and phone calls, as necessary. Tenants are also given the opportunity to enter into a repayment agreement by paying monthly instalments. As from 2017, the Enforcement Team started approaching tenants personally in order to settle their balances through monthly payments and this has rendered positive results. Discussions with MFIN are also ongoing with respect to outstanding balances from Departments/Entities.

As at year-end, the Department had an aggregate of €8,524,887 under contestation, €4,368,813 of which was pending court action. It was also noted that a balance of €3,622,874 was declared as statute-barred; however, no provision was taken for the respective amount. The Department claimed that the GPD still continues to chase such dues. In fact, during 2017, a total of €244,897 out of this balance was collected.

Ministry for Health

The gross closing balance of €12,006,979, reported as arrears of revenue as at 31 December 2017, is made up of the following:

| | € |
|--|-------------------|
| a. Primary Health Care | 3,068 |
| b. Sir Anthony Mamo Oncology Centre (SAMOC) ² | 94,619 |
| c. Hospital Fees: St. Luke's Hospital | 237,029 |
| d. Hospital Fees: Mater Dei Hospital (MDH) | 4,953,998 |
| e. Sundry Bills: MDH | 702,191 |
| f. Resignations and Overpayments: MDH | 324,814 |
| g. Licences | 36,917 |
| h. Ship Sanitation | 9,414 |
| i. Breach of Contract | 2,278 |
| j. European Union Countries E125 Claims | 1,544,649 |
| k. European Union Countries E127 Claims | 6,516 |
| l. Central Procurement and Supplies Unit | 4,091,486 |
| Gross Closing Balance | 12,006,979 |

² Previously reported under Sir Paul Boffa Hospital.

From the gross amount of receivables at year-end, only €79,341 relating to SAMOC and which amount is statute-barred was estimated as not collectable, leaving a net closing balance of €11,927,638, as analysed hereafter. Considering that the aggregate amount of €551,822 has been outstanding for over 10 years, this indicates that the provision for doubtful debts is underestimated.

| | € |
|--|-------------------|
| Amounts outstanding for less than one year (2017) | 3,771,183 |
| Amounts outstanding for over one but less than two years (2016) | 2,855,715 |
| Amounts outstanding for over two but less than five years (2013 – 2015) | 3,621,240 |
| Amounts outstanding for over five but less than ten years (2008 – 2012) | 1,127,678 |
| Amounts outstanding for over ten but less than fifteen years (2003 – 2007) | 405,955 |
| Amounts outstanding for over fifteen years (– 2002) | 145,867 |
| Net Closing Balance | 11,927,638 |

From the net closing balance, the amount of €6,218,032, which was related to MDH, was all considered as recoverable without departmental action.

Mater Dei Hospital

Debtors' Template

The amount of €6,408,365, recorded on the Debtors' template, exceeded the amount of €6,218,032 reported in the ARR by €190,333; however, an explanation for this discrepancy was not disclosed.

Hospital Fees

A revenue audit of the MDH fees, carried out in respect of the year under review, which highlights amongst others, the escalating amounts in hospital fees due and long outstanding amounts, is featured in this Annual Report.

Ministry for Education and Employment

The reported opening balance of €2,936,270 in the ARR for 2017 was considerably different from the previous year's closing balance, which amounted to €485,694. Table 1 refers:

Table 1: Difference between Closing and Opening Balances (Ministry)

| | 2016 Closing Balance € | 2017 Opening Balance € | Net Difference € |
|---|------------------------------|------------------------------|---------------------|
| Travel item 28 | 2,620 | 2,620 | - |
| 55065364: MCAST ³ 52 stipends | 140,435 | 131,547 ⁴ | (8,888) |
| 55065364: MCAST69 stipends | 10,461 | 6,875 | (3,586) |
| 55065364: MCAST69SP stipends | 1,423 | 1,423 | - |
| 0306-0345 Exams | 4,522 | 2,904 | (1,618) |
| 0999/55065364: Stipends overpayment | 117,111 | 75,190 | (41,921) |
| 0999: Breach of contract | 4,120 | 4,120 | - |
| 0999/55065364 University: UOM ⁵ stipends | 204,769 | 201,583 ⁶ | (3,186) |
| 0999: Overpayment | 233 | - | (233) |
| Fees from office | - | 996 | 996 |
| Refunds from the EU Commission (ESF ⁷) | - | 2,509,012 | 2,509,012 |
| Totals | 485,694 | 2,936,270 | 2,450,576 |

Education Division

The opening balance of €332,732 disclosed by the Education Division in its ARR for 2017 showed a discrepancy of €43,183 over the previous year's closing balance. This net difference resulted from changes across most categories making up the arrears of revenue figure, as depicted in Table 2:

Table 2: Difference between Closing and Opening Balances (Education Division)

| | 2016 Closing Balance € | 2017 Opening Balance € | Difference € |
|-------------------------|------------------------------|------------------------------|-----------------|
| 0999 Overpayments | 123,789 | 159,970 | 36,181 |
| Travel 28 | 9,640 | - | (9,640) |
| 82008432: Tuck shops | 30,795 | 27,118 | (3,677) |
| 0999 Breach of Contract | 125,325 | 77,244 | (48,081) |
| MT/2016/AMIF/401 | - | 68,400 | 68,400 |
| Totals | 289,549 | 332,732 | 43,183 |

The Department did not report any collections during the year under review. Furthermore, although being a requirement, explanation for estimated amounts considered as not collectable, amounting to €119,689, was not provided.

³ Malta College of Arts, Science and Technology

⁴ No explanation was given for an upward revision of €6,806.

⁵ University of Malta

⁶ No explanation was given for a downward revision of €7,271.

⁷ European Social Fund

Ageing of Debtors

The ageing of debtors has not been disclosed since the information provided was incomplete and outdated.

Conclusion

In view that the records submitted by the Ministry for Education and Employment are not considered reliable and no monitoring of the outstanding dues is performed, the NAO reiterates that deficiencies need to be addressed with immediate effect. In the circumstances, the amounts reported could not be validated.

Ministry for Finance

Treasury Department, Salaries and Pensions Section

The outstanding balance of arrears as at 31 December 2017, disclosed by the Treasury Department, Salaries and Pensions Section, are classified as follows:

| | € |
|-------------------------------------|--------------------------|
| a. Cost sharing of Treasury Pension | 39,296,953 |
| b. Refunds of Deceased Pensioners | 35,437 |
| c. Special Cases | 12,968 |
| d. Overpayments to Pensioners | 1,988 |
| Gross Closing Balance | <u>39,347,346</u> |

During the year under review the Department collected a total of €2,044,480, amounting to 5.38% of the opening balance as at 1 January 2017; an increase over the amount collected in the previous year, which amounted to €318,276.

Cost Sharing

Cost sharing consists of amounts due from Public Entities, to cover part of the Treasury Pension of their retired employees. During the year under review, the opening balance of this account was revised downwards by €1,164,687. This revision mainly related to a payment by an entity in 2004, which amount was not accounted for by the Department.

Deceased Pensioners

These pension payments were issued by the Department to deceased pensioners and efforts are to be made to have them recouped.

Ageing of Debtors

The ageing of the Department's debtors is categorised as follows:

| | € |
|---|-------------------|
| Amounts outstanding for less than one year (2017) | 4,528,630 |
| Amounts outstanding for over one but less than two years (2016) | 3,874,901 |
| Amounts outstanding for over two but less than five years (2013 – 2015) | 8,705,450 |
| Amounts outstanding for over five but less than ten years (2008 – 2012) | 16,414,976 |
| Amounts outstanding for over ten years (– 2007) | 5,823,389 |
| Gross Closing Balance | 39,347,346 |

Collection Efforts

With respect to the arrears reported under cost sharing, it is the Department's procedure to send annual statement of amounts due. Overpayments to pensioners and special cases are usually recouped through regular deductions from the four-weekly pension, as permitted by law or by sending letters to the respective individual requesting payment. The Department also requests the heirs of the deceased pensioners to refund any overpayments as applicable.

Inland Revenue Department

The Inland Revenue Department (IRD) reported a gross outstanding balance of €1,104,191,960 in its ARR for the year ended 31 December 2017, classified as follows:

| | € |
|---|----------------------|
| a. Pre '99 System (Up to Year of Assessment 1998) | 155,332,277 |
| b. Self-Assessment System (Post Year of Assessment 1998) | 551,377,422 |
| c. Final Settlement System (Employers) | 114,011,201 |
| d. Social Security Contributions Class 1 (Employers) | 194,586,730 |
| e. Social Security Contributions Class 2 (Self-Employed/Occupied) | 88,884,330 |
| Gross Closing Balance | 1,104,191,960 |

Collectability of Arrears

Out of the gross balance, the amount of €845,796,818 was considered as not collectable, resulting in net collectable arrears of €258,395,142.

As in previous years, the highest instance of uncollectability related to the Self-Assessment System (Post Year of Assessment 1998). In fact, out of the gross arrears of €551,377,422, a total of €457,704,528 (83%) was deemed to be uncollectable.

Pre '99 balances also had a high percentage of 90% deemed as uncollectable, amounting to €139,799,050.

With regards to the Final Settlement System and Social Security Contributions (Class 1), the non-collectability rate stood at 70% and 47.9% respectively. To this effect, an estimate for bad debts of €79,807,841 and €93,296,853, was provided for. All balances owed in relation to Class 2 Contributions, that are older than five years, were also considered as not collectable.

Ageing Analysis

The ageing of the net collectable balances can be analysed as follows:

| | € |
|---|--------------------|
| Amounts outstanding for less than one year (2017) | 44,769,156 |
| Amounts outstanding for over one but less than two years (2016) | 35,918,510 |
| Amounts outstanding for over two but less than five years (2013 – 2015) | 62,887,464 |
| Amounts outstanding for over five but less than ten years (2008 – 2012) | 47,029,268 |
| Amounts outstanding for over ten but less than twenty years (1998 – 2007) | 57,123,314 |
| Amounts outstanding for over twenty years (– 1997) | 10,882,876 |
| Net Closing Balance | 258,610,588 |

The total of the ageing analysis differs from the net collectable arrears by €215,446. This amount relates to payments collected by the IRD in connection with the Pre '99 system collection schemes, which amount could not be set off against the balance due in any particular year, therefore it was omitted from the ageing analysis.

Collection Efforts

During 2017, the Department issued a number of assessments (846), statements of pending Final Settlement balances (2,190), as well as notices in relation to the Final Settlement System (11,926). It also issued a number of default notices in connection with self-assessment repayment agreements in force (400), as well as a number of notices relating to agreements in default. Action also included a number of Remission of Interest agreements⁸, as well as numerous court cases.

Capital Transfer Duty Department

The gross closing balance as reported by the Capital Transfer Duty Department (CTD) for the year ending 31 December 2017 consists of:

| | € |
|------------------------------|-------------------|
| a. Duty on Documents | 25,861,828 |
| b. Death and Donation | 4,614,666 |
| Gross Closing Balance | 30,476,494 |

Out of this gross closing balance, of which €11,993,572 were reported as being under contestation, the amount of €21,913,144 was considered as not collectable, thus resulting in net collectable arrears pertaining to Duty on Documents and Death and Donation of €7,686,564 and €876,786 respectively.

⁸ These are repayment agreements where taxpayers' interest on the amount due is waived.

Ageing Analysis

The outstanding balances were analysed as follows:

| | € |
|---|------------------------------|
| Amounts outstanding for less than one year (2017) | 3,528,147 |
| Amounts outstanding for over one but less than two years (2016) | 88,660 |
| Amounts outstanding for over two but less than five years (2013 – 2015) | 126,419 |
| Amounts outstanding for over five but less than ten years (2008 – 2012) | 519,943 |
| Amounts outstanding for over ten but less than fifteen years (2003 – 2007) | 878,745 |
| Amounts outstanding for over fifteen but less than twenty years (1998 – 2002) | 2,550,989 |
| Amounts outstanding for over twenty years (– 1997) | 876,787 |
| Net Closing Balance | 8,569,690⁹ |

Amounts under Contestation

The amounts under contestation, amounting to €11,993,572, the majority of which are statute-barred (€11,013,382), were mainly made up of Duty on Documents, totalling €10,224,424. The likelihood of the non-collection of these amounts is very high.

The remaining amounts under contestation (€1,769,148) pertained to Death and Donation Duty. The respective legislation was repealed in 1992 and therefore no new claims were issued under this category. The likelihood that these amounts are collected is also very remote.

Revisions

Downward revisions, totalling to €1,533,235, were made in 2017 to correct previous amounts reported.

Amounts considered as not collectable

The amount of €21,913,144 is estimated as not collectable. The longer the time claims have been issued, the higher the non-collectable percentage, and thus percentages were applied gradually from 10% for arrears recently issued, up to 80% for amounts due over more than one year, including those statute-barred.

Collection Efforts

The Collection and Legal Sections within the Department are constantly monitoring the outstanding balances and take necessary action. These collection procedures are automated, thus ensuring that timely action is taken.

During 2017, a total of 1,189 reminders, as well as 449 letters from the Legal Unit, were sent to various debtors. Furthermore, the Department proceeded with 684 Demand Notes, 43 Garnishee Orders, 3 applications for withdrawal of funds and 91 legal action warnings.

⁹ A difference of €6,340 between the ageing analysis and the net closing balance mentioned above is due to timing differences between the two reports.

VAT Department

The gross closing balance as reported by the Value Added Tax (VAT) Department in its ARR for the year ended 31 December 2017 consisted of:

| | € |
|--|----------------------|
| a. VAT (1998) – Pre 2014 | 767,813,147 |
| b. VAT (1998) – Post 2014 | 1,273,415,370 |
| c. VAT (1995) | 14,350,332 |
| d. Customs and Excise Tax | 6,457,794 |
| e. Eco-Contribution | 12,584,253 |
| f. Refund to Government on stocks – 1997 | 620,380 |
| Gross Closing Balance | 2,075,241,276 |

A total balance of €428,437,391 was reported as not due in the VAT Department's ARR. This represented audit assessments, penalties, interest and estimations, which were cancelled following the submission of declarations by taxpayers. Actual write-offs during the year amounted to €1,925.

An ageing analysis of net collectable arrears and the Debtors' return were not made available to the NAO.

According to the Department, despite staff constraints, all possible efforts are being made to collect amounts due. Other measures include Demand Notices issued on a regular basis, agreements with taxpayers and legal action where deemed necessary.

Following an analysis of the gross closing balance by the Department, it transpired that €1,965,977,272, nearly 95% of the gross amount, was statute-barred. A further €69,818,342 is pending Court action, while only €39,445,662 is expected to be recovered by departmental action.

Customs Department

The gross/net closing balance as reported by the Department of Customs as at the year ending 31 December 2017 consists of:

| | € |
|----------------------------------|-------------------|
| a. Import and Excise Duties | 13,993,148 |
| b. Licences, Taxes and Fines | 305,257 |
| c. Reimbursements | 559,961 |
| Gross/Net Closing Balance | 14,858,366 |

Amounts under Contestation

The Department reported an aggregate of €7,956,974 as being contested, out of which a total of €29,392 is considered as statute-barred. Furthermore, the outcome of the majority of the contested amounts is pending Court action. However, no provision has been made to this effect.

Ageing Analysis

The ageing of the net collectable arrears can be analysed as follows:

| | € |
|---|-------------------|
| Amounts outstanding for less than one year (2017) | 6,839,267 |
| Amounts outstanding for over one but less than two years (2016) | 6,289 |
| Amounts outstanding for over two but less than five years (2013 – 2015) | 1,297,739 |
| Amounts outstanding for over five but less than ten years (2008 – 2012) | 5,459,804 |
| Amounts outstanding for over ten but less than fifteen years (2003 – 2007) | 1,187,409 |
| Amounts outstanding for over fifteen but less than twenty years (1998 – 2002) | 27,943 |
| Amounts outstanding for over twenty years (– 1997) | 39,915 |
| Net Closing Balance | 14,858,366 |

Ministry for Justice, Culture and Local Government

The Courts of Justice (CoJ) Department had a gross closing balance as at 31 December 2017 of €10,408,048, an increase of 3.9% over the amounts due at the beginning of the year. The amount is further analysed below:

| | € |
|--|-------------------|
| a. Fines: Criminal - Judges Superior Courts | 3,279,314 |
| b. Fines: Criminal - Magistrates Inferior Courts | 4,741,754 |
| c. Fines: Civil - Superior Registry | 26,857 |
| d. Fines: Civil - Inferior Registry | 43,938 |
| e. Fees | 2,316,185 |
| Gross Closing Balance | 10,408,048 |

During the year under review, the CoJ collected the amount of €1,340,782. Newly accrued debtors amounted to €2,808,616, with more than half of this amount relating to Inferior Criminal Courts. Write-off approvals were obtained from respective level of authority for the amount of €57,250.

The CoJ considers the amount of €9,545,491, i.e. 92% of the said gross closing balance, to be recouped through department action, whilst €507,557 (4.9%) was reported as statute-barred. Only €355,000 (3.4%) are recoverable without departmental action.

The ageing of net debtors as at year-end can be analysed as follows:

| | € |
|---|------------------|
| Amounts outstanding for less than one year (2017) | 2,808,616 |
| Amounts outstanding for over one but less than five years (2013 – 2016) | 2,885,337 |
| Amounts outstanding for over five but less than ten years (2008 – 2012) | 801,095 |
| Amounts outstanding for over ten but less than fifteen years (2003 – 2007) | 715,417 |
| Amounts outstanding for over fifteen but less than twenty years (1998 – 2002) | 2,464,811 |
| Amounts outstanding for over twenty years (1971 – 1997) | 225,215 |
| Net Closing Balance | 9,900,491 |

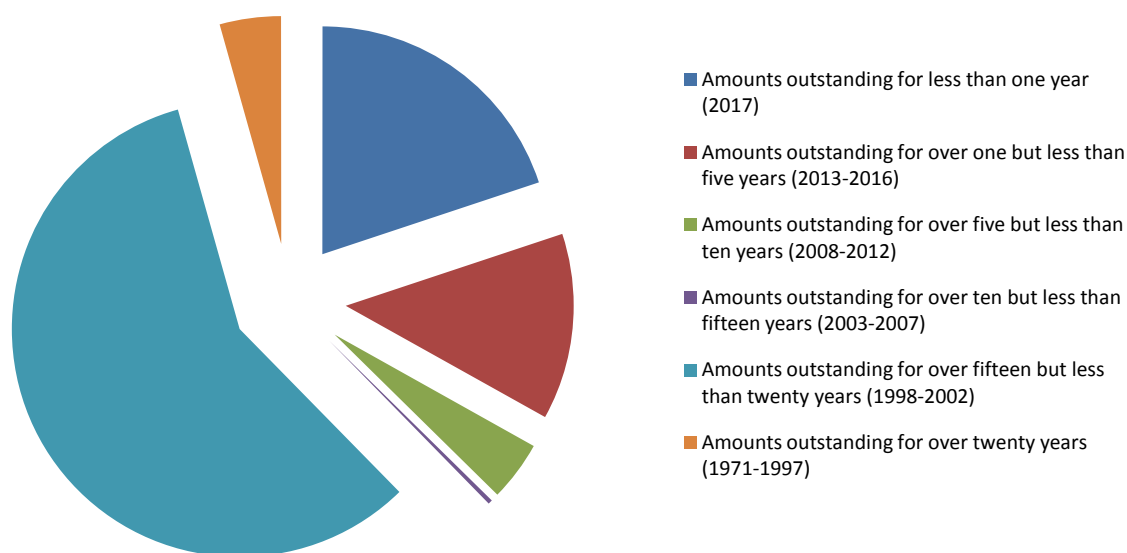
Court Fines

Criminal – Judges Superior Courts

The opening balance of €3,729,680 was revised downwards by €912,836. According to the CoJ, this revision was mainly due to a petition accepted by the Constitutional Court to reduce the fine¹⁰.

During 2017, the amount of €170,067 (4.6%) was collected. Newly accrued arrears amounted to €648,002, resulting in a sharp rise over the last four years and a 77% increase over last year's receivable.

Chart 1: Fines: Criminal - Judges Superior Courts



As indicated in Chart 1, more than half of the outstanding balance (around €1.9 million) has been due since 1998. The amount in question is due by three individuals, each owing €636,493¹⁰.

An amount of €15,465, consisting of 36 fines less than €1,200 each, dating between 1971 and 2014, was written off in 2017.

Criminal – Magistrates Inferior Courts

The Return for 2016 indicated a closing balance of €4,223,033. For 2017, the CoJ reported a downward revision of €97,609 to this opening balance. The reasons for these revisions are:

¹⁰ A downward revision of €313,247 was made to each of the three individuals' gross opening balance of €939,740.

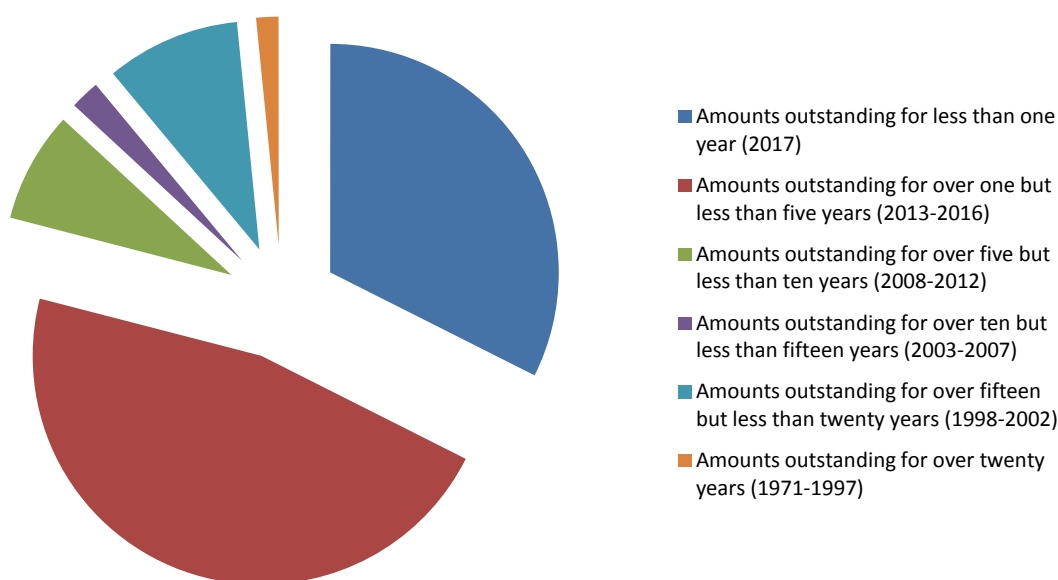
Table 3: Revisions

| Reasons | € |
|--|-----------------|
| Fines converted into imprisonment | (98,144) |
| Fines relating to previous years but imposed in year 2017 | 89,379 |
| Various other adjustments to the opening balance, mainly due to appealed sentences | (57,261) |
| Revoked fines | (29,725) |
| Cancelled fines | (2,447) |
| Fines reinstated after imprisonment sentences were revoked | 589 |
| Net Downward Revision | (97,609) |

Other fines of deceased defaulters, amounting to €7,548, ranging from 1997 to 2016 were written off.

The majority of the amounts outstanding relates to the last five years. Chart 2 refers. The collection rate by CoJ remained around 20% of the gross opening balance. The newly accrued debtors in 2017 amounted to €1,467,674.

Chart 2 - Fines: Criminal - Magistrates Inferior Courts



Civil – Superior Registry

The opening balance of €25,157 was revised downwards by €980, mainly due to eight revoked fines. Out of this amount, €1,000, which was due as from 2010 from an individual was considered as not possible to be recouped. During 2017, only €700 was collected, whilst €3,380 was newly accrued resulting in an outstanding balance of €25,857.

Civil – Inferior Registry

During 2017, out of the €33,608 opening balance, the amount of €6,636 was collected, while the amount of €19,293 related to newly accrued amounts. A downward revision of €2,386 to the opening balance was mainly due to 13 revoked fines.

Court Fees

As from mid-January 2016, a new system, namely the E-fees, was introduced to improve the respective reporting functions and collection of fees which in fact gave positive results as shown hereafter:

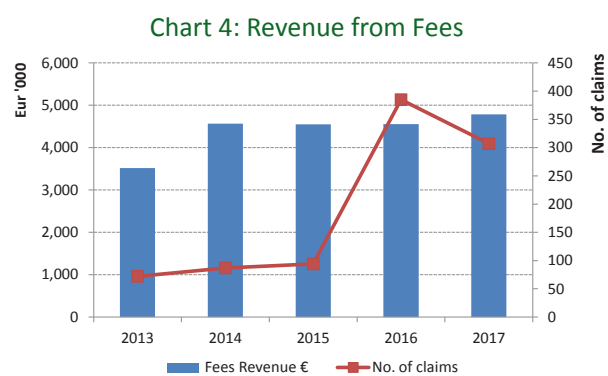
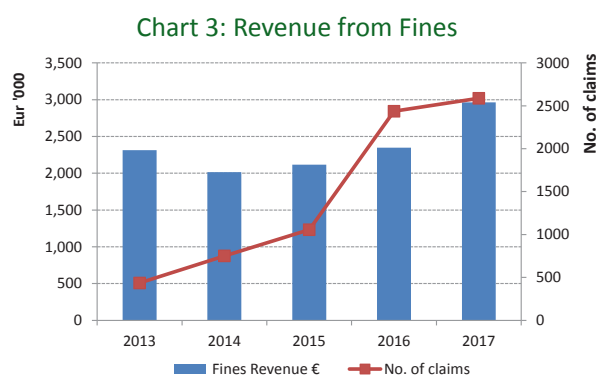
Table 4: Court Fees' Collection

| Year | Gross Arrears (Opening balance) € | Past Arrears Collected € | Collected % |
|------|--------------------------------------|-----------------------------|----------------|
| 2013 | 2,157,570 | 241,842 | 11.2 |
| 2014 | 2,255,809 | 250,495 | 11.1 |
| 2015 | 2,225,662 | 219,090 | 9.8 |
| 2016 | 2,126,931 | 201,866 | 9.5 |
| 2017 | 2,001,866 | 319,583 | 16.0 |

The opening balance of €2,001,866 was revised downwards by €2,128, mainly due to correction to previous balances. During 2017, €670,267 was newly accrued, whereas €266,048 related to fees which were considered not possible to be recouped.

An amount of €34,237 was written off, €19,108 of which covered various fees of less than €1,200 each. The remaining amount of €15,129 covered fees in respect of a sale of a vessel. However, it was noted that such disposal was only authorised by an Assistant Director within MFIN.

Revenue of Fees and Fines



Low Collection rate

As depicted in Charts 3 and 4, although the number of fees and fines have increased considerably as from 2016, the revenue collected did not increase proportionately. Furthermore, according to CoJ, the Lecam System does not have a bring-up system in place and thus the collection effort for fines is initiated by the Court through random exercises. As at end 2017, the CoJ has accumulated €10,408,048 in fines and fees. A total of €4,206,536 has been due for over five years while the another €2,885,337 has been outstanding between one and five years.

The CoJ is encouraged to enhance its software to improve its collection efforts.

Ministry for the Family, Children's Rights and Social Solidarity

Social Security Benefits

The Department of Social Security (DSS) reported a figure of €25,354,645 as gross arrears of revenue in relation to Social Security Benefits for the year ending 2017.

An analysis of the amounts pertaining to each benefit/assistance is summarised as follows:

| | € |
|-------------------------------|-------------------|
| a. Social Assistance | 13,957,870 |
| b. Retirement Pension | 2,769,149 |
| c. Widows Pension | 1,932,767 |
| d. Children's Allowance | 1,858,635 |
| e. Old Age Benefits | 2,102,294 |
| f. Medical Assistance | 1,458,927 |
| g. Invalidity Pension | 695,037 |
| h. Disability Pension Benefit | 298,330 |
| i. Short Term Benefits | 281,536 |
| j. Contributory Bonus | 100 |
| Gross Closing Balance | 25,354,645 |

Of the total gross arrears, an amount of €2,631,228 was estimated as uncollectable. The DSS confirmed that this calculation is based on amounts which have been due to the Department for more than five years, with no payments being effected during this period.

Newly Accrued Arrears

Figures reported in the ARR could be tallied against breakdowns and information extracted from the system, except for the amount of €251,258 which was a balancing figure and remained unreconciled.

Ageing Analysis

A detailed analysis of net collectable arrears was provided by the DSS as follows:

| | € |
|---|-------------------|
| Amounts outstanding for less than one year (2017) | 5,136,057 |
| Amounts outstanding for over one but less than two years (2016) | 3,790,598 |
| Amounts outstanding for over two but less than five years (2013 – 2015) | 8,141,320 |
| Amounts outstanding for over five but less than ten years (2008 – 2012) | 4,612,825 |
| Amounts outstanding for over ten years (– 2007) | 1,042,617 |
| Net Closing Balance | 22,723,417 |

Collection Efforts

As reported in previous years, in terms of the Social Security Act, the Department recoups the outstanding overpayments by withholding overpaid amounts from the benefits or pensions payable to a beneficiary. The rate of recovery is established by the foregoing Act.

Elderly and Community Care

The ARR submitted by the Elderly and Community Care Department for the year ended 31 December 2017 showed a net collectable balance of €4,321,203, which incorporates the following revenue categories:

| | € |
|---------------------------------|-------------------------|
| a. Staff Salaries reimbursement | 4,206,251 ¹¹ |
| b. Revenue Account | 95,745 |
| c. Telephone | 18,125 |
| d. Training | 776 |
| e. Commission receivable | 306 |
| Net Closing Balance | 4,321,203 |

The outstanding balances can be analysed as follows:

| | € |
|---|------------------|
| Amounts outstanding for less than one year (2017) | 121,055 |
| Amounts outstanding for over one but less than two years (2016) | 68,023 |
| Amounts outstanding for over two but less than five years (2013 – 2015) | 2,016,309 |
| Amounts outstanding for over five but less than ten years (2008 – 2012) | 2,115,816 |
| Net Closing Balance | 4,321,203 |

No amounts were reported as estimated as not collectable, but on the other hand, only an aggregate amount of €51,778 was recouped during the year, which pertained mostly to staff salaries (€38,791) and the revenue account (€12,887).

Collection of Arrears

During the year under review, the Department issued a call for tenders for the provision of legal services in relation to the collection of arrears. The respective contract, which was signed in May 2018, is expected to increase the collection of pending amounts, given that letters will now have legal backing.

¹¹ This amount represents refunds of salaries from former Zammit Clapp Hospital, pertaining to seconded employees when the Department formed part of the Ministry of Health.

Arrears of Revenue 2017^a

| Ministry/Department | € | Gross Outstanding on 31/12/2016 ^b | Collected during 2017 | Written off 2017 | Revisions 2017 | Arrears 2017 |
|---|---|--|-----------------------|------------------|----------------|--------------|
| Office of the Prime Minister | € | 14,328 | 4,480 | - | - | - |
| Department of Information | € | 13,388 | 13,382 | - | - | 9,585 |
| Government Printing Press | € | 344,955 | 190,147 | - | - | 216,816 |
| Government Property Division | € | 32,100,837 | 9,007,485 | 116 | - | 10,052,365 |
| Malta Gaming Authority ^f | € | 5,523,594 | 4,736,285 | - | - | 3,740,571 |
| Malta Communications Authority ^f | € | 257,103 | 255,419 | - | - | 244,728 |
| Television Licensing Unit ^{c,f} | € | 10,031,618 | c | c | c | c |
| Energy and Projects ^g | € | - | - | - | - | 59,767 |
| Ministry for Health | € | 9,452,028 | 1,243,518 | - | -679 | 3,799,148 |
| Ministry for the Economy, Investment and Small Businesses Commerce ^h | € | 2,628,888 | 50,709 | 904 | -174,624 | 5,061 |
| Ministry for Education and Employment ^e | € | 3,269,002 | 249,884 | - | -465 | 360,710 |
| Ministry for Energy and Water Management ^g | € | - | - | - | - | 14,349 |
| Ministry for European Affairs and Equality ⁱ | € | - | - | - | - | 6,547 |
| Industrial and Employment Relations ^j | € | 298,933 | 3,484 | - | - | - |
| Ministry for Finance | € | 157,534 | 143,123 | - | - | 17,250 |
| Economic Policy | € | 1,371 | 1,371 | - | - | 3,176 |
| Treasury (Pensions Section) | € | 38,016,839 | 2,044,480 | - | -1,164,687 | 4,539,674 |
| Inland Revenue: | | | | | | |
| Income Tax | € | 675,824,940 | 11,900,344 | - | -148,507,470 | 191,292,573 |
| Social Security Contributions: Class 1 and Class 2 | € | 258,609,916 | 73,968,365 | - | -1,201,348 | 100,030,857 |
| Final Settlement System | € | 101,367,990 | 75,491,103 | - | -1,144,964 | 89,279,278 |
| Capital Transfer Duty: | | | | | | |
| Duty on Documents ^h | € | 24,710,558 | 850,381 | 371 | -1,533,235 | 3,535,257 |
| Death and Donation Duty ^h | € | 4,616,783 | 2,117 | - | - | - |
| VAT | € | 1,732,705,471 | 14,358,579 | 1,925 | -428,437,391 | 785,333,700 |
| Customs | € | 16,893,987 | 8,241,905 | 8,816 | -624,166 | 6,839,266 |
| Contracts | € | 229,505 | 64,960 | 1,134 | 312 | - |
| Ministry for Tourism | € | 1,394,232 | 413,665 | - | -80,270 | 248,293 |
| Institute of Tourism Studies ^d | € | 263,463 | - | - | - | 40,631 |
| Ministry for Home Affairs and National Security ^{e,k} | € | 13,105 | 4,390 | - | -8,515 | 33,078 |
| Armed Forces of Malta ^k | € | 147,065 | 39,756 | - | - | 77,043 |
| Police ^k | € | 325,888 | 37,387 | 8,565 | - | 186,786 |
| Correctional Services | € | - | - | - | 618 | - |
| Civil Protection ^k | € | 4,928 | 4,928 | - | - | 9,750 |
| Ministry for Justice, Culture and Local Government | € | 5,251 | 5,251 | - | - | 2,075 |
| Judicial | € | 10,013,344 | 1,340,782 | 57,250 | -1,015,880 | 2,808,616 |
| Local Government | € | 415 | 415 | - | - | - |
| Attorney General | € | 40,996 | 165,979 | 77,231 | 400,197 | 120,068 |
| Notary to Government | € | 1,266 | 1,266 | - | - | 850 |
| Ministry for the Environment, Sustainable Development and Climate Change ^l | € | 1,430,241 | 627,759 | 28,978 | 81,483 | 430,149 |
| Ministry for Foreign Affairs and Trade Promotion ^m | € | 220,260 | 98,016 | 11,217 | -630 | 93,680 |
| Ministry for Transport, Infrastructure and Capital Projects ⁿ | € | 1,560,991 | 968,919 | 16,817 | - | 613,311 |
| Transport Malta ^{c,d} | € | d | c | c | c | c |
| Ministry for Gozo ^o | € | 1,108,998 | 172,845 | - | -9,750 | 175,703 |
| Gozo General Hospital ^{c,d} | € | d | c | c | c | c |

| Gross Outstanding on 31/12/2017 | Gross Variation | Amounts Est. as not Collectable | Net collectable arrears as at 31/12/2017 | Net collectable arrears as at 31/12/2016 | Net Variation | Due from Govt. Depts. & Para. Bodies | Due from Individuals & Private Cos. | Amounts coll. during January 2018 | Balance as at 31/01/2018 |
|---------------------------------|-----------------|---------------------------------|--|--|---------------|--------------------------------------|-------------------------------------|-----------------------------------|--------------------------|
| 9,848 | -4,480 | - | 9,848 | 14,327 | -4,479 | - | 9,848 | - | 9,848 |
| 9,591 | -3,797 | - | 9,591 | 13,388 | -3,797 | 9,591 | - | 4,180 | 5,411 |
| 371,624 | 26,669 | - | 371,624 | 344,955 | 26,669 | 368,028 | 3,596 | - | 371,624 |
| 33,145,601 | 1,044,764 | - | 33,145,601 | 32,100,837 | 1,044,764 | 12,239,886 | 20,905,715 | 983,914 | 32,161,687 |
| 4,527,880 | -995,714 | 893,864 | 3,634,016 | 4,870,819 | -1,236,803 | - | 3,634,016 | 2,706,511 | 927,505 |
| 246,412 | -10,691 | - | 246,412 | 257,103 | -10,691 | 8,172 | 238,240 | - | 246,412 |
| c | c | c | c | 4,012,648 | c | c | c | c | c |
| 59,767 | 59,767 | - | 59,767 | - | 59,767 | 59,767 | - | - | 59,767 |
| 12,006,979 | 2,554,951 | 79,341 | 11,927,638 | 9,379,224 | 2,548,414 | 5,645,602 | 6,282,035 | 14,576 | 11,913,062 |
| 2,407,712 | -221,176 | 2,070,810 | 336,902 | 1,022,792 | -685,890 | - | 336,902 | 53,210 | 283,692 |
| 3,379,363 | 110,361 | 122,911 | 3,256,452 | 704,452 | 2,552,000 | - | 3,256,452 | 9,702 | 3,246,750 |
| 14,349 | 14,349 | - | 14,349 | - | 14,349 | 14,349 | - | - | 14,349 |
| 6,547 | 6,547 | - | 6,547 | - | 6,547 | 6,547 | - | - | 6,547 |
| 295,449 | -3,484 | 206,198 | 89,251 | 92,739 | -3,488 | - | 89,251 | 255 | 88,996 |
| 31,661 | -125,873 | - | 31,661 | 157,534 | -125,873 | 527 | 31,134 | 1,203 | 30,458 |
| 3,176 | 1,805 | - | 3,176 | 1,371 | 1,805 | 142 | 3,034 | 142 | 3,034 |
| 39,347,346 | 1,330,507 | - | 39,347,346 | 38,016,838 | 1,330,508 | 39,296,953 | 50,393 | - | 39,347,346 |
| 706,709,699 | 30,884,759 | 597,503,578 | 109,206,121 | 103,069,004 | 6,137,117 | - | 109,206,121 | 2,068,268 | 107,137,853 |
| 283,471,060 | 24,861,144 | 168,485,399 | 114,985,661 | 105,643,289 | 9,342,372 | - | 114,985,661 | 16,454,346 | 98,531,315 |
| 114,011,201 | 12,643,211 | 79,807,841 | 34,203,360 | 30,410,397 | 3,792,963 | - | 34,203,360 | 12,462,469 | 21,740,891 |
| 25,861,828 | 1,151,270 | 18,175,264 | 7,686,564 | 6,601,083 | 1,085,481 | - | 7,686,564 | 186,370 | 7,500,194 |
| 4,614,666 | -2,117 | 3,737,880 | 876,786 | 877,189 | -403 | - | 876,786 | - | 876,786 |
| 2,075,241,276 | 342,535,805 | 1,965,977,271 | 109,264,005 | 158,737,169 | -49,473,164 | - | 109,264,005 | - | 109,264,005 |
| 14,858,366 | -2,035,621 | - | 14,858,366 | 16,892,939 | -2,034,573 | 13,957 | 14,844,409 | 231,924 | 14,626,442 |
| 163,723 | -65,782 | 20,510 | 143,213 | 208,995 | -65,782 | - | 143,213 | - | 143,213 |
| 1,148,590 | -245,642 | 54,365 | 1,094,225 | 1,339,867 | -245,642 | - | 1,094,225 | - | 1,094,225 |
| 304,094 | 40,631 | 204,055 | 100,039 | d | d | 26,031 | 74,008 | 3,179 | 96,860 |
| 33,278 | 20,173 | - | 33,278 | k | k | 200 | 33,078 | - | 33,278 |
| 184,352 | 37,287 | 5,677 | 178,675 | k | k | 146,509 | 32,166 | 16,322 | 162,353 |
| 466,722 | 140,834 | 29,711 | 437,011 | k | k | 6,997 | 430,014 | 9,470 | 427,541 |
| 618 | 618 | - | 618 | - | 618 | - | 618 | - | 618 |
| 9,750 | 4,822 | - | 9,750 | k | k | 6,925 | 2,825 | - | 9,750 |
| 2,075 | -3,176 | - | 2,075 | 5,251 | -3,176 | - | 2,075 | 16 | 2,059 |
| 10,408,048 | 394,704 | 507,557 | 9,900,491 | 9,546,720 | 353,771 | - | 9,900,491 | 221,060 | 9,679,431 |
| - | -415 | - | - | 415 | -415 | - | - | - | - |
| 318,051 | 277,055 | - | 318,051 | 40,995 | 277,056 | - | 318,051 | 4,906 | 313,145 |
| 850 | -416 | - | 850 | 1,266 | -416 | 850 | - | 845 | 5 |
| 1,285,136 | -145,105 | 29,762 | 1,255,374 | 1,400,479 | -145,105 | 130,505 | 1,124,869 | 201,211 | 1,054,163 |
| 204,077 | -16,183 | 7,472 | 196,605 | 212,788 | -16,183 | 118,884 | 77,721 | 74,743 | 121,862 |
| 1,188,566 | -372,425 | 46,761 | 1,141,805 | 1,536,259 | -394,454 | 1,039,741 | 102,064 | 30,166 | 1,111,639 |
| c | c | c | c | d | c | c | c | c | c |
| 1,102,106 | -6,892 | 284,132 | 817,974 | 972,407 | -154,433 | 97,410 | 720,564 | 15,190 | 802,784 |
| c | c | c | c | d | c | c | c | c | c |

Arrears of Revenue 2017^a/cont

| Ministry/Department | | Gross Outstanding on 31/12/2016 ^b | Collected during 2017 | Written off 2017 | Revisions 2017 | Arrears 2017 |
|---|----------|--|--------------------------|---------------------|---------------------|----------------------|
| Ministry for the Family, Children's Rights and Social Solidarity ^p Social Security Benefits | € | 25,028,970 | 2,757,206 | 105,771 | -105,730 | 3,294,382 |
| Social Welfare Standards | € | - | - | - | - | 2,625 |
| Elderly and Community Care | € | 4,332,761 | 51,778 | - | - | 40,220 |
| ex-Ministry for Social Dialogue, Consumer Affairs and Civil Liberties | € | 28,737 | 85 | 20,886 | - | - |
| ex-Ministry for Competitiveness and Digital, Maritime and Services Economy ^q | € | 458,352 | c | c | c | c |
| Totals^r | € | 2,963,448,831 | 209,511,948 | 339,981 | -583,527,194 | 1,207,557,938 |

- a) Figures may not add up due to rounding.
- b) Opening Balances reported as featuring in last year's AAR, unless otherwise specified.
- c) Did not submit Return of Arrears 2017.
- d) Did not submit Return of Arrears 2016.
- e) Opening Balance 2017 does not tally with Closing Balance 2016 (vide comments).
- f) Figures featured under the Ministry for Competitiveness and Digital, Maritime and Services Economy in 2016.
- g) Figures for Arrears of Revenue were reported by OPM (Energy and Projects) for the year ended December 2017. Next year, these amounts will be incorporated under the Ministry for Energy and Water Management. Amounts reported separately by the Ministry for Energy and Water Management for 2017 were reported in this Table under the pertinent heading.
- h) The ARR did not specify from where the arrears were due. However, based on the submission of previous ARRs, Net Collectable Arrears are being reported as due from Individuals and Private Companies.
- i) Figures featured under the Ministry for European Affairs and Implementation of the Electoral Manifesto in 2016.
- j) Figures featured under the Ministry for Social Dialogue, Consumer Affairs and Civil Liberties in 2016.
- k) Since the balances for the Ministry for Home Affairs and National Security as at 31/12/2016 included figures for the Armed Forces of Malta, Police and Civil Protection Departments, the figure for Net Collectable Arrears as at 31/12/2016 is not available.
- l) Figures featured under the Ministry for Sustainable Development, the Environment and Climate Change in 2016.
- m) Figures featured under the Ministry for Foreign Affairs in 2016.
- n) Figures featured under the Ministry for Transport and Infrastructure in 2016.
- o) Includes figures for the Gozo Judicial Courts.
- p) Figures featured under the Ministry for the Family and Social Solidarity in 2016.
- q) Ministry reported in the Financial Report 2017 as failing to comply with the requirements of the foregoing Circular.
- r) Totals are incomplete in view of c) and d) above.

| Gross Outstanding on 31/12/2017 | Gross Variation | Amounts Est. as not Collectable | Net collectable arrears as at 31/12/2017 | Net collectable arrears as at 31/12/2016 | Net Variation | Due from Govt. Depts. & Para. Bodies | Due from Individuals & Private Cos. | Amounts coll. during January 2018 | Balance as at 31/01/2018 |
|---------------------------------|--------------------|---------------------------------|--|--|--------------------|--------------------------------------|-------------------------------------|-----------------------------------|--------------------------|
| 25,354,645 | 325,675 | 2,631,228 | 22,723,417 | 22,635,618 | 87,799 | - | 22,723,417 | 331,434 | 22,391,983 |
| 2,625 | 2,625 | - | 2,625 | - | 2,625 | 2,625 | - | - | 2,625 |
| 4,321,203 | -11,558 | - | 4,321,203 | 4,332,761 | -11,558 | 4,206,251 | 114,952 | 21,140 | 4,300,063 |
| 7,766 | -20,971 | - | 7,766 | 28,738 | -20,972 | - | 7,766 | - | 7,766 |
| c | c | c | c | 251,151 | c | c | c | c | c |
| 3,367,137,676 | 414,178,815 | 2,840,881,587 | 526,256,089 | 555,733,807 | -25,972,672 | 63,446,449 | 462,809,639 | 36,106,752 | 490,149,337 |

Arrears of Revenue Analysis of the Outstanding Balance as at 31 December 2017 ^a

| Ministry/Department | Net Collectable Arrears as at 31/12/2017 | Amounts Est. as not Collectable | Gross Outstanding on 31/12/2017 | Analysed as follows: | | | | |
|---|--|---------------------------------|---------------------------------|----------------------|----------------------|--------------------------|-----------------------------|--------------------------|
| | | | | Statute-barred | Under Contestation | | Recoverable by Dept. action | No Dept. action required |
| | | | | | Pending Court action | Not Pending Court action | | |
| Office of the Prime Minister | € 9,848 | - | 9,848 | - | - | - | 9,848 | - |
| Department of Information | € 9,591 | - | 9,591 | - | - | - | 9,591 | - |
| Government Printing Press | € 371,624 | - | 371,624 | - | - | - | 371,624 | - |
| Government Property Division | € 33,145,601 | - | 33,145,601 | 3,622,874 | 4,368,813 | 4,156,074 | 18,737,510 | 2,260,330 |
| Malta Gaming Authority ^{d,e} | € 3,634,016 | 893,864 | 4,527,880 | - | 703,214 | - | 165,102 | 3,659,564 |
| Malta Communications Authority ^{c,d} | € 246,412 | - | 246,412 | c | c | c | c | c |
| Television Licensing Unit ^{c,d} | € c | c | c | c | c | c | c | c |
| Energy and Projects ^f | € 59,767 | - | 59,767 | 59,767 | - | - | - | - |
| Ministry for Health ^c | € 11,927,638 | 79,341 | 12,006,979 | 79,341 | - | - | 1,618,120 | 6,218,033 |
| Ministry for the Economy, Investment and Small Business Commerce ^b | € 336,902 | 2,070,809 | 2,407,711 | 1,546,804 | - | - | 868,195 | 5,061 |
| Ministry for Education and Employment | € 3,256,452 | 122,911 | 3,379,363 | - | 4,831 | 4,120 | 3,370,412 | - |
| Ministry for Energy and Water Management ^f | € 14,349 | - | 14,349 | - | - | - | - | 14,349 |
| Ministry for European Affairs and Equality ^d | € 6,547 | - | 6,547 | - | - | - | 6,547 | - |
| Industrial and Employment Relations ^b | € 89,251 | 206,198 | 295,449 | - | 4,135 | - | 279,823 | 11,491 |
| Ministry for Finance | € 31,661 | - | 31,661 | 967 | - | - | 30,694 | - |
| Economic Policy | € 3,176 | - | 3,176 | - | - | - | - | 3,176 |
| Treasury (Pensions Section) | € 39,347,346 | - | 39,347,346 | 39,296,953 | - | - | 50,393 | - |
| Inland Revenue (including Capital Transfer Duty) | € 266,958,492 | 867,709,962 | 1,134,668,454 | 150,188,304 | 110,456,372 | - | 141,024,688 | 732,999,090 |
| VAT | € 109,264,005 | 1,965,977,272 | 2,075,241,277 | 1,965,977,272 | 69,818,342 | - | 39,445,663 | - |
| Customs | € 14,858,366 | - | 14,858,366 | 29,392 | 7,394,053 | 562,921 | 391,487 | 6,480,513 |
| Contracts ^{b,1} | € 143,213 | 20,510 | 163,723 | 42,262 | - | - | 100,951 | - |
| Ministry for Tourism | € 1,094,225 | 54,365 | 1,148,590 | - | - | - | 1,148,590 | - |
| Institute of Tourism Studies | € 100,039 | 204,055 | 304,094 | 10,308 | - | - | 293,786 | - |
| Ministry for Home Affairs and National Security ^j | € 33,278 | - | 33,278 | - | - | - | 33,278 | - |
| Armed Forces of Malta | € 178,675 | 5,677 | 184,352 | 5,677 | - | - | 178,675 | - |
| Police | € 437,011 | 29,711 | 466,722 | 170,369 | 14,733 | - | 271,431 | 10,189 |
| Correctional Services | € 618 | - | 618 | - | - | - | 618 | - |
| Civil Protection | € 9,750 | - | 9,750 | - | - | - | - | 9,750 |
| Ministry for Justice, Culture and Local Government | € 2,075 | - | 2,075 | - | - | - | 2,075 | - |
| Judicial | € 9,900,491 | 507,557 | 10,408,048 | 507,557 | - | - | 9,545,491 | 355,000 |
| Local Government | € - | - | - | - | - | - | - | - |
| Attorney General | € 318,051 | - | 318,051 | - | - | - | 318,051 | - |
| Notary to Government | € 850 | - | 850 | - | - | - | 850 | - |
| Ministry for the Environment, Sustainable Development and Climate Change ^k | € 1,255,374 | 29,762 | 1,285,136 | 29,762 | 32,745 | 683,045 | 131,983 | 407,601 |
| Ministry for Foreign Affairs and Trade Promotion ^l | € 196,605 | 7,472 | 204,077 | 8,172 | - | - | 82,895 | 113,010 |
| Ministry for Transport, Infrastructure and Capital Projects ^m | € 1,141,805 | 46,761 | 1,188,566 | 53,238 | 10,678 | 6,271 | 258,823 | 859,556 |
| Transport Malta ^c | € c | c | c | c | c | c | c | c |
| Ministry for Gozo ⁿ | € 817,974 | 284,132 | 1,102,106 | 162,802 | 258,976 | - | 318,171 | 362,157 |
| Gozo General Hospital ^c | € c | c | c | c | c | c | c | c |

| Ministry/Department | Net Collectable Arrears as at 31/12/2017 | Amounts Est. as not Collectable | Gross Outstanding on 31/12/2017 | Analysed as follows: | | | | |
|---|--|---------------------------------|---------------------------------|----------------------|----------------------|--------------------------|-----------------------------|--------------------------|
| | | | | Statute-barred | Under Contestation | | Recoverable by Dept. action | No Dept. action required |
| | | | | | Pending Court action | Not Pending Court action | | |
| Ministry for the Family, Children's Rights and Social Solidarity ^a Social Security Benefits | € 22,723,417 | 2,631,228 | 25,354,645 | 2,631,228 | - | 19,848 | 2,196,818 | 20,506,751 |
| Social Welfare Standards | € 2,625 | - | 2,625 | - | - | - | - | 2,625 |
| Elderly and Community Care ^c | € 4,321,203 | - | 4,321,203 | c | c | c | c | c |
| ex-Ministry for Social Dialogue, Consumer Affairs and Civil Liberties | € 7,766 | - | 7,766 | - | - | - | 7,766 | - |
| ex-Ministry for Competitiveness and Digital, Maritime and Services Economy ^c | € c | c | c | c | c | c | c | c |
| Totals^p | € 526,256,089 | 2,840,881,587 | 3,367,137,676 | 2,164,423,049 | 193,066,892 | 5,432,279 | 221,269,949 | 774,278,246 |

- a) Figures may not add up due to rounding.
- b) Amount submitted as per the analysis of arrears as requested by Treasury Circular No. 5/2018 does not tally to Return of Arrears 2017 (vide comments where applicable).
- c) Did not submit all or part of the submissions required by Treasury Circular No. 5/2018.
- d) Figures featured under the Ministry for Competitiveness and Digital, Maritime and Services Economy in 2016.
- e) Return does not give details in relation to whether the amount of €703,214 is pending court action or not. For the purpose of this analysis, the amount was listed as pending court action.
- f) Figures for Arrears of Revenue were reported by OPM (Energy and Projects) for the year ended December 2017. During the coming financial year, these amounts will be incorporated under the Ministry for Energy and Water Management. Figures reported separately by the Ministry for Energy and Water Management for 2017 were reported in this Table under the pertinent heading.
- g) Figures featured under the Ministry for European Affairs and Implementation of the Electoral Manifesto in 2016.
- h) Figures featured under the Ministry for Social Dialogue, Consumer Affairs and Civil Liberties in 2016.
- i) The remaining balance of €20,510 under Contracts is a balancing figure left out on purpose by the Department since it does not fall under any of the listed categories.
- j) Figures included totals for the Armed Forces of Malta, Police and Civil Protection Departments in 2016.
- k) Figures featured under the Ministry for Sustainable Development, the Environment and Climate Change in 2016.
- l) Figures featured under the Ministry for Foreign Affairs in 2016.
- m) Figures featured under the Ministry for Transport and Infrastructure in 2016.
- n) Includes figures for the Gozo Judicial Courts.
- o) Figures featured under the Ministry for the Family and Social Solidarity in 2016.
- p) Totals are incomplete in view of b) and c) above.

2017-2018 (to date) Reports issued by NAO

NAO Work and Activities Report

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NAO Audit Reports

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June 2018 An Investigation into the Findings of the Local Governance Board

June 2018 A Review of the Pension due to a former Member of Parliament

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October 2018 Follow-up Reports by the National Audit Office 2018

November 2018 Performance Audit: A Strategic Overview on the Department of Fisheries and Aquaculture's Inspectorate Function

November 2018 Report by the Auditor General on the Workings of Local Government

November 2018 An Investigation of matters relating to the contracts awarded to ElectroGas Malta Ltd by Enemalta Corporation

November 2018 An Investigation of matters relating to the contracts awarded to ElectroGas Malta Ltd by Enemalta Corporation (Abridged)